

BSP CONVERTIBLE NOTES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

**BSP CONVERTIBLE NOTES LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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DIRECTORS' REPORT

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of BSP Convertible Notes Limited (the "company") as at 31 December 2017, the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and report as follows:

Directors

The names of the directors of company at the date of this report are:

Kevin Bernard McCarthy
Johnson Kalo (resigned on 30/04/17)
Thomas Edova Fox

Robin Gerard Fleming
Cecil Browne

Principal activities

The principal activity of the company is to lend funds to Bank of South Pacific Limited - Fiji Branch for use in its business activities in Fiji.

Results

The profit after income tax for the year ended 31 December 2017 was \$2,284,950 (2016: \$2,363,703).

The profit for the year includes a support fee of \$1,858,000 (2016: \$1,913,000) received from Bank of South Pacific Limited of Papua New Guinea as per the Support Deed to enable the company to meet dividend commitments to Fiji Class Shareholders.

Dividends

During the year, a final dividend of \$1,558,843 (2016: \$1,625,659) and an interim dividend of \$617,898 (2016: \$628,318) was declared and paid on Fiji Class Shares of the company.

Shareholders of Fiji Class Shares are entitled to receive dividends equal to the amount of dividend paid to the ordinary shareholders of Bank of South Pacific Limited of Papua New Guinea.

Reserves

It is proposed that no amounts be transferred to reserves.

Unusual transactions

In the opinion of the directors, except for support fee of \$1,858,000 received from Bank of South Pacific Limited of Papua New Guinea, the results of the operations of the company during the financial year were not substantially affected by any other item, transaction or event of a material unusual nature, nor has there arisen between the end of the financial year and the date of this report any item, transaction or event of a material unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the company.

DIRECTORS' REPORT [CONTINUED]

Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Other circumstances

As at the date of this report:

- (i) no charge on the assets of the company has been given since the end of the financial year to secure the liabilities of any other person;
- (ii) no contingent liabilities have arisen since the end of the financial year for which the company could become liable; and
- (iii) no contingent liabilities or other liabilities of the company have become or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the company to meet its obligations as and when they fall due.


As at the date of this report, the directors are not aware of any circumstances that have arisen, not otherwise dealt with in this report or the company's financial statements, which would make adherence to the existing method of valuation of assets or liabilities of the company misleading or inappropriate.

Directors' benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than those disclosed in the financial statements) by reason of a contract made by the company or by a related company with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

For and on behalf of the board and in accordance with a resolution of the directors.

Dated this 15 day of February 2018.



.....
Director



.....
Director

DIRECTORS' DECLARATION

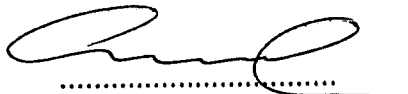
This directors' declaration is required by the Companies Act, 2015.


The directors of the company have made a resolution that declared:

- (a) In the directors' opinion, the attached financial statements for the financial year ended 31 December 2017:
 - i. give a true and fair view of the financial position of the company as at 31 December 2017 and of the performance of the company for the year ended 31 December 2017;
 - ii. have been prepared in accordance with the Companies Act 2015.
- (b) They have received declarations as required by Section 395 of the Companies Act 2015;
- (c) At the date of this declaration, in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

For and on behalf of the board and in accordance with a resolution of the directors.

Dated this 15 day of February 2018.


.....
Director


.....
Director



AUDITORS' INDEPENDENCE DECLARATION

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As auditor for the audit of BSP Convertible Notes Limited for the financial year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Companies Act 2015 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit .

This declaration is in respect of BSP Convertible Notes Limited during the financial year.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers
Chartered Accountants

by A handwritten signature in cursive script, appearing to be 'Grant Burns'.

Grant Burns
Partner
19 February 2018



To the Shareholders of BSP Convertible Notes Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of BSP Convertible Notes Limited (the 'Company'), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

Independence

We are independent of the Company in accordance with the ethical requirements of the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code) that are relevant to our audit of the financial statements in Fiji, and we have fulfilled our other ethical responsibilities in accordance these requirements and the IESBA Code.

Key audit matters

This section of the auditor's report is intended to describe the matters communicated with Directors and Management that we have determined, in our professional judgment, were of most significance in our audit of the financial statements. We have determined that there are no matters to report.

Responsibilities of Directors and Management for the financial statements

Directors and Management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Fiji Companies Act, 2015, and for such internal control as the directors and management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

.....
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PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.



Responsibilities of Directors and Management for the financial statements (continued)

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

The Directors and Management are responsible for overseeing the Company's financial reporting process.

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 the financial statements.

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

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



Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with Directors and Management 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 Directors and Management 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 Directors and Management, 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 regulation precludes 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

In our opinion the financial statements have been prepared in accordance with the requirements of the Fiji Companies Act 2015 in all material respects, and;

- a) we have been given all information, explanations and assistance necessary for the conduct of the audit; and
- b) the Company has kept financial records sufficient to enable the financial statements to be prepared and audited.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 396(1) of the Fiji Companies Act 2015. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.


PricewaterhouseCoopers
Chartered Accountants


Grant Burns
Partner

19 February 2018
Suva, Fiji

BSP CONVERTIBLE NOTES LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

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	<u>Notes</u>	<u>2017</u>	<u>2016</u>
		\$	\$
Interest income	5	532,640	532,394
Support fees from BSP	6	1,858,000	1,913,000
Operating expenses	7	<u>(58,641)</u>	<u>(33,166)</u>
Profit before income tax		2,331,999	2,412,228
Income tax expense	4(a)	<u>(47,049)</u>	<u>(48,525)</u>
Profit for the year		2,284,950	2,363,703
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>2,284,950</u></u>	<u><u>2,363,703</u></u>

The statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

**BSP CONVERTIBLE NOTES LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

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	Ordinary Share Capital	Fiji Class Shares	Accumulated Losses	Total
	\$	\$	\$	\$
Balance as at 31 December 2015	250,000	16,090,806	(619,394)	15,721,412
Profit for the year	-	-	2,363,703	2,363,703
Dividend on Fiji Class Shares (Note 11)	-	-	(2,253,977)	(2,253,977)
Other comprehensive income for the year	-	-	-	-
Balance as at 31 December 2016	<u>250,000</u>	<u>16,090,806</u>	<u>(509,668)</u>	<u>15,831,138</u>
Profit for the year	-	-	2,284,950	2,284,950
Dividend on Fiji Class Shares (Note 11)	-	-	(2,176,741)	(2,176,741)
Other comprehensive income for the year	-	-	-	-
Balance as at 31 December 2017	<u>250,000</u>	<u>16,090,806</u>	<u>(401,459)</u>	<u>15,939,347</u>

The statement of changes in equity is to be read in conjunction with the accompanying notes.

**BSP CONVERTIBLE NOTES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

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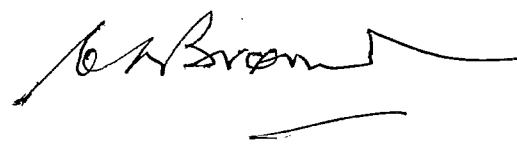
	<u>Notes</u>	<u>2017</u>	<u>2016</u>
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	12	853,091	761,413
Prepayments		1,090	-
Current income tax asset	4(c)	2,172	-
		<u>856,353</u>	<u>761,413</u>
NON-CURRENT ASSETS			
Advance to Bank of South Pacific Limited - Fiji Branch	8	15,100,000	15,100,000
TOTAL ASSETS		<u>15,956,353</u>	<u>15,861,413</u>
CURRENT LIABILITIES			
Current income tax liability	4(c)	-	7,712
Payables	9	17,006	22,563
TOTAL LIABILITIES		<u>17,006</u>	<u>30,275</u>
NET ASSETS		<u>15,939,347</u>	<u>15,831,138</u>
SHAREHOLDERS' EQUITY			
Share capital - ordinary shares	10	250,000	250,000
Share capital - Fiji class shares	10	16,090,806	16,090,806
Accumulated losses		(401,459)	(509,668)
TOTAL SHAREHOLDERS' EQUITY		<u>15,939,347</u>	<u>15,831,138</u>

The statement of financial position is to be read in conjunction with the accompanying notes.

For and on behalf of the board and in accordance with a resolution of the directors.



.....
Director



.....
Director

**BSP CONVERTIBLE NOTES LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

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	2017 Inflows/ (Outflows) \$	2016 Inflows/ (Outflows) \$
Cash flows from operating activities		
Interest received	532,640	532,394
Income tax paid	(56,933)	(83,963)
Payments to suppliers	(65,288)	(25,507)
Net cash generated from operating activities	<u>410,419</u>	<u>422,924</u>
Cash flows from financing activities		
Proceeds from support fees	1,858,000	1,913,000
Dividend paid on Fiji class shares	(2,176,741)	(2,253,977)
Net cash used in financing activities	<u>(318,741)</u>	<u>(340,977)</u>
Net increase in cash and cash equivalents	91,678	81,947
Cash and cash equivalents at the beginning of the year	<u>761,413</u>	<u>679,466</u>
Cash and cash equivalents at the end of the year (Note 12)	<u>853,091</u>	<u>761,413</u>

The statement of cash flows is to be read in conjunction with the accompanying notes.

NOTE 1. GENERAL INFORMATION

BSP Convertible Notes Limited (the “company”) is a limited liability company incorporated and domiciled in Fiji. The address of its registered office and principal place of business in Fiji is Level 12, BSP Suva Central Building, Corner of Renwick Road and Pratt Street, Suva. The company is listed on the South Pacific Stock Exchange (SPSE).

The principal activity of the company is to lend funds to Bank of South Pacific Limited - Fiji Branch for use in its business activities in Fiji.

The financial statements were approved for issue by the Directors on 15 February 2018.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with the requirements of the Companies Act 2015 and International Financial Reporting Standards (‘IFRS’).

Basis of preparation

The financial statements of the company have been prepared on the basis of the historical cost convention. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

New standards, interpretations and amendments adopted by the company

There are no IFRSs or IFRIC interpretations that are effective for the first time for financial year beginning on or after 1 January 2017 that have a material impact on the company.

New standards, interpretations and amendments not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. The company is yet to complete its assessment of the impact of these standards and intends to adopt the standards no later than the accounting period in which they becomes effective. The key standard to be considered is:

Topic	Key requirements
IFRS 9 'Financial instruments' (Effective for annual periods beginning on or after 1 January 2018)	This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This standard is not expected to have an impact on the company.

a) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank.

b) Comparatives

Where necessary, amounts relating to prior years have been reclassified to facilitate comparison and achieve consistency in disclosure with current year amounts.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Foreign currencies

Functional and presentation currency

The company operates in Fiji and hence the financial statements are presented in Fiji dollars, which is the company's functional and presentation currency.

Transactions and balances

Foreign currency transactions during the year are translated to Fiji currency using the rate of exchange ruling at the date of transaction. All gains and losses arising from fluctuations in exchange rates are brought to account in determining the results for the year.

d) Income tax

Current tax

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

Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

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 periods 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 reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company 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 company intends to settle its current tax assets and liabilities on a net basis.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Payables

Payables are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

f) Interest income

Interest income on advances is brought to account on an accrual basis, unless collectability is in doubt.

g) Share capital

Share capital comprises of the ordinary shares and Fiji class shares which are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

h) Support fees from Bank of South Pacific Limited (BSP)

According to the Support Deed between BSP and BSP Convertible Notes Limited dated 5 March 2010, BSP has agreed to ensure that, on and immediately after each payment of dividend on the Fiji class shares under BSP Convertible Notes Limited, the company will satisfy the solvency test.

Accordingly, the company receives support fees from BSP to preclude the company not satisfying the solvency test on and immediately after each payment of dividend. The solvency test is to ensure that the company is able to pay its debts in full as they fall due.

i) Value added tax (VAT)

The company is not registered for VAT.

j) Rounding

Amounts have been rounded to the nearest dollar except where otherwise noted.

NOTE 3. FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks: market risk (including price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by management under policies approved by the board of directors. The board provides policies for overall risk management, as well as policies covering specific areas, such as interest rate risk and credit risk.

(a) Market risk

i) Price risk

The company does not have investments in equity securities and hence is not exposed to equity securities price risk.

NOTE 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

ii) Cash flow and fair value interest rate risk

The company has interest-bearing assets in the form of advance to Bank of South Pacific Limited - Fiji Branch. This is at variable interest rate, and accordingly company is exposed to interest risk.

Bank of South Pacific Limited of Papua New Guinea has undertaken to provide necessary support as per the Support Deed to enable the company to meet dividend commitments to Fiji class shareholders. Accordingly, the interest rate risk and cash flow impact thereon is mitigated by the Support Deed with Bank of South Pacific Limited.

(b) Credit risk

The company's financial assets are cash and cash equivalents and advance to Bank of South Pacific Limited - Fiji Branch which represent the company's maximum exposure to credit risk in relation to financial assets. The credit risk on liquid funds is considered to be limited given that Bank of South Pacific Limited - Fiji Branch has a good sound rating and is a related entity.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet the company's present obligations.

The company manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows.

Bank of South Pacific Limited of Papua New Guinea has undertaken to provide necessary support as per the Support Deed to enable the company to meet dividend commitments to Fiji class shareholders. Accordingly, the liquidity risk is also mitigated by the Support Deed with Bank of South Pacific Limited.

NOTE 4. INCOME TAX

(a) Income tax expense

The prima facie income tax payable on profit or loss is reconciled to the income tax expense in the statement of profit or loss and other comprehensive income as follows:

	<u>2017</u>	<u>2016</u>
Profit before income tax	\$ 2,331,999	2,412,228
Prima facie tax payable thereon at 10%	233,200	241,223
Tax effect of:		
Non-taxable income - support fees	(185,800)	(191,300)
Prior year over provision	(351)	(1,398)
Income tax expense	\$ <u>47,049</u>	<u>48,525</u>

(b) Income tax attributable to operating profit

	<u>2017</u>	<u>2016</u>
Current period income tax	47,400	49,923
Prior year over provision	(351)	(1,398)
Income tax expense	\$ <u>47,049</u>	<u>48,525</u>

(c) Current income tax (asset) / liability

	<u>2017</u>	<u>2016</u>
Balance at beginning of the year	7,712	43,150
Income Tax attributed to operating profit	47,400	49,923
Income Tax paid	(56,933)	(83,963)
Prior year over provision	(351)	(1,398)
Current income tax (asset) / liability	\$ <u>(2,172)</u>	<u>7,712</u>

NOTE 5. INTEREST INCOME

	<u>2017</u>	<u>2016</u>
Advance to Bank of South Pacific Limited - Fiji Branch	528,500	528,500
Deposits with Bank of South Pacific Limited - Fiji Branch	4,140	3,894
Total interest income	\$ <u>532,640</u>	<u>532,394</u>

BSP CONVERTIBLE NOTES LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS [CONTINUED]
FOR THE YEAR ENDED 31 DECEMBER 2017

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NOTE 6. SUPPORT FEE	2017	2016
Support fees from BSP	\$ <u>1,858,000</u>	<u>1,913,000</u>

Bank of South Pacific Limited of Papua New Guinea has undertaken to provide necessary support as per the Support Deed to enable the company to meet dividend commitments to Fiji class shareholders.

NOTE 7. OPERATING EXPENSES	2017	2016
Auditors' remuneration - audit	11,125	10,667
- other services	2,587	1,309
Directors fees	30,000	7,500
General expenses	<u>14,929</u>	<u>13,690</u>
Total operating expenses	\$ <u>58,641</u>	<u>33,166</u>

NOTE 8. ADVANCE TO BANK OF SOUTH PACIFIC LIMITED - FIJI BRANCH	2017	2016
Advance to Bank of South Pacific Limited - Fiji Branch	\$ <u>15,100,000</u>	<u>15,100,000</u>

Advance to Bank of South Pacific Limited - Fiji Branch was subject to interest at the rate of 3.5% at year end (2016: 3.5%). The advance is repayable by demand made after the earlier of:

- a) The date on which Fiji class shares cease to be on issue;
- b) The date on which all the issued Fiji class shares are transferred to, and registered in the name of, BSP or entity which BSP controls; and
- c) The date agreed by BSP and BSP Convertible Notes Limited.

NOTE 9. PAYABLES	2017	2016
Payables and accrued liabilities	<u>17,006</u>	<u>22,563</u>
Total payables	\$ <u>17,006</u>	<u>22,563</u>

BSP CONVERTIBLE NOTES LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS [CONTINUED]
FOR THE YEAR ENDED 31 DECEMBER 2017

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NOTE 10. SHARE CAPITAL	2017	2016
Authorised capital		
500,000,000 A Class Ordinary Shares		
200,000,000 Fiji Class Shares		
Issued and paid up capital		
25,000,000 A Class Ordinary shares (a)	250,000	250,000
3,064,968 Fiji Class Shares (b)	<u>16,090,806</u>	<u>16,090,806</u>
	<u>\$ 16,340,806</u>	<u>16,340,806</u>

Ordinary Shares - A Class Ordinary Shares

(a) 24,999,998 A class shares have been issued to Bank of South Pacific Limited. Bank of South Pacific Limited is a company incorporated in Port Moresby, Papua New Guinea.

Fiji Class Shares

(b) 3,064,968 Fiji class shares have been issued at a total value of \$16,090,806.

Key rights of Fiji class shareholders are as follows:

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

Fiji class shareholders receive dividends twice yearly based on the interim results of 30 June and the final results on 31 December. Fiji class shares are quoted in the South Pacific Stock Exchange (SPSE).

BSP CONVERTIBLE NOTES LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS [CONTINUED]
FOR THE YEAR ENDED 31 DECEMBER 2017

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NOTE 11. DIVIDENDS	2017	2016
Dividend on Fiji class shares	\$ 2,176,741	2,253,977

NOTE 12. NOTES TO STATEMENT OF CASH FLOWS

a) Cash and Cash Equivalents

	2017	2016
Cash at bank	853,091	761,413
Total cash and cash equivalents	\$ 853,091	761,413

NOTE 13. CONTINGENT LIABILITIES

Contingent liabilities as at 31 December 2017 amounted to \$Nil (2016: \$Nil).

NOTE 14. COMMITMENTS

Capital expenditure commitments as at 31 December 2017 amounted to \$Nil (2016: \$Nil).

NOTE 15. RELATED PARTY TRANSACTIONS

- a) BSP Convertible Notes Limited is the subsidiary of Bank of South Pacific Limited. Bank of South Pacific Limited is a company incorporated in Port Moresby, Papua New Guinea.
- b) Transactions with the related parties were on normal trading terms and conditions no more favourable than those which would have been adopted if dealing with the parties at arms-length in the same circumstances.

Significant related party transactions during the year were:

- Interest received on advance to Bank of South Pacific Limited - Fiji Branch of \$528,500 (2016: \$528,500).
- Support fee from Bank of South Pacific as per the Support Deed of \$1,858,000 (2016: \$1,913,000).
- Dividend paid on Fiji class shares to fellow subsidiary, BSP Life Fiji Limited of \$405,829 (2016: \$420,229).

NOTE 15. RELATED PARTY TRANSACTIONS (CONTINUED)

c) Amounts due to and receivable from related parties:

Appropriate disclosure of these amounts is contained in the respective notes to and forming part of the financial statements.

d) Directors

The names of persons who were directors of the company at any time during the financial year are as follows:

Kevin Bernard McCarthy
Johnson Kalo (resigned on 30/04/17)
Robin Gerard Fleming
Cecil Browne
Thomas Edova Fox

e) Transaction with directors and executive officers

The company also has a related party relationship with its directors and executive officers. During the period no transactions occurred between the directors and executive officers and the company. Director's fees is disclosed in Note 7.

NOTE 16. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.