A wholly owned subsidiary of BSP Papua New Guinea

Registered Office: Level 12, BSP Suva Central Building, Cnr of Renwick Rd & Pratt Street, Suva, Fiji Islands.
Postal Address: Private Mail Bag Suva, Fiji Islands, Telephone (+679) 321 4412, Fax (+679) 321 4422

Market Announcement to South Pacific Stock Exchange

"BSP- APPENDIX 4D AND HALF YEAR FINANCIAL STATEMENTS JUNE 2021"

About BSP Convertible Notes Limited (BSP CN Fiji):
BSP Convertible Notes Limited (BSP CN Fiji) is a wholly owned subsidiary of Bank of South Pacific Limited (BSP). BSP is a Papua New Guinea based full service Bank with representation in many major Pacific economies. BSP is listed on the Port Moresby Stock Exchange (PNGX) and has a B- credit rating from Standard & Poors. BSP Convertible Notes Limited (BSP CN Fiji) is a special purpose vehicle incorporated in Fiji with limited powers under its Memorandum and Articles. It is listed in the South Pacific Stock Exchange (SPX) in Fiji as **BCN**.

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18 August 2021

"BSP- APPENDIX 4D AND HALF YEAR FINANCIAL STATEMENTS JUNE 2021"

"Market Announcement to South Pacific Stock Exchange"

Our Parent Company, BSP Financial Group Limited based in Port Moresby, PNG has released this market announcement on PNGX.

…………………………………….

Haroon Ali
DIRECTOR

About BSP Convertible Notes Limited (BSP CN Fiji):
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BSP Financial Group Limited

ARBN 649 704 656

Appendix 4D

Half-Year Results

For the period ended 30 June 2021

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1. Appendix 4D: Half-year results

1.1 Company details and reporting period

BSP Financial Group Limited (BSP)	
ARBN 649 704 656	
Reporting period - six months ended	30 June 2021
Previous corresponding period - six months ended	30 June 2020

1.2 Results for announcement to the market

Revenue from ordinary activities	↑	8.4% to K1,141.9m
Profit from ordinary activities after tax attributable to shareholders	↑	17.6% to K449.3m
Net profit for the period attributable to shareholders	↑	17.6% to K449.3m

Dividends	**Record Date**	**Date payable/paid**	**Amount per security**
Current financial year 2021			
2021 interim dividend - unfranked	27 September 2021	18 October 2021	39 toea
Previous financial year 2020			
2020 interim dividend - unfranked	7 October 2020	16 October 2020	25 toea
2020 final dividend - unfranked	4 June 2021	23 June 2021	105 toea

Papua New Guinean domiciled investors who migrate their shares to the ASX receive dividends in Papua New Guinea Kina (PGK). Should a Papua New Guinean domiciled shareholder move their shareholding to the Australian share register together with a transfer to an Australian-based fund manager, or custodian (on the basis that the shareholding will still be under the control of the Papua New Guinean resident shareholder), dividends would continue to be paid in PGK. Offshore investors with BSP shares on the ASX, will receive dividends in AUD. The exchange rate applicable on the Record Date will be used to convert the PGK dividend to AUD.

BSP does not have a dividend reinvestment plan.

The release of this announcement was authorised by the BSP Financial Group Limited (BSP) Board of Directors. This report is provided to the ASX under Listing Rule 4.2A.

Reporting currency

All amounts in this report have been rounded to the nearest million Kina (Km) unless otherwise stated.

1.3 ASX appendix 4D table

	Page
Details of reporting period and corresponding period	3
Results for announcement to the market	3
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Net tangible assets per ordinary share	13
Details of individual and total dividends	13
Dividend dates	3
Details of any dividend or distribution reinvestment plans in operation	3
Details of associates and joint venture arrangement entities	13
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Details of entities over which control has been gained or lost during the period

There have been no changes in ownership to Group entities during the reporting period.

Half year financial statements

This report should be read in conjunction with the 30 June 2021 Interim Condensed Financial Statements of BSP Financial Group Limited, prepared in accordance with the 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.

The Interim Condensed Financial Statements have been reviewed by BSP's appointed external auditor and approved by the Board, upon recommendation of the Board Audit and Compliance Committee.

1.4 Results snapshot (June 21 vs June 20)

Statutory Profit	17.6% to K449.3m
Statutory earnings per share	17.7% to 96.2 toea
Net interest margin	39 bps to 6.4%
Capital Adequacy Ratio	170 bps to 23.0%

1.5 Subsequent events

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

2. Half year results

2.1 Financial summary

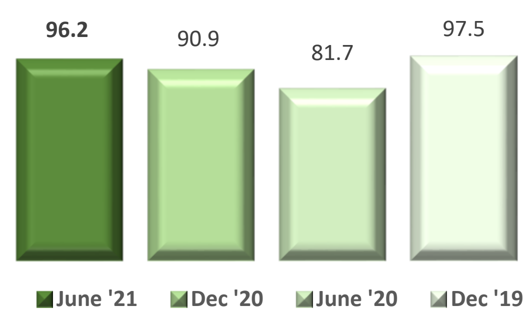
	Jun-21	Dec-20	Change		Jun-20	Change	
	Km	Km	Km	%	Km	Km	%
Net interest income	775.1	736.6	38.5	5.2	710.4	64.7	9.1
Other operating income	366.8	355.2	11.6	3.3	343.4	23.4	6.8
Total income	**1,141.9**	**1,091.8**	**50.1**	**4.6**	**1,053.8**	**88.1**	**8.4**
Impairment expenses	(62.6)	(89.8)	27.2	(30.3)	(111.5)	48.9	(43.9)
Operating expenses	(440.0)	(397.3)	(42.7)	10.7	(405.2)	(34.8)	8.6
Profit before income tax	**639.3**	**604.7**	**34.6**	**5.7**	**537.1**	**102.2**	**19.0**
Income tax expense	(190.0)	(180.4)	(9.6)	5.3	(155.2)	(34.8)	22.4
Net profit for the period	**449.3**	**424.3**	**25.0**	**5.9**	**381.9**	**67.4**	**17.6**

		Half year			June 21 to June 20
	Jun-21	Dec-20	Jun-20	Dec-19	change
Earnings per share (toea)	toea	toea	toea	toea	toea
Basic and diluted	96.2	90.9	81.7	97.5	14.5

	Jun-21	Dec-20	Change		Jun-20	Change	
Average interest earning assets and interest bearing liabilities	Km	Km	Km	%	Km	Km	%
Average interest earning assets	24,410.8	22,603.2	1,807.6	8.0	21,067.7	3,343.1	15.9
Average interest bearing liabilities	22,438.6	20,713.5	1,725.1	8.3	19,534.9	2,903.7	14.9

	Jun-21	Dec-20	Jun-20	Dec-19	June 21 to June 20 Change
Financial performance ratios	%	%	%	%	Bps
Net interest margin	6.4	6.5	6.8	6.9	(39)
Cost to income ratio	38.5	36.4	38.5	37.0	-
Financial position ratio	%	%	%	%	Bps
Return on average ordinary equity	13.2	13.1	12.4	14.3	80
Return on average assets	1.6	1.6	1.5	1.8	10

Earnings per share (toea)



2.2 Results commentary

2.2.1 Income

	Jun-21	Dec-20	Change		Jun-20	Change	
	Km	Km	Km	%	Km	Km	%
Interest income							
Loans, advances and other receivables	571.0	586.5	(15.5)	(2.6)	613.3	(42.3)	(6.9)
Treasury bills	106.9	86.7	20.2	23.3	76.6	30.3	39.6
Other financial assets - Inscribed stock	149.8	125.4	24.4	19.5	94.9	54.9	57.9
Other	4.4	6.9	(2.5)	(36.2)	1.7	2.7	158.8
Total interest income	**832.1**	**805.5**	**26.6**	**3.3**	**786.5**	**45.6**	**5.8**
Interest expenses	57.0	68.9	(11.9)	(17.3)	76.1	(19.1)	(25.1)
Net interest income	**775.1**	**736.6**	**38.5**	**5.2**	**710.4**	**64.7**	**9.1**
Other income							
Fees and commission	181.3	171.0	10.3	6.0	174.2	7.1	4.1
Foreign exchange related	154.1	143.0	11.1	7.8	145.2	8.9	6.1
Other	21.8	18.4	3.4	18.5	17.2	4.6	26.7
Net insurance operating income	9.6	22.8	(13.2)	(57.9)	6.8	2.8	41.2
Total other income	**366.8**	**355.2**	**11.6**	**3.3**	**343.4**	**23.4**	**6.8**
Net operating income	**1,141.9**	**1,091.8**	**50.1**	**4.6**	**1,053.8**	**88.1**	**8.4**

Comments on individual categories when compared to the previous corresponding period are:

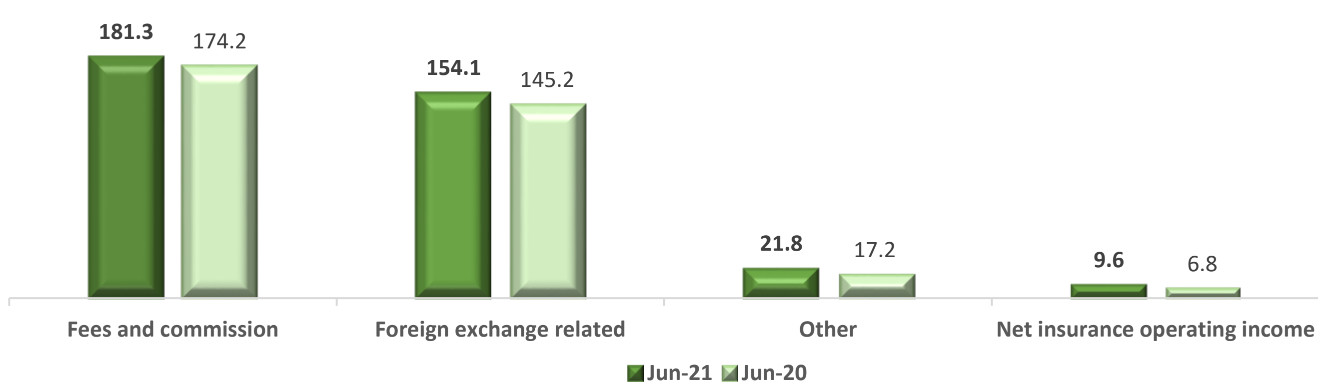
Net interest income increased by 9.1%, largely driven by higher interest earnings from investment securities and lower cost of funds. This was partially offset by lower interest on loans that was impacted by the indicator lending rate (ILR) in Papua New Guinea reducing by 100 bps on 1 April 2020. Consequently, the three (3) month ILR reduction in the previous corresponding period impacts the comparison with the Half Year 2021 result. Group loan growth increased by 1.7% over the last 12 months but remains flat or negative in most countries during the current year. Fiji has been more severely affected by the second wave of COVID-19.

Fees and commission income increased by 4.1%, due to improved transaction activity compared to the previous corresponding period, as the easing of pandemic related domestic restrictions in Papua New Guinea and offshore branches other than Fiji contributed to the improved results.

Foreign exchange earnings increased by 6.1% compared to the prior year, driven by improved currency flows.

Net insurance operating income increased by 41.2% due to favourable claims and investment income.

Other income (Km)



2.2.2 Operating expenses

	Jun-21	Dec-20	Change		Jun-20	Change	
	Km	Km	Km	%	Km	Km	%
Staff costs	206.0	191.5	14.5	7.6	189.0	17.0	9.0
Depreciation	53.6	52.4	1.2	2.3	48.4	5.2	10.7
Computing	69.2	42.9	26.3	61.3	66.8	2.4	3.6
Premises and equipment	43.5	41.3	2.2	5.3	44.8	(1.3)	(2.9)
Administration and other costs	67.7	69.2	(1.5)	(2.2)	56.2	11.5	20.5
Total expenses	**440.0**	**397.3**	**42.7**	**10.7**	**405.2**	**34.8**	**8.6**

	Jun-21	Dec-20	Change		Jun-20	Change	
			%	bps		%	bps
Cost to income ratio (%)	38.5	36.4	2.1	210	38.5	-	-
Expenses to average assets (%)	1.6	1.5	0.1	10	1.6	-	-
Staff and related costs to income (%)	18.0	17.5	0.5	50	17.9	0.1	10

Comments on individual categories when compared to the previous corresponding period are:

Staff costs increased by 9.0% as a weakening KINA impacted FX denominated contract staff costs.

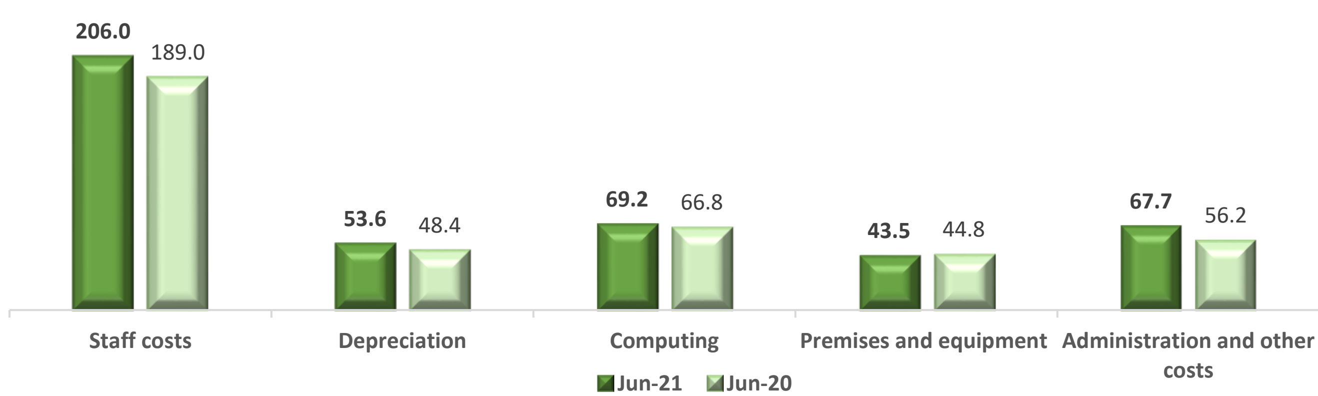
Depreciation increased by 10.7% following capitalisation of new core banking system costs incurred for BSP Vanuatu implemented in April 2021.

Computing expenses increased by 3.6% against the previous corresponding period mainly due to unfavorable exchange rates and higher expenses being incurred for the new core banking system project for PNG Bank expected to be implemented in 1H-2022.

Administration and other costs increased by 20.5%, due to professional service costs incurred for the ASX listing, which was successfully completed in May 2021 and additional consultancy expenses to support post core banking implementation activities in Vanuatu and pre-go live work for PNG.

Premises and equipment expense reduced due to comparatively lower repair and maintenance costs.

Operating expenses (Km)



2.2.3 Balance sheet metrics

	Jun-21	Dec-20	Change		Jun-20	Change	
	Km	Km	Km	%	Km	Km	%
ASSETS							
Cash and balances with Central Bank	2,824.4	2,897.2	(72.8)	(2.5)	1,575.2	1,249.2	79.3
Amounts due from other banks	1,172.1	1,187.5	(15.4)	(1.3)	1,125.1	47.0	4.2
Treasury and Central Bank bills	3,596.1	2,841.0	755.1	26.6	2,675.9	920.2	34.4
Statutory deposits with Central Bank	1,658.9	1,559.3	99.6	6.4	1,390.7	268.2	19.3
Other financial assets	4,090.0	3,242.2	847.8	26.1	2,852.3	1,237.7	43.4
Loans and advances to customers	13,389.9	13,581.2	(191.3)	(1.4)	13,228.8	161.1	1.2
Property, plant and equipment	869.7	895.5	(25.8)	(2.9)	862.0	7.7	0.9
Assets subject to operating lease	35.20	36.4	(1.2)	(3.3)	46.0	(10.8)	(23.5)
Tax receivable	-	-	-	-	12.6	(12.6)	(100.0)
Deferred tax assets	305.5	290.5	15.0	5.2	272.7	32.8	12.0
Other assets	953.9	992.6	(38.7)	(3.9)	893.0	60.9	6.8
Total assets	**28,895.7**	**27,523.4**	**1,372.3**	**5.0**	**24,934.3**	**3,961.4**	**15.9**
LIABILITIES							
Amounts due to other banks	66.6	126.3	(59.7)	(47.3)	147.1	(80.5)	(54.7)
Customer Deposits	23,030.3	21,654.0	1,376.3	6.4	19,499.7	3,530.6	18.1
Other liabilities	2,388.1	2,274.1	114.0	5.0	2,196.2	191.9	8.7
Deferred tax liabilities	36.8	35.4	1.4	4.0	41.2	(4.4)	(10.7)
Total liabilities	**25,521.8**	**24,089.8**	**1,432.0**	**5.9**	**21,884.2**	**3,637.6**	**16.6**
SHAREHOLDERS EQUITY							
Ordinary shares	372.2	372.2	-	-	372.3	(0.1)	-
Retained earnings	2,578.5	2,622.2	(43.7)	(1.7)	2,324.6	253.9	10.9
Other Reserves	422.5	438.5	(16.0)	(3.6)	349.0	73.5	21.1
Equity attributable to the members of the company	**3,373.2**	**3,432.9**	**(59.7)**	**(1.7)**	**3,045.9**	**327.3**	**10.7**
Minority Interest	0.7	0.7	-	-	4.2	(3.5)	(83.3)
Total shareholders' equity	**3,373.9**	**3,433.6**	**(59.7)**	**(1.7)**	**3,050.1**	**323.8**	**10.6**
Total equity and liabilities	**28,895.7**	**27,523.4**	**1,372.3**	**5.0**	**24,934.3**	**3,961.4**	**15.9**

2.2.4 Lending

	Jun-21	Dec-20	Change		Jun-20	Change	
	Km	Km	Km	%	Km	Km	%
Overdrafts	836.7	812.3	24.4	3.0	1,095.2	(258.5)	(23.6)
Lease financing	242.5	278.8	(36.3)	(13.0)	271.9	(29.4)	(10.8)
Term loans	10,277.9	10,415.2	(137.3)	(1.3)	9,885.5	392.4	4.0
Mortgages	2,795.3	2,813.4	(18.1)	(0.6)	2,646.0	149.3	5.6
Policy loans	110.1	105.2	4.9	4.7	118.8	(8.7)	(7.3)
Gross loans and receivables from customers	**14,262.5**	**14,424.9**	**(162.4)**	**(1.1)**	**14,017.4**	**245.1**	**1.7**
Less allowance for losses on loans and receivables from customers	(872.6)	(843.7)	(28.9)	3.4	(788.6)	(84.0)	10.7
Net loans and receivables from customers	**13,389.9**	**13,581.2**	**(191.3)**	**(1.4)**	**13,228.8**	**161.1**	**1.2**

Gross loan volumes marginally increased by 1.7% from the previous corresponding period despite the overall economic constraints prevailing across all countries. Notwithstanding the low growth, BSP's market share remained in line with June 2020 levels.

Lending provisions increased by 10.7% from the previous corresponding period, with the provisions to loans ratio increasing from 5.6% to 6.1% percent for the same period. The increase in gross loans to provisions ratios demonstrates the lingering impact of COVID-19 related economic uncertainty with macro-economic indicators in most of the countries showing negative, or low growth.

Economic sector risk concentration	Km	Km	Km	%	Km	Km	%
Commerce, finance and other business	6,847.3	7,318.6	(471.3)	(6.4)	7,308.0	(460.7)	(6.3)
Private households	3,223.2	3,232.6	(9.4)	(0.3)	3,149.6	73.6	2.3
Government and public authorities[1]	555.2	157.8	397.4	251.8	178.3	376.9	211.4
Agriculture	277.7	313.2	(35.5)	(11.3)	343.7	(66.0)	(19.2)
Transport and communication	1,151.9	1,218.8	(66.9)	(5.5)	1,027.2	124.7	12.1
Manufacturing	369.2	383.7	(14.5)	(3.8)	337.0	32.2	9.6
Construction	965.4	956.5	8.9	0.9	885.0	80.4	9.1
Net loans and receivables from customers	**13,389.9**	**13,581.2**	**(191.3)**	**(1.4)**	**13,228.8**	**161.1**	**1.2**

Customer segment classification	Km	Km	Km	%	Km	Km	%
Corporate and commercial	7,964.1	8,100.2	(136.1)	(1.7)	7,679.5	284.6	3.7
Government	2,199.6	2,247.8	(48.2)	(2.1)	2,399.3	(199.7)	(8.3)
Retail	3,226.2	3,233.2	(7.0)	(0.2)	3,150.0	76.2	2.4
Net loans and receivables from customers	**13,389.9**	**13,581.2**	**(191.3)**	**(1.4)**	**13,228.8**	**161.1**	**1.2**

[1] Exposure to a loan with Papua New Guinea government guarantee of K0.4b was transferred to a direct exposure with the government in 1H-2021.

2.2.5 Allowance for expected credit losses (ECL)

	Jun-21	Dec-20	Change		Jun-20	Change	
Credit Expenses	Km	Km	Km	%	Km	Km	%
Bad debts written off	36.5	60.0	(23.5)	(39.2)	36.0	0.5	1.4
Provision expense	46.9	45.7	1.2	2.6	98.1	(51.2)	(52.2)
Total credit expense	**83.4**	**105.7**	**(22.3)**	**(21.1)**	**134.1**	**(50.7)**	**(37.8)**
Bad debts recovered	(29.3)	(31.0)	1.7	(5.5)	(25.5)	(3.8)	14.9
Credit expenses net of recoveries	**54.1**	**74.7**	**(20.6)**	**(27.6)**	**108.6**	**(54.5)**	**(50.2)**
Provisions							
Collectively assessed provisions	536.5	517.5	19.0	3.7	459.9	76.6	16.7
Individually assessed provisions	288.3	272.8	15.5	5.7	278.7	9.6	3.4
Total provision for on balance sheet exposure	**824.8**	**790.3**	**34.5**	**4.4**	**738.6**	**86.2**	**11.7**
Collective provision for off balance sheet exposure	47.8	53.4	(5.6)	(10.5)	50.0	(2.2)	(4.4)
Total provision for doubtful debts	**872.6**	**843.7**	**28.9**	**3.4**	**788.6**	**84.0**	**10.7**

Impaired assets

Gross impaired assets	538.2	539.0	(0.8)	(0.1)	527.2	11.0	2.1
Net impaired assets	249.9	266.1	(16.2)	(6.1)	248.5	1.4	0.6
Net impaired loans to gross loans %	1.8	1.8	-	-	1.8	-	-

	Jun-21	Dec-20	Change	Jun-20	Change
	%	%	bps	%	bps
Provisions to loans	6.1	5.8	30	5.6	50

2.2.6 Deposits

	Jun-21	Dec-20	Change		Jun-20	Change	
	Km	Km	Km	%	Km	Km	%
Current	18,325.6	16,001.8	2,323.8	14.5	15,009.5	3,316.1	22.1
Savings	1,459.5	1,988.3	(528.8)	(26.6)	758.4	701.1	92.4
Term	3,245.2	3,663.9	(418.7)	(11.4)	3,731.8	(486.6)	(13.0)
Total deposits	**23,030.3**	**21,654.0**	**1,376.3**	**6.4**	**19,499.7**	**3,530.6**	**18.1**

Group deposits grew by 18.1% from 1H-2020 to 1H-2021. A notable reduction in high interest bearing term deposits has contributed to the reduction in the average cost of funds from 0.8% in 1H-2020 to 0.5% in 1H-2021.

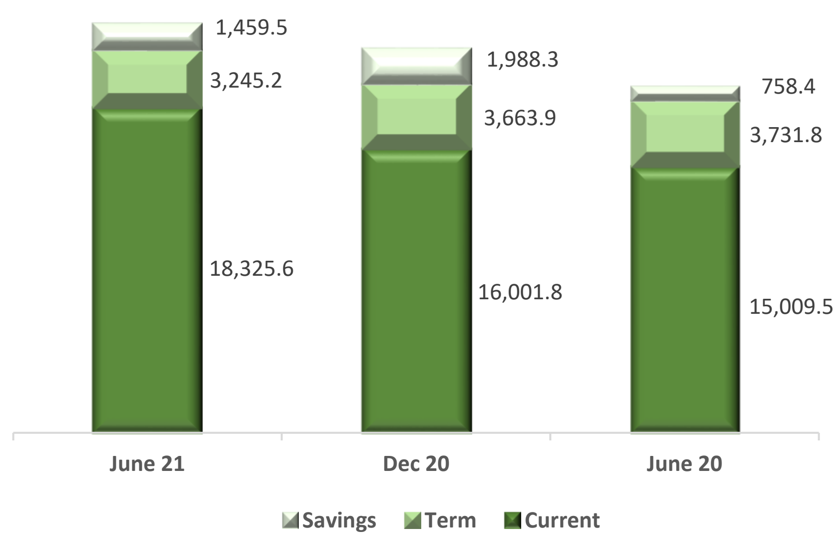
2.2.6 Deposits (continued)

30 June 2021	1 to 3 months Km	6 to 12 months Km	1-2 years Km	2-5 years Km	5 and over Km	Total Km
Current	18,325.6	-	-	-	-	18,325.6
Savings	1,459.5	-	-	-	-	1,459.5
Term	1,687.6	1,388.5	99.1	69.8	0.2	3,245.2
Total deposits	**21,472.7**	**1,388.5**	**99.1**	**69.8**	**0.2**	**23,030.3**
31 Dec 2020						
Current	16,001.8	-	-	-	-	16,001.8
Savings	1,988.3	-	-	-	-	1,988.3
Term	2,141.4	1,375.8	79.3	67.4	-	3,663.9
Total deposits	**20,131.5**	**1,375.8**	**79.3**	**67.4**	**-**	**21,654.0**
30 June 2020						
Current	14,532.0	171.0	41.8	125.4	139.3	15,009.5
Savings	758.4	-	-	-	-	758.4
Term	2,124.1	1,411.8	120.9	75.0	-	3,731.8
Total deposits	**17,414.5**	**1,582.8**	**162.7**	**200.4**	**139.3**	**19,499.7**

	Jun-21 %	Dec-20 %	Change bps	Jun-20 %	Change bps
Loans to deposits ratio	61.9	66.6	(470)	71.9	(1,000)

Strong deposit growth has positioned the Group well to accommodate the potential loan growth as economic recovery emerges.

Deposits (Km)



2.2.7 Capital and shareholder return

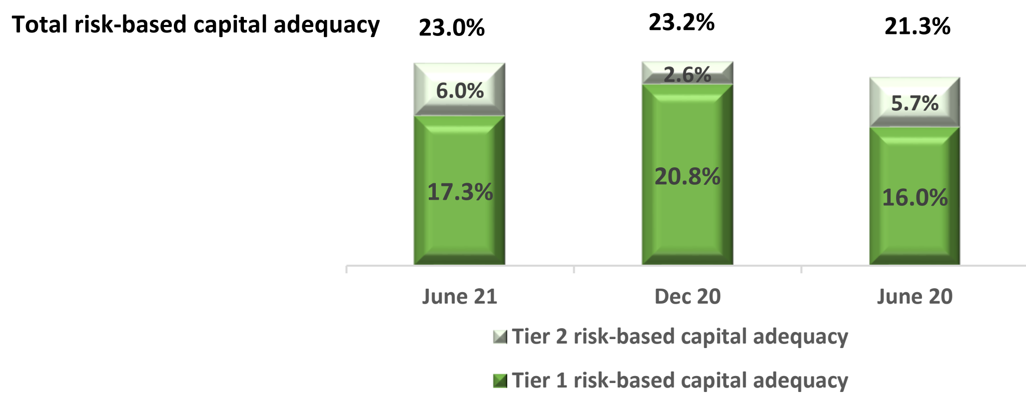
2.2.7.1 Assets and capital

	Jun-21 Km	Dec-20 Km	Change Km	Change %	Jun-20 Km	Change Km	Change %
Total assets	28,895.7	27,523.4	1,372.3	5.0	24,934.3	3,961.4	15.9
Capital adequacy							
Total regulatory capital	3,002.3	3,095.9	(93.6)	(3.0)	2,747.2	255.1	9.3
Risk-weighted assets	13,133.3	13,370.4	(237.1)	(1.8)	12,877.0	256.3	2.0

	Jun-21 %	Dec-20 %	Change bps	Jun-20 %	Change bps
Total risk-based capital adequacy	23.0	23.2	(20)	21.3	170
Tier 1 risk-based capital adequacy*	17.3	20.8	(350)	16.0	130
Tier 2 risk-based capital adequacy	6.0	2.6	340	5.7	30
Leverage capital ratio	8.0	10.3	(230)	8.4	(40)

As at 30 June 2021, the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a "well-capitalised" bank. The Group's strong capital base gives the flexibility to respond to rapidly changing economic situations.

*Per prudential guidelines, half year NPAT is part of Tier 2 capital. NPAT is transferred to retained earnings and classified as Tier 1 upon completion of audited accounts at financial year end (December).



2.2.7.2 Shareholder returns

Earnings per ordinary share	Jun-21 toea	Dec-20 toea	Change toea	Change %	Jun-20 toea	Change toea	Change %
Statutory earnings per ordinary share (weighted average)	96.2	90.9	5.3	5.8	81.7	14.5	17.7

Weighted average number of ordinary shares	(000's)	(000's)	(000's)	%	(000's)	(000's)	%
Weighted avg. number of ordinary shares used in EPS calculations	467,227	467,235	(8.0)	(0.0)	467,237	(10.0)	(0.0)

Ratios	Jun-21 %	Dec-20 %	Change %	Jun-20 %	Change %
Return on average equity (half-year)	13.2	13.1	0.1	12.4	0.8
Return on average assets (half-year)	1.6	1.6	-	1.5	0.1

2.2.7.3 Dividends

Earnings per ordinary share	FY20	FY19	Change	%	FY18	Change	%
Dividend per share - toea[1]	130.0	134.0	(4.0)	(3.0)	137.0	(7.0)	(5.1)
Dividend amount paid - Km[1]	610.7	629.3	(18.6)	(3.0)	645.7	(35.0)	(5.4)
Payout ratio[2]	75.7%	70.7%	5.0%		76.5%	(0.8%)	

Notes:
[1]Dividend numbers disclosed above include interim and final dividends declared and paid from respective financial year profits.
[2]Payout ratio is calculated as dividend amount paid divided by NPAT for the respective financial periods.

2.3 Additional notes

2.3.1 Analysis of intangible assets

	Balance Sheet Carrying Values			Half Year Amortisation Impairment Expense		
	Jun-21 Km	Dec-20 Km	Jun-20 Km	Jun-21 Km	Dec-20 Km	Jun-20 Km
Goodwill	45.3	45.3	45.3	-	-	-
Software	187.6	175.5	149.0	14.0	13.4	12.2
Total intangibles	**232.9**	**220.8**	**194.3**	**14.0**	**13.4**	**12.2**

2.3.2 Net tangible assets per ordinary share

	Jun-21	Dec-20	Jun-20
Net tangible asset backing per ordinary share (PGK)	6.7	6.9	6.1
	Km	Km	Km
Net assets	3,373.9	3,433.6	3,050.1
Intangibles	(232.9)	(220.8)	(194.3)
Net tangible assets attributable to ordinary shareholders	**3,141.0**	**3,212.8**	**2,855.8**
Number of fully paid ordinary shares on issue (000's)	467,225	467,229	467,233

2.3.3 Details of associates and joint venture arrangement entities

Ownership interest held by consolidated entity	Jun-21 %	Dec-20 %	Jun-20 %	Balance date
Joint venture				
Suva Central Limited	50.0	50.0	50.0	31 December
Richmond Limited	61.3	61.3	61.3	31 December
BSP Finance Cambodia	50.0	50.0	50.0	31 December
BSP Finance Laos	50.0	50.0	50.0	31 December
Platform Pacific Limited	50.0	50.0	-	31 December

3 Consolidated financial statements

3.1 Basis of preparation

The financial information has been extracted from the reviewed interim consolidated financial statements of BSP Financial Group Limited, which have been prepared in accordance with IAS 34: Interim Financial Reporting as well as the requirements of the Companies Act 1997 of Papua New Guinea.

3.2 Statements of comprehensive income

	Jun-21 Km	Dec-20 Km	Jun-20 Km
Interest income	832.1	805.5	786.5
Interest expense	(57.0)	(68.9)	(76.1)
Net interest income	**775.1**	**736.6**	**710.4**
Fee and commission income	181.3	171.0	174.2
Other income	175.9	161.4	162.4
Net insurance operating income	9.6	22.8	6.8
Net operating income before impairment and operating expenses	**1,141.9**	**1,091.8**	**1,053.8**
Impairment on financial assets	(62.6)	(89.8)	(111.5)
Operating expenses	(440.0)	(397.3)	(405.2)
Profit before income tax	639.3	604.7	537.1
Income tax expense	(190.0)	(180.4)	(155.2)
Net profit for the period	**449.3**	**424.3**	**381.9**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss:			
Translation of financial information of foreign operations to presentation currency	(16.1)	95.2	2.8
Recognition of deferred tax asset on asset revaluation movement	-	6.3	-
Net movement in asset revaluation	0.2	(18.6)	(0.3)
Other comprehensive income, net of tax	**(15.9)**	**82.9**	**2.5**
Total comprehensive income for the period	**433.4**	**507.2**	**384.4**

3.3 Statements of financial position

	Jun-21 Km	Dec-20 Km	Jun-20 Km
ASSETS			
Cash and balances with Central Bank	2,824.4	2,897.2	1,575.2
Amounts due from other banks	1,172.1	1,187.5	1,125.1
Treasury and Central Bank bills	3,596.1	2,841.0	2,675.9
Statutory deposits with Central Bank	1,658.9	1,559.3	1,390.7
Other financial assets	4,090.0	3,242.2	2,852.3
Loans and advances to customers	13,389.9	13,581.2	13,228.8
Property, plant and equipment	869.7	895.5	862.0
Assets subject to operating lease	35.20	36.4	46.0
Tax receivable	-	-	12.6
Deferred tax assets	305.5	290.5	272.7
Other assets	953.9	992.6	893.0
Total assets	**28,895.7**	**27,523.4**	**24,934.3**
LIABILITIES			
Amounts due to other banks	66.6	126.3	147.1
Customer Deposits	23,030.3	21,654.0	19,499.7
Other liabilities	2,388.1	2,274.1	2,196.2
Deferred tax liabilities	36.8	35.4	41.2
Total liabilities	**25,521.8**	**24,089.8**	**21,884.2**
SHAREHOLDERS EQUITY			
Ordinary shares	372.2	372.2	372.3
Retained earnings	2,578.5	2,622.2	2,324.6
Other Reserves	422.5	438.5	349.0
Equity attributable to the members of the company	**3,373.2**	**3,432.9**	**3,045.9**
Minority Interest	0.7	0.7	4.2
Total shareholders’ equity	**3,373.9**	**3,433.6**	**3,050.1**
Total equity and liabilities	**28,895.7**	**27,523.4**	**24,934.3**

3.4 Statements of changes in equity

	Share Capital Km	Reserves Km	Retained Earnings Km	Minority interest Km	Total Km
Balance at 1 January 2021	**372.2**	**438.5**	**2,622.2**	**0.7**	**3,433.6**
Net profit	-	-	449.3	-	449.3
Other comprehensive income	-	(16.0)	-	-	(16.0)
Total comprehensive income	**-**	**(16.0)**	**449.3**	**-**	**433.3**
2020 final dividend paid	-	-	(493.0)	-	(493.0)
Share buyback	-	-	-	-	-
Total transaction with owners	**-**	**-**	**(493.0)**	**-**	**(493.0)**
Balance at 30 June 2021	**372.2**	**422.5**	**2,578.5**	**0.7**	**3,373.9**
Balance at 1 July 2020	**372.3**	**349.0**	**2,324.6**	**4.2**	**3,050.1**
Net profit	-	-	424.3	-	424.3
Other comprehensive income	-	82.9	-	-	82.9
Total comprehensive income	**-**	**82.9**	**424.3**	**-**	**507.2**
2020 interim dividend paid	-	-	(117.8)	(0.2)	(118.0)
Share buyback	(0.1)	-	-	-	(0.1)
Profit attributed to minority interest	-	-	(1.8)	(3.3)	(5.1)
Total transaction with owners	**(0.1)**	**-**	**(119.6)**	**(3.5)**	**(123.2)**
Transfer from asset revaluation reserve	-	(1.0)	0.7	-	(0.3)
BSP Life policy reserve	-	7.6	(7.8)	-	(0.2)
Balance at 31 December 2020	**372.2**	**438.5**	**2,622.2**	**0.7**	**3,433.6**
Balance at 1 January 2020	**372.3**	**346.5**	**2,394.4**	**3.8**	**3,117.0**
Net profit	-	-	381.9	-	381.9
Other comprehensive income	-	2.5	-	-	2.5
Total comprehensive income	**-**	**2.5**	**381.9**	**-**	**384.4**
2019 final dividend paid	-	-	(451.3)	-	(451.3)
Share buyback	-	-	-	-	-
Profit attributed to minority interest	-	-	(0.4)	0.4	-
Total transaction with owners	**-**	**-**	**(451.7)**	**0.4**	**(451.3)**
Transfer from asset revaluation reserve	-	-	-	-	-
BSP Life policy reserve	-	-	-	-	-
Balance at 30 June 2020	**372.3**	**349.0**	**2,324.6**	**4.2**	**3,050.1**

3.5 Statements of cash flows

	Jun-21 Km	Dec-20 Km	Jun-20 Km
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received	792.4	792.8	763.7
Fees and other income	356.9	354.6	343.4
Interest paid	(63.3)	(76.4)	(86.2)
Amounts paid to suppliers and employees	(315.7)	(522.1)	(364.9)
Operating cash flow before changes in operating assets and liabilities	**770.3**	**548.9**	**656.0**
(Increase)/decrease in loans and other receivables from customers	130.1	(397.5)	(51.5)
Increase in customer deposits	1,470.4	2,154.4	160.6
(Increase)/decrease in statutory deposits with the Central Banks	(105.7)	(168.6)	375.9
(Increase)/decrease in other assets	20.3	(36.9)	(3.1)
Increase/(decrease) in other liabilities	51.5	226.3	65.7
Net cash flow from operating activities	**2,336.9**	**2,326.6**	**1,203.6**
Income taxes paid	(150.8)	(220.6)	(152.3)
Net cash flow from operating activities	**2,186.1**	**2,106.0**	**1,051.3**
CASH FLOW FROM INVESTING ACTIVITIES			
Increase in government securities	(1,614.6)	(555.0)	(947.6)
Expenditure on property, plant and equipment	(68.3)	(49.9)	(60.6)
Proceeds for disposal of property, plant and equipment	1.8	1.5	0.3
Net cash flow used in investing activities	**(1,681.1)**	**(603.4)**	**(1,007.9)**
CASH FLOW FROM FINANCING ACTIVITIES			
Share buyback	-	(0.1)	-
Dividends paid	(493.0)	(118.0)	(451.4)
Principal and interest repayments of borrowings	(4.2)	(87.3)	(26.1)
Proceeds from borrowing	-	12.8	229.4
Net cash flow used in financing activities	**(497.2)**	**(192.6)**	**(248.1)**
Net increase/(decrease) in cash and cash equivalents	7.8	1,310.0	(204.7)
Effect of exchange rate movements on cash and cash equivalents	(36.2)	95.2	2.8
Cash and cash equivalents at the beginning of the period	3,958.4	2,553.2	2,755.1
Cash and cash equivalents at the end of the period	**3,930.1**	**3,958.4**	**2,553.2**

3.6 Segment reporting

Half year Ended 30 June 2021	PNG Bank	Offshore Banks	Non-Bank Entities	Adjust Inter Segments	Total
	Km	Km	Km	Km	Km
Net interest income	622.7	134.8	16.7	0.9	775.1
Other income	247.2	99.1	11.7	(0.8)	357.2
Net insurance income	-	-	11.4	(1.8)	9.6
Total operating income	**869.90**	**233.9**	**39.8**	**(1.7)**	**1,141.9**
Operating expenses	(321.6)	(108.8)	(10.5)	0.9	(440)
Impairment expenses	(41.9)	(17.4)	(3.3)	-	(62.6)
Profit before income tax	**506.4**	**107.7**	**26.0**	**(0.8)**	**639.3**
Income tax	(157.0)	(26.9)	(6.0)	(0.1)	(190.0)
Net profit after income tax	**349.40**	**80.8**	**20.0**	**(0.9)**	**449.3**
Half year Ended 31 Dec 2020					
Net interest income	584.9	134.7	16.5	0.7	736.8
Other income	263.6	98.7	13.9	(43.9)	332.3
Net insurance income	-	-	23.3	(0.5)	22.8
Total operating income	**848.5**	**233.4**	**53.7**	**(43.7)**	**1,091.9**
Operating expenses	(286.8)	(103.4)	(9.4)	2.2	(397.4)
Impairment expenses	(70.3)	(17.2)	(2.3)	-	(89.8)
Profit before income tax	**491.4**	**112.8**	**42.0**	**(41.5)**	**604.7**
Income tax	(146.7)	(27.6)	(6.1)	-	(180.4)
Net profit after income tax	**344.7**	**85.2**	**35.9**	**(41.5)**	**424.3**
Half year Ended 30 June 2020					
Net interest income	563.8	129.1	15.8	1.7	710.4
Other income	232.5	97.5	10.4	(3.8)	336.6
Net insurance income	-	-	8.9	(2.1)	6.8
Total operating income	**796.3**	**226.6**	**35.1**	**(4.2)**	**1,053.80**
Operating expenses	(294.7)	(104.3)	(9.4)	3.2	(405.2)
Impairment expenses	(76.2)	(31.7)	(3.6)	-	(111.5)
Profit before income tax	**425.4**	**90.6**	**22.1**	**(1.0)**	**537.1**
Income tax	(128.2)	(22.6)	(4.4)	-	(155.2)
Net profit after income tax	**297.2**	**68.0**	**17.7**	**(1.0)**	**381.9**

BSP Financial Group Limited and Subsidiaries

ARBN 649 704 656

Interim condensed financial statements

For the half-year ended

30 June 2021

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APRA Disclaimer:

BSP Financial Group Limited (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 Bank Act 1959.

DIRECTORS' REPORT

The Directors of BSP Financial Group Limited ("the Bank" or "BSP") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2021.

Directors and officers

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

Sir K G Constantinou, OBE	Mr R Fleming, CSM
Mr S Davis	Mr E B Gangloff
Mr R Bradshaw	Mr A Sam
Dr F Lua'iufi	Mr S Brewis-Weston (appointed April 2021)
Ms P Kevin	Mr G Robb, OAM (resigned April 2021)
Mr F Bouraga	

Principal activities

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

Review of operations

The net profit of the Group for the half year ended 30 June 2021, after tax was K449.320 million (half year ended 30 June 2020: K381.940 million).

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

Dated and signed at Port Moresby this 18th day of August 2021.

Sir Kostas Constantinou, OBE

Chairman

Robin Fleming, CSM

Group Chief Executive Officer/ Managing Director

Report on review of interim condensed financial statements

to the Directors of BSP Financial Group Limited

Introduction

We have reviewed the accompanying interim condensed statements of financial position of BSP Financial Group Limited (the Bank) and its subsidiaries (together the Group) as at 30 June 2021 and the related interim condensed statements of comprehensive income, changes in shareholders' equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation and presentation of the interim condensed financial statements in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on the interim condensed financial statements based on our review.

Scope of review

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

Conclusion

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

Restriction on distribution or use

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

PricewaterhouseCoopers

Peter Buchholz
Partner
Registered under the Accountants Act 1996

Port Moresby
18 August 2021

INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2021

	Note	Consolidated Half Year Ended 30 June		Bank Half Year Ended 30 June	
All amounts expressed are in K'000		**2021**	**2020**	**2021**	**2020**
Interest income	2(a)	832,158	786,429	772,988	733,082
Interest expense	2(a)	(56,994)	(76,055)	(48,233)	(70,203)
Net interest income		**775,164**	**710,374**	**724,755**	**662,879**
Fee and commission income	2(b)	181,315	174,211	163,070	158,085
Other income	2(b)	175,742	162,393	194,426	178,671
Net insurance operating income		9,630	6,768	-	-
Net operating income before impairment and operating expenses		**1,141,851**	**1,053,746**	**1,082,251**	**999,635**
Impairment on financial assets	2(c)	(62,615)	(111,450)	(54,252)	(103,832)
Operating expenses	2(d)	(439,930)	(405,186)	(401,285)	(369,427)
Profit before income tax		**639,306**	**537,110**	**626,714**	**526,376**
Income tax expense	4	(189,986)	(155,170)	(177,488)	(145,565)
Net profit for the period		**449,320**	**381,940**	**449,226**	**380,811**
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Translation of financial information of foreign operations to presentation currency		(16,141)	2,774	(9,228)	305
Items that will not be reclassified to profit or loss:					
Fair value gain on re-measurement of investment securities		20	38	20	38
Net movement in asset revaluation		157	(341)	-	-
Other comprehensive income, net of tax		**(15,964)**	**2,471**	**(9,208)**	**343**
Total comprehensive income for the period		**433,356**	**384,411**	**440,018**	**381,154**
Earnings per share – Basic and diluted (toea)		**96.2**	**81.7**	**96.1**	**81.5**

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

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2021

		Consolidated		Bank	
All amounts expressed are in K'000	**Note**	**As at 30 June 2021**	**As at 31 December 2020**	**As at 30 June 2021**	**As at 31 December 2020**
ASSETS					
Cash and operating balances with Central Banks		2,824,350	2,897,195	2,187,540	2,379,542
Amounts due from other banks		1,172,139	1,187,461	1,031,496	1,130,805
Treasury and Central Bank bills		3,596,085	2,841,006	3,541,239	2,801,339
Cash reserve requirement with Central Banks		1,658,933	1,559,284	1,570,026	1,475,103
Other financial assets		4,090,039	3,242,225	3,522,615	2,653,577
Loans and receivables from customers	5	13,389,861	13,581,153	12,022,307	12,123,752
Property and equipment		869,710	895,476	672,511	691,634
Asset subject to operating lease		35,110	36,434	35,110	36,434
Investment in subsidiaries		-	-	388,798	385,078
Deferred tax assets		305,520	290,484	297,844	284,605
Other assets		953,927	992,719	388,508	471,675
Total assets		**28,895,674**	**27,523,437**	**25,657,994**	**24,433,544**
LIABILITIES					
Amounts due to other banks		66,621	126,270	189,783	229,098
Customer deposits		23,030,290	21,654,024	21,363,484	20,104,351
Insurance policy liabilities		1,063,409	1,043,990	-	-
Other liabilities		1,324,703	1,230,172	1,121,438	1,066,198
Deferred tax liabilities		36,802	35,376	-	-
Total liabilities		**25,521,825**	**24,089,832**	**22,674,705**	**21,399,647**
SHAREHOLDERS' EQUITY					
Ordinary shares	7	372,147	372,189	372,147	372,189
Retained earnings	7	2,578,499	2,622,249	2,319,625	2,360,983
Other reserves	7	422,552	438,516	291,517	300,725
Equity attributable to the members of the company		3,373,198	3,432,954	2,983,289	3,033,897
Minority interests		651	651	-	-
Total shareholders' equity		**3,373,849**	**3,433,605**	**2,983,289**	**3,033,897**
Total equity and liabilities		**28,895,674**	**27,523,437**	**25,657,994**	**24,433,544**

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

INTERIM CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE HALF-YEAR ENDED 30 JUNE 2021

All amounts expressed are in K'000	Share Capital	Reserves	Retained earnings	Minority interest	Total
GROUP					
Balance at 1 January 2021	**372,189**	**438,516**	**2,622,249**	**651**	**3,433,605**
Net profit	-	-	449,320	-	449,320
Other comprehensive income	-	(15,964)	-	-	(15,964)
Total comprehensive income	-	(15,964)	449,320	-	433,356
2020 final dividend paid	-	-	(493,070)	-	(493,070)
Share buyback	(42)	-	-	-	(42)
Total transaction with owners	(42)	-	(493,070)	-	(493,112)
Balance at 30 June 2021	**372,147**	**422,552**	**2,578,499**	**651**	**3,373,849**
Balance at 1 January 2020	**372,310**	**346,513**	**2,394,382**	**3,828**	**3,117,033**
Net profit	-	-	381,940	-	381,940
Other comprehensive income	-	2,471	-	-	2,471
Total comprehensive income	-	2,471	381,940	-	384,411
2019 final dividend paid	-	-	(451,369)	-	(451,369)
Share buyback	(48)	-	-	-	(48)
Profit attributed to minority interest	-	-	(394)	394	-
Total transaction with owners	(48)	-	(451,763)	394	(451,417)
Balance at 30 June 2020	**372,262**	**348,984**	**2,324,559**	**4,222**	**3,050,027**
BANK					
Balance at 1 January 2021	**372,189**	**300,725**	**2,360,983**	**-**	**3,033,897**
Net profit	-	-	449,226	-	449,226
Other comprehensive income	-	(9,208)	-	-	(9,208)
Total comprehensive income	-	(9,208)	449,226	-	440,018
2020 final dividend paid	-	-	(490,584)	-	(490,584)
Share buyback	(42)	-	-	-	(42)
Total transaction with owners	(42)	-	(490,584)	-	(490,626)
Balance at 30 June 2021	**372,147**	**291,517**	**2,319,625**	**-**	**2,983,289**
Balance at 1 January 2020	**372,310**	**254,477**	**2,173,836**	**-**	**2,800,623**
Net profit	-	-	380,811	-	380,811
Other comprehensive income	-	343	-	-	343
Total comprehensive income	-	343	380,811	-	381,154
2019 final dividend paid	-	-	(448,546)		(448,546)
Share buyback	(48)	-	-	-	(48)
Total transaction with owners	(48)	-	(448,546)	-	(448,594)
Balance at 30 June 2020	**372,262**	**254,820**	**2,106,101**	**-**	**2,733,183**

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

INTERIM CONDENSED STATEMENTS OF CASH FLOWS
FOR THE HALF-YEAR ENDED 30 JUNE 2021

		Consolidated Half Year Ended 30 June		Bank Half Year Ended 30 June	
All amounts expressed are in K'000	**Note**	**2021**	**2020**	**2021**	**2020**
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		792,357	763,696	733,905	774,898
Fees and other income		356,855	343,373	356,828	336,005
Interest paid		(63,333)	(86,210)	(53,250)	(81,342)
Amounts paid to suppliers and employees		(315,736)	(364,853)	(329,148)	(352,131)
Operating cash flow before changes in operating assets and liabilities		**770,143**	**656,006**	**708,335**	**677,430**
Decrease/(Increase) in loans and receivables from customers		130,076	(51,482)	55,252	(47,417)
Increase in customer deposits		1,470,404	160,587	1,337,570	166,875
(Increase)/decrease in statutory deposits with the Central Banks		(105,651)	375,920	(100,662)	377,820
(Increase)/decrease in other assets		20,344	(3,069)	61,006	(12,288)
Increase/(decrease) in other liabilities		51,476	65,674	18,649	(48,679)
Net cash flow from operating activities		**2,336,792**	**1,203,636**	**2,080,150**	**1,113,741**
Income taxes paid		(150,762)	(152,293)	(138,431)	(139,563)
Net cash flow from operating activities		**2,186,030**	**1,051,343**	**1,941,719**	**974,178**
CASH FLOW FROM INVESTING ACTIVITIES					
Increase in government securities		(1,614,556)	(947,633)	(1,610,310)	(911,190)
Expenditure on property, plant and equipment		(68,293)	(60,561)	(59,061)	(53,488)
Proceeds for disposal of property, plant and equipment		1,787	326	1,787	285
Additional funding of subsidiaries		-	-	(4,154)	(6,066)
Net cash flow used in investing activities		**(1,681,062)**	**(1,007,868)**	**(1,671,738)**	**(970,459)**
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback		(42)	(48)	(42)	(48)
Dividends paid		(493,070)	(451,369)	(490,584)	(448,546)
Principal and interest repayments of borrowings		(4,145)	(26,135)	(4,145)	(26,134)
Proceeds from borrowing		-	229,387	-	229,387
Net cash flow used in financing activities		**(497,257)**	**(248,165)**	**(494,771)**	**(245,341)**
Net increase/(decrease) in cash and cash equivalents		**7,711**	**(204,690)**	**(224,790)**	**(241,622)**
Effect of exchange rate movements on cash and cash equivalents		(36,229)	2,774	(27,206)	305
Cash and cash equivalents at the beginning of the year		3,958,386	2,755,102	3,281,249	2,346,077
Cash and cash equivalents at the end of the period	13	**3,929,868**	**2,553,186**	**3,029,253**	**2,104,760**

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

1. Statement of significant accounting policies

1.1 Statement of compliance

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

1.2 Basis of preparation

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

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

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2020 financial report for the financial year ended 31 December 2020. The Bank has streamlined the presentation of financial information. Where the presentation of financial information has changed, comparative information has been changed to ensure consistency.

1.3 Critical Accounting estimates and judgments

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

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

The areas involving significant estimates of judgments are:

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

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

1.3 Critical Accounting estimates and judgments (continued)

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

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

2. Operating profit before income tax

Operating profit before income tax is determined after including:

(a) Net interest income

Accounting Policy

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

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

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

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

	Consolidated		Bank	
All amounts expressed are in K'000	**June 2021**	**June 2020**	**June 2021**	**June 2020**
Interest income				
Loans and receivables from customers	571,037	613,266	511,487	556,520
Treasury bills	106,885	76,567	106,628	75,965
Other financial assets - inscribed stock	149,817	94,854	149,602	94,671
Other	4,419	1,742	5,271	5,926
	832,158	**786,429**	**772,988**	**733,082**
Less:				
Interest expense				
Customer deposits	51,524	69,898	42,346	63,515
Other banks	5,470	6,157	5,887	6,688
	56,994	**76,055**	**48,233**	**70,203**
	775,164	**710,374**	**724,755**	**662,879**

(b) Fee and commission income and other income

Accounting Policy

Fee and commission income

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

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

Foreign exchange income or losses

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

	Consolidated		**Bank**	
All amounts expressed are in K'000	**June 2021**	**June 2020**	**June 2021**	**June 2020**
Fee and commission income				
Product related	94,240	87,940	85,739	81,136
Trade and international related	9,202	9,270	8,214	8,895
Electronic banking related	59,051	59,492	57,734	56,761
Other	18,822	17,509	11,383	11,293
	181,315	**174,211**	**163,070**	**158,085**
Other income				
Foreign exchange related[1]	154,149	145,207	139,269	130,425
Operating lease rentals	3,751	3,751	3,751	3,751
Other[2]	17,842	13,435	51,406	44,495
	175,742	**162,393**	**194,426**	**178,671**

[1] Foreign exchange related income includes gains and losses from spot and forward contracts and translated foreign currency assets and liabilities.
[2] Other income for Bank includes dividends of K38.052 million (2020: K32.558 million) from subsidiaries which are eliminated on consolidation.

(c) Impairment on 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 the available specific provision for loan impairment in the period in which they are classified as irrecoverable. Subsequent recoveries are credited to the provision for loan losses in the Interim Condensed Statement of Comprehensive Income.

(c) Impairment on financial assets (continued)

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

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

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

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

Impairment on financial assets by asset class as follows:

	Consolidated		Bank	
All amounts expressed are in K'000	**June 2021**	**June 2020**	**June 2021**	**June 2020**
Loans and receivables from customers	54,143	108,644	45,780	100,998
Treasury and Central Bank Bills[1]	4,138	655	4,137	655
Other financial assets – inscribed stock[1]	4,334	2,151	4,335	2,179
	62,615	**111,450**	**54,252**	**103,832**

[1] Expected Credit Loss rates for Treasury Bills and Inscribed Stock have remained in line with 31 December 2020 levels. The increase in impairment expenses is driven by increased volumes.

(d) Operating expenses

Accounting Policy

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

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

(d) Operating expenses (continued)

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

	Consolidated		**Bank**	
All amounts expressed are in K'000	**June 2021**	**June 2020**	**June 2021**	**June 2020**
Staff costs	205,969	188,970	189,529	173,504
Depreciation	53,586	48,357	50,017	44,866
Computing	69,169	66,782	66,735	55,474
Premises and equipment	43,509	44,843	40,470	41,907
Administration and other costs	67,697	56,234	54,534	53,676
	439,930	**405,186**	**401,285**	**369,427**

3. Segment information

Accounting Policy

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

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

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

Half Year Ended 30 June 2021	**PNG**	**Offshore**	**Non-Bank**	**Inter Segment**	
All amounts expressed are in K'000	**Bank**	**Banks**	**Entities**	**Adjustments**	**Total**
Interest income	641,415	177,576	18,537	(5,370)	832,158
Interest expense	(18,674)	(42,805)	(1,850)	6,335	(56,994)
Net Interest income	**622,741**	**134,771**	**16,687**	**965**	**775,164**
Other income	247,209	99,122	11,720	(994)	357,057
Net insurance income	-	-	11,354	(1,724)	9,630
Total operating income	**869,950**	**233,893**	**39,761**	**(1,753)**	**1,141,851**
Operating expenses	(321,629)	(108,768)	(10,532)	999	(439,930)
Impairment expenses	(41,866)	(17,406)	(3,343)	-	(62,615)
Profit before income tax	**506,455**	**107,719**	**25,886**	**(754)**	**639,306**
Income tax	(157,001)	(26,938)	(6,047)	-	(189,986)
Net profit after income tax	**349,454**	**80,781**	**19,839**	**(754)**	**449,320**
Total Assets	19,932,749	8,681,771	1,933,844	(1,652,690)	28,895,674
Total Liabilities	(17,553,855)	(7,592,279)	(1,445,207)	1,069,516	(25,521,825)
Net Assets	**2,378,894**	**1,089,492**	**488,637**	**(583,174)**	**3,373,849**

3. Segment information (continued)

Half year Ended 30 June 2020 *All amounts expressed are in K'000*	**PNG Bank**	**Offshore Banks**	**Non-Bank Entities**	**Inter Segment Adjustments**	**Total**
Interest income	598,975	179,707	17,969	(10,222)	786,429
Interest expense	(35,161)	(50,647)	(2,144)	11,897	(76,055)
Net interest income	563,814	129,060	15,825	1,675	710,374
Other income	232,543	97,467	10,406	(3,812)	336,604
Net insurance income	-	-	8,921	(2,153)	6,768
Total operating income	**796,357**	**226,527**	**35,152**	**(4,290)**	**1,053,746**
Operating expenses	(294,681)	(104,265)	(9,350)	3,110	(405,186)
Impairment expenses	(76,156)	(31,680)	(3,614)	-	(111,450)
Profit before income tax	**425,520**	**90,582**	**22,188**	**(1,180)**	**537,110**
Income tax	(128,237)	(22,617)	(4,316)	-	(155,170)
Net profit after income tax	**297,283**	**67,965**	**17,872**	**(1,180)**	**381,940**
Total Assets	17,084,459	7,443,656	1,814,041	(1,407,951)	24,934,205
Total Liabilities	(14,855,460)	(6,462,085)	(1,362,661)	796,028	(21,884,178)
Net Assets	**2,228,999**	**981,571**	**451,380**	**(611,923)**	**3,050,027**

4. Income Tax Expense

Accounting Policy

Current Tax

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

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the 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.

4. *Income Tax Expense (continued)*

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the Interim Condensed Statement of Comprehensive Income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

Critical accounting assumptions and estimates

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

Income tax expense

	Consolidated		Bank	
All amounts are expressed in K'000	**June 2021**	**June 2020**	**June 2021**	**June 2020**
Tax calculated at 30% of bank profit before tax	188,014	157,913	188,014	157,913
Tax calculated at respective subsidiary tax rates	10,686	8,113	-	-
Expenses not deductible for tax	1,010	690	423	550
Tax loss not recognised	2,703	3,380	-	-
Income not recognized for tax purposes	(12,963)	(9,251)	(11,416)	(7,861)
Adjustment to prior year estimates	536	(5,675)	467	(5,037)
Income tax expense	**189,986**	**155,170**	**177,488**	**145,565**

5. Loans and receivables from customers

Accounting Policy

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

	Consolidated		Bank	
All amounts are expressed in K'000	**June 2021**	**Dec 2020**	**June 2021**	**Dec 2020**
Overdrafts	836,657	812,271	782,011	737,484
Lease financing	242,475	278,813	210,448	246,595
Term loans	10,277,853	10,415,188	9,503,259	9,569,147
Mortgages	2,795,264	2,813,399	2,333,204	2,350,019
Policy loans	110,166	105,193	-	-
Gross loans and receivables from customers net of reserved interest	**14,262,415**	**14,424,864**	**12,828,922**	**12,903,245**
Less allowance for losses on loans and receivables from customers	(872,554)	(843,711)	(806,615)	(779,493)
At 30 June/31 December	**13,389,861**	**13,581,153**	**12,022,307**	**12,123,752**

Allowance for losses includes K57.805 million (Bank K51.874 million), 2020: K50.082 million (Bank K44.963 million) provision taken up for interest recognized on stage 3 loans.

6. Allowance for Expected Credit Losses

6 (a) Accounting Policy

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

The ECL determined under IFRS 9 is recognised as follows:

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

6. Allowance for Expected Credit Losses (continued)

Expected life

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

Movement between stages

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

Off-Balance Sheet amounts

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

Definition of default

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

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

Critical accounting assumptions and estimates

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

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

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.

- 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 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.

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

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

	Consolidated		Bank	
All amounts are expressed in K'000	**June 2021**	**Dec 2020**	**June 2021**	**Dec 2020**
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	46,873	143,823	39,974	132,807
Loans written off against provisions / Write back of provisions no longer required	(18,030)	(716)	(12,852)	99
At 30 June / At 31 Dec	**872,554**	**843,711**	**806,615**	**779,493**

6. Allowance for Expected Credit Losses (continued)

All amounts are expressed in K'000	Consolidated June 2021	Consolidated Dec 2020	Bank June 2021	Bank Dec 2020
Provision for impairment is represented by:				
Collective provision for on balance sheet exposure	536,477	517,456	495,342	477,553
Individually assessed or specific provision	288,304	272,821	265,453	250,278
Total provisions for on balance sheet exposure	**824,781**	**790,277**	**760,795**	**727,831**
Collective provision for off balance sheet exposure	47,773	53,434	45,820	51,662
At 30 June / 31 Dec	**872,554**	**843,711**	**806,615**	**779,493**

All amounts are expressed in K'000	Consolidated June 2021	Consolidated June 2020	Bank June 2021	Bank June 2020
Loan impairment expense				
Net collective provision funding	16,016	57,632	15,269	55,688
Net new and increased individually assessed provisioning	30,857	40,489	24,705	35,302
Total new and increased provisioning	**46,873**	**98,121**	**39,974**	**90,990**
Recoveries during the period	(29,295)	(25,489)	(28,351)	(24,358)
Write off during the period	36,565	36,012	34,157	34,366
At 30 June	**54,143**	**108,644**	**45,780**	**100,998**

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;
- 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 groups' exposure and loss allowance is detailed in the following table:

All amounts are expressed in K'000

EAD - Loans and receivables from customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
1 January 2020	**12,168,664**	**1,369,149**	**421,260**	**13,959,073**
Transfers to/(from)				
Stage 1	(1,083,344)	1,014,361	71,559	2,576
Stage 2	71,660	(140,052)	55,710	(12,682)
Stage 3	-	1,239	(1,541)	(302)
Net financial assets originated	108,481	(20,060)	(19,761)	68,660
Total movement in EAD for the period	**(903,203)**	**855,488**	**105,967**	**58,252**
30 June 2020	**11,265,461**	**2,224,637**	**527,227**	**14,017,325**

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

All amounts are expressed in K'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL - Loans and receivables from customers				
1 January 2020	**187,748**	**242,184**	**223,299**	**653,231**
Transfers to/(from)				
Stage 1	(81,890)	132,477	12,594	63,181
Stage 2	1,084	(17,716)	10,947	(5,685)
Stage 3	-	90	(122)	(32)
Net financial assets originated	38,213	2,544	2,898	43,655
Movements due to risk parameter and other changes	(37,013)	(7,763)	29,100	(15,676)
Total net P&L charge for the period	**(79,606)**	**109,632**	**55,417**	**85,443**
Loans written off against provision/write back of provision no longer required	-	-	-	-
30 June 2020	**108,142**	**351,816**	**278,716**	**738,674**
EAD - Loans and receivables from customers				
1 July 20	**11,265,461**	**2,224,637**	**527,227**	**14,017,325**
Transfers to/(from)				
Stage 1	(3,892)	(35,049)	17,637	(21,304)
Stage 2	9,541	(13,249)	1,580	(2,128)
Stage 3	-	(81)	119	38
Net financial assets originated	464,128	(25,584)	(7,611)	430,933
Total movement in EAD for the period	**469,777**	**(73,963)**	**11,725**	**407,539**
31 December 20	**11,735,238**	**2,150,674**	**538,952**	**14,424,864**
ECL – Loans and receivables from customers				
1 July 20	**108,142**	**351,816**	**278,716**	**738,674**
Transfers to/(from)				
Stage 1	50,791	(9,786)	7,342	48,347
Stage 2	212	(2,549)	2,257	(80)
Stage 3	-	3	14	17
Net financial assets originated	531	(9,461)	2,796	(6,134)
Movements due to risk parameter and other changes	24,101	3,656	(17,588)	10,169
Total net P&L charge for the period	**75,635**	**(18,137)**	**(5,179)**	**52,319**
Loans written off against provision/write back of provision no longer required	-	-	(716)	(716)
31 December 20	**183,777**	**333,679**	**272,821**	**790,277**
EAD - Loans and receivables from customers				
1 January 2021	**11,735,238**	**2,150,674**	**538,952**	**14,424,864**
Transfers to/(from)				
Stage 1	(348,983)	154,911	(62,334)	(256,406)
Stage 2	87,396	(125,258)	32,049	(5,813)
Stage 3	-	4,073	(4,311)	(238)
Net financial assets originated	90,601	(24,442)	33,849	100,008
Total movement in EAD for the period	**(170,986)**	**9,284**	**(747)**	**(162,449)**
30 June 2021	**11,564,252**	**2,159,958**	**538,205**	**14,262,415**

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

All amounts are expressed in K'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL – Loans and receivables from customers				
1 January 2021	**183,777**	**333,679**	**272,821**	**790,277**
Transfers to/(from)				
Stage 1	(15,753)	48,932	5,677	38,856
Stage 2	1,529	(11,735)	6,165	(4,041)
Stage 3	-	520	(33)	487
Net financial assets originated	36,957	6,165	19,426	62,548
Movements due to risk parameter and other changes	(9,793)	(37,811)	2,288	(45,316)
Total net P&L charge for the period	**12,940**	**6,071**	**33,523**	**52,534**
Loans written off against provision/write back of provision no longer required	-	-	(18,030)	(18,030)
30 June 2021	**196,717**	**339,750**	**288,314**	**824,781**

Total off balance sheet

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

	June 2021		**Dec 2020**	
All amounts are expressed in K'000	**Stage 1**		**Stage 1**	
	Gross exposure	**Loss allowance**	**Gross exposure**	**Loss allowance**
Opening balance	2,984,144	53,434	2,567,433	47,373
Net decrease/(increase)	(172,018)	(5,661)	416,711	6,061
Closing balance	**2,812,126**	**47,773**	**2,984,144**	**53,434**

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

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

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

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

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

6. Allowance for Expected Credit Losses (continued)

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

The weightings assigned to each economic scenario at 30 June 2021 were as follows:

Scenario	Base	Upside	Downside
Weight	50.00%	10.00%	40.00%

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:

i) GDP given the significant impact on business performance and collateral valuations;

ii) Change in proportion of downgrades given that it is "BSP specific" and addresses potential signs of stress both within credit markets in general and in client specific portfolios; and

iii) 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 30 June 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	**30 June 2021**		**31 Dec 2020**	
	[-25%]	**[+10%]**	**[-25%]**	**[+10%]**
GDP Growth Rate	37,178	(11,609)	37,287	(11,041)

(GDP growth rate assumptions tested at 75% and 110% for all 3 scenarios)

	[-7%]	**[+20%]**	**[-7%]**	**[+20%]**
Change in proportion of downgrades	(1,130)	8,387	(945)	8,533

(Upside scenario increased from -2% to-7%, downside scenario increased from 10% to 20%)

	30 June 2021	**31 Dec 2020**
Change in Scenario weighting	(39,881)	(39,735)

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

Change in Scenario weighting	10,722	11,090

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

6. Allowance for Expected Credit Losses (continued)

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

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

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

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

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

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

All amounts are expressed in K'000	**June 2021**				**December 2020**
ECL staging	**Stage 1**	**Stage 2**	**Stage 3**		
	12-month	**Lifetime**	**Lifetime**	**Total**	**Total**
Credit grade					
Standard monitoring	11,564,252	1,695,965	-	13,260,217	13,411,550
Special monitoring	-	463,993	-	463,993	474,362
Default	-	-	538,205	538,205	538,952
Gross carrying amount	**11,564,252**	**2,159,958**	**538,205**	**14,262,415**	**14,424,864**
Loss allowance	(196,717)	(339,750)	(288,314)	(824,781)	(790,277)
Net Carrying amount	**11,367,535**	**1,820,208**	**249,891**	**13,437,634**	**13,634,587**

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

Off balance sheet items, which are in scope for impairment, totalled K2.812 billion and are classified as stage 1 with a loss allowance of K47.773 million.

The total balance of investment securities measured at amortised cost (K7.184 billion) is classified as Stage 1 with a credit grade of 'standard monitoring'. Total loss allowance carried against this balance is K39.266 million.

6 (f) Write-off policy

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

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

7. Shareholders' Equity

Accounting Policy

Share issue costs

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

Number of shares in '000s, Book value in K'000	Number of shares	Book value
1 January 2020	**467,240**	**372,310**
Share buyback	(11)	(121)
At 31 December 2020	**467,229**	**372,189**
1 January 2021	**467,229**	**372,189**
Share buyback	(4)	(42)
At 30 June 2021	**467,225**	**372,147**

In May 2014, the Directors introduced a share-buyback scheme of up to K15 million. The share-buyback commenced in July 2014 and was extended to such time when the allocated K15 million buyback was utilised, or if the Board wishes, any time before that. As at 30 June 2021, a total of K9.351m has been bought back under this scheme.

Earnings per ordinary share

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

	Consolidated		Bank	
All amounts are expressed in K'000	June 2021	June 2020	June 2021	June 2020
Net Profit attributable to shareholders (K'000)	449,320	381,940	449,226	380,811
Weighted average number of ordinary shares in use ('000)	467,227	467,237	467,227	467,237
Basic and diluted earnings /(loss) per share (expressed in toea)	**96.2**	**81.7**	**96.1**	**81.5**

Dividends on ordinary shares

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

On 21 May 2021, the directors declared a final dividend of 105 toea per share for the year ended 31 December 2020 which was paid on 23 June 2021. The declared final gross dividend amount was K493.070 million (June 2020: K451.369 million). Net dividend paid after dividend withholding tax was K489.325 million (June 2020: K444.853 million).

Retained earnings

	Consolidated		Bank	
All amounts are expressed in K'000	June 2021	Dec 2020	June 2021	Dec 2020
At 1 January	2,622,249	2,394,382	2,360,983	2,173,836
Net profit for the year	449,320	806,218	449,226	759,452
Dividends paid	(493,070)	(451,587)	(490,584)	(448,546)
Interim Dividends paid	-	(117,604)	-	(116,808)
Disposal of assets – Asset revaluation	-	741	-	741
BSP Life policy reserve	-	(7,692)	-	(7,692)
Gain attributable to minority interest	-	(2,209)	-	-
At 30 June/31 December	**2,578,499**	**2,622,249**	**2,319,625**	**2,360,983**

7. *Shareholders' Equity (continued)*

All amounts are expressed in K'000	Consolidated June 2021	Consolidated Dec 2020	Bank June 2021	Bank Dec 2020
Other reserves comprise:				
Asset revaluation reserve	129,220	129,063	115,828	115,828
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
General reserve	52,287	52,267	52,287	52,267
Foreign currency translation reserve	218,832	234,973	122,767	131,995
At 30 June/31 December	**422,552**	**438,516**	**291,517**	**300,725**
Movement in reserves for the year:				
Revaluation reserve				
At 1 January	129,063	142,819	115,828	130,725
Asset revaluation increment/(decrement)	157	(18,914)	-	(20,055)
Transfer asset revaluation reserve to retained earnings	-	(1,032)	-	(1,032)
Deferred tax on disposal of properties	-	6,190	-	6,190
At 30 June/31 December	**129,220**	**129,063**	**115,828**	**115,828**
Capital reserve				
At 1 January	635	635	635	635
At 30 June/31 December	**635**	**635**	**635**	**635**
General reserve				
At 1 January	52,267	44,503	52,267	44,503
BSP Life policy reserve	-	7,692	-	7,692
Fiji Government green bond revaluation	20	72	20	72
At 30 June/31 December	**52,287**	**52,267**	**52,287**	**52,267**
Exchange reserve				
At 1 January	234,973	136,978	131,995	78,614
Movement during the year	(16,141)	97,995	(9,228)	53,381
At 30 June/31 December	**218,832**	**234,973**	**122,767**	**131,995**

Equity component of convertible notes

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

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

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

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

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

8. Capital adequacy

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

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

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

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

	30 June 2021		**31 Dec 2020**	
Risk weighted capital ratios (unaudited)	**K'000**	**%**	**K'000**	**%**
Tier 1 capital	2,256,225	17.3	2,787,626	20.8
Total capital	3,002,341	23.0	3,095,927	23.2
Leverage capital ratio		8.0		10.3

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

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

The different levels have been defined as follows:

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

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

Consolidated

All amounts are expressed in K'000

As at 30 June 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
a) Financial assets				
Equity security	-	261,287	3,611	264,898
Treasury bills	-	8,089	-	8,089
Government inscribed stock	-	278,393	-	278,393
Non-financial assets				
Land & Buildings	-	-	496,205	496,205
Investment properties		-	255,987	255,987
Assets subject to operating lease	-	-	35,110	35,110
Total assets	**-**	**547,769**	**790,913**	**1,338,682**
b) Financial liabilities				
Policy liability	-	-	(1,063,409)	(1,063,409)
Total liabilities	**-**	**-**	**(1,063,409)**	**(1,063,409)**

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
Assets 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	**June 2021**	**Dec 2020**
Opening balance (Jan 2021/ 2020)	798,987	745,358
Total gains and losses recognized in:		
- Profit and loss	(12,256)	(39,463)
- Other comprehensive income	(2,617)	(2,480)
Purchases	5,742	92,081
Disposals	(191)	(16,655)
Translation movements	1,248	20,146
As at 30 June 2021 / 31 December 2020	**790,913**	**798,987**

There were no changes in valuation technique for Level 3 recurring fair value measurements during the period ended 30 June 2021. Property, plant and equipment represents commercial land and buildings owned by the Group based on valuations provided by independent valuers.

10. Contingent liabilities and commitments

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

Commitments to extend credit represent the unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not difficult to quantify, is considerably less than the total unused commitments since most commitments to extend credit are subject to customers maintaining approved specific credit standards. While there is credit risk associated with the remainder of commitments, the risk is considered to be modest, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The total outstanding contractual amount of commitments to 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.

The Bank takes its responsibilities under the Act very seriously and has been working to uplift and strengthen its AML and CTF program. This work involves significant investment in systems and personnel, including a comprehensive training program for the Bank's staff who support the AML and CTF program. 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.

The Group General Manager Compliance has met with FASU to inform the Bank's response to the Formal Warning and will continue to cooperate with, and respond to any queries. As this is a work in progress, further compliance issues may be identified and reported to FASU and additional uplifting and strengthening of the AML and CTF program may be required.

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

10. Contingent liabilities and commitments (continued)

Off-balance sheet financial instruments

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

	Consolidated		Bank	
All amounts expressed are in K'000	**As at 30 June 2021**	**As at 31 Dec 2020**	**As at 30 June 2021**	**As at 31 Dec 2020**
Letters of credit	102,100	97,420	101,201	96,366
Guarantees and indemnities issued	264,178	289,579	239,745	290,123
Commitments to extend credit	2,454,202	2,599,995	2,369,120	2,509,139
	2,820,480	**2,986,994**	**2,710,066**	**2,895,628**

Contingent liabilities includes forward exchange contracts of K8.354 million which is not part of the credit exposure.

Commitments for capital expenditure

Amounts with firm commitments, and not included in the accounts as at 30 June 2021 amounted to K34.9 million (31 December 2020: K44.1 million).

Contingent liability

A number of legal proceedings against the Group were outstanding as at 30 June 2021. Based on information available at 30 June 2021, the Group estimates a contingent liability of K24.5 million in respect of these proceedings (31 December 2020: K17.7 million).

11. Derivative financial instruments

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

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

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

All amounts expressed are in '000

As at 30 June 2021		**USD**	**AUD**	**EURO**	**GBP**	**JPY**	**Others**	**Total**
Selling	FCY	(22,190)	(1,285)	(51)	(44)	(22,125)	(1,048)	-
	Kina	(77,859)	(3,388)	(213)	(213)	(703)	(3,678)	(86,054)
Buying	FCY	748	4,500	-	-	-	19,920	-
	Kina	2,624	11,869	-	-	-	69,893	84,386

As at 31 Dec 2020		**USD**	**AUD**	**EURO**	**GBP**	**JPY**	**Others**	**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

12. Related parties

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

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

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

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

	Consolidated	
All amounts expressed are in K'000	**As at 30 June 2021**	**As at 31 Dec 2020**
Loans to :		
Parties where the related party is a director	544,087	574,969
Parties where the related party is an executive	50,840	54,225
General staff	9,993	9,600
	604,920	**638,794**

13. Notes to interim condensed statements of cash flows

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

	Consolidated		**Bank**	
	As at 30 June		**As at 30 June**	
All amounts expressed are in K'000	**2021**	**2020**	**2021**	**2020**
Cash and balances with Central Banks	2,824,350	1,575,216	2,187,540	1,233,152
Amounts due from other banks	1,172,139	1,125,054	1,031,496	1,087,230
Amounts due to other banks	(66,621)	(147,084)	(189,783)	(215,622)
	3,929,868	**2,553,186**	**3,029,253**	**2,104,760**

The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. Amounts due from other banks include deposits of K51.119 million (June 2020: K31.406 million) held with counter-party Banks that are not available for use by the Group.

14. Subsequent events

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