



Our Bank. Our People.

Annual
Report
2023



In this Annual Report, a reference to 'BSP', 'BSP Group', 'the Bank', 'the Company', 'the Group', 'our', 'us', and 'we' is to BSP Financial Group Limited ARBN: 649704656 and its subsidiaries unless it clearly means just BSP Financial Group Limited. BSP's Corporate Governance Statement is available on the company's website: www.bsp.com.pg/investor-relations/corporate-governance/

APRA Disclaimer:

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

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2023 Highlights

FINANCIAL



K890m
Statutory NPAT ↓ -18%



K2.8b
Total Income ↑ 8%



K37.0b
Total Assets ↑ 10%



K16.7b
Gross Loans ↑ 12%



K1.43
FY23 Full Year Dividend ↓ -18%



38.5%
Cost to Income Ratio ↑ +50bps



24.4%
Capital Adequacy ↓ -70bps



21.5%
Return on equity ↓ -610bps

OPERATIONAL



41%
Women in Leadership ¹



4.6k
Employed Staff ²



3.3m
Customer Accounts



6.2k
Shareholders



K345m
Capital Investments ³



120+
Branch Network ⁴



300+
Agent Network

¹ Measures representation at Executive and Senior Management level.

² Staff count as at 31st December 2023.

³ Approved investments over three years to upgrade our operational and technological capabilities.

⁴ Active branch count as at 31st December 2023.



Message from the Chairman & CEO

Earlier this year, we both commenced our new roles at BSP. Our reflections and highlights for 2023 are overall very positive. This can largely be attributed to the great support from our customers, shareholders and employees across all the countries in which we operate.

We inherited the leadership of a well-run institution that is the largest bank in the South Pacific. The team at BSP was well placed to deal with the impact in our region of global volatility, rising interest rates and inflation and, closer to home, the implementation of a new core banking system.

Against this backdrop we delivered a well-balanced result, with revenue growth across all key business lines of the Group totaling 8%. Our operating expense grew 10% for the year, which was anticipated given the increased investment in technology. This increase in revenue and expenses delivered underlying profit growth of 8%, to K1.7 billion. Nevertheless, BSP's statutory net profit after tax (NPAT) declined by 18%, due largely to a K209m negative impact on NPAT from the increase in the Papua New Guinea company income tax rate from 2023.

Technology and digital uplift

Our customers and their banking needs remain the key focus for BSP. The Group's investment in our new core banking system in Papua New Guinea was a pivotal milestone for the bank. We not only replaced our legacy systems, but modernised our technology architecture, which has enabled us to more effectively cater to the needs of our customers. We thank our PNG customers for their patience during our 2023 implementation. We are committed to delivering operational

efficiencies, an enhanced customer experience, and entrenching our already leading position in banking in the region across 2024 and beyond from this K500 million investment.

After some initial system challenges, we are pleased to note that our monthly digital and EFTPOS terminal transactions grew by double-digits in 2023. This is the result of our efforts to migrate customers to digital channels that best meet their needs. We continue to invest in our digital offerings, as well as new offerings that will provide our customers with banking services comparable to leading offerings in other competitive markets.

Strategy

To maintain our market leading position in the South Pacific, we are investing now to lay the foundation for growth, with the following areas of focus:

- Delivering an exceptional customer experience;
- Significant investments in risk and compliance; and
- Realising the ongoing benefits of our new core banking system.

In short, our ultimate objective is for our bank to offer "world class" services in our region. Consequently, we have embarked on a program to invest in key enablers of our strategy, including new investments to deepen customer relationships right across the Group.

Our investment in technology will enable us to use data more effectively to better understand customer needs and manage risks. Some of the actions we have taken have already resulted in positive outcomes, for example in our ability to pre-approve loans originated

via digital channels. We have also significantly reduced branch waiting times in the second half of 2023, and set up dedicated business banking centres in key urban locations to support our customers.

We have also partnered with the PNG government to leverage its business loan program, which it has made available on favourable terms to small businesses in the country to help stimulate economic growth.

One of our key strategic priorities also involves a substantial step up in activity to support the development of our people at BSP, including by investing in our new "BSP Academy".

Board renewal

We were pleased to announce the appointment of Ian Tarutia to the BSP Board in April 2023. Ian held senior executive roles within the superannuation industry, with more than 30 years at Nasfund Limited, most recently as its Chief Executive Officer.

Ian's appointment followed the retirement of the late Sir Kostas Constantinou, OBE as Chairman. Sir Kostas joined as a Director of BSP in 2009 and was appointed Chairman of the Board in 2011. During his tenure as Chairman, BSP achieved many significant milestones including the expansion of BSP's banking operations through acquisitions in several Pacific countries, as well as BSP's dual listing on the Australian Securities Exchange (ASX) in 2021. On behalf of the BSP Board and all shareholders, we recognise the late Sir Kostas for his significant contributions in this period.

The BSP Board will continue to uphold its high standard of governance to ensure the delivery of our strategic priorities.



Left to Right:
Robert Bradshaw and Mark Robinson

Strong operating results, capital and dividends

The improvement in the Bank's 2023 operating performance noted earlier, was achieved with the cost to income ratio increasing marginally to 38.5% and the net interest margin remaining relatively stable. We continue to prudently grow our balance sheet, with total assets increasing by 9.5% to K37 billion, supported by a robust 12% growth in net lending. BSP has also grown significantly stronger, holding more than twice as much Tier 1 capital and total assets as we did a decade ago. This strength is a key source of competitive advantage for BSP, giving us the financial capacity and confidence to invest for our customers and our shareholders. It also gives us the ability to cushion the impact of economic challenges, which inevitably emerge from time to time in our markets. In light of the above financial results, we declared a final dividend of K1.06 for

2023, bringing our full year dividend to K1.43. The 18% dividend reduction is on account of the reduction in net profit resulting from the increase in the company tax rate in 2023.

Outlook

The fundamentals of our South Pacific economies are improving with strong growth in 2023 and this trend is expected to continue in 2024, right across the region.

Business investment in PNG is also increasing as PNG is entering an investment "super-cycle", with "mega-projects" of over K100 billion either being renewed, or in the pipeline.

Given this favourable economic setting, we are confident BSP has the talented people and financial strength to execute our strategy effectively. We have a robust investment programme underway, as we maintain a prudent balance sheet, and

disciplined risk management, to support development in our region and deliver on our goal to offer "world class" services.

Finally, on behalf of the Board and management, we would like to thank you for your ongoing support as shareholders. We also thank BSP's 4,600 employees for your hard work and commitment to serving our customers.

Mr Robert G. Bradshaw
Chairman

Mr Mark T. Robinson
Group Chief Executive Officer and
Managing Director

Our Business

BSP provides a range of financial services in PNG, Fiji, Solomon Islands, Samoa, Tonga, Cook Islands and Vanuatu. BSP serves both retail and corporate customers through its banking operations, and provides non-banking services, such as life insurance and funds management.

Our bank was established in 1957 in Port Moresby, as a branch of National Australia Bank that was subsequently renamed to BSP upon its sale. In 2001, BSP purchased the state owned Papua New Guinea Banking Corporation to

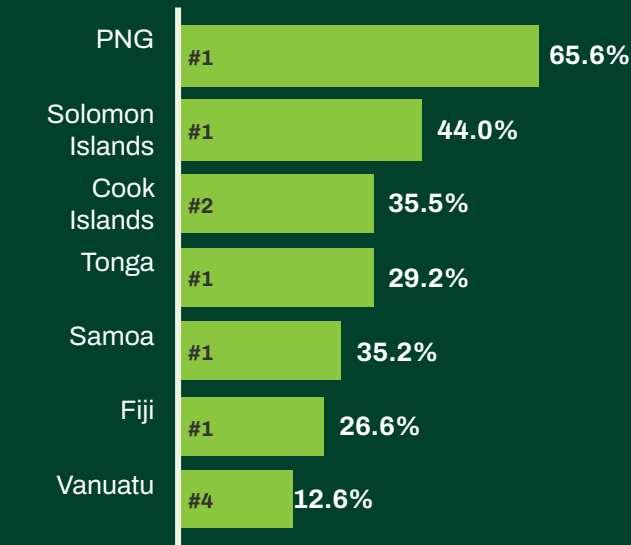
create the largest Bank in PNG, and listed on the PNGX a few years later in 2003. Other acquisitions followed, including CBA's Colonial Bank in Fiji and a number of Westpac businesses across the South Pacific. We listed on the ASX in 2021 and trade under the ticker "BFL".

We have grown to be the largest financial services company in the South Pacific. Consequently, we have the strength and size to cushion the impacts of the challenges we face from time to time, but our position also allows us to be a strong

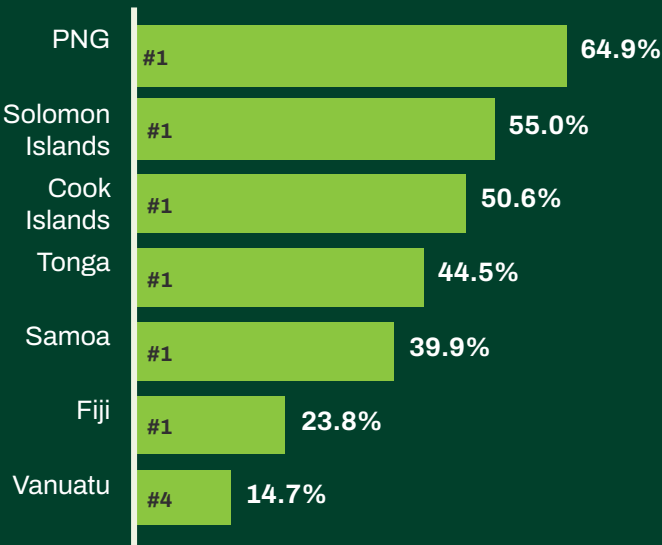
advocate and partner for important economic developments in the South Pacific to the benefit of our communities, as well as our shareholders.

Collectively, the Group's 4,600 employees serve our over 3 million customers from across the South Pacific. BSP remains the largest South Pacific bank, with the most extensive distribution network. Our branch network is complemented by a large electronic banking system that meets the banking needs of our customers.

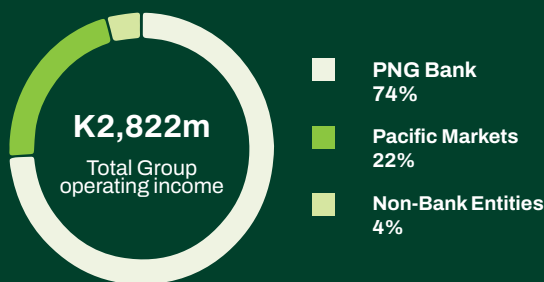
Lending Market Share



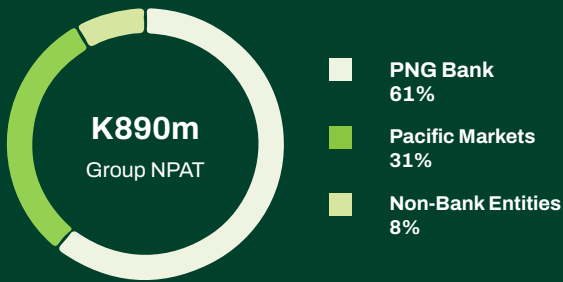
Deposit Market Share



Net Operating Income



Net Profit After Income Tax



Our Vision, Mission and Core Values

Our vision

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

Our mission

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

Our Values

Integrity

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

Leadership

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

People

We respect and value our people and our customers.

Quality

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

Teamwork

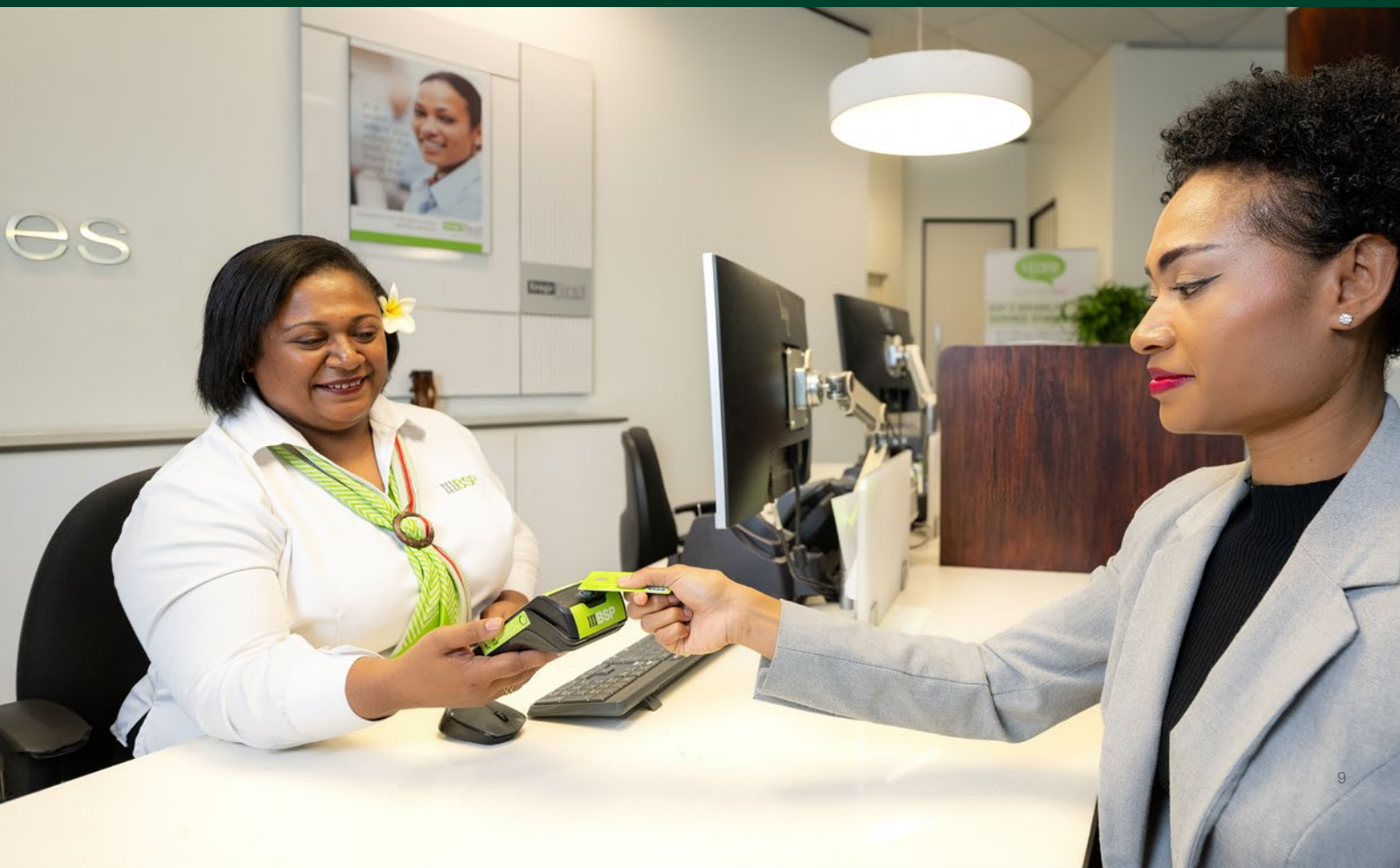
We work with and for each other, we progress together.

Community

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

Professionalism

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



Financial Performance

Overview

BSP's excellent operating performance is underpinned by strong lending, deposit and payments fundamentals delivering revenue growth across all Group key business lines. At the same time, we continue to invest in growth enablers, such as technology and people, to maintain our competitive position and offer world class services.

DIVIDEND

K1.43

↓ -18% Per share, full year

The Board declared a final dividend of K1.06, bringing our full year dividend to K1.43. The 18% reduction is mainly on account of the increase in the company tax rate in 2023.

NET PROFIT AFTER TAX

Statutory NPAT

K890m

↓ -18% on FY22

Statutory profit fell 18% from FY22, owing to an increase in loan impairments, following the reversal of COVID-19 provisions in the prior two years, and the significantly higher company tax rate (45%).

Underlying NPAT

K1,099m¹

↓ -4% on FY22

Underlying profit remained relatively stable, easing by 4%, after excluding all material changes to our tax obligations.

¹ Underlying NPAT excludes tax expense of K209m, impacted by change in company income tax rate to 45%

LOAN IMPAIRMENT AND PROVISIONS

Impairment expenses

K182m↑ **+188m** on FY22

Provisions to loans

4.3%

→ no change on FY22

An increase in loan impairments in 2023, following the reversal of provisions in the prior two years.

NET INTEREST MARGIN (NIM)

5.65%↓ **-30** bps on FY22

With the exception of reduced investment yields from government securities, Group NIM was largely stable.

CAPITAL ADEQUACY

24.4%↓ **-70** bps on FY22

Our capital measures are strong, with capital adequacy comfortably above 20%, which is much higher than the 12% regulatory requirement.

VOLUME GROWTH

↑ **+10%**
to
K9.8b

Business loans

↑ **+12%**
to
K2.6b

Retail mortgages

↑ **+23%**
to
K2.2b

Unsecured personal loans

Delivering for Shareholders

We maintained our long dividend history and our policy of paying out between 70% and 75% of our statutory profit as dividends. Based on the BSP share price at the end of 2023, the dividend yield remained in double digits.

467m
Shares

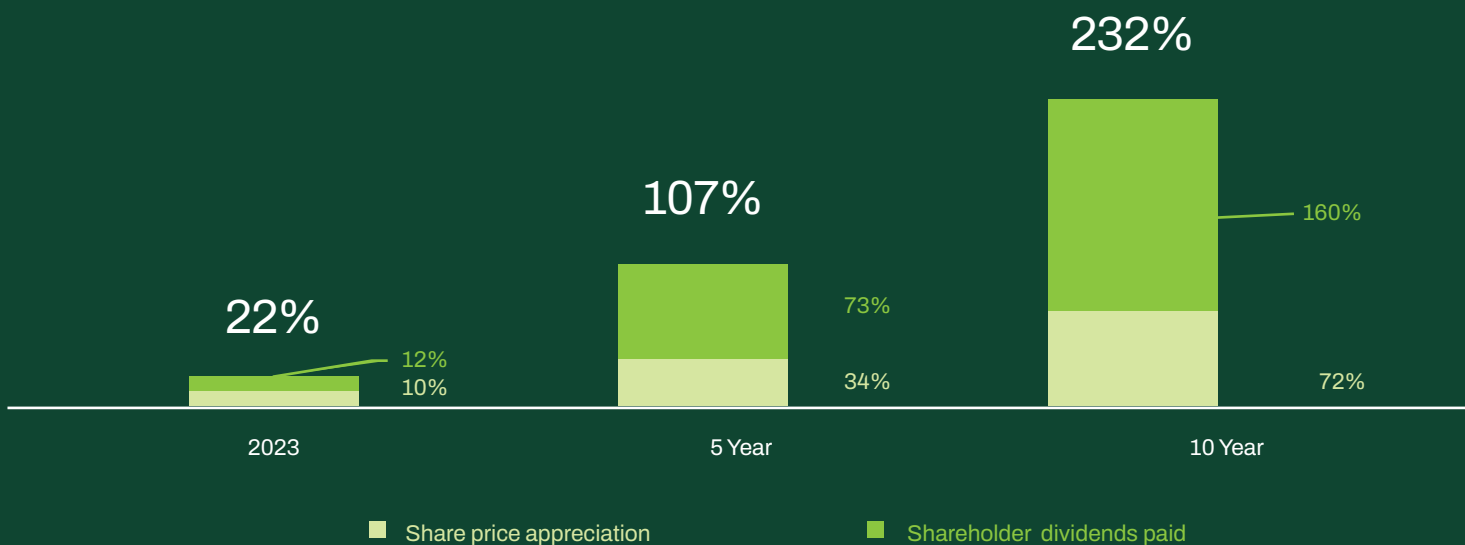
6,165
Shareholders

97%
South Pacific ownership

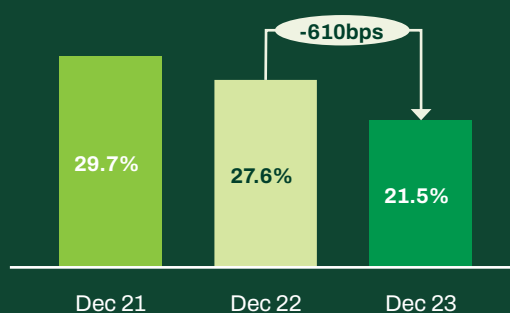
10- YEAR ANNUAL DIVIDEND AND PAYOUT RATIO



BSP'S TOTAL SHAREHOLDER RETURN

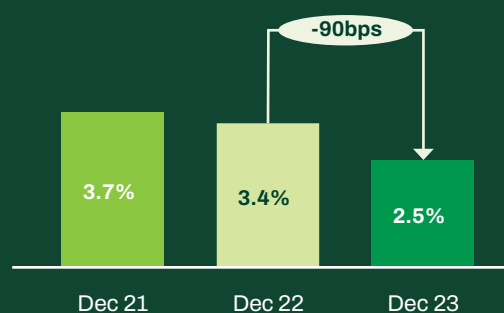


RETURN ON EQUITY



Return on equity, has fallen from 27.6% in FY22, to 21.5% in FY23. Our reduced NPAT of K890m, coupled with our growth in capital, were the key drivers of the reduction. However, our returns remain significantly higher than regional peers.

RETURN ON ASSETS



Return on assets declined 90bps to 2.5% in FY23. Our strong growth in assets, along with the fall in NPAT, contributed to the decline.

Profit and Loss Trends

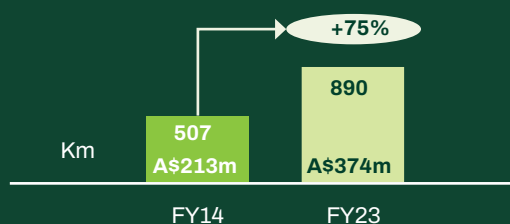
Our profit has grown from K507m to K890m since 2014, we now hold substantially more capital against our assets than we did a decade ago.

Statutory NPAT

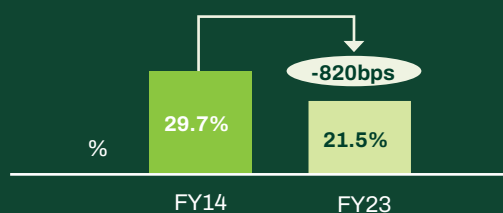
K890m

↓ -18% on FY22

NPAT



ROE



PGK [millions]	FY22 ¹	FY23	Change
Revenue	2,603	2,822	8%
Net interest income	1,745	1,845	6%
FX income	362	458	26%
Fee income	419	428	2%
Insurance / other income	77	91	18%
Operating expense	989	1,087	10%
Operating profit	1,614	1,735	8%
Impairment expense ²	-5	182	large
Profit before tax	1,619	1,553	-4%
Tax ³	534	663	24%
NPAT	1,085	890	-18%

¹ Comparative for prior periods have been restated to reflect the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

² 2022 negative impairment expense driven by COVID-19 provision releases.

³ FY22 tax expense includes Additional Company Tax, which is presented as an operating expense in the financial statement.

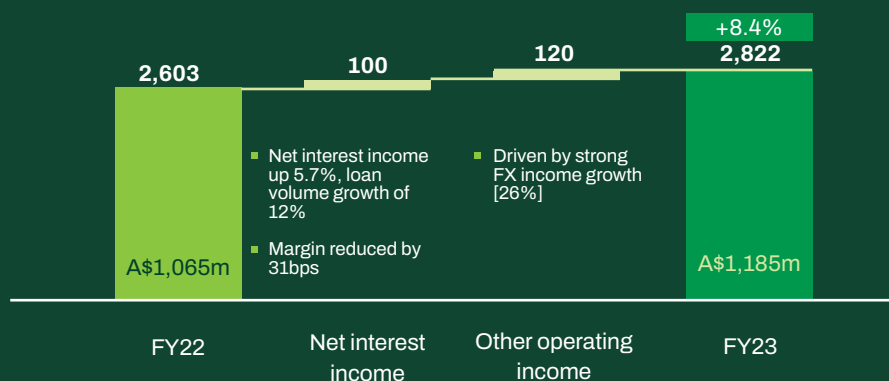
Volume growth in all core lines of our business, translated into revenue growth across the Group of 8%. Operating expenses were up by 10%, driven mainly by inflation, as well as our increased technology spend to support the delivery of our strategic priorities. Taken together, the Group delivered an 8% increase in operating profit.

Operating Income

Operating income

K2,822m

↑ +8.4% on FY22



Total income for the Group grew by 8.4% in 2023 to K2.8 billion, with a strong contribution from our Pacific markets.

Net interest income growth was primarily driven by a healthy 12% increase in lending volumes.

Non- interest income also contributed

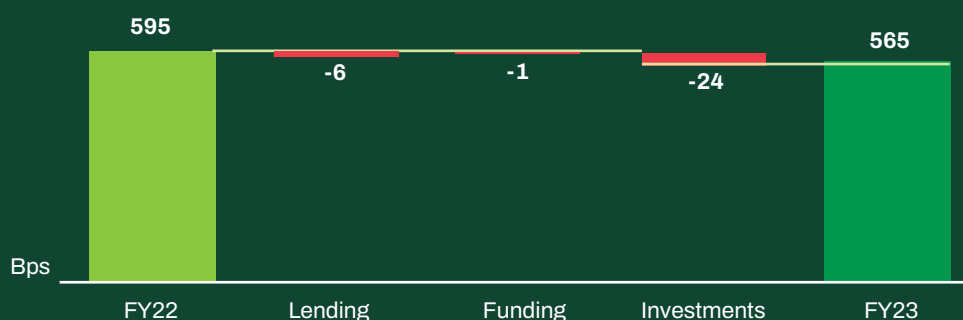
positively, driven by a 26% growth in FX income, due to higher inflows.

Electronic banking income grew by 22%, a reflection of the double-digit growth in the use of our digital channels.

NIM

5.65%

↓ -30bps on FY22



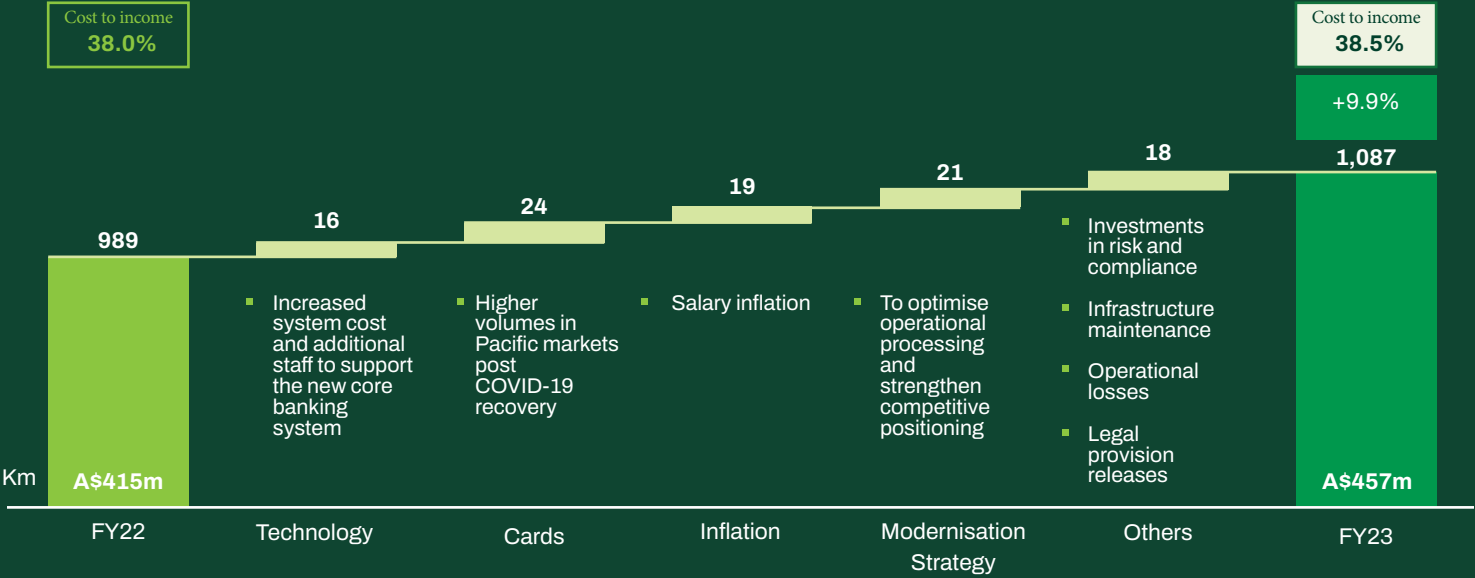
BSP's NIM is wider than what is seen in banks in more developed markets. This is mainly on account of the mix of our assets, where only 15% of our loan book is invested in lower risk residential mortgages.

The 30bps erosion of our NIM in 2023 was largely driven by a reduced yield on investment securities, driven by strong market liquidity.

Investment security yields have fallen since 2022, and 2023 saw most of the investment portfolio being repriced at these lower rates.

We managed our lending and funding mix to ensure margin erosion across our book was limited to a modest 7bps.

Operating Expenses



Operating expense lifted 9.9% for FY23, an anticipated increase given the higher investment in technology, including higher amortisation costs following capitalisation of our new core banking system.

Despite this expenditure growth, our cost-to-income ratio was relatively steady, at 38.5% for the year.

Higher card costs were also incurred, owing to higher volumes, particularly in our wider Pacific Markets businesses, as international visitor numbers rebounded, with corresponding increase in card income.

Wages growth was also a key driver of our expense increase, as we continued to invest heavily in our people.

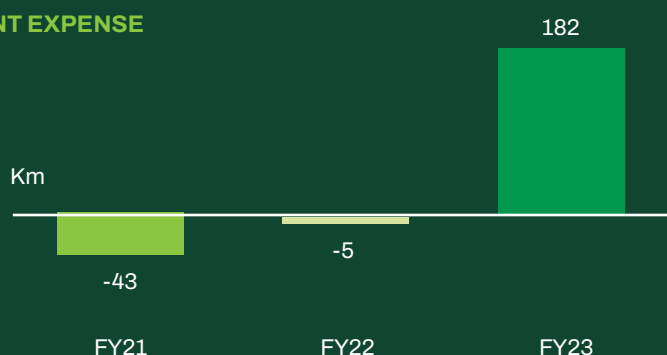
Credit Quality and Provisions

Impairment expenses

K182m

↑ +K188m on FY22

IMPAIRMENT EXPENSE



Delinquency Rates

4.1%

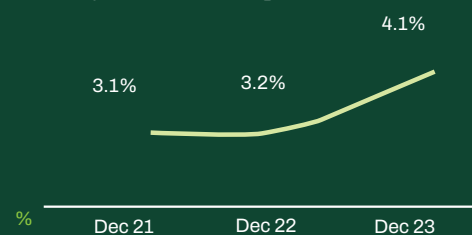
↑ +90bps on FY22

- FY21 and FY22 contained large impairment releases post COVID-19. FY23 did not have any carry forward provisions available for release, and provisions were aligned to underlying customer risk grades.
- FY23 includes a single specific provision of K28m for an exposure, which is fully secured.
- FY23 also contains a K40m uplift in impairments connected with our unsecured personal loan portfolio, which is partially attributed to a larger asset book, but does reflect some level of deterioration in credit quality in a challenging economic environment.

Delinquency rates and gross impaired assets also lifted sharply in 2023. However, excluding the single fully secured loan that has transferred to non-accrual status, the normalised delinquency rate reduces to 3.2%, which is in line with prior year trends.

DELINQUENCY RATE

90+ days, as a percentage of total loans



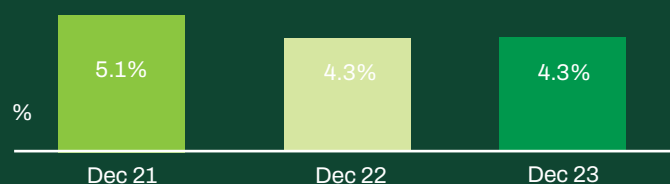
The Group experienced a relatively large K188m movement in impairment expenses from FY22 to FY23 and we note the following:

PROVISIONS TO LOANS

Provisions to Loans

4.3%

→ No Change on FY22

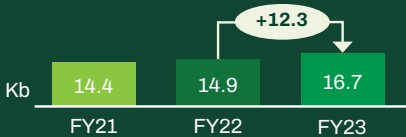


Balance Sheet Strength

Gross Loans

K16.7b

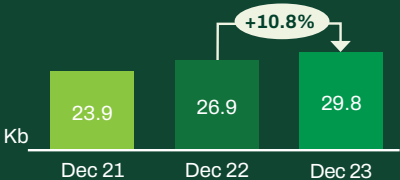
↑+12.3% on FY22



Deposits

K29.8b

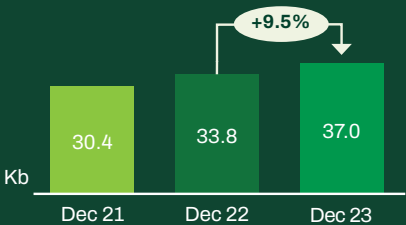
↑+10.8% on FY22



Total Assets

K37.0b

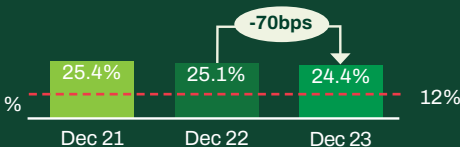
↑+9.5% on FY22



Capital Adequacy

24.4%

↓-70bps on FY22

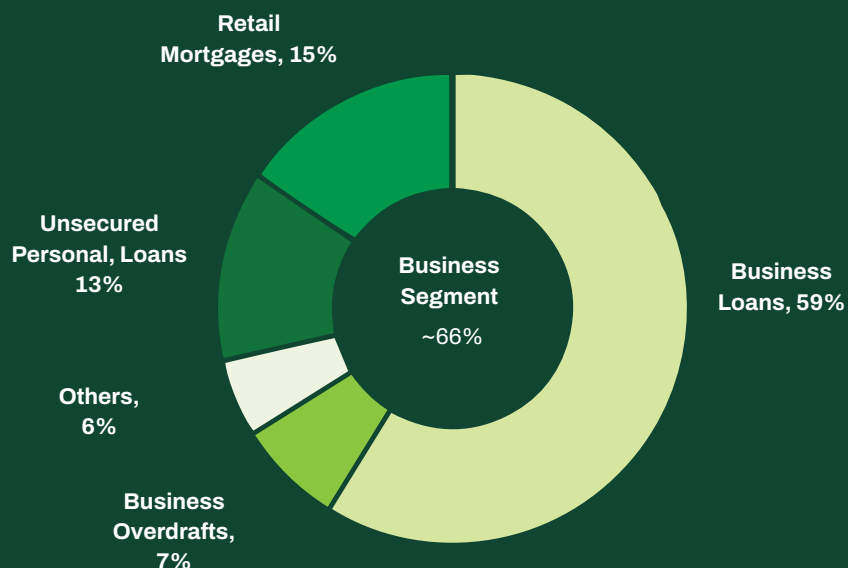


Total assets grew by 9.5% to K37b, with a strong 12% growth in lending. This was funded by a corresponding 11% increase in deposits, which is predominantly domestic funding.

A feature of our balance sheet remains the high levels of deposit funding, with a corresponding low loan to deposit ratio of 56%, reflecting our capacity to increase lending.

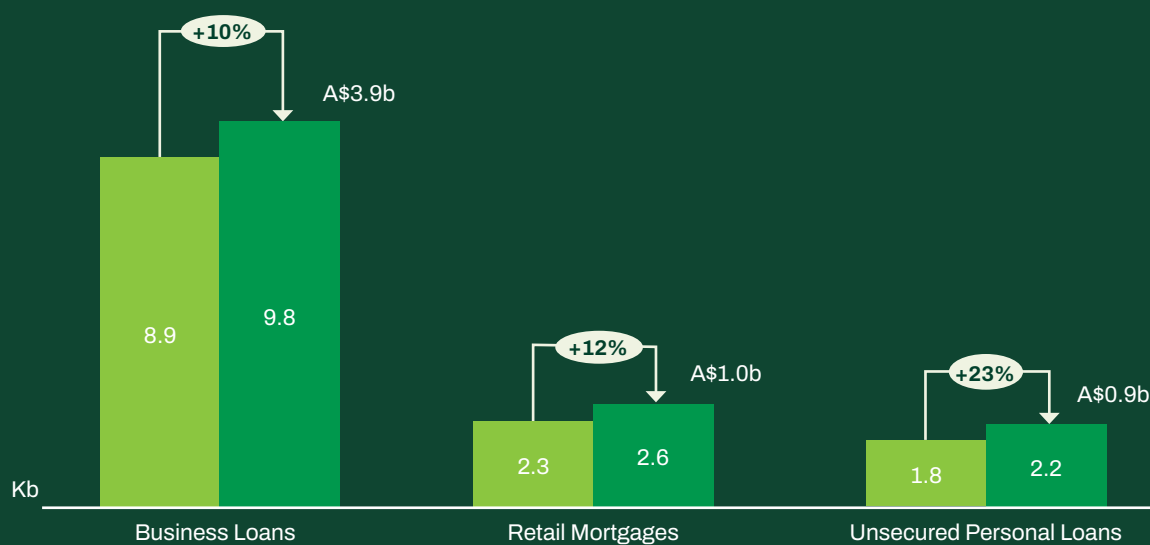
Our capital measures are strong, with capital adequacy comfortably above the 12% regulatory requirement.

Loan Book Mix



All our key loan product categories experienced strong growth in 2023. Our business loan segments represents ~ 66% of our loan book. Retail mortgages make up around 15% and provides significant opportunity for growth.

Unsecured personal loans constitute 13% of the loan book and saw a strong growth of 23% during the year.



Our Community

We strive to support our communities through sponsorships, donations, community projects and volunteer activities.



Our contributions are aimed at addressing community needs and supporting initiatives in sports, education and health among other aspects of community development. BSP is embedded in the communities we serve, with branches located in the most remote areas of the South Pacific. It is our privilege to give back to our communities and contribute to their development beyond the provision of banking services.



Donations & Community Projects

In 2023, we focused our donations and community projects in the areas of digital inclusion, health, education, water sanitation and hygiene, and sports and recreation. Our community projects are carried out by our staff across our South Pacific markets volunteering their time to make a tangible contribution to the community.

Charitable donations and community projects in 2023 totalled K2.8 million to charitable causes in the South Pacific. We donated in cash and in-kind support to organisations and groups who work in the spaces of health, gender-based violence advocacy and financial literacy. These causes, among others, have a far-reaching impact on the wellbeing and quality of life in our communities.

The Go Green Campaign, BSP's flagship program for environmental conservation, was carried out for the 14th year in a row. As part of

the campaign, we donated to nature conservation and recycling challenges or initiatives, and donated to activities to commemorate World Environment Day. We understand that our communities across the South Pacific share a deep cultural and spiritual connection to nature and the environment, and we strive to make efforts to enrich these deep connections.

The BSP Group remains dedicated in our advocacy against family sexual violence (FSV) and gender-based violence (GBV) in all its forms. BSP fosters partnerships and donates to organisations that support survivors facing domestic violence. We also support advocacy groups to provide counselling, legal aid, and other support services to survivors. Our partnership continued in 2023 with community groups that provide awareness to teens and adolescents on healthy relationships, consent and identifying forms of violence. We continue to advocate against GBV and seek to promote safe and inclusive schools, workplaces, and communities.

Financial literacy and sound decision-making among financial services consumers is a matter of particular importance to the BSP Group. As a responsible lender and advocate of financial inclusion in our markets, we recognise the importance of informed and financially prudent customers in order to ensure the sustained prosperity of our communities. We support financial literacy programs for all ages as part of this obligation to responsible banking. This includes partnering with the Brisbane Broncos to visit schools and communities, supporting advocacy groups and government initiatives, and donating the time and expertise of our staff to speak to community groups on financial literacy. Our commitment

has also grown to include mentoring and training of local small-to-medium enterprises in Fiji and PNG as we seek to add value to our communities through encouraging smart financial decision-making.

Sponsorships

BSP actively sponsors community initiatives, corporate events, and sporting activities throughout the South Pacific spending K4.8 million on sponsorships in 2023. Sponsorship highlights include the School Kriket Program, the Morobe Show, the Business Council of PNG, and the Institute of Internal Auditors among others.

Below are some of the organisations we supported through our donations and sponsorship in PNG in 2023.



Our People

BSP is focused on creating a safe and fulfilling workplace culture for our people in order to deliver outcomes for our community, customers, and shareholders. Our approach and these desired outcomes are underpinned by our core values: **Integrity, Leadership, People, Community, Professionalism, Quality and Teamwork.**



Our organisational structure was reviewed in 2023 in order to more adequately pursue the Group's "Modernising for Growth" strategy, as we build a world class bank. We are now better aligned to our desired future state and to ensure clearer division of responsibilities and greater accountability around our various initiatives. Throughout this process, we worked to support our people and ensure a smooth transition to our new structure.

Following the conclusion of the PNG core banking system replacement, staff who were engaged in the project were reassigned to roles throughout the bank. This allowed us to embed subject matter experts in key areas of the new core banking system into various teams across the bank, ensuring we retain the learnings, context, and talent to continue delivering value to our customers.

Employee support and capability enhancement is crucial for our "Modernising for Growth" strategy. To ensure nimble and specialised support for our staff, a dedicated business unit was created to assist staff through training, welfare and resourcing. This focused support for our staff helps to ensure that our people on the frontline can execute on BSP's service delivery goals.

Our ambition is to remain the employer of choice throughout the South Pacific. A review of our suite of employee-related policies is ongoing to ensure global best practice and compliance with social governance requirements in our markets. Recalibrations are in train to enhance our staff complaints handling, development, recruitment, and performance appraisal procedures.

Wellbeing

Employee wellbeing is important for ensuring a robust and motivated workforce. We provide care and support for our people in matters of physical, mental, social, and financial wellbeing. Our health and wellness initiatives encourage physical fitness and aim to promote teamwork and collaboration outside of the work environment. We also run programs on stress management and mental health acknowledging that this is key to the long-term wellbeing of our people.

Our staff across the South Pacific wear black every Thursday as part of our #BlackThursday Campaign to signify the Group's stance against all forms of gender-based violence (GBV) and family sexual violence (FSV). Our people are provided with access to case management and support resources for incidents of GBV and FSV. We also have referral and disciplinary processes for staff who are perpetrators. We continue to seek ways to enhance our response to GBV and FSV, and we invest in resources and partnerships to better support survivors and rehabilitate perpetrators.

Whistleblower and grievance reporting channels are available for our people to raise complaints. Under our Whistleblower Policy, the reporting channels and associated procedures are established to ensure fairness, due process, confidentiality, and protection from reprisals. We also provide support to our people in matters of workplace conflict resolution, harassment, and sexual misconduct cases. We strive to ensure integrity and professionalism in the workplace and work to protect our people from all forms of harassment.

Diversity and Equal Opportunity

Having a diverse workforce with unique perspectives contributes to our ability to add value to our stakeholders across all our markets. We understand that respect for differences in gender, perspectives, and cultures is important given the markets we serve. We work to ensure fair and equitable treatment of all our people regardless of gender, race, ethnicity, religion, sexual orientation, or political opinion. We are an equal opportunity employer striving to deal with fairness and uphold the value of quality in matters of recruitment and promotion. The diversity of our people allows us to address challenges and capitalise on opportunities with the appropriate nuance and respect.

Our workforce is well balanced, with an equal male and female representation. Female voices and perspectives in decision-making is important to BSP and we strive for equal participation in leadership roles. While female representation on the Group Board remained at 43% in 2023, female representation among our Executives

grew from 21% in 2022 to 36% in 2023. Senior leadership across the Group as a whole is 41% female, which is an improvement from 39% in 2022. We continue to invest in the careers of up-and-coming female leaders and our succession pipeline in supervisory and middle management positions has 55% and 59% female representation, respectively.

Staff Development

Learning and development programs are offered to our staff to enable career progression and professional development. The training is facilitated both internally and externally and is accessed based on business need, role relevance, and the individuals' career ambitions. The Group invests in diplomas, degrees and professional study programs for certificates and accreditations in order to enhance the capabilities of our people. In 2023, our people benefitted from a combined 15,718 days of training and 54% of these training hours were accessed by women.

We have established the BSP Academy to upskill our talent across the South Pacific. The Academy provides structured skills development, leadership training that is in line with agile and modern ways of working and best practices.

As we work towards our modernisation strategy, the BSP Academy ensures that current and emerging talent within the Group can drive sustained success in the ever-evolving banking landscape.

Our Customers

In this modern-era, the way people do banking is constantly evolving, as developments in financial technology now allow for a seamless and more personalised banking experience for individuals. This growing digitisation of services has fostered new expectations of efficient and reliable services. To enhance our customer experience and service delivery, we are strengthening our digital footprint and revitalising our service propositions to modernise for growth.

Our broad branch footprint across the region has provided much-needed

banking services to underbanked communities. Our physical presence is important for customers to access banking services in some of these areas. Our renewed strategic approach will enrich our commitment to provide inclusive banking by delivering a low cost-to-serve and fit-for-purpose delivery model to enhance our service reach to rural communities.

We have implemented “queue busting” pilot initiatives designed to reduce service waiting times which have borne promising results. Our extended banking hours and dedicated lending and

business banking centres, in key urban areas, have contributed to sharp decline in branch waiting times in the second half of 2023. Our ability to pre-approve digital loans has reduced approval wait times improving the speed of our lending. To augment our in-branch service delivery, we have restructured our Retail Banking operations to better align with customer segment needs. This is to ensure the appropriate focus and care





is provided to suit the unique needs of our customer segments. Leveraging our technology platforms, we established a team to focus on creating a seamless omni-channel experience through our digital channels and meet the needs of our “customers of the future”. We continue to work towards enhancing the customer experience as the financial needs of our customers become more varied and sophisticated.

Partnering with leading global firms, we execute against our digital roadmap and process simplification agenda to create a seamless experience for our customers across all segments. We are investing in technology and specialised talent to develop data-driven insights to support our marketing, risk decisioning, and operational efficiency to provide value to our customers. We are also making efforts to educate and transition customers to our more convenient digital channels.

Our Business Banking customers are a key segment of focus, given the economic and social benefit that the success of SMEs can have in our markets. Our dedicated SME team run extensive SME training and mentoring

programs for locally-owned SMEs, including women-led businesses, in partnership with the Australian Business Volunteers (ABV). Through our ABV partnership, our SME customers are given free training on how to manage finances, plan for expansion, and put in place governance measures in order to achieve future success. BSP and ABV co-designed the “Your Enterprise Scheme (YES) Grow” program in PNG and the “Together, Helping to build a Resilient, Inclusive and Vibrant Economy” (THRIVE) program in Fiji, with aspirations for expansion of similar programs into all our markets.

Our Corporate Banking operations support our business customers’ working capital and capital expenditure needs. As economic prospects for our home market of PNG look more promising with the slated resource projects, BSP is well position with the skills, experience, and local expertise to support our customers’ financial and capital investment needs. We continue to support our customers in undertaking multi-year capital expenditure programs and financing needs across the Pacific in various sectors.

We aim to expand on the initiatives piloted in 2023 and continue to invest in our digital capabilities in order to better support different customer needs in each of our segments and modernise PNG’s cash economy. Our goal is ensuring fit-for-purpose products and services, and empowering our customers through technology to access banking services to support themselves, their business, and their families.



BSP sponsored Bilas exhibition,
Australian Museum

Our Risk Management Framework

Our Risk Management Framework (RMF) outlines BSP's key risks processes. The Board approved Group Risk Appetite Statement (GRAS) sets the risk limits the Bank operates within to deliver our strategy. The RMF includes a number of risk types (strategic, financial and non-financial), each with their own specific frameworks to identify, assess, govern and manage their unique risks.

Our material risks are those the Bank is placing extra focus on mitigating, due to their potential to materially impact the Bank, customers, shareholders and the community, now or in the future.



1. Group Risk Appetite Statement

The Board approved GRAS is set at a level that the Board expects management to operate within, to achieve desired business outcomes:

- Preserving capital adequacy
- Maintaining liquidity
- Achieving targeted performance

2. Identify and assess risks

BSP uses multiple techniques to identify and measure the risks it is exposed to such as:

- Risk and Control assessments
- Emerging enterprise wide risk assessment

3. Manage and control risks

We implement measures to manage and control risks within appetite, such as:

- Limits, delegated authorities and approval processes
- Policies and procedures
- Issues and incidents

4. Govern and monitor

The Board and its Committees:

- Oversee BSP's system of internal controls and compliance
- Review reports on the measurement of risk, adequacy and effectiveness of BSP's risk management and internal control systems

How we manage risk

Our risk management approach ensures consistent and effective management of risk and provides for appropriate accountability and oversight. Risk management is enterprise wide, applying to all entity levels and is a crucial element in the execution of BSP's strategy.

Our enterprise wide risks represents the risks that are core to our Group business. We organise these into strategic, financial and non-financial risk categories and annually identify key enterprise risks. These top enterprise risks have a focused management oversight given they represent potential material impacts to the strategy. We scan the environment for changes to ensure that our risk universe remains relevant.

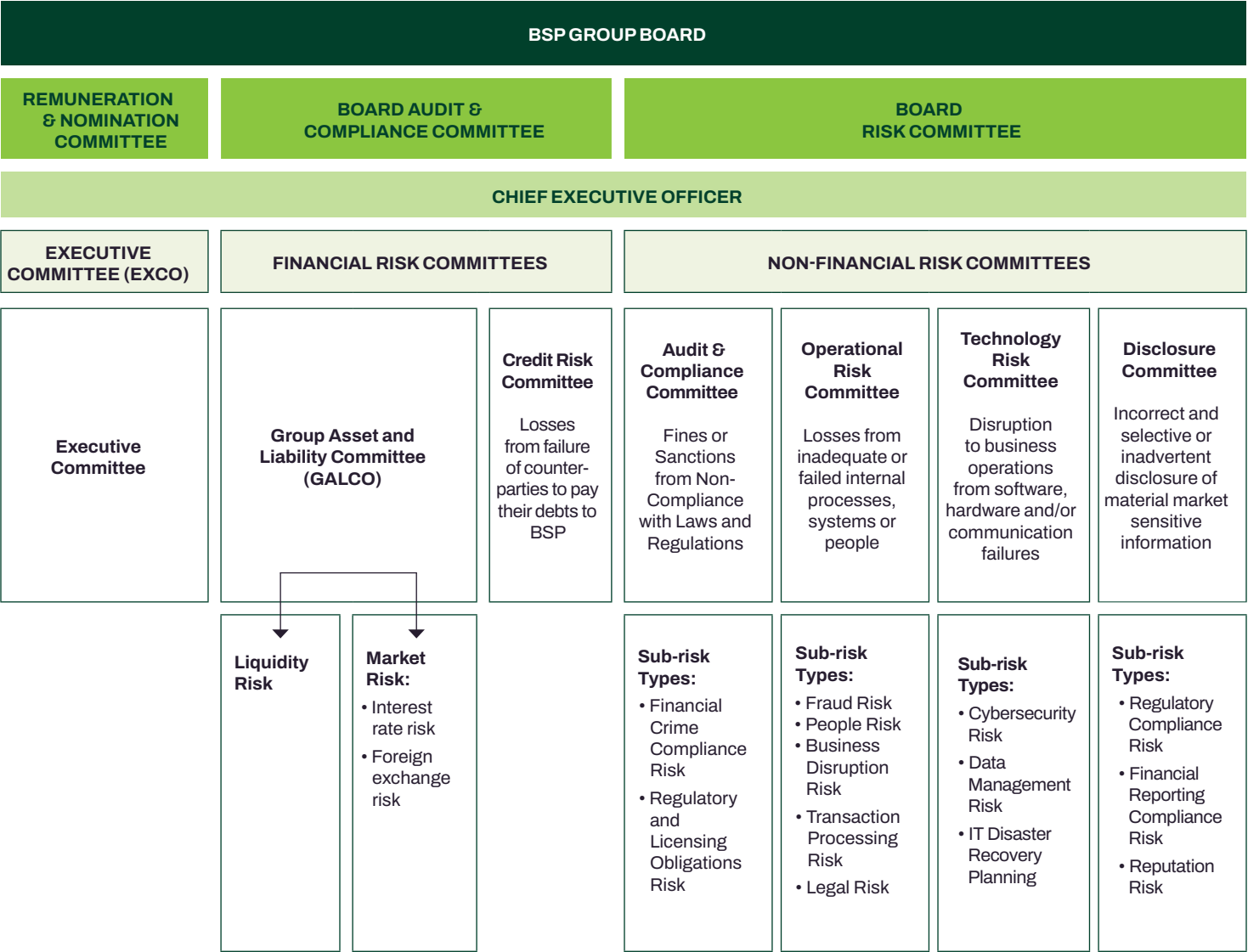
The enterprise wide risk is managed through the lifecycle from identification to reporting. Our assessment process includes quantification of risks under normal and stressed conditions up to, and including, recovery and resolution.

Risk exposures are managed through different techniques and are monitored against a risk appetite that supports our strategy. We manage and allocate capital efficiently to grow shareholder value while ensuring that regulatory capital requirements are met.

Our governance structure enables oversight and accountability through appropriate mandated board and management committees. The three lines of defence model is used to

maintain a sound risk culture with an emphasis on our policies and procedures.

This is all underpinned by a control environment defined in our risk governance and management standards and policies. Through the embedding of our values and code of conduct policies, compliance training and whistle-blower programs.



Enterprise wide risks

Non-financial risks

 Business disruption risks

 Technology risks

 Transaction processing risks

 Cyber risks

 Compliance risks

 Interests rate risks

 Project risks

 Information Security risks

 AML & CTF risks

 Financial crime risks

 People risks

 Physical assets, safety and security risks



Material Risks

The Board and management are placing additional focus on managing a number of our material, financial and non-financial risk types, due to their potential impact to BSP, our customers, shareholders and the community.

Risk Description	How we manage this risk
Technology Risk Technology risk relates to any threat to BSP's critical operating systems, data and business processes that deliver banking services	We manage technology risk by monitoring the condition of systems to minimise outages or failure of critical systems and technology infrastructure that can impact the services we provide to our customers. • Software lifecycle management tools and processes are implemented to ensure controlled software and configuration deployment across all environments including production; • Key Vendors are actively engaged in continued issue resolution and management via Managed Services contracts; • BSP's crisis management framework and crisis response teams provide the structure to ensure a coordinated response to disruption incidents; • Business Continuity and Disaster Recovery Plans are in place and renewed and tested annually; and • The IT Steering Committee provide oversight of specific Technology and Information Security risks.
Operational Risk This risk arises when there is direct or indirect loss resulting from human factors, inadequate or failed internal processes, systems or external events.	We seek to manage and reduce operational risk to optimise the customer experience while supporting BSP's strategy, reputation and financial performance. We recognise that operational risk is inherent in our business activities and that it is not always cost effective or possible to attempt to eliminate all operational risks. Operational risks of material significance are expected to be infrequent and we will seek to reduce the likelihood and impact of these. Within this context, the management of operational risk has two key objectives: • To minimise the impact of losses suffered in the normal course of business and to avoid or reduce the likelihood of suffering an extreme loss; and • To improve the effective and efficient management of BSP while minimising operational risks.
Anti-Money Laundering and Counter Terrorism Financing (AML & CTF) Non-compliance with the AML/CTF Act in the jurisdictions where BSP operates.	Our compliance with anti-money laundering and combating the financing of terrorists (AML/CTF) regulations in the countries where we operate is continually being enhanced through: • Execution of AML/CTF controls during the new customer onboarding, customer risk review and correspondent banking relationship management processes; • Staff training and awareness undertaken to ensure that staff are aware of Policies and Procedures and the significance of conducting specialised review for customers; • Enhanced Customer Due Diligence for High Risk and Politically Exposed Persons are undertaken; and • We will continue expanding and optimising our transaction monitoring and detection capabilities.
Information Security Risk The potential danger or harm arising from unauthorised access, use, disclosure, disruption, modification, or destruction of digital information. This risk can originate from various sources, including: • Cyber attacks; • Data breaches; • Malware; and • Other security incidents that compromise the confidentiality, integrity, and availability of sensitive information	Cyber risk remains a key industry threat as perpetrators continue to become more sophisticated. In response, BSP has committed to the continued enhancement of its security capability to ensure that the associated risks remain within the risk appetite and managed through: • Security Monitoring; • Security Testing, including Internal/External system penetration testing to identify vulnerabilities; • Continuing awareness on Information Security policies and staff training on emerging cyber security threats; and • PCI DSS compliant with security processes and procedures to secure payment card data.

Risk Description	How we manage this risk
Credit Risk Inability of customers to meet loan obligations and or current /prospective threat to BSP's earnings and capital as a result of a counterparty's failure to comply with a financial or other contractual obligation.	We manage our credit risk by maintaining a culture of responsible lending and a robust risk policy and control framework. - Processes are in place that identify, assess and control credit risk in relation to the loan portfolio for loan impairment; - Defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions. - Monitoring our credit risk exposure relative to approved limits; - Ensuring that there is independent monitoring of credit risk and its mitigation independently of the business functions; and - Adequate provisioning held in compliance with IFRS9.
People Risk Inadequate succession planning may lead to key-person dependency on critical job roles, or in leadership positions.	BSP has placed key emphasis on an effective succession planning program. - Competitive retention packages and programs ensuring that BSP remains the employer of choice in the market. - BSP proactively responds to best market practices that aids to maintain its position as the market leader. - Targeted staff development, training and certification based on training needs analysis undertaken by business units.
Regulatory / Compliance Risk Failure to comply with legal, regulatory and prudential obligations. Exposure to regulatory fines for non-compliance of laws/ regulations.	We have documented compliance plans and established Compliance Obligations registers to ensure we comply with the legal, regulatory and prudential obligations in all the countries we operate and this process is overseen by our Management Audit and Compliance Committee. - Update, capture and understand requirements of the obligations register. - Transparent, open and honest engagement with regulators. - All employees complete mandatory compliance training.
Project Risk Refers to an uncertain event or condition that, if it occurs, will affect the project and may result in the inability to deliver within budget and agreed timelines.	BSP has a Project Management Office with the aim of delivering programs of work aligned to the BSP's strategic objectives including: - Ensuring deliverables are achieved across the programs; - Managing the benefits realisation process for delivered projects and programs; and - Optimising the use of staffing and other resources to achieve the above. Project risk is further managed by ensuring that: - Policies and Procedures are in place to manage project governance; - Project issues, risks, dependencies and constraints that may impact implementation are managed; - Monthly meetings held to monitor programs; and - Projects are supported by Executive Management and progress oversight by Board.
Interest Rate Risk The possibility for BSP to experience loss in earnings due to factors that affect the overall performance of the financial markets resulting from changes to the interest rates and foreign exchange (FX) rates.	Risk limits are set and reviewed at least annually and in line with our defined risk appetite. The criteria for setting risk limits include relevant market analysis, market liquidity and business strategy. This limit structure comprises the following types of market risk limits: - Value at Risk (VaR) limits; - Position and sensitivity (Non-VaR) limits; - Stress testing for foreign currency, interest rate and liquidity risk; - Tracking performances against approved Group Risk Appetite and Policy limits daily/monthly; - Balance sheet impact on loans and deposits; and - The above process is overseen by our Group Asset & Liabilities Committee and reported to Executive Committee and Board. - Loan portfolio is denominated in local currency and on variable interest rate.

Board of Directors

'My father made this mask and gave it to me, then he taught me to dance. Our masks weave, move and thunder – creating sparks in our community, in Yalu.'

CHIEF ATU MOBEA – KAGUA DISTRICT, SOUTHERN HIGHLANDS PROVINCE



BSP Board visits the Australia Museum's "Bilas" exhibition sponsored by BSP



Board of Directors



ROBERT G. BRADSHAW LLB
Chairman,
Non – Executive Director.

Robert Bradshaw was appointed to the BSP Board in September 2017 and served as Chairman of the Remuneration and Nominations Committee from 2019 until his appointment as Board Chairman in February 2023. Robert holds a Bachelor of Law Degree and is a graduate of AICD.



MARK T. ROBINSON
Group Chief Executive Officer and
Managing Director.

Mark T. Robinson was appointed Group CEO of BSP Financial Group Limited (BSP) in November 2022 and commenced work in March 2023. He is a senior financial services executive and globally experienced banking Chief Executive Officer with more than thirty years' experience across developed and emerging markets.



PATRICIA FRANCES TAUREKA-SERUVATU, LLB, MAICD
Non - Executive Director.

Patricia Taureka-Seruvatu is a Lawyer by profession, admitted to practice law in Papua New Guinea in 1988. Patricia holds a Bachelor of Laws from the University of PNG. She was appointed to the Board in April 2022 and currently serves as a member of the Board Audit and Compliance Committee and the Remuneration and Nominations Committee.



FRANK D. BOURAGA , CPA, MAICD
Non - Executive Director.

Frank Dobi Bouraga was appointed to the Board in December 2020 and is a qualified certified practicing accountant with over 28 years in accounting practice and is currently a partner in Assurance and Business Advisory Services with SBC Solutions. Prior to SBC Solutions, Frank was the Country Managing Partner for Ernst & Young Papua New Guinea for five years as an audit and business advisory services partner.



**SYMON G. BREWIS-WESTON, (HONS),
MAPPFIN**
Non-Executive Director.

Symon Brewis-Weston was appointed to the BSP Board in April 2021 and is a member of BSP's Board Risk Committee and Remuneration and Nominations Committee. Symon has extensive international experience in financial services and a deep understanding of consumer and business markets in the Asia Pacific region.



**FAAMAUSILI DR. MATAGIALOFI
LUA'IUFI, BA, MSC, PHD**
Non-Executive Director.

Faamausili Dr. Matagialofi Lua'iufi was appointed to the board in December 2016 and is Chair of the Remuneration and Nominations Committee (RNC). She is an experienced public sector practitioner and consultant, Matagialofi holds a PhD in Management, a Masters in Management Sciences and a Bachelor of Arts in Sociology and Political Science.



STUART A. DAVIS, LLB, GAICD
Non-Executive Director.

Stuart Davis was appointed to the BSP Board in August 2017 and is currently Chair of the Board Risk Committee (BRC) and a member of the Board Audit and Compliance Committee. During Stuart's long career at HSBC bank, he was CEO of their India, Australia and Taiwan operations. Stuart holds a Bachelor of Law Degree and is a graduate of AICD.



ARTHUR SAM, BCOMM, CPA
Non - Executive Director.

Arthur Sam was appointed to the BSP Board in July 2016. Arthur is the Chair of the Board Audit and Compliance Committee and also a member of the Board Risk Committee. He is a qualified and experienced accountant registered, with over 15 years working for global accounting firms. Arthur is also a member of AICD.



PRISCILLA KEVIN, BSCS, MAICD
Non - Executive Director.

Priscilla Kevin was appointed to the BSP Board in April 2020 and is a member of the Board Risk Committee. Priscilla is an IT professional specialising in Enterprise Resource Planning (ERP) Support Advisory. She holds a Bachelor's Degree in Computer Science from PNG University of Technology. Priscilla is also a member of AICD.



IAN A. TARUTIA
Non - Executive Director.

Ian Tarutia was appointed a Director in April 2023 and currently serves as a member of both the Board Audit and Compliance Committee and the Board Risk Committee. Ian is an experienced corporate executive, with a strong background in superannuation. Ian holds both a Bachelor of Business Economics and Master of Business Administration. He is a member of AICD.

Executive Team



RONESH DAYAL
Group Chief Financial Officer

Ronesh was appointed Group Chief Financial Officer (GCFO) in June 2020. He has over 20 years of experience in the financial services industry, covering both the Life Insurance and Banking businesses. Ronesh holds a Bachelor of Arts Degree with double majors in Accounting and Financial Management and Information Systems. He is the President of Certified Practising Accountants (CPA) Australia – PNG Branch, a member of CPA Australia, CPA PNG and the Fiji Institute of Chartered Accountants.



NUNI KULU
Group Chief Operating Officer

Nuni was appointed Group Chief Operating Officer (GCOO) in April 2023. Prior to this role, Nuni was General Manager Digital. She joined the former PNG Banking Corporation as a graduate and held numerous roles with Treasury and Retail Banking during the course of her career. She has completed leadership and management training at Melbourne Business School and INSEAD College in France. Nuni has a Bachelor of Commerce from the Australian National University.



ROHAN GEORGE
Group General Manager Treasury & Markets

Rohan is Group General Manager Treasury & Markets, has extensive knowledge in developed and emerging financial markets. His experience spans 40 years, covering fixed income, foreign exchange, commodities and structured derivatives markets. Prior to joining BSP, Rohan worked at ANZ as Head of Global Markets, Cambodia & Laos, and at Westpac as Treasurer PNG & PINS. Rohan holds a Master of Applied Finance from Macquarie University and is accredited by the Australian Financial Markets Association.



HARI RABURA
Group General Manager People & Culture

Hari was appointed Group General Manager for People & Culture in April 2016. She has over 20 years' experience in implementing and delivering HR strategies, policies, and services that create, support and sustain a high performance culture. She has held various roles at PricewaterhouseCoopers (PwC) and Kina Bank, plus completed her General Management training in INSEAD Business School in France and Melbourne Business School in Australia. She holds a Bachelor of Education from the University of Goroka (PNG).

**DANIEL FAUNT****Group General Manager Retail**

Daniel was appointed Group General Manager Retail Bank in December 2020. Daniel is responsible for managing BSP's extensive Retail Branch Network, Digital Banking services, ATM operations and Group Marketing. Prior to joining BSP, Daniel held various senior management roles for ANZ in PNG, Australia and the Pacific. Daniel holds a MBA in Economics from Deakin University and a Bachelor of Business in Banking and Finance from the Queensland University of Technology.

**PETER BESWICK****Group General Manager Corporate**

Peter was appointed General Manager of BSP Corporate Banking in June 2011. He has over 25 years banking and finance experience, covering Australia and South East Asia with CBA, National Australia Bank and Bank of New Zealand; holding senior executive positions in Risk Management and Business Development. Mr. Beswick qualified as a Chartered Accountant with PwC and has completed a Masters of Business Administration with Macquarie University in Australia.

**MIKE HALLINAN****Group Chief Risk Officer**

Mike was re-appointed as Group Chief Risk Officer (GCRO) in March 2023. Mike's professional career expands over 40 years in banking and finance, holding various senior positions in Risk Management and Senior Relationship Executive roles with CBA, specifically managing corporate and institutional relationships. Mike is a qualified CPA and is a Fellow of the Australian Bankers Institute.

**MARYANN LAMEKO-VAAI****General Manager Pacific Markets**

Maryann was appointed as General Manager Pacific Markets in June 2022. With over 20 years of experience in leadership and financial management. Maryann achieved a significant career milestone by becoming the first female Country Head for BSP Samoa and led the team that captured Samoa's market leader position. Maryann holds a Bachelor of Commerce from Auckland University and is a Chartered Accountant under the Samoa Institute of Accountants and CPA Australia.

**VANDHNA NARAYAN****Group General Manager Compliance**

Vandhna was appointed Group General Manager Compliance in February 2021. Vandhna oversees the BSP Group's AML Business Units and the Regulatory and Policy Compliance BU, with administrative oversight over the Internal Audit and Credit Inspection BUs. Vandhna is a qualified Barrister and Solicitor and holds a Bachelors in Law (VUW, New Zealand), and a Masters in Human Rights Law and Policy (UNSW, Australia).

**RICHARD NICHOLLS****Group Chief Information Officer**

Richard was appointed Group Chief Information Officer (GCIO) in May 2023. Richard has over 30 years of senior technology management experience in the financial services industry, having held senior technology delivery and support roles in Investment and Retail Banking in United Kingdom, Australia, Philippines and Papua New Guinea. Richard graduated from the University of New South Wales with a Bachelor of Electrical Engineering.

Corporate Governance Framework

The BSP Financial Group Limited¹ (BSP) is committed to maintaining high standards of corporate governance underpinned by our core values of Integrity, Leadership, People, Professionalism, Quality, Teamwork and Community. This approach is supported by a comprehensive framework of corporate governance principles and policies.

The Board ensures that BSP complies with the requirements of the Papua New Guinea Companies Act 1997, Australian Corporations Act 2001 (Cth), PNGX Listing Rules, PNGX Corporate Governance Code for Listed Issuers, the ASX Listing Rules and the ASX Corporate Governance Principles and Recommendations (4th Edition).

BSP also complies with the various regulations on corporate governance that are issued by the central banks in the countries within which BSP operates. These currently include:

- The Bank of Papua New Guinea (BPNG) Banking Prudential Standard BPS 300: Corporate Governance (issued under Section 27 of the Banks and Financial Institutions Act 2000);
- The Reserve Bank of Fiji Banking Supervision Policy Statement No. 11: Governance (Oct 2007);
- The National Reserve Bank of Tonga Prudential Statement No. 9 (revised 2014): Governance;
- The Financial Supervisory Commission of the Cook Islands Banking Prudential Statement BPS09: Governance Risk Management (June 2019);
- The Central Bank of Samoa Prudential Statement¹ (January 2021);
- The Reserve Bank of Vanuatu International Bank Prudential Guideline No. 10 Management of Financial Institutions: Fit & Proper Requirements; and
- The Central Bank of Solomon Islands Prudential Guideline No. 14 on Corporate Governance (July 2019).

The Board, Management and staff of BSP are aware of their responsibilities to the people of Papua New Guinea and the countries within the Pacific in which BSP operates. These Corporate Governance Principles provide a framework that helps to ensure that BSP deals fairly and openly with all its stakeholders – regulators, shareholders, customers and staff alike.

This Corporate Governance Statement has been approved by the Board and is current as at 31 December 2023.

¹ In this Corporate Governance Statement, a reference to 'BSP', 'BSP Group', 'the Bank', 'the Company', 'the Group', 'our', 'us', and 'we' is to BSP Financial Group Limited ARBN: 649 704 656 (ASX: BFL | PNGX: BSP) and its subsidiaries unless it clearly means just BSP Financial Group Limited.

Board Governance

Roles and Responsibilities of the Board

The roles and responsibilities of the Board are defined in the Board Charter, which distinguishes between matters reserved for the Board and those that are delegated to Management with the Board retaining oversight.

With the support of its Committees, the Board is responsible to the shareholders for the overall performance of BSP, including its strategic direction, establishing goals for management and monitoring the achievement of those goals with a view to optimising BSP's performance and increasing shareholder value.

The key functions of the Board are:

- setting the overall strategy of BSP regarding operations, finance, dividends, and risk management;
- appointing the Group Chief Executive Officer (GCEO) and setting an appropriate remuneration package;
- appointing General Managers and setting appropriate remuneration packages;
- appointing the Company Secretary and setting an appropriate remuneration package;
- endorsing appropriate policy settings for Management;
- reviewing Board composition and performance;
- reviewing the performance of Management;
- approving an annual strategic plan with an annual budget for BSP and monitoring results on a regular basis;
- ensuring that appropriate risk management systems are in place and are operating to protect BSP's financial position and assets;
- ensuring that BSP complies with the law and relevant regulations and conforms with the highest standards of financial and ethical behaviour;
- approving acquisitions and disposals of material to the business;
- establishing authority levels;
- setting Directors' remuneration through the Remuneration and Nominations Committee;

- with the assistance of the Board Audit and Compliance Committee, selecting and recommending to the Shareholders the appointment of external auditors; and
- approving the financial statements.

The Board has delegated a number of these responsibilities to its various Committees, the Committees and their responsibilities are detailed in the Board Committees section of this Report

The Board has delegated to Management responsibility for:

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

Board Governance

continued

Board Composition

The maximum number of Directors prescribed by the BSP Constitution and approved by the Shareholders is ten. As at 31 December 2023, there were ten Directors and their details are set out below:

Director	Date of Appointment	Length of Service (as at 31 December 2023)	Status
Robert G. Bradshaw	13 September 2017	6 years 3 months	Non-Executive, Independent
Mark T. Robinson	1 March 2023	10 months	Executive, Non-Independent
Arthur Sam	13 July 2016	7 years 5 months	Non-Executive, Independent
Faamausili Dr. Matagialofi Lua'iufi	1 December 2016	7 years	Non-Executive, Independent
Stuart A. Davis	11 August 2017	6 years 4 months	Non-Executive, Independent
Ian A. Tarutia	21 April 2023	8 months	Non-Executive, Non-Independent
Priscilla Kevin	15 April 2020	3 years 8 months	Non-Executive, Independent
Frank D. Bouraga	30 December 2020	3 years	Non-Executive, Independent
Symon G. Brewis-Weston	13 April 2021	2 years 8 months	Non-Executive, Independent
Patricia F. Taureka-Seruvatu	13 April 2022	1 year 8 months	Non-Executive, Independent

Independence and Conflict of Interest

Directors of BSP avoid conflicts of interest, by declaring their interest and refraining from involving themselves in the consideration of matters where a conflict might arise. BSP's Corporate Governance Principles and Managing Conflicts of Interest Policy requires Directors to disclose any new directorships and equity interests at each Board Meeting.

The Company Secretary maintains a running register of each Director's interests to ensure that a majority of the Board is independent. Directors are deemed to be independent if they are judged free from any material or other business relationship with BSP that would compromise their independence.

Prior to appointment, all Directors are required to provide information to the Board for it to assess their independence. In assessing the independence of Directors, the Board takes into consideration the following:

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

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

BSP fully complies with the requirements of the BPNG Prudential Standard 4/2003 – Limits on Loans to Related Parties and details of Related Party Transactions are summarised in Financial Note 35 of this Annual Report, while Directors' Information on pages 136 to 140 of this Annual Report provides details of the Directors' Interests.

Chair

The Board Chair is an independent Non-Executive Director that must be elected by the Directors and not have been a former executive officer of BSP or the CEO in the last 3 years. The Chair can hold the position for a maximum of six consecutive years unless there are exceptional circumstances in which prior approval of the prudential regulator is required.

The Chair's responsibilities include:

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

Company Secretary

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

Key responsibilities of the Company Secretary include:

- Finalising the agenda for each Board and Committee meeting in conjunction with the respective Chairman;
- Ensuring the timely completion and circulation of board and committee papers ahead of scheduled meetings;
- Collation of the Board meeting minutes, capturing key discussion points and resolutions for review and approval at the next Board meeting;
- Advising the Board of relevant statutory matters and ensuring compliance of the same;
- Maintaining a record of Directors' dealings in securities, declarations of interests and potential conflicts; and
- Assisting with arranging Director induction and professional development.

The Company Secretary plays a pivotal role in carrying out the administrative function of the Board and is one of the Board's main liaison with Management and external stakeholders.

Board Governance

continued

Director Appointment, Election and Re-election

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

A Director is normally appointed for an initial term of three years and the end of the term, the Director becomes eligible for reappointment by the Shareholders for a further term of three years and, if not reappointed, retires automatically. A Director is normally not permitted to hold office for a period exceeding three terms of three years, or nine years, whichever is the lesser.

In accordance with the Constitution and BSP's Fit & Proper Policy, the Board gives careful consideration to setting the criteria for new Director appointments. These appointments are then recommended to shareholders. The Board has delegated the initial screening process involved to the RNC, which in accordance with the RNC Charter, may seek independent advice on possible new candidates for Directorships. All Directors must be satisfied that the best candidate has been selected.

BSP undertakes appropriate checks before appointing a person as a Director, or offering them to shareholders as a candidate for election. We have appropriate procedures in place to ensure material information relevant to a decision to elect or re-elect a Director is disclosed in notices of meeting provided to shareholders. This includes a brief background of the Director and details of any other material directorships the Director may have.

For initial election, BSP provides a statement that the Director has satisfied the 'fit and proper person' assessment by BPNG. For re-election, a statement concerning the term of the office currently served by the Director is included. If the Board considers a Director to be independent, it states so in its recommendation in the Notice of Meeting.

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

- Honesty, integrity reputation, good character and fairness;
- Education, competence, capacity, capability; and
- Financial soundness.

The Board has undertaken a renewal and succession planning process in recent years, with the aim of maintaining a proactive and effective Board in line with the directions of the BSP Group

Director Induction and Professional Development

BSP has a program for inducting new Directors and providing appropriate professional development opportunities for Directors that are managed by the RNC.

Upon joining the Board, new Directors are provided with a Letter of Appointment setting out the terms of the appointment, a Board induction pack and undertake a comprehensive induction program. The Letter of Appointment specifies the term of appointment, BSP's expectations regarding time commitment and Committee work, the Director's remuneration arrangements, the Director's disclosure and confidentiality obligations, the Director's insurance and indemnity entitlements, and compliance with BSP's key corporate governance policies. The induction program involves a one-on-one meeting with the Board Chair, respective Committee Chairs and Senior Management to help new Directors develop an understanding of BSP's history, culture and operations. As part of the induction pack, new Directors receive copies of BSP's key corporate governance policies and the annual Board and Committee calendar.

Director development is encouraged by the Board as part of its efforts to remain robust and cognisant. Whilst Directors are encouraged to identify and advise of courses that are of interest, the RNC provides regular updates to the Board on director development options available. Should a Director wish to undertake a particular course as part of his/her development, BSP covers the associated costs. Director development sessions are also held regularly and scheduled in line with Committee meetings.

New Directors are encouraged to undertake the Australian Institute of Company Directors' Effective Directors course.

Review of Board Performance

BSP has a process for periodically evaluating the performance of the Board, its Committees and individual Directors.

This review is done annually with oversight from the RNC and is a process by which the Board regularly assesses its own performance in meeting its responsibilities. It also includes an assessment of the contribution of each individual Director. The Board is aware of the need:

- to continually identify areas for improvement;
- to ensure that it meets the highest standards of corporate governance; and
- for the Board and each Director to make an appropriate contribution to the Group's objective of providing value to all its stakeholders.

This performance review is facilitated by an external consultant.

Executive and Senior Management

Similar to Directors, BSP's Executive and Senior Management also enter into employment contracts with BSP, which set out key information such as their terms of employment, position, duties, reporting lines, remuneration, and termination arrangements.

The Board with the assistance of the RNC, sets the performance targets for the GCEO and other members of Executive and Senior Management, under BSP's employee incentive arrangements set out in their respective employment contracts. The long-term and short-term incentive arrangements are administered by the RNC, with performance against the relevant targets assessed periodically throughout

the year and a formal evaluation is undertaken annually with the last assessment undertaken in 2023.

Gender Diversity

As at 31 December 2023, 30% of BSP's Board comprises of female Directors as three (3) of our ten Directors are women.

A summary of the gender spread within BSP as at 31 December 2023 is set out in the table below:

A Balanced Approach

BSP believes in the fair remuneration of all its employees from Directors through to Management and Staff. As its Executive and Senior Management teams are responsible for driving the Company's vision, reporting to the Board and ensuring operational excellence, competitive remuneration packages are used to retain and attract the best talent available.

Remuneration for Non-Executive Directors is assessed giving regard to a number of factors including the current fee cap and performance and contribution of each individual Non-Executive Director, with all these benchmarked against that of similar industry participants.

The Remuneration Report in pages 54 to 65, gives a summary of the remuneration policy adopted by BSP.

The Board remains committed in promoting gender diversity across all levels of the Company and a copy of BSP's Equality, Diversity and Inclusion Policy is available on the Company's website.

Category	Female	Male	Total
Board	3	7	10
Executive Management	4	7	11
Senior Management	73	141	214
Middle Management	391	273	664
Branch Management	187	101	288
Customer Service Officers	761	631	1,392
Entry Level	62	277	339
Specialist and Support Staff	835	859	1,694
Total (excluding Board)	2,313	2,289	4,602

Board Committees

Meetings and Attendance

During 2023, four Committees of the Board were in operation, whose functions and powers were governed by their respective Charters. These Committees were the Board Audit and Compliance Committee (BACC), Board Risk Committee (BRC), the Remuneration and Nominations Committee (RNC) and the Disclosure Committee (DC).

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

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

Membership of the Committees and a record of attendance at Committee meetings during 2023 are detailed in the table below. Remuneration details are provided in the Remuneration Report from page 54 to 65 and the Financial Note 36 - Directors' and Executive Remuneration on page 123.

Committee Structure

Committee members are chosen for the skills, experience and other qualities they bring to the respective Committees. At the next Board meeting following each Committee meeting, the Chair of the respective Committee gives the Committee's report to the Board.

Board Audit and Compliance Committee (BACC)

The BACC assists the Board to discharge its responsibilities of oversight and governance in relation to financial, audit and compliance matters. The responsibilities of the BACC include monitoring:

- the integrity of BSP's financial statements and their independent audit;
- the financial reporting principles and policies, controls and procedures;
- BSP's internal audit process;
- the effectiveness of internal controls;
- the controls and effectiveness of BSP's compliance obligations;
- the systems for ensuring operational efficiency and cost control;
- the systems for approval and monitoring of expenditure including capital expenditure; and
- the processes for monitoring compliance with laws and regulations (both in PNG and in overseas jurisdictions, where BSP operates) and the implementation of Board decisions by management.

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

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

Board Risk Committee (BRC)

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

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

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

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

Remuneration and Nominations Committee (RNC)

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

- to oversee the selection and appointment of the GCEO, and setting an appropriate remuneration and benefits package for recommendation to the full Board;
- to determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders;
- in conjunction with the GCEO, to identify and maintain a clear succession plan for the Executive Management Team, ensuring an appropriate mix of skills and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly;
- to ensure that the Board itself maintains an appropriate mix of skills and experience necessary to fulfil its responsibilities to shareholders while maintaining a world class Corporate Governance regime; and
- Board succession planning and recommendation to the Board for appointment of new directors.

The RNC is comprised of three Non-Executive Directors. The chair of the Remuneration and Nominations Committee must be one of the independent Directors, other than the Chair of the Board.

The RNC must meet at least once annually and special meetings may be convened as required. Minutes of all RNC meetings must be recorded and tabled at the subsequent RNC meeting. The RNC regularly reports to the Board at the earliest possible Board meeting after each RNC meeting about any matters that should be brought to the attention of the Board and any recommendations requiring Board action.

Director	Board	BACC	BRC	RNC
Sir Kostas G. Constantinou	1/1	-	-	-
Robert Bradshaw	7/7	-	-	1/1
Mark Robinson	7/7	6/6	6/6	-
Arthur Sam	7/7	6/6	6/6	-
Stuart Davis	7/7	6/6	6/6	-
Frank Bouraga	7/7	6/6	-	-
Symon Brewis-Weston	7/7	2/2	6/6	4/4
Priscilla Kevin	7/7	2/2	6/6	2/2
Ian Tarutia	5/5	2/2	4/4	-
Faamausili Dr. Matagialofi Lua'iufi	7/7	-	-	6/6
Patricia Taureka-Seruvatu	7/7	2/2	-	6/6
Independent Committee Members (ICMs)				
Vele Rupa	2/3	-	2/3	-
Serena Sasingian	-	3/3	4/6	-
Paul Morgan	-	3/6	3/3	-

Board Committees

continued

Disclosure Committee (DC)

Established by the Board, the DC comprises of the Chair (or in his/her absence, another Non-Executive Director), the Group Chief Executive Officer, the Group Chief Financial Officer, the Group Chief Risk Officer and the Company Secretary. The chair of the Disclosure Committee is the most senior Director present. The members of the DC may vary from time to time, but will consist of at least a Non-Executive Director, two Executive Employees (not including the Company Secretary) and the Company Secretary.

The Disclosure Committee is responsible for, among other things:

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

Unlike other Committees, the DC is not required to have scheduled meetings throughout the year, but meets regularly whenever a market disclosure is required.

Each Committee member should be capable of making a valuable contribution to the respective Committee and membership is reviewed annually by the Board, with this forming part of the Board’s annual performance review.

Board Skills Matrix

BSP has in place a Board skills matrix that was developed following a Board assessment undertaken in 2019. Skills that form part of this matrix include Risk Management, Regulatory/ Government Policy, Business and Financial acumen, experience as a Non-Executive Director, Remuneration and Corporate Governance.

Since 2019, subsequent appointments to fill vacancies have been made giving regard to this matrix. In doing so, the Board ensures it has a broad range of skills, experience and expertise that enables it to meet its objectives. The Board accepts that it has a responsibility to Shareholders to ensure that it maintains an appropriate mix of skills and experience (without gender bias) within its membership.

Risk Management And Compliance

Approach to Risk Management

The Group's risk management activities are aimed at achieving the Group's objectives, goals and strategy. In consultation with the Executive Committee, the Board determines BSP's risk appetite and risk tolerance, which is reflected in the Group Risk Appetite Statement. These benchmarks are used in the risk identification, analysis and risk evaluation processes.

The Board has delegated to the BRC the responsibility of annually reviewing the risk management framework. This framework requires ongoing risk identification and management across all areas and functions within the Group. It is a requirement that the Executive Committee annually review the top Group enterprise wide risks and present the report and remediation plan to BRC for recommendation to the Board for approval. This review allows the Group to reassess the top inherent risks in the business and provides Senior Management the opportunity to review processes to ensure adequate controls and resources are in place to manage these risks. It also provides the Board a high-level view of the risks threatening the business objectives of BSP Group.

The Board regularly review the system of internal controls which cover the management of financial, operational, environmental, and social risk and compliance. The Board are satisfied that these controls are appropriate. A detailed summary of our risks and the management of those risks can be found in our risk disclosure section on pages 27-31 of this annual report.

Risk Management Roles and Responsibilities

The overall responsibility for risk management lies with the Board and it accepts responsibility for ensuring it has a clear understanding of the types of risks inherent in the Group's activities.

BSP implements a formal system of financial and operational delegation from the Board to the GCEO and from the GCEO to General Managers. These delegations reflect the Group's risk appetite and cascade down to managers who have skills and experience to exercise them judiciously.

The Board defines the accountabilities (including delegated approval, control authorities, and limits), and reporting and monitoring requirements for the risk management process. The severity of risks identified in the management process are recorded in the risk registers and determine the approval, control authorities, and limits. The Board undertakes an annual review of the Group's Enterprise Wide Risks.

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

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

Assurance and Control

Financial Statements and Corporate Reports

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

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

BSP does not release its half-year accounts unless they have been reviewed by the external auditors. The full-year financial statements are not released unless they have been audited by the external auditors and approved by both the BACC and the Board.

All other market announcements and corporate reports are reviewed and approved by the Disclosure Committee (DC) prior to lodgement with the respective stock exchanges.

Management Assurance

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

- in their opinion, the financial records of the Group have been properly maintained;
- in their opinion, the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of BSP; and
- their opinions above have been formed on the basis of a sound system of risk management and internal control applying to BSP, which is operating effectively.

Additionally, all General Managers and Country Heads provide monthly reports regarding the following:

- assessment and documentation of the risks and internal control procedures in the respective Strategic Business Units;
- any changes in business, operations and computer systems and the risks that may arise from those changes have been identified;
- appropriateness and operating efficiency of the risk management and internal compliance and control systems; and
- identification and remedial action (if required) of any weaknesses in the risk management and internal compliance and control systems.

Board Access to Information and Advice

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

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

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

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

External Audit

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

The Board submits the name of the external auditors to Shareholders for ratification on an annual basis. In line with BPNG Prudential Standard 7/2005 – External Auditors, the signing partner in the external audit firm must be rotated every five years.

The BACC reviews annually the performance of the external auditors and where appropriate, makes recommendations to the Board regarding the continuation or otherwise of their appointment, consistent with the Prudential Standards while ensuring their independence is in line with Board policy.

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

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

The duly appointed external audit firm may not be engaged by BSP to provide specialist advisory or consultancy services while also being engaged for services to conduct BSP's annual audit and related services. Services related to the preparation of BSP's corporate tax return are not prohibited. The external auditor is invited to the Annual General Meeting of Shareholders and is available to answer relevant questions from Shareholders. BSP's external audit firm is currently PricewaterhouseCoopers (PwC). Representatives of PwC will attend the Annual General Meeting in May 2024 and be available to answer Shareholder questions regarding the audit.

Internal Audit

BSP has an internal audit function. Upon Management's recommendation, the BACC approves the appointment of the Head of Internal Audit, who functionally reports to the BACC. The BACC also meets regularly with the Head of Internal Audit.

Reviews are undertaken of the scope of the work of the internal audit function to ensure no unjustified restrictions or limitations have been placed upon the Internal Audit Business Unit. The scope of work carried out by the Internal Audit function stems from the annual Internal Audit Plan, which the BACC reviews and approves. The BACC also reviews the qualifications of internal audit personnel and endorses the appointment, replacement, reassignment or dismissal of the internal auditors.

The BACC meets separately with the internal auditors to discuss any matters that the BACC, or the internal auditors, believe should be discussed privately. The Head of Internal Audit has direct access to the BACC and the Board. The BACC ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that Management responds to recommendations by the internal auditors on a timely basis.

Compliance

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

The BACC obtains regular updates from Management regarding compliance matters, and satisfies itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

The Committee also undertakes reviews of the findings from any examinations by regulatory agencies undertaken. The Chair of the BACC has the right to approach a regulator directly in the event of a prudential issue arising.

The Bank and the Group, to the best of the Directors' knowledge, has not engaged in any activities which materially contravene laws and regulations in relevant jurisdictions.

Culture and Conduct

Core Values

BSP's comprehensive corporate governance framework is underpinned by its core values:

- Integrity – we are honest, committed, trustworthy and reliable in our dealings with our customers and each other.
- Leadership – we inspire, we change and we live our values and lead by example.
- People – we respect and value our people and our customers.
- Professionalism – we commit ourselves to continual self-development to achieve standards of excellence in our performance.
- Quality – we are committed to excellence whilst striving for continuous improvement in products and services.
- Teamwork – we work with and for each other; we progress together.
- Community – we respect, value and support the communities in which we operate

This is encompassed in the Group's Statement of Vision, Mission and Values, which is approved by the Board and acts as a guide for all employees in the day-to-day performance of their individual functions within the Group.

Code of Conduct

BSP acknowledges the need for Directors and employees at all levels to observe the highest standards of ethical behaviour when undertaking business. To this end, the Board has adopted a Group-wide Code of Conduct for Directors, Management and all Staff whilst further stipulating that each Director comply with the Code. To ensure the ongoing maintenance of high standards of corporate behaviour, the Board encourages Senior Management to periodically issue staff communications to reinforce both the Code and Core Values Statements.

All Directors are encouraged to maintain membership of an appropriate Directors' Association to keep abreast of current trends in Directors' duties, responsibilities and corporate governance issues. Training on the Code is carried out annually across the Group and all Directors, Management and Staff are required to submit declarations attesting full understanding of and compliance with the Code.

Reports of breaches of the Code are regularly provided to Senior Management and noted at the BRC meetings.

Anti-Bribery and Anti-Corruption

BSP has a zero tolerance approach to bribery and corruption and this is reinforced by its Anti-Bribery and Anti-Corruption Policy. BSP recognises that acts of bribery and corruption are detrimental to the growth and prosperity of our business, the individuals and organisations we affiliate with and the communities that we operate in. As a business, BSP is mindful of the consequences of bribery and corruption, which may result in both financial and reputational loss, alongside imposition of regulatory sanctions.

Compliance with the policy by Management and Staff remains closely monitored, with regular updates on breaches and material incidents reported under the policy provided to management and the BACC.

Whistleblowing

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

- unacceptable practices;
- irregularities, or conduct, which is an offence or a breach of laws of the countries in which BSP operates in (actions and decisions against the laws of relevant countries including non-compliance);
- corruption;
- fraud;
- misrepresentation of facts;
- decisions made and actions taken outside established BSP policies and procedures;
- sexual harassment;
- abuse of delegated authorities;
- misuse of Group assets.

Similar to the Code of Conduct, breaches or material incidents reported under the Fraud and Whistleblower Policy are reported during BRC meetings.

Restrictions of Trading

Directors and Management of the Group are subject to trading restrictions set out in the Papua New Guinea Capital Market Act 2015 for buying, selling or subscribing for securities in the Group if they are in possession of inside information. This includes information, which is not generally available, and, if it were generally available, a reasonable person would expect to have a material effect on the price or value of BSP securities.

Furthermore, Directors and Management may only trade in the securities of the Group, subject to the foregoing insider trading restrictions, during each of the trading windows specified in BSP's Securities Dealing Policy. Senior Management is required to request approval from the GCEO ahead of trading, who in turn will keep the Chair of the Board apprised of management activities. Directors are also subject to similar restrictions and must seek approval from the Chair prior to conducting any trades. Other actions such as hedging, margin lending and speculative short term trading are also prohibited under the policy.

Continuous Disclosure

BSP's continuous disclosure regime, set by its Continuous Disclosure Policy, is fundamental to the rights of Shareholders to receive information concerning their securities. An important aspect of BSP's approach to shareholder communication is to comply with the continuous disclosure regime and to implement a best practice disclosure policy.

The Board has delegated the responsibility of reviewing and approving market announcements to the DC. Following approval by the DC, market announcements are issued to the respective exchanges for release to market. Ordinarily, these announcements are reviewed and approved by the Board ahead of issue and release, however in instances where an urgent or unexpected matter arises that warrants immediate disclosure, the DC reviews and approves for release with other Board members notified accordingly following release. In those instances, formal ratification of DC approval takes place at the next Board meeting.

After confirmation of release to the market, all market announcements are immediately posted to BSP's website. As at 31 December 2023, all market announcements made by BSP since 2018 are currently available on the website. Where BSP provides financial results' briefings to analysts or the media, these briefings are published on the BSP website as soon as possible after the event. In any event, no material information, which has not been previously released to the market, is covered in such briefings. The material upon which the briefing is based (such as slides or presentations) is released to the market prior to the briefing.

BSP's insider trading rules are important adjuncts to the continuous disclosure regime in ensuring that Shareholders are given fair access to material information regarding securities. BSP seeks to limit the opportunity for insider trading in its own securities through its Securities Dealing Policy.

Commitment to Shareholders

BSP commits to dealing fairly, transparently and openly with both current and prospective Shareholders using available channels and technologies to communicate widely and promptly. Information about the Company including an overview, our history, Board and Management are available on the website. Our website also contains information on corporate governance including all of BSP's charters and policies.

BSP is dedicated to facilitating participation in Shareholder meetings and dealing promptly with shareholder enquiries. Our Shareholder Communications Policy focuses on compliance with disclosure obligations, whilst aspiring to be at the forefront of best practice in disclosure. Our approach for communicating with Shareholders is to communicate concisely and accurately:

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

To facilitate effective communication between BSP, its shareholders, potential investors, analysts and other financial markets participants, BSP conducts periodic market briefings, which include half and full year results announcements. BSP also hosts events and attends conferences and forums regularly. Stakeholders are given access to BSP

Directors and Senior Management at these events, and any presentation material provided at these events are released as announcements to the market prior to commencement and subsequently uploaded to BSP's website.

The Company's Annual General Meeting is another shareholder forum used to communicate financial performance and strategies, in line with disclosure policies. BSP gives great consideration to its shareholders and hosts its Annual General Meeting at a central location that is accessible and can cater for large audiences. Significant effort is made to ensure shareholders can participate and a meeting guide with sufficient information on how to join, vote and participate accompanies the notice of meeting.

It is noted that the thresholds at which shareholders may demand a poll are low and provide assurance to shareholders wishing to invoke the "one security one vote" principle and wishing to have substantial resolutions decided by a poll.

BSP gives Shareholders the option to send and receive communications from BSP and its share registries electronically. In recent years, we have increased efforts to go paperless and continue to encourage shareholders to provide email addresses by which they can receive digital copies of all shareholder communications.

Compliance with ASX and PNGX corporate governance recommendations

This statement has been approved by the Board of BSP Financial Group Limited and is current as at 31 December 2023. BSP's Appendix 4G (a checklist that cross references the disclosures in this Statement to the ASX Corporate Governance Principles and Recommendations) is available in the Corporate Governance section of the BSP website.

BSP continues to work towards complying with Standards 15, 16 and 17 under the newly issued PNGX Corporate Governance Code. BSP has engaged independent Environmental, Social and Governance (ESG) specialists to understand the most important environmental and social risks and impacts towards which resources would be most appropriately directed. The specialists have employed an

evidence base approach upon which to prioritise BSP's environmental and social risks and opportunities and assist in drafting BSP's inaugural Sustainability Policy.

In addition, our executive team commenced the integration of ESG into BSP's corporate strategy during 2024, and the establishment of an action plan and governing body / assignment of accountabilities for its operationalisation.



Remuneration Report



1.0 Executive Summary

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

2.0 Message from the Remuneration and Nominations Committee Chairman

I am delighted to present the 2023 Remuneration Report for BSP Financial Group Limited (BSP) on behalf of the Remuneration and Nominations Committee (RNC) and the Board.

The Report focuses on the remuneration structure and outcomes for our Key Management Personnel (KMP) for BSP, which includes Non-Executive Directors and Group Executives. Group Executives are BSP employees who have the authority and responsibility to plan, direct, and oversee BSP's operations.

Our Remuneration Strategy

At BSP, we view our people as our most important asset. The objective of our remuneration strategy is to ensure that we can attract and retain talented employees by offering market competitive remuneration, with variable remuneration outcomes aligned with the financial performance of BSP. Section 4 of this Report provides a detailed overview of our fixed and variable remuneration structure, including any additional benefits.

Governance is a fundamental part of our remuneration culture, with the Board approving any executive remuneration packages that are endorsed by the RNC in accordance within BSP remuneration guidelines. Further information on our governance framework can be found in Section 7 of this Report.

BSP's Non-Executive Directors are remunerated on a fixed basis within an aggregate Directors' fee pool. Directors are not paid any retirement or superannuation benefits, nor do they participate in any employee incentive schemes or share option. Further information on our approach to Non-Executive Director remuneration can be found in Section 8 of this Report.

Short Term Incentive (STI) outcomes

All BSP Group employees received performance-based short-term incentives in line with approved comprehensive operational and financial key performance indicators (KPIs) of the STI, plan as outlined in Section 5.1 of this Report.

Long Term Incentive (LTI) outcomes

BSP offers a long-term incentive (LTI) plan that utilises Earnings Per Share (EPS) as the basis for a matrix to calculate LTI payout. For the 2022-2023 LTI, the Earnings per Share (EPS) threshold was determined by adjusting the Statutory NPAT of K890.2 million by K209.0 million, to account for the increase in corporate tax rate change from 30% to 45%. This adjustment led to an amended NPAT of K1,099.2 million, exceeding the threshold for 50% of performance rights. Consequently, the LTI plan vested, and eligible staff received their payments as outlined in Section 5.2 of this Report.

I hope you find this Remuneration Report informative. On behalf of the Remuneration and Nomination Committee I would also like to thank you for your support as a BSP shareholder.

Faamausili Dr. Matagialofi Lua'iufi

Chair BSP Board Remuneration and Nominations Committee

3.0 Key Management Personnel

In 2023, KMP comprised the GCEO, Group Executives and Non-Executive Directors as set out in the table below. KMP is defined as those persons having authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Name	Position	KMP Term
Board Members		
Sir Kostas G. Constantinou, OBE ¹	Chairman	Part year
Robert G. Bradshaw ²	Chairman	Full year
Arthur Sam	Director	Full year
Stuart A. Davis	Director	Full year
Faamausili Dr. Matagialofi Lua'iufi	Director	Full year
Priscilla Kevin	Director	Full year
Frank D. Bouraga	Director	Full year
Symon G. Brewis-Weston	Director	Full year
Patricia F. Taureka-Seruvatu	Director	Full year
Ian A. Tarutia ³	Director	Part year
Executives		
Mark T. Robinson ⁴	Group Chief Executive Officer	Part year
Ronesh Dayal	Group Chief Financial Officer	Full year
Nuni Kulu ⁵	Group Chief Operating Officer	Full year
Frank van der Poll ⁶	Group Chief Operating Officer	Part year
Mike Hallinan ⁷	Group Chief Risk Officer	Part year
Roger Hastie ⁸	Group Chief Risk Officer	Part year
Peter Beswick	Group General Manager Corporate Banking	Full year
Rohan George	Group General Manager Treasury & Markets	Full year
Hari Rabura	Group General Manager Human Resources	Full year
Daniel Faunt	Group General Manager Retail Banking	Full year
Vandhna Narayan	Group General Manager Compliance	Full year
Richard Nicholls ⁹	Group Chief Information Officer	Part year
Maryann Lameko-Vaai	General Manager Pacific Markets	Full year
Mary Johns ¹⁰	Company Secretary	Part year
Jamie-Lee Loh ¹¹	Acting Company Secretary	Part year

¹ Sir Kostas G. Constantinou OBE resigned 28 February 2023

² Robert Bradshaw, appointed Chairman 1 March 2023

³ Ian Tarutia, appointed 21 April 2023

⁴ Mark T Robinson, appointed 1 March 2023

⁵ Nuni Kulu, appointed 27 April 2023

⁶ Frank Van der Poll, resigned 26 April 2023

⁷ Mike Hallinan, appointed 27 March 2023 in an acting role as Group Chief Risk Officer

⁸ Roger Hastie, resigned 16 March 2023

⁹ Richard Nicholls, appointed 1 March 2023

¹⁰ Mary Johns, resigned 14 July 2023

¹¹ Jamie-Lee Loh, appointed 15 July 2023

4.0 Executive Remuneration Framework

BSP's remuneration policy for Executives is comprised of a fixed component and an at risk component, constituting a combination of short term and long term incentives. Remuneration packages are reviewed by the RNC and recommended for approval by the Board. Fixed remuneration is reviewed annually taking into account the nature of the role, comparable market pay levels, and individual and business performance.

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

Executive Remuneration – Non-Statutory Disclosure

All amounts are expressed in K'000

Name	Year	Salary	Short-term incentive	Value of benefits	Final entitlement	Long-term incentive	Leave Encashment	Total
Executives								
Robin Fleming	2023	-	-	-	-	-	-	-
Group Chief Executive Officer	2022	4,103	2,480	55	826	1,653	5,895	15,012
Mark T. Robinson	2023	3,090	2,686	38	-	-	-	5,814
Group Chief Executive Officer	2022	-	-	-	-	-	-	-
Ronesh Dayal	2023	1,497	354	159	-	233	-	2,243
Group Chief Financial Officer	2022	1,308	420	161	-	670	142	2,701
Frank van der Poll	2023	849	-	93	-	-	263	1,203
Group Chief Operating Officer	2022	1,470	374	97	-	670	204	2,815
Michael Hallinan	2023	1,096	263	-	-	-	-	1,359
Group Chief Risk Officer	2022	530	-	17	-	-	471	1,018
Roger Hastie	2023	350	-	7	-	-	178	535
Group Chief Risk Officer	2022	638	200	59	-	376	-	1,273
Peter Beswick	2023	1,361	349	114	-	233	-	2,057
Group General Manager Corporate Banking	2022	1,228	364	116	-	564	-	2,272
Rohan George	2023	1,250	301	59	-	196	-	1,807
Group General Manager Treasury & Markets	2022	1,102	326	61	-	564	50	2,103
Hari Rabura	2023	1,001	224	164	-	154	-	1,543
Group General Manager People & Culture	2022	974	257	186	-	444	72	1,933
Daniel Faunt	2023	1,361	303	204	-	233	-	2,101
Group General Manager Retail	2022	1,237	372	208	-	564	97	2,478

4.0 Executive Remuneration (continued)

Executive Remuneration – Non-Statutory Disclosure (continued)

Name	Year	Salary	Short-term incentive	Value of benefits	Final entitlement	Long-term incentive	Leave Encashment	Total
Executives (continued)								
Vandhna Narayan	2023	1,127	303	33	-	202	-	1,665
Group General Manager Compliance	2022	974	258	34	-	444	15	1,725
Richard Nicholls	2023	1,219	292	52	-	213	-	1,777
Group Chief Information Officer	2022	-	-	-	-	-	-	-
Nuni Kulu	2023	1,090	286	119	-	188	-	1,682
Group Chief Operating Officer	2022	974	278	112	-	444	-	1,808
Maryann Lameko-Vaai	2023	1,078	303	156	-	183	-	1,720
General Manager Pacific Markets	2022	196	-	11	-	-	-	207
Mary Johns	2023	289	-	49	-	-	552	891
Company Secretary	2022	513	139	87	-	246	57	1,042
Jamie-Lee Loh	2023	122	29	37	-	18	-	205
Acting Company Secretary	2022	-	-	-	-	-	-	-

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

4.1 Fixed Remuneration

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

4.2 Short Term Incentive (STI)

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

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

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

4.3 Benefits

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

4.4 Long Term Incentive (LTI) Plan

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

Key features under LTI include:

- i. The Group Earnings Per Share (EPS) is the performance measure or the proxy to share price.
- ii. The vesting period is two years based on BSP's financial year cycle. The performance rights issued in 2021 were vested in 2023.

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

Exercising the performance rights is subject to the condition that BSP's net profit after tax (NPAT) for the vesting year is above BSP's NPAT in the prior year.

Participants are personally responsible for any income tax liability in respect of payments made under the LTI. If a participant resigns due to health reasons or retires prior to vesting, awards may be made in full or pro rata at the time of exit, at the sole discretion of the Board. If a participant resigns, or their employment is terminated on disciplinary grounds prior to vesting, awards are not granted.

4.5 Performance Based

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

i. Annual Salary Review

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

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

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

iii. Leadership and Management Development Program (LMDP)

The BSP LMDP is a three-year program derived specifically for high potential employees who have been identified as possible successors to senior and executive management roles. Participants are nominated by their GMs and approved by the Group CEO.

4.6 Non-Performance Based

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

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

4.7 Retention Plan

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

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

5.0 Linking performance & reward outcomes – Variable Remuneration

The Group's policy is to pay executive STI subsequent to the full audit of the financial statements. The Board determined that a STI award of 80 percent of the target was appropriate for all staff and KMP after assessing performance across Group and divisional/individual performance measures. The senior executive team strongly executed the Group's strategic agenda and demonstrated sound leadership.

5.1 Short Term Incentive (STI) Outcomes

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

	FY19	FY20	FY21	FY22	FY23
Net Profit After Tax (K'000)	890,363	806,218	1,075,218	1,084,720 ¹	890,215 ²
Earnings per Share (toea)	190.6	172.6	230.1	232.2	190.5
Cost to income ratio	37.7%	37.4%	37.5%	38.0%	38.5%

¹ Underlying NPAT on which STI was assessed, excludes one-off tax credits of K135 million and K190 million Additional Company Tax expense. Further, the above excludes K4.0 million credit, reflecting the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

² Underlying NPAT on which STI was assessed, excludes a tax expense of K209 million as a consequence of the change in corporate income tax rate from 30% to 45%.

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

Target Area	Weighting	Measure	Outcomes
Group Performance	15%	Achieve budgeted NPAT and Cost to income ratio	The Group's NPAT, adjusted for the increase in company tax rate to 45% was 8% below budget. Consequently the bonus pool was reduced to 80%, except for the CEO, whereby the Board granted 100% of STI entitlement giving regard to exceptional leadership demonstrated during the year.
Implementation of critical strategic imperatives	50%	Various deliverable targets to be achieved	Key strategic imperatives for the year focused around expanding the Group's digital coverage and capability, achieving milestones with respect to the upgrade of the current core systems and improving compliance.
Individual Assessment	35%	Various Key Performance indicators	Objectives set in these areas were met.

5.1 Short Term Incentive (STI) Outcomes (continued)

The table below shows the STI outcomes for FY23.

Name	Title	STI Awarded K'000	STI as % of Gross Base	Maximum STI K'000	Actual STI % of Maximum STI
Current Executives					
Mark T. Robinson	Group Chief Executive Officer	2,686	70%	2,686	100%
Ronesh Dayal	Group Chief Financial Officer	354	23%	466	76%
Mike Hallinan	Group Chief Risk Officer	263	24%	329	80%
Nuni Kulu	Group Chief Operating Officer	286	23%	375	76%
Peter Beswick	Group General Manager Corporate Banking	349	22%	466	75%
Rohan George	General Manager Treasury & Markets	301	23%	392	77%
Hari Rabura	Group General Manager People & Culture	224	22%	309	73%
Daniel Faunt	Group General Manager Retail	303	20%	466	65%
Vandhna Narayan	Group General Manager Compliance	303	23%	403	75%
Maryann Lameko-Vaai	General Manager Pacific Markets	303	25%	367	83%
Richard Nicholls	Group Chief Information Officer	292	21%	426	69%
Jamie-Lee Loh	Acting Company Secretary	29	24%	37	80%

Note: Percentage of annual gross salary are converted at the AUD exchange rate at date of payment.

5.2 2023 LTI Outcomes

The 2023 LTI reward matrix was approved in November 2021. BSP's LTI uses the earnings per share (EPS) as a proxy for BSP's share price as a determinant for achieving long term value for shareholders. Vesting of the LTI rights is subject to achievement of the target EPS for 2023, which is calculated using the 2023 Group NPAT budget as the baseline with payments based on specified percentages of maximum rights, if 2023 EPS outcome is within the payment band as detailed in the table below.

2023 Hurdles on EPS	EPS target to achieve	Target NPAT (million)	Percentage of Performance rights to exercise
107.5%>	202.3	K945.00	150%
102.5%>	192.9	K901.05	100%
97.5%>	183.4	K857.09	50%

	FY19	FY20	FY21	FY22	FY23
LTI vesting (%)	100%	100%	0%	150%	50%

The Group achieved a NPAT of K890.21 million and EPS was recorded at 190.50 toea, above the 50 percent budget, but below 100 percent EPS and NPAT hurdles set by the Board. Based on these outcomes, the Board determined that 50% LTI will be vested and paid for the 2023 financial year. 2023 EPS targets to achieve were adjusted to consider the increase in the tax rate of 45% from 30%.

5.2 2023 LTI Outcomes (Continued)

The table below shows the LTI outcomes for FY23

Name	Title	LTI Awarded K'000	LTI as % of Gross Base
Current Executives			
Mark T. Robinson	Group Chief Executive Officer	-	-
Ronesh Dayal	Group Chief Financial Officer	233	15%
Mike Hallinan	Group Chief Risk Officer	-	-
Nuni Kulu	Group Chief Operating Officer	188	15%
Peter Beswick	Group General Manager Corporate Banking	233	15%
Rohan George	General Manager Treasury & Markets	196	15%
Hari Rabura	Group General Manager People & Culture	154	15%
Daniel Faunt	Group General Manager Retail	233	15%
Vandhna Narayan	Group General Manager Compliance	202	15%
Maryann Lameko-Vaai	General Manager Pacific Markets	183	15%
Richard Nicholls	Group Chief Information Officer	213	15%
Jamie-Lee Loh	Acting Company Secretary	18	15%

Note: Percentage of annual gross salary are converted at the AUD exchange rate at date of payment.

6.0 Employment Agreements

KMP Contracts

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

GCEO employment agreement

The Group CEO's contractual term is agreed upon between the Board and the employee. The Board approves the GCEO's employment contract which has a 6-month notice period

7.0 Remuneration Policy and Government Framework

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

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

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

7.1 Remuneration and Nominations Committee (RNC)

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

- to oversee the selection and appointment of a Group CEO, and setting an appropriate remuneration and benefits package for recommendation to the full Board;
- to determine and review appropriate remuneration and benefits of Directors for recommendation to the full Board, and subsequently to the shareholders;
- in conjunction with the Group CEO, to identify and maintain a clear succession plan for Executive Management ensuring an appropriate mix of skills, diversity and experience as well as appropriate remuneration and benefits packages are in place and reviewed regularly; and
- to ensure that the Board itself maintains an appropriate mix of skills, diversity and experience necessary to fulfil its responsibilities to shareholders while maintaining a world class Corporate Governance regime.

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

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

8.0 Non-Executive Director Remuneration

Non-Executive Directors are remunerated on a fixed basis within an aggregate Directors' fee pool approved periodically by shareholders.

Under the Constitution, the Board determines the total amount paid to each Non-Executive Director as remuneration, subject to the aggregate amount not exceeding the amount fixed by the Shareholders.

Directors are also reimbursed their reasonable travel and other expenses incurred in attending to BSP business.

Directors may also receive additional remuneration if they perform any additional services at the request of the Board.

Non-Executive Directors are not paid any retirement or superannuation benefits, nor do they participate in any share or share option programs or the employee incentive schemes.

8.1 Fee Pool

BSP Non-Executive Directors are remunerated on a fixed basis within an aggregate Directors "Fee Pool" approved periodically by Shareholders. Shareholders are required to approve any change to this aggregate amount. The current Shareholder approved fee pool is PGK 4.5million. The shareholders approved an increase in the Directors' fee pool to PGK6.0million at the May 2023 Annual General Meeting effective 1 January 2024. Total payments to directors for the 2023 financial year within the fee pool were as follows:

All amounts are expressed in K'000

Name of Director	Base Fee	Chair-person	BACC Fee	BRC Fee	RNC Fee	Bank Total	Sub. Fees	Total Fees
Sir Kostas G. Constantinou, OBE	70	70	-	-	-	140	75	215
Robert G. Bradshaw	365	318	-	-	9	692	-	692
Stuart A. Davis	365	-	25	38	-	427	-	427
Dr Matagialofi Lua'iufi	365	-	-	-	34	399	120	519
Symon G. Brewis-Weston	365	-	25	25	-	415	-	415
Arthur Sam	365	-	38	25	-	427	-	427
Priscilla Kevin	365	-	-	25	13	402	-	402
Frank D. Bouraga	365	-	25	-	-	390	-	390
Patricia F. Taureka-Seruvatu	365	-	13	-	25	402	-	402
Ian A. Tarutia	225	-	13	13	-	250	-	250
Total	3,214	388	138	125	81	3,946	195	4,140

BSP Financial Group Limited and Subsidiaries

ARBN 649 704 656

Financial Statements
31 December 2023





Directors' Report

The Directors take pleasure in presenting the Financial Statements of the BSP Financial Group Limited and its subsidiaries (Bank and the Group) for the year ended 31 December 2023. In order to comply with the provisions of the Companies Act 1997, the Directors report as follows:

Principal activities

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

Review of operations

For the year ended 31 December 2023, the Group's profit after tax was K890.215 million (2022: K1,084.720 million). The Bank's profit after tax was K800.826 million (2022: K1,045.279 million).

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

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

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

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

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

Dividends

Dividends totaling K831.813 million were paid in 2023 (2022: K788.906 million). A detailed breakup of this is provided in note 28.

Directors and officers

The following were directors of the BSP Financial Group Limited at 31 December 2023:

Mr Robert G. Bradshaw	Mr Mark T. Robinson	Mr Arthur Sam	Mr Symon G. Brewis-Weston
Mr Stuart A. Davis	Dr Matagialofi Lua'iufi	Ms Priscilla Kevin	Mr Frank D. Bouraga
Mrs Patricia F. Taureka-Seruvatu	Mr Ian A. Tarutia		

Details of directors' tenure and directors and executives' remuneration during the year are provided in Note 36 of the Notes to the Financial Statements. The Group CEO Mark T. Robinson was the only executive director.

The acting company secretary is Jamie-Lee Loh.

Independent auditor's report

The financial statements have been audited and should be read in conjunction with the independent auditor's report on page 126. Details of amounts paid to the auditors for audit and other services are shown in Note 38 of the Notes to the Financial Statements.

Donations and sponsorships

Donations and sponsorship by the Group during the year amounted to K7.577 million (2022: K5.942 million).

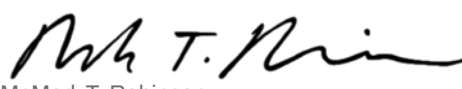
Change in accounting policies

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

For, and on behalf of, the Directors.

Dated and signed in accordance with a resolution of the Directors in Port Moresby this 21st day of February 2024.


Mr Robert G. Bradshaw
Chairman


Mr Mark T. Robinson
Group Chief Executive Officer & Managing Director

Statements of Comprehensive Income

for the Year Ended 31 December 2023

All amounts are expressed in K'000	Note	Consolidated		Bank	
		2023	2022 (restated)	2023	2022
Interest income	3	1,962,928	1,834,996	1,849,145	1,727,733
Interest expense	3	(118,097)	(89,936)	(110,447)	(78,578)
Net interest income		1,844,831	1,745,060	1,738,698	1,649,155
Net fee and commission income	4	427,592	419,042	385,346	384,767
Other income	4	488,719	394,686	469,894	408,442
Net insurance operating income	31	61,236	43,875	-	-
Net operating income before impairment and operating expenses		2,822,378	2,602,663	2,593,938	2,442,364
Impairment of financial assets	6	(182,195)	5,359	(165,562)	15,170
Operating expenses	5	(1,086,790)	(989,263)	(1,002,105)	(912,980)
Additional company tax	7	-	(190,000)	-	(190,000)
Profit before income tax		1,553,393	1,428,759	1,426,271	1,354,554
Income tax expense	7	(663,178)	(344,039)	(625,445)	(309,275)
Net profit for the year		890,215	1,084,720	800,826	1,045,279
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Translation of financial information of foreign operations to presentation currency	29	94,112	(53,434)	48,551	(28,345)
Items that will not be reclassified to profit or loss:					
Recognition of deferred tax on asset revaluation reserve movement	29	615	1,581	615	1,581
Fair value gain/ (loss) on re-measurement of investment securities	29	-	(82)	-	(82)
Net movement in asset revaluation reserve	29	38,349	42	28,048	-
Other comprehensive income, net of tax		133,076	(51,893)	77,214	(26,846)
Total comprehensive income for the year		1,023,291	1,032,827	878,040	1,018,433
Earnings per share - basic and diluted (toea)	8	190.5	232.2	171.4	223.7

Comparatives for prior periods have been restated to reflect the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

The attached note forms an integral part of these financial statements

Statements of Financial Position

as at 31 December 2023

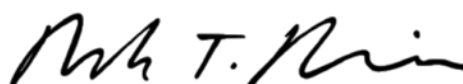
All amounts are expressed in K'000	Note	Consolidated		Bank	
		2023	2022 (restated)	2023	2022
ASSETS					
Cash and operating balances with Central Banks	10	3,306,085	3,761,635	2,430,613	3,041,858
Amounts due from other banks	11	1,779,677	1,737,981	1,595,587	1,665,094
Treasury and Central Bank Bills	12	3,803,598	4,128,340	3,768,110	4,097,350
Cash reserve requirement with Central Banks	13	2,841,812	2,517,159	2,699,236	2,418,532
Other financial assets	14	6,373,451	4,789,153	5,741,162	4,210,845
Loans and receivables from customers	15	16,013,022	14,249,401	14,802,133	13,077,909
Property, plant and equipment		1,034,741	958,036	765,075	745,692
Aircraft subject to operating lease		32,387	28,664	32,387	28,664
Investment in subsidiaries	32	-	-	390,635	399,361
Deferred tax assets	7	329,288	342,611	323,233	336,108
Other assets	16	1,437,226	1,238,706	680,138	573,811
Total assets		36,951,287	33,751,686	33,228,309	30,595,224
LIABILITIES					
Amounts due to other banks	17	363,665	272,272	604,785	529,592
Customer deposits	18	29,835,111	26,919,361	27,911,977	25,194,893
Insurance contract liabilities	31	1,249,512	1,067,694	-	-
Other liabilities	19	1,197,889	1,392,030	1,072,358	1,282,484
Deferred tax liabilities	7	61,780	48,427	-	-
Total liabilities		32,707,957	29,699,784	29,589,120	27,006,969
SHAREHOLDERS' EQUITY					
Ordinary shares	28	372,110	372,110	372,110	372,110
Retained earnings	29	3,415,689	3,359,184	2,963,899	2,991,169
Other reserves	29	454,830	319,881	303,180	224,976
Equity attributable to the members of the company		4,242,629	4,051,175	3,639,189	3,588,255
Minority interests		701	727	-	-
Total shareholders' equity		4,243,330	4,051,902	3,639,189	3,588,255
Total equity and liabilities		36,951,287	33,751,686	33,228,309	30,595,224

Comparatives for prior periods have been restated to reflect the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

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



Mr Robert G. Bradshaw
Chairman



Mr Mark T. Robinson
Group Chief Executive Officer &
Managing Director

Statements of Changes in Shareholders' Equity

for the Year Ended 31 December 2023

All amounts are expressed in K'000						
	Note	Share capital	Reserves	Retained earnings (restated)	Minority interests	Total
GROUP						
Balance as at 1 January 2022		372,133	396,929	3,025,125	778	3,794,965
Transition to IFRS 17 impact	31	-	-	36,251	-	36,251
Restated balance beginning of year		372,133	396,929	3,061,376	778	3,831,216
Net profit		-	-	1,084,720	-	1,084,720
Other comprehensive income		-	(51,893)	-	-	(51,893)
Total comprehensive income		-	(51,893)	1,084,720	-	1,032,827
Dividends paid during the year	28	-	-	(788,729)	(177)	(788,906)
Share buyback	28	(23)	-	-	-	(23)
Gain attributable to minority interests		-	-	(126)	126	-
Total transactions with owners		(23)	-	(788,855)	(51)	(788,929)
Transfer from asset revaluation reserve	29	-	(5,414)	5,270	-	(144)
Impact of change in PNG tax rate		-	(23,068)	-	-	(23,068)
BSP Life policy reserve	29	-	3,327	(3,327)	-	-
Balance at 31 December 2022		372,110	319,881	3,359,184	727	4,051,902
Net profit		-	-	890,215	-	890,215
Other comprehensive income		-	133,076	-	-	133,076
Total comprehensive income		-	133,076	890,215	-	1,023,291
Dividends paid during the year	28	-	-	(831,616)	(197)	(831,813)
Gain attributable to minority interests		-	-	(171)	171	-
Total transactions with owners		-	-	(831,787)	(26)	(831,813)
Transfer from asset revaluation reserve	29	-	(1,632)	1,632	-	-
Others		-	1,053	(1,103)	-	(50)
BSP Life policy reserve	29	-	2,452	(2,452)	-	-
Balance at 31 December 2023		372,110	454,830	3,415,689	701	4,243,330
BANK						
Balance as at 1 January 2022		372,133	276,833	2,728,885	-	3,377,851
Net profit		-	-	1,045,279	-	1,045,279
Other comprehensive income		-	(26,846)	-	-	(26,846)
Total comprehensive income		-	(26,846)	1,045,279	-	1,018,433
Dividends paid during the year	28	-	-	(784,938)	-	(784,938)
Share buyback	28	(23)	-	-	-	(23)
Total transactions with owners		(23)	-	(784,938)	-	(784,961)
Transfer from asset revaluation reserve	29	-	(5,270)	5,270	-	-
Impact of change in PNG tax rate		-	(23,068)	-	-	(23,068)
BSP Life policy reserve	29	-	3,327	(3,327)	-	-
Balance at 31 December 2022		372,110	224,976	2,991,169	-	3,588,255
Net profit		-	-	800,826	-	800,826
Other comprehensive income		-	77,214	-	-	77,214
Total comprehensive income		-	77,214	800,826	-	878,040
Dividends paid during the year	28	-	-	(827,106)	-	(827,106)
Total transactions with owners		-	-	(827,106)	-	(827,106)
Transfer from asset revaluation reserve	29	-	(1,462)	1,462	-	-
BSP Life policy reserve	29	-	2,452	(2,452)	-	-
Balance at 31 December 2023		372,110	303,180	2,963,899	-	3,639,189

Comparatives for prior periods have been restated to reflect the modified retrospective transition to the new accounting standard IFRS 17 (Insurance contracts), which came into effect on 1 January 2023.

Statements of Cash Flows

for the Year Ended 31 December 2023

		Consolidated		Bank	
All amounts are expressed in K'000	Note	2023	2022 (restated)	2023	2022 (restated)
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		1,811,037	1,823,009	1,737,885	1,717,557
Fees and other income		950,266	737,974	884,782	792,563
Interest paid		(125,932)	(78,673)	(91,395)	(61,174)
Insurance premiums		266,148	235,092	-	-
Claims, surrenders and maturity payments		(166,366)	(144,191)	-	-
Additional company tax	7	-	(190,000)	-	(190,000)
Amounts paid to suppliers and employees		(1,160,925)	(939,286)	(1,119,853)	(894,619)
Operating cash flow before changes in operating assets and liabilities	9	1,574,228	1,443,925	1,411,419	1,364,327
Net increase in:					
Loans and receivables from customers		(1,443,252)	(852,167)	(1,501,138)	(852,957)
Cash reserve requirements with the Central Banks		(290,437)	(814,895)	(255,308)	(805,127)
Bills receivable and other assets		(170,641)	(169,652)	(75,588)	(73,007)
Net increase in:					
Customer deposits		2,450,609	3,250,081	2,388,419	3,056,061
Bills payable and other liabilities		336,869	256,378	244,222	171,559
Net cash flow from operations before income tax		2,457,376	3,113,670	2,212,026	2,860,856
Income taxes paid	7	(705,969)	(455,500)	(677,287)	(432,995)
Net cash flow from operating activities		1,751,407	2,658,170	1,534,739	2,427,861
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of government securities		(1,207,993)	(210,708)	(1,193,155)	(224,827)
Expenditure on property, plant and equipment		(74,798)	(120,568)	(39,289)	(103,531)
Expenditure on software development costs		(82,549)	(52,313)	(81,848)	(52,299)
Proceeds from disposal of assets		1,513	4,129	1,493	4,127
Additional funding of subsidiaries	32	-	-	-	(10,563)
Net cash flow used in investing activities		(1,363,827)	(379,460)	(1,312,799)	(387,093)
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback	28	-	(23)	-	(23)
Dividends paid	28	(831,813)	(788,906)	(827,106)	(784,938)
Payment of interest on borrowings		(9,533)	(14,395)	(9,533)	(14,395)
Repayment of principal on borrowings		(246,479)	-	(246,479)	-
Net cash flow used in financing activities		(1,087,825)	(803,324)	(1,083,118)	(799,356)
Net increase/(decrease) in cash and cash equivalents		(700,245)	1,475,386	(861,178)	1,241,412
Exchange rate movements on cash and cash equivalents		194,998	(125,999)	105,233	(86,796)
Cash and cash equivalents at the beginning of the year		5,227,344	3,877,957	4,177,360	3,022,744
Cash and cash equivalents at the end of the year	9	4,722,097	5,227,344	3,421,415	4,177,360

Comparative period amount have been reinstated to conform to presentation in the current year.

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

1. Financial Statements Preparation

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

A. Basis of Presentation and General Accounting Policies

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

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

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

Standards, amendments and interpretations effective in the year ended 31 December 2023

The following standards, amendments and interpretations to existing standards became applicable for the first time during the accounting period beginning 1 January 2023.

- IFRS 17, Insurance Contracts. This standard replaced IFRS 4, which permitted a wide variety of practices in accounting for insurance contracts. IFRS 17 fundamentally changes the accounting by all entities that issue insurance contracts. Refer to Note 31 Insurance.
- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8. The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction. These amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
- Amendment to IAS 12 - International tax reform. These amendments give companies temporary relief from accounting for deferred taxes arising from the Minimum Tax Implementation Handbook international tax reform. The amendments also introduce targeted disclosure requirements for affected companies.

The above changes did not have any material impact on the Group except for IFRS 17 impact on the life insurance business.

Standards, amendments and interpretations issued but not yet effective for the year ended 31 December 2023 or adopted early

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the entity's accounting periods beginning on or after 1 January 2023 or later periods, but the entity has not early adopted them:

- Amendment to IFRS 16 – Leases on sale and leaseback (effective 1 January 2024). These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

Notes to the Financial Statements

for the Year Ended 31 December 2023

1. Financial Statements Preparation (*continued*)

A. Basis of Presentation and General Accounting Policies (*continued*)

- Amendment to IAS 1 – Non-current liabilities with covenants (effective 1 January 2024). These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.
- Amendment to IAS 7 and IFRS 7 - Supplier finance (effective 1 January 2024 - with transitional reliefs in the first year). These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.
- Amendments to IAS 21 - Lack of Exchangeability (1 January 2025 - early adoption is available). An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

New IFRS sustainability disclosure standards effective after 1 January 2024

- IFRS S1, 'General requirements for disclosure of sustainability-related financial information (effective 1 January 2024 - This is subject to endorsement by the Accounting Standards Board of PNG). This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.
- IFRS S2, 'Climate-related disclosures' (effective 1 January 2024 - This is subject to endorsement by the Accounting Standards Board of PNG). This is the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities.

B. Consolidation

The Financial Statements incorporate the assets and liabilities of all controlled entities of the Group as at 31 December 2023, and their results for the year then ended.

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

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

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

All intercompany transactions and balances are eliminated.

C. Foreign currency

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

1. Financial Statements Preparation *(continued)*

C. Foreign currency *(continued)*

Foreign operations

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

D. Critical accounting estimates and judgments

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

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

The areas involving significant estimates and judgments are:

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

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

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

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

Financial Performance

2. Segment Reporting

Accounting Policy

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

For management purposes, segment information determination is based on the risks involved with the provision of core banking services and products and the Bank and Group's management reporting system. The main business lines/segments for management purposes are banking services, split into PNG Bank and Pacific Markets 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, Cambodia and Lao. Inter segment adjustments reflect elimination entries in respect of inter segment income and expense allocations including funds transfer pricing.

Consolidated	PNG Bank	Pacific Markets	Non-Bank Entities	Adjust Inter Segments	Total
<i>All amounts are expressed in K'000</i>					
Analysis by segments					
Year ended 31 December 2023					
Net interest income	1,479,288	329,803	35,406	334	1,844,831
Other income	666,830	279,243	26,263	(56,025)	916,311
Net insurance income	-	-	60,642	594	61,236
Total operating income	2,146,118	609,046	122,311	(55,097)	2,822,378
Operating expenses	(836,291)	(242,190)	(17,807)	9,498	(1,086,790)
Impairment expenses	(161,378)	(9,523)	(11,294)	-	(182,195)
Profit before income tax	1,148,449	357,333	93,210	(45,599)	1,553,393
Income tax	(559,079)	(84,976)	(19,123)	-	(663,178)
Net profit after income tax	589,370	272,357	74,087	(45,599)	890,215
Assets	25,964,685	10,560,798	2,264,240	(1,838,436)	36,951,287
Liabilities	(23,119,456)	(9,165,332)	(1,652,013)	1,228,844	(32,707,957)
Net assets	2,845,229	1,395,466	612,227	(609,592)	4,243,330
Year ended 31 December 2022					
	PNG Bank	Pacific Markets	Non-Bank Entities (restated)	Adjust Inter Segments	Total (restated)
Net interest income	1,432,559	278,906	33,212	383	1,745,060
Other income	622,690	240,044	25,683	(74,689)	813,728
Net insurance income	-	-	44,182	(307)	43,875
Total operating income	2,055,249	518,950	103,077	(74,613)	2,602,663
Operating expenses	(759,305)	(217,264)	(18,609)	5,915	(989,263)
Impairment expenses	14,816	(5,698)	(3,759)	-	5,359
Additional company tax	(190,000)	-	-	-	(190,000)
Profit before income tax	1,120,760	295,988	80,709	(68,698)	1,428,759
Income tax	(255,511)	(69,391)	(19,137)	-	(344,039)
Net profit after income tax	865,249	226,597	61,572	(68,698)	1,084,720
Assets (restated)	24,245,059	9,310,447	1,944,540	(1,748,360)	33,751,686
Liabilities (restated)	(21,307,155)	(8,110,824)	(1,379,091)	1,097,286	(29,699,784)
Net assets (restated)	2,937,904	1,199,623	565,449	(651,074)	4,051,902

Notes to the Financial Statements

for the Year Ended 31 December 2023

3. Net Interest Income

Accounting Policy

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

Interest income includes coupons earned on Government inscribed stock, accrued discounts and premiums on Treasury and Central Bank bills. Interest income is recognised for Stage 1 and Stage 2 financial assets measured at amortised cost by applying the EIR to gross carrying amounts of the financial instruments. For Stage 3 financial instruments, interest income is recognised by applying EIR on the net carrying value of the financial instrument.

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

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Interest income				
Loans and receivables from customers ¹	1,315,235	1,190,929	1,204,163	1,084,078
Other financial assets - inscribed stock	419,474	369,239	418,144	367,895
Treasury bills	154,207	241,058	154,168	240,997
Central Bank bills	7,638	5,799	7,588	5,798
Cash and balances with Central Banks	31,393	12,552	42,698	16,735
Other	34,981	15,419	22,384	12,230
Total interest income	1,962,928	1,834,996	1,849,145	1,727,733
Less: Interest expense				
Customer deposits	100,397	73,228	82,088	59,219
Other banks	11,729	13,065	22,719	16,029
Other borrowings	5,971	3,643	5,640	3,330
Total interest expense	118,097	89,936	110,447	78,578
Net interest income	1,844,831	1,745,060	1,738,698	1,649,155

¹ Group interest income includes K23.428million (Bank K19.788million) recognised on impaired loans (Stage 3) to customers, 2022: K18.611million (Bank K14.487million). The Group takes up required provisions on such interest income as detailed in the accounting policy in note 15.

4. Non-Interest Income

Accounting Policy

Fee and commission income

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

4. Non-Interest Income (continued)

Foreign exchange income or losses

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

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Net fee and commission income				
Product related	157,779	188,823	144,225	173,453
Trade and international related	20,711	22,683	17,981	19,924
Electronic banking related	213,387	174,298	197,975	169,171
Other	35,715	33,238	25,165	22,219
	427,592	419,042	385,346	384,767
Other income				
Foreign exchange related ¹	457,707	362,333	399,362	319,773
Operating lease rentals	4,535	5,153	4,535	5,153
Other	26,477	27,200	65,997	83,516
	488,719	394,686	469,894	408,442

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

5. Operating Expenses

Accounting Policy

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

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

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

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

5. Operating Expenses (continued)

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Administration	95,241	128,047	80,763	114,492
Computing	215,183	167,404	193,086	152,744
Depreciation	80,733	77,714	74,773	71,633
Amortisation of software costs	46,383	38,991	46,122	38,734
Non-executive directors costs	4,646	4,334	4,326	3,735
Non-lending losses	42,802	11,791	44,101	11,059
Fixed asset impairment expenses	68	1,853	64	1,853
Premises and equipment	106,732	104,122	99,832	97,753
	591,788	534,256	543,067	492,003
Staff costs				
Wages and salaries	388,356	368,778	358,855	340,750
Defined contribution plans	19,973	18,484	18,065	16,722
Statutory benefit contributions	14,276	10,169	13,186	9,232
Other staff benefits	72,397	57,576	68,932	54,273
	495,002	455,007	459,038	420,977
	1,086,790	989,263	1,002,105	912,980

6. Impairment of Financial Assets

Accounting Policy

Impairment

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 and reductions in provisions are credited to the provision for loan losses in the Statement of Comprehensive Income.

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

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

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

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

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

Loans and receivables from customers (note 15)	172,615	(2,667)	155,917	(12,514)
Treasury and Central Bank Bills (note 12)	(644)	(5,114)	(583)	(5,114)
Other financial assets (note 14)	10,224	2,422	10,228	2,458
	182,195	(5,359)	165,562	(15,170)

Notes to the Financial Statements

for the Year Ended 31 December 2023

7. Income Tax

Accounting Policy

Current Tax

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

Deferred tax

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them is realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

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

Critical accounting assumptions and estimates

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

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Income tax expense				
Current tax	664,841	433,410	634,630	411,729
Deferred tax	1,643	46,914	(6,909)	35,110
Current year	666,484	480,324	627,721	446,839
Adjustment to prior year estimates	(3,306)	(754)	(2,276)	(2,033)
Impact of PNG tax rate change ¹	-	(135,531)	-	(135,531)
	663,178	344,039	625,445	309,275
Tax calculated at 45% (2022:30%) of Bank profit before tax	641,822	406,366	641,822	406,366
Tax calculated at respective subsidiary tax rates	39,000	28,498	-	-
Expenses not deductible for tax purposes	9,138	60,025	3,270	58,502
Tax loss not recognized	8,610	6,278	-	-
Income not recognised for tax purposes	(32,086)	(20,843)	(17,371)	(18,029)
Impact of PNG tax rate change ¹	-	(135,531)	-	(135,531)
Adjustment to prior year estimates	(3,306)	(754)	(2,276)	(2,033)
	663,178	(344,039)	625,445	309,275

Notes to the Financial Statements

for the Year Ended 31 December 2023

7. Income Tax (continued)

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Tax (payable)/receivable				
At 1 January	(2,507)	(30,399)	(4,104)	(30,263)
Income tax provision	(664,841)	(433,410)	(634,630)	(411,729)
Adjustment to prior year estimates	3,064	5,661	2,283	4,893
Other tax related items	(1,652)	141	-	-
Foreign tax paid	24,241	20,927	-	-
Tax payments made	681,728	434,573	677,287	432,995
At 31 December	40,033	(2,507)	40,836	(4,104)

Deferred tax balances are represented by the tax effect of the following items:

Specific allowance for losses on loans and receivables from customers	82,861	63,427	76,335	58,446
General allowance for losses on loans and receivables from customers	180,896	179,539	176,949	174,847
Employee related provisions	44,058	37,838	42,580	35,986
Prepaid expenses	(684)	(1,048)	(193)	(1,439)
Other provisions	22,671	29,679	79,741	77,285
Property, plant and equipment	(86,715)	(51,091)	(73,854)	(42,998)
Unrealised foreign exchange gains	(541)	(1,168)	(541)	(1,168)
Accruals	24,962	37,008	22,216	35,149
At 31 December	267,508	294,184	323,233	336,108
Represented by:				
Deferred tax asset	329,288	342,611	323,233	336,108
Deferred tax liability	(61,780)	(48,427)	-	-
At 31 December	267,508	294,184	323,233	336,108
Deferred taxes movement:				
At 1 January	294,184	229,827	336,108	261,795
Current year movement	(1,643)	(46,914)	6,909	(35,110)
Adjustment to prior year estimates	(242)	4,907	7	2,860
Impact of PNG tax rate change ¹	-	112,463	-	112,463
Other movements	(24,791)	(6,099)	(19,791)	(5,900)
At 31 December	267,508	294,184	323,233	336,108

¹ The PNG Government levied the Additional Company Tax (the Tax) applicable to financial year 2022. The Tax was a flat K190 million on any bank that has over 40% market share of financial assets. The Tax was non-deductible for tax purposes, and had a direct impact on BSP's net profit after tax for 2022.

On 2 December 2022, the PNG Government passed an amendment, which discontinued the Additional Company Tax effective 1 January 2023. Simultaneously, a separate amendment was passed increasing the income tax rate for all PNG Commercial Banks from 30% to 45%, effective 1 January 2023. The tax rate change for financial year 2023 increased tax expenses by K209 million, with a corresponding reduction in Group profits.

Notes to the Financial Statements

for the Year Ended 31 December 2023

8. Earnings per Ordinary Share

Accounting Policy

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

	Consolidated		Bank	
	2023	2022 (restated)	2023	2022
<i>All amounts are expressed in K'000</i>				
Net profit attributable to shareholders (K'000)	890,215	1,084,720	800,826	1,045,279
Weighted average number of ordinary shares in use (000)	467,220	467,223	467,220	467,223
Basic and diluted earnings per share (expressed in toea)	190.5	232.2	171.4	223.7

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

9. Reconciliation of Operating Cash Flow

Reconciliation of net profit after tax to operating cash flow before changes in operating assets and liabilities

Net profit after tax	890,215	1,084,720	800,826	1,045,279
Add: Tax expense	663,178	344,039	625,445	309,275
Profit before income tax	1,553,393	1,428,759	1,426,271	1,354,554
Major non cash amounts				
Depreciation	80,733	77,714	74,773	71,633
Amortisation of software costs	46,383	38,991	46,122	38,734
Net gain on sale of fixed assets	(2,356)	(3,515)	(2,038)	(2,508)
Impairment on financial assets	182,195	(5,359)	165,562	(15,170)
Movement in payroll provisions	9,247	(9,888)	8,908	(10,410)
Impairment of fixed assets	68	1,853	64	1,853
Net changes in assets and liabilities	(295,435)	(84,630)	(308,243)	(74,359)
Operating cash flow before changes in operating assets and liabilities	1,574,228	1,443,925	1,411,419	1,364,327

Cash and cash equivalents

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

Cash and balances with Central Banks (note 10)	3,306,085	3,761,635	2,430,613	3,041,858
Amounts due from other banks (note 11) ¹	1,779,677	1,737,981	1,595,587	1,665,094
Amounts due to other banks (note 17)	(363,665)	(272,272)	(604,785)	(529,592)
	4,722,097	5,227,344	3,421,415	4,177,360

¹ Amounts due from other banks includes deposits of K61.242 million (2022: K57.856 million) held with counter-party banks that are not available for use by the Group.

Notes to the Financial Statements

for the Year Ended 31 December 2023

Financial Instruments: Financial Assets

Accounting Policy

Recognition

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

Modification of loans

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

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

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

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

De-recognition

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

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

Classification and measurement

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

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

Financial Instruments: Financial Assets *(continued)*

Classification and measurement (continued)

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

Debt instruments

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

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

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

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

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

Equity securities

Equity securities are measured at FVOCI where they:

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

Otherwise, they are measured at FVIS.

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

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

Financial Instruments: Financial Assets (continued)

Derivative financial instruments and acceptances

Forward foreign exchange contracts entered into for trading purposes are initially recognised at fair value and subsequently re-measured at fair value based upon the forward rate. Gains and losses on such contracts are taken to the Statement of Comprehensive Income.

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

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

10. Cash and Operating Balances with Central Banks

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Notes, coins and cash at bank	707,416	574,100	612,198	506,296
Balances with Central Banks other than statutory deposit	2,598,669	3,187,535	1,818,415	2,535,562
At 31 December	3,306,085	3,761,635	2,430,613	3,041,858

11. Amounts Due from Other Banks

Items in the course of collection	70,304	61,316	70,307	61,316
Placements with other banks	1,709,373	1,676,665	1,525,280	1,603,778
At 31 December	1,779,677	1,737,981	1,595,587	1,665,094

12. Treasury and Central Bank Bills

Treasury and Central Bank Bills - face value	3,857,037	4,210,746	3,827,169	4,189,940
Unearned interest	(36,488)	(69,522)	(37,205)	(70,153)
Less allowance for impairment	(21,969)	(22,613)	(21,854)	(22,437)
	3,798,580	4,118,611	3,768,110	4,097,350

Financial assets carried at fair value through profit and loss

Treasury Bills at fair value	5,018	9,729	-	-
At 31 December	3,803,598	4,128,340	3,768,110	4,097,350
Allowance for impairment				
At 1 January	22,613	27,727	22,437	27,551
Provision for impairment	(644)	(5,114)	(583)	(5,114)
At 31 December	21,969	22,613	21,854	22,437

13. Cash Reserve Requirement with Central Banks

The Bank and the Group comply with the Cash Reserve Requirement ("CRR") set by the regulatory authorities of the jurisdictions that it operates in. The CRR specifies that a bank must hold an amount equal to a percentage of its total customer deposits in the form of cash in an account maintained by the respective Central Banks. The Bank and Group comply with this requirement on an ongoing basis. CRR applicable for each jurisdiction at balance date were: PNG 10% (2022: 10%), Fiji 10% (2022: 10%), Solomon Islands 5% (2022: 5%), Samoa 4.5% (2022: 4.5%), Tonga 10% (2022: 10%) and Vanuatu 5.25% (2022: 5.25%).

Notes to the Financial Statements

for the Year Ended 31 December 2023

14. Other Financial Assets

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Inscribed Stock - issued by Central Bank	5,815,175	4,273,842	5,774,422	4,233,877
Less allowance for impairment	(33,460)	(23,236)	(33,260)	(23,032)
	5,781,715	4,250,606	5,741,162	4,210,845
Financial assets carried at fair value through profit and loss:				
Government Inscribed Stock	277,876	246,719	-	-
Equity securities	313,860	291,828	-	-
At 31 December	6,373,451	4,789,153	5,741,162	4,210,845
Allowance for impairment				
At 1 January	23,236	20,814	23,032	20,574
Provision for impairment	10,224	2,422	10,228	2,458
At 31 December	33,460	23,236	33,260	23,032

15. Loans and Receivables from Customers

Accounting Policy

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

	Consolidated		Bank	
	2023	2022 (restated)	2023	2022
<i>All amounts are expressed in K'000</i>				
Overdrafts	1,329,034	977,113	1,266,512	915,566
Lease financing	187,292	198,969	165,604	161,562
Term Loans	12,320,061	10,928,676	11,550,128	10,220,097
Mortgages	2,888,873	2,786,758	2,465,798	2,364,110
Gross loans and receivables from customers net of unearned interest	16,725,260	14,891,516	15,448,042	13,661,335
Less allowance for losses on loans and receivables from customers	(712,238)	(642,115)	(645,909)	(583,426)
At 31 December	16,013,022	14,249,401	14,802,133	13,077,909

The spread of the loans is detailed in the maturity analysis table in Note 23. The loans are well-diversified across various sectors and are further analysed in Note 22. Allowance for losses includes K97.057 million (Bank K83.055 million), 2022: K77.227 million (Bank K64.997 million) provision taken up for interest recognised on stage 3 loans.

Notes to the Financial Statements

for the Year Ended 31 December 2023

15. Loans and Receivables from Customers (continued)

Accounting Policy (continued)

Lease financing

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

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Gross investment in finance lease receivable				
Not later than 1 year	12,203	34,501	11,214	32,514
Later than 1 year and not later than 5 years	190,300	185,781	164,258	143,911
	202,503	220,282	175,472	176,425
Unearned future finance income				
Not later than 1 year	(1,114)	(4,441)	(1,094)	(4,340)
Later than 1 year and not later than 5 years	(14,097)	(16,872)	(8,774)	(10,523)
	(15,211)	(21,313)	(9,868)	(14,863)
Present value of minimum lease payments receivable	187,292	198,969	165,604	161,562
Present value of minimum lease payments receivable is analysed as follows:				
Not later than 1 year	11,089	30,060	10,120	28,174
Later than 1 year and not later than 5 years	176,203	168,909	155,484	133,388
At 31 December	187,292	198,969	165,604	161,562

Allowance for Expected Credit Losses

Accounting Policy

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

The ECL determined under IFRS 9 is recognised as follows:

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

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.

Notes to the Financial Statements

for the Year Ended 31 December 2023

15. Loans and Receivables from Customers *(continued)*

Allowance for Expected Credit Losses *(continued)*

Model stages

The three stages are as follows:

Stage 1: 12 months ECL - performing

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

Stage 2: Lifetime ECL – performing

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

Stage 3: Lifetime ECL – non-performing

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

Collective and individual assessment

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

Expected life

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

15. Loans and Receivables from Customers *(continued)*

Allowance for Expected Credit Losses *(continued)*

Significant increase in credit risk

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

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

Customers in hardship arrangements are normally treated as an indication of a significant increase in credit risk.

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

Probability weighting of each scenario

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

- Base case scenario
This scenario utilises external economic forecasts used for strategic decision making and forecasting, resulting in the base case representing comparable market average default rates.
- Upside scenario
This scenario represents a modest improvement on the base case scenario, resulting in lower than market average default rates.
- Downside scenario
This scenario represents a moderate recession, with higher than market average default rates.

Forward looking macroeconomic information

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

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

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

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.

Notes to the Financial Statements

for the Year Ended 31 December 2023

15. Loans and Receivables from Customers (continued)

Allowance for Expected Credit Losses (continued)

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	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Provision for impairment				
Movement in allowance for losses on loans and receivables from customers:				
Balance at 1 January	642,115	725,533	583,426	667,524
Net new and increased provisioning / (release of provisions)	92,654	33,128	74,710	23,086
Loans written off against provisions / (write back of provisions no longer required)	(22,531)	(116,546)	(12,227)	(107,184)
At 31 December	712,238	642,115	645,909	583,426
Provision for impairment is represented by;				
Collective provision for on balance sheet exposure	365,935	345,363	341,734	321,014
Individually assessed or specific provision	291,497	225,671	252,688	194,877
Total provisions for on balance sheet exposure	657,432	571,034	594,422	515,891
Collective provision for off balance sheet exposure	54,806	71,081	51,487	67,535
At 31 December	712,238	642,115	645,909	583,426
Loan impairment expense				
Net collective provision funding	(1,640)	(25,282)	(165)	(16,239)
Net new and increased individually assessed provisioning	94,294	58,410	74,875	39,325
Total new and increased provisioning/(release of provisions)	92,654	33,128	74,710	23,086
Recoveries	(77,833)	(64,121)	(75,569)	(62,057)
Net write off	157,794	28,326	156,776	26,457
At 31 December	172,615	(2,667)	155,917	(12,514)

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

15. Loans and Receivables from Customers (continued)

The impact of the factors on the Group's 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 (restated)	Stage 2	Stage 3	Total (restated)
1 January 2022	11,913,896	1,909,091	526,042	14,349,029
Transfers to/ (from)				
Stage 1	(294,713)	223,927	70,786	-
Stage 2	521,995	(577,144)	55,149	-
Stage 3	-	1,330	(1,330)	-
Net financial assets originated	1,038,201	(207,047)	(169,215)	661,939
IFRS 17 restatement	(119,452)	-	-	(119,452)
Total movement in EAD during the year	1,146,031	(558,934)	(44,610)	542,487
31 December 2022	13,059,927	1,350,157	481,432	14,891,516
ECL - Loans and receivables from customers				
1 January 2022	217,763	178,386	277,077	673,226
Transfers to/(from)				
Stage 1	(5,483)	4,622	861	-
Stage 2	57,458	(61,822)	4,364	-
Stage 3	-	78	(78)	-
Net financial assets originated	(39,979)	(11,292)	22,910	(28,361)
Transfers between stages	(12,763)	(10,863)	6,190	(17,436)
Movements due to risk parameter and other changes	19,476	9,782	30,893	60,151
Total net P&L charge/ (release) during 2022	18,709	(69,495)	65,140	14,354
Loans written off against provision/(write back of provision no longer required)	-	-	(116,546)	(116,546)
31 December 2022	236,472	108,891	225,671	571,034
EAD - Loans and receivables from customers				
1 January 2023	13,059,927	1,350,157	481,432	14,891,516
Transfers to/(from)				
Stage 1	(351,029)	270,059	80,970	-
Stage 2	462,385	(641,612)	179,227	-
Stage 3	-	4,254	(4,254)	-
Net financial assets originated	2,214,747	(308,028)	(72,975)	1,833,744
Total movement in EAD during the year	2,326,103	(675,327)	182,968	1,833,744
31 December 2023	15,386,030	674,830	664,400	16,725,260
ECL - Loans and receivables from customers				
1 January 2023	236,472	108,891	225,671	571,034
Transfers to/(from)				
Stage 1	(6,107)	5,286	821	-
Stage 2	29,682	(45,015)	15,333	-
Stage 3	-	147	(147)	-
Net financial assets originated	63,176	3,265	(17,460)	48,981
Transfers between stages	(24,219)	10,640	48,779	35,200
Movements due to risk parameter and other changes	(28,165)	11,882	41,031	24,748
Total net P&L charge/ (release) during 2023	34,367	(13,795)	88,357	108,929
Loans written off against provision/(write back of provision no longer required)	-	-	(22,531)	(22,531)
31 December 2023	270,839	95,096	291,497	657,432

Notes to the Financial Statements

for the Year Ended 31 December 2023

15. Loans and Receivables from Customers (continued)

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

	2023 Stage 1		2022 Stage 1	
	Gross Exposure	Provisions	Gross Exposure	Provisions
Balance 1 January	4,593,667	71,081	3,284,336	52,307
Increase/(decrease) in exposure to expected credit losses	(1,092,541)	(16,275)	1,309,331	18,774
Balance at 31 December	3,501,126	54,806	4,593,667	71,081

All amounts are expressed in K'000

Write-off policy

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

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

16. Other Assets

	Consolidated		Bank	
	2023	2022	2023	2022
Financial assets				
Funds in transit and other assets ¹	357,551	259,610	281,819	208,837
Intercompany account	-	-	5,068	4,476
Prepayments	40,605	47,293	31,793	39,665
Accounts receivable	6,321	5,021	4,519	2,023
Accrued income	11,818	7,846	10,216	6,315
Tax receivable	40,033	-	40,836	-
	456,328	319,770	374,251	261,316
Non-financial assets				
Inventory	31,872	25,227	-	-
Investment in Joint Ventures	303,617	270,111	29,615	26,127
Intangible assets	282,243	294,397	276,272	286,368
Investment properties	363,166	329,201	-	-
	980,898	918,936	305,887	312,495
At 31 December	1,437,226	1,238,706	680,138	573,811

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

Financial Instruments: Financial Liabilities

Accounting Policy

Recognition

Financial liabilities are recognised when an obligation arises.

Classification and subsequent measurement

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

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

De-recognition

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

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts and loan commitments

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

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

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

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

17. Amounts Due to Other Banks

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Vostro account balances	155,078	154,877	155,100	154,899
Interbank account balances	208,587	117,395	449,685	374,693
At 31 December	363,665	272,272	604,785	529,592

18. Customer Deposits

On demand and short term deposits	26,845,460	24,075,220	25,598,031	23,049,105
Term deposits	2,989,651	2,844,141	2,313,946	2,145,788
At 31 December	29,835,111	26,919,361	27,911,977	25,194,893

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

19. Other Liabilities

	Consolidated		Bank	
	2023	2022 (restated)	2023	2022
<i>All amounts are expressed in K'000</i>				
Creditors and accruals	131,693	181,433	92,135	107,497
Provision for income tax	-	2,507	-	4,104
Items in transit and all other liabilities	428,128	340,793	541,337	463,625
Lease liability	279,816	285,581	251,468	256,957
Borrowings	-	246,480	-	246,479
Insurance liabilities	152,600	114,294	-	-
Other provisions	205,652	220,942	187,418	203,822
At 31 December	1,197,889	1,392,030	1,072,358	1,282,484

20. Contingent Liabilities and Commitments

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

20. Contingent Liabilities and Commitments (continued)

The Bank has for some time been working to uplift and strengthen the Group's systems and processes to comply with the Anti-money Laundering and Counter Terrorist Financing Act 2015 (AML and CTF). BSP has implemented various improvements, involving significant investment in systems and personnel, to its AML/CTF Program.

Improvements undertaken by BSP include a revision of governance structures to give Directors enhanced oversight over the Compliance and AML functions; increased AML staffing resources; updated Risk Assessments and Policies; implementation of and enhancements to transaction monitoring systems; improved customer documentation and identification procedures and a comprehensive AML/CTF training program for staff who support the AML/CTF Program, as well as an awareness program for all its staff. The Board also monitors the effectiveness of its AML and CTF program through internal and external audit reviews where specific compliance issues and weaknesses are brought to the attention of the Board. This is an ongoing process and further uplifting and strengthening of the AML and CTF program may be required.

The Financial Analysis and Supervision Unit (FASU) had advised BSP on 22 December 2022 that no penalties or fines will be levied in relation to the most recent external audit of BSP's AML/CTF policies and procedures. FASU have advised they will continue to monitor progress on the execution of BSP's Action Plan designed to improve the level of compliance with AML/CTF policies and procedures. Accordingly, no provision has been raised for this matter.

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

Off balance sheet financial instruments

	Consolidated		Bank	
	2023	2022	2023	2022
Letters of credit	238,236	238,851	230,572	238,302
Guarantees and indemnities issued	286,312	311,483	267,390	297,149
Commitments to extend credit	2,976,617	4,043,398	2,819,050	3,871,846
	3,501,165	4,593,732	3,317,012	4,407,297

Commitments for capital expenditure

Amounts with firms commitments, and not reflected in the accounts	44,585	42,348	16,358	31,963
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Legal Proceedings

A number of legal proceedings against the Group were outstanding as at 31 December 2023. For all litigation exposure where a loss is probable, an appropriate provision has been made. Based on information available at 31 December 2023, the Group estimates a contingent liability of K16.4 million (2022: K29.6 million) in respect of these proceedings.

Notes to the Financial Statements

for the Year Ended 31 December 2023

21. Risk Management Framework and Controls

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

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

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

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

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

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

22. Credit Risk and Asset Quality

22.1 Credit risk

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

Credit risk is managed by analysing the risk spread across various sectors of the economy and ensuring risk is diversely spread across personal and commercial customers. Individual exposures are measured using repayment performance, reviews and statistical techniques. Comprehensive credit standards and approval limits have been formulated and approved by the Credit Committee. The Credit Committee (reporting to the Board through the Group Chief Executive Officer) is responsible for the development and implementation of credit policy and loan portfolio review methodology. The Credit Committee is the final arbiter of risk management and loan risk concentration.

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

22.1.1 Credit risk measurement

Loans and advances (incl. loan commitments and guarantees)

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

22. Credit Risk and Asset Quality (continued)

22.1 Credit risk (continued)

22.1.1 Credit risk measurement

Credit risk grading

The Group uses an internal credit risk grading system that reflects its assessment of the probability of default of individual counterparties. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Group Chief Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

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

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

22.1.2 Expected credit loss measurement

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

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

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

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

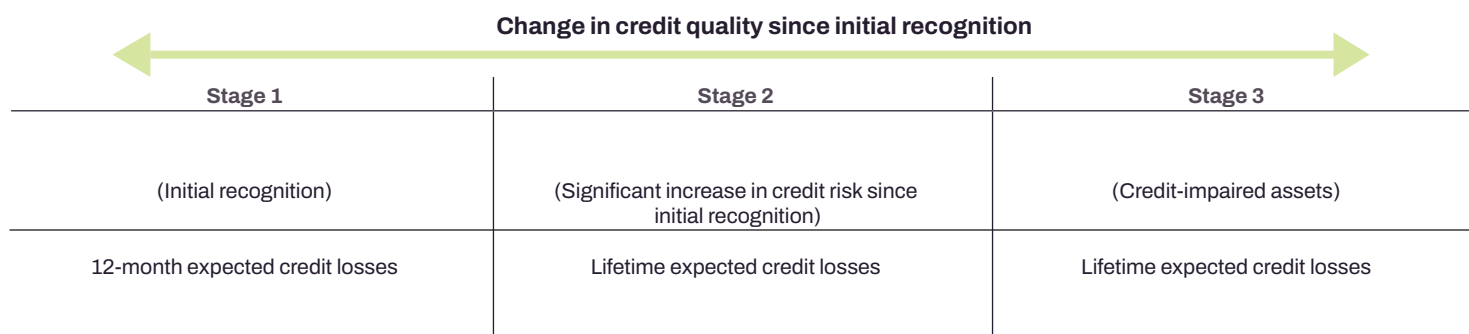
Notes to the Financial Statements

for the Year Ended 31 December 2023

22. Credit Risk and Asset Quality *(continued)*

22.1 Credit risk *(continued)*

The following diagram summarises the impairment requirements under IFRS 9.



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

22.1.2.1 Significant increase in credit risk

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

- Qualitative Criteria - if the instrument meets one or more of the following criteria:
 - Significant adverse changes in business, financial and/or economic conditions in which the borrower operates.
 - Actual or expected forbearance or restructuring.
 - Actual or expected significant adverse change in operating results of the borrower.
 - Significant change in collateral value (secured facilities only) which is expected to increase risk of default.
 - Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans.
- Quantitative criteria - applies to performing loans risk graded at 10 or 11 as per BSP's credit rating system which are 'watch list' categories. By definition, these have experienced a SICR event since inception hence need to be classified as Stage 2, with lifetime PDs applicable. This criteria applies regardless of whether loans in these two risk grades are in arrears or not.
- Backstop - A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments. The Group has not used the low credit risk exemption for any financial instrument in the year ended 31 December 2023.

22.1.2.2 Definition of default and credit-impaired assets

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

Quantitative criteria

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

Qualitative criteria

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

22. Credit Risk and Asset Quality (continued)

22.1 Credit risk (continued)

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

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

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

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

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

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

22. Credit Risk and Asset Quality

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

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

22. Credit Risk and Asset Quality (continued)

22.1 Credit risk (continued)

Economic variable assumptions

The period-end assumptions used for the ECL estimate as at 31 December 2023 are set out below. The scenarios “base”, “upside” and “downside” were used for all portfolios.

		2023	2024	2025	2026	2027
GDP Growth (%)	Base	2.5%	3.2%	3.2%	3.2%	3.2%
	Upside	2.6%	3.3%	3.7%	3.7%	3.7%
	Downside	2.2%	3.2%	2.7%	2.7%	2.7%
Change in Unemployment (% Total lab force) (%)	Base	-2.5%	-3.2%	-3.2%	-3.2%	-3.2%
	Upside	-2.6%	-3.3%	-3.7%	-3.7%	-3.7%
	Downside	-2.2%	-3.2%	-2.7%	-2.7%	-2.7%
Change in Equity Index (%)	Base	-1.0%				
	Upside	0.0%				
	Downside	-2.0%				
Change in Energy Index (%)	Base	-4.5%	-0.7%	-0.7%	-0.7%	-0.7%
	Upside	-4.7%	-0.7%	-0.7%	-0.7%	-0.7%
	Downside	-4.3%	-0.6%	-0.6%	-0.6%	-0.6%
Change in Non-Energy Index (%) (Per World Bank commodities price forecast)	Base	-3.1%	-0.2%	-0.2%	-0.2%	-0.2%
	Upside	-3.3%	-0.2%	-0.2%	-0.2%	-0.2%
	Downside	-2.9%	-0.2%	-0.2%	-0.2%	-0.2%
Change in the Proportion of Downgrades (%)	Base	-7.04%				
	Upside	-15.0%				
	Downside	15.0%				

The weightings assigned to each economic scenario at 31 December 2023 were as follows:

Scenario	Base	Upside	Downside
Weight	50%	10%	40%

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

Sensitivity Analysis

As described above, the Group applies 3 alternative macroeconomic scenarios (base, upside, downside scenarios) to reflect an unbiased probability weighted range of possible future outcomes in estimating ECL.

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

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

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for the Year Ended 31 December 2023

22. Credit Risk and Asset Quality (continued)

22.1 Credit risk grading (continued)

Set out below are approximate levels of provisions for impairment under the base and downside scenarios for the group assuming 100% weighting was applied to each scenario holding all other assumptions constant.

All amounts are expressed in K'000	2023	2022
Reported probability weighted ECL	712,238	642,115
100% base scenario	644,209	618,244
100% downside scenario	760,560	675,118

Sensitivity of provisions for impairment to SICR assessment criteria

- If 1% of Stage 1 credit exposures as at 31 December 2023 was included in Stage 2, provisions for impairment would approximately increase by K8.022 million for the bank. (31 December 2022 K6.804 million).
- If 1% of Stage 2 credit exposures as at 31 December 2023 was included in Stage 1, provisions for impairment would approximately decrease by K0.247 million for the bank. (31 December 2022 K0.506 million).

22.1.2.4 Grouping of instruments for losses measured on a collective basis

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

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

Retail – Groupings for collective measurement

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

22.1.3 Credit risk exposure

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

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

All amounts are expressed in K'000	2023			2022 (restated)	
ECL staging	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total	Total
Credit grade					
Standard monitoring	15,386,030	304,629	-	15,690,659	13,946,528
Special monitoring	-	370,201	-	370,201	463,556
Default	-	-	664,400	664,400	481,432
Gross carrying amount	15,386,030	674,830	664,400	16,725,260	14,891,516
Loss allowance	(270,839)	(95,096)	(291,497)	(657,432)	(571,034)
Net carrying amount	15,115,191	579,734	372,903	16,067,828	14,320,482

Notes to the Financial Statements

for the Year Ended 31 December 2023

22. Credit Risk and Asset Quality (continued)

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

The total balance of investment securities measured at amortised cost K9,635.724 million (2022: K8,415.066 million) is classified as Stage 1 with a credit grade of 'standard monitoring'. Total loss allowance carried against this balance is K55.429 million (2022: K45.849 million).

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

Maximum exposure to credit risk

All amounts are expressed in K'000

	2023	2022
Trading assets		
Equity securities	313,860	291,828

22.1.3.2 Collateral and other credit enhancements

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

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

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

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

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

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

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

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

Consolidated at 31 December 2023

All amounts are expressed in K'000

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets				
Loans to individuals:				
Overdrafts	17,899	8,680	9,219	41,008
Credit cards	11	6	5	12
Term loans	49,377	31,036	18,341	46,992
Mortgages	191,381	71,944	119,437	248,929
Loans to corporate entities:				
Large corporate customers	372,365	167,169	205,196	387,323
Small and medium-sized enterprises (SMEs)	26,763	9,327	17,436	24,814
Others	6,604	3,335	3,269	1,169
Total credit-impaired assets	664,400	291,497	372,903	750,247
31 December 2022				
Total credit-impaired assets	481,432	225,671	255,761	541,121

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

22. Credit Risk and Asset Quality (continued)

22.1.4 Credit Quality - Prudential guidelines

The prudential standard maintained by the Bank of Papua New Guinea specifies detailed criteria for the classification of loans into various grades of default risk and corresponding loss provision levels as a consequence of those grades.

An analysis by credit quality of loans outstanding at 31 December 2023 is as follows:

Consolidated As at 31 December 2023						
<i>All amounts are expressed in K'000</i>						
	Overdrafts	Term loans	Mortgages	Lease financing	Total	2022 (restated)
<i>Neither past due nor impaired</i>	1,217,827	10,969,735	2,368,997	162,331	14,718,890	13,378,960
<i>Past due but not impaired</i>						
Less than 30 days	49,741	551,542	203,976	14,145	819,404	652,100
30 to 90 days	30,181	377,051	112,162	3,172	522,566	379,024
	79,922	928,593	316,138	17,317	1,341,970	1,031,124
<i>Individually impaired loans</i>						
Less than 30 days	1,178	4,985	6,689	98	12,950	18,197
30 to 90 days	1,877	106,118	22,478	682	131,155	54,157
91 to 360 days	7,058	48,637	68,924	178	124,797	55,601
More than 360 days	21,172	261,993	105,647	6,686	395,498	353,477
	31,285	421,733	203,738	7,644	664,400	481,432
Total gross loans and receivables from customers	1,329,034	12,320,061	2,888,873	187,292	16,725,260	14,891,516
Less impairment provisions	(39,776)	(515,890)	(146,654)	(9,918)	(712,238)	(642,115)
Net loans and receivables from customers	1,289,258	11,804,171	2,742,219	177,374	16,013,022	14,249,401

22.1.5 Credit related commitments

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

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

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

22. Credit Risk and Asset Quality (continued)

22.1.6 Economic sector risk concentrations

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

Consolidated

As at 31 December 2023

All amounts are expressed in K'000

	2023	%	2022 (restated)	%
Commerce, finance and other business	7,759,590	48	7,064,702	50
Private households	4,331,761	27	3,710,391	26
Government and public authorities	696,574	4	789,757	5
Agriculture	367,284	2	295,804	2
Forestry	3,810	-	1,680	-
Transport and communication	1,216,261	8	899,744	6
Manufacturing	429,990	3	411,601	3
Construction	1,207,752	8	1,075,722	8
Net loan portfolio balance	16,013,022	100	14,249,401	100

22.1.7 Loan segment concentration

Concentration by customer loan segments is as follows:

Consolidated

As at 31 December 2023

All amounts are expressed in K'000

	2023	%	2022 (restated)	%
Corporate / Commercial	9,224,479	58	8,434,651	59
Government	2,234,612	14	2,107,445	15
Retail	4,553,931	28	3,707,305	26
Net loan portfolio balance	16,013,022	100	14,249,401	100

22.1.8 Impact of overlays on the provision for ECL

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

All amounts are expressed in K'000	2023	2022
Modelled provision for ECL (Stage 1 and 2)	396,008	406,444
Overlays	24,733	10,000
Total	420,741	416,444

23. Liquidity Risk

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

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

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for the Year Ended 31 December 2023

23. Liquidity Risk (continued)

Short-term mismatch of asset and liability maturity at 31 December 2023

The maturity profile of material Assets and Liabilities as at 31 December 2023 is shown in the following schedule. The mismatching of maturity of assets and liabilities indicates an apparent negative net "current" asset position. However, as stated in the preceding paragraph, mismatched positions are established and managed to achieve profit opportunities that arise from them, particularly in a normal yield curve environment. Accordingly, this mismatched maturity position is considered manageable by the Group, and does not impair the ability of the Group to meet its financial obligations as they fall due.

Maturity of assets and liabilities

All amounts are expressed in K'000

Consolidated As at 31 December 2023	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Assets						
Cash and balances with Central Banks	3,858,283	-	28,640	-	2,260,974	6,147,897
Amounts due from other banks	1,463,862	307,699	8,116	-	-	1,779,677
Treasury and Central Bank bills	36,256	715,087	2,726,254	364,318	-	3,841,915
Loans and receivables from customers	6,096,831	301,977	3,351,832	7,539,375	3,135,371	20,425,386
Other financial assets	1,467,440	71,666	1,020,700	4,568,393	3,616,630	10,744,829
Total assets	12,922,672	1,396,429	7,135,542	12,472,086	9,012,975	42,939,704
Liabilities						
Amounts due to other banks	227,366	39,862	71,739	24,698	-	363,665
Customer deposits	27,548,734	774,518	1,401,126	329,766	438,841	30,492,985
Lease liability	-	-	-	152,613	127,203	279,816
Other liabilities	1,495,712	1,098	540,418	126,696	77,825	2,241,749
Other provisions	197,383	-	8,269	-	-	205,652
Total liabilities	29,469,195	815,478	2,021,552	633,773	643,869	33,583,867
Net liquidity gap	(16,546,523)	580,951	5,113,990	11,838,313	8,369,106	9,355,837

All amounts are expressed in K'000

Consolidated As at 31 December 2022 (restated)	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Assets						
Cash and balances with Central Banks	4,246,913	-	-	-	2,031,911	6,278,824
Amounts due from other banks	1,339,623	222,611	176,409	-	-	1,738,643
Treasury and Central Bank bills	291,680	1,257,910	2,611,958	38,260	-	4,199,808
Loans and receivables from customers	3,934,576	533,715	1,453,757	8,188,976	4,316,365	18,427,389
Other financial assets	1,122,765	64,574	773,640	3,786,755	3,019,453	8,767,187
Total assets	10,935,557	2,078,810	5,015,764	12,013,991	9,367,729	39,411,851
Liabilities						
Amounts due to other banks	104,008	34,468	123,084	-	-	261,560
Customer deposits	23,752,714	411,366	1,194,609	849,498	1,121,055	27,329,242
Lease liability	-	-	-	158,946	126,635	285,581
Other liabilities	1,351,662	24,181	896,695	89,957	61,760	2,424,255
Other provisions	207,572	350	10,074	350	5,102	223,448
Total liabilities	25,415,956	470,365	2,224,462	1,098,751	1,314,552	30,524,086
Net liquidity gap	(14,480,399)	1,608,445	2,791,302	10,915,240	8,053,177	8,887,765

Notes to the Financial Statements

for the Year Ended 31 December 2023

24. Operational Risk

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

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

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

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

25. Foreign Exchange Risk

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

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

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

All amounts are expressed in K'000

Consolidated As at 31 December 2023	PGK	FJD	SBD	USD	Other	Total
Assets						
Cash and balances with Central Banks	2,776,705	1,500,354	823,272	12,575	1,034,991	6,147,897
Amounts due from other banks	43,070	380,822	4,880	796,861	554,044	1,779,677
Treasury and Central Bank bills	3,751,720	-	21,431	-	30,447	3,803,598
Loans and receivables from customers	10,293,112	4,036,379	476,469	280,171	926,891	16,013,022
Other financial assets	5,765,279	567,619	-	-	40,553	6,373,451
Other assets	1,586,730	1,012,874	101,820	-	132,218	2,833,642
Total assets	24,216,616	7,498,048	1,427,872	1,089,607	2,719,144	36,951,287
Liabilities						
Amounts due to other banks	(39,162)	(247,495)	-	-	(77,008)	(363,665)
Customer deposits	(20,770,906)	(4,565,672)	(1,073,168)	(880,186)	(2,545,179)	(29,835,111)
Other liabilities	(747,358)	(1,624,178)	(55,959)	(3,814)	(77,872)	(2,509,181)
Total liabilities	(21,557,426)	(6,437,345)	(1,129,127)	(884,000)	(2,700,059)	(32,707,957)
Net on-balance sheet position	2,659,190	1,060,703	298,745	205,607	19,085	4,243,330
<i>Off-balance sheet position</i>	-	-	-	913	(874)	39
<i>Credit commitments</i>	1,775,078	1,442,267	49,880	-	233,901	3,501,126

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25. Foreign Exchange Risk (continued)

All amounts are expressed in K'000

Consolidated As at 31 December 2022 (restated)	PGK	FJD	SBD	USD	Other	Total
Assets						
Cash and balances with Central Banks	3,351,605	1,363,312	729,436	12,914	821,527	6,278,794
Amounts due from other banks	358,026	341,180	42,515	623,121	373,139	1,737,981
Treasury and Central Bank bills	4,087,085	-	20,209	-	21,046	4,128,340
Loans and receivables from customers	9,173,225	3,328,978	466,063	246,479	1,034,656	14,249,401
Other financial assets	4,225,197	524,194	-	-	39,762	4,789,153
Other assets	1,484,599	893,426	71,742	1,009	117,241	2,568,017
Total assets	22,679,737	6,451,090	1,329,965	883,523	2,407,371	33,751,686
Liabilities						
Amounts due to other banks	(7,732)	(238,581)	884	-	(26,843)	(272,272)
Customer deposits	(18,943,375)	(3,889,006)	(994,653)	(578,985)	(2,513,342)	(26,919,361)
Other liabilities	(713,599)	(1,417,103)	(50,319)	(248,841)	(78,289)	(2,508,151)
Total liabilities	(19,664,706)	(5,544,690)	(1,044,088)	(827,826)	(2,618,474)	(29,699,784)
Net on-balance sheet position	3,015,031	906,400	285,877	55,697	(211,103)	4,051,902
Off-balance sheet position	1	-	-	(4,503)	4,567	65
Credit commitments	3,083,199	1,268,322	60,828	-	181,318	4,593,667

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

	2023		2022	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthening by 5% (2022 - 5%)	(713)	(713)	(2,023)	(2,023)
USD dollar weakening by 15% (2022- 15%)	1,768	1,768	5,013	5,013
AUD strengthening by 5% (2022 - 5%)	128	128	330	330
AUD dollar weakening by 15% (2022 - 15%)	(316)	(316)	(817)	(817)

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

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

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

Forward exchange contracts outstanding at 31 December 2023 stated at the face value of the respective contracts are:

All amounts are expressed in K'000

As at 31 December 2023		USD	AUD	EURO	GBP	JPY	Other	Total
Selling	FCY	(991)	(21)	-	-	(100,324)	(1,075)	-
	Kina	(3,695)	(52)	-	-	(2,645)	(4,008)	(10,400)
Buying	FCY	1,236	178	149	-	1,241	1,269	-
	Kina	4,608	453	614	-	33	4,731	10,439
As at 31 December 2022								
Selling	FCY	(913)	(200)	(27)	-	-	(201)	-
	Kina	(3,214)	(478)	(102)	-	-	(708)	(4,502)
Buying	FCY	-	-	-	-	-	1,297	-
	Kina	-	-	-	-	-	4,567	4,567

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26. Interest Rate Risk

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

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

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

All amounts are expressed in K'000

Consolidated As at 31 December 2023	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Non-interest bearing
Assets						
Cash and balances with Central Banks	1,060,602	-	-	-	-	2,245,483
Amounts due from other banks	1,123,433	276,504	102,205	-	-	277,535
Treasury and Central Bank Bills	15,982	707,187	3,080,429	-	-	-
Cash reserve requirement with Central Banks	-	-	-	-	-	2,841,812
Loans and receivables from customers	5,470,385	109,640	2,363,761	5,118,239	2,872,444	78,553
Other financial assets	33,022	231,671	870,822	3,348,886	1,889,050	-
Other assets	63,894	81,322	958	-	-	2,687,468
Total assets	7,767,318	1,406,324	6,418,175	8,467,125	4,761,494	8,130,851
Liabilities						
Amounts due to other banks	155,666	39,862	71,739	24,698	-	71,700
Customer deposits	9,521,996	953,752	1,395,089	203,826	47	17,760,401
Other liabilities	-	21	72	266,846	69,960	1,904,850
Other provisions	3,942	-	-	-	-	263,490
Total liabilities	9,681,604	993,635	1,466,900	495,370	70,007	20,000,441
Interest sensitivity gap	(1,914,286)	412,689	4,951,275	7,971,755	4,691,487	(11,869,590)

Consolidated As at 31 December 2022 (restated)

Assets						
Cash and balances with Central Banks	1,663,083	-	-	-	85,070	2,013,482
Amounts due from other banks	990,825	227,268	101,843	-	-	418,045
Treasury and Central Bank Bills	316,880	1,231,168	2,580,222	-	-	70
Cash reserve requirement with Central Banks	-	-	-	-	-	2,517,159
Loans and receivables from customers	11,038,003	130,196	598,963	2,185,566	261,618	35,055
Other financial assets	196,801	241,052	614,391	2,941,689	795,220	-
Other assets	297,579	55,613	-	18,844	90,260	2,105,721
Total assets	14,503,171	1,885,297	3,895,419	5,146,099	1,232,168	7,089,532
LIABILITIES						
Amounts due to other banks	-	39,409	168,996	-	-	63,867
Customer deposits	9,972,184	621,816	1,261,635	442,642	510,552	14,110,532
Other liabilities	6,053	1,091	11	203,032	110,743	1,966,279
Other provisions	7,597	336	-	-	-	213,009
Total liabilities	9,985,834	662,652	1,430,642	645,674	621,295	16,353,687
Interest sensitivity gap	4,517,337	1,222,645	2,464,777	4,500,425	610,873	(9,264,155)

Notes to the Financial Statements

for the Year Ended 31 December 2023

26. Interest Rate Risk (continued)

Given the profile of assets and liabilities as at 31 December 2023 and prevailing rates of interest, a 1% increase in rates will result in a K29.012 million (2022: K42.682 million) increase in net interest income, whilst a 1% decrease in rates will result in a K70.518 million (2022: K62.266 million) decrease in net interest income.

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

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

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

All amounts are expressed in K'000

Consolidated

As at 31 December 2023

	Level 1	Level 2	Level 3	Total
a) Financial assets				
Equity securities	-	308,085	5,775	313,860
Treasury bills	-	5,018	-	5,018
Government Inscribed Stock	-	277,876	-	277,876
Non-Financial Assets				
Land and buildings	-	-	582,448	582,448
Investment properties	-	-	363,166	363,166
Aircraft subject to operating lease	-	-	32,387	32,387
Total assets	-	590,979	983,776	1,574,755
b) Financial liabilities				
Insurance contract liabilities	-	-	(1,249,512)	(1,249,512)
Total liabilities	-	-	(1,249,512)	(1,249,512)

As at 31 December 2022

	Level 1	Level 2	Level 3 (restated)	Total (restated)
c) Financial assets				
Equity securities	-	286,512	5,316	291,828
Treasury bills	-	9,729	-	9,729
Government inscribed stock	-	246,719	-	246,719
Non-Financial Assets				
Land and buildings	-	-	509,039	509,039
Investment properties	-	-	329,201	329,201
Aircraft subject to operating lease	-	-	28,664	28,664
Total Assets		542,960	872,220	1,415,180
a) Financial liabilities				
Insurance contract liabilities	-	-	(1,067,694)	(1,067,694)
Total liabilities	-	-	(1,067,694)	(1,067,694)

Consolidated

Financial assets at fair value through profit and loss	2023	2022 (restated)
Opening balance	872,220	835,468
Total gains and losses recognised in:		
- Profit and loss	(31,582)	(23,162)
- Other comprehensive income	51,029	14,566
- Purchases	58,372	84,235
- Disposals	(1,628)	(1,917)
- Translation movements	48,379	(36,970)
Closing balance	996,790	872,220

There were no changes in valuation technique for Level 3 recurring fair value measurements during the year ended 31 December 2023.

Notes to the Financial Statements

for the Year Ended 31 December 2023

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

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

The frequency of valuations complies with Group policy. The significant inputs used in preparing the valuations relate to:

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

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

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

Capital and Dividends

28. Ordinary Shares

Accounting Policy

Share issue costs

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

<i>Number of shares in '000s, Book value in K'000</i>	Number of shares	Book value
At 1 January 2022	467,226	372,133
Share buyback	(6)	(23)
At December 2022/31 December 2023	467,220	372,110

The share-buyback scheme ceased in 2022 and there were no movements in 2023.

Dividends on ordinary shares

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

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2023	2022	2023	2022
Interim ordinary dividend (2023: 37 toea; 2022: 34 toea)	174,010	159,350	172,869	158,796
Final ordinary dividend (2022: 140 toea; 2021: 134 toea)	657,803	629,556	654,237	626,142
	831,813	788,906	827,106	784,938

Notes to the Financial Statements

for the Year Ended 31 December 2023

29. Retained Earnings and Other Reserves

Retained earnings

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2023	2022 (restated)	2023	2022
At 1 January	3,359,184	3,025,125	2,991,169	2,728,885
Transition to IFRS 17 impact	-	36,251	-	-
Net profit for the year	890,215	1,084,720	800,826	1,045,279
Final dividends paid	(657,606)	(629,379)	(654,237)	(626,142)
Interim dividends paid	(174,010)	(159,350)	(172,869)	(158,796)
Disposal of assets - transfer from asset revaluation	1,632	5,270	1,462	5,270
Other	(1,103)	-	-	-
BSP Life policy reserve	(2,452)	(3,327)	(2,452)	(3,327)
Gain attributable to minority interest	(171)	(126)	-	-
At 31 December	3,415,689	3,359,184	2,963,899	2,991,169
Other reserves comprise:				
Asset revaluation reserve	134,205	96,873	110,381	83,180
Capital reserve	635	635	635	635
Equity component of Fiji Class Shares	21,578	21,578	-	-
Statutory insurance reserve	62,388	59,936	62,388	59,936
Foreign currency translation reserve	236,024	140,859	129,776	81,225
	454,830	319,881	303,180	224,976

Other reserves

<i>All amounts are expressed in K'000</i>	Consolidated		Bank	
	2023	2022	2023	2022
Movement in reserves for the year:				
Asset revaluation reserve				
At 1 January	96,873	123,732	83,180	109,937
Net asset revaluation increment	38,349	42	28,048	-
Transfer asset revaluation reserve to retained earnings	(1,632)	(5,414)	(1,462)	(5,270)
Impact of PNG tax rate change	-	(23,068)	-	(23,068)
Release of deferred tax on disposal of assets	615	1,581	615	1,581
At 31 December	134,205	96,873	110,381	83,180

Notes to the Financial Statements

for the Year Ended 31 December 2023

29. Retained Earnings and Other Reserves (continued)

All amounts are expressed in K'000	Consolidated		Bank	
	2023	2022	2023	2022
Capital reserve				
At 1 January	635	635	635	635
At 31 December	635	635	635	635
Statutory insurance reserve				
At 1 January	59,936	56,691	59,936	56,691
BSP Life policy reserve	2,452	3,327	2,452	3,327
Fiji Government green bond revaluation	-	(82)	-	(82)
At 31 December	62,388	59,936	62,388	59,936
Foreign currency translation reserve				
At 1 January	140,859	194,293	81,225	109,570
Movement during the year	94,112	(53,434)	48,551	(28,345)
Other	1,053	-	-	-
At 31 December	236,024	140,859	129,776	81,225

Equity component of convertible notes

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

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

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

30. Capital Adequacy

The Group is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar financial institutions in Papua New Guinea. Additionally, subsidiaries and branches in Fiji, Solomon Islands, Cook Islands, Samoa, Tonga, Vanuatu, Cambodia and Lao are required to adhere to prudential standards issued by the Reserve Bank of Fiji (RBF), Central Bank of Solomon Islands (CBSI), The Financial Supervisory Commission (FSC), Central Bank of Samoa (CBS), National Reserve Bank of Tonga (NRBT), Reserve Bank of Vanuatu (RBV), the National Bank of Cambodia (NBC) and Bank of Lao P.D.R. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum acceptable measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a bank is under, adequately, or well capitalised, and also prescribes the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 31 December 2023, the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a 'well-capitalised' bank. The minimum capital adequacy requirements set out under the standard are: Tier 1 8%, total risk based capital ratio 12% and the leverage ratio 6%.

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

30. Capital Adequacy (continued)

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

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

All amounts are expressed in K'000	Balance Sheet / Notional Amount		Risk-Weighted Amount	
	2023	2022 (restated)	2023	2022 (restated)
Balance sheet assets (net of provisions)				
Currency	6,147,897	6,278,794	46,447	53,355
Loans and receivables from customers	15,860,708	14,146,147	12,585,215	11,336,781
Investments and short term securities	10,061,461	8,966,141	336,077	282,880
All other assets	4,881,221	4,360,604	2,736,323	2,407,984
Off-balance sheet items	3,501,165	4,593,732	212,668	228,950
Total	40,452,452	38,345,418	15,916,730	14,309,950
Capital ratios				
a) Tier 1 capital	3,496,941	3,318,424	22.0%	23.2%
Total Capital	3,881,320	3,641,473	24.4%	25.1%
b) Leverage Capital Ratio			9.6%	10.0%

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

Group Structure

31. Insurance

The Group's consolidated Financial Statements include the assets, liabilities, income and expense of the life and general insurance businesses. The Group's insurance business is made up of Life Insurance Contracts, Medical Insurance and Term Life Insurance. Insurance Contract products are provided by BSP Life (Fiji) Limited and BSP Life (PNG) Limited (collectively referred to in this note as the Company.)

IFRS 17 "Insurance contracts" (effective 1 January 2023) replaces IFRS 4. IFRS 17 has fundamentally changed the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard introduces substantial changes in the presentation of the financial statements and disclosures introducing new balance sheet and income statement line items and increased disclosure requirements compared with existing reporting.

Summary of Measurement Approach

The company uses different measurement approaches, depending on the type of contracts as noted below:

	Product classification	Measurement Model
Component of Contracts Issued		
Participating Base Products	Insurance contracts with Direct participating features	VFA
Riders of Participating Base Products	Insurance contracts	GMM
Non-Participating Contract (including associated riders)	Insurance contracts	GMM
Reinsurance Contracts held		
Term Life and Disability - Surplus Reinsurance	Reinsurance contract held	GMM
Term Life and Disability - Catastrophe Insurance Cover	Reinsurance contract held	PAA

Notes to the Financial Statements

for the Year Ended 31 December 2023

31. Insurance (continued)

The Company does not have any reinsurance contract issued, that qualify as insurance contracts under IFRS 17. IFRS 17 defines a General Measurement Model (GMM) to use for valuing Insurance Contracts, with two modifications of this model applicable under certain circumstances. The GMM requires the projection of future cash flows related to insurance contracts using current financial and non-financial assumptions. The two other modifications of the GMM are described below;

- The Variable Fee Approach (VFA), insurance contracts with direct participation features are eligible to use this model. The model allows for the variable nature of fees that the Company earns from the Insurance Contracts, which depend on the underlying assets' performance.
- The Premium Allocation Approach (PAA) is a simplified model which does not require future projections to satisfy the requirements under IFRS 17, provided that the Insurance Contracts sold are profitable.

A. Definitions and Classifications

Insurance contracts are contracts by which the Company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. This assessment is made on a contract-by-contract basis at the contract issue date.

The Company assess, on a group of contract basis, whether participating contracts meet the definition of insurance contracts with direct participating features. The Company uses its judgement to assess whether the amount expected to be paid to the policyholder constitutes a substantial share of fair value returns from the underlying items and whether the variable cash flows represent a substantial proportion of the cash flows.

B. Level of aggregation applied to Insurance Contracts

IFRS 17 requires insurance contracts to be recognised and measured in groups. The grouping of individual contracts under IFRS 17 is performed to limit the offsetting of profitable contracts against onerous ones regarding how insurers manage and evaluate their business performance. A portfolio of Contracts is defined based on Contracts that have similar risks and are managed together. The Portfolio is further divided into groups based on the year of issue and the expected level of profitability.

The Company issues two types of long-term products Participating and Non-Participating products. The products falling under each category have similar risks and have been managed together (risk transfer and risk pooling).

C. Recognition

The Company recognises groups of insurance contracts from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from a policyholder in the group becomes due; and
- the date when a group of contracts becomes onerous.

D. Contract boundary

The Company includes in the measurement of a group of insurance contracts all the future cash flows expected to arise within the boundary of each of the contracts in the group. In determining the cash flows within the boundary of an insurance contract, the Company assesses whether it arises from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums or the Company has the substantive obligation to provide the policyholder with services.

Cash flows outside the insurance contract boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

E. Measurement of insurance contract issued

i) Measurement on initial recognition for contracts other than PAA

A group of insurance contracts are measured on initial recognition as the sum of the expected fulfilment cash flows within the contract boundary and the contractual service margin representing the unearned profit in the contract relating to services that will be provided under the contracts.

Notes to the Financial Statements

for the Year Ended 31 December 2023

31. Insurance (continued)

Fulfilment cash flows (FCF)

The FCF are the current unbiased and probability-weighted estimates of the present value of the future cash flows, including a risk adjustment for non-financial risk. The Company considers a range of scenarios to establish a full range of possible outcomes without undue cost or effort about the amount, timing and uncertainty of expected future cash flows to arrive at the probability weighted value. The estimates of future cash flows reflect conditions existing at the measurement date including assumptions at that date regarding the future.

Discount rates

The time value of money and financial risk is measured separately from the expected future cash flows with changes in financial risks recognised in the profit or loss at the end of each reporting period. The Company measures the time value of money for all portfolios of participating, non-participating and riders using a point estimator given the maturity of the market and the lack of availability of market data.

Expected cash flows that vary based on the returns on any financial underlying items are discounted using the top-down approach. The discount assumption is set using the expected earnings on the assets supporting the liability and this has been determined using market observed reference assets and the anticipated margin for each asset category relative to the performance of the reference asset.

Risk adjustment for non-financial risk

The Company measures the compensation it would require for bearing the uncertainty about the amount and timing of cash flows arising from insurance contracts, other than financial risk separately as an adjustment for non-financial risk. The Company uses cost of capital method in estimating the risk adjustment. The cost of capital approach uses the basis that Company's risk preference is based on the capital that it requires to hold which is appropriate for the non-financial risks that are relevant to IFRS 17 measurement objectives.

Contractual service margin (CSM)

The CSM is a component of the overall carrying amount of a group of insurance contracts representing unearned profit the Company will recognise as it provides insurance contract services over the coverage period.

Coverage Period

The Company determines, at initial recognition, the group's coverage units and allocates the group's CSM based on the coverage units provided in the period. The Company determines coverage units as follows:

- For the Participating Base product, the coverage unit is linked to the bonus declared on these contracts, as this is the more significant service provided under the contract.
- For all the other portfolios, the coverage being provided is death cover linked to a predetermined amount, which is the sum insured. The sum insured will be used as the coverage unit

Insurance acquisition cash flows

The Company includes insurance acquisition cash flows in the measurement of a group of insurance contracts if they are directly attributable either to the individual contracts in a group, or to the group itself, or the portfolio of insurance contracts to which the group belongs. The Company estimates at a portfolio level insurance acquisition cash flows not directly attributable to the group but directly attributable to the portfolio and then allocates them to the group of newly written and renewed contracts on a systematic and rational basis.

ii) Subsequent measurement for contracts other than PAA

Subsequent to initial recognition, at the end of each reporting period, the carrying amount of the group of insurance contracts will reflect a current estimate of the liability for remaining coverage (LRC) as at that date and a current estimate of the liability for incurred claims (LIC).

Notes to the Financial Statements

for the Year Ended 31 December 2023

31. Insurance (continued)

The LRC represents the Company's obligation to investigate and pay valid claims under existing contracts for insured events that have not yet occurred, and amounts that relate to other insurance contract services not yet provided, comprising of the fulfilment cash flows relating to future service and the CSM yet to be earned.

The LIC includes the Company's liability to pay valid claims for insured events that have already incurred, other incurred insurance expenses arising from past coverage service and includes the liability for claims incurred but not yet reported. It also includes the Company's liability to pay amounts the Company is obliged to pay the policyholder under the contract, including repayment of investment components, when a contract is derecognised. The current estimate of LIC comprises of the fulfilment cash flows related to current and past service allocated to the group at the reporting date.

Changes in fulfilment cash flows

At the end of each reporting period, the Company updates the fulfilment cash flows to reflect the current estimates of the amounts, timing and uncertainty of future cash flows and discount rates.

As all cashflows form a part of the underlying items for Participating Base Products, any experience adjustment or change in the estimate of future cash flow will impact future services, hence all items impact CSM.

Recognition of the CSM in profit or loss

CSM amount is released to profit or loss in each period during which the insurance contract services are provided.

The CSM amount to be released in each reporting period is determined as the coverage unit provided for the period as a percentage of the total expected coverage unit, applied to the CSM at the end. The total number of coverage units in the group is determined by considering for each contract the quantity of benefits provided under the contract and the expected coverage period. The total coverage unit, except for Participating Base Contracts, is calculating by applying the discounted future coverage unit as the risk free discount rate.

The CSM at the end of the reporting period is equally allocated to each of the coverage units provided in the current period and expected to be provided in the future. The CSM recognise in the profit or loss the amount of CSM allocated to the coverage units provided during the period. The CSM for reinsurance contracts held is released to the profit or loss as services are received from the reinsurer in the period.

iii) Subsequent measurement for Reinsurance contracts other than PAA

Changes in fulfilment cash flows

At the end of each reporting period, the Company updates the fulfilment cash flows to reflect the current estimates of the amounts, timing and uncertainty of future cash flows and discount rates.

Experience adjustment

Experience adjustments in relation to current or past service are recognised in the profit or loss, hence, incurred claims (including incurred but not reported) and other incurred insurance service expenses are included in the profit or loss. Experience adjustments in relation to future service are included in adjustments to the CSM.

The carrying amount of the CSM is adjusted at the end of the reporting period to reflect changes in the FCF applying the same approach as for insurance contracts issued, expect that the change in carrying amount can cause the CSM to be negative.

Recognition of the CSM in profit or loss

CSM amount is released to profit or loss in each period during which the insurance contract services are provided.

The CSM amount to be released in each reporting period is determined as the coverage unit provided for the period as a percentage of the total expected coverage unit, applied to the CSM at the end. The total number of coverage units in the group is determined by considering for each contract the quantity of benefits provided under the contract and the expected coverage period. The total coverage unit, except for Participating Base Contracts, is calculating by discounted future coverage unit at the risk free discount rate.

Notes to the Financial Statements

for the Year Ended 31 December 2023

31. Insurance (continued)

The CSM at the end of the reporting period is equally allocated to each of the coverage units provided in the current period and expected to be provided in the future. The CSM recognised in the profit or loss reflects the amount of CSM allocated to the coverage units provided during the period.

iv) Onerous Contracts

The onerous assessment is done on an individual contract level assessing future expected cash flows on a probability-weighted basis including a risk adjustment for non-financial risk. On initial recognition, the contracts expected to be loss making are grouped together and such groups are measured and presented separately. Once contracts are allocated to a group, they are not re-allocated unless they are substantively modified. For Participating Base Products, the onerous assessment takes into consideration the cashflow between the contracts in the Group of Contracts.

A group of insurance contracts become onerous when the adjustment to the CSM exceeds the amount of CSM and the Company recognises the excess in insurance service expenses and records it as a loss component of the LRC.

After a loss component is recognised, the Company allocates any subsequent changes in FCF of the LRC on a systematic basis between the loss component and the LRC excluding the loss component.

F. Contracts measured under the fair value

The Company applied the fair value approach for those contracts issued more than 5 years prior to the date of transition. This decision was made noting the significant time and effort needed to construct the transaction data required at the level to apply the requirements of IFRS 17 prior to this period.

Level of aggregation

The Company included contracts issued prior to January 2018 into one group split by portfolios of insurance contracts and applied the fair value approach as at December 2017.

Fair valuation of liabilities of insurance contracts

The fair value of liabilities has been determined per IFRS 13 Fair Value Measurement. There are no recent transactions or comparable markets for life insurance liabilities. In measuring the fair value, the approach taken is:

- The discounted value of projected cash flows relating to in-force life insurance contracts using assumptions reflecting past and expected future experience from the perspective of a potential purchaser.
- Plus allowance for the cost of holding statutory capital that a market participant acquiring the contracts would be required to bear.

Using a risk-adjusted discount rate to reflect the perspective of a potential purchaser.

Measurement at the transition date

In applying the fair value approach, the CSM of the LRC was estimated as the difference between the fair value and the fulfilment cash flows of the group of insurance contracts as of December 2017. Post 2017, the full retrospective approach was adopted to determine the transition balance. In determining fair value, the Company followed the requirements of IFRS 13 Fair Value Measurement except for that standard's requirement in relation to demand features (that fair value cannot be less than the amount repayable on demand), because that would contradict the IFRS 17 requirement to incorporate cash flows on a probability-weighted basis.

Fulfilment cash flows

The fulfilment cash flows were estimated prospectively as at the transition date.

Contractual service margin

The CSM was estimated to be the difference between the fair value of a group of insurance contracts, measured in accordance with IFRS 13 as described above, and its FCF as at the transition date.

Notes to the Financial Statements

for the Year Ended 31 December 2023

31. Insurance (continued)

Accounting Policy

(a) Recognition and measurement

Long-term insurance contracts

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

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

The recognition and measurement of these contracts have been determined in accordance with IFRS 17. Short term contracts are not a material part of the BSP Financial Groups operations.

(b) Methods and assumptions

Key assumptions used in determining the Policy Liabilities of the Group are as follows:

(i) Discount rates

For contracts which have a DPF, the discount rate used is linked to the assets which back those contracts. For Fiji for the year ended 31 December 2023 this was 4.946% per annum (2022: 5.198% per annum), based on current 10-year government bond yields and expected earnings from the investment portfolio. For contracts without DPF and Accident Business, a rate of 3.90% per annum was used at 31 December 2023 (2022: 3.95% per annum). These rates were based on the 10-year government bond rate as published by the Reserve Bank of Fiji.

(ii) Investment and maintenance expenses

Future maintenance and investment expenses are based on the budgeted expenses. Future inflation has been assumed to be 3.5% per annum (2022: 3.5% per annum) for determining future expenses.

(iii) Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future.

(iv) Mortality and morbidity - Fiji

Projected future rates of mortality for insured lives are based on the Fiji Mortality Statistics table FJ90-94 Male. These are then adjusted for the Company's own experience. Mortality rates used are as follows by gender and insured amount:

- Male and sum insured above \$200,000: 48% (2022: 48%) for base products and 65% (2022: 48%) for rider products of the FJ90-94 Male table for participating business in Statutory Fund 1.
- Male and sum insured up to \$200,000: 20% (2022: 48%) for base products and 65% (2022: 48%) for rider products of the FJ90-94 Male table for participating business in Statutory Fund 1.
- Female: An age setback of 3 years is applied to the Male rates above.

(v) Rates of discontinuance

Best estimate assumptions for the incidence of withdrawal and discontinuance vary by product and duration and are based on the Group's experience which is reviewed regularly. Rates used in 2023 were the same as 2022 rates.

(vi) Basis of calculation of surrender values

Surrender values are determined by the Company. There have been no changes to surrender bases during the period (or the prior periods).

(vii) Discretionary participating business

For most participating business, bonus rates are set such that, over long periods, the returns to contract holders are commensurate with the investment returns achieved on the pool of assets which provide security for the contract, together with other sources of profit arising from this business. Profits from these policies are split between contract holders and shareholders

Notes to the Financial Statements

for the Year Ended 31 December 2023

31. Insurance (continued)

in accordance with the policy conditions which allow for shareholders to share in allocations at a maximum rate of 20%. For business written between 1995 and 1998 the shareholder receives 11% of profits.

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

The FCF include a projection of the declaration of future bonuses and their impact on claims. The supportable bonus rate that emerges from the Margin on Service valuation (valuation method for policyholder profit/bonus management) as at 31st December 2023 for Participating Business is used as the IFRS 17 assumption. The policyholder retained earnings is added to the Insurance Contract Liability.

(c) Reinsurance

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

As the reinsurance agreements provide for indemnification by the reinsurers against loss or liability, reinsurance income and expenses are recognised separately in the profit or loss when they become due and payable in accordance with the reinsurance agreements.

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

Financial Information

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

All amounts are expressed in K'000			2023 (Total)	2022 (restated)
	Life Insurance	Other Activities		
Insurance revenue	45,093	38,944	84,037	77,712
Insurance service expenses	(23,559)	(37,077)	(60,636)	(59,840)
Insurance service result from insurance contracts issued	21,534	1,867	23,401	17,872
Net expenses from reinsurance contracts	(1,450)	(1,353)	(2,803)	(1,688)
Insurance service result	20,084	514	20,598	16,184
Insurance finance income – investments	118,647	355	119,002	98,552
Net investment income	118,647	355	119,002	98,552
Insurance finance income/(expense) for insurance contracts issued	(105,331)	-	(105,331)	(87,286)
Net insurance finance expenses	(105,331)	-	(105,331)	(87,286)
Net insurance and investment result	33,400	869	34,269	27,450
Net income from subsidiaries	-	107,760	107,760	94,127
Other Income	-	11,103	11,103	6,547
Other Operating Expenses	-	(91,896)	(91,896)	(84,249)
Net insurance operating income	33,400	27,836	61,236	43,875

Notes to the Financial Statements

for the Year Ended 31 December 2023

31. Insurance (continued)

The reconciliation of the Life insurance contract liabilities is as follows:

All amounts are expressed in K'000	Liability for remaining coverage				Total 2023	Total 2022
	Excluding loss component	Loss component	Policy Loans*	Liability for incurred claims		
Opening contract assets	(5,177)	-	-	-	(5,177)	(9,289)
Opening insurance contract liabilities	1,173,979	1,181	(121,342)	13,876	1,067,694	1,005,064
Net opening balance	1,168,802	1,181	(121,342)	13,876	1,062,517	995,775
Changes in the statement of profit or loss and OCI						
<i>Insurance revenue</i>						
Contracts under the full retrospective approach	(34,187)	-	-	-	(34,187)	(30,883)
Contracts under the fair value approach	(7,017)	-	-	-	(7,017)	(8,388)
Contracts under the full retrospective approach post transition	(3,889)	-	-	-	(3,889)	(985)
Insurance revenue	(45,093)	-	-	-	(45,093)	(40,256)
<i>Insurance service expenses</i>						
Incurred claims and other insurance service expenses	11,257	(209)	-	3,895	14,943	17,232
Adjustments to liabilities for incurred claims	-	-	-	-	-	578
Losses and reversal of loss on onerous contracts	-	191	-	-	191	(338)
<i>Insurance acquisition cash flows</i>						
-Acquisition expenses	8,425	-	-	-	8,425	7,301
Insurance service expenses	19,682	(18)	-	3,895	23,559	24,773
Insurance service result	(25,411)	(18)	-	3,895	(21,534)	(15,483)
Insurance finance expenses from insurance contracts recognised in profit and loss	118,953	41	-	-	118,994	102,531
Investment components excluded from insurance revenue and insurance service expenses	(145,475)	-	-	145,475	-	-
Effect of movements in exchange rates	63,870	67	(6,925)	605	57,617	(48,405)
Total changes in the statement of profit or loss and OCI	11,937	90	(6,925)	149,975	155,077	38,643
<i>Cash flows</i>						
Premiums received	222,143	-	-	-	222,143	198,406
Insurance acquisition cash flows	(25,736)	-	-	-	(25,736)	(22,368)
Claims and other insurance service expenses paid	(11,113)	-	(2,320)	(151,896)	(165,329)	(141,310)
Others	-	-	(5,126)	-	(5,126)	(6,629)
Total cash flows	185,294	-	(7,446)	(151,896)	25,952	28,099
Net closing balance	1,366,033	1,271	(135,713)	11,955	1,243,546	1,062,517
Closing contract assets	(5,966)	-	-	-	(5,966)	(5,177)
Closing insurance contract liabilities	1,371,999	1,271	(135,713)	11,955	1,249,512	1,067,694
Net closing balance	1,366,033	1,271	(135,713)	11,955	1,243,546	1,062,517

* Policy loans and Other Insurance related assets that are transferred at face value to LRC.

Notes to the Financial Statements

for the Year Ended 31 December 2023

31. Insurance (continued)

Insurance and Financial Risk Management

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

The Company is exposed to financial as well as insurance risks. The Group's risk management strategy is set by the Board of Directors through the following sub-committees:

- BSP Life (Fiji) Limited Investment Governance Committee (IGC) (Market Risk) and
- Board Audit and Compliance Committee (Operational and Other Risk).

Implementation of the risk management strategy and the day-to-day management of risk is the responsibility of the Executive Management.

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and is unpredictable. The principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using actuarial methods.

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

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

Terms and conditions of insurance contracts

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

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

31. Insurance (continued)

Insurance and Financial Risk Management

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

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed. Concentrations of insurance risk arise due to the large sums assured on certain individuals. The largest exposures all relate to mortality. The largest single exposure for the Life business is K14.0m of which K13.5m is reinsured (2022: K11.9m of which K11.5m is reinsured). For BSP Life PNG, the largest single exposure is K11.1 million of which K11.0 million is reinsured (2022: K10.6 million of which K10.5 million was reinsured).

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

Transition approach adopted

The liability for Insurance contracts required restatement as of 1 January 2022 (transition date).

The quantitative impact of transitioning to IFRS 17 is illustrated in the opening reconciliation table of the combined balance sheet of BSP Life Fiji and BSP Life PNG below:

	As reported IFRS 4		
	31 Dec 2021	IFRS 17	Movement
All amounts are expressed in K'000			
Assets			
Financial assets at amortised cost - policy loans	111,341	-	(111,341)
Financial assets at amortised cost - outstanding premiums	23,297	-	(23,297)
All other assets	1,431,937	1,431,937	-
Total Assets	1,566,575	1,431,937	(134,638)
Liabilities and equity			
Policy liabilities	1,131,975	-	(1,131,975)
Other liabilities - unearned premiums	19,434	-	(19,434)
Other liabilities - premium in advance	6,031	-	(6,031)
Outstanding claims	19,330	-	(19,330)
Outstanding claims (IBNR)	3,746	-	(3,746)
Insurance contract liabilities	-	1,005,064	1,005,064
Reinsurance contract liabilities	813	5,376	4,563
All other liabilities	92,908	92,908	-
Total liabilities	1,274,237	1,103,348	(170,889)
Total shareholders' equity	292,338	328,589	36,251
Total liabilities and equity	1,566,575	1,431,937	(134,638)

The adoption of IFRS 17 resulted in an overall reduction to total assets of K134.6 million, total liabilities of K170.9 million, and increase in total equity net off foreign exchange of K36.3 million on the transition balance sheet as at 1 January 2022. This was largely caused by the change in profit recognition patterns and discount rates.

Notes to the Financial Statements

for the Year Ended 31 December 2023

32. Investment in Subsidiaries

Name of subsidiary	Principal activity	Place of incorporation and operation	Ownership %	Balance of investment 2023	2022
BSP Capital Limited	Fund Management/ Investment Banking	PNG	100%	2,448	2,448
BSP Life (Fiji) Limited	Life Insurance	Fiji	100%	87,599	87,599
BSP Life (PNG) Limited	Life Insurance	PNG	100%	25,000	25,000
BSP Convertible Notes Limited	Capital Raising	Fiji	100%	371	371
BSP Finance Limited	Credit Institution	PNG	100%	94,479	103,600
BSP Platform Pacific Limited	Digital Technology	PNG	100%	395	-
Bank of South Pacific Tonga Ltd	Bank	Tonga	100%	71,611	71,611
Bank South Pacific (Samoa) Ltd	Bank	Samoa	98.7%	70,712	70,712
Bank South Pacific Vanuatu Ltd	Bank	Vanuatu	100%	38,020	38,020
At 31 December				390,635	399,361

Represented by:

At 1 January	399,361	388,798
BSP Platform Pacific Limited conversion from Joint Venture	395	-
Additional capital / (divestment of shares)	(9,121)	10,563
At 31 December	390,635	399,361

33. Investment in Joint Ventures

Name of Joint Venture	Principal activity	Place of incorporation and operation	Ownership %	
			2023	2022
Suva Central Ltd	Property rental	Fiji	50%*	50%*
Richmond Ltd	Hotel operations	Fiji	50%* 61.3%**	50%***
BSP Finance Cambodia Plc	Asset financing	Cambodia	50%*	50%*
BSP Finance Lao	Asset financing	Lao	50%*	50%*
Platform Pacific Ltd ¹	Digital solutions	PNG	-	50%*

The investments above are accounted for using the equity method. * Both ownership and voting power held, ** ownership, *** voting power held.

¹Fully owned subsidiary in 2023.

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Joint Ventures				
Investment in Joint Ventures	270,111	224,323	26,127	26,980
(Disposal of)/New investment during the year	(39,510)	10,563	-	-
Translation movement	14,904	(11,850)	546	(1,050)
Share of profit/(loss) for the year	58,112	47,075	2,942	197
Net investment in associate	303,617	270,111	29,615	26,127
Summarised financial information of Joint Ventures:				
Total assets	734,386	622,520	94,016	90,894
Total liabilities	(432,283)	(345,205)	(41,001)	(40,772)
Net assets	302,103	277,315	53,015	50,122
Share of profit/(loss) for the year	28,742	42,066	2,942	197
Group fair value alignment	29,370	5,009	-	-
Share of profit in Group	58,112	47,075	2,942	197

Notes to the Financial Statements

for the Year Ended 31 December 2023

Other

34. Fiduciary Activities

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

35. Related Party Transactions

Related parties are considered to be enterprises or individuals with whom the Group is especially related because either they or the 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 year:

- 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 in the normal course of business, and include loans, deposits, property rentals, share transfers and foreign currency transactions. These transactions are carried out on commercial terms and market rates. For the year ended 31 December 2023, balances and transactions of accounts for Directors, including companies in which directorships were held by BSP directors, were as follows:

<i>All amounts are expressed in K'000</i>	Consolidated	
	2023	2022
Customer Deposits		
Opening balances	150,256	33,019
Net movement	(67,484)	117,237
Closing balance	82,772	150,256
Interest paid	12	20
Loans and receivables from customers		
Opening balances	636,622	628,858
Loans issued	67,500	112,781
Interest	45,596	18,028
Charges	12	1,018
Loan repayments	(132,117)	(124,063)
New Director	834,409	-
Outgoing Director	(557,108)	-
Closing balance	894,914	636,622
Subsidised transactions are provided for staff. Such transactions include marginal discounts on interest rates, and specific fee concessions. These benefits are mainly percentage-based on market rates and fees, and as such, staff accounts are always subject to underlying market trends in interest rates and fees. As at 31 December 2023, staff account balances were as follows:		
Housing loans	195,907	208,449
Other loans	65,568	68,600
	261,475	277,049
Cheque accounts	10,085	6,414
Savings accounts	6,923	12,486
	17,008	18,900

Notes to the Financial Statements

for the Year Ended 31 December 2023

36. Directors and Executive Remuneration

Directors' remuneration

Directors of the company received remuneration including benefits during 2023 as detailed below:

All amounts are expressed in Kina

Name of Director	Meetings attended/ total held	Appointed/ (Resigned)	Total remuneration			
			2023 Bank	2023 Subsidiaries	2023 Total	2022 Total
Sir K.G. Constantinou, OBE	1/1	(Feb 2023)	140,326	75,000	215,326	861,304
M.T. Robinson ¹	7/7	Mar 2023	-	-	-	-
R.G. Bradshaw	7/7		692,274	-	692,274	318,152
S.G. Brewis-Weston	7/7		414,864	-	414,864	330,652
E. B. Gangloff	-	(Apr 2022)	-	-	-	171,576
A. Sam	7/7		427,364	-	427,364	343,152
Dr. M. Lua'iufi	7/7		399,239	120,000	519,239	425,652
S.A. Davis	7/7		427,364	-	427,364	343,152
P. Kevin	7/7		402,364	-	402,364	390,652
F.D. Bouraga	7/7		389,864	-	389,864	305,652
P.F. Taureka-Seruvatu	7/7		402,364	-	402,364	146,576
I.A. Tarutia	5/5	Apr 2023	249,538	-	249,538	-
			3,945,561	195,000	4,140,561	3,636,520
Shareholder Approved Cap					4,500,000	4,500,000

¹ Managing Director / Group Chief Executive Officer receives no fees for his services as Director during the year. Other members of BSP executive management who serve as directors of subsidiaries of BSP Group receive no fees for their services as Director.

Executive Remuneration

The specified executives as at 31 December 2023 were:

Mark Robinson	Ronesh Dayal	Peter Beswick	Daniel Faunt
Nuni Kulu	Rohan George	Richard Nicholls	Vandhna Narayan
Hari Rabura	Maryann Lameko-Vaai		

All amounts are expressed in K'000

Year	Salary	Short term incentive	Value of benefits	Long term incentive	Leave encashment	Final entitlement ¹	Total
2023 remuneration	16,226	5,405	1,247	2,564	993	-	26,435
2022 remuneration	18,182	6,000	1,510	7,844	7,096	826	41,458

¹ Final entitlements paid were for executives who resigned or retired from the Bank in 2022 and constitutes statutory leave payouts.

Notes to the Financial Statements

for the Year Ended 31 December 2023

36. Directors and Executive Remuneration (continued)

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

Remuneration K,000	2023 No.	2022 No.	Remuneration K,000	2023 No.	2022 No.	Remuneration K,000	2023 No.	2022 No.
100 – 110	125	138	590 – 600	1	4	1260 – 1270	1	-
110 – 120	122	82	600 – 610	5	2	1270 – 1280	-	1
120 – 130	84	84	610 – 620	5	1	1280 – 1290	-	1
130 – 140	70	65	620 – 630	4	1	1300 – 1310	-	1
140 – 150	68	49	630 – 640	2	3	1310 – 1320	1	1
150 – 160	51	32	640 – 650	1	1	1320 – 1330	1	-
160 – 170	38	40	650 – 660	1	3	1330 – 1340	1	-
170 – 180	32	24	660 – 670	1	2	1340 – 1350	1	-
180 – 190	27	32	670 – 680	2	1	1350 – 1360	-	1
190 – 200	25	22	680 – 690	1	1	1360 – 1370	1	-
200 – 210	17	15	690 – 700	2	1	1370 – 1380	1	-
210 – 220	20	26	710 – 720	1	3	1380 – 1390	-	1
220 – 230	19	19	720 – 730	1	1	1400 – 1410	-	2
230 – 240	14	9	730 – 740	2	1	1410 – 1420	1	2
240 – 250	26	13	750 – 760	1	-	1430 – 1440	1	-
250 – 260	5	14	760 – 770	2	-	1440 – 1450	1	1
260 – 270	10	5	770 – 780	1	-	1460 – 1470	-	1
270 – 280	8	7	780 – 790	-	1	1470 – 1480	-	-
280 – 290	7	5	790 – 800	-	1	1480 – 1490	-	1
290 – 300	9	7	810 – 820	1	-	1520 – 1530	1	-
300 – 310	5	8	820 – 830	2	-	1530 – 1540	1	-
310 – 320	8	9	830 – 840	-	1	1550 – 1560	1	-
320 – 330	5	5	840 – 850	-	2	1560 – 1570	1	-
330 – 340	5	-	850 – 860	1	-	1640 – 1650	-	1
340 – 350	4	3	860 – 870	2	-	1720 – 1730	-	1
350 – 360	6	2	870 – 880	2	-	1740 – 1750	-	1
360 – 370	3	6	880 – 890	-	1	1760 – 1770	1	-
370 – 380	5	4	900 – 910	-	1	1780 – 1790	1	-
380 – 390	3	5	910 – 920	2	1	1800 – 1810	-	1
390 – 400	4	1	920 – 930	-	2	1810 – 1820	1	-
400 – 410	4	2	940 – 950	1	-	1840 – 1850	1	-
410 – 420	3	6	950 – 960	-	1	1860 – 1870	-	1
420 – 430	6	7	960 – 970	-	3	1870 – 1880	-	-
430 – 440	5	2	990 – 1000	2	2	1880 – 1890	1	-
440 – 450	6	6	1000 – 1010	1	1	1930 – 1940	1	1
450 – 460	1	2	1010 – 1020	1	1	2080 – 2090	1	-
460 – 470	2	4	1040 – 1050	1	1	2100 – 2110	-	1
470 – 480	8	6	1050 – 1060	1	-	2250 – 2260	1	-
480 – 490	7	5	1070 – 1080	-	1	2270 – 2280	-	1
490 – 500	5	7	1090 – 1100	-	2	2280 – 2290	1	1
500 – 510	2	2	1100 – 1110	3	2	2360 – 2370	1	-
510 – 520	3	1	1110 – 1120	-	2	2430 – 2440	1	-
520 – 530	-	4	1120 – 1130	2	-	2480 – 2490	-	1
530 – 540	5	3	1130 – 1140	1	-	2500 – 2510	1	-
540 – 550	2	2	1140 – 1150	-	1	2700 – 2710	-	1
550 – 560	2	3	1160 – 1170	2	-	2750 – 2760	1	-
560 – 570	4	1	1200 – 1210	1	-	2810 – 2820	-	1
570 – 580	2	5	1230 – 1240	-	1	3190 – 3200	1	-
580 – 590	4	5	1240 – 1250	1	-	15010 – 15020	-	1
						Total	984	883

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

Notes to the Financial Statements

for the Year Ended 31 December 2023

37. Events Occurring After Balance Sheet Date

The PNG Government levied a flat K190 million Additional Company Tax (the Tax) on any bank that has over 40% market share of financial assets, applicable to financial year 2022. The Tax was non-deductible for tax purposes and had a direct impact on BSP's net profit after tax for 2022. The K190 million tax was paid on 30 September 2022 into an escrow account held with Bank of Papua New Guinea, pending the outcome of BSP's legal challenge to the Tax. On 19 February 2024, BSP entered into a settlement of the judicial review of the PNG Government's imposition of the Tax with the Commissioner General of Internal Revenue Commission (IRC). The terms of the settlement cover the whole of the amount held in escrow as follows:

1. K95 million will be refunded to BSP; and
2. the balance of K95 million will be paid to the IRC as full and final settlement of the litigation concerning the imposition of the Tax.

The settlement is conditional upon consent of the Attorney General of Papua New Guinea, the superannuation funds who formally supported the judicial review by BSP and, once those are provided, final consent of the Supreme Court of Justice of Papua New Guinea. A period of approximately a month is contemplated to obtain these consents.

The expected financial outcome is for BSP to receive K95 million by mid-2024.

38. Remuneration of Auditor

	Consolidated		Bank	
	2023	2022	2023	2022
<i>All amounts are expressed in K'000</i>				
Financial statement audits	6,925	5,363	4,611	4,350
Other services	553	523	517	488
	7,478	5,886	5,128	4,838

The external auditor PricewaterhouseCoopers is also engaged in providing other services to the Bank and Group as required and as permitted by prudential standards. The provision of other services included taxation.



Independent auditor's report

To the shareholders of BSP Financial Group Limited

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

Our opinion

We have audited the financial statements of BSP Financial Group Limited (the Bank), which comprise the statements of financial position as at 31 December 2023, and the statements of comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory information for both the Bank and the Group. The Group comprises the Bank and the entities it controlled at 31 December 2023 or from time to time during the financial year.

In our opinion the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Bank and the Group as at 31 December 2023, and their financial performance and cash flows for the year then ended.

Basis for opinion

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

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

Independence

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

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

Our audit approach

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

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



Materiality	Audit scope	Key audit matters
- For the purpose of our audit of the Group we used overall group materiality which represents approximately 5% of the Group's profit before taxes. - We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole. - We chose Group profit before taxes as, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark. - We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable thresholds.	- We (PwC Papua New Guinea) conducted the audit over all of the Group's operations in Papua New Guinea (PNG) which are the most significant to the Group, and directed the scope of the audit of other subsidiaries included in the Group financial statements sufficient to express an opinion on the financial statements as a whole. - For the Group's activities in Fiji, Solomon Islands, Samoa, Tonga, Cook Islands, and Vanuatu the audit work was performed by other PwC network firms or other firms operating under our instructions. - Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.	- Amongst other relevant topics, we communicated the following key audit matters to the Board Audit and Compliance Committee: - Loan loss provisioning - IT systems and controls - These matters are further described in the Key audit matters section of our report.

Key audit matters

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

Further, commentary on the outcomes of the particular audit procedures is made in that context.



Key audit matter	How our audit addressed the key matter
<i>Loan loss provisioning - Refer to Note 15 of the financial statements for a description of the accounting policies and to Note 22 for an analysis of credit risk and asset quality</i> Due to the magnitude of the loans and advances balances and the extent of management judgement inherent in the impairment calculations, impairment of loans and advances is an area of significance in the current year audit of the Bank and its subsidiaries. IFRS 9 Financial Instruments (IFRS 9) is a complex accounting standard which has required considerable judgement and interpretation in its application. Areas of judgement included: • The determination of the impairment in applying IFRS 9, which is reflected in the allowance for losses on loans, advances and other receivables • The identification of exposure for which there has been a significant increase in credit risk • Assumptions used in the expected credit loss model such as valuation of collateral and assumptions made on future values, financial condition of counterparties and forward looking macroeconomic factors.	To assess the Group's loan loss provisioning, we performed the following audit procedures on a sample basis, amongst others: • Obtained an understanding of the processes and controls relevant to the credit origination and credit monitoring processes • Assessment of the reasonableness of the key outputs of the expected credit loss model, as well as key judgements and assumptions used by management • Testing the key fields identified to have an impact on the expected credit loss provision by agreeing these back to source documentation • Examining the model methodology for consistency and appropriateness for loans and advances in Stage 1 and Stage 2. This included evaluation of the appropriateness of the estimates made on the Probability of Default, Loss Given Default and Exposure at Default • For Stage 3 loans and advances, procedures over the credit watch list and delinquencies, and evaluation of assumptions made in the valuation of collateral and recovery cash flows.
<i>IT systems and controls</i> We focused on this area because the Group is heavily dependent on complex IT systems for the capture, processing, storage and extraction of significant volumes of transactions. There are some areas of the audit where we seek to place reliance on system functionality including certain automated controls, system calculations and reports. Our reliance on these is dependent on the Group's IT General Control (ITGC) environment, in particular, user access maintenance and changes to IT systems being authorised and made in an appropriate manner.	Where relevant to our planned audit approach, we assessed the design and tested the operating effectiveness of the key ITGCs which support the continued integrity of the in-scope IT systems. Our procedures over ITGCs focused on user access and change management and we also carried out tests, on a sample basis, of system functionality that was key to our audit approach. Where we identified design or operating effectiveness matters relating to ITGCs and system functionality relevant to our audit, we performed alternative or additional audit procedures.

Information other than the financial statements and auditor's report

The directors are responsible for the other information. The other information comprises the Directors' Report (but does not include the financial statements and the auditors' report thereon), which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available after that date. Our opinion on the financial statements does not cover the other information and we do not, and will not, express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



Responsibilities of the directors for the financial statements

The directors are responsible, on behalf of the Bank for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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



Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2023:

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

Who we report to

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

A blue ink signature of a PricewaterhouseCoopers representative.

PricewaterhouseCoopers

A blue ink signature of Peter Buchholz.

Peter Buchholz

Partner
Registered under the Accountants Act 1996

Port Moresby
21 February 2024

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Shareholder Information

Rights attaching to Ordinary Shares

The rights attaching to shares are set out in the BSP Financial Group Limited's Constitution and in certain circumstances, are regulated by the Companies Act 1997, the PNGX Listing Rules and ASX Listing Rules (collectively Listing Rules), and general law. There is only one class of share.

All shares have equal rights.

Other rights attached to ordinary shares include:

General meeting and notices

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

Voting rights

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

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

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

Issues of further shares

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

Variation of rights

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

Transfer of shares

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

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

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

Partly paid shares

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



Dividends

The Directors may from time to time determine dividends to be distributed to members according to their rights and interests.

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

Dividend payouts over the last ten years are disclosed in the Performance Review section of this Annual Report.

Liquidation

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

DIRECTORS

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

APPOINTMENT OF DIRECTORS

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

POWERS OF THE BOARD

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

SHARE BUY BACKS

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

OFFICERS' INDEMNITIES

BSP, to the extent permitted by law, indemnifies every officer of BSP (and may indemnify any auditor of BSP) against any liability incurred by the person, in the relevant capacity, to another person unless the liability arises out of conduct involving lack of good faith. BSP may also make a payment in relation to legal costs incurred by these persons in defending an action for a liability, or resisting or responding to actions taken by a government agency or a liquidator.

Top 20 Shareholders

As at 31 December 2023, the twenty largest fully paid shareholders of the Company were:

Rank	Shareholder	Total Holding	%
1	Kumul Consolidated Holdings	84,811,597	18.15%
2	Nambawan Super Limited	47,702,160	10.21%
3	Petroleum Resources Kutubu Limited	46,153,840	9.88%
4	The Fiji National Provident Fund	46,040,545	9.85%
5	National Superannuation Fund Limited	45,318,417	9.70%
6	Credit Corporation (PNG) Limited	36,294,081	7.77%
7	Motor Vehicles Insurance Limited	31,243,736	6.69%
8	Comrade Trustee Services Limited	12,456,052	2.67%
9	The Catholic Bishops Conference Inc	11,620,000	2.49%
10	Capital Nominees Limited	7,714,312	1.65%
11	Samoa National Provident Fund	4,451,940	0.95%
12	Lamin Trust Fund	3,653,700	0.78%
13	Kina Nominees Limited	3,519,847	0.75%
14	Mineral Resources Ok Tedi No 2 Limited	3,496,449	0.75%
15	Unit Trust Of Samoa (Trust)	3,291,061	0.70%
16	Sky Finance Limited	3,053,090	0.65%
17	Mineral Resources Star Mountains	2,628,373	0.56%
18	Solomon Islands National Provident Fund	2,500,001	0.54%
19	Gas Resources Gigira Limited	2,392,853	0.51%
20	Nominees Niugini Limited	2,369,495	0.51%
Other Shareholders		66,508,430	14.24%
TOTAL		467,219,979	

Distribution of Shareholding

As at 31 December 2023, the Company had 6,165 shareholders. The distribution of shareholding is as follows:

Range	Number of Security Holders	Percentage of Security Holders	Number of Securities	Percentage of Issued Capital
1 to 1,000	4,924	79.8%	1,302,091	0.3%
1,001 to 5,000	735	11.9%	1,609,624	0.3%
5,001 to 10,000	134	2.2%	1,005,929	0.2%
10,001 to 100,000	236	3.9%	8,864,016	1.9%
100,001 and over	136	2.2%	454,438,319	97.3%
Total	6,165		467,219,979	

Unmarketable Parcels

As at 31 December 2023, the BSP Share Price was K13.70 on the PNGX and A\$5.42 on the ASX. There were 326 shareholders (less than 0.01% of total shareholdings) who held less than a marketable parcel of BSP shares, being equal to K1,000, or less in market value.

Escrow Shares

As of 31st December 2023, there were 130,465,437 restricted BSP shares held by PNG Registries Limited in Escrow.

Shareholder Name	Security Type	Escrow Shares	Effective Date
Kumul Consolidated Holdings	Fully Paid Ordinary Shares	40,540,541	6/04/2018
Kumul Consolidated Holdings	Fully Paid Ordinary Shares	43,771,056	6/04/2018
Petroleum Resources Kutubu Limited	Fully Paid Ordinary Shares	46,153,840	18/11/2016
Total Escrow Shares		130,465,437	

Directors' Interest in Share of BSP

Directors' who hold shares in BSP are:

Director	Shares Held	Percentage of Issued Capital
Ian Tarutia	3,000	0.00%

Fair treatment of shareholders

The company has made every effort to ensure the equitable treatment of shareholders to the best of its ability and in line with what is required by relevant laws, rules, and regulations.

Directors' Interests

No	Director	Background	Directorships & Interests	Entity
1	Robert Bradshaw. Chairman, Non – Executive Director since 2017. Appointed Chairman February 2023	Robert Bradshaw was appointed to the BSP Board in September 2017 and served as Chair of the Remuneration and Nominations Committee from 2019 until his appointment as Board Chair in February 2023. Mr. Bradshaw holds a Bachelor of Laws (with Honours, First Class) from the University of Papua New Guinea and has practiced law for almost 30 years. He was formerly a Partner in the firm Blake Dawson Waldron (now Ashurst) and commenced practice on his own, as Bradshaw Lawyers in 2005. Mr. Bradshaw has been involved in different areas of law, particularly in resource development, industrial relations, banking and finance and commercial litigation. Mr. Bradshaw has served as a Director and Chair on the board of several other companies.	Director Shareholder Owner Member	BSP Financial Group Limited Koitaki CC Limited Wahgi Arabicas Limited Koitaki CC Limited Wahgi Arabicas Limited Waghi Valley Country Club The Kofi Club Koitaki Country Club Bradshaw Lawyers Papua New Guinea Law Society Australian Institute of Company Directors Papua New Guinea Institute of Directors
2	Mark Robinson Group Chief Executive Officer & Managing Director. Executive Director commencing March 2023	Mark T. Robinson was appointed BSP's Group CEO in November 2022 and commenced in March 2023. He is a senior financial executive with over 30 years' of experience in developed and emerging markets. Mr. Robinson's previous roles include CEO of Commercial Bank International in the United Arab Emirates, CEO of ANZ Banking Group's operations in Southeast Asia, and he has held numerous senior executive roles with Citibank including in India, Russia, Turkey and Hungary. He has a Bachelor of Arts from the University of Chicago and a Master of Business Administration from the University of Chicago's Booth School of Business Administration from the University of Chicago's Booth School of Business.	Director Advisory Board Member Member	BSP Financial Group Limited Rangiora Capital Management Limited Invicta Capital Partners Limited BSP Life (Fiji) Limited BSP Finance (Fiji) Pte Limited Bank South Pacific (Samoa) Limited Activegraf Inc Army & Navy Club (London) University Club (New York) Oriental Club (London) Christchurch Club Institute of Directors (UK)
3	Symon Brewis-Weston, BEcon, MAppFin Non-Executive Director. Director since April 2021	Symon Brewis-Weston was appointed to the BSP Board in April 2021 and is a member of BSP's Board Risk Committee and Remuneration and Nominations Committee. Mr. Brewis-Weston has extensive international experience in financial services and a deep understanding of consumer and business markets in the Asia Pacific region. Mr. Brewis-Weston was formerly CEO & Executive Director at Humm Group Ltd (2016-2018), Executive General Manager - Corporate Financial Services at Commonwealth Bank of Australia (CBA) and Chief Executive Officer at Sovereign Assurance Co. Ltd (NZ), a subsidiary of CBA. Symon also served as Chairman of Stockco Ltd, an Australian livestock financier from 2019-2022. Mr. Brewis-Weston held various senior leadership positions at CBA for 15 years. He spent 6 years leading CBA's Indonesia operations and also in China developing the company's Chinese banking strategy. In 2015, Mr. Brewis-Weston received the United Nation's Global CEO Women Empowerment Principle's Leadership Award for his contribution to the enhancement of diversity and women's empowerment in the workplace. Mr. Brewis-Weston holds a Bachelor of Economics (Hons) and a Master of Applied Finance from Macquarie University.	Director	BSP Financial Group Limited Solvar Limited Mercurien Pty Limited

No	Director	Background	Directorships & Interests	Entity
4	Faamausili Dr. Matagialofi Lua'iufi, BA, MSc, PhD Non-Executive Director. Director since December 2016	Faamausili Dr. Matagialofi Lua'iufi was appointed to the Board of BSP in December 2016 and is currently Chair of the Remuneration and Nominations Committee (RNC).	Director	BSP Financial Group Limited BSP Finance Ltd Bank South Pacific (Samoa) Limited Paradise Consulting
		An experienced public sector practitioner and consultant, Faamausili Dr. Lua'iufi holds a PhD in Management, a Masters in Management Sciences and a Bachelor of Arts in Sociology and Political Science. Prior to establishing her own consultancy firm in late 2008, Faamausili Dr. Lua'iufi worked in the Samoa Public Service Commission Office for 25 years, with almost 12 of those years in the role of CEO. Under her stewardship, the Samoa Public Service undertook various change management programs to improve service delivery.	Shareholder	Paradise Consulting
		Faamausili Dr. Lua'iufi served in many Government state owned enterprise boards in her capacity as CEO of the Samoa Public Service Commission. Since becoming a consultant in late 2008, Faamausili Dr. Lua'iufi has performed more than 50 consultancy assignments in the domains of Human Resources Management, Organizational Development, Performance Management and Governance.	Member	Samoa Institute of Directors Samoa Human Resource Institute Australian Institute of Company Directors Papua New Guinea Institute of Directors
		Faamausili Dr. Lua'iufi is a member of the Australian Institute of Company Directors, member of the Papua New Guinea Institute of Directors, Samoa Institute of Directors and Samoa Human Resource Institute. From 2007 to 2012, Faamausili Dr. Lua'iufi was the Pacific Residential Scholar of the Australia New Zealand School of Government and was responsible for the development of emerging young Pacific public sector leaders.		
5	Stuart Davis, LLB, GAICD Non-Executive Director. Director since August 2017	Stuart Davis was appointed to the BSP Board in August 2017 and is currently Chair of the Board Risk Committee (BRC) and a member of the Board Audit and Compliance Committee.	Director	BSP Financial Group Limited Next DC Limited PayPal Australia Pty Limited Appen Limited
		Mr. Davis is also currently a Non-Executive director of ASX 100 company NextDC Ltd, where he serves as Chair of its Remuneration Committee and a member of its Audit and Risk Committee. He is also a Non-Executive Director of Appen Limited and PayPal Australia Ltd where he is Chair of its Risk Committee.	Member	Australia India Business Council Avondale Golf Club Asia Society Australia Papua New Guinea Institute of Directors
		Mr. Davis previously was CEO of HSBC Bank in India from 2009 to 2012, one of the largest foreign banks in India with staff of 8,000 and pretax earnings in excess of USD800 million. Prior to that appointment, he was CEO of HSBC Bank in Australia from 2002 to 2009 and CEO of HSBC in Taiwan from 1999 to 2002, having joined the HSBC Group in 1981.		
		Mr. Davis previously served as a member of the Australian Bankers Association from 2003 to 2009, being Deputy Chair from 2006 to 2009, was Chair of the British India Chamber of Commerce in Mumbai and Chair of the Taiwan British Chamber of Commerce in Taipei. He holds a Bachelor of Law Degree from the University of Adelaide and is a Graduate of the Australian Institute of Company Directors.		

Board of Directors

No	Director	Background	Directorships & Interests	Entity
6	Patricia Taureka-Seruvatu, LLB, MAICD Non-Executive Director. Director since April 2020	Mrs. Patricia Taureka-Seruvatu is a Lawyer by profession, admitted to practice law in Papua New Guinea (PNG) in 1988. Mrs. Taureka-Seruvatu holds a Bachelor of Laws from the University of PNG. She was appointed to Board in April 2022 and currently serves as a member of the Board Audit and Compliance Committee and the Remuneration and Nominations Committee. Mrs Taureka-Seruvatu has over 30 years' experience in the legal, superannuation, property, commercial and corporate services in PNG. She is a member of the Papua New Guinea Institute of Company Directors and the Australian Institute of Company Directors. She is currently employed as the General Counsel & Company Secretary for Dirio Gas & Power Company Limited. Prior to this, Mrs. Taureka Seruvatu previously served as Company Secretary for Nambawan Super Limited from 2001 to 2019.	Director Shareholder Member	BSP Financial Group Limited Naita Designs and Management Services Limited Naita Designs and Management Services Limited Papua New Guinea Law Society Papua New Guinea Women Lawyers' Association Papua New Guinea Institute of Directors Australian Institute of Company Directors
7	Frank Bouraga, CPA, MAICD Non-Executive Director. Director since December 2020	Frank Bouraga was appointed to the BSP Board in December 2020. Since his appointment to the Board, he has joined as a Member of the Board Audit and Compliance Committee. Mr. Bouraga is a CPA Papua New Guinea qualified professional accountant with over 26 years in accounting practice and is currently a partner in Assurance and Business Advisory Services with SBC Solutions. Prior to SBC Solutions, Mr. Bouraga was the Country Managing Partner for Ernst & Young Papua New Guinea for 5 years as an audit and business advisory services partner. He also worked with PricewaterhouseCoopers for over 7 years and worked with Star Business Consultants between 2004 and 2011. Mr. Bouraga is also a director of the PNG Cancer Foundation and the PNG Hunters, and is a member of Certified Practicing Accountants (CPA PNG) and the Australian Institute of Company Directors (AICD). He holds a Bachelor of Business (Accounting) from Central Queensland University.	Director Shareholder Member	BSP Financial Group Limited Inside Out Limited Star Management Services Limited Star No.57 Limited PNG Hunters Rugby Football Club Inc. Board Papua New Guinea Cancer Foundation Inc Pacific Uniforms Limited Inside Out Limited Star Management Services Limited Lalokau FM Limited Star No.57 Limited Certified Practicing Accountants Papua New Guinea (CPA PNG) Accounting Registration Board of PNG Australian Institute of Company Directors Papua New Guinea Institute of Directors

No	Director	Background	Directorships & Interests	Entity
8	Arthur Sam, BComm, CPA, GAICD Non-Executive Director. Director since July 2016	Arthur Sam was appointed to the BSP Board in July 2016 and served on the Board until his resignation on 29 February 2024. Prior to his resignation, Mr. Sam was the Chair of the Board Audit and Compliance Committee and also a member of the Board Risk Committee. Mr. Sam is a qualified accountant registered under CPA Papua New Guinea and has been in professional practice for over 26 years. He is the Audit and Managing Partner of Sam Kiak Tubangliu Certified Practising Accountants. Before going into private practice, Mr. Sam spent over 15 years working for global accounting firms in senior roles specializing in external and internal audit and risk management. He holds a Bachelor of Commerce from the University of Papua New Guinea, and is a Graduate of the Australian Institute of Company Directors. Prior to joining the Board of BSP, he served on the National Superannuation Fund Limited's Board Audit and Risk Committee and is a serving member of the Papua New Guinea Accountants Registration Board. In 2021, Mr. Sam was appointed Chair of Muyua Dal Ltd to represent the landowner interest in the Woodlark Gold Project in Milne Bay Province.	Director Shareholder Joint Owner Member	BSP Financial Group Limited Silver Dawn Holding Limited WAM Shipping Limited Milne Bay Earthworks Limited Muyua Dal Limited Nikubai Kwayeb Investment Limited Nikubai Udanai Investment Limited Nikwasis Ukwadew Investment Limited Sinawia Omalak Investment Limited Dawet Investment Limited Kumuluw Walau Investment Limited Kunutan Botunug Investment Limited Kunutan Saweinak Investment Limited Lakeidog Latnawai Investment Limited Lakeidog Mwatat Investment Limited Malas Dilgabuys Investment Limited Malas Luwau Investment Limited Silver Dawn Holding Limited Milne Bay Earthworks Limited Nikubai Kwayeb Investment Limited Nikubai Udanai Investment Limited Nikwasis Ukwadew Investment Limited Sinawia Omalak Investment Limited Kumuluw Walau Investment Limited Kunutan Botunug Investment Limited Kunutan Saweinak Investment Limited Lakeidog Latnawai Investment Limited Lakeidog Mwatat Investment Limited Malas Dilgabuys Investment Limited Malas Luwau Investment Limited Sam Kiak Tubangliu Certified Practising Accountants Certified Practising Accountants of Papua New Guinea Papua New Guinea Institute of Directors

Board of Directors

No	Director	Background	Directorships & Interests	Entity
9	Priscilla Kevin, BSCS, MAICD Non-Executive Director. Director since April 2020	Priscilla Kevin was appointed to the BSP Board in April 2020. Since her appointment to the Board she has joined as a Member of the Board Risk Committee and was previously a member of the Remuneration & Nominations Committee from April 2020 to April 2023. Ms. Kevin is an IT professional and entrepreneur specialising in Enterprise Resource Planning (ERP) Support Advisory. Ms. Kevin has over 20 years ICT industry experience providing ICT consultancy and support to a range of businesses as well as government bodies. Since 2018, Ms. Kevin served as an Independent Committee Member of the BSP Board Risk Committee. Ms. Kevin is a board member of PNG Digital ICT Cluster Inc. and a member of the PNG University of Technology's Industrial Advisory Board (IAB). Ms. Kevin is also a working group committee member of the Centre of Excellence for Financial Inclusion and is a Council Member of the Institute of National Affairs (INA). She holds a Bachelor of Science in Computer Science from the PNG University of Technology, is an ICANN fellow and an alumni of the U.S IVLP and East West Center Schidler College of Business Changing Faces. Ms Kevin also serves as a non-executive director on the board of BSP Finance (Fiji) Pte Limited since her appointment in 2022 and is a member of the Australian Institute of Company Directors (AICD).	Director Shareholder Board/Council Member Member	BSP Financial Group Limited In4net Ltd In4net Ltd PNG Institute of National Affairs Council PNG University of Technology Industrial Advisory Board PNG Digital Information and Communications Technology (ICT) Cluster Inc. PNG Women in Science, Technology, Engineering and Mathematics Association Inc. PNG Computer Society Inc. Centre of Excellence for Financial Inclusion (CEFI) Digital Financial Services Working Group Committee Australian Institute of Company Directors PNG Institute of Directors Pacific Islands Chapter of the Internet Society
10	Ian Tarutia, OBE, FAICD, FPNGID Non-Executive Director. Director since April 2023	Mr. Tarutia was appointed a Director in April 2023 and currently serves as a member of both the Board Audit and Compliance Committee and the Board Risk Committee. Mr Tarutia is an experienced corporate executive for over 25 years with a strong back ground in superannuation, finance, banking, investments, governance and strategic management. He is also an experienced board room director with over 18 years' experience on various public and private sector Boards in PNG, Australia and the Pacific region. He was CEO of National Superannuation Fund of Papua New Guinea (Nasfund) for 15 years from July 2007 until he retired on the 31 March 2023 and established NCSL in 2003 for Nasfund members which is the largest savings & loan society in the Pacific today by membership size. Today he runs his consultancy practice and is the current President of the Papua New Guinea Chamber of Commerce & Industry. He is a former President of the Papua New Guinea Institute of Directors and former Chairman of the Pacific Islands Investment Forum, an organization of superannuation funds in the Pacific and New Zealand. Mr. Tarutia holds both a Bachelor of Business Economics and Master of Business Administration from the University of Papua New Guinea. He is a graduate of the Australian Institute of Company Directors and holds a Diploma in Financial Markets from the Securities Institute of Australia and a Diploma in Economic Policy Analysis from the PNG National Research Institute. He is also a graduate of the prestigious Harvard Business School Advanced Management Program (AMP 185) and is a Fellow of the Australian Institute of Company Directors and a Fellow of the Papua New Guinea Institute of Directors.	Director Shareholder Board / Council Member	BSP Financial Group Limited Kumul Consolidated Holdings Limited NASFUND Contributors Savings & Loans Society CloudApp Laboratories Limited Save the Children Australia Immigration & Citizenship Authority Board National Broadcasting Corporation Limited BSP Seychelles Limited PNG Chamber of Commerce & Industry Association of Superannuation Funds of PNG Pacific Islands Investment Forum

Registered Office

BSP Waigani Head Office
Section 34, Allotment 6 & 7
Klinki Street, Waigani Drive
Port Moresby, NCD
Papua New Guinea

PO Box 78

Port Moresby, NCD
Papua New Guinea

Telephone: +675 320 1212

PNG Exchange for BSP Shares

PNGX Markets Limited
Office 2, Level 1, Monian Tower
Douglas Street,
Port Moresby, NCD
Papua New Guinea

PO Box 1531

Port Moresby, NCD
Papua New Guinea

Telephone: +675 320 1980

PNG Share Registry

PNG Registries Limited
Level 4, Cuthbertson House
Cuthbertson Street,
Port Moresby, NCD
Papua New Guinea

PO Box 1265

Port Moresby, NCD
Papua New Guinea

Telephone: +675 321 6377

Australian Registered Office

Ashurst
South Tower
Level 16, 80 Collins Street,
Melbourne, Victoria 3000
Australia

Telephone: +61 3 9679 3000

Australian Exchange for BSP Shares

ASX Limited
Exchange Centre
20 Bridge Street,
Sydney, NSW 2000
Australia

Telephone: +61 2 8298 8260

Australian Share Registry

Link Market Services Limited
World Square

Level 12, 680 George Street,
Sydney, NSW 2000
Australia

Telephone: +61 1300 554 474

Exchange & Registry for BSP Convertible Notes

South Pacific Stock Exchange & Central Share Registry

Shop 1 & 11, Sabrina Building
Victoria Parade, Suva
Fiji

GPO Box 11689
Suva, Fiji

Telephone: +679 330 4130

Honouring the Legacy

Late Sir Kostas G. Constantinou, OBE 1957-2023

In memoriam of the late Sir Kostas Constantinou, we honour a distinguished leader and philanthropist, who passed away on June 17 2023 in Brisbane, Australia, at the age of 66. Throughout his distinguished career, late Sir Kostas exemplified a remarkable entrepreneurial spirit and steadfast dedication to empowering the community.

The health and firm foundation that BSP has today, is reflective of his strong thoughtful leadership. During his tenure as BSP's Chairman, BSP achieved many significant

milestones. These milestones include, the expansion of BSP's banking operations in several Pacific countries, establishing a new life insurance business in Papua New Guinea, and BSP's dual listing on the Australian Securities Exchange (ASX) in 2021.

Furthermore, the late Sir Kostas was committed to giving back to the community and made significant contributions to the development of Papua New Guinea through his business acumen, and promoted

corporate social responsibility and philanthropy.

The BSP Board, employees, shareholders and communities we operate in, are immensely grateful to late Sir Kostas for his mentorship, friendship and commitment. His legacy will continue to inspire and guide us, as we navigate the ever-evolving business landscape with integrity and purpose.

God bless you and your family. Rest in Eternal Peace.



Corporate Directory

Head Office BSP Financial Group Limited Waigani Head Office

Section 34, Allotment 687, Klinki Street, Waigani Drive
PO Box 78, Port Moresby, NCD, Papua New Guinea

Email
servicebsp@bsp.com.pg

Telephone
(+675) 320 1212

Website
www.bsp.com.pg

Fiji

Level 12, BSP Suva Central Building
Corner of Renwick Road & Pratt Street,
Suva, Fiji

Telephone
(+679) 132 888 (within Fiji)
(+679) 321 4300 (outside Fiji)

Solomon Islands

Level 2, Heritage Park Head Office
Mendana Avenue

PO Box 37, Honiara,
Solomon Islands

Telephone
(+677) 21874

Samoa

Main Branch,
Beach Road

PO Box 1860, Apia,
Samoa

Telephone
(+685) 66100

BSP Life Fiji

Level 7 BSP Life Centre, Thomson Street,
Suva, Fiji

Telephone
(+679) 132 700

Vanuatu

Port Vila Branch,
Kumul Highway

PO Box 32, Port Vila, Vanuatu

Telephone
(+678) 22084

Tonga

Nuku'alofa Branch, Taufa'ahau Road

PO Box 924, Nuku'alofa, Tonga

Telephone
(+678) 22084

Cook Islands

Rarotonga Branch,
Main Road Avarua

PO Box 42, Rarotonga, Cook Islands

Telephone
(+682) 22014

BSP Life PNG

Level 2, Waigani Banking Centre

PO Box 78, Port Moresby, National Capital
District, Papua New Guinea.

Telephone
(+675) 3056214

BSP Convertible Notes Limited

Level 12, BSP Suva Central Building,
Corner of Renwick Road & Pratt Street,
Suva, Fiji

Telephone
(+679) 321 4412



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