



22nd April 2022

Ms. Nicola Lombardi
ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000
Australia

By Electronic Lodgment

Dear Ms. Lombardi,

BSP Financial Group Limited – 2021 Annual Report

In accordance with the ASX Listing Rules, BSP Financial Group Limited (**ASX: BFL | PNGX: BSP**) provides to ASX its 2021 Annual Report.

Sincerely,
BSP Financial Group Limited



Mary Johns
Company Secretary

Enclosure

BSP Financial Group Limited

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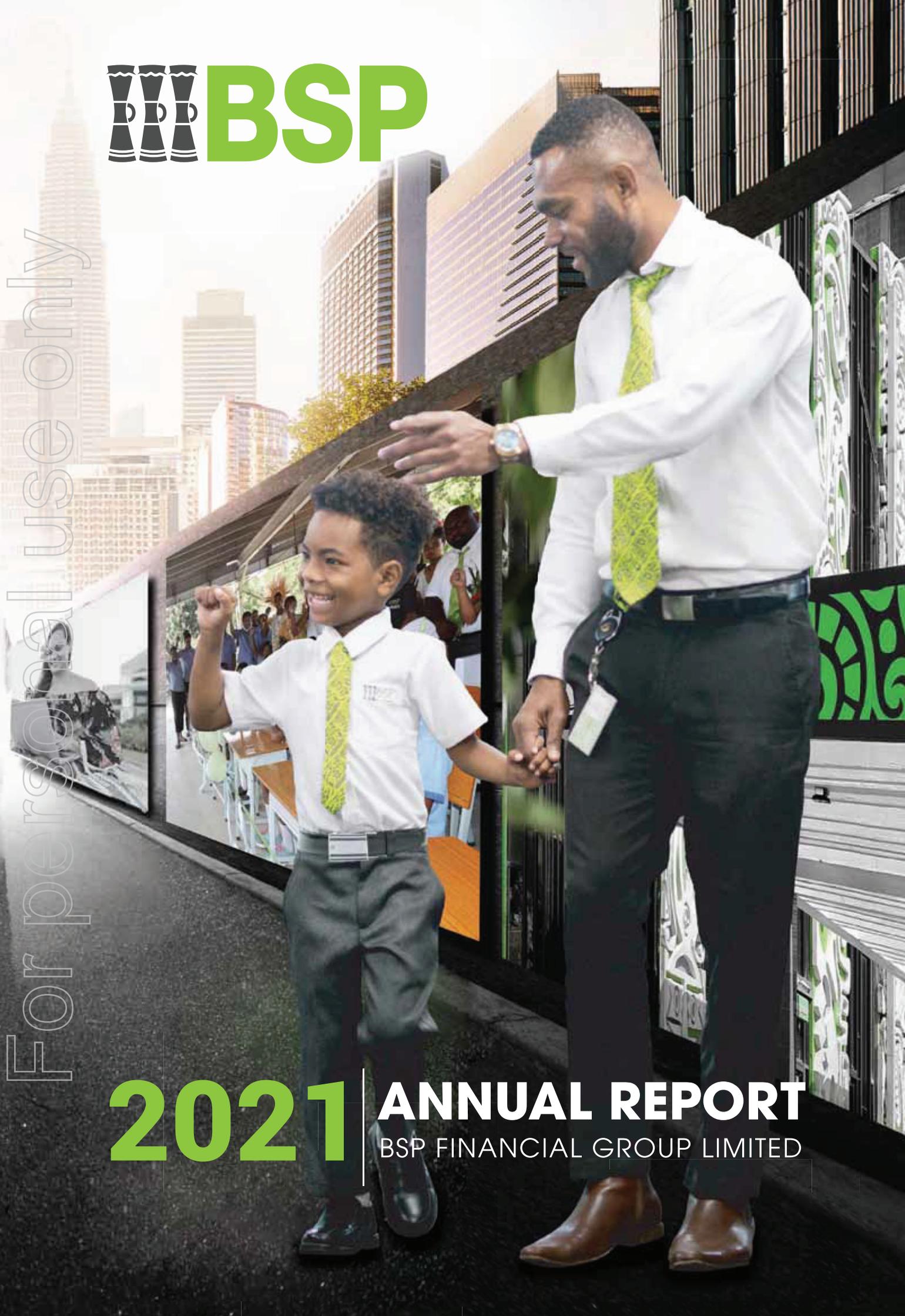
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2021 | ANNUAL REPORT

BSP FINANCIAL GROUP LIMITED



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Our **Vision**

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

Our **Mission**

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

Our **Core Values**



INTEGRITY

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



TEAMWORK

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



LEADERSHIP

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



COMMUNITY

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



PEOPLE

We respect and value our people and our customers.



PROFESSIONALISM

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



QUALITY

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

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Our reach in the Asia-Pacific Region



75+ Branches



4,400+ Staff



300+ Agents



550+ ATMs



40+ Sub-Branches



11,000+ EFTPoS



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.



Chairman's Report

Sir Kostas Constantinou, OBE

In a year epitomised by continued challenges, I am proud of the resilience of our people and the Group's financial performance. It gives me great pleasure to report on BSP's strong financial and operating performance, with 2021 Group profit increasing by 33% to K1.075 billion.

I am delighted by how BSP's employees continue to respond to pandemic-related challenges and disruptions presented. Their resilience and commitment has allowed BSP to continue to support our customers and communities throughout the last financial year. I am equally proud that we continue to play a critical role in supporting and sustaining South Pacific economies.

Despite subdued economic conditions, BSP continues to perform well, experiencing a 33% rebound in 2021, resulting in a record profit of K1.075 billion. Our strong results were achieved by maintaining capital discipline and ensuring prudent balance sheet management. This was underpinned by our commitment to ensuring the appropriate level of care across all capital, funding, and liquidity metrics. We finished 2021 with a capital adequacy ratio of 25.7% and a leverage ratio of 10.6%, which remains well over the 12.0% and 6.0% prudential requirements respectively.

The Board and I are pleased with the tighter operating discipline across the Bank, with significantly increased investment in our risk and compliance operations. Further, the Board recognises the focus and diligence shown by management, with the continued improvement in BSP's financial crime risk capability and capacity.

DUAL LISTING ON THE ASX

A significant milestone was achieved with BSP's admission to the Australian Securities Exchange (ASX) on 25 May 2021. The listing is an important part of a carefully considered strategy, aimed at pursuing growth, while continuing to deliver high levels of customer service and positive returns to shareholders.

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

- access to capital to expand our business; and
- increased liquidity for our shareholders.

STRATEGY

BSP is making progress on our expansion strategy in new and existing markets, and consolidating our position as the South Pacific's leading bank. Addressing the unbanked segments of PNG and Pacific markets remains a central focus for the Board. We recognise that access to banking services is key to unlocking the economic potential of the people and communities where we operate. This is evidenced by our investments in enabling physical and digital access to improve banking service delivery.

BSP is strengthening our technological foundations by switching to Oracle's FLEXCUBE core banking system. This investment will strengthen our defences against the growing global threat of financial and cyber-crime, and consequently enables greater emphasis on digital, data, and analytics.

The Board is committed to ensuring diversity in our workforce. Being the leading bank in the South Pacific allows us to source the best talent from across an array of cultures and backgrounds. BSP seeks to develop our local people with the skills needed to not only remain competitive in our expanding markets, but to also be innovative as the Bank progresses into the future. The Board has also set targets toward appropriate female representation in senior management roles. This has translated into a key requirement in BSP's Leadership and Management Development Program, with females currently making up over 55% of program participants. Further, training and recruitment initiatives have been implemented to ensure BSP's digital, technology, compliance, and risk capability continues to evolve to meet our future needs.

Ultimately, these investments and initiatives will underpin BSP's growth in markets across the Pacific and in Asia, while also keeping the focus on our commitment to serve our community. The improved profitability and performance in 2021 underscores our ambition to exceed the needs of our customers, equip a diverse and talented workforce, strive for innovation, and grow shareholder value.

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BOARD RENEWAL

Board renewal remains a continuing process and in April 2021, we welcomed Symon Brewis-Weston, who joined as a BSP Director. Mr. Brewis-Weston possesses extensive international experience in financial services and a deep understanding of consumer and business markets in the Asia-Pacific region. Mr. Brewis-Weston held various senior leadership positions at CBA for 15 years. He spent 6 years leading CBA's Indonesia operations and also in China developing the company's Chinese banking strategy. In 2015, Mr. Brewis-Weston received the United Nation's Global CEO Women Empowerment Principle's Leadership Award for his contribution to the enhancement of diversity and women's empowerment in the workplace. Mr. Brewis-Weston holds a Bachelor of Economics (Hons) and a Master of Applied Finance from Macquarie University.

At the same time, we farewelled Geoffrey Robb, who retired as a BSP Director after completing his tenure in line with regulatory requirements. Mr. Robb served with distinction with over 9 years on the Board of BSP.

FINANCIAL PERFORMANCE

Our 2021 revenue increased by 10.3% to K2.4 billion. Revenue growth drivers included earnings on investments and foreign exchange income, which was up by 45.8% and 13.0% respectively.

Group expenditure increased by 10.0% to K889 million, largely as a consequence of increased investment in employees and technology to facilitate the transition to the FLEXCUBE core banking system in 2022.

Improving economic conditions have allowed us to realign provisions for expected credit losses during the pandemic. This has resulted in a reduction in our impairment expense from K201 million in 2020 to a release of K43 million in 2021.

OUTLOOK

The global rollout of COVID-19 vaccinations during 2021 has resulted in several neighbouring countries opening their borders to international travellers, which will provide much-needed support for the hotel and airline industries and will stimulate the PNG economy and economies across the Pacific.

Recent PNG government announcements relating to major projects indicate that negotiations are progressing well, and if tangible agreements are concluded we could start seeing increased investment in resource-adjacent industries. We are expecting improved economic conditions on the back of these major projects proceeding towards the end of 2022.

Finally, on behalf of the Board, I would like to thank you for your ongoing support as shareholders. To BSP's 4,400+ employees, we thank you for your commitment in serving our customers well and helping our communities during COVID-19 outbreaks that at the same time significantly impacted your own lives. Given the above, the Board and I are confident BSP will have the economic conditions, people and financial strength to execute effectively against its strategy.

Sir Kostas Constantinou, OBE
BSP Group Chairman



BSP Group CEO Robin Fleming and BSP Group Chairman Sir Kostas Constantinou at the virtual ringing of the bell to announce BSP Financial Group Limited's listing on the ASX.

A brief history of BSP

BSP is the leading bank in the region and has a proud record of serving the needs of its customers in PNG and other countries across the South Pacific. BSP dates back to 1957, when its operations commenced in Port Moresby as a branch of the National Bank of Australasia Ltd. In 1974, BSP was incorporated as Bank of South Pacific Ltd, a wholly owned subsidiary of the Australian parent.

In 1993, a consortium of PNG businesses acquired the bank and created the first and only privately owned bank in PNG at that time. BSP merged with the state-owned Papua New Guinea Banking Corporation in 2002, creating the largest bank in PNG by market share.

Other acquisitions followed, including Habib Bank in Fiji in 2006, National Bank of Solomon Islands in 2007, Colonial Bank, and Colonial Fiji Life Insurance Limited in 2009. In 2015 and 2016, BSP completed the acquisition of Westpac's operations in Cook

Islands, Samoa, Solomon Islands, Tonga and Vanuatu, significantly broadening and strengthening BSP's geographic reach.

Today, BSP continues to be the market leader in PNG and the South Pacific, with a large and diverse branch network. BSP has also pioneered financial innovations and technology in the region. In 2014, BSP Finance was launched in Fiji followed by PNG in 2015, Cambodia and Solomon Islands in 2017 and Lao in early 2020.

Eighteen years after listing on the Port Moresby Stock Exchange (now PNGX Markets) in 2003, BSP successfully listed on the Australian Securities Exchange (ASX) in 2021. The company name was changed to BSP Financial Group Limited after the listing to accurately capture our diversified service offerings to our customers across the region. The BSP slogan "We are You, We are BSP" was also changed to "Our Bank, Our People".



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 (PNGBC).

Key milestones in BSP's development

- 1957** Commenced operations in Port Moresby in 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 (PNGBC).
- 2003** BSP is listed on the Port Moresby Stock Exchange.
- 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 National 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.
- 2017** Commenced Asset Finance operations in Cambodia in May 2017 (rebranded to BSP Finance Cambodia Ltd in January 2018) and commenced BSP Finance (Solomon Islands) Ltd in September 2017.
- 2018** Commenced a life insurance business in Papua New Guinea on January 2018.
- 2020** Asset Finance Business established in Lao in 2020.
- 2021** BSP is listed on the Australian Security Exchange (ASX) and name changed from Bank of South Pacific Limited to BSP Financial Group Limited. BSP's slogan was also changed from "We are you, We are BSP" to "Our Bank, Our People".

Board of Directors



SIR KOSTAS G. CONSTANTINOU, OBE
Chairman. Non - Executive 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. Sir Kostas joined BSP in April 2009 as a non-executive director and was appointed as the chairman of the Board in February 2011.

Sir Kostas is the chairman of various companies, including BSP, Airways Hotel and Apartments Ltd, Lamana Hotel Ltd, Lamana Development Ltd, Hebou Constructions (PNG) Limited, Monier Limited and Air Niugini Limited.

Sir Kostas is a director of Gazelle International Hotel in Kokopo, Loloata Island Resort Ltd, Coastwatchers Court Ltd, Waigani Assets Ltd, Moki No.10 Limited, Heritage Park Hotel in Honiara, Taumeasina Island Resort in Samoa, and Good Taste Company in New Zealand. Sir Kostas is also the Honorary Consul for Greece and Cyprus in Papua New Guinea and the Trade Commissioner of Solomon Islands to PNG.



ROBIN FLEMING, CSM, MBA, MMGT
Group Chief Executive Officer. Director
since April 2013

Robin Fleming was appointed GCEO of BSP in April 2013. Before his appointment as GCEO, he had been Deputy GCEO 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.



ERNEST BRIAN GANGLOFF, CPA, MAICD, MIIA, PNGID
Non - Executive Director. Director since November 2013

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

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

In addition to his BSP directorship, Mr. Gangloff is a director of New Britain Palm Oil Ltd, Highlands Pacific Ltd, Tower Insurance PNG Ltd and Business Incubation Solution Ltd.

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

ROBERT BRADSHAW, LLB
Non - Executive Director. Director since September 2017

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

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

Mr. Bradshaw has served on a number of Boards and is currently the Chairman of Post PNG Limited.

SYMON BREWIS-WESTON, BECON (HONS), MAPPFIN
Non - Executive Director. Director since April 2021

Symon Brewis-Weston was appointed to the BSP Board in April 2021 and is a member of BSP's Board Audit & Compliance Committee and Board Risk Committee. Mr. Brewis-Weston has extensive international experience in financial services and a deep understanding of consumer and business markets in the Asia-Pacific region. He is a director on the board of Money3 Corp. Ltd, StockCo Australia Pty Ltd. and Timelio Pty Ltd.

Mr. Brewis-Weston was formerly CEO of FlexiGroup from 2016 to 2018. Prior to joining FlexiGroup, he previously held the position of CEO & Executive Director at Humm Group Ltd, Executive GM-Corporate Financial Services at Commonwealth Bank of Australia (CBA), Chief Executive Officer at Sovereign Services Ltd (NZ), and Chief Executive Officer at Sovereign Assurance Co. Ltd (NZ). (both are subsidiaries of CBA).

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

Mr. Brewis-Weston holds a Bachelor of Economics (Hons) and a Master of Applied Finance from Macquarie University.

Board of Directors

(continued)



**FAAMAUSILI DR. MATAGIALOFI
LUA'IUFI, BA, MSC, PhD**
Non - Executive Director. Director since
December 2016

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

Faamausili Dr. M. Lua'iufi served in many Government state owned enterprise boards in her capacity as CEO of the Samoa Public Service Commission. Since becoming a consultant in late 2008, Faamausili Dr. M. Lua'iufi has performed more than 50 consultancy assignments in the domains of Human Resources Management, Organisational Development, Performance Management and Governance.

Faamausili Dr. M. Lua'iufi is a member of the Australian Institute of Company Directors, member of the Papua New Guinea Institute of Directors, Samoa Institute of Directors and Samoa Human Resource Institute. From 2007 to 2012, Faamausili Dr. M. Lua'iufi was the Pacific Residential Scholar of the Australia New Zealand School of Government and was responsible for the development of emerging young Pacific public sector leaders. Faamausili Dr. M. Lua'iufi is a member of the Remuneration and Nominations Committee.

ARTHUR SAM, BComm, CPA, GAICD
Non - Executive Director. Director since
July 2016

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

Mr. Sam is a qualified and experienced accountant, registered under CPA Papua New Guinea. He holds a Bachelor of Commerce from the University of Papua New Guinea, and is a Graduate of the Australian Institute of Company Directors. He is the Audit and Managing Partner of Sam Kiak Tubangliu Certified Practising Accountants. Before going into private practice Mr. Sam spent over 15 years working for global accounting firms PricewaterhouseCoopers, Deloitte and Ernst & Young in managerial roles specializing in external and internal audit and risk management.

Prior to joining the Board of BSP, he served on the NASFUND (the national superannuation fund of Papua New Guinea) Board Audit and Risk Committee and is a serving member of the Papua New Guinea Accountants Registration Board. During 2021 Mr. Sam was appointed Chairman of Muyua Dal Ltd to represent the landowner interest in the Woodlark Gold Project.



STUART DAVIS, LLB, GAICD

Non - Executive Director. Director since August 2017

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

Mr. Davis is also currently a Non-Executive director of ASX 100 company NextDC Ltd, which builds and operates Data Centres in Australia and is the Chairman of the Remuneration Committee and member of the Audit and Risk Committee. He is a Non-Executive Director of PayPal Australia Ltd and Chairman of the Risk Committee.

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



PRISCILLA KEVIN, BSCS, MAICD

Non - Executive Director. Director since April 2020

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

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

Ms. Kevin is a board member of PNG Digital ICT Cluster Inc. and a member of the PNG University of Technology's Industrial Advisory Board (IAB). Ms. Kevin is also working group committee member of the Centre of Excellence for Financial Inclusion and is a Council Member of the Institute of National Affairs (INA).



FRANK BOURAGA, CPA, MAICD

Non - Executive Director. Director since December 2020

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

Mr. Bouraga is a CPA Papua New Guinea qualified professional accountant with over 26 years in accounting practice and is currently a partner in Assurance and Business Advisory Services with SBC Solutions. Prior to SBC Solutions, Mr. Bouraga was the Country Managing Partner for Ernst & Young Papua New Guinea for 5 years as an audit and business advisory services partner. He also worked with PricewaterhouseCoopers for over 7 years and worked with Star Business Consultants between 2004 and 2011.

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



Group CEO's Report

Robin Fleming, CSM
Group Chief Executive Officer

In many ways, 2021 was a year of contrasts. From an operational perspective, our businesses around the Pacific and South East Asia had to deal with the ongoing impact of COVID-19 on our staff and our customers, and the impact on economic activity in the countries we operate in. Financially, the BSP Financial Group reported a record net profit after tax of K1.075 billion, the first time our group profit has exceeded K1.0 billion. This is an outstanding achievement for any company, but especially a Papua New Guinean company, which our Board and staff are proud of, and which should be recognised as such by our shareholders, and I will comment on key aspects of the result later in my report.

The COVID-19 pandemic continued to affect all of our customers and staff in the countries in which BSP operates. With the resilience, which epitomises the people of the Pacific, our customers adapted to the changes in business conditions and operating environment brought about by COVID-19, and our results reflected that increased transactional activity. BSP was also very proud to be able to maintain full business operations throughout the year, due to the commitment of our staff to our customers, notwithstanding the ongoing waves of COVID-19 strains across most countries.

Domestic travel and movement restrictions eased in PNG and in most countries, with some shorter-term movement mandates imposed as new strains of COVID-19 re-emerged, or entered, the communities. International travel restrictions eased in PNG towards the end of the year and Fiji welcomed tourists in the last quarter of 2021, much to the relief of many of our customers.

GDP growth was positive for most countries, recognising of course that this growth was coming from a lower base after negative growth in 2020. Whilst economic conditions in Papua New Guinea were for the large part relatively flat from an overall lending growth perspective, transactional activity did bounce back, which was reflected in fee revenue. Domestic liquidity in PNG grew disproportionately to lending growth and some of this surplus was invested in government and central bank securities for balance sheet management and return on asset purposes. Foreign exchange activity saw an improvement, which flowed on to higher FX revenue.

With economic activity recovering and business conditions improving from a comparative year perspective, BSP undertook a detailed and granular review of its customers credit risk ratings across all countries and all portfolios, but especially for those customers for whom BSP had taken up additional

COVID-19 related provisions in 2020, by way of a model adjustment approach. The outcome was a release of loan provisions that had been taken up the prior year for COVID-19 related reasons, with this impairment adjustment contributing around K118 million to BSP's 2021 result.

Net profit after tax by entity is as follows:

Entity	2021 NPAT	2021 vs 2020
PNG Bank (Km)	822.0	36.1%
Cook Islands (NZDm)	3.1	-5.1%
Fiji (FJDm)	69.4	41.0%
Samoa (WSTm)	16.7	22.8%
Solomon Islands (SBDm)	76.1	2.5%
Tonga (TOPm)	11.8	19.9%
Vanuatu (Vtm)	139.1	30.2%
Subsidiaries (Km)	49.0	-0.2%

BSP's Relationship Managers presence in all countries, together with our knowledge and understanding of the business conditions in each country, contributed to further increases in lending market share in all countries. Consequently, BSP PNG's lending market share increased to 66% and in each of the other countries we have market share of 37% in Cook Islands, 26% in Fiji, 30% in Samoa, 47% in Solomon Islands, 41% in Tonga, with Vanuatu at 13%.

Our Retail teams in all countries kept all our branches open throughout the year, despite COVID-19 in the community and despite the absence of our staff due to COVID-19 during the various pandemic waves. We continued to support our staff and over and above work place health and safety measures. For example, personal protective equipment such as masks, gloves, sanitisers and social distancing. Further, BSP preserved all staff benefits, maintained and in certain areas increased staffing levels, provided flexibility for sick leave without normal medical documents and strongly encouraged all staff to be vaccinated. This included access to vaccinations on site where possible, which in a number of countries was supported by government vaccination mandates. In PNG, we achieved a 39.5% vaccination level with Cook Islands at 91%, Fiji 100%, Samoa 95%, Solomon Islands 84%, Tonga 100% and Vanuatu 30% with Cambodia at 100% and Lao 93%.

A final dividend of K1.34 per share was approved by the Board, taking the total dividend payout to 75%, which was within the dividend policy range of 70% to 75% of prior year earnings. Total dividends paid/ payable in respect to 2021 profits were K811.9m, with a dividend yield of 14.4% based on a share price of K12.25 on PNGX and 14.9% based on a share price of AU\$4.27 on ASX. With a shareholder base that is almost 90% Papua New Guinean and includes Kumul Consolidated Holdings (18.2%), each of the three superannuation funds in PNG being Nambawan Super (11.4%), Nasfund (9.7%), Comrade Trustees (2.7%) as well as Fiji National Provident Fund (8.7%), Solomon Islands National Provident Fund (0.5%) and Samoa Provident Fund (0.6%) many workers around the Pacific benefit from BSP's outstanding financial performance and dividend distributions.

	2021	2021 vs 2020
Earnings per share [toea]	230.1	33.3%
Dividend yield [PNGX, %]	14.4	360bps
Share price [PNGX, Kina]	12.25	2.1%
Dividend yield [ASX, %]	14.9	-
Share price [ASX, AU\$]	4.27	-

In a milestone for our core banking system upgrade, BSP went live with Oracle's FLEXCUBE solution in Vanuatu in April 2021, despite COVID-19 related travel restrictions and quarantine and self-isolation requirements both in Vanuatu and upon return to PNG. A team of 16 staff from our project team travelled to Port Vila and spent 9 weeks in Vanuatu for training, go live and post go live support. The conversion progressed smoothly and all systems were ready for customers on the Monday after the go live weekend. Unfortunately our customers have experienced some less than satisfactory experiences with certain features of the operating system, which our task force team have been working through to conclusion, with the assistance from vendors Oracle. We apologise to those customers who were affected. Additional technical staff, who have been difficult to recruit due to COVID-19 related travel restrictions, have been added to the project team in PNG and all the strategic business units in PNG have increased the number of subject matter experts assigned to the project. The new banking system remains as BSP's most critical project for 2022.

Activity across all our electronic and digital channels increased significantly in 2021 with our mobile banking as well as internet banking transactions continuing year on year increasing by 12.5 million and 1.5 million which represents a 11% and 28% uplift respectively. BSP's Digital SBU, with our Fintech joint venture technical partner TruTeq, successfully delivered BSP Pay, a payment solution that facilitates online business trading for registered BSP merchants, with any BSP customer registered with BSP Pay – without the need to have a scheme card issued. The Fintech JV, Platform Pacific Limited, also built and delivered an Internet Payment Gateway (IPG) platform, which enables businesses to carry out scheme card based e-commerce transactions.

In order to improve the effectiveness of our AML program, an additional 47 staff were recruited during 2021 across Retail, Corporate and our Group Compliance SBU's. This was complemented by systems enhancements and group wide AML specific training, which involved board, management and all staff. Board oversight of all AML activities was elevated and ongoing improvement is an imperative for 2022.



Group CEO Robin Fleming in discussions with Group COO Frank van der Poll and BSP Capital GM Gheno Minia during the BSP brand relaunch.

Group CEO's Report

(continued)

There remained a strong focus on leadership development via our Leadership Management Development Program. The program involves three (3) years of targeted development and training for emerging, developing and senior leaders across the group and during the course of 2021, 35 staff participated in the program with 19 being female. International travel restrictions did preclude attendance at business schools overseas, which is normally part of the program, but staff were still able to undertake on line training with Insead and Melbourne Business School, which was complimented with mentoring, guest speaker sessions and attendance at Executive Committee and Board meetings.

BSP's community projects across all countries continued in 2021, 52 projects across the region with themes of refurbishment of school sports areas, solar for rural health, school desks and upgrading markets for SME's. All our staff are actively involved in these projects which represent tangibly BSP's commitment to the communities we work in and live in.

Our board led by our Chairman Sir Kostas Constantinou, provided leadership and support during an operationally difficult year, whilst maintaining oversight of BSP's operational performance, risk management systems and governance.

All of our staff contributed to the excellent outcome in 2021 and I thank them for the ongoing commitment and support of BSP throughout the region.



Robin Fleming, CSM
Group Chief Executive Officer



BSP Group CEO Robin Fleming, Board Chairman Sir Kostas and staff at opening of Koroba Sub Branch.



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South Pacific market leader

We continue to grow and build scale in pursuit of sustainable market leadership



K13.6bn
In net lending



K23.9bn
In deposits



K676.5m
Dividends paid



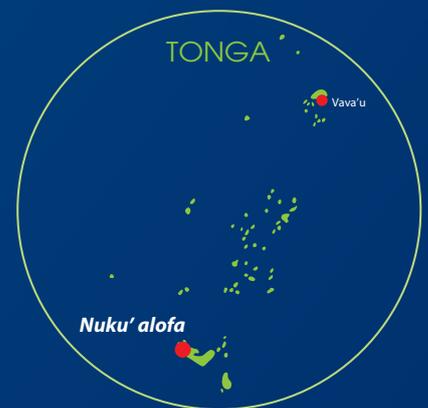
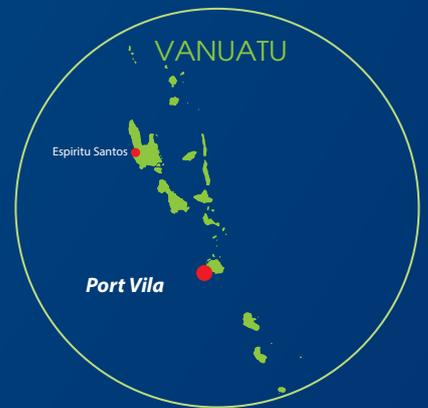
K5.7bn on PNGX
A\$2.0bn on ASX
Market Capitalisation

LAOS
CAMBODIA



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PAPUA NEW GUINEA



MAP KEY



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Group Historical Summary

Group Historical Summary

BSP Group NPAT

K1.075bn

33.4% increase from 2020

Dividend paid per Share

K1.44

19.0% increase from 2020

Capital adequacy

25.7%

250 bps increase from 2020

Profit and Loss (K'000)	2018	2019	2020	2021
Net interest income	1,380,796	1,391,784	1,447,012	1,600,935
Non interest income	784,909	779,566	704,422	771,111
Impairment of financial assets	(82,440)	(99,183)	(201,273)	42,655
Other operating expenses	(887,097)	(819,248)	(808,326)	(888,842)
Profit before tax	1,196,168	1,252,919	1,141,835	1,525,859
Income tax expense	(352,096)	(362,556)	(335,617)	(450,641)
Profit after tax	844,072	890,363	806,218	1,075,218
Dividends (toea)				
Dividends paid per share ¹	127.0	139.0	121.0	144.0
Balance Sheet (K'000)				
Net loans and advances	12,530,649	13,200,807	13,581,153	13,631,275
Total assets	23,081,223	24,527,118	27,523,437	30,446,268
Deposits	18,232,766	19,339,056	21,654,024	23,934,835
Capital	2,872,135	3,117,033	3,433,605	3,794,965
Performance Ratios				
Return on Assets	3.7%	3.7%	3.1%	3.7%
Return on Equity	30.7%	29.7%	24.6%	29.7%
Expense/Income	41.0%	37.7%	37.6%	37.5%
Key Prudential Ratios				
Capital adequacy	22.9%	22.0%	23.2%	25.7%
Liquid Asset Ratio	33.6%	30.0%	32.6%	37.2%
Leverage ratio	10.3%	10.5%	10.3%	10.6%
Exchange rates (One (1) PNG Kina buys):				
US Dollar	0.2970	0.2935	0.2850	0.2850
AUS Dollar	0.4208	0.4188	0.3700	0.3927

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

Taxes paid to PNG Government

K282m

Income Tax Payment (2021)

<i>All amounts are expressed in K'000</i>	2018	2019	2020	2021
Company income taxes paid to PNG Government	354,947	361,987	294,695	282,052
Other taxes paid to PNG Government (IWT, FCWT, BWT)	10,018	16,872	9,327	8,031
GST paid and not able to be recouped	25,337	15,821	14,519	16,613
Donations and Sponsorships	6,482	5,581	3,839	3,723
Total	396,784	400,261	322,380	310,419

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Group Highlights



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Sales

Retail Banking | Corporate Banking | Digital | Treasury

RETAIL BANKING

2021 was a challenging year for Retail Bank and for our customers across Papua New Guinea. The impact of COVID-19 was evident in many areas of our business. However, Retail Bank was able to continue supporting its customers. Despite the challenges faced by our staff, their resilience, commitment, and dedication towards our customers was unwavering and they are to be thanked for their efforts in 2021. We also take the opportunity to remember our staff who we sadly lost in 2021 and to the many loved ones that were affected by COVID-19. May their souls rest in eternal peace.

In terms of financial performance, Retail Bank has delivered an outstanding year, finishing 27% ahead of its budget and 33% ahead of the 2020 result. This performance was driven by a strategic focus in four (4) key areas: People and Culture, Customer Centricity, Simplification and Risk.

Retail Bank's People and Culture focus was on embedding better execution practices across the business and to deliver improved service outcomes for our customers. This required a focus on training and development of our staff in several areas. Pleasingly, several staff promotions were effected in 2021 to exemplify BSP's ongoing drive to promote Papua New Guinean staff into senior roles, and importantly this included two (2) females. Retail Bank, which is now the largest Strategic Business Unit in the BSP Group, remains a 100% Papua New Guinean workforce, with over 54% of our 1,500 staff being female.

BSP rebranded during 2021, with a refreshed logo and branding message: "Our bank. Our people." The rebranding reaffirms BSP's focus on our staff, our customers, and our communities. Customer acquisition remained strong, with more than 146,000 customer accounts opened during the year. BSP opened two new branches in Koroba and Namatanai to reinforce our continued commitment to PNG financial inclusion and its people. BSP now has

84 branches and sub-branches across PNG and we are the only commercial bank operating in 21 locations where no other bank has a presence. Despite constrained macro-economic conditions, Personal and Home Loan lending remained strong and our Small Medium Enterprise business lent more than K100 million to SME Customers under the Government Credit Enhancement Support Facility Loans. Digital channel performance continued to go from strength to strength, with Digital transactions increasing by more than 18% in 2021. Importantly, Retail and Digital were able to launch our BSP Pay proprietary card online payment channel, as well as our BSP Internet Payment Gateway (IPG) service during the year. On the community front, Retail delivered 50 projects in each of the provinces we are located to assist our local communities.

BSP's new Core banking system, FLEXCUBE, will roll out as anticipated in PNG in 2022, with months of preparation from Retail Bank in the lead-up to the implementation. Our staff are undergoing intensive training to ensure our customers receive the full benefit of this banking system, through the improved banking experience.

During the year, Retail increased its resourcing capability in the Anti-Money Laundering Operational Risk, and Compliance areas, to assist with its ongoing drive to meet all regulatory obligations. AML training and development was a key focus, along with the remediation of matters identified by audit to further strengthen our operations. Retail's focus in 2022 will continue to centre on elevating our compliance in all areas.

We thank all of our customers across PNG for their ongoing support. We look forward to an exciting 2022, headlined by the rollout of our new Core Banking system that will deliver an improved customer experience for all our customers.

BSP CORPORATE

BSP Corporate maintained its leading position within PNG, meeting the needs of its Commercial, Institutional, and Government customers, with an overall lending market share of 67%.

Our experienced Relationship teams and product specialists in Papua New Guinea have expert knowledge in transactional banking, lending, infrastructure, digital and foreign exchange. Our specialists are located in key regional locations like Mt Hagen, Madang, and Kokopo. Combined with a key presence in Lae and Port Moresby, BSP Corporate provides convenient access for the Bank's corporate customers.

As BSP continues to be the business partner of choice in the South Pacific, customer satisfaction remains a priority. We conducted an online customer

survey, the results of which indicated BSP's high customer satisfaction levels. Key highlights of the survey included strengths in foreign exchange, versatility of products, and premium branch service. Other key features include outstanding relationship management and trustworthy business practice, and our regular customer visits. There has also been a focus on providing support and communication through the pandemic.

Our Relationship Managers leveraged the largest retail branch network across Papua New Guinea and the South Pacific to provide unrivalled reach and versatility in our products. Relationship Managers also worked closely with BSP Digital to provide online products, so that customers could work remotely and maintain access to their banking needs.

182 Million

Digital Transactions in PNG

- 86% of total transactions were via digital channels.
- 60% via mobile phones.

158,975

New Accounts in PNG

- personal and non-personal customers

43.31%

FX Market Share in PNG

- FX earnings in 2021 rose PGK32.6 million from the previous year while FX market share fell 0.91% to 43.31% in 2021.
- The Banks FX turnover rose 5.2% while FX market turnover rose 7.4% in 2021.

2.5 Million

BSP Account Holders in PNG

- Over 60,000 SME Accounts
- 3 SME Banking Centres

DIGITAL

The key achievements for 2021 were the continued strong growth of digital customer transactions in mobile banking, internet banking, BSP App and online digital payments, which grew over 18% from the previous year. Pleasingly, our Business Merchants are increasingly moving their customers' shopping experiences online. Thereby embracing Digital capabilities for online and mobile payments at a time when contactless payments was a necessity for continued business operations.

Digital embarked on strategic partnerships that are aimed at enhancing the customer experience and improving business efficiency. Partnerships with Government Agencies and Private Businesses including Micro, Small and Medium Enterprises (MSMEs), have seen Papua New Guinea's rapidly adapting to digital banking solutions and more businesses are investing in E-Commerce as they too see the gains in efficiency and the additional sales opportunities it brings.

BSP proudly launched 2 E-Commerce solutions, firstly BSP Pay which offers PNG domestic merchants an online non-card-based E-Commerce People to Business (P2B) payment integration for BSP Customers; and secondly, BSP

TREASURY

BSP Treasury fosters and enhances relationships with clients, providing Financial Markets services, solutions, and ensuring clients remain aware of the regulatory environment and its implications.

PNG Treasury Foreign Exchange (FX) earnings rose from the previous year by 13%, reflecting stronger FX inflows from firmer commodity prices (particularly Cocoa, Oil, Palm Oil, Copper, and Coffee), despite the closure of the Porgera mine. Import demand again exceeded the export supply of foreign currency, and these difficult trading conditions continued throughout the year.

The official Bank of Papua New Guinea (BPNG) rate of exchange was unchanged over the year at USD 0.2850. FX earnings in 2021 rose PGK32.6 million from the previous year while FX market share fell 0.91% to 43.31% in 2021. The Banks FX turnover rose 5.2% while FX market turnover rose 7.4% in 2021.

Internet Payment Gateway, both home-grown IPG solutions developed in country for BSP by Platform Pacific Ltd, a joint-venture subsidiary of BSP.

Air Niugini was the first customer to sign up to BSP IPG, citing the service provides a cost effective online payment solution that meets global standards and reduces the dependency on offshore service providers.

Digital's aspiration is to inform and connect by digital technology, the collective business and consumers needs within various ecosystems of the market. These low-cost digital payment services using mobile technology as the cost effective platform for government, business and consumers across the country.

With the above aspiration, we will continue to support innovative financial solutions for customers and digital advocacy and change initiatives, that propel design and delivery of suitable digital services to support and promote financial inclusion, and allow market ecosystems to participate collectively as consumers in the digital arena.

The Bank continued to invest surplus funds in government securities. Movements in the Government debt yield curve reflected evolving fiscal conditions. The 28 day Central Bank Bills fell from 1.33% to 1.29%, 91 day Treasury Bills fell from 2.07% to 1.96%, 182 day Treasury Bills fell from 4.44% to 4.34%, whilst one (1) year Treasury Bills were unchanged at 7.20%. Yields on longer-dated Government-issued Inscribed Stock were generally stable.

PNG Treasury continues to mitigate risk and actively aims at providing technical training and 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, and on-the-job cross-training and sales training. The strong focus on training will continue in 2022.

Operations & Support

Group Risk Management | Finance and Planning | Operations & Information Technology | Human Resource | Group Compliance

GROUP RISK MANAGEMENT

Effective risk management continues to underpin the delivery of BSP's strategic objectives. BSP's Board-approved Group Risk Appetite Statement, establishes the risk appetite parameters that BSP is prepared to assume and manage in pursuit of its business objectives. The entire Executive team is responsible for implementing BSP's Risk Management Strategy and frameworks, ensuring appropriate policies, controls, procedures, and processes for identifying and managing risk in all activities are in place.

BSP's Credit Business Unit is responsible for underwriting and monitoring of the BSP loan portfolio within the Group Risk Appetite Statement parameters. In addition to overall credit quality, Credit oversees compliance with credit policies, procedures, and underwriting standards, stress testing and adequacy of loan provisioning, monitoring sector concentration limits, management of environmental and social risks, and loan portfolio reporting.

Key credit policies and procedures are reviewed on an ongoing basis, to ensure that BSP is aligned with the banking regulatory, compliance, and industry environment and preserves prudent Credit Risk Management standards.

In addition to individual rating assessment, the portfolio is subject to stress testing, reporting, and monitoring by the Credit Committee. BSP undertook industry reviews focused on industries deemed most exposed to COVID-19,

which included accommodation, property, airlines, construction, and tourism. Customers in these sectors had their risk grades reassessed to accommodate post-COVID-19 impacts. The BSP loan portfolio outlook retains a level of uncertainty for our customers and we continue to actively manage inherent risk, which is prudently reflected in our risk grading. The economic outlook for the downside case is more optimistic than the prior year with an expectation of border reopening and unrestricted travel to reflect a lessening of COVID-19 impacts on our customers.

Credit Risk training and staff development remained a key focus during the year. Through designated training resources and the use of virtual classrooms, the team's staff in all countries benefited from a structured credit-training program focused on enhancing BSP's credit risk culture. This enhancement comes through consistent application and implementation of key policy and procedures supporting considered Credit decision outcomes.

BSP's Operational Risk Business Unit is responsible for the identification, measurement, mitigation, monitoring, and reporting of Operational Risks. This is a joint effort among all the process owners from the business, operations, and other support units across BSP Group. This unit also focuses on the continuous improvement of the general processes, controls, and strengthening of the first and second line of defences for BSP Financial Group.



Operations & IT SBU is responsible for all back-office operations and ensures that the needs of our clients are at the centre of our operational framework.



BSP Solomon Islands staff who are siblings chose to protect themselves, their families and colleagues from COVID-19 by getting vaccinated.

FINANCE AND PLANNING

Finance & Planning (F&P) SBU continues to effectively manage our organisation's financial resources. Business forecasting is always important when business conditions are subject to volatility, and the team has been able to deliver this effectively to management and the Board.

A key milestone for BSP during the year was the successful listing on the Australian Securities Exchange (ASX). The listing presents access and opportunities that the Bank can leverage to expand into new and existing markets. It also provides liquidity to our Shareholders and gives us the potential to diversify our investor base. The team played a key role in the listing process, including the preparation of the Information Memorandum and providing information required in the listing process. The team stands ready to meet the new regulatory requirements and engage with shareholders as a dual-listed, and locally grown bank.

Reporting teams continue to meet internal and external reporting requirements, providing support to various stakeholders as required. The team's involvement with the new core banking project is critical, as we look into ways to achieve efficiency in our reporting function. The Procurement and Purchasing team continue to support strategic business units with

their purchasing needs and remains an important point of contact when dealing with existing goods and services providers. The Accounts Payable team ensures that BSP's accounts are settled on time and any disputes are resolved amicably.

The Strategy team continues to manage the strategic planning process, investor presentations, and reporting cycles and coordinate the delivery of Board-mandated strategic priorities across the Group. Processes for planning, Investor Presentations, monitoring and reporting of strategic initiatives were also enhanced in 2021.

Staff upskilling continues to be our major focus as we head into 2022. We envisage improved productivity and increased output and analysis with the switch to the Bank's new Core Banking platform. Leadership capabilities within the team continues to be recognised with a number of promotions in 2021. Furthermore, staff who have consistently demonstrated exemplary job performance in going beyond their normal scope of duties were also recognised and awarded the Best Employee Awards through BSP's i-care reward initiative introduced in 2020.

OPERATIONS & INFORMATION TECHNOLOGY

BSP's Strategic Business Unit (SBU) Operations & Information Technology covers seven countries. The SBU is responsible for all back-office operations and ensures that the needs of our clients are at the centre of our operational framework.

To support our retail and business customers we implemented the following initiatives:

- The replacement of the EMV chip's on our current EMV Cards to the mandated Visa standard, CVN-18, which ensures that we comply with the world standards on new card issuance;
- The upgrading of the EFTPoS software fleet in OSBs and PNG introduces new security features as well as the enablement of 4G communications and the finalizing the One Time Password enablement for our customers with EMV cards for online secure payments;
- The replacement of the AML screening tool, Microsoft with the SWIFT Sanctions application. This allows for one platform support of the applications by IT, thus ensuring efficient turnaround times on international payments requiring AML checks and additional watch-list capabilities; and

- We have also replaced our General Ledger reconciliation platform, Accurate, with a state-of-the-art reconciliation tool that provides more functionality in terms of reconciliation.

In addition to these projects, Operations has an ongoing commitment to keep up with technology, which saw several system replacements and upgrades this year, with larger projects including:

- BSP IT has been upgrading the domestic and international links for all of BSP PNG Branches and international communication links to all our Offshore Branches. We have provided 5 to 10 times the previous bandwidth using the latest technology to enable BSP to provide more efficient and effective services to all our customers; and
- Installing and commissioning of a new, robust, and available infrastructure platform across all systems hosted in PNG, providing more resilience, efficiency along with significant performance uplifts.

BSP's new core banking system was successfully implemented in Vanuatu in April 2021. As is the case with complex core banking implementations, BSP has experienced challenges following the implementation, which has affected our customers as well. These issues are being addressed and our next goal is the implementation of the new core banking system in Papua New Guinea, targeted for the second half of 2022.



Operations & Support (continued)

Group Risk Management | Finance and Planning | Operations & Information Technology | Human Resource | Group Compliance

HUMAN RESOURCE

Human Resources (HR) SBU provides strategic operational support through its core management functions for all BSP employees within PNG and the Offshore Branches (OSBs) and subsidiaries. In 2021 HR embarked on an aggressive digital transformation exercise with four main project deliverables: HR process automation, HR customer experience, paperless HR, and digital learning experience.

Equally important was the continued coordination and management of the COVID-19 situation, with ongoing staff assistance through the Crisis Management Team (CMT) - with the primary objective to ensure regular communication, strategic guidance, and timely assistance to all employees. HR ensured that staff across the Group were better educated on the need to fully vaccinate themselves and their families, by having access to vaccination sites and COVID-19 testing facilities with ease.

Some crucial activities on employee health and wellness included, arranging mobile vaccinations at convenient work locations, educational awareness programs facilitated by leading doctors in PNG and health service providers, procuring and distributing appropriate personal protective equipment, weekly CMT meetings, and managing staff expectations.

COVID-19 continued to challenge our operations to alter our work culture digitally. Consequently, many of our training programs, workshops, and team/committee meetings were facilitated via video conferencing. Most

blended training courses included virtual delivery, BSP Learning Portal usage, online assessments, staff feedback evaluation, and e-Certification.

In line with our digital imperatives, the main highlight in 2021 was the introduction of a bi-monthly HR newsletter, HR Digest. Through this communication medium, all HR digitally impacted projects were communicated Group wide for improved BSP employee experience. The Learning Portal was used during 2021 to measure staff understanding, awareness, and competency levels in order to enhance the overall learning experience and capabilities during training. Anti-money laundering, cyber security, code of conduct, and various compliance training policies and processes were also delivered using BSP Learning Portal and SharePoint.

HR continued to coordinate the Leadership and Management Development Program (LMDP) and our Graduate Development Program (GDP). Nurturing BSP's next generation of leaders is the ultimate objective of both programs. Once again, LMDP virtual training continued in 2021.

In addition to the above, several digital surveys were conducted in 2021, including a Group-wide Staff Engagement survey, HR Customer Service survey, Lifestyle and Wellbeing awareness survey, LMDP survey, and Training Needs Analysis survey with real-time results and reports received and data analytics collated for management reporting purposes. These surveys are crucial in optimizing our overall customer service delivery.



BSP PNG Staff who attained their Diploma Certificates from IBBM with Group CEO Robin Fleming.

GROUP COMPLIANCE

Group Compliance, consisting of four (4) BUs operating in the second and third line of defence, had a challenging 2021 due to pandemic-induced absences and changes in leadership. These challenges were responded to by the utilisation of new ways of working, and the strengthening of teams via recruitment and training.

The critical need to enhance and uplift compliance with Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF) regulations and policies saw further increases to the staff complement in the AML Unit, building on from the strengthening of the function in 2019 and 2020.

There were 18 staff recruited in response to new AML roles created during the year. The new positions created include additional Technical Analysts, Training officers, a Training and Communications Manager, and a Technical Manager.

AML Highlights in 2021 include the change over from Fircosoft to SWIFT Sanctions and Payment Control Systems for sanctions monitoring across the BSP Group. This change has increased BSP's capacity to monitor and prevent sanction breaches across its network.

The Compliance BU, which monitors the management of compliance risk across the Group, focused on identifying areas of improvement in 2021, for implementation in 2022 and onwards. Areas identified, which will be concentrated on in 2022, include enhanced awareness across the Group on regulatory compliance, and the identification of issues via effective monitoring of obligations and controls.

The Internal Audit BU, which independently evaluates and reports on the effectiveness of BSP Group's risk management, controls, and governance processes, completed 149 audits across all countries and subsidiaries in 2021. The focus of the audits was on adherence to AML/CTF Policies, Central Bank requirements, and the overall operating effectiveness of key controls within business processes.

The Internal Audit BU also implemented new ways of working, by revising its current Audit Work Programs and conducting remote desktop audits. To ensure that the audit teams across BSP Group are well informed of new ways of auditing in the new normal, virtual training sessions were held and facilitated by the Global Institute of Internal Auditor throughout 2021. The Internal Audit BU also conducted surprise cash counts.

The Credit Inspection BU, which independently assesses loan submissions, compliance with credit policies and procedures and portfolio quality assurance, completed 22 reviews in 2021. Due to the pandemic, all credit reviews were conducted remotely, which presented unique challenges.

All 18 Corporate PNG portfolios have been reviewed in the past 18 months, along with all six Corporate OSB portfolios and three BSPF entities (PNG, Fiji & Solomon Islands).

Group Compliance now has 94 staff across its four BUs, and its expanded team will be the SBU's key strength.

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Broader Group

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Broader Group

Cook Islands | Fiji | Samoa | Solomon Islands | Tonga | Vanuatu

NPAT
NZD3.1m

5% decrease from 2020

COOK ISLANDS

Cook Islands' tourism-dependent economy was negatively impacted by pandemic-related travel restrictions in 2021. Accordingly, BSP Cook Islands delivered a 2021 Net Profit after Tax (NPAT) of NZD3.1 million, (K7.7m) representing a 5% decrease from 2020.

Similar to our 2020 results, key revenue lines were down on expectations, due to the border closures. However, the business continued to remain focused on efficiencies and cost savings in key areas such as operating expenses, including administration and telecommunications, computing, and channel expenses, to offset the reduction in revenue.

The Cook Islands Government continued to support businesses throughout the pandemic with subsidies and economic stimulus, and in addition has played a critical role in delivering key relief programs.

Subdued credit conditions in 2021 saw a further contraction in loans and total deposits, although the 2022 outlook is positive, with the announcement of a travel bubble with New Zealand commencing mid-January. BSP Cook Islands is optimistic the current contraction trend will reverse due to more favourable economic conditions and through various strategic and growth initiatives developed for 2022.

BSP Cook Islands actively supports and provides banking services to the business community across the private, public sector, and local communities. These services include 2 branches, 14 ATMs, 450 EFTPoS and 10 agents, many of which are in the outer islands. Participation in BSP financial literacy continues for the youth of the Cook Islands. Plans are underway to implement a financial education program including basic book keeping for SMEs, sole traders, and micro business and is also designed to encourage integration into the formal financial sector.

BSP is confident of improved economic conditions as the Cook Islands Government eases border restrictions in January 2022. Despite a challenging 2021, staff remain committed and focused on supporting customers and industry through the post COVID-19 transition.

NPAT
FJD69.4m

41% increase from 2020

FIJI

The Fijian economy was significantly impacted by the second wave of the COVID-19 Delta variant in 2021, with a further GDP contraction of 4.1% forecasted following a 15.2% decline in 2020. The prolonged closure of international borders and nil tourism receipts throughout 2021, and the high unemployment rate have hugely influenced the local economy.

Despite the challenging economy, Fiji has made commendable progress with over 90% of its eligible adult population fully vaccinated. This has become a key consideration in opening its international borders on 1st December 2021 and with promising bookings by tourists from Australia and the United States.

BSP Fiji delivered a Net Profit after Tax (NPAT) of FJD69.4 million (K117m), higher than 2020 actuals (FJD49.3m) by 41%. The result was buoyed by businesses not taking additional General Provisions (GP) for five months, and asset growth from 3rd quarter offset with surplus GP released from the customers returning to pre-COVID repayment arrangements, together with writing back of depreciation accruals.

BSP Fiji provided financial relief assistance to more than 11,000 customers with Loans & Advances totalling circa FJD1.2 billion during the pandemic. Management continued with its focus on protecting asset quality, by working closely with all customers that experienced prolonged financial hardship during 2021. Regular prudential engagement with the Reserve Bank of Fiji and ongoing oversight and support from BSP Group Credit enabled BSP Fiji to assess that provisioning requirements were in line with IFRS 9 accounting standards.



Despite strong competition between six banks in a small market, BSP secured the number one (#1) position measured by Loans & Advances market share. In 2021, the Corporate SBU secured new medium to large “Blue Chip” customers from other banks. This was achieved by taking a long-term view of the customer business, a high standard of customer service, and professional relationships that BSP has established in the market.

The challenge of making banking services accessible to the Fijian population was achieved by ensuring the health and safety of all staff remained paramount during the height of the pandemic’s second wave. Full implementation and strict adherence to government-regulated COVID-19 safe workplace protocols and practices ensured customer safety at all bank premises.

Investment in IT infrastructure and customer-centric banking applications continued, with the execution of various IT projects to expand the digital footprint in the market. The Bank has been providing State-of-the-art online banking facilities that now also include an Internet Payment Gateway (IPG) to facilitate online sales as many merchants adopt new business models. BSP Fiji became the first Bank to roll out 30 new touch screen ATMs in the market. In alignment with BSP Group’s digital footprint, Fiji has successfully migrated its credit card customers from MasterCard to Visa in 2021.

Compliance with AML/CTF policies, in line with its commitment to curtail money laundering activities, has remained a key focus area for the bank.

NPAT
WST16.7m
23% increase from 2020

SAMOA

BSP Samoa has delivered a robust financial performance in 2021, despite the Samoan economy contracting by 10%, as domestic economic activities continue to be adversely impacted by border restrictions. Net Profit After Tax of WST16.7 million (K22.9m) generated a Return on Equity of 17.3% and Return on Assets of 2.7%. These results were achieved through a prudent growth strategy, while maintaining acceptable asset quality and a strong balance sheet position.

The economic outlook for Samoa continues to look challenging, with a slight improvement anticipated for 2022. BSP’s strategic focus for 2022 will be committed to helping our customers and community rebuild and harness growth opportunities through operational efficiencies and overall customer experience, as we strive to maintain our number one (#1) position in Samoa.

Resilient customer care and a reliable electronic footprint that delivered innovative and cost-effective financial services, remained key priorities for the Bank. The launch of the 3D Secure Authentication project provided an enhanced, secured and convenient digital solution for our customers, who can now complete online purchases using One Time Passwords (OTPs) received via their mobile phones. This feature complemented our Internet Banking platform and a network of 26 ATMs, 45 agents, 400+ EFTPoS terminals.

BSP remained committed to our community via numerous projects throughout the year. In 2021, we contributed to over 50 projects ranging from health, sports, tourism, environment, youth development, home for the elderly, gender, and family violence, amongst many. Our key community project in 2021 focused on education, promoting literacy through the construction of the new library for Vailele Primary School.

Our success is predicated upon our staff dedication towards delivering superior services to our customers. The strength of our culture is reflected in the way we embed a values-driven approach to our work. The staff in both Samoa and PNG and all our customers are acknowledged for their support of making possible good results in 2021.

Broader Group (continued)

Cook Islands | Fiji | Samoa | Solomon Islands | Tonga | Vanuatu

NPAT
SBD76.1m

2.5% increase from 2020

SOLOMON ISLANDS

The Solomon Islands experienced a challenging 2021 for businesses activity and the economy in general. International borders remained restricted throughout the year, which mitigated the spread of COVID-19 throughout the country however, the restrictions on travel have taken an economic toll. The local economy was also further affected by the November riots in Honiara, which destroyed both public and private property, including the burning of BSP's Ranadi Branch. The Central Bank of Solomon Islands (CBSI) estimated the impact of the riots to the economy at SBD534 million. CBSI further estimated a subsequent contraction of GDP growth by 0.6% in 2021 and expected to persist into 2022.

Subdued market credit appetite and growing system liquidity, saw competition intensifying and increased loans portfolio pressure. Despite these pressures, BSP Solomon Islands maintains the highest loan and deposit market share.

In light of the above, BSP Solomon Islands recorded a Net Profit after Tax (NPAT) of SBD76.1 million (K33.2m) for 2021, slightly higher than 2020 by 2.5%. Interest income reduced due to the loan book contracting, but improved performances in FX and digital channels revenue lines were achieved in 2021. The 2021 cost increases were primarily from the direct losses from the riots.

As the only Bank with branches in all provinces, BSP continued its commitment to the Solomon Islands. We have increased BSP Agent numbers, expanded services by upgrading all ATMs, increased EFTPoS to over 300 terminals, and improved our mobile banking experience. Expanding our digital footprint across the country is a key strategic priority in 2022. In addition, loan rates were reduced for both retail (home and personal loans) and business customers to proactively support our customers through the pandemic.

Our long serving Country Head, David Anderson, retired after 8 years as leader of our Solomon Island's business. David's contributions were significant and he is to be congratulated for his efforts. Sandra Fore took over from David towards the end of 2021 and Sandra is the first Papua New Guinean to be appointed Country Head of one of our Pacific businesses.

BSP Solomon Islands remains committed to assisting customers and communities with improved services and retaining its position as the Solomon Islands' bank of choice.

NPAT
TOP11.9m

20% increase from 2020

TONGA

BSP Tonga Ltd delivered a Net Profit after tax of TOP11.9 million (K18.4m) in 2021, which is 20% (or TOP2m) above its 2020 performance despite COVID-19 challenges. This outstanding result was driven by improved overall operating income, attributed to Tongan diaspora remittances boosting MoneyGram commission (48.9%) and FX Market (0.2%). Prudent cost and debt management, saw costs of TOP10 million – a saving of 2.9% throughout the year.

BSP Tonga Ltd maintained its number one (#1) market share position, with over 40% both Lending and Deposits. Extended border closures and slower market sentiment saw lending growth contract 5.2%, while deposits grew 25.4% from remittances and foreign aid.

BSP Tonga's customer base grew by 7.4%, with over 37,400 selecting BSP Tonga Ltd as their preferred bank of choice. During 2021, the reductions across interest rates and fees saw significant benefits passed onto customers.

BSP's COVID-19 relief package remained on offer, despite the positive market sentiment and diversification saw minimal customers on relief. Digital education of customers and staff, coupled with additional investments in digital devices across 2021. Consequently, we experienced an average increase of 85% in usage across ATM, EFTPoS, and agency banking channels.

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BSP Solomon Islands new ATM at Lions Heat Street.

Sponsorship activity focused on grassroots projects particularly in the outer island, with contributions of school desks, water tanks, and rubbish bins to the Ha’ano Public School in Ha’apai, similarly to ‘Eua and Vava’u town centres. Expansion of our Go Green initiative saw over 30 rubbish bins donated to ‘Adele and Toloa College – two of the oldest boys’ schools in the Kingdom. This was in addition to the Bank’s 2021 Community Project – the refurbishment of the St. Paul’s Hall, for small to medium female-led businesses, to connect and sell products in a more prominent location.

Our support succession planning efforts, and establishment of the Family Sexual Violence Action Committee (FSVAC), to demonstrate our commitment to the #BlackThursdays agenda has seen investments in our people continuously improving in leadership training and job rotations throughout 2021.

Despite the challenges in 2021, our staff continue to remain resilient and committed to delivering outstanding services to meet the needs of our customers and our communities.

NPAT
VUV139.1m
30% increase from 2020

VANUATU

In April 2021, Vanuatu was the first BSP branch to implement the new Core Banking System (Oracle FLEXCUBE). The benefits of the new Core Banking System include standardisation of business processes within the Group, improved timelines through automated regulatory and management reporting, web-based solutions, common training across the group, greater level of customer centricity, operational control, product flexibility and operating efficiency whilst reducing the overall cost of maintaining the core banking infrastructure.

BSP Vanuatu continues to focus on expanding our banking services and being an active corporate member in the community. With 26 ATMs, 24 active agents and 428 EFTPoS terminals, BSP Vanuatu works to support communities and bring banking services to all Vanuatu’s population segments. We operate in the three key island markets of Efate, Santo and Tanna. The Freswota branch has been operational since March 2019, with increasing customer numbers and transactions, and provides Port Vila customers with a viable second branch alternative.

During this period of COVID-19 border closures, BSP Vanuatu has continued to actively participate in community initiatives. With a strong focus on corporate responsibility, BSP Vanuatu plays an active role in supporting the broader business community, including backing government led initiatives and promoting Go Green projects within schools and local communities. BSP Vanuatu also actively gives back to the community through our community projects, which in 2021 included the rebuilding of a school playground in Freswota, part of a joint venture with Kiwanis and Carbine Club Vanuatu.

We farewelled our Country Head, Nik Regenvanu, who has been in the role for three years, when he decided to move to Canada for family reasons. Nik is to be congratulated for his contribution to BSP and we look forward to welcoming our new Country Head, Graham Freely, in 2022.

During 2021, Vanuatu’s economy continued to be materially impacted by COVID-19. Borders remained closed resulting in loss of jobs and the closure of many businesses. This has had a material impact on BSP Vanuatu’s financial results. BSP Vanuatu declared a Net Profit after Tax of VUV139.1 million (K5m) in 2021, with performance behind budget due to COVID-19 related implications of lower income generation and credit quality. The outlook for 2022 will be dependent on the timing of borders reopening for international travel, the speed at which the tourism industry can rebound, and government support and facilitation.

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bsp life

bsp life

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Subsidiaries

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Subsidiaries

BSP Finance | BSP Life | BSP Capital

bsp Finance

PGK7.3m

Full Year Profit

BSP FINANCE

Papua New Guinea

BSP Finance PNG achieved a full-year profit of K7.3 million in 2021, up 23% from 2020, despite headwinds in the local economy through further delays of key resource projects and the continued impact of COVID-19 Delta variant influencing some customers. Through prudent management of our credit risk and expenses, we were able to deliver a satisfactory result.

In May 2021, we welcomed a new Country Manager, Simon Kepui, who has overseen a successful integration of the Corporate Novated Lease book to the finance company. This product has aligned well with our current suite of products and can be leveraged for future growth.

Our commitment to the community is important to us, and in 2021, we delivered much needed water supply infrastructure to the health clinic attached to the prison in Bomana, Port Moresby. This project not only provides water to the clinic and prison, but also to the surrounding residents.

In 2022, we look forward to growing the business through strategic partnerships developed over many years, and investing in technology and our people.

Fiji

We achieved a full-year 2021 profit of FJD2.8 million (K4.8m), a reduction of 28% from 2020. During this time, our people remained committed to helping customers and partners get through the pandemic and showed the value of community in our people.

BSP Finance Fiji supported many with relief packages again in 2021 and worked hard to ensure our small business customers could survive until the expected border opening in December. This will benefit the tourism industry and the wider community, as Fiji opens to the world and gets back to work.

2022 will still see challenges as the economy recovers however, with 91% of the eligible population being fully vaccinated, we are optimistic that our strategy will deliver growth opportunities and deliver a successful year ahead.

Cambodia

Cambodia's border remained closed in 2021 due to COVID-19 and the impact of the spread of the Delta variant. When infections were peaking, much of the economy was in lockdown affecting many of our customers. Hence, our team was forced to work from home and at times were rotating between home and office when restrictions eased. Despite all of the challenges, we delivered an after tax profit of USD3.5 million (K12.4m), a 2% decrease from the previous year, and our loan book (net) grew by 22%.

High vaccination rates in Cambodia have allowed the authorities to open borders to vaccinated travellers without restriction. The economy is set to continue to grow and our business is well placed to achieve its 2022 goals. We have a settled team in place and are fully funded for the anticipated growth in our business through strong partnerships with our joint venture partner and other stakeholders.

FJD2.8m

Full Year Profit

USD3.5m

Full Year Profit

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bsp Finance



Donation to Solomon Islands Football Federation - Left-Right; Joyce Nukumuna, SIFF rep. and players, Diana Tasion - Country Manager Tower Insurance and SIFF Board Member and Imelda Samba - BSP Finance Country Manager.

SBD28.1m

Loan Portfolio in 2021

Solomon Islands

BSP Finance Solomon Islands suffered a net loss of SBD1.3 million (K0.4m) for the full year 2021, an increase on the prior year (SBD0.2m). Strong headwinds in the economy further affected by the ongoing pandemic related border closure and poor performing elements of the loan book hampered growth aspirations and affected business profitability.

Imelda Samba from Papua New Guinea was appointed Country Manager and after a long wait to gain entry to the country, she commenced duties in May 2021. We look forward to the Solomon Islands achieving targets through ongoing partnerships with the Bank and other local suppliers. Our focus on growing the brand regionally will deliver more opportunities, as we position ourselves as the preferred non-bank financier in the country.

Lao

Many milestones were reached during 2021 for the business in Lao. We were able to secure regulatory approvals to change the name of the business to BSP Leasing Lao Co., Ltd (BSPLL) and introduce capital from the shareholders to enable the business to trade and grow. Unfortunately, Lao, like many other countries, suffered greatly from the spread of the COVID-19 Delta variant.

Cases were still high at the end of 2021, however the government is planning to open the borders in early 2022 after the successful launch of the China Lao railway, which connects Lao, the only landlocked country in South East Asia, to China in the north and Thailand in the south. This will open up the country for more trade, attracting additional flows from foreign investment to accelerate economic growth in Lao.

BSP Lao is looking forward to local and international restrictions easing, which will aid in our goal to grow the business with our joint venture partner.

USD1.1m

Loan Portfolio in 2021

BSP CAPITAL

BSP Capital posted an after-tax profit of K1.0 million in 2021 compared to K1.9 million in 2020, reflecting difficult trading conditions with several clients recalling their investments. The Funds under Management (FuM) saw substantive adjustments including a 22% reduction in the overall portfolio to K6.5 billion, driven by redemptions and portfolio adjustments by institutional clients. Notwithstanding the impact of COVID-19, BSP Capital was able to extend both its key investment management mandates with Nasfund and Aon for another three years during 2021.

BSP Capital was also able to provide advice to BSP Financial Group relating to its secondary listing on the Australian Securities Exchange (ASX) during the year. BSP was listed successfully in May 2021 and now trades under the ticker symbol BFL on the ASX.

2022 will come with its challenges stemming from the persistent pandemic effects, and the ongoing macroeconomic complexities, but we are confident of sustaining enhanced profitability in the near term.

bsp Capital

PGK1.0m

Full Year Profit

Subsidiaries (continued)

BSP Finance | BSP Life | BSP Capital

bsp life

PGK 0.6m

Full Year Profit

Wantok Delite Annual Premiums
K2.0m in 2021

Wantok Group Term Life
K0.4m in 2021

BSP LIFE

PNG

Effective compliance and risk management continue to underpin BSP Life's vision and objectives. BSP Life Board of Directors with the support of its Board Risk Committee and Board Audit Compliance Committee has the oversight of risk management by ensuring appropriate resources, systems, policies, and processes are allocated to assist mitigate the risks within the business.

The business was profitable for the second year running, with a profit of K0.6 million in 2021. Over the year, the business has issued over 900 Wantok Delite policies with annual premiums of K2.0m, whilst the Wantok Group Term Life new business for the year stood at K0.4m. BSP Life's financial performance, and both solvency and capital adequacy ratios, are tracking positively.

On 30 August 2021, BSP Life launched its second Sales Office in Lae, Morobe Province with 25 insurance agents and two (2) full-time staff. The launch was a key milestone for BSP Life, as it endeavours to grow its geographical footprints around PNG to drive insurance awareness, and make life insurance accessible through its Wantok Delite Product.

BSP Life has been an active participant in various industry and business initiatives organised throughout the year to drive policy changes, awareness, and other objectives that aim to contribute towards increasing insurance awareness in PNG.

BSP Life's strategic focus for 2022 will continue to be on delivering premium income growth from its Wantok Group Term Life and Wantok Delite endowment products, as well as capacity building for staff and agents through regular and targeted training programs. To further increase our geographical footprint in Papua New Guinea, BSP Life has planned to launch its third Sales Office in mid-2022.



BSP Life PNG Head of Sales Mathew Hasu interacting with a participant during an event.



FJD 15.8m

Full Year Profit

Investment portfolio grew by 10% to FJD 803m in 2021

Fiji

Despite the challenging environment, BSP Life (Fiji) showed resilience closing the year with a consolidated shareholder profit of FJD15.8 million (K25.6m). Policyholder profit was FJD17.1 million.

The closure of Fiji's borders impacted Fiji's GDP, with a re-estimated contraction of 4.1% and over 100,000 people losing their jobs. A national vaccination campaign enabled over 90% of the target population to get vaccinated paving the way for border openings and the resumption of international travel in December. This will support economic recovery into 2022.

It was pleasing that BSP Life Fiji delivered sound results. Key highlights include:

1. Life annual premium sales of FJD10.1 million.
2. Life single premium sales of FJD25.7 million on the back of sound product and distribution strategies.
3. Market share of Life insurance grew to 57%.
4. The Investment portfolio grew by 8% from FJD747 million in 2020 to FJD803 million in 2021, underpinned by a diversified range of assets. The adverse impact on tourism investments was offset by improvements in other asset classes.
5. For the Health business, the focus on value and our strong service reputation supported a satisfactory outcome. Sales closed at FJD4.4 million.
6. A dividend of FJD8.5 million was paid following the performance in 2020 and strong liquidity and solvency positions.
7. An interim bonus declaration for policyholders was maintained at 2020 levels.

The outlook for 2022 is cautiously optimistic. Fundamentals are in place, however the BSP Life Fiji remains susceptible to slow economic recovery, cautiousness around the National election and adverse impacts of the third wave of COVID-19. The focus for the BSP Life Fiji remains anchored on making the current better and building for the future supported by a clearly defined Board strategy and competent team.

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Corporate Governance

Corporate Governance Report

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 PNG Exchange Markets (PNGX) and the Australian Stock 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 – regulators, 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) Banking Prudential Standard BPS 300: Corporate Governance (issued under Section 27 of the Banks and Financial Institutions Act 2000).
- 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 Financial Supervisory Commission of the Cook Islands Banking Prudential Statement BPS09: Governance Risk Management (June 2019).
- The Central Bank of Samoa Prudential Statement 1 (January 2021).
- The Central Bank of Solomon Islands Prudential Guideline No. 14 on Corporate Governance (July 2019).

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, 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, financial, 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 BSP 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 the Board Committee section.

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 - Executive 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.

Corporate Governance Report

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 has implemented an independent Board evaluation process to underpin the assessment of its performance.

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 - 11. 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.

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.

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 Statements Note 35. The Directors' Information on Page 122 provides details of the Directors' Interests.

Meetings of the Board and Attendance

Scheduled meetings of the Board are held at least seven 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 Statements Note 36, Directors' and Executive remuneration, provides attendance details of Directors at Board meetings during 2021.

Review of Board Performance

Consistent with Recommendation 1.6 of the ASX Corporate Governance Principles and Recommendations (4th Edition), BSP has a process for periodically evaluating the performance of the Board, its Committees and individual Directors. The key findings of the 2021 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 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 Group 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, Heads of Subsidiaries and Country Managers 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 2021, four Committees of the Board were in operation whose functions and powers were governed by their respective charters. These Committees were the Board Audit and Compliance Committee (BACC), Board Risk Committee (BRC), 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 Statements Note 36.

Membership of Board Committee during 2021:

Board Audit & Compliance Committee	
Geoffrey Robb ¹	1/6
Ernest Gangloff	6/6
Arthur Sam	6/6
Stuart Davis	6/6
Frank Bouraga	6/6
Symon Brewis-Weston ²	5/6
Daniel Siaguru-Khaisir ³	4/6
Gertrude Tamade ⁴	1/6
Board Risk Committee	
Geoffrey Robb ¹	1/6
Ernest Gangloff	6/6
Arthur Sam	6/6
Stuart Davis	6/6
Priscilla Kevin	6/6
Symon Brewis-Weston ²	5/6
Vele Rupa ⁵	3/6
Charles Lee ⁶	2/6
Remuneration and Nomination Committee	
Robert Bradshaw	7/7
Faamausili Dr. Matagialofi Lua'ufu	7/7
Priscilla Kevin	7/7

¹ Geoffrey Robb retired as a non-executive Director on 12 April 2021 and as a member of both the BACC and BRC.

² Symon Brewis-Weston was appointed as a Director on 13 April 2021 and as a member of both BACC and BRC to replace Geoffrey Robb.

³ Daniel Siaguru-Khaisir was appointed by the Board on 25 May 2021 as an ICM of the BACC for director professional development roles.

⁴ Gertrude Tamade was appointed by the Board on 25 May 2021 as an ICM of the BACC for director professional development roles, and resigned on 30 July 2021.

⁵ Vele Rupa was appointed by the Board on 25 May 2021 as an ICM of the BRC for Board development purposes.

⁶ Charles Lee's tenure as an ICM on the BRC ceased on 5 May 2021.

The Disclosure Committee comprises of the Chairman, Group CEO, Group CFO, Group CRO and Company Secretary. They meet as and when required to overview and approve any disclosures to Market in compliance with the PNGX and the ASX Listing Rules.

Corporate Governance Report

Sir Kostas G. Constantinou is not a member of any Board Committee.

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. The BACC and BRC Charters were updated to reflect the changed responsibilities.

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 & Compliance Committee

The BACC assists the Board to discharge its responsibilities of oversight and governance in relation to financial and audit matters. The responsibilities of the BACC 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 controls and effectiveness of BSP’s compliance obligations;
- the systems for ensuring operational efficiency and cost control;
- the systems for approval and monitoring of expenditure including capital expenditure; and
- the processes for monitoring compliance with laws and regulations (both in PNG and in overseas jurisdictions, where BSP operates) and the implementation of Board decisions by management.

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

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

Board Risk Committee

The Board Risk Committee assists the Board to discharge its responsibilities of oversight and governance in relation to the implementation of BSP’s risk management framework. The responsibilities of the BRC are to:

- review and monitor the principles, policies, strategies, processes and control frameworks for the management of risk (such as credit risk, market risk, liquidity risk, operational risk, cyber security, reputational risk and other risks that may arise including COVID-19);
- oversee BSP’s risk profile and risk management strategy, and recommend BSP’s risk appetite statement.

Membership of the BRC is formed amongst the Non-Executive Directors, excluding the Chairman. The BRC must have a minimum of three Non-Executive Directors, the majority of whom must be independent. The

Board may also appoint to the BRC additional individuals who are not executives or members of the Board who have specialised skills to assist the BRC. The chairman of the BRC must be an appropriately experienced independent Non-Executive Director, other than the Chairman (or other Board committee chairman).

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

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 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 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 fulfill its responsibilities to shareholders while maintaining a world class Corporate Governance regime.

The RNC is comprised of three Non-Executive Directors. The Chairman of the 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 disclosure committee comprising the Chairman (or in his absence another Non-Executive Director), the Group Chief Executive Officer, the Group Chief Financial Officer of BSP, the Group Chief Risk Officer and the Company Secretary (Disclosure Committee). The chairman of the Disclosure Committee is the most senior Director present. The members of the Disclosure Committee may vary from time to time, but will consist of at least 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:

- approving the release of any announcement to PNGX, other than:
 - an announcement that relates to a matter which is both material and strategically important, which will require approval by the Board; or
 - procedural matters such as notice of changes to equity securities or directors’ holdings, which will require approval by the Disclosure Officer;
- considering whether BSP is obliged or is required to respond to a market rumour or media speculation; and
- overseeing the Disclosure Officer’s administration of the Continuous Disclosure Policy.

Annual Financial Statements

The BACC 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 BACC 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 BACC 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 BSPs 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 2022, and be available to answer shareholder questions regarding the audit.

Internal Audit

BSP has an internal audit function. The BACC 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 BACC also reviews the qualifications of internal audit personnel and endorses the appointment, replacement, reassignment or dismissal of the internal auditors.

The BACC 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 BACC 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 BACC 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.

Review findings of any examinations by regulatory agencies are undertaken and the Chairman of the BACC 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.

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.

IT Risk: The current and potential threat to earnings, capital or reputation as a result of a failure of information systems managed, maintained and operated by the Bank.

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.

Compliance AML Risk: The risk of loss or penalties imposed by a regulator for non compliance with regulations, prudential standards and policies.

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

Cyber Risk: Targetted hacking, leakage/theft of customer confidential information, unauthorised financial transactions, random attacks including malware, phishing and ransomware.

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.

Corporate Governance Report

Compliance and AML is monitored by the Compliance and AML business unit, 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, Infosec);
- 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 Group Chief Executive Officer, and from the Group 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 BRC responsibility for overview of loss control and for overseeing the risk management function.

The BRC 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 Group Chief Executive Officer and the Group 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 Heads 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 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.

BSP's Corporate Governance Principles provide that the Board must ensure it maintains an appropriate mix of skills and experience without gender bias.

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 Directors is available at www.bsp.com.pg in the Investor Relations section.

Directors and management of the Group are subject to Capital Markets Act 2015 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 Group 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 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. An 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 2017 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.

BSP gives Shareholders the option to send and receive communications from BSP and its share registry electronically. Since 2017, BSP and its share registry have used technology to facilitate the participation of Shareholders in meetings.

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. The presentation materials provided at these events are released to the market prior to commencement of the event and subsequently uploaded to BSP's website.

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Remuneration Report

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Remuneration Report

1.0

Message from the Remuneration and Nominations Committee Chairman

The aim of the Remuneration Report (Report) is to provide details that the Board believes are essential for shareholders to understand BSP Financial Group Limited's remuneration framework. This is intended to deliver specific operating financial and non-financial outcomes. There is no statutory requirement for Remuneration Reporting under International Financial Reporting Standards (IFRS) and as a PNG incorporated entity, BSP is not required to have this remuneration report audited.

2.0

Message from the Remuneration and Nominations Committee Chairman

On behalf of the Remuneration and Nominations Committee (RNC) and the Board, I am pleased to provide the Report for BSP Financial Group Limited (BSP). At BSP, we recognize that our staff are the most valuable asset in the business. We must therefore ensure that remuneration and benefits are fair and competitive in the market. It must be highlighted that despite challenges with the economy and reduced business activities in 2021, all staff in the BSP Group were paid performance based short term incentives consistent with approved broad based operational and financial key performance indicators (KPI).

The RNC comprises three Non-Executive Directors, and is assisted by non-voting members of management which include: Group Chief Executive Officer (GCEO), General Manager Human Resources and the Company Secretary. The RNC's annual activities are based on the RNC charter and cover various aspects or focus areas including Compliance and Governance, Remuneration Management, Succession Planning, Recruitment and Performance Management for Board Directors, Non-Executive Directors and Executive Management. The first section of the Report discloses Key Management Personnel (KMP) for BSP. The KMP comprises Non-Executive Directors and Group Executives. Group Executives are staff within BSP with the authority and responsibility for planning, directing and controlling the activities of BSP. The Board approves RNC endorsed executive remuneration packages annually in line with the remuneration guidelines. BSP remuneration for executives comprises a fixed component and a risk component. The fixed component takes into account the nature of the role, pay levels in the market, and the individual and business performance, whereas the risk component is a combination of short-term and long-term incentives.

The Report discusses the remuneration strategy in detail with a key focus on individual aspects of remuneration including: fixed remuneration, short-term incentives, long-term incentive plan and performance based bonus. The main purpose of the above strategy is to attract and retain employees by paying market competitive remuneration for roles and being provided with incentives and benefits as an additional reward for being an employee of BSP. The additional incentives and benefits that fall under the categories stated above consist of salary reviews, staff discount on lending interest rates for both personal and home loans, opportunity to participate in leadership programs, learning and development opportunities and job promotion and appointment opportunities. These initiatives are geared towards retaining the services of staff occupying critical roles and high potential employees for the longer term.

In November 2015, the Board approved a long term incentive (LTI) scheme that uses Earnings Per Share (EPS) as the benchmark for a matrix that adjusts the LTI payment relative to the EPS hurdle. For 2021, BSP reported a net profit after tax of K1,075.22 million. This was above the threshold for 150% of performance rights, accordingly LTI was vested and payments were made to eligible staff.

BSP's Non-Executive Directors are remunerated on a fixed basis within an aggregate Directors' fee pool. Directors are not paid any retirement or superannuation benefits nor do they participate in any employee incentive schemes or share option schemes.

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3.0 Key Management Personnel

In 2021, KMP comprised the GCEO, Group Executives and Non-Executive Directors as set out in the table below. KMP is defined as those persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Name	Position	KMP Term
Board Members		
Sir Kostas G. Constantinou, OBE	Chairman	Full year
Ernest Brian Gangloff	Director	Full year
Robert Bradshaw	Director	Full year
Arthur Sam	Director	Full year
Stuart Davis	Director	Full year
Dr. Matagi alofi Faamausili Lua'iufi	Director	Full year
Priscilla Kevin	Director	Full year
Frank Bouraga	Director	Full year
Symon Brewis-Weston	Director	Part year ¹
Geoffrey J Robb	Director	Part year ²
Executives		
Robin Fleming, CSM	Group Chief Executive Officer	Full year
Ronesh Dayal	Group Chief Financial Officer	Full year
Frank van der Poll	Group Chief Operating Officer	Full year
Mike Hallinan	Group Chief Risk Officer	Full year
Peter Beswick	Group General Manager Corporate Banking	Full year
Rohan George	General Manager Treasury	Full year
Hari Rabura	General Manager Human Resources	Full year
Daniel Faunt	Group General Manager Retail	Full year
Vandhna Narayan	Group General Manager Compliance	Part year ³
Nuni Kulu	General Manager Digital	Full year
Kili Tambua	General Manager Offshore Branches	Full year
Andy Roberts	General Manager BSP Finance Limited	Full year
Gheno Minia	General Manager BSP Capital	Full year
Nilson Singh	Country Manager BSP Life PNG	Full year
Mary Johns	Company Secretary	Full year

1. Symon Brewis-Weston, newly appointed on 12 April 2021
2. Geoffrey J Robb, resigned on 12 April 2021
3. Vandhna Narayan appointed as Group General Manager Compliance on 23 February 2021

Remuneration Report

4.0 Executive Remuneration

BSP's remuneration policy for Executives is comprised of a fixed component and an at risk component constituting a combination of short term and long term incentives.

Remuneration packages are reviewed by the RNC and recommended for approval by the Board.

Fixed remuneration is reviewed annually taking into account the nature of the role, comparable market pay levels, and individual and business performance.

Executives who serve as Directors of subsidiaries of BSP receive no fees for their service as a Director.

Executive Remuneration – Non-Statutory Disclosure

All amounts are expressed in K'000

Name	Year	Salary	Short-term incentive	Value of benefits	Long-term incentive	Leave Encashment	Total
Current Executives							
Robin Fleming	2021	4,115	2,667	55	1,778	-	8,615
Group Chief Executive Officer	2020	3,856	934	57	-	-	4,847
Ronesh Dayal	2021	1,553	406	159	666	-	2,784
Group Chief Financial Officer	2020	728	123	130	-	-	981
Frank van der Poll	2021	1,553	333	46	666	-	2,598
Group Chief Operating Officer	2020	89	13	105	-	-	207
Michael Hallinan	2021	1,308	332	53	561	-	2,254
Group Chief Risk Officer	2020	1,189	150	55	-	-	1,394
Peter Beswick	2021	1,308	349	117	561	-	2,335
Group General Manager Corporate Banking	2020	1,189	102	121	-	-	1,412
Rohan George	2021	1,289	350	61	553	-	2,253
General Manager Treasury	2020	1,172	189	63	-	-	1,424
Hari Rabura	2021	892	231	203	383	-	1,709
General Manager Human Resource	2020	812	98	172	-	-	1,082
Daniel Faunt	2021	1,299	326	198	557	-	2,380
Group General Manager Retail	2020	982	171	197	-	-	1,350
Vandhna Narayan	2021	860	247	28	-	-	1,135
Group General Manager Compliance	2020	-	-	-	-	-	-
Nuni Kulu	2021	892	242	113	383	-	1,630
General Manager Digital	2020	850	134	117	-	97	1,198

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4.0 Executive Remuneration (continued)

Executive Remuneration – Non-Statutory Disclosure (continued)

Name	Year	Salary	Short-term incentive	Value of benefits	Long-term incentive	Leave Encashment	Total
Current Executives (continued)							
Kili Tambua	2021	960	108	99	412	34	1,613
General Manager Offshore Branches	2020	106	22	54	-	-	182
Andy Roberts	2021	1,073	221	73	-	-	1,367
General Manager BSP Finance Limited	2020	379	29	28	-	-	436
Gheno Minia	2021	529	41	58	227	55	910
General Manager BSP Capital	2020	471	46	76	-	11	604
Nilson Singh	2021	727	172	131	311	-	1,341
Country Manager BSP Life PNG	2020	661	112	98	-	-	871
Mary Johns	2021	408	83	64	93	10	658
Company Secretary	2020	273	79	77	-	7	436

Note: Remuneration reflected in the table above relates to the period the staff member was in a KMP role. Contracts are in AUD and PGK equivalent will vary based on exchange rate.

4.1 Fixed Remuneration

BSP's fixed remuneration comprises cash salary, salary sacrifice for citizen staff, employer superannuation contributions for citizen staff and contractual benefits. The purpose of fixed pay is to attract and retain employees by paying market competitive pay for the role, skills and experience required by the business. This may include salary, fixed pay allowance housing benefits and other cash allowances in accordance with local market practices. These payments are fixed and do not vary with performance.

4.2 Short Term Incentive (STI)

STI's are incentives that BSP awards to staff at a given time of up to one year. BSP refers to the STI as the Annual Performance based bonus scheme. The scheme focuses on rewarding employees for performance and is paid at the end of each calendar year for all staff excluding Executives (Group Chief Executive Officer, Strategic Business Unit General Managers and Country Heads) who are paid in March the following year after annual accounts are released.

This incentive is determined by the employees' individual performance and the overall BSP Group performance, based on the achievement of Key Performance Indicators (KPIs). KPIs are split between:

- Net Profit After Tax (NPAT) budget,
- Target cost to income ratio,
- Individual Strategic Business Unit (SBU) performance including achieving SBU budget,
- Implementation of critical strategic imperatives,
- Important SBU performance matrices, and
- Specific individual KPI's such as promoting vision and values, staff training, customer survey outcomes, staff engagement survey feedback and the like.

Remuneration Report

4.3 Benefits

These cover accommodation, airfares, motor vehicle, school fees, club fees and club memberships based on industry wide practice and amounts vary annually depending on market rates.

4.4 Long Term Incentive Plan (LTIP)

BSP also has a LTIP for certain senior employees. BSP's LTIP is designed to align executive compensation to shareholder interests and to reward Executives (includes Deputy General Managers and Country Heads), Senior Managers and high potential employees such as Leadership and Management Development Program participants for their contribution to long-term financial results that drive shareholder value. The LTIP assists in the recruitment, retention and motivation of Executives, Senior Managers and Critical and High Performing employees of the BSP Group. The LTIP is a two (2) year performance based plan which commences on 1 January and ends on 31 December of the second year.

Key features under LTIP include;

- i. The Group Earnings Per Share (EPS) is the performance measure or the proxy to share price.
- ii. The vesting period is two years based on BSP's financial year cycle. For example, performance rights issued in 2019 will be vested in 2021

Number	Approved EPS Hurdles	EPS target to be achieved	Target NPAT	Percentage of Performance Rights to exercise
1	107.5%>	As recommended by RNC and approved by Board each LTIP cycle	As recommended by RNC and approved by Board each LTIP cycle	150% of Performance rights
2	102.5%>			100% of Performance rights
3	97.5%			50% of Performance rights

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. If a participant resigns due to health reasons or retires prior to vesting, awards may be made in full or pro rata at the time of exit, at the sole discretion of the Board. If a participant resigns or their employment is terminated on disciplinary grounds prior to vesting, awards are not granted.

4.5 Performance Based

Performance based benefits are awarded to employees when Key Performance Indicators (KPI) are met. This is inclusive of the following:

i. Annual Salary Review

In line with the performance bonus rating scale above, BSP also conducts annual salary reviews each year. Staff salaries are reviewed and adjusted based on the performance rating scored in the prior year's performance review and the Consumer Price Index rate for respective countries.

ii. Staff Loans - National Staff Home Ownership Scheme and Unsecured Personal Loans

BSP offers its staff concessional lending rates to citizen staff who have satisfactorily completed the probation period and have formally been appointed a permanent employee status.

iii. Leadership and Management Development Program (LMDP)

BSP LMDP is a three year program derived specifically for high potential employees who have been identified as possible successors to senior and executive management roles. Participants are nominated by their SBU GMs and approved by the Group CEO. In order to be selected to participate in the program, candidates must at least score a minimum performance rating of 3 or better in the last three years. Continuation in the program will be determined by the staff member's active participation and an individual performance rating of 3 or better each year.

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4.6 Non-Performance Based

Non-Performance based benefits are not determined by the staff member's performance and are applicable to all staff. These benefits include the following:

- i. Medical Cover for all staff
- ii. Life Insurance
- iii. Superannuation
- iv. Specialist allowances for critical roles

4.7 Retention Plan

As part of BSPs retention strategy, BSP has developed a number of initiatives to ensure staff occupying critical roles and high potential employees are better rewarded in order to retain their services for BSP for the long term. These initiatives include:

- i. Short and Long-Term Incentive Plans
- ii. Leadership and Management Development Program (LMDP)
- iii. National Staff Home Ownership Scheme

5.0 Linking performance & reward outcomes – Variable Remuneration

The Group's policy is to pay executive STI subsequent to the full audit of the financial statements. The Board determined that a STI award of 100 percent of the target was appropriate for all staff and KMP after assessing performance across Group and divisional/individual performance measures. The senior executive team strongly executed the Group's strategic agenda and demonstrated sound leadership.

5.1 Short Term Incentive (STI) Outcomes

The Group's financial performance is summarized in the table below together with its relationship to the aggregate amount of Short Term Incentives (STI) paid to Executives. This section discloses STI for the various years relative to the financial performance for those years.

	FY17	FY18	FY19	FY20	FY21
Net Profit After Tax (K'000)	757,003	844,072	890,363	806,218	1,075,218
Earnings per Share (toea)	162.0	180.6	190.6	172.6	230.1
Cost to income ratio	42.6%	41.0%	37.7%	37.4%	37.5%

The table below details the bonus pool measures and outcomes for the financial year.

Target Area	Weighting	Measure	Outcomes
Group Performance	15%	Achieve budgeted NPAT and Cost to income ratio	The Group's NPAT was above budget and target cost to income ratio was achieved.
Implementation of critical strategic imperatives	50%	Various deliverable targets to be achieved	Key strategic imperatives for the year focused around expanding the Group's digital coverage and capability, upgrading the current core systems and improving compliance. Listing on the ASX was a key achievement as well.
Individual Assessment	35%	Various Key Performance indicators	Objectives set in these areas were met.

Remuneration Report

5.1 Short Term Incentive (STI) Outcomes (continued)

The table below shows the STI outcomes for FY21.

Name	Title	STI Awarded K'000	STI as % of Gross Base	Maximum STI K'000	Actual STI % of Maximum STI
Current Executives					
Robin Fleming	Group Chief Executive Officer	2,667	68%	2,667	100%
Ronesh Dayal	Group Chief Financial Officer	406	27%	444	91%
Frank van der Poll	Group Chief Operating Officer	333	23%	444	75%
Michael Hallinan	Group Chief Risk Officer	332	27%	374	89%
Peter Beswick	Group General Manager Corporate Banking	349	28%	374	93%
Rohan George	General Manager Treasury	350	29%	369	95%
Hari Rabura	General Manager Human Resource	231	27%	255	91%
Daniel Faunt	Group General Manager Retail	327	26%	371	88%
Vandhna Narayan	Group General Manager Compliance	246	25%	290	85%
Nuni Kulu	General Manager Digital	242	29%	255	95%
Kili Tambua	General Manager Offshore Branches	108	12%	275	39%
Andy Roberts	General Manager BSP Finance Limited	221	22%	307	72%
Gheno Minia	General Manager BSP Capital	41	8%	151	27%
Nilson Singh	Country Manager BSP Life PNG	172	25%	208	83%
Mary Johns	Company Secretary	83	20%	124	67%

5.2 2021 LTI Outcomes

The 2021 LTIP reward matrix was approved in November 2019. BSP's LTIP uses the earnings per share (EPS) as a proxy for BSP's share price as a determinant for achieving long term value for shareholders. Vesting of the LTIP rights is subject to achievement of the target EPS for 2021, which is calculated using the 2021 Group NPAT budget as the baseline with payments based on specified percentages of maximum rights, if 2021 EPS outcome is within the payment band as detailed in the table below.

2021 Hurdles on EPS	EPS target to achieve	Target NPAT	Percentage of Performance rights to exercise
107.5%>	222.20	K1,037.97 million	150%
102.5%>	211.87	K989.69 million	100%
97.5%>	201.53	K941.41 million	50%

	FY17	FY18	FY19	FY20	FY21
LTI vesting (%)	100%	100%	100%	0%	150%

The Group achieved a net profit after tax of K1,075.22 million and EPS was recorded at 230.1 toea, above the EPS and NPAT hurdles set by the Board. Based on these outcomes, the Board determined that 150% LTI will be vested and paid for the 2021 financial year.

The table below shows the LTI outcomes for FY21

Name	Title	LTI Awarded K'000	LTI as % of Gross Base
Current Executives			
Robin Fleming	Group Chief Executive Officer	1,778	45%
Ronesh Dayal	Group Chief Financial Officer	666	45%
Frank van der Poll	Group Chief Operating Officer	666	45%
Michael Hallinan	Group Chief Risk Officer	561	45%
Peter Beswick	Group General Manager Corporate Banking	561	45%
Rohan George	General Manager Treasury	553	45%
Hari Rabura	General Manager Human Resource	383	45%
Daniel Faunt	Group General Manager Retail	557	45%
Vandhna Narayan	Group General Manager Compliance	-	-
Nuni Kulu	General Manager Digital	383	45%
Kili Tambua	General Manager Offshore Branches	412	45%
Andy Roberts	General Manager BSP Finance Limited	-	-
Gheno Minia	General Manager BSP Capital	227	45%
Nilson Singh	Country Manager BSP Life PNG	312	45%
Mary Johns	Company Secretary	93	22%

6.0

Employment Agreements

KMP Contracts

Contracts for Senior Management and Executives are for a three year term. Initial contracts are open ended and subject to 3 months notice based on performance and business requirements.

GCEO employment agreement

The Group CEO's contractual term is agreed upon between the Board and the employee. The Board approves the GCEO's employment contract.

7.0

Remuneration Policy and Government Framework

BSP recognizes that staff are the most valuable asset of BSP. The Group ensures that remuneration and benefits are fair and competitive in the market. The remuneration strategy is supported by objectives applicable to all employees and includes:

- i. Business results, including performance against strategic objectives and metrics in the Group's risk assessment/position and compliance with AML/CTF regulations;
- ii. Performance against the Group's strategic objectives;
- iii. Adherence to the Group's values, business principles, Group-risk related policies and procedures and international standards;
- iv. Individual performance; and
- v. Local market position and practice.

The above key features of the remuneration framework enables the group to also achieve alignment between risk, performance and reward.

Remuneration Report

7.1 Remuneration and Nominations Committee (RNC)

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

- to oversee the selection and appointment of a Group CEO, and setting 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 CEO, to identify and maintain a clear succession plan for the Executive Management ensuring an appropriate mix of skills, diversity 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, diversity and experience necessary to fulfill its responsibilities to shareholders while maintaining a world class Corporate Governance regime.

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

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

8.0 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.

Directors are also 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 programs or the employee incentive schemes.

8.1 Fee Pool

BSP Non-Executive Directors are remunerated on a fixed basis within an aggregate Directors "Fee Pool" approved periodically by Shareholders. Shareholders are required to approve any change to this aggregate amount. The current Shareholder approved fee pool is PGK 4.5million. Total payments to directors for the 2021 financial year within the fee pool were as follows:

All amounts are expressed in Kina

Name of Director	Base Fee	Chair-person	BACC Fee	BRC Fee	RNC Fee	Bank Total	Sub. Fees	Total Fees
Kostas Constantinou	280,652	280,652	-	-	-	561,304	300,000	861,304
Ernest Brian Gangloff ¹	280,652	-	37,500	25,000	-	343,152	60,000	403,152
Robert Bradshaw ²	280,652	-	-	-	37,500	318,152	-	318,152
Arthur Sam ³	280,652	-	25,000	37,500	-	343,152	-	343,152
Stuart Davis	280,652	-	25,000	25,000	-	330,652	-	330,652
Dr Matagalofi Lua'iufi	280,652	-	-	-	25,000	305,652	75,000	380,652
Priscilla Kevin	280,652	-	-	25,000	12,500	318,152	-	318,152
Frank Bouraga	280,652	-	25,000	-	-	305,652	-	305,652
Symon Brewis-Weston ⁴	210,489	-	18,750	18,750	-	247,989	-	247,989
Geoff Robb ⁵	200,326	-	12,500	12,500	-	225,326	-	225,326
Total	2,656,031	280,652	143,750	143,750	75,000	3,299,183	435,000	3,734,183

¹ Includes additional as Chairman of BACC Committee

² Includes additional as Chairman of RNC Committee

³ Includes additional as Chairman of BRC Committee

⁴ Fees represent period from April to December

⁵ Fees represent period from January to June

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Financial Statements

Directors' Report

for the year ended 31 December 2021

The Directors take pleasure in presenting the Financial Statements of the BSP Financial Group Limited and its subsidiaries (Bank and the Group) for the year ended 31 December 2021. In order to comply with the provisions of the Companies Act 1997, the Directors report as follows:

Principal activities

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

Review of operations

For the year ended 31 December 2021, the Group's profit after tax was K1,075.218 million (2020: K806.218 million). The Bank's profit after tax was K1,036.455 million (2020: K759.452 million).

The Directors are of the view that there are reasonable grounds to believe that the Bank and the Group will be able to pay their debts as and when they become due and payable; and the attached financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Bank and the Group.

The results of the Bank and the Group operations during the financial year have, in the opinion of the Directors, not been materially affected by items of an abnormal nature, other than those disclosed in the financial statements.

In the opinion of the Directors, no circumstances have arisen, that make adherence to the existing method of valuation of assets or liabilities of the Bank and the Group misleading or inappropriate.

At the date of this report the Directors are not aware of any circumstances that would render the values attributed to current assets in the financial statements misleading.

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

Dividends

Dividends totalling K676.464 million were paid in 2021 (2020: K569.355 million). A detailed breakup of this is provided in Note 28.

Directors and officers

The following were directors of the BSP Financial Group Limited at 31 December 2021:

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

Details of directors' tenure and directors and executives' remuneration during the year are provided in Note 36 of the Notes to the Financial Statements. The Group CEO Robin Fleming is the only executive director.

The company secretary is Mary Johns.

Independent auditor's report

The financial statements have been audited and should be read in conjunction with the independent auditor's report on page 112. Details of amounts paid to the auditors for audit and other services are shown in Note 37 of the Notes to the Financial Statements.

Donations and sponsorships

Donations and sponsorship by the Group during the year amounted to K3.995 million (2020: K4.582 million).

Change in accounting policies

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

For, and on behalf of, the Directors.

Dated and signed in accordance with a resolution of the Directors in Port Moresby this 25th day of February 2022.



Sir Kostas G. Constantinou, OBE
Chairman



Robin Fleming, CSM
Group Chief Executive Officer/Managing Director

Statements of Comprehensive Income

for the Year Ended 31 December 2021

All amounts are expressed in K'000	Note	Consolidated		Bank	
		2021	2020	2021	2020
Interest income	3	1,707,610	1,591,992	1,592,605	1,477,343
Interest expense	3	(106,675)	(144,980)	(90,095)	(126,059)
Net interest income		1,600,935	1,447,012	1,502,510	1,351,284
Net fee and commission income	4	372,304	350,963	338,344	317,403
Other income	4	363,755	323,934	379,365	330,214
Net insurance operating income	31	35,052	29,525	-	-
Net operating income before impairment and operating expenses		2,372,046	2,151,434	2,220,219	1,998,901
Impairment of financial assets	6	42,655	(201,273)	51,138	(189,011)
Operating expenses	5	(888,842)	(808,326)	(813,227)	(736,669)
Profit before income tax		1,525,859	1,141,835	1,458,130	1,073,221
Income tax expense	7	(450,641)	(335,617)	(421,675)	(313,769)
Net profit for the year		1,075,218	806,218	1,036,455	759,452
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	29	(40,680)	97,995	(22,425)	53,381
<i>Items that will not be reclassified to profit or loss:</i>					
Recognition of deferred tax on asset revaluation reserve movement	29	1,566	6,190	1,566	6,190
Fair value gain / (loss) on re-measurement of investment securities	29	15	72	15	72
Net movement in asset revaluation	29	560	(18,914)	-	(20,055)
Other comprehensive income, net of tax		(38,539)	85,343	(20,844)	39,588
Total comprehensive income for the year		1,036,679	891,561	1,015,611	799,040
Earnings per share - basic and diluted (toea)	8	230.1	172.6	221.8	162.5

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

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

Statements of Financial Position

as at 31 December 2021

All amounts are expressed in K'000	Note	Consolidated		Bank	
		2021	2020	2021	2020
ASSETS					
Cash and operating balances with Central Banks	10	2,807,628	2,897,195	2,203,587	2,379,542
Amounts due from other banks	11	1,310,247	1,187,461	1,152,073	1,130,805
Treasury and Central Bank bills	12	4,644,603	2,841,755	4,617,566	2,801,505
Cash reserve requirement with Central Banks	13	1,719,870	1,559,284	1,627,849	1,475,103
Other financial assets	14	4,079,167	3,302,748	3,457,639	2,714,099
Loans and receivables from customers	15	13,631,275	13,581,153	12,286,416	12,123,752
Property, plant and equipment		926,205	895,476	720,376	691,634
Aircraft subject to operating lease		32,671	36,434	32,671	36,434
Investment in subsidiaries	32	-	-	388,798	385,078
Deferred tax assets	7	269,344	290,484	261,795	284,605
Other assets	16	1,025,258	931,447	436,598	410,987
Total assets		30,446,268	27,523,437	27,185,368	24,433,544
LIABILITIES					
Amounts due to other banks	17	248,792	126,270	336,101	229,098
Customer deposits	18	23,934,835	21,654,024	22,342,318	20,104,351
Insurance policy liabilities	31	1,132,176	1,043,990	-	-
Other liabilities	19	1,295,983	1,230,172	1,129,098	1,066,198
Deferred tax liabilities	7	39,517	35,376	-	-
Total liabilities		26,651,303	24,089,832	23,807,517	21,399,647
SHAREHOLDERS' EQUITY					
Ordinary shares	28	372,133	372,189	372,133	372,189
Retained earnings	29	3,025,125	2,622,249	2,728,885	2,360,983
Other reserves	29	396,929	438,516	276,833	300,725
Equity attributable to the members of the company		3,794,187	3,432,954	3,377,851	3,033,897
Minority interests		778	651	-	-
Total shareholders' equity		3,794,965	3,433,605	3,377,851	3,033,897
Total equity and liabilities		30,446,268	27,523,437	27,185,368	24,433,544

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

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



Sir Kostas G. Constantinou, OBE
Chairman



Robin Fleming, CSM
Group Chief Executive Officer/Managing Director

Statements of Changes in Shareholders' Equity

for the Year Ended 31 December 2021

<i>All amounts are expressed in K'000</i>	Note	Share capital	Reserves	Retained earnings	Minority Interests	Total
Bank						
Balance as at 1 January 2020		372,310	254,477	2,173,836	-	2,800,623
Net profit		-	-	759,452	-	759,452
Other comprehensive income		-	39,588	-	-	39,588
Total comprehensive income		-	39,588	759,452	-	799,040
Dividends paid during the year	28	-	-	(565,354)	-	(565,354)
Share buyback	28	(121)	-	-	-	(121)
Total transactions with owners		(121)	-	(565,354)	-	(565,475)
Transfer from asset revaluation reserve	29	-	(1,032)	741	-	(291)
BSP Life policy reserve	29	-	7,692	(7,692)	-	-
Balance at 31 December 2020		372,189	300,725	2,360,983	-	3,033,897
Net profit		-	-	1,036,455	-	1,036,455
Other comprehensive income		-	(20,844)	-	-	(20,844)
Total comprehensive income		-	(20,844)	1,036,455	-	1,015,611
Dividends paid during the year	28	-	-	(672,802)	-	(672,802)
Share buyback	28	(56)	-	-	-	(56)
Total transactions with owners		(56)	-	(672,802)	-	(672,858)
Transfer from asset revaluation reserve	29	-	(7,457)	8,658	-	1,201
BSP Life policy reserve	29	-	4,409	(4,409)	-	-
Balance at 31 December 2021		372,133	276,833	2,728,885	-	3,377,851
Group						
Balance as at 1 January 2020		372,310	346,513	2,394,382	3,828	3,117,033
Net profit		-	-	806,218	-	806,218
Other comprehensive income		-	85,343	-	-	85,343
Total comprehensive income		-	85,343	806,218	-	891,561
Dividends paid during the year	28	-	-	(569,191)	(164)	(569,355)
Share buyback	28	(121)	-	-	-	(121)
Gain attributable to minority interests		-	-	(2,209)	2,209	-
Acquisition of minority interest		-	-	-	(5,222)	(5,222)
Total transactions with owners		(121)	-	(571,400)	(3,177)	(574,698)
Transfer from asset revaluation reserve	29	-	(1,032)	741	-	(291)
BSP Life policy reserve	29	-	7,692	(7,692)	-	-
Balance at 31 December 2020		372,189	438,516	2,622,249	651	3,433,605
Net profit		-	-	1,075,218	-	1,075,218
Other comprehensive income		-	(38,539)	-	-	(38,539)
Total comprehensive income		-	(38,539)	1,075,218	-	1,036,679
Dividends paid during the year	28	-	-	(676,293)	(171)	(676,464)
Share buyback	28	(56)	-	-	-	(56)
Gain attributable to minority interests		-	-	(298)	298	-
Total transactions with owners		(56)	-	(676,591)	127	(676,520)
Transfer from asset revaluation reserve	29	-	(7,457)	8,658	-	1,201
BSP Life policy reserve	29	-	4,409	(4,409)	-	-
Balance at 31 December 2021		372,133	396,929	3,025,125	778	3,794,965

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

Statements of Cash Flows

for the Year Ended 31 December 2021

All amounts are expressed in K'000	Note	Consolidated		Bank	
		2021	2020	2021	2020
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		1,649,780	1,556,496	1,536,527	1,443,885
Fees and other income		749,454	703,714	714,698	647,030
Interest paid		(78,340)	(89,307)	(67,455)	(71,615)
Amounts paid to suppliers and employees		(781,764)	(892,724)	(707,787)	(762,016)
Operating cash flow before changes in operating assets & liabilities	9	1,539,130	1,278,179	1,475,983	1,257,284
Net (increase)/ decrease in:					
Loans and receivables from customers		(70,847)	(448,960)	(153,926)	(371,177)
Cash reserve requirements with the Central Banks		(175,272)	207,317	(165,713)	218,197
Bills receivable and other assets		(115,902)	(39,982)	(42,115)	33,310
Net increase/ (decrease) in:					
Customer deposits		2,497,195	2,314,968	2,407,943	2,122,595
Bills payable and other liabilities		143,169	218,669	25,896	(36,312)
Net cash flow from operations before income tax		3,817,473	3,530,191	3,548,068	3,223,897
Income taxes paid	7	(347,021)	(372,872)	(328,294)	(346,003)
Net cash flow from operating activities		3,470,452	3,157,319	3,219,774	2,877,894
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of government securities		(2,573,109)	(1,502,663)	(2,531,151)	(1,462,073)
Expenditure on property, plant and equipment		(170,886)	(63,945)	(161,369)	(45,994)
Expenditure on software development costs		(57,650)	(46,530)	(57,650)	(46,330)
Proceeds from disposal of assets		6,254	1,787	6,167	1,787
Additional funding of subsidiaries	32	-	-	(3,720)	(6,815)
Net cash flow from/ (used in) investing activities		(2,795,391)	(1,611,351)	(2,747,723)	(1,559,425)
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	28	(56)	(121)	(56)	(121)
Dividends paid	28	(676,464)	(569,355)	(672,802)	(565,354)
Repayments of borrowings		(3,396)	(113,418)	(3,396)	(113,418)
Proceeds from borrowings	19	-	242,215	-	242,215
Net cash flow used in financing activities		(679,916)	(440,679)	(676,254)	(436,678)
Net (decrease)/increase in cash and cash equivalents					
Exchange rate movements on cash and cash equivalents		(84,448)	97,995	(57,487)	53,381
Cash and cash equivalents at the beginning of the year	9	3,958,386	2,755,102	3,281,249	2,346,077
Cash and Cash Equivalents at the end of the year	9	3,869,083	3,958,386	3,019,559	3,281,249

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

1. FINANCIAL STATEMENTS PREPARATION

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

A. Basis of Presentation and General Accounting Policies

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

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

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

Standards, amendments and interpretations effective in the year ended 31 December 2021

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period beginning 1 January 2021.

- Amendments to IFRS 4, IFRS 7, IFRS 9 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective 1.1.21) - The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.
- Amendment to IFRS 4, 'Insurance contracts' – Deferral of IFRS 9. These amendments change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial instrument until 1 January 2023.

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

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2021 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 2022 or later periods, but the entity has not early adopted them:

- Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions (effective 1.4.21). On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022

- A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (effective 1.1.22).
- Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
- Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.
- Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.
- Amendments to IAS 1, Presentation of Financial Statements on classification of liabilities (effective 1.1.23). These narrow-scope amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 (effective 1.1.23). The amendments aim to improve accounting policy disclosures and to help users of the Financial Statements to distinguish between changes in accounting estimates and changes in accounting policies.
- Amendment to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction (effective 1.1.23). These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
- 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.

B. Consolidation

The Financial Statements incorporate the assets and liabilities of all controlled entities of the Group as at 31 December 2021, and their results for the year then ended.

Controlled entities are those over which the Group has the power to govern financial and operating policies, generally accompanied by a shareholding that commands the majority of voting rights, and are commonly referred to as subsidiaries.

Subsidiaries are accounted for at acquisition under the acquisition method of accounting, where:

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

All intercompany transactions and balances are eliminated.

Notes to the Financial Statements

for the Year Ended 31 December 2021

C. Foreign currency

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

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

Foreign operations

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

D. Critical accounting estimates and judgments

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

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

The areas involving significant estimates and judgments are:

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

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

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

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

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

Impact of COVID-19

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

Financial Performance

2. SEGMENT REPORTING

Accounting Policy

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

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

Consolidated

<i>All amounts are expressed in K'000</i>	PNG Bank	Offshore Banks	Non-Bank Entities	Adjust Inter Segments	Total
Analysis by segments					
Year ended 31 December 2021					
Net interest income	1,294,979	272,321	32,504	1,131	1,600,935
Other income	574,806	201,129	30,023	(69,899)	736,059
Net insurance income	-	-	36,850	(1,798)	35,052
Total operating income	1,869,785	473,450	99,377	(70,566)	2,372,046
Operating expenses	(661,440)	(210,212)	(19,973)	2,783	(888,842)
Impairment expenses	42,896	4,649	(4,890)	-	42,655
Profit before income tax	1,251,241	267,887	74,514	(67,783)	1,525,859
Income tax	(372,548)	(63,629)	(14,464)	-	(450,641)
Net profit after income tax	878,693	204,258	60,050	(67,783)	1,075,218
Assets	21,190,992	8,853,168	1,991,562	(1,589,454)	30,446,268
Liabilities	(18,427,128)	(7,693,650)	(1,474,118)	943,593	(26,651,303)
Net assets	2,763,864	1,159,518	517,444	(645,861)	3,794,965
Year ended 31 December 2020					
Net interest income	1,148,684	263,807	32,289	2,232	1,447,012
Other income	501,921	196,194	24,344	(47,562)	674,897
Net insurance income	-	-	32,246	(2,721)	29,525
Total operating income	1,650,605	460,001	88,879	(48,051)	2,151,434
Operating expenses	(587,232)	(207,639)	(18,755)	5,300	(808,326)
Impairment expenses	(146,472)	(48,845)	(5,956)	-	(201,273)
Profit before income tax	916,901	203,517	64,168	(42,751)	1,141,835
Income tax	(274,985)	(50,191)	(10,441)	-	(335,617)
Net profit after income tax	641,916	153,326	53,727	(42,751)	806,218
Assets	18,579,915	8,566,675	1,921,829	(1,544,982)	27,523,437
Liabilities	(16,104,050)	(7,463,833)	(1,418,414)	896,465	(24,089,832)
Net assets	2,475,865	1,102,842	503,415	(648,517)	3,433,605

Notes to the Financial Statements

for the Year Ended 31 December 2021

3. NET INTEREST INCOME

Accounting Policy

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

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

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

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

Interest income	Consolidated		Bank	
	2021	2020	2021	2020
<i>All amounts are expressed in K'000</i>				
Loans and receivables from customers ¹	1,135,812	1,199,823	1,020,538	1,084,444
Other financial assets - inscribed stock	333,512	220,328	332,679	219,956
Treasury bills	228,191	163,332	227,877	162,287
Central Bank bills	245	-	245	-
Cash and balances with Central Banks	5,599	6,138	6,983	8,005
Other	4,251	2,371	4,283	2,651
	1,707,610	1,591,992	1,592,605	1,477,343
Less: Interest expense				
Customer deposits	97,279	136,688	79,604	116,387
Other banks	9,396	8,292	10,491	9,672
	106,675	144,980	90,095	126,059
	1,600,935	1,447,012	1,502,510	1,351,284

¹Group interest income includes K17.860m (Bank K15.123m) recognised on impaired loans (Stage 3) to customers, 2020: K20.511m (Bank K18.915m). The Group takes up required provisions on such interest income as detailed in the accounting policy in note 15.

Notes to the Financial Statements

for the Year Ended 31 December 2021

4. NON-INTEREST INCOME

Accounting Policy

Fee and commission income

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

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

Foreign exchange income or losses

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

	Consolidated		Bank	
	2021	2020	2021	2020
<i>All amounts are expressed in K'000</i>				
Net Fee and commission income				
Product related	190,169	178,512	172,482	163,186
Trade and international related	19,784	19,320	17,351	18,185
Electronic banking related	126,271	116,514	123,718	112,572
Other	36,080	36,617	24,793	23,460
	372,304	350,963	338,344	317,403
Other income				
Foreign exchange related ¹	325,679	288,203	292,485	260,181
Operating lease rentals	7,255	7,503	7,255	7,503
Other	30,821	28,228	79,625	62,530
	363,755	323,934	379,365	330,214

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

5. OPERATING EXPENSES

Accounting Policy

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

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

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

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

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

Operating Expenses

All amounts are expressed in K'000

	Consolidated		Bank	
	2021	2020	2021	2020
Administration	119,217	115,487	107,088	104,899
Computing	137,784	109,719	122,245	93,899
Depreciation	78,818	75,202	72,099	68,257
Amortisation of computer development costs	30,238	25,597	30,038	25,375
Non-executive directors costs	4,236	4,234	3,611	3,538
Non-lending losses	6,066	10,775	5,577	10,349
Fixed asset impairment expenses	1,042	640	1,042	640
Premises and equipment	87,169	86,179	80,851	80,424
	464,570	427,833	422,551	387,381
Staff costs				
Wages and salaries	341,315	301,887	313,356	275,676
Defined contribution plans	16,711	14,787	14,986	13,358
Statutory benefit contributions	9,734	10,890	8,752	10,061
Other staff benefits	56,512	52,929	53,582	50,193
	424,272	380,493	390,676	349,288
	888,842	808,326	813,227	736,669

Notes to the Financial Statements

for the Year Ended 31 December 2021

6. IMPAIRMENT OF FINANCIAL ASSETS

Accounting Policy

Impairment

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

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

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

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

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

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

All amounts are expressed in K'000	Consolidated		Bank	
	2021	2020	2021	2020
Loans and receivables from customers (note 15)	(60,391)	183,352	(68,792)	171,200
Treasury and Central Bank Bills (note 12)	11,888	8,125	11,888	7,949
Other financial assets (note 14)	5,848	9,796	5,766	9,862
	(42,655)	201,273	(51,138)	189,011

7. INCOME TAX

Accounting Policy

Current Tax

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

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Statement of Financial Position. In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them 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 are recognised as an expense or income in the Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

Critical accounting assumptions and estimates

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 transactions with uncertain tax outcomes and provisions are determined based on the expected outcomes.

Notes to the Financial Statements

for the Year Ended 31 December 2021

7. INCOME TAX (Continued)

	Consolidated		Bank	
	2021	2020	2021	2020
<i>All amounts are expressed in K'000</i>				
Income tax expense				
Current tax	415,373	366,976	391,340	343,853
Deferred tax	34,424	(36,156)	30,832	(32,452)
Current year	449,797	330,820	422,172	311,401
Adjustment to prior year estimates	844	4,797	(497)	2,368
	450,641	335,617	421,675	313,769
Tax calculated at 30% of Bank profit before tax	437,439	321,966	437,439	321,966
Tax calculated at respective subsidiary tax rates	29,996	14,664	-	-
Expenses not deductible for tax	2,428	7,233	846	845
Tax loss not recognised	1,238	1,024	-	-
Income not recognised for tax purposes	(21,304)	(14,067)	(16,113)	(11,410)
Adjustment to prior year estimates	844	4,797	(497)	2,368
	450,641	335,617	421,675	313,769
Tax (payable)/receivable				
At 1 January	32,887	27,588	32,419	30,275
Income tax provision	(415,373)	(366,976)	(391,340)	(343,853)
Adjustment to prior year estimates	4,753	(138)	(288)	-
Other tax related items	324	(459)	652	(6)
Foreign tax paid	15,239	20,321	-	-
Tax payments made	331,782	352,551	328,294	346,003
At 31 December	(30,388)	32,887	(30,263)	32,419
Deferred tax balances are represented by the tax effect of the following items:				
Specific allowance for losses on Loans and receivables from customers	62,662	67,101	59,186	64,594
General allowance for losses on Loans and receivables from customers	130,000	162,889	123,125	155,764
Employee related provisions	28,329	25,361	26,350	23,785
Prepaid expenses	(1,725)	(1,156)	(2,141)	(1,213)
Other provisions	17,203	42,279	51,115	46,649
Property, plant and equipment	(36,435)	(65,333)	(23,195)	(23,300)
Unrealised foreign exchange gains	1,617	(957)	1,617	(957)
Accruals	28,176	24,924	25,738	19,283
At 31 December	229,827	255,108	261,795	284,605
Represented by:				
Deferred tax asset	269,344	290,484	261,795	284,605
Deferred tax liability	(39,517)	(35,376)	-	-
At 31 December	229,827	255,108	261,795	284,605
Deferred taxes movement:				
At 1 January	255,108	219,304	284,605	246,086
Current year movement	(34,424)	36,156	(30,832)	32,452
Adjustment to prior year estimates	(5,597)	4,935	785	2,368
Other movements	14,740	(5,287)	7,237	3,699
At 31 December	229,827	255,108	261,795	284,605

Notes to the Financial Statements

for the Year Ended 31 December 2021

8. EARNINGS PER ORDINARY SHARE

Accounting Policy

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

All amounts are expressed in K'000	Consolidated		Bank	
	2021	2020	2021	2020
Net profit attributable to shareholders (K'000)	1,075,218	806,218	1,036,455	759,452
Weighted average number of ordinary shares in use (000)	467,228	467,235	467,228	467,235
Basic and diluted earnings per share (expressed in toea)	230.1	172.6	221.8	162.5

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

9. RECONCILIATION OF OPERATING CASH FLOW

All amounts are expressed in K'000	Consolidated		Bank	
	2021	2020	2021	2020
Reconciliation of net profit after tax to operating cash flow before changes in operating assets				
Net profit after tax	1,075,218	806,218	1,036,455	759,452
Add: Tax expense	450,641	335,617	421,675	313,769
Profit before income tax	1,525,859	1,141,835	1,458,130	1,073,221
Major non cash amounts				
Depreciation	78,818	75,202	72,099	68,257
Amortisation of computer development costs	30,238	25,597	30,038	25,375
Net (gain) on sale of fixed assets	(1,137)	(707)	(996)	(587)
Impairment on financial assets	(42,655)	201,273	(51,138)	189,011
Movement in payroll provisions	27,788	(3,795)	16,438	8,104
Impairment of fixed assets	1,042	640	1,042	640
Net changes in assets and liabilities	(80,823)	(161,866)	(49,630)	(106,737)
Operating cash flow before changes in operating assets & liabilities	1,539,130	1,278,179	1,475,983	1,257,284

Cash and cash equivalents

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

Cash and balances with Central Banks (note 10)	2,807,628	2,897,195	2,203,587	2,379,542
Amounts due from other banks (note 11) ¹	1,310,247	1,187,461	1,152,073	1,130,805
Amounts due to other banks (note 17)	(248,792)	(126,270)	(336,101)	(229,098)
	3,869,083	3,958,386	3,019,559	3,281,249

¹The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. Amounts due from other banks includes deposits of K57.653m (2020: K51.609m) held with counter-party Banks that are not available for use by the Group.

Notes to the Financial Statements

for the Year Ended 31 December 2021

Financial Instruments: Financial Assets

Accounting Policy

Recognition

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

Modification of loans

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

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

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

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

De-recognition

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

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

Classification and measurement

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

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

The Group determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model the Group considers factors including how performance and risks are managed, evaluated and reported and the frequency and volume of, and reason for, sales in previous periods and expectations of sales in future periods.

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

Debt instruments

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

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

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

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

Equity securities

Equity securities are measured at FVOCI where they:

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

Otherwise, they are measured at FVIS.

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

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

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

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 Statements of Comprehensive Income.

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

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

10. CASH AND OPERATING BALANCES WITH CENTRAL BANKS

	Consolidated		Bank	
	2021	2020	2021	2020
<i>All amounts are expressed in K'000</i>				
Notes, coins and cash at bank	501,800	466,069	445,489	412,729
Balances with Central Banks other than statutory deposit	2,305,828	2,431,126	1,758,098	1,966,813
At 31 December	2,807,628	2,897,195	2,203,587	2,379,542

11. AMOUNTS DUE FROM OTHER BANKS

Items in the course of collection	11,141	11,944	11,114	11,944
Placements with other banks	1,299,106	1,175,517	1,140,959	1,118,861
At 31 December	1,310,247	1,187,461	1,152,073	1,130,805

12. TREASURY AND CENTRAL BANK BILLS

Treasury and Central Bank bills – face value	4,788,065	2,940,913	4,769,438	2,908,582
Unearned interest	(123,824)	(91,413)	(124,321)	(91,414)
Less allowance for impairment	(27,727)	(15,839)	(27,551)	(15,663)
	4,636,514	2,833,661	4,617,566	2,801,505

Financial assets carried at fair value through profit and loss

Treasury bills at fair value	8,089	8,094	-	-
At 31 December	4,644,603	2,841,755	4,617,566	2,801,505

Allowance for impairment

At 1 January	15,839	7,714	15,663	7,714
Provision for impairment	11,888	8,125	11,888	7,949
At 31 December	27,727	15,839	27,551	15,663

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

13. CASH RESERVE REQUIREMENT WITH CENTRAL BANKS

The Bank and the Group comply with the Cash Reserve Requirement ("CRR") set by the regulatory authorities of the jurisdictions that it operates in. The CRR specifies that a bank must hold an amount equal to a percentage of its total customer deposits in the form of cash in an account maintained by the respective Central Banks. The Bank and Group comply with this requirement on an ongoing basis. CRR requirements applicable for each jurisdiction at balance date were: PNG 7% (2020: 7%), Fiji 10% (2020: 10%), Solomon Islands 5% (2020: 5%), Samoa 4.5% (2020: 4.5%), Tonga 10% (2020: 10%) and Vanuatu 5.25% (2020: 5.25%).

14. OTHER FINANCIAL ASSETS

All amounts are expressed in K'000	Consolidated		Bank	
	2021	2020	2021	2020
Inscribed stock – issued by Central Bank	3,519,022	2,757,272	3,478,213	2,728,907
Less allowance for impairment	(20,814)	(14,966)	(20,574)	(14,808)
	3,498,208	2,742,306	3,457,639	2,714,099
Financial assets carried at fair value through profit and loss:				
Government inscribed stock	289,732	291,042	-	-
Equity securities	291,227	269,400	-	-
At 31 December	4,079,167	3,302,748	3,457,639	2,714,099
Allowance for impairment				
At 1 January	14,966	5,170	14,808	4,946
Provision for impairment	5,848	9,796	5,766	9,862
At 31 December	20,814	14,966	20,574	14,808

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

15. LOANS AND RECEIVABLES FROM CUSTOMERS

Accounting Policy

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

All amounts are expressed in K'000	Consolidated		Bank	
	2021	2020	2021	2020
Overdrafts	714,477	812,271	651,803	737,484
Lease financing	225,578	278,813	193,699	246,595
Term loans	10,485,919	10,415,188	9,742,639	9,569,147
Mortgages	2,819,504	2,813,399	2,365,799	2,350,019
Policy loans	111,342	105,193	-	-
Gross loans and receivables from customers net of reserved interest	14,356,820	14,424,864	12,953,940	12,903,245
Less allowance for losses on loans and receivables from customers	(725,545)	(843,711)	(667,524)	(779,493)
At 31 December	13,631,275	13,581,153	12,286,416	12,123,752

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

The spread of the loans is detailed in the maturity analysis table in Note 23. The loans are well-diversified across various sectors and are further analysed in Note 22. Allowance for losses includes K66.522m (Bank K59.823m), 2020: K50.082m (Bank K44.963m) provision taken up for interest recognised on Stage 3 loans.

Lease financing

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

15. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Lease financing (continued)

All amounts are expressed in K'000

	Consolidated		Bank	
	2021	2020	2021	2020
Gross investment in finance lease receivable				
Not later than 1 year	32,597	54,550	31,713	49,863
Later than 1 year and not later than 5 years	216,054	253,168	182,207	220,139
	248,651	307,718	213,920	270,002
Unearned future finance income				
Not later than 1 year	(1,771)	(2,290)	(1,720)	(2,115)
Later than 1 year and not later than 5 years	(21,302)	(26,615)	(18,501)	(21,292)
	(23,073)	(28,905)	(20,221)	(23,407)
Present value of minimum lease payments receivable	225,578	278,813	193,699	246,595
Present value of minimum lease payments receivable is analysed as follows:				
Not later than 1 year	30,826	52,260	29,993	47,748
Later than 1 year and not later than 5 years	194,752	226,553	163,706	198,847
At 31 December	225,578	278,813	193,699	246,595

Allowance for Expected Credit Losses

Accounting Policy

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

The ECL determined under IFRS 9 is recognised as follows:

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

Model Stages

The three Stages are as follows:

Stage 1: 12 months ECL - performing

For financial assets where there has been no significant increase in credit

risk since origination, a provision for 12 months ECL is recognised.

Stage 2: Lifetime ECL – performing

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

Stage 3: Lifetime ECL – non-performing

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

Collective and individual assessment

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

Expected life

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

Movement between Stages

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

15. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

Allowance for Expected Credit Losses (continued)

Accounting Policy (continued)

Off-Balance Sheet amounts

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

Definition of default

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

Critical accounting assumptions and estimates

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

Significant increase in credit risk

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

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

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

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

Probability weighting of each scenario.

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

- Base case scenario
This scenario utilises external economic forecasts used for strategic decision making and forecasting.
- Upside scenario
This scenario represents a modest improvement on the base case scenario.
- Downside scenario
This scenario represents a moderate recession.

Forward looking macroeconomic information

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

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

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

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

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

15. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

	Consolidated		Bank	
	2021	2020	2021	2020
<i>All amounts are expressed in K'000</i>				
Provision for impairment				
Movement in allowance for losses on loans and receivables from customers:				
Balance at 1 January	843,711	700,604	779,493	646,587
Net new and increased provisioning / (release of provisions)	(59,354)	143,823	(64,795)	132,807
Loans written off against provisions/(Write back of provisions no longer required)	(58,812)	(716)	(47,174)	99
At 31 December	725,545	843,711	667,524	779,493
Provision for impairment is represented by:				
Collective provision for on balance sheet	396,161	517,456	359,988	477,553
Individually assessed or specific provision	277,077	272,821	257,109	250,278
Total provisions for on balance sheet exposure	673,238	790,277	617,097	727,831
Collective provision for off balance sheet exposure	52,307	53,434	50,427	51,662
At 31 December	725,545	843,711	667,524	779,493
Loan impairment expense				
Net collective provision funding	(113,369)	79,045	(109,247)	77,377
Net new and increased individually assessed provisioning	54,015	64,778	44,452	55,430
Total new and increased provisioning/(release of provisions)	(59,354)	143,823	(64,795)	132,807
Recoveries during the year	(61,922)	(56,495)	(60,398)	(54,633)
Net (write back) / write off	60,885	96,024	56,401	93,026
At 31 December	(60,391)	183,352	(68,792)	171,200

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL;
- Net financial assets originated, which includes additional allowances for new financial instruments recognised during the period, net of releases for financial instruments de-recognised in the period;
- Movement in risk parameters and other changes arising from regular refreshing of inputs to models, foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Management temporary adjustments taken up during the reporting period relating to the impact of COVID-19 on ECL have been reflected as transfers from Stage 1 to Stage 2.

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

<i>All amounts are expressed in K'000</i>				
EAD - Loans and receivables from customers	Stage 1	Stage 2	Stage 3	Total
1 January 2020	12,177,004	1,369,149	405,110	13,951,263
Transfers to/(from)				
Stage 1	(1,705,836)	1,614,388	91,448	-
Stage 2	87,533	(156,282)	68,749	-
Stage 3	-	1,383	(1,383)	-
Net financial assets originated	1,180,095	(681,158)	(25,336)	473,601
Total movement in EAD during 2020	(438,208)	778,331	133,478	473,601
31 December 2020	11,738,796	2,147,480	538,588	14,424,864

Notes to the Financial Statements

for the Year Ended 31 December 2021

15. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

All amounts are expressed in K'000

ECL – Loans and receivables from customers	Stage 1	Stage 2	Stage 3	Total
1 January 2020	187,748	242,184	223,299	653,231
Transfers to/(from)				
Stage 1	(7,413)	5,216	2,197	-
Stage 2	11,647	(21,203)	9,556	-
Stage 3	-	106	(106)	-
Net financial assets originated	32,425	(10,655)	(10,286)	11,484
Transfers between stages	(9,832)	59,922	21,195	71,285
Movements due to risk parameter and other changes	(30,799)	58,110	27,682	54,993
Total net P&L charge / (release) during 2020	(3,972)	91,496	50,238	137,762
Loans written off against provision/(write back of provision no longer required)	-	-	(716)	(716)
31 December 2020	183,776	333,680	272,821	790,277
EAD - Loans and receivables from customers				
1 January 2021	11,738,796	2,147,480	538,588	14,424,864
Transfers to/(from)				
Stage 1	(682,884)	641,103	41,781	-
Stage 2	79,563	(117,944)	38,381	-
Stage 3	-	327	(327)	-
Net financial assets originated	860,463	(761,875)	(166,632)	(68,044)
Total movement in EAD during the year	257,142	(238,389)	(86,797)	(68,044)
31 December 2021	11,995,938	1,909,091	451,791	14,356,820
ECL – Loans and receivables from customers				
1 January 2021	183,776	333,680	272,821	790,277
Transfers to/(from)				
Stage 1	(31,926)	31,217	709	-
Stage 2	7,518	(11,499)	3,981	-
Stage 3	-	56	(56)	-
Net financial assets originated	7,906	(1,778)	41,166	47,294
Transfers between stages	12,083	(68,904)	14,983	(41,838)
Movements due to risk parameter and other changes	38,405	(104,373)	2,285	(63,683)
Total net P&L charge/ (release) during 2021	33,986	(155,281)	63,068	(58,227)
Loans written off against provision/(write back of provision no longer required)	-	-	(58,812)	(58,812)
31 December 2021	217,762	178,399	277,077	673,238

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

15. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

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

All amounts are expressed in K'000	2021		2020	
	Stage 1		Stage 1	
	Gross exposure	Provisions	Gross exposure	Provisions
Balance 1 January	2,984,144	53,434	2,567,433	47,373
Increase/(decrease) in exposure to expected credit losses	300,192	(1,127)	416,711	6,061
Balance at 31 December	3,284,336	52,307	2,984,144	53,434

Write-off policy

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

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

16. OTHER ASSETS

All amounts are expressed in K'000	Consolidated		Bank	
	2021	2020	2021	2020
Financial Assets				
Funds in transit and other assets ¹	203,749	140,638	136,355	102,794
Intercompany account	-	-	5,261	3,026
Outstanding premiums	21,678	21,030	-	-
Prepayments	42,217	38,723	37,788	33,921
Accounts receivable	3,562	4,642	1,715	2,938
Accrued income	3,619	796	434	794
Tax receivable	-	32,887	-	32,419
	274,825	238,716	181,553	175,892
Non-Financial Assets				
Inventory	16,363	11,649	-	-
Investment in Joint Ventures	224,323	202,546	26,980	27,879
Intangible Assets	236,577	220,846	228,065	207,216
Investment properties	273,170	257,690	-	-
	750,433	692,731	255,045	235,095
At 31 December	1,025,258	931,447	436,598	410,987

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

Financial Instruments: Financial Liabilities

Accounting Policy

Recognition

Financial liabilities are recognised when an obligation arises.

Classification and subsequent measurement

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

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

De-recognition

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

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion

features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts and loan commitments

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

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

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

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

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

17. AMOUNT DUE TO OTHER BANKS

	Consolidated		Bank	
	2021	2020	2021	2020
<i>All amounts are expressed in K'000</i>				
Vostro account balances	116,048	57,529	106,783	76,185
Interbank account balances	132,744	68,741	229,318	152,913
At 31 December	248,792	126,270	336,101	229,098

18. CUSTOMER DEPOSITS

On demand and short term deposits	21,183,205	17,990,094	20,249,666	17,097,544
Term deposits	2,751,630	3,663,930	2,092,652	3,006,807
At 31 December	23,934,835	21,654,024	22,342,318	20,104,351

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

19. OTHER LIABILITIES

All amounts are expressed in K'000

	Consolidated		Bank	
	2021	2020	2021	2020
Insurance liabilities				
Premiums received in advance	25,003	29,144	-	-
Outstanding claims	20,108	23,894	-	-
Claims incurred but not reported (IBNR)	3,746	2,146	-	-
Other insurance liabilities	143,832	151,491	-	-
At 31 December	192,689	206,675	-	-
Creditors and accruals	151,782	104,891	74,135	70,801
Provision for Income Tax	30,388	-	30,263	-
Items in transit and all other liabilities	183,765	254,549	334,442	377,252
Lease liability	265,262	209,006	235,070	177,185
Borrowings	245,614	245,614	245,614	245,614
Other provisions	226,483	209,437	209,574	195,346
At 31 December	1,295,983	1,230,172	1,129,098	1,066,198

20. CONTINGENT LIABILITIES AND COMMITMENTS

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

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

FASU formal warning

The Bank received a Formal Warning from the Papua New Guinea Financial Analysis and Supervision Unit (FASU) under Section 100 of the Anti-Money Laundering and Counter Terrorist Financing Act 2015 (the Act) on 12 July 2021. This warning, which was set out in a media release later that day, referred to sanctions relating to the remediation of the Bank's Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) program and an independent audit of the program.

BSP acknowledges that it failed to conduct effective enhanced customer due diligence reviews and that there were compliance gaps in its AML/CTF Program.

In response to FASU's Formal Warning, BSP has amended its AML/CTF Policy, conducted Training on the Criminal Code Act and delivered an ECDD Plan to FASU by the date required. An External Auditor has also been appointed under Section 10 of the AML/CTF Act for an initial six month period. Its independent audit commenced on 15th November 2021.

Since FASU's first onsite review of BSP in March 2018, BSP has committed to and 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.

As the audit is a work in progress, further compliance issues may be identified and reported to FASU and additional uplifting and strengthening of the AML/CTF program may be required. As the audit is ongoing there may be further findings which may result in penalties or further remedial action. Any potential penalties 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.

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20. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Off balance sheet financial instruments

All amounts are expressed in K'000	Consolidated		Bank	
	2021	2020	2021	2020
Letters of credit	182,535	97,420	179,998	96,366
Guarantees and indemnities issued	257,304	286,729	246,901	290,123
Commitments to extend credit	2,844,497	2,599,995	2,747,793	2,509,139
	3,284,336	2,984,144	3,174,692	2,895,628

Commitments for capital expenditure

Amounts with firm commitments, and not reflected in the accounts	51,427	44,120	42,120	29,753
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Legal Proceedings

A number of legal proceedings against the Group were outstanding as at 31 December 2021. For all litigation exposure where a loss is probable, an appropriate provision has been made. Based on information available at 31 December 2021, the Group estimates a contingent liability of K24.0m (2020: K17.7m) in respect of these proceedings.

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

Risk Management

21. RISK MANAGEMENT FRAMEWORK AND CONTROLS

All business operations must deal with a variety of operational and financial risks. The business activities of a bank expose it to very critical and specific risks, which are principally related to the Group's primary financial intermediary role in the financial markets, including the use of financial instruments including derivatives. These risks (risk of an adverse event in the financial markets that may result in loss of earnings) include liquidity risk, foreign exchange risk, interest rate risk and credit risk.

The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. These margins are achieved and increased by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

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

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

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

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

22. CREDIT RISK AND ASSET QUALITY

22.1 Credit risk

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

Credit risk is managed by analysing the risk spread across various sectors of the economy and 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 (reporting to the Board through the Group Chief Executive Officer) is responsible for the development and implementation of credit policy and loan portfolio review methodology. The Credit Committee is the final arbiter of risk management and loan risk concentration.

Notes to the Financial Statements

for the Year Ended 31 December 2021

22. CREDIT RISK AND ASSET QUALITY (CONTINUED)

22.1 Credit risk (continued)

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

22.1.1 Credit risk measurement

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

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

Credit risk grading

The Group uses an internal credit risk grading system that reflects its assessment of the probability of default of individual counterparties. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable

22.1.2 Expected credit loss measurement

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

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

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

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

The following diagram summarises the impairment requirements under IFRS 9.



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

expert judgement from the Group Chief Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

22. CREDIT RISK AND ASSET QUALITY (CONTINUED)

22.1.2.1 Significant increase in credit risk

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

- Qualitative Criteria - if the instrument meets one or more of the following criteria:
 - Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
 - Actual or expected forbearance or restructuring
 - Actual or expected significant adverse change in operating results of the borrower
 - Significant change in collateral value (secured facilities only) which is expected to increase risk of default
 - Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans
- Quantitative criteria - applies to performing loans risk graded at 10 or 11 as per BSPs credit rating system which are 'watch list' categories. By definition, these have experienced a SICR event since inception hence need to be classified as Stage 2, with lifetime PDs applicable. This criteria applies regardless of whether loans in these two RGs are in arrears or not.
- Backstop - A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. The Group has not used the low credit risk exemption for any financial instrument in the year ending 31 December 2021.

22.1.2.2 Definition of default and credit-impaired assets

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

Quantitative criteria

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

Qualitative criteria

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

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

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

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

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

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

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

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for the Year Ended 31 December 2021

22. CREDIT RISK AND ASSET QUALITY (CONTINUED)

22.1.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

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

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

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

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

Economic variable assumptions

The period-end assumptions used for the ECL estimate as at 31 December 2021 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

		2021	2022	2023	2024	2025
GDP Growth (%)	Base	3.0%	2.4%	2.6%	2.6%	2.6%
	Upside	3.2%	2.5%	3.1%	3.1%	3.1%
	Downside	2.3%	1.5%	2.1%	2.1%	2.1%
Change in Unemployment (% total lab force) (%)	Base	-3.0%	-2.4%	-2.6%	-2.6%	-2.6%
	Upside	-3.2%	-2.5%	-3.1%	-3.1%	-3.1%
	Downside	-2.3%	-1.5%	-2.1%	-2.1%	-2.1%
Change in Equity Index (%)	Base	10.15%				
	Upside	11.15%				
	Downside	9.15%				
Change in Energy Index (%)	Base	0.53%	-14.81%	-1.60%	-1.75%	-8.04%
	Upside	0.55%	-15.55%	-1.68%	-1.84%	-8.44%
	Downside	0.50%	-14.07%	-1.52%	-1.67%	-7.63%
Change in Non-Energy Index (%) (Per World Bank commodities price forecast)	Base	-3.84%	-5.32%	-3.61%	-1.14%	-5.68%
	Upside	-4.03%	-5.58%	-3.79%	-1.20%	-5.97%
	Downside	-3.64%	-5.05%	-3.43%	-1.09%	-5.40%
Change in the Proportion of Downgrades (%)	Base	10.00%				
	Upside	-1.57%				
	Downside	15.00%				

The weightings assigned to each economic scenario at 31 December 2021 were as follows:

Scenario	Base	Upside	Downside
Weight	50%	10%	40%

Notes to the Financial Statements

for the Year Ended 31 December 2021

22. CREDIT RISK AND ASSET QUALITY (CONTINUED)

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

Sensitivity Analysis

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

- GDP given the significant impact on business performance and collateral valuations;
- 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
- Change in scenario weighting given the uncertainty surrounding the economic impact of COVID-19.

Set out below are the changes to the ECL as at 31 December 2021 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

All amounts are expressed in K'000

	2021		2020	
	[-25%]	[+10%]	[-25%]	[+10%]
GDP Growth Rate	57,558	(20,118)	37,287	(11,041)
<i>(GDP growth rate assumptions tested at 75% and 110% for all 3 scenarios)</i>				
	[-7%]	[+25%]	[-7%]	[+20%]
Change in proportion of downgrades	(1,175)	6,589	(945)	8,533
<i>(Upside scenario increased from -2% to -7% (2020:-7%), downside scenario increased from 10% to 25%)</i>				

All amounts are expressed in K'000

	2021		2020	
Change in Scenario weighting		(18,292)		(39,735)
<i>(Upside scenario increased from 10% to 20%, downside scenario decreased from 40% to 20% and base scenario increased from 50% to 60%).</i>				
Change in Scenario weighting		5,428		11,090
<i>(Upside scenario decreased from 10% to 5%, downside scenario increased from 40% to 45% and base scenario remaining at 50%).</i>				

22.1.2.4 Grouping of instruments for losses measured on a collective basis

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

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

Retail – Groupings for collective measurement

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

22. CREDIT RISK AND ASSET QUALITY (CONTINUED)

22.1.3 Credit risk exposure

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

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

<i>All amounts are expressed in K'000</i>		2021			2020	
ECL staging	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total	Total	
Credit grade						
Standard monitoring	11,995,938	1,377,719	-	13,373,657	13,411,914	
Special monitoring	-	531,372	-	531,372	474,362	
Default	-	-	451,791	451,791	538,588	
Gross carrying amount	11,995,938	1,909,091	451,791	14,356,820	14,424,864	
Loss allowance	(217,762)	(178,399)	(277,077)	(673,238)	(790,277)	
Net carrying amount	11,778,176	1,730,692	174,714	13,683,582	13,634,587	

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

The total balance of investment securities measured at amortised cost K8,307.087 million (2020: K5,936.049 million) is classified as Stage 1 with a credit grade of 'standard monitoring'. Total loss allowance carried against this balance is K48.541 million (2020: K30.805 million).

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

Maximum exposure to credit risk

All amounts are expressed in K'000

	2021	2020
Trading assets		
• Equity Securities	291,227	269,400

22.1.3.2 Collateral and other credit enhancements

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

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

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

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

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

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

22. CREDIT RISK AND ASSET QUALITY (CONTINUED)

22.1.3.2 Collateral and other credit enhancements (continued)

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

31 December 2021

Consolidated

All amounts are expressed in K'000

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets				
Loans to individuals:				
• Overdrafts	8,733	3,246	5,487	12,353
• Credit cards	506	506	-	-
• Term loans	23,192	8,856	14,336	44,157
• Mortgages	125,343	54,982	70,361	187,138
Loans to corporate entities:				
• Large corporate customers	210,396	167,989	42,407	199,520
• Small and medium-sized enterprises (SMEs)	82,618	41,046	41,572	139,991
• Others	1,003	452	551	1,149
Total credit-impaired assets	451,791	277,077	174,714	
31 December 2020				
Total credit-impaired assets	538,588	272,821	265,767	

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

22. CREDIT RISK AND ASSET QUALITY (CONTINUED)

22.1.4 Credit Quality – Prudential guidelines

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

An analysis by credit quality of loans outstanding at 31 December 2021 is as follows:

31 December 2021 Consolidated All amounts are expressed in K'000	Overdrafts	Term loans	Mortgages	Lease financing	Policy loans	Total
<i>Neither past due nor impaired</i>	643,066	9,589,325	2,323,926	208,964	111,166	12,876,447
<i>Past due but not impaired</i>						
- Less than 30 days	56,579	529,456	134,630	4,598	-	725,263
- 30 to 90 days	3,294	204,312	90,354	5,359	-	303,319
	59,873	733,768	224,984	9,957	-	1,028,582
<i>Individually impaired loans</i>						
- Less than 30 days	2,730	3,241	4,160	84	-	10,215
- 30 to 90 days	1,317	11,914	9,202	243	-	22,676
- 91 to 360 days	2,695	35,244	28,540	189	176	66,844
- More than 360 days	4,796	112,427	228,692	6,141	-	352,056
	11,538	162,826	270,594	6,657	176	451,791
Total gross loans and receivables from customers	714,477	10,485,919	2,819,504	225,578	111,342	14,356,820
Less impairment provisions	(40,711)	(613,916)	(64,791)	(6,127)	-	(725,545)
Net loans and receivables from customers	673,766	9,872,003	2,754,713	219,451	111,342	13,631,275

22.1.5 Credit related commitments

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

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

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

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

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for the Year Ended 31 December 2021

22. CREDIT RISK AND ASSET QUALITY (CONTINUED)

22.1.6 Economic sector risk concentrations

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

Consolidated

At 31 December

All amounts are expressed in K'000

	2021	%	2020	%
Commerce, finance and other business	6,753,328	50	7,019,483	51
Private households	3,359,516	25	3,232,599	24
Government and public authorities	691,294	5	532,611	4
Agriculture	286,697	2	218,774	2
Forestry	6,950	-	18,708	-
Transport and communication	1,142,933	8	1,218,790	9
Manufacturing	393,782	3	383,725	3
Construction	996,775	7	956,463	7
Net loan portfolio balance	13,631,275	100	13,581,153	100

22.1.7 Loan segment concentration

Concentration by customer loan segments are as follows:

Consolidated

At 31 December

	2021	%	2020	%
Corporate / Commercial	8,010,986	59	8,099,278	59
Government	2,257,732	16	2,247,793	17
Retail	3,362,557	25	3,234,082	24
Net loan portfolio balance	13,631,275	100	13,581,153	100

22.1.8 Impact of overlays on the provision for ECL

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

	2021	2020
Modelled provision for ECL	421,338	433,620
Overlays	27,130	137,270
Total	448,468	570,890

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22. CREDIT RISK AND ASSET QUALITY (CONTINUED)

22.1.8.1 COVID-19 overlay

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

The Group's COVID-19 overlay as of 31 December 2021 is K27.130million (2020: K137.270 million), with a number of loans in this category now regraded and captured in the model.

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

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

22.1.8.2 COVID-19 relief packages

Loans to customers under COVID-19 relief packages at 31 December 2021 total K1.312 billion (2020: K1.626 billion). These loans and the related provision for ECL are as follows:

Consolidated As at 31 December	Total Credit Exposures	Expected Credit Loss	Total Credit Exposures	Expected Credit Loss
	2021	2021	2020	2020
<i>All amounts are expressed in K'000</i>				
Stage 1	405,530	6,305	659,147	48,021
Stage 2	906,002	97,584	966,858	44,003
Stage 3	-	-	-	-
Total	1,311,532	103,889	1,626,005	92,024

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

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

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

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23. LIQUIDITY RISK

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

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

Short-term mismatch of asset and liability maturity at 31 December 2021

The maturity profile of material Assets and Liabilities as at 31 December 2021 is shown in the following schedule. The mismatching of maturity of assets and liabilities indicates an apparent negative net "current" asset position. However, as stated in the preceding paragraph, mismatched positions are established and managed to achieve profit opportunities that arise from them, particularly in a normal yield curve environment. Accordingly, this mismatched maturity position is considered manageable by the Group, and does not impair the ability of the Group to meet its financial obligations as they fall due.

Maturity of assets and liabilities

Consolidated As at 31 December 2021	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
<i>All amounts are expressed in K'000</i>						
Assets						
Cash and balances with Central Banks	3,250,483	-	-	-	1,277,015	4,527,498
Treasury and Central Bank bills	684,883	704,187	3,347,907	35,172	4,697	4,776,846
Amounts due from other banks	1,149,441	112,936	47,870	-	-	1,310,247
Loans and receivables from customers	3,513,262	457,643	2,060,498	7,170,220	4,195,707	17,397,330
Other financial assets	1,033,342	58,828	467,057	2,825,907	3,554,446	7,939,580
Total assets	9,631,411	1,333,594	5,923,332	10,031,299	9,031,865	35,951,501
Liabilities						
Amounts due to other banks	188,130	19,404	21,328	117	19,813	248,792
Customer deposits	22,262,175	383,273	917,373	208,683	323,006	24,094,510
Lease liability	-	-	-	44,968	220,294	265,262
Other liabilities	1,178,999	1,110	619,546	276,866	94,767	2,171,288
Other provisions	238,151	14	716	326	17,664	256,871
Total liabilities	23,867,455	403,801	1,558,963	530,960	675,544	27,036,723
Net liquidity gap	(14,236,044)	929,793	4,364,369	9,500,339	8,356,321	8,914,778
As at 31 December 2020						
Total assets	10,106,823	1,352,859	4,834,390	7,947,774	8,260,835	32,502,681
Total liabilities	21,207,330	1,062,321	1,617,156	468,524	622,639	24,977,970
Net liquidity gap	(11,100,507)	290,538	3,217,234	7,479,250	7,638,196	7,524,711

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24. OPERATIONAL RISK

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

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

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

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

25. FOREIGN EXCHANGE RISK

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

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

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

Consolidated						
As at 31 December 2021						
<i>All amounts are expressed in K'000</i>						
	PGK	FJD	SBD	USD	Other	Total
Assets						
Cash and balances with Central Banks	2,035,632	1,076,401	719,126	3,520	692,819	4,527,498
Treasury and Central Bank bills	4,553,645	54,352	17,658	-	18,948	4,644,603
Amounts due from other banks	117,035	349,727	62,458	409,899	371,128	1,310,247
Loans and receivables from customers	8,452,097	3,248,475	474,271	309,443	1,146,989	13,631,275
Other financial assets	3,467,871	571,449	46	-	39,801	4,079,167
Other assets	1,222,302	762,177	83,213	84	185,702	2,253,478
Total assets	19,848,582	6,062,581	1,356,772	722,946	2,455,387	30,446,268
Liabilities						
Amounts due to other banks	(117,525)	(120,942)	(8,726)	-	(1,599)	(248,792)
Customer Deposits	(16,419,608)	(3,630,662)	(1,014,388)	(516,718)	(2,353,459)	(23,934,835)
Other liabilities	(820,072)	(1,439,406)	(50,007)	(4,757)	(153,434)	(2,467,676)
Total liabilities	(17,357,205)	(5,191,010)	(1,073,121)	(521,475)	(2,508,492)	(26,651,303)
Net on-balance sheet position	2,491,377	871,571	283,651	201,471	(53,105)	3,794,965
<i>Off-balance sheet position</i>	<i>54,206</i>	<i>-</i>	<i>-</i>	<i>(182,838)</i>	<i>120,230</i>	<i>(8,402)</i>
<i>Credit commitments</i>	<i>2,412,952</i>	<i>739,143</i>	<i>30,079</i>	<i>-</i>	<i>102,162</i>	<i>3,284,336</i>
31 December 2020						
Total Assets	16,937,596	5,992,933	1,240,576	916,927	2,435,405	27,523,437
Total Liabilities	(14,752,933)	(5,165,406)	(967,160)	(815,143)	(2,389,190)	(24,089,832)
Net on-balance sheet position	2,184,663	827,527	273,416	101,784	46,215	3,433,605
<i>Off-balance sheet position</i>	<i>25,393</i>	<i>-</i>	<i>-</i>	<i>(155,724)</i>	<i>148,925</i>	<i>18,594</i>
<i>Credit commitments</i>	<i>2,267,067</i>	<i>556,094</i>	<i>46,965</i>	<i>-</i>	<i>114,018</i>	<i>2,984,144</i>

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25. FOREIGN EXCHANGE RISK (CONTINUED)

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

All amounts are expressed in K'000

	2021		2020	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 5% (2020 – 5%)	5,035	5,035	7,664	7,664
USD dollar weakening by 15% (2020 – 15%)	(1,359)	(1,359)	(2,068)	(2,068)
AUD strengthening by 5% (2020 – 5%)	(215)	(215)	(399)	(399)
AUD dollar weakening by 15% (2020 – 15%)	58	58	108	108

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

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

Forward exchange contracts outstanding at 31 December 2021 stated at the face value of the respective contracts are:

All amounts are expressed in respective FCY'000 and K'000

As at 31 December 2021		USD	AUD	EURO	GBP	JPY	Other	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
As at 31 December 2020		USD	AUD	EURO	GBP	JPY	Other	Total
Selling	FCY	(47,232)	(3,567)	(1,069)	(5)	(86,102)	(844)	-
	Kina	(165,728)	(9,641)	(4,610)	(22)	(2,929)	(2,962)	(185,892)
Buying	FCY	2,851	18,660	30	40	60,100	29,780	-
	Kina	10,004	50,438	129	191	2,045	104,491	167,298

26. INTEREST RATE RISK

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

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

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26. INTEREST RATE RISK (CONTINUED)

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

Consolidated As at 31 December 2021	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
<i>All amounts are expressed in K'000</i>						
Assets						
Cash and Balances with Central Banks assets	737,150	-	-	-	-	2,070,478
Treasury and Central Bank bills	688,364	662,779	3,281,568	7,194	4,698	-
Amounts due from other banks	727,872	117,300	2,167	-	-	462,908
Cash Reserve Requirement with Central Banks	-	1	9	18	17	1,719,825
Loans and receivables from customers	11,471,141	106,614	423,068	1,453,760	132,222	44,470
Other Financial Assets	922,000	-	107,470	1,856,720	1,417,300	-
Other assets	45,964	75,051	2,251	-	-	1,905,889
Total assets	14,592,491	961,745	3,816,533	3,317,692	1,554,237	6,203,570
Liabilities						
Amounts due to other banks	134,345	19,396	21,233	-	-	73,818
Customer deposits	5,865,025	563,839	1,201,162	231,535	156	16,073,118
Other liabilities	5,022	1,069	95	111,986	116,155	1,936,961
Other provisions	1,108	-	654	-	-	294,626
Total liabilities	6,005,500	584,304	1,223,144	343,521	116,311	18,378,523
Interest sensitivity gap	8,586,991	377,441	2,593,389	2,974,171	1,437,926	(12,174,953)

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

As at 31 December 2020	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing
Total assets	13,327,100	1,062,329	2,608,931	1,584,862	2,467,480	6,472,735
Total liabilities	8,579,665	890,318	1,399,893	221,529	85,527	12,912,900
Interest sensitivity gap	4,747,435	172,011	1,209,038	1,363,333	2,381,953	(6,440,165)

Given the profile of assets and liabilities as at 31 December 2021 and prevailing rates of interest, a 100bps increase in market rates will result in a K43.2 million increase in net interest income, whilst a 100bps decrease in rates will result in a K61.3 million decrease in net interest income.

27. FAIR VALUES OF FINANCIAL AND NON-FINANCIAL ASSETS AND LIABILITIES

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

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

The different levels have been defined as follows:

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

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27. FAIR VALUES OF FINANCIAL AND NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Consolidated

As at 31 December 2021

	Level 1	Level 2	Level 3	Total
<i>All amounts are expressed in K'000</i>				
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
Aircraft 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)

As at 31 December 2020

	Level 1	Level 2	Level 3	Total
a) Financial assets				
Equity security	-	265,727	3,673	269,400
Treasury bills	-	8,094	-	8,094
Government inscribed stock	-	291,042	-	291,042
Non-financial assets				
Land & buildings	-	-	501,190	501,190
Investment properties	-	-	257,690	257,690
Aircraft subject to operating lease	-	-	36,434	36,434
Total assets	-	564,863	798,987	1,363,850
b) Financial liabilities				
Policy liability	-	-	(1,043,990)	(1,043,990)
Total liabilities	-	-	(1,043,990)	(1,043,990)

Consolidated

Financial asset at fair value through profit & loss

	2021	2020
Opening balance	798,987	745,358
Total gains and losses recognized in:		
- Profit & loss	(28,315)	(39,463)
- Other comprehensive income	18,088	(2,480)
- Purchases	61,942	92,081
- Disposals	(4,045)	(16,655)
- Translation movements	(11,189)	20,146
Closing balance	835,468	798,987

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27. FAIR VALUES OF FINANCIAL AND NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2021. Property, plant and equipment represents commercial land and buildings owned by the Group based on valuations provided by independent valuers.

The valuation is based on the capitalisation method with an assessment of the property based on its potential earning capacity. There is an increased level of uncertainty with the valuation obtained for the financial year 2021 accounts given the volatile economic climate driven by COVID-19.

Capital and Dividends

28. ORDINARY SHARES

Accounting Policy

Share issue costs

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

<i>Number of shares in '000s, Book value in K'000</i>	Number of shares	Book value
At 1 January 2020	467,240	372,310
Share buyback	(11)	(121)
At December 2020/1 January 2021	467,229	372,189
Share buyback	(3)	(56)
At 31 December 2021	467,226	372,133

In May 2014, the Directors introduced a share-buyback scheme of up to K15m. The share-buyback commenced in July 2014 and was extended to such time when the allocated K15m buyback was utilised, or if the Board wishes, any time before that. As at 31 December 2021, a total of K9.369m has been bought back under this scheme.

Dividends on ordinary shares

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

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

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2021	2020	2021	2020
Dividends paid on ordinary shares				
Interim ordinary dividend (2021: 39 toea; 2020: 25 toea)	183,388	117,604	182,218	116,808
Final ordinary dividend (2020: 105 toea; 2019: 96 toea)	493,076	451,751	490,584	448,546
	676,464	569,355	672,802	565,354

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29. RETAINED EARNINGS AND OTHER RESERVES

Retained earnings

All amounts are expressed in K'000	Consolidated		Bank	
	2021	2020	2021	2020
At 1 January	2,622,249	2,394,382	2,360,983	2,173,836
Net profit for the year	1,075,218	806,218	1,036,455	759,452
Final dividends paid	(492,905)	(451,587)	(490,584)	(448,546)
Interim dividends paid	(183,388)	(117,604)	(182,218)	(116,808)
Disposal of assets – asset revaluation	8,658	741	8,658	741
BSP Life policy reserve	(4,409)	(7,692)	(4,409)	(7,692)
Gain attributable to minority interest	(298)	(2,209)	-	-
At 31 December	3,025,125	2,622,249	2,728,885	2,360,983
Other reserves				
Asset revaluation reserve	123,732	129,063	109,937	115,828
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
Statutory insurance reserve	56,691	52,267	56,691	52,267
Foreign currency translation reserve	194,293	234,973	109,570	131,995
At 31 December	396,929	438,516	276,833	300,725
Movement in reserves for the year:				
Asset revaluation reserve				
At 1 January	129,063	142,819	115,828	130,725
Asset revaluation increment/(decrement)	560	(18,914)	-	(20,055)
Transfer asset revaluation reserve to retained earnings	(7,457)	(1,032)	(7,457)	(1,032)
Deferred tax on disposal of assets	1,566	6,190	1,566	6,190
At 31 December	123,732	129,063	109,937	115,828
Capital reserve				
At 1 January	635	635	635	635
At 31 December	635	635	635	635
Statutory insurance reserve				
At 1 January	52,267	44,503	52,267	44,503
BSP Life policy reserve	4,409	7,692	4,409	7,692
Fiji Government green bond revaluation	15	72	15	72
At 31 December	56,691	52,267	56,691	52,267
Foreign currency translation reserve				
At 1 January	234,973	136,978	131,995	78,614
Movement during the year	(40,680)	97,995	(22,425)	53,381
At 31 December	194,293	234,973	109,570	131,995

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for the Year Ended 31 December 2021

29. RETAINED EARNINGS AND OTHER RESERVES (CONTINUED)

Equity component of convertible notes

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

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

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

30. CAPITAL ADEQUACY

The Group is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. Additionally, subsidiaries and branches in Fiji, Solomon Islands, Cook Islands, Samoa, Tonga, Vanuatu, Cambodia and Lao are required to adhere to prudential standards issued by the Reserve Bank of Fiji (RBF), Central Bank of Solomon Islands (CBSI), The Financial Supervisory Commission (FSC), Central Bank of Samoa (CBS), National Reserve Bank of Tonga (NRBT), Reserve Bank of Vanuatu (RBV), the National Bank of Cambodia (NBC) and Bank of Lao P.D.R. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum acceptable measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a bank is under, adequately, or well capitalised, and also applies the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2021, the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a 'well-capitalised'

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

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

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

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

	Balance sheet / notional amount		Risk-weighted amount	
	2021	2020	2021	2020
<i>All amounts are expressed in K'000</i>				
Balance sheet assets (net of provisions)				
Currency	4,527,498	4,456,479	99,563	95,677
Loans and receivables from customers	13,530,285	13,506,660	10,732,616	10,824,914
Investments and short term securities	8,733,145	6,083,231	243,305	229,235
All other assets	3,655,340	3,477,067	2,167,637	1,978,591
Off-balance sheet items	3,287,550	2,986,994	226,357	242,027
Total	33,733,818	30,510,431	13,469,478	13,370,444

Capital Ratios	Capital (K'000)		Capital Adequacy Ratio	
	2021	2020	2021	2020
a) Tier 1 Capital	3,164,663	2,787,626	23.5%	20.8%
Total Capital	3,457,797	3,095,927	25.7%	23.2%
b) Leverage Capital Ratio			10.6%	10.3%

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%.

Notes to the Financial Statements

for the Year Ended 31 December 2021

Group Structure

31. INSURANCE

Accounting Policy

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2021 or adopted early

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.

It introduces a model that measures the liability for groups of contracts using three explicit components. Firstly the Group's estimates of the present value of future cash flows that are expected to rise over the duration of the group of contracts. The cash flow estimate is based on the best estimate assumption, which is neither conservative nor optimistic. Secondly, an explicit risk adjustment has been introduced. This is compensation to the shareholder for taking on the non-financial risk associated with an insurance contract. The final component of the liability is the present value of future shareholder profit; this is termed the contractual service margin.

The insurance liability changes over the term of the Group of contracts as service is provided. The Profit or Loss of the Group of contracts is categorised under Insurance Service Results, representing the profit from managing insurance risk, and Net Investment Result, similarly from managing investment-related risk.

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 of 31 December 2021, it was not practicable to quantify the potential impact on the Group's financial position or performance once these standards are adopted.

Medical and Life Insurance Business

The Group's consolidated Financial Statements include the assets, liabilities, income and expenses of the life and medical insurance businesses. The Group's Insurance business is made up of Life Insurance Contracts, Medical Insurance and Term Life Insurance.

The Group's life and general insurance entities will be adopting IFRS 17 "Insurance contracts" (effective 1 January 2023), replacing IFRS 4.

(a) Recognition and Measurement

Short Term Insurance Contracts

These contracts include the Medical and Term Life policies sold and underwritten by BSP Health Care (Fiji) Limited (BSPHC) and Term life policies sold by BSP Life (PNG) Limited.

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

For all these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks plus a risk margin from 2021 for BSPHC 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 profit or loss 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 based on the sum insured or cost of approved medical services plus an allowance for claims incurred but not reported based on statistical analysis and related claim expenses plus a risk margin for BSPHC. Case estimates are used to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court decisions).

Long Term Insurance Contracts

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

For all these contracts, premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

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

The liability for long term insurance contracts (principally Life Insurance) has been determined in accordance with LPS 1.04 Valuation of Policy Liabilities, issued by the Australian Prudential Regulation Authority.

The policy liability is calculated in a way that allows for the systematic release of planned profit margins as services are provided to policy owners and the revenues relating to those services are received (Margin on Services methodology). Services used to determine profit recognition include the cost of expected insurance claims and the allocation of future bonuses. The liability is generally determined as the present value of all future expected payments, expenses, taxes, and profit margins reduced by the present value of all future expected premiums and take into consideration projected future bonuses. The liabilities are recalculated at each balance date using best estimate assumptions. These assumptions are revisited regularly and adjusted for actual experiences on claims, expense, mortality, and investment returns. The policy liabilities also include policy owner retained earnings.

Notes to the Financial Statements

for the Year Ended 31 December 2021

31. INSURANCE (CONTINUED)

(b) Methods and Assumptions

Key assumptions used in determining the Policy Liabilities for policies for the insurance business are as follows:

(i) Discount Rates

For BSP Life (Fiji) contracts in Statutory Fund 1 which have a DPF, the discount rate used is linked to the assets which back those contracts. For 31 December 2021 this was 4.423% per annum. For contracts without DPF and Accident Business, the Fiji Insurance business at 31 December 2021 used a rate of 3.16% per annum. The pricing rates were used given market subjectivity. For PNG life insurance business at 31 December 2021 this was 5.95%.

ii) Investment and Maintenance Expenses

Future maintenance and investment expenses are based on the budgeted expenses. Future inflation has been assumed to be 3.50% per annum for Fiji and 4.00% per annum for PNG life insurance for determining future expenses.

iii) Taxation

The rates of taxation enacted at the date of the valuation are assumed to continue into the future for both the Fiji and PNG life businesses.

(iv) Mortality and Morbidity

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by BSP Life (PNG) and BSP Life (Fiji). Estimates are made as to the expected number of deaths for each of the years in which the BSP Life (PNG and Fiji) are exposed to risk. BSP Life (Fiji) uses projected future rates of mortality for insured lives based on the Fiji Mortality Statistics table FJ90-94 Male, modified for local experience. The estimated number of deaths determines the value of the benefit payments. The main source of uncertainty is that epidemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which BSP Life (Fiji) has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where BSP Life (Fiji) is exposed to longevity risk. For contracts without fixed mortality risk charges, it is assumed that BSP Life (Fiji) will be able to increase mortality risk charges in future years in line with emerging mortality experience.

As there is no reliable mortality table available for PNG, BSP Life PNG bases these estimates on an internal mortality table that has regard to population and insured mortality in Fiji and the limited information relating to mortality in PNG that is publicly available. This is reassessed each year having regard to the company's own experience. The estimated number of deaths determines the value of the benefit payments. Mortality in PNG is subject to considerable uncertainty from wide-ranging lifestyle changes, such as in eating, smoking and exercise habits and epidemics that could result in future mortality being significantly different than assumed.

(v) Rates of Discontinuance

PNG Pricing assumptions are used for the incidence of withdrawal and discontinuance which vary by duration.

For BSP Life (Fiji), best estimate assumptions for the incidence of withdrawal and discontinuance are used which vary by product and duration and are based on experience which is reviewed regularly. Rates used in 2021 were the same as 2020 rates.

(vi) Basis of Calculation of Surrender Values

For the PNG and Fiji life business, surrender values are determined by the Company in accordance with the provisions specified in the policy contracts and legislation

(vii) Discretionary Participating Business

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

Assumed future bonus rates included in the liability for the long-term insurance contracts were set such that the present value of the liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholder's right to participate in distributions.

(c) Reinsurance

Contracts entered into by the Group with Reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group, are classified as reinsurance contracts.

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 netted off against claim expenses in the profit and loss. Reinsurance premiums are recognised as Reinsurance Expenses.

Insurance

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

31. INSURANCE (CONTINUED)

	Consolidated	
	2021	2020
<i>All amounts are expressed in K'000</i>		
Net insurance premium income	228,911	199,172
Outward reinsurance expense	(4,254)	(4,142)
Net premium income	224,657	195,030
Investment income	189,907	220,666
Other income	3,795	995
Total operating income	418,359	416,691
Claims, surrenders and maturities	(119,946)	(121,396)
Claim recoveries	1,195	194
Net claims incurred	(118,751)	(121,202)
Commission	(16,258)	(15,776)
Increase in policy liabilities	(118,420)	(74,324)
Interest expenses	(628)	(564)
Other operating expenses	(147,797)	(148,765)
Total operating expenses	(283,103)	(239,429)
Share of profit of associates and jointly controlled entities	18,547	(26,535)
Profit from ordinary activities before tax	35,052	29,525
Income tax expense/ (benefit) attributable to profit from ordinary activities	(10,605)	(6,642)
Profit after income tax expense	24,447	22,883

The balance sheets as at 31 December 2021 categorised by Shareholder Fund and Assets Supporting Policy Liability are shown below. The allocation between the two funds is maintained notionally as the funds are invested as a single pool of assets.

	Consolidated 2021			Consolidated 2020		
	Policy Related Fund	Shareholder Fund	Total	Policy Related Fund	Shareholder Fund	Total
<i>All amounts are expressed in K'000</i>						
Assets						
Cash and Cash Equivalents	151,172	28,380	179,552	128,709	24,260	152,969
Equity security investments	369,265	68,835	438,100	338,148	65,754	403,902
Debt security investments	396,642	74,276	470,918	395,671	77,751	473,422
Property investments	326,614	60,710	387,324	303,052	59,116	362,168
Other assets	78,490	13,469	91,959	76,863	15,042	91,905
Total assets	1,322,183	245,670	1,567,853	1,242,443	241,923	1,484,366
Liabilities						
Policy liabilities	1,132,176	-	1,132,176	1,043,990	-	1,043,990
Other liabilities	122,372	21,460	143,832	127,170	24,321	151,491
Total liabilities	1,254,548	21,460	1,276,008	1,171,160	24,321	1,195,481
Shareholders' equity						
Equity & retained earnings	67,635	224,210	291,845	71,283	217,602	288,885
Total shareholders' equity	67,635	224,210	291,845	71,283	217,602	288,885
Total equity and liabilities	1,322,183	245,670	1,567,853	1,242,443	241,923	1,484,366

Notes to the Financial Statements

for the Year Ended 31 December 2021

31. INSURANCE (CONTINUED)

All amounts are expressed in K'000	Consolidated	
	2021	2020
Policy Liabilities		
Opening balance	1,043,990	890,147
Translation movement	(32,579)	73,433
Increase in policy liabilities	118,420	74,324
Increase in policy liabilities on revaluation of land	2,345	6,086
Total policy liabilities	1,132,176	1,043,990

Insurance reserves are maintained in accordance with levels prescribed by the Regulators.

Insurance and Financial Risk Management

The Group is committed to the management of risk to achieve sustainability of service to its customers, employment of its staff and profits to its shareholders and therefore, takes on controlled amounts of risk when considered appropriate. The risk management framework is targeted at ensuring that the Group maintains sufficient capital at a level which exceeds the minimum solvency requirements prescribed by the Regulators.

The Group is exposed to financial as well as insurance risks. The Group's risk management strategy is set by the Board of Directors. Implementation of risk management strategy and the day-to-day management of risk is the responsibility of the Executive Management.

Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and is unpredictable. The principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities.

This could occur because the frequency or severity of claims and benefits

are greater than estimated. Insurance events are random, and the actual numbers and quantum of claims and benefits will vary from year to year from the level established using actuarial methods.

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

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

Terms and conditions of insurance contracts

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

31. INSURANCE (CONTINUED)

Insurance Risk (continued)

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

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

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals. The largest exposures all relate to mortality. The largest single exposure for BSP Life (Fiji) business is FJD 6.7m of which FJD 6.4m is reinsured (2020: FJD 6.8m of which FJD 6.5m is reinsured). This relates to life insurance lines. For BSP Life PNG, the largest single exposure is K12.5m of which K12.4m is reinsured (2020: K10.4m of which K10.3m was reinsured).

- The largest single lump sum exposure for the health insurance business under BSP Life (Fiji) is FJD8.1m, which is fully reinsured. The largest single net exposure is FJD 620k. This relates to health insurance lines.

- Geographic concentrations due to employee Company schemes. The largest single scheme exposure for BSP Life (Fiji) is FJD 75.2m, of which FJD 38.2m is reinsured. BSP Life (PNG) participates in a Term Life reinsurance program.
- The largest single group exposure across various locations for PNG Life is K606m of which K295m is reinsured (2020: K552m of which K248m was reinsured).

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

32. INVESTMENT IN SUBSIDIARIES

Name of subsidiary	Principal activity	Place of incorporation and operation	Ownership %	Balance of investment	
				2021	2020
BSP Capital Limited	Fund Management/ Investment Banking	PNG	100%	2,448	2,448
BSP Life (Fiji) Limited	Life Insurance	Fiji	100%	87,599	87,599
BSP Life (PNG) Limited	Life Insurance	PNG	100%	25,000	25,000
BSP Convertible Notes Limited	Capital Raising	Fiji	100%	371	371
BSP Finance Limited	Credit Institution	PNG	100%	93,038	89,318
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				388,798	385,078
Represented by:					
At 1 January				385,078	378,263
Additional capital				3,720	6,815
At 31 December				388,798	385,078

Notes to the Financial Statements

for the Year Ended 31 December 2021

33. INVESTMENT IN JOINT VENTURES

Name of Joint Venture	Principal activity	Place of incorporation and operation	Ownership %	
			2021	2020
Suva Central Ltd	Property rental	Fiji	50%*	50%*
Richmond Ltd	Hotel operations	Fiji	61.3%** , 50%***	61.3%** , 50%***
BSP Finance Cambodia Plc	Asset financing	Cambodia	50%*	50%*
BSP Finance Lao	Asset financing	Lao	50%*	50%*
Platform Pacific Ltd	Digital solutions	PNG	50%*	50%*

The investments above are accounted for using the equity method.

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

All amounts are expressed in K'000	Consolidated		Bank	
	2021	2020	2021	2020
Joint Ventures				
Investment in Joint Ventures	202,546	202,040	27,879	20,787
New investment during the year	3,962	9,814	243	3,000
Translation movement	(5,624)	11,655	(943)	1,952
Share of profit/(loss) for the year	23,439	(20,963)	(199)	2,140
Net investment in associate	224,323	202,546	26,980	27,879
Summarised financial information of Joint Ventures:				
Total assets	625,798	569,102	98,549	96,685
Total liabilities	(370,290)	(315,564)	(44,609)	(43,184)
Net assets	255,508	253,538	53,940	53,501
Share of Profits	(2,228)	(1,434)	(199)	2,140
Group fair value alignment	25,667	(19,529)	-	-
Share of profit in Group	23,439	(20,963)	(199)	2,140

Notes to the Financial Statements

for the Year Ended 31 December 2021

Other

34. FIDUCIARY ACTIVITIES

The Group especially through BSP Capital Limited conducts investment fund management and other fiduciary activities as responsible entity, trustee, custodian or manager for investment funds and trusts, including superannuation. These funds are not consolidated, as the Group does not have direct or indirect control. Where the funds incur liabilities in respect of these activities, and the primary obligation is incurred in an agency capacity for the fund or clients rather than its own account, a right of indemnity exists against the assets of the applicable fund or trust. As these assets are sufficient to cover the liabilities and it is therefore not probable that the Group will be required to settle the liabilities, the investments in the assets and liabilities of these activities are not included in the Financial Statements.

35. RELATED PARTY TRANSACTIONS

Related parties are considered to be enterprises or individuals with whom the Group is especially related because either they or the 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 2021, 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	
	2021	2020
Customer Deposits		
Opening balances	27,299	45,220
Net movement	5,720	(17,921)
Closing balance	33,019	27,299
Interest paid	12	7
Loans and receivables from customers		
Opening balances	638,794	914,468
Loans issued	85,169	173,405
Interest	24,770	22,358
Charges	1,646	2,379
Loan repayments	(121,521)	(160,040)
Outgoing Director	-	(313,776)
Closing balance	628,858	638,794

Subsidised transactions are provided for staff. Such transactions include marginal discounts on interest rates, and specific fee concessions. These benefits are mainly percentage-based on market rates and fees, and as such, staff accounts are always subject to underlying market trends in interest rates and fees. As at 31 December 2021, staff account balances were as follows:

Housing loans	204,659	204,294
Other loans	69,045	78,093
	273,704	282,387
Cheque accounts	5,717	6,159
Savings accounts	12,380	15,671
	18,097	21,830

Notes to the Financial Statements

for the Year Ended 31 December 2021

36. DIRECTORS AND EXECUTIVE REMUNERATION

Directors' remuneration

Directors of the company received remuneration including benefits during 2021 as detailed below:

All amounts are expressed in Kina

Total remuneration

Name of Director	Meetings attended / total held	Appointed/ (Resigned)	2021 Bank	2021 Subsidiaries	2021 Total	2020 Total
Sir K. Constantinou, OBE	6/7	-	561,304	300,000	861,304	861,304
R. Fleming, CSM*	7/7	-	-	-	-	-
G. Robb, OAM	1/1	(Apr 2021)	225,326	-	225,326	460,027
S Brewis-Weston	6/6	Apr 2021	247,989	-	247,989	-
E. B Gangloff	7/7	-	343,152	60,000	403,152	403,152
A. Mano	-	(Jun 2020)	-	-	-	259,239
A. Sam	7/7	-	343,152	-	343,152	333,777
Dr. F Lua'iufi	7/7	-	305,652	75,000	380,652	365,652
S. Davis	7/7	-	330,652	-	330,652	330,652
R. Bradshaw	7/7	-	318,152	-	318,152	318,152
P. Kevin	7/7	-	318,152	-	318,152	239,339
F. Bouraga	7/7	-	305,652	-	305,652	40,400
			3,299,183	435,000	3,734,183	3,611,694
Shareholder Approved Cap					4,500,000	4,500,000

* Managing Director / Group Chief Executive Officer receives no fees for his services as Director during the year. Other members of BSP executive management who serve as directors of subsidiaries of BSP Group receive no fees for their services as Director.

Executive Remuneration

The specified executives as at 31 December 2021 were:

Robin Fleming, CSM	Frank van der Poll	Ronesh Dayal	Michael Hallinan
Nuni Kulu	Peter Beswick	Rohan George	Kili Tambua
Hari Rabura	Andy Roberts	Daniel Faunt	Vandhna Narayan
Nilson Singh	Gheno Minia	Mary Johns	

All amounts are expressed in K'000

Year	Salary	Short term incentive	Value of benefits	Long term incentive	Leave encashment	Final entitlements ¹	Total
2021 executive remuneration	18,766	6,109	1,456	7,151	99	-	33,581
2020 executive remuneration	16,016	2,213	1,466	-	97	2,037	21,829

¹Final entitlements paid were for executives who exited the Bank in 2020 and constitutes statutory leave payouts.

Notes to the Financial Statements

for the Year Ended 31 December 2021

36. DIRECTORS AND EXECUTIVE REMUNERATION (CONTINUED)

Executive remuneration (continued)

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	2021 No.	2020 No.	Remuneration K'000	2021 No.	2020 No.	Remuneration K'000	2021 No.	2020 No.
100 – 110	95	122	550 – 560	3	1	1060 – 1070	-	2
110 – 120	87	71	560 – 570	1	1	1070 – 1080	1	1
120 – 130	71	76	570 – 580	1	2	1080 – 1090	-	2
130 – 140	63	43	580 – 590	2	-	1090 – 1100	1	1
140 – 150	48	47	590 – 600	2	1	1100 – 1110	-	1
150 – 160	37	33	600 – 610	1	1	1110 – 1120	-	1
160 – 170	28	19	610 – 620	2	2	1130 – 1140	2	-
170 – 180	26	25	620 – 630	2	2	1140 – 1150	-	2
180 – 190	19	26	630 – 640	1	2	1150 – 1160	1	1
190 – 200	19	21	640 – 650	1	1	1170 – 1180	1	1
200 – 210	18	13	650 – 660	1	3	1190 – 1200	-	1
210 – 220	13	20	660 – 670	2	1	1210 – 1220	1	-
220 – 230	15	13	680 – 690	2	1	1220 – 1230	1	-
230 – 240	13	9	690 – 700	-	1	1230 – 1240	1	-
240 – 250	12	12	700 – 710	2	-	1240 – 1250	-	1
250 – 260	11	10	710 – 720	3	2	1250 – 1260	-	1
260 – 270	7	11	720 – 730	2	-	1260 – 1270	1	-
270 – 280	7	4	730 – 740	-	1	1270 – 1280	1	1
280 – 290	6	5	740 – 750	1	-	1320 – 1330	1	-
290 – 300	7	3	750 – 760	1	-	1340 – 1350	1	-
300 – 310	3	12	760 – 770	-	1	1350 – 1360	-	1
310 – 320	4	1	770 – 780	1	-	1360 – 1370	-	1
320 – 330	6	9	780 – 790	1	1	1370 – 1380	-	1
330 – 340	3	3	790 – 800	-	1	1380 – 1390	1	-
340 – 350	4	1	810 – 820	2	2	1390 – 1400	-	1
350 – 360	4	4	820 – 830	-	2	1400 – 1410	-	1
360 – 370	3	1	830 – 840	1	-	1410 – 1420	-	1
370 – 380	3	4	840 – 850	-	2	1420 – 1430	-	1
380 – 390	6	3	850 – 860	-	2	1480 – 1490	-	1
390 – 400	3	5	860 – 870	-	1	1490 – 1500	1	-
400 – 410	8	7	870 – 880	3	1	1500 – 1510	1	-
410 – 420	1	3	880 – 890	2	1	1530 – 1540	1	-
420 – 430	4	5	890 – 900	1	3	1540 – 1550	1	-
430 – 440	3	4	900 – 910	2	-	1610 – 1620	-	1
440 – 450	2	3	910 – 920	-	2	1670 – 1680	1	-
450 – 460	2	3	930 – 940	1	-	1730 – 1740	1	-
460 – 470	5	2	950 – 960	1	-	1820 – 1830	1	-
470 – 480	4	4	960 – 970	1	-	1980 – 1990	-	2
480 – 490	4	3	970 – 980	1	2	2230 – 2240	1	-
490 – 500	4	6	980 – 990	2	-	2240 – 2250	-	1
500 – 510	4	2	990 – 1000	-	1	2270 – 2280	2	-
510 – 520	3	-	1010 – 1020	4	-	2310 – 2320	1	-
520 – 530	2	6	1030 – 1040	-	1	2590 – 2600	1	-
530 – 540	-	2	1040 – 1050	1	-	2780 – 2790	1	-
540 – 550	3	4	1050 – 1060	-	2	4840 – 4850	-	1
						8610 – 8620	1	-
						Total	772	756

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

Notes to the Financial Statements

for the Year Ended 31 December 2021

37. REMUNERATION OF AUDITOR

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2021	2020	2021	2020
Financial statement audits	5,025	5,054	4,031	3,749
Other services	710	434	667	434
	5,735	5,488	4,698	4,183

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.

38. EVENTS OCCURRING AFTER BALANCE SHEET DATE

On 25 November 2021, the Minister for Treasury announced the introduction of a 'Market Concentration Levy' as part of Papua New Guinea's 2022 national budget, effective 1 January 2022. The levy applies to any bank in PNG that has total assets that exceed 40% of total bank assets as published by the Bank of PNG. BSP is the only PNG commercial bank that has more than 40% of the total bank assets. As reported in PNG's 2022 budget the levy is a flat amount, the calculation of which is not linked to profit or balance sheet size and will result in BSP paying an additional K190 million in levies from 2022. The Income Tax (2022 budget) (Amendment) Bill which included this levy was certified by the Speaker of the National Parliament on 7 February 2022 and was the final legal requirement to enact the Bill.

The levy is non-deductible for tax purposes and will have a direct impact of reducing BSP's net profit after tax by K190 million from 2022 onwards. The full amount of the levy will be recognised in the Statement of Comprehensive Income at the time BSP's year to date net profit after tax exceeds K190 million. It is expected therefore that the full levy will be recognised in the first half of 2022, which will have a material impact on the 6 month results ending 30 June 2022.



PwC

Independent auditor's report

To the shareholders of BSP Financial Group Limited

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

Our opinion

We have audited the financial statements of BSP Financial Group Limited (the Bank), which comprise the statements of financial position as at 31 December 2021, and the statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information for both the Bank and the Group. The Group comprises the Bank and the entities it controlled at 31 December 2021 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 2021, and their financial performance and cash flows for the year then ended.

Basis for opinion

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

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

Independence

We are independent of the Bank and Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Our audit approach

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

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



Materiality

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

Audit scope

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

Key audit matters

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

Key audit matters

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



Key audit matter

Loan loss provisioning - Refer to Note 15 of the financial statements for a description of the accounting policies and to Note 22 for an analysis of credit risk and asset quality

Due to the magnitude of the loans and advances balances and the extent of management judgement inherent in the impairment calculations, impairment of loans and advances is an area of significance in the current year audit of the Bank and its subsidiaries.

IFRS 9 *Financial Instruments* (IFRS 9) is a complex accounting standard which has required considerable judgement and interpretation in its application.

The key areas of judgement included:

- The determination of the impairment in applying IFRS 9, which is reflected in the allowance for losses on loans, advances and other receivables (refer to Note 15 and Note 22)
- The identification of exposure for which there has been a significant increase in credit risk
- Assumptions used in the expected credit loss model such as valuation of collateral and assumptions made on future values, financial condition of counterparties and forward looking macroeconomic factors

The evolving COVID 19 pandemic has increased uncertainty regarding economic outlook and the consequential impact on the Bank's customers, increasing the degree of judgement required in calculating the loan loss provisions.

This includes judgements regarding the impact of COVID 19 on forward looking information, including variables used in macroeconomic scenarios and their associated weightings.

How our audit addressed the key matter

The procedures we performed to support our audit conclusions, included:

- Consideration of the appropriateness of accounting policies and assessment of the loan impairment methodology applied, compared to the requirements of IFRS 9. This included obtaining an understanding and assessment of the reasonableness of the key outputs of the expected credit loss model, as well as key judgements and assumptions used by management, the mathematical accuracy of the model and a particular focus on the impact of COVID 19.
- Reviewing the design and operating effectiveness of key controls around the credit origination processes, the credit monitoring processes and the credit inspection unit's customer loan file reviews.
- Review of the impairment methodology to establish the key fields used in the computation of Stage 1 and Stage 2 provisions. On a sample basis testing the key fields identified to have an impact on the expected credit loss provision by agreeing this back to source documentation.
- For loans and advances in Stage 1 and Stage 2, examining the model methodology for consistency and appropriateness. This included evaluation of the appropriateness of the estimates made on the Probability of Default, Loss Given Default and Exposure at Default. This also included assessing the appropriateness of probability-weighted and staging criteria.
- For Stage 3 loans and advances, audit procedures over the credit watch list and delinquencies, and evaluation of assumptions made in the valuation of collateral and recovery cash flows.
- For IFRS 9 related disclosures in the financial statements, review of the accuracy and completeness in line with the Bank's accounting policies and IFRS 9 requirements.



Key audit matter	How our audit addressed the key matter
<p>IT systems and controls</p> <p>The Group is heavily dependent on complex IT systems for the capture, processing, storage and extraction of significant volumes of transactions. This is critical to the recording of financial information and the preparation of financial statements of the Group. Accordingly, we considered this to be a key audit matter.</p> <p>In common with all other major banks, user access management controls and change management controls are important to ensure any changes to IT systems are made in an appropriate manner.</p> <p>The Group's controls over IT systems include:</p> <ul style="list-style-type: none"> • user access management over applications, operating systems and databases; • program development and system changes; and • management of privileged user accounts. 	<p>For material financial statement transactions and balances, our procedures included gaining an understanding of the business processes, key controls and IT systems used to generate and support those financial statement line items. These procedures included understanding and identification of IT application controls and IT dependencies in manual controls.</p> <p>Where relevant to our planned audit approach, we, along with our IT specialists, assessed the design and tested the effectiveness of certain controls over the continued integrity of the in-scope IT systems that are relevant to financial reporting. This involved assessing, where relevant to the audit:</p> <ul style="list-style-type: none"> • User access management: how users are on-boarded, reviewed and removed on a timely basis from relevant IT applications, operating systems and databases. We also examined how privileged access is managed across IT systems. • Change management: how changes are captured, documented, tested, and authorised prior to migration into the production environment IT systems. We also examined the appropriateness of users with access to make changes to IT systems. • IT operations: how error monitoring within systems is identified and resolved. We also examined how system backups are configured and monitored. <p>We also carried out tests, on a sample basis, of IT application controls and IT dependencies in manual controls that were key to our audit testing strategy. We performed these procedures in order to assess the accuracy of relevant system calculations, key reports and the operation of certain system enforced restricted access controls.</p> <p>Where we identified design or operating effectiveness matters relating to IT systems and application controls relevant to our audit, we performed alternative or additional audit procedures.</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 the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2021:

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

Who we report to

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

PricewaterhouseCoopers

Peter Buchholz
Partner
Registered under the Accountants Act 1996

Port Moresby
25 February 2022

Use only for personal



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 hour at the Registered Office.

Rights attaching to Ordinary Shares

The rights attaching to shares are set out in the BSP Financial Group Limited's Constitution and in certain circumstances, are regulated by the Companies Act 1997, the PNGX Listing Rules and ASX Listing Rules (collectively *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 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 Listing Rules, ordinary shares are freely transferable.

The shares may be transferred by a proper transfer effected in accordance with the PNGX Business Rules, ASX Settlement Operating Rules, or by any other method of transferring or dealing with shares introduced by PNGX and ASX, 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, PNGX or ASX 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 PNGX Business Rules or ASX Settlement Operating Rules) where permitted to do so under the 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 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 Listing Rules, by the PNGX Business Rules, or by the ASX Settlement Operating Rules.

Partly paid shares

The Directors may, subject to compliance with BSP's constitution, the Companies Act and the 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 four years are disclosed in the Historical Summary section of 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 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.

Shareholder Information (Continued)

Share buy backs

Subject to the provisions of the Companies Act and the PNGX 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.

As at 31 December 2021, the twenty largest registered fully paid shareholders of the Company were:

		Total Holding	Percentage
1	Kumul Consolidated Holdings Limited	84,811,597	18.15%
2	Nambawan Super Limited	53,092,261	11.36%
3	Petroleum Resources Kutubu Limited	46,153,840	9.88%
4	National Superannuation Fund	45,318,417	9.70%
5	Fiji National Provident Fund	40,547,063	8.68%
6	Credit Corporation (PNG) Limited	33,294,081	7.13%
7	Motor Vehicles Insurance Limited	31,243,736	6.69%
8	PNG Sustainable Development Program Ltd	19,764,387	4.23%
9	Teachers Savings and Loans Society	15,317,366	3.28%
10	Comrade Trustee Services Limited	12,456,052	2.67%
11	Capital Nominees Limited	4,678,159	1.00%
12	IFC Capitalization (Equity) Fund LP	4,213,877	0.90%
13	International Finance Corporation	4,213,877	0.90%
14	Lamin Trust Fund	3,518,132	0.75%
15	Credit Corporation (PNG) Limited (CC Finance Ltd)	3,000,000	0.64%
16	Samoa National Provident Fund	2,984,804	0.64%
17	Mineral Resources Ok Tedi No. 2 Limited	2,890,000	0.62%
18	Solomon Islands National Provident Fund	2,500,001	0.54%
19	Nominees Niugini Limited	2,369,495	0.51%
20	Catholic Diocese of Kundiawa	2,217,798	0.47%
	Other Shareholders	52,640,956	11.27%
		467,225,899	100%

Distribution of shareholding

As at 31 December 2021, The Company had 5,675 shareholders. The distribution of shareholding is as follows:

Range (number)	Number of Shareholders	Number of Shares
1 to 1000	4,653	1,213,198
1001 to 5,000	599	1,263,227
5,001 to 10,000	107	797,474
10,001 to 100,000	198	7,279,688
100,001 and above	118	456,672,312
	5,675	467,225,899

Unmarketable Parcels:

As at 31 December 2021, BSP's Share Price was K12.25 on PNGX and A\$4.27 on ASX. There were 520 shareholders (0.01% of total shareholdings) who held less than a marketable parcel of BSP shares, being equal to 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

Section 34, Allotment 6 & 7
Klinki Street, Waigani Drive
Port Moresby
National Capital District
Papua New Guinea
Telephone: +675 320 1212

Australian Registered Office

Level 16, 80 Collins Street
Melbourne, Victoria, 3000
Australia

PNG Exchange for BSP Shares

PNGX Markets Limited (PNGX)
PO Box 1531
Port Moresby
National Capital District
Papua New Guinea
Telephone: +675 320 1980

Australian Exchange for BSP Shares

ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000
Australia

Home Exchange for BSP Convertible Notes

South Pacific Stock Exchange
GPO Box 11689
Suva, Fiji
Telephone: +679 330 4130

PNG Share Registry

PNG Registries Limited
PO Box 1265
Port Moresby
National Capital District
Papua New Guinea
Telephone: +675 321 6377

Australian Share Registry

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

Directors' Information

Name	Nature of Interest	
Sir K. Constantinou, OBE	Director	BSP Financial Group Limited, BSP Capital Limited, BSP Finance Ltd, Bank of South Pacific Tonga Limited, Bank South Pacific (Samoa) Limited, Bank South Pacific (Vanuatu) Limited, Airways Hotel Limited, Lamana Hotel Limited, Lamana Development Limited, The Constantinou Group Projects Company Limited, Hospitality Plus Hotels Limited, Gazelle International Hotel Limited, Southern Seas Investments Ltd, CGA Properties Limited, Heritage Park Hotel Limited, The Papua Hotel and Development Limited, Coastwatchers Court Limited, Airways Development Limited, Airways Residences Limited, Waigani Asset Limited, Texas Chicken South Pacific Ltd, Loloata Island Resort Ltd, Air Niugini Limited, Monier Limited, Poly Allied Products Limited, Tiare No. 23 Limited, Hebou Constructions (PNG) Limited, Oasis Apartments Limited, Central Sand Supplies Ltd, Moki No.10 Limited, Rouna Quarries Ltd, C G A Properties Limited, Heritage Park Hotel Limited, Hospitality Plus Hotels (SI) Limited, KG Property Investments Pty Ltd, Lamana Development (Samoa) Limited, Taumeasina Development Corporation, Taumeasina Villas Limited, Good Taste Co Pty Limited, TC Nambawan Limited, TC Tupela Limited, TC3 Limited, TC4 Limited, TC Faipela Limited, TC Sikispela Limited
	Shareholder	Airways Hotel Limited, Lamana Hotel Limited, Lamana Development Limited, The Constantinou Group Projects Company Limited, Hospitality Plus Hotels Limited, The Papua Hotel and Development Limited, Airways Development Limited, Airways Residences Limited, Texas Chicken South Pacific Ltd, Monier Limited, Poly Allied Products Limited, Tiare No. 23 Limited, KG Property Investments Pty Ltd
	Patron	Burnet Institute, Kokoda Track Foundation
	Member	Australian Institute of Company Directors, Papua New Guinea Institute of Directors
	Others	Honorary Consul for Greece and Cyprus in Papua New Guinea, Trade Commissioner of Solomon Islands to Papua New Guinea, Archdiocesan Finance Board
R. Fleming, CSM, MBA, MGMT	Director	BSP Financial Group Limited, BSP Capital Limited, BSP Finance Ltd, BSP Finance (PNG) Limited, BSP Life PNG Limited, BSP PNG Holdings Limited, BSP Nominees Limited, Platform Pacific Limited, BSP Convertible Notes Limited, BSP Life (Fiji) Limited, BSP Health Care (Fiji) Limited, BSP Finance (Fiji) Pte Limited, Bank South Pacific (Samoa) Limited, Bank South Pacific (Vanuatu) Limited, Bank of South Pacific Tonga Limited, BSP Finance (Solomon Islands) Limited, 3 Kundu Holding Pte. Ltd, 3 Kundu Services Pte. Ltd, BSP Finance (Cambodia) PLC, BSP Leasing Lao Co., Ltd, Anglicare Foundation Limited
	Shareholder	BSP Financial Group Limited
	Member/Trustee	Australian Institute of Company Directors, PNG Institute of Directors, Anglicare Foundation
A. Sam, BComm, CPA, GAICD	Member	Australian Institute of Company Directors, Papua New Guinea Institute of Directors
	Director	BSP Financial Group Limited, Silver Dawn Holding Limited, WAM Shipping Limited, Milne Bay Earthworks Limited, Muyua Dal Limited, Nikubai Kwayeb Investment Limited, Nikubai Udanai Investment Limited, Nikwasis Ukwadew Investment Limited, Sinawia Omalak Investment Limited, Dawet Investment Limited, Kumuluw Walau Investment Limited, Kunutan Botunug Investment Limited, Kunutan Saweinak Investment Limited, Lakeidog Latnawai Investment Limited, Lakeidog Mwatat Investment Limited, Malas Dilgabuy Investment Limited, Malas Luwau Investment Limited
	Joint Owner	Sam Kiak Tubangliu Certified Practising Accountants
	Shareholder	Silver Dawn Holding Limited, Milne Bay Earthworks Limited, Nikubai Kwayeb Investment Limited, Nikubai Udanai Investment Limited, Nikwasis Ukwadew Investment Limited, Sinawia Omalak Investment Limited, Kumuluw Walau Investment Limited, Kunutan Botunug Investment Limited, Kunutan Saweinak Investment Limited, Lakeidog Latnawai Investment Limited, Lakeidog Mwatat Investment Limited, Malas Dilgabuy Investment Limited, Malas Luwau Investment Limited
	Member	Certified Practising Accountants of Papua New Guinea, Papua New Guinea Institute of Directors
Graduate	Australian Institute of Company Directors	

Name	Nature of Interest	
S. Davis, LLB	Director	BSP Financial Group Limited, Next DC Limited, PayPal Australia Pty Limited, Asia Society Australia
	Member	Australia India Business Council, Avondale Golf Club Ltd
	Graduate	Australian Institute of Company Directors
R. Bradshaw, LLB	Director	BSP Financial Group Limited, Post PNG Limited, Koitaki CC Limited, Wahgi Arabicas Limited, Songkain Limited
	Shareholder	Koitaki CC Limited, Wahgi Arabicas Limited, Songkain Limited
	Owner	Wahgi Valley Country Club, The Kofi Club, Koitaki Country Club
	Member	Papua New Guinea Law Society, Australian Institute of Company Directors
E. B. Gangloff, CPA, MAICD, MIIA, PNGID	Director	BSP Financial Group Limited, Gangloff Consulting Limited, New Britain Palm Oil Limited, Pacific Training Consortium Limited, Highlands Pacific Limited, BSP Finance (Fiji) Pte Limited, Business Incubation Solution Limited, Tower Insurance (PNG) Limited
	Shareholder	Gangloff Consulting Limited, Pacific Training Consortium Limited, Business Incubation Solution Limited
	Board/Council Member	Papua New Guinea Institute of National Affairs Council, MSME Council Inc., Sir Theophilus Constantinou Foundation Inc.
	Member	Australian Institute of Company Directors, Papua New Guinea Institute of Directors , Certified Practicing Accountants Papua New Guinea, Institute of Internal Auditors – Papua New Guinea Chapter
Faamausili Dr. M. Lua'iufi, BA, MSc, PhD	Director	BSP Financial Group Limited, BSP Finance Ltd, Bank South Pacific (Samoa) Limited, Paradise Consulting
	Shareholder	Paradise Consulting
	Member	Samoa Institute of Directors, Australian Institute of Company Directors, Papua New Guinea Institute of Directors, Samoa Human Resource Institute
P. Kevin, BSCS, MAICD	Director	BSP Financial Group Limited, In4net Ltd
	Shareholder	In4net Ltd
	Employee	In4net Ltd
	Board/Council Member	Papua New Guinea Institute of National Affairs Council, Papua New Guinea University of Technology Industrial Advisory Board (IAB)
	Member	PNG Digital Information and Communications Technology (ICT) Cluster Inc., Papua New Guinea Women in Science, Technology, Engineering and Mathematics Association Inc., Papua New Guinea Computer Society Inc., Center of Excellence for Financial Inclusion (CEFI) Digital Financial Services Working Group Committee, Australian Institute of Company Directors, Pacific Islands Chapter of the Internet Society
	Fellow	Internet Corporation for Assigned Names and Numbers
F. Bouraga, CPA, MAICD	Director	BSP Financial Group Limited, Inside Out Limited, Star Management Services Limited, Lalokau FM Limited, Star No.57 Limited, Tactical Solutions International Ltd. Papua New Guinea Hunters Rugby Football Club Inc. Board
	Shareholder	Inside Out Limited, Star Management Services Limited, Lalokau FM Limited, Mobo Group of Companies Limited, Star No.57 Limited
	Employee	SBC Solutions
	Treasurer	Papua New Guinea Cancer Foundation Inc.
	Member	Certified Practicing Accountants Papua New Guinea (CPA PNG), Accounting Registration Board of PNG, Australian Institute of Company Directors
S. Brewis Weston, BEcon(Hons), MAppFin	Director	BSP Financial Group Limited, Money3 Corporation Limited, StockCo Australia Pty Limited, Timelio Pty Limited

For personnel only



Management Teams

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Executive Management



Robin Fleming, CSM
Group Chief Executive Officer

Robin Fleming was appointed GCEO of BSP in April 2013. Before his appointment as GCEO, he had been Deputy GCEO 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 36 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.



Frank W.M. van der Poll
Group Chief Operating Officer

Frank W.M. van der Poll joined BSP in May 2019 as the Deputy GCOO and commenced in the GCOO role on 1 November 2020. Primary responsibilities include Information Technology, Project Management Office, and Project Compass, BSP's Core Banking System upgrade, IT and has direct responsibilities for Transaction Channel Support, International Operations, Lending Support & Collections, Customer Service & Contact Centre, Support Services and Security Services. Frank started his career in the Information Technology field with various director roles at ICL/Fujitsu and Gandalf Technologies (Data communication) where he served as Vice President East, Middle East & Africa. In 1997, Frank moved into the Financial Services Industry; starting at Maduro & Curiel's Bank in the West Indies, Banque Populaire du Rwanda and Standard Chartered Southern Africa. Prior to joining BSP, Frank was the Chief Executive Officer for the First Micro Finance Bank Afghanistan.



Ronesh Dayal
Group Chief Financial Officer

Ronesh Dayal was appointed the Group Chief Financial Officer on 11 June 2020. Mr. Dayal is an experienced and detail-oriented CFO with over 18 years experience in the financial services industry, having worked in the Life Insurance and Banking businesses in Fiji and Papua New Guinea.

He progressed into executive roles when he was appointed as the CFO for BSP Fiji Branch in December 2010 and was the first local CFO for the Bank. He was later appointed to the position of Deputy CFO - BSP PNG in 2014 when he moved to Papua New Guinea, before being appointed as the CFO for PNG Bank in 2017.

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

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Daniel Faunt
Group General Manager
Retail

Daniel Faunt was appointed Group General Manager Retail in December 2020. He assumes responsibility for the Group Retail Bank function encompassing the management of the 81 branches and sub-branches in PNG along with the Paramount Banking division and Group Marketing. Mr Faunt was previously the groups General Manager Offshore Branches with responsibility over banking operations in Fiji, Solomon Islands, Tonga, Samoa, Vanuatu and Cook Islands.

Mr Faunt has more than 20 years of banking experience in various senior management roles in PNG, Australia and the Pacific. He holds a Masters of Business Administration in Economics from Deakin University and a Bachelor of Business in Banking and Finance from the Queensland University of Technology.

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.

Michael Hallinan
Group Chief Risk Officer

Michael Hallinan, was appointed Group Chief Risk Officer, following Haroon Ali's move to Fiji as Country Head in 2018. Mr. Hallinan, commenced employment with BSP in 2013, as Chief Credit Officer. His professional career expands over 40 years in Banking and Finance holding various senior positions in Risk Management and Senior Relationship Executive roles with Commonwealth Bank of Australia, specifically managing corporate and institutional relationships including government departments, both domestically and internationally. Recent experience prior to joining BSP included the financial industry group and infrastructure project financing. Mike is familiar with PNG having previously worked for the former Papua New Guinea Banking Corporation holding the position of Executive Manager Lending Division. Mike is a qualified CPA and is a Fellow of the Australian Bankers Institute.

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.

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Executive Management

(Continued)



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.



Kili Tambua
General Manager Offshore Branches

Kili Tambua was appointed to GM OSB on 2 November 2020 overseeing banking operations in Fiji, Solomon Islands, Tonga, Samoa, Cook Islands and Vanuatu.

Mr. Tambua's professional career expands over 29 years in Banking and Finance - including senior management roles within Retail Banking. He holds a Master's degree in Business Administration from the University of PNG and is an affiliate to the Australian Institute of Banking & Finance.



Nuni Kulu
General Manager Digital

Nuni Kulu was appointed as General Manager Digital effective as of 1 January 2019. Her appointment makes her the second female to be appointed to the Executive of BSP as she joins Hari Rabura, General Manager Human Resources. Nuni joined the former PNG Banking Corporate (PNGBC) as a graduate and has undertaken numerous roles in Treasury and Retail Banking during the course of her career. She was a member of the BSP's Leadership Development Program and has benefited from leadership and management training at Melbourne Business School and Insead College in France. Nuni hails from Manus Province and holds a Bachelor of Commerce attained at the Australian National University with many years of experience with PNGBC/BSP. She is now the President of the Business Council of PNG.



Vandhna Narayan
Group General Manager Compliance

Vandhna Narayan was appointed as Group General Manager Compliance effective 23 February 2021. Vandhna oversees BSP's Anti-Money Laundering & Compliance; Internal Audit; and Credit Inspection Business Units to ensure BSP continues to meet its ongoing regulatory obligations and advancements in industry standards. Vandhna was formerly the Group Head of Compliance and AML for BSP, and has also held roles as General Manager Legal & Compliance for BSP Life Fiji and Colonial National Bank Fiji (now BSP Fiji). Vandhna is a qualified Solicitor (admitted in Fiji, New Zealand and New South Wales) with over 25 years diverse professional and leadership experience, including 10 years in the Banking and Insurance sector. Vandhna successfully completed CBA's Executive Development Program in 2010, and holds a Bachelors Degree in Law from Victoria University of Wellington, New Zealand, and a Masters Degree in Human Rights Law and Policy from the University of New South Wales.

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Andy Roberts
General Manager BSP Finance Ltd

Andy Roberts was appointed General Manager of BSP Finance Ltd on 17 August 2020. Prior to joining BSP, Mr Roberts held various management positions in equipment finance and corporate banking with Westpac and NAB in Australia in a career spanning 25 years. More recently he spent just over 2 years with Credit Corporation in PNG before joining BSP. Andy is currently completing his Master of Business Administration at Torrens University in Australia.



Mary Johns LLB, OL, MAICD
BSP Company Secretary

Mary Johns has a Bachelor of Laws from the University of Papua New Guinea. She joined BSP as a legal officer in July 2002 and was appointed as Company Secretary in 2005.

She has previously served on Port Moresby Chamber of Commerce, the 2015 Pacific Games Organising Committee Board and currently serves on other not for profit Boards such Capital Rugby Union, PNG Women Lawyers Association and Leadership PNG Inc. She received the Female Director of the Year Award in 2014.

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

Since 2016 she served for 2 years as an independent committee member of the of People & Nominations Committee of Oil Search Limited, 2 years on the Audit & Financial Risk Committee and was a member of the Sustainability Committee of Oil Search Ltd. She is a current Director of the CPL Group of Companies and its joint venture subsidiary Jack's Retail (PNG) Ltd.



Gheno Minia
General Manager BSP Capital

Gheno Minia was appointed General Manager of BSP Capital in June 2018, prior to that held senior roles within BSP Capital's Capital Advisory team. Gheno came through BSP's Graduate Development Program in 2008 and has been with the company since. Mr. Minia holds qualifications in Business and Economics from the University of Papua New Guinea and recently attained post graduate qualification in Applied Finance from Kaplan in Australia. He is an Associate member of the Financial Services Institute of Australasia.



Nilson Singh
Country Manager BSP Life

Nilson Singh was appointed Country Manager of BSP Life PNG Limited on 27 August 2019. He has over 12 years of Life Insurance experience through his various roles in the Fiji and PNG Life Insurance businesses. Prior to this, he worked in the assurance division at PwC Fiji for 3 years.

He was instrumental in the establishment and launch of the life insurance business in PNG and is passionate about growing a saving culture through the endowment insurance products.

Mr. Singh holds a Bachelor of Arts Degree with double Majors in Accounting and Financial Management and Information Systems from the University of South Pacific. He is a full member of CPA Australia and CPA PNG and a member of AICD. Nilson has a Certificate IV in Life Insurance with ANZIIF and currently completing the Diploma in Life Insurance program.

Broader Group

COOK ISLANDS

(L-R):

Henry Napa – Head of Operations
 Gabe Raymond – Compliance and AML Manager
 Grace Tangata – Operational Risk and Compliance
 Chris Doran – Head of Retail
 David Street – Country Head
 ToKoa Harmon – Branch Manager
 Achaal Narayan – Manager Digital
 Tutu Inamata – Business Manager



FIJI

(L-R):

Maikash Ali – General Manager Corporate
 Charishma Kumar – Head of Treasury
 Rajeshwar Singh – General Manager Corporate
 Services and Chief Financial Officer
 Vrinda Rao – Head of Operational Risk
 Haroon Ali – Country Head
 Sunil Rohit – Head of Credit
 Alvina Ali – General Manager Legal and Compliance
 Ravindra Singh – General Manager Retail
 William Wakeham – Chief Operating Officer

Not in the photo:

Omid Sabeli – Chief Information Officer



SAMOA

Standing/Seated (L - R):

Peti Leiatua – Compliance & Risk Manager
 Bharat Kumar Chovan – Head of Treasury
 Jennifer Fruean – Head of Finance
 Rodney Greed – Facilities Management & Project Manager
 Maryann Lameko-Va'ai – Country Head
 Edward Yee – Head of Corporate
 Shirley Greed – Head of Retail
 Epeli Racule – Head of Operations
 Maiava Iaeli Tovia-Leota – Manager e-Banking



SOLOMON ISLANDS

Standing/Seated (L - R):

Winterford Maehau – Manager Information Services
 Lynette Taoti – Manager Loans Management Unit
 Giddings Qiqo – Head of Treasury
 Alphonse Taoti – Head of Retail
 Genevieve Apusae – Manager Operational Risk
 Sandra Fore – Country Head
 Freda Fa'aitoa – Manager Corporate Services
 Mitchell Jayasinha – Head of Finance
 Nesta Soaika – Operations Manager (Retail)
 Joan Ramo – Operations Manager - International
 Dennis Suia – Lending Support Manager
 Lyn Fa'arodo – Manager e-Banking

Not in the photo:

Laurish Pio – Manager Compliance & AML
 Emele Hia – Head of Corporate





TONGA

Front Row:
Marcellina Wolfgramm Haapai – Country Head

Second Row:
Viliami Vailea – Head of Finance

Third Row (L-R):
Tevita Vaha'i – Manager Asset Management
Nadiya Puloka – Acting Head of Treasury
Mele'ana Fifita – Head of Operations

Fourth Row (L-R):
Mele Latu – Acting Head of Corporate
Emilio Tapueluelu – Head of Retail
Iunisi Polutele – Operations Risk Manager



VANUATU

Standing (L-R):
Josiah Kalfabun – Manger Compliance
Jioji Konusi – Head of Corporate Banking
Ronald Prasad – Head of Finance

Seated (L-R):
Teresa Jordan – Acting Country Manager since October 2021
Irene Tabi – Head of Treasury
Moana Korikalo – Head of Retail

Overseas and Subsidiaries Directory

Cook Islands

Country Head	David Street	682 22014
Head of Corporate	Chris Doran	682 22014
Rarotonga Branch	Tokoia Harmon	682 22014
Aitutaki Branch	Rosa Henry	682 31714

Fiji

Country Head	Haroon Ali	679 3214454
Damodar City Branch	Sanjani Devi	679 3214701
Thomson St Branch	Shailendra Roy	679 3314400
Nausori Branch	Katrina Lal	679 3478499
Pacific Harbour Branch	Ravikashni Prakash	679 3452030
Samabula Branch	Mereani Peters	679 3387999
Suva Central Branch	Shalit Kumar	679 3314400
Ba Branch	Reginald Kumar	679 6674599
Westfield Branch	Devendran Pillay	679 6661769
Nadi Branch	Ann Pesamino	679 6700988
Namaka Branch	Razia Tahir	679 6627320
Rakiraki Branch	Ronica Prakash	679 6694200
Sigatoka Branch	Nacanieli Vadei	679 6500900
Tavua Branch	Mohammed Azeem	679 6681507
Labasa Branch	Sohnal Lata Karan	679 8811888
Savusavu Branch	Vineeta Prasad	679 8850199
Taveuni Branch	Anaseini Senivika	679 8880433

Samoa

Country Head	Maryanne Lameko - Vaai	685 66115
Retail Head	Shirley Greed	685 66170
Apia Branch	Siuli Aiono	685 66172
Vaitele Branch	Folototo Leauomoana	685 23005/685 23057
Salelologa Branch	Leilani Kelemete	685 51208/685 51066

Solomon Islands

Country Head	Sandra Fore	677 21874
Auki Branch	Lency Saeni	677 40484
Gizo Branch	Liasa Leameana	677 60539
Heritage Park Branch	Joy Vave	677 21814

Honiara Central	Jeremy Bosukuru	677 21222
Munda Branch	Joseph Rabaua	677 62177
Noro Branch	Richard Bero	677 61222
Point Cruz Branch	Unity Bainivalu	677 21874

Tonga

Country Head	Marcellina Wolfgramm Haapai	676 20807
Nuku'alofa Branch	Mele Lily Cocker	676 20830
Vava'u Branch	Sosefina Tangitau	676 71268
Ha'apai Sub Branch	Ta'ufuou Maloni	676 60933
'Eua Sub Branch	Tokilupe Toe'api	676 50145

Vanuatu

Country Head (Acting)	Teresa Jordan	678 5580038
Head of Retail & Marketing	Moana Korikalo	678 5580009
Santo Branch	Edwige Wensi	678 5580021
Port Vila Branch	Danica Rapouel	678 5580016
Tanna Branch	Dolores Charlie	678 5580042
Freswota Branch	Lina Niatu	678 5580051

Subsidiaries

BSP Finance

Country Head (PNG)	Simon Kepui	675 7024 5681
Country Head (Fiji)	Krishna Raju	679 323 4451
Country Head (Solomon Islands)	Imelda Samba	677 27779
Country Head (Cambodia)	Buo Choeun	855 (0) 2388 52064
Country Head (Lao)	Panyathip Vongsouli	856 (0) 20 55 538 682

BSP Life

Managing Director (Fiji)	Michael Nicola	679 326 1743
Country Head (PNG)	Nilson Singh	675 305 6361

BSP Capital

General Manager (PNG)	Gheno Minia	675 309 8521
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Subsidiaries

BSP FINANCE HOLDING

Front row (L-R):

Bernadette Name'a – Finance Officer
 Andy Roberts – General Manager
 Remu Ruape – AML/CTF Compliance Officer
 Sharon Andoiye – Quality Assurance Manager

Back row (L-R):

Natasha Lagani – Financial Controller
 Anna Puri – Credit Manager
 Janet Seta – Operational Risk and Compliance Manager



BSP FINANCE - PAPUA NEW GUINEA

(L-R):

Michael Timi – Senior Lending Officer
 Mary Vai – Lending Officer
 Sonia Bayang – Receptionist
 Delilah Tomala – Lending Support Officer
 David Munaga – Head of Lending Sales
 Freda Willyman – Administration Manager
 Beverly Hamora – Collections Officer
 Simon Kepui – Country Head
 Dulcie Pilake – Collections & Recoveries Officer
 Lulu Numiman – Accountant
 Richard Matanga – Finance Manager
 Andrew Mckiwa – Lending Officer



BSP FINANCE - FIJI

(L-R):

Sudeshwar Ram – Area Manager East
 Nirjan Singh - Compliance & Operations Risk Management Officer
 Shainesh Lal – Area Manager West
 Krishna Raju – Country Head
 Sanjeet Narsey – Finance Manager
 Shirraz Narayan - Collections Supervisor
 Shelvina Sharon Lata – Accountant



BSP FINANCE - CAMBODIA

Standing (L-R):

Taing Sorida – Sale Supervisor
 Hoeun Rothchandra – Internal Audit Manager
 Khounh Kiny – Recovery Officer
 Phin Nara – Finance Manager
 Wet Sochea - Sale Supervisor

Seated (L-R):

Seng Sokha - Sale Manager
 Sin Dany – Senior Collection Officer
 Buo Choeun - Country Head
 Morm Sreyhuoch - Senior Admin Support Officer,
 Im Boromey - Compliance Supervisor (Resigned)





BSP FINANCE - LAO

(L-R):

Phonepaseuth Rattana – Collection Officer
Buangeun Sayavong – Lending Officer
Inthanom Vongchanh – Sales Team Supervisor
Nith Chanthavongdeuane – Administration Officer
Panyathip Vongsouli – Country Head
Soubanh Phanyoulath – Accounts & Finance Manager
Vathsana Bounphothisarn – AP Officer
Daomanivone Khanthavong – Lending Officer
Vilaiphone Silakoune – Loan & Recovery officer
Vongpaseuth Ratanavong – Credit Manager



BSP FINANCE - SOLOMON ISLANDS

(L-R):

Barbara Hou - Lending Support & AML/CTF Officer
Imelda Samba – Country Manager
Veronica Buga – Lending Officer



BSP LIFE - FIJI

Standing (L-R):

Emily King – General Manager Legal & Compliance
Michael Nacola – Managing Director

Seated (L-R):

Curtis Mar – General Manager Distribution & Marketing
Munendra Naidu – Chief Financial Officer



BSP LIFE - PNG

(L-R):

Doris Yenbari – Quality Assurance and Compliance Manager
Nilson Singh – Country Head
Miriam Liuna – Finance and Operations Manager
Mathew Hasu – Head of Sales



BSP CAPITAL LTD

(L-R):

Theresa Kalivakoyo – Financial Controller (Sitting)
Willie Konga – Manager, Funds Management
Gheno Minia – General Manager
Mabata Gabutu – QA & Compliance Manager

Papua New Guinea Branch Managers



**Mathew Danti
Aitape**



**Martin Gilo
Alotau**



**Rosemary Paula Seeto
Arawa**



**Dora Raphael
Bialla**



**Madeleine Leka
Boroko**



**Julie Warren
Buka**



**Roslyne P. Kanini
Bulolo**



**Ponsie Bannon
Daru**



**Marco Hamen
Goroka**



**Rawalo Rawalo
BSP Haus**



**Rawalo Rawalo
BSP Haus**



**Mathias Manawo
Kavieng**



**Betty Posangat
Kimbe**



**Ruben Attai
Kiunga**



**Kalat Tiriman
Kokopo**



**Rita Singut
Kundiawa**



**Bevilon Homuo
Lae Top Town**



**Gabriel Ak
Lae Market**



**Livikonimo Koki
Lae Commercial**



**Johnson Tetaga
Lihir**



**Ruth Kagl
Lorengau**



**Mary Koi
Madang**



**Merai Mundua
Mendi**



**Bau Kiso
Moro**



**Theresa Pilamp
Mt Hagen**



**Samuel Okti
Popondetta**



**Stanley Bole
Port Moresby**



**David Pilai
Rabaul**



**Henry Bayema
Tari**



**Dianne Rali
Tabubil**



**Delilah Kanit
Vanimo**



**Susie Yapen
Vision City**



**John Tomba
Wabag**



**Alex Kuna
Waigani B/Centre**



**Antonia Dru
Waigani Drive**



**Philip Solala
Wewak**



**Nelson Kerua
BSP First HC**



**Samuel Mulina
SME - Goroka**



**Desmond Lavong
SME - Lae**



**Reuben Elijah
Area Manager
Highlands**



**Barry Namongo
Area Manager
Momase**



**Ruby Arabella Patu
Area Manager
NGI**



**Dennis Lamus
Area Manager
NCD**



**Billy Veveloga
Area Manager
Southern**

Papua New Guinea Branch Directory

Aitape	Mathew Danti	457 2042
Alotau	Martin Gilo	641 1284
Arawa	Rosemary Paula Seeto	276 9244
Bialla	Dora Raphael	983 1095
Boroko	Madeleine Leka	303 4320
BSP Haus	Rawalo Rawalo	305 7135
Buka	Julie Warren	973 9042
Bulolo	Roselyn P. Kanini	474 5331
Daru	Ponsie Bannon	645 9416
Goroka	Marco Hamen	532 1633
BSP Haus Branch	Rawalo Rawalo	305 7135
Kainantu	Robert Jomino	537 1251
Kavieng	Mathias Manowo	984 2082
Kimbe	Betty Posangot	983 5166
Kiunga	Ruben Attai	649 1313
Kokopo	Kalat Tiriman	982 9088
Kundiawa	Rita Singut	535 1025
Lae Top Town	Bevilon Homuo	473 9876
Lae Market	Gabriel Ak	473 9609
Lae Commercial	Livikonimo Koki	472 9088
Lihir	Johnson Tetaga	986 4062
Lorengau	Ruth Kagl	970 9244
Madang	Mary Koi	422 2477
Mendi	Merai Mundua	549 1070
Moro	Bau Kiso / Ali Albert	276 1566
Motukea	Gata Goasa	321 7699
Mt Hagen	Theresa Pilamp	542 1877
Popondetta	Samuel Okti	629 7443
Porgera	Kips Ponga	547 6900
Port Moresby	Stanley Bole	305 7606
Rabaul	David Pilai	982 1744
Tabubil	Dianne Rali Kome	649 9179
Tari	Henry Bayema	276 1651

Vanimo	Delilah Kanit	457 1209
Wabag	John Tomba	547 1237
Waigani	Alex Kuna	305 6102
Waigani Drive	Antonia Dru	302 5301
Wewak	Philip Solala	456 2344
SME		
Vision City	Samuel Mulina	305 7786
Lae	Desmond Lavong	479 5824
Goroka	Vacant	532 1006

Premium		
Boroko	Pakar Tata	303 4354
Gordons	Mary Kaile	302 5202
Kokopo	Kessie Guboro	982 9068
Madang	Jennifer Passingan	422 2477
Mt Hagen	Maggie Wara	542 1877
Port Moresby	Imelda Konabe	305 7943
Waigani	Dulcie Vogae	300 9131
Waterfront	Susie Yapen	305 7786

BSP First		
Gordons	Ian Miria	305 6548
Harbour City	Nelson Kerua	305 7935
Lae	Elizabeth Gavul	478 4930
Port Moresby	Mari Guma	305 6550

Regional Area Managers		
Highlands	Reuben Elijah	542 2002
Momase	Barry Namongo	478 4998
NCD	Dennis Lamus	305 7195
NGI	Ruby Arabella Patu	982 9088
Southern	Billy Veveloga	305 7886

Sub Branch Directory

Aiyura	Semagrace Kumaro	7230 8313
Banz	Kessy Elly	7100 9078
Buin	Clara Itamai	7100 7855
Chuave	Dkyman I Tangip	7197 6001
Gusap	Vivian Sae	7091 1396
Henganofi	Rachael Saime	7100 7859
Higaturu	Letticia Gaia	7009 6865
Hoskins	Genevieve Sela	7031 2627
Ialibu	Philemon Kumi	7041 1624
Kabwum	Inna Buneng	7346 1426
Kamtai	Jeffery Kaupa	7371 6015
Kerema	Toru Leva	7091 2298
Kerevat	Minamar Mathew	7100 2889
Kerowagi	Leah Taia	7100 9077
Kinim	Malapun Bannick	7100 7861
Kikori	Yaweye Sam	7201 9584
Komo	Mark Tom	7362 0760
Konos	Helen Warange	7197 6006
Koroba	Paul Philip Galopo	7104 2003
Kupiano	Andrew Baine Jnr	7288 4140
Laba	Heni Nao	7197 6008

Lakurumau	Lorraine Koma	7197 6005
Losuia	Lorna Solomon	7031 2617
Maprik	Christian Tatu	7168 7815
Minj	Jim Wayne Dale	7100 9076
Mutzing	Luther Kasi	7100 2488
Namatanai	Dickson Kevin	7197 6007
Navo	Hennah Brunim	7091 9062
Ningerum	Joseph Dewang	7341 2207
Okapa	Arafat Tovari	7055 0955
Padipadi	Michael Tupagogo	7090 4463
Palmalmal	Selina Kesivi	7323 9181
Pangia	Karen James	7197 6003
Tambul	Joseph Paul	7100 7863
Telefomin	Joycelyn Naik	7255 8421
Simberi	Rebecca Maragit	7449 8381
Wakunai	Melvin Kusa	7100 7856
Walium	Brenda Igusam	7031 2127
Wapenamanda	Seta Isin	7198 6859
Yangoru	Emma Wangi	7031 4947
Yonki	Solo Sabbie	7185 5768



FORPACIFIC

Corporate Social Responsibility





Our Bank. Our Contribution.

We are more than a Bank

CSR contribution in 2021

We recognise that as the dominant bank we have a special responsibility to our customers and the communities of which we are both a part.

Our responsibility is an integral part of our strategy and our approach to corporate responsibility is integral to our strategies for growth and development and is our committed approach to Corporate Responsibility.

We believe in the values of people, community, leadership, teamwork, professionalism, quality, integrity, respecting the fact that as a leading financial services provider in our chosen markets - we belong to communities. Our people, our customers, staff, shareholders and communities prosper when we give back.

We are using our branches and our people in line with this thinking - as agents of change.

BSP is committed to supporting quality initiatives with sustainable outcomes and does so through supporting partnerships, sponsorships, donations, community projects and voluntary work with charities and community organisations.



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Our Contribution to Sports



BSP School Kriket Program

We have grown from strength to strength and so have our partners who deliver life changing and development projects to communities.

The BSP School Kriket Program is the longest serving junior sport development program that BSP has supported.

This multiple award winning program, has produced some of country's best players and reached over **580,000** children in over a thousand schools since 2017.

PNG Paralympic

BSP continued its association with the PNG Paralympic Committee. Our support sports gives everyone including athletes with disabilities an equal opportunity to achieve their sporting aspirations. The support assisted Team PNG to the Tokyo Paralympic Games in Tokyo, Japan.

BSP's support over the years has enabled Para Athletes to take part in the 2015 Pacific Games in Port Moresby and the China Open Athletics Championships in 2016 in Beijing, China.



"On behalf of the PNG Paralympic Committee President and from the Tokyo bound team, I'd like to acknowledge and thank BSP for coming on board to support the team. BSP has been a major supporter of Paralympics in the past and so we are thankful for their continuous support"

Susan Sere
PNG Paralympic Committee Chef de Mission



Our Sponsorships & Partners

Banking and delivering financial services to our chosen markets has given BSP the most unique opportunity to reach more communities than any other bank or financial services provider can. Our reach takes us to the most remote areas of Papua New Guinea and other Pacific island countries that BSP operates in, Fiji, Solomon Is, Vanuatu, Samoa, Tonga and Cook Islands. As a responsible corporate organisation, we give back in Sponsorships, Donations and Charity work.

In Papua New Guinea, BSP invested over **K1.4 million** in sponsorships, over **K1.5 million** in donations and **K1.5 million** in community projects.



Sponsorships
K1.4m



Donations
K1.5m



Community Projects
K1.5m

Top 10 Sponsorships & Donations in PNG

- Cricket PNG
- Brisbane Broncos Corporation Pty Ltd
- West New Britain - Kimbe Cutters Rugby League
- Business Council of PNG
- David Mead - Brand Ambassador
- Macfarlane Burnet Institute of Medical Research
- Buk bilong Pikinini
- Port Moresby General Hospital
- Operation Open Heart
- Sir Theo Foundation

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Our Sponsorships in the Pacific

Sponsorships & Donations in the Pacific

In the Pacific, BSP has also given back to the countries and communities in which we operate through Sponsorships, Donations and Community Projects. **K1.1 million** has been invested in Sponsorships, Donations and Community Projects across the Pacific.

BSP Contributions to the Pacific in 2021



Sponsorships
K565k



Donations
K396k



Community Projects
K120k

BSP Contributions in the Pacific since 2017

All amounts are expressed in K'000

BSP Contributions to the community	Fiji	Solomon Is.	Vanuatu	Samoa	Tonga	Cook Is.
Total	1,700	385	950	887	640	888



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Our Donations

Supporting worthy causes.

BSP is committed to delivering financial services to all countries and communities that we operate in. It is our belief that when our communities prosper, our ecosystem thrives, and our customers, stakeholders, shareholders and businesses remain profitable.

Our donations reach organisations, charities, community groups and other worthy causes that contribute meaningfully to improving lives. It is our hope, that we are able to enrich and empower for the better.

Our donations & sponsorships reach communities through organisations like:



Health, Social Wellbeing & Education

Health & Wellbeing

We believe that one of the best ways of contributing to the growth and development of the South Pacific is by ensuring it is a region of healthy and happy individuals, families and communities.

Given the number and diversity of the communities that we serve throughout Papua New Guinea and the South Pacific, we are extremely well placed to identify these issues and make a major contribution, in the areas of health, arts and culture, education and enterprise, environment and community.

BSP's groupwide Black Thursday Campaign, against Gender Based Violence is a good example of the way in which branches, people, staff and family contribute to creating awareness and making our communities and homes a safer place to live in.



Sustainability & Environment

Beyond pure business and cost considerations, BSP is aware of the part it can play in regard to climate change and its potential long-term effects on the South Pacific and the planet.

As the greenest bank in the region, we understand, too, that these concerns are shared by our customers and the communities we serve. They expect and appreciate steps we take to be part of the solution.

Our Sustainability Strategy is firmly entrenched within the organisation and community investment activities will help make this commitment tangible to our customers, staff and other key stakeholders.

BSP is a member of the clean up the world campaign and observes the annual Earth Day and Earth Hour.



Our Community Contributions

11 Strategic Business Units
38 Branches
4 Off-Shore Branches
3 Subsidiaries

Investing over K1.6 million in the communities in which we operate. Improving everyday lives, making our communities prosper.

BSP's goal-orientated events and community projects organised on a regular basis, can benefit communities and change lives. Each of our Branches, Strategic Business Units, Subsidiaries and Off Shore Branches give back to their local community through BSP's Community Projects. All staff volunteer their time, to contribute in community work to deliver a project for their chosen community. Whether it be refurbishing a classroom, installing new tanks, donating desks, maintaining a basketball court, or even installing new wash basins to promote washing of hands, as our response to combat the spread of COVID-19.



Our Community Projects in 2021

38 Community Projects delivered through branches in **Papua New Guinea**.

Branch	Project Recipient	Project Description
Aitape	Pes Sub Health Centre	Solar Kit for Light and Appliances to Pes Sub Health Centre
Alotau	Goilanai Primary School	Refurbishment of Multipurpose Court at Goilanai Primary School
Arawa	Arawa Primary School	Provision of Desks for Arawa Primary School
Bialla	Selesege Primary School	Provision of school desks for Selesege Primary School
Boroko	Sabuia Primary School	Provision of Desks for Sabuia Primary School
BSP First	St Paul's Primary School	Refurbishment of St Paul's Primary School Ablution Block
BSP Haus	Kupiano Primary School	Solar Power Installation for Kupiano Primary School
Buka	Lonahan Primary School	Provision of desks to Lonahan Primary School
Bulolo	Buang Health Centre	Refurbishment of the Buang Health Centre
Daru	Daru Chalmers Primary School	Provision of Desks for Daru Primary School
Gordons	Sacred Heart Primary School	Provision of Desks for Sacred Heart Primary School
Goroka	Goroka Town Market Bustop	Refurbishment of Goroka Town Bus Stop
Kainantu	Kafetina Primary School	Construction of Basketball Court at Kafetina Primary School
Kavieng	Kaselok Primary School	Ablution block renovation for Kaselok Primary School
Kimbe	Sasavoro Health Centre	Solar Power Installation at Sasavoro Health Centre
Kiunga	Montfort Primary School	Provision of Desks for Montfort Primary School
Kokopo	Kokopo Anglicare Elementary School	Supply of school desks for Kokopo Anglicare Elementary School
Kundiawa	Pari Health Centre	Solar Power Kit Installation for Light and Appliances for Pari Health Centre
Lae Commercial	Labu Tale Primary School	Completion of Classroom building at Labu Tale Primary School
Lae Market	Bowali Primary School	Construction of Basketball Court at Bowali Primary School
Lae Top Town	Yambo village Aid Post	Refurbishment of Yambo village Aid Posts
Lihir	Olekowa Primary School	Supply of school desks for Olekowa Primary School
Lorengau	SDA Lorengau Basketball Court	Refurbishment of the Lorengau Basketball Court
Madang	Kusbau Primary School	Provision of desks for Kusbau Primary School
Mendi	Munhiu Primary School	Provision of Desks for Munhiu Primary School
Moro	Kaipu Health Centre	Solar Kit for Light and Appliances to Kaipu Health Centre
Mt Hagen	Minj T Primary School	Provision of Desks for Minj T Primary School
POM	St Therese Primary School	Minor renovation and Provision of Desks for St Therese Primary School
Popondetta	Ijika Primary School	Provision of desks for Ijika Primary School
Porgera	Laiagam Police Station	Solar Power Installation at Laiagam Police Station
Rabaul	Tomatani Elementary School	Supply of desks for Tomatani Elementary School
Tabubil	Tabubil Primary School	Refurbishment of the Tabubil Primary School Basket Ball Court and donation of desks
Tari	Tari Admin Primary School	Provision of desks for Tari Admin Primary School
Vanimo	Lote Sub Health Centre	Installation of Solar Power for Lote Sub Health Centre
Wabag	Mommers Oval Grand Stand	Construction of Mommers Oval Grand Stand
Waigani BC	Kouderika Primary School	Provision of Desks for Kouderika Primary School
Waigani Dr	Kerema Town Basket Ball Court	Refurbishment of the Kerema Town Basketball Court
Wewak	Mongniol Primary School	Desks donation for Mongniol Primary School

Our Community Projects by SBUs & BSP Subsidiaries

11 Community Projects delivered through SBU & Subsidiaries in Papua New Guinea.

SBU	Project Recipient	Project Description
Compliance	Bavaroko Elementary School	Minor refurbishment and provision of desks
Corporate	Boera Primary School	Provision of desks to Boera Primary School
Credit & Risk Management	Kwikila District Hospital	Provision of standby solar kit
Digital	Doa Health Centre	Installation of solar lights for Doa Health Centre
Finance & Planning	Vula'a Rivilina Elementary School	Supply of school desks
HR	Directorate of Social Change and Mental Health Services	Donation of video conferencing equipment
Lae Corporate & BSP Finance	Busu Secondary School	Refurbishment of Science Lab
Marketing Committee/CEO Selection	Gerehu Callen Services Education Resource Centre	Classroom refurbishment and supply of school desks
Operations & IT	Kaugere Meri Seif Haus	Refurbishment of the Kaugere Meri Seif Haus
Retail	Gaire Village roadside market	Refurbishment of the Gaire Fish Market
Treasury	Tatana Village	Tatana Village netball and volleyball court refurbishment

3 Community Projects delivered through BSP Subsidiaries

Subsidiaries	Project Recipient	Project Description
BSP Capital	Total Junction Market	Construction of the Total Junction Market Shelter
BSP Finance	Bomana CIS Clinic	Provision of solar powered water pump, water tank and handwash station to Bomana CIS Clinic
BSP Life	St. Charles Lwanga Secondary School	Refurbishment of the St. Charles Lwanga Secondary School Library



Our Community Projects in the Pacific

4 Community Projects delivered through our branches in the Pacific.

SBU	Project Recipient	Project Description
Samoa	Vailele Primary School	Vailele Primary School Library refurbishment
Tonga	Ladies Connect	Refurbishment of St Paul's Hall as an SME Centre
Solomon Island - Munda Branch	Madali Primary School	Donation of desks to Madali Primary School
Solomon Island - Gizo Branch	Vonunu National Secondary School	Construction of basketball court for Vonunu National Secondary School

Financial Literacy and Banking Education



Delivering Financial Literacy in PNG



127

Certified Financial Literacy Trainers since 2017



6,692

participants since 2017



49%

3,328 female participation since 2017



300+

students reached in 2021 under the Brisbane Broncos Community Partnership

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OUR BANK. OUR PEOPLE.

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

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PNG



FIJI



SOLOMON IS.



SAMOA



TONGA



COOK IS.



VANUATU



CAMBODIA



LAOS

www.bsp.com.pg

