Bank of South Pacific Limited and Subsidiaries

Condensed financial statements

For the half-year ended

30 June 2017

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DIRECTORS' REPORT

The Directors of Bank of South Pacific Limited ("the Bank" or "BSP") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half-year ended 30 June 2017.

Directors and officers

The names of the Directors and officers of Bank of South Pacific Limited during or since the end of the half-year are:

Sir K Constantinou, OBE	Mr R Fleming, CSM
Mr G Aopi, CBE	Ms F Talao
Mr G Robb, OAM	Mr E B Gangloff
Dr I Temu	Mr A Mano
Mr A Sam	Dr F Lua'iufi

Principal activities

The principal activity of the Bank is the provision of commercial banking and finance services. The Group's activities also include stock broking, fund management and life business services throughout Papua New Guinea and the Pacific region. BSP is a company listed on the Port Moresby Stock Exchange (POMSoX), 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 Bank and the Group are also licensed to operate in the Solomon Islands, Fiji Islands, Cook Islands, Samoa, Tonga, Vanuatu and Cambodia.

The registered office is at Douglas Street, Port Moresby.

Review of operations

The net profit of the Group for the half year ended 30 June 2017, after tax was K370.885 million (half year ended 30 June 2016: K301.376 million).

Dated and signed at Port Moresby this 21st day of August 2017.

Sir Kostas Constantinou, OBE
Chairman

Robin Fleming, CSM
Chief Executive Officer/ Director

STATEMENT BY THE DIRECTORS

The directors declare that:

(a) in the directors' opinion, 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

(b) in the directors' opinion, the attached condensed financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Bank and the Group .

Dated and signed in accordance with a resolution of the directors at Port Moresby this 21st day of August 2017.



Sir Kostas Constantinou, OBE
Chairman



Robin Fleming, CSM
Chief Executive Officer/ Director

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Report on review of interim financial information

to the Directors of Bank of South Pacific Limited

Introduction

We have reviewed the accompanying condensed consolidated interim statements of financial position of Bank of South Pacific Limited (the Bank) and its subsidiaries (the Group) as at 30 June 2017 and the related condensed consolidated statements of comprehensive income, condensed statements of changes in shareholders' equity and condensed statements of cash flows for the half-year then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial statements based on our review.

Scope of review

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

Conclusion

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

Restriction on distribution or use

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

PricewaterhouseCoopers

Jonathan Seeto
Partner
Registered under the Accountants Act 1996

Port Moresby
21 August 2017

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CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2017

All amounts expressed are in K'000	Note	Group Half Year Ended 30 June 2017	Group Half Year Ended 30 June 2016	Bank Half Year Ended 30 June 2017	Bank Half Year Ended 30 June 2016
Interest income	2(a)	700,763	605,213	662,893	584,896
Interest expense	2(a)	(74,799)	(75,069)	(68,757)	(72,783)
Net interest income		625,964	530,144	594,136	512,113
Fee and commission income	2(b)	188,292	173,268	175,327	165,008
Other income	2(c)	149,298	122,987	166,836	112,958
Net banking operating income		963,554	826,399	936,299	790,079
Net insurance premium income		62,598	55,011	-	-
Investment revenue		65,554	32,682	-	-
Increase in policy liabilities		(28,293)	(15,930)	-	-
Policy maintenance and investment expense		(43,918)	(36,985)	-	-
Claims, surrender and maturities		(41,665)	(31,851)	-	-
Share of profits from associates and jointly controlled entities		2,757	2,218	-	-
Net insurance operating income		17,033	5,145	-	
Net operating income before impairment and operating expenses		980,587	831,544	936,299	790,079
Impairment on loans and advances	2(d)	(31,620)	(39,560)	(24,398)	(35,845)
Operating expenses	2(e)	(424,726)	(368,879)	(387,205)	(345,755)
Profit before income tax		**524,241**	**423,105**	**524,696**	**408,479**
Income tax expense		(153,356)	(121,729)	(145,753)	(120,907)
Net profit for the period		**370,885**	**301,376**	**378,943**	**287,572**
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss					
Translation of financial information of foreign operations to presentation currency		30,772	60,761	16,210	34,999
Items that will not be reclassified to profit or loss					
Net movement in asset revaluation		(232)	(474)	-	34
Other comprehensive income, net of tax		30,540	60,287	16,210	35,033
Total comprehensive income for the period		**401,425**	**361,663**	**395,153**	**322,605**
Earnings per share – Basic and diluted (toea)		**79.4**	**64.5**		

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

CONDENSED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2017

All amounts expressed are in K'000	Note	Group		Bank	
		As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016
ASSETS					
Cash and balances with Central Bank		1,294,048	1,656,260	1,098,547	1,410,008
Treasury and Central Bank bills		3,305,468	2,933,621	3,273,709	2,918,484
Amounts due from other banks		913,095	804,233	804,304	691,152
Statutory deposits with Central Banks		1,532,587	1,474,656	1,495,508	1,440,530
Other financial assets		2,384,476	2,331,472	2,061,424	2,044,905
Loans, advances and other receivables from customers	4	10,752,950	10,102,909	9,723,273	9,255,080
Property, plant and equipment		689,587	683,498	568,293	569,168
Assets subject to operating lease		41,043	44,668	41,043	44,668
Investment in associates and joint ventures		144,186	125,620	17,071	16,513
Investment in subsidiaries		-	-	337,569	318,261
Intangible assets		117,826	91,626	104,873	84,727
Investment properties		124,782	117,590	-	-
Tax receivable		-	576	-	3,670
Deferred tax assets		177,274	170,089	190,630	182,625
Other assets		255,469	294,985	194,699	247,535
Total assets		**21,732,791**	**20,831,803**	**19,910,943**	**19,227,326**
LIABILITIES					
Amounts due to other banks		293,467	301,291	344,260	327,823
Customer deposits		17,708,959	16,912,349	16,742,226	16,143,696
Subordinated debt securities		75,525	75,525	75,525	75,525
Other liabilities		1,078,822	1,058,494	354,438	364,434
Provision for income tax		45,373	-	40,170	-
Other provisions		187,531	169,807	170,438	156,398
Total liabilities		**19,389,677**	**18,517,466**	**17,727,057**	**17,067,876**
SHAREHOLDERS' EQUITY					
Ordinary shares		373,055	373,101	373,055	373,101
Retained earnings		1,674,063	1,670,595	1,590,475	1,576,974
Other reserves		291,401	266,090	220,356	209,375
Equity attributable to the members of the Bank		2,338,519	2,309,786	2,183,886	2,159,450
Minority interest		4,595	4,551	-	-
Total shareholders' equity		**2,343,114**	**2,314,337**	**2,183,886**	**2,159,450**
Total equity and liabilities		**21,732,791**	**20,831,803**	**19,910,943**	**19,227,326**

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

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE HALF-YEAR ENDED 30 JUNE 2017

All amounts expressed are in K'000	Share Capital	Reserves	Retained earnings	Minority interest	Total
GROUP					
Balance at 1 January 2017	**373,101**	**266,090**	**1,670,595**	**4,551**	**2,314,337**
Net profit	-	-	370,885	-	370,885
Other comprehensive income	-	30,540	-	-	30,540
Total comprehensive income	-	30,540	370,885	-	401,425
2016 final dividend paid	-	-	(371,154)	-	(371,154)
Share buyback	(46)	-	-	-	(46)
Profit attributed to minority interest	-	-	-	44	44
Total transaction with owners	(46)	-	(371,154)	44	(371,156)
Recognition of deferred tax on ARR	-	(5,229)	3,737	-	(1,492)
Balance at 30 June 2017	**373,055**	**291,401**	**1,674,063**	**4,595**	**2,343,114**
Balance at 1 January 2016	**374,621**	**255,065**	**1,399,490**	**-**	**2,029,176**
Net profit	-	-	301,376	-	301,376
Other comprehensive income	-	60,287	-	-	60,287
Total comprehensive income	-	60,287	301,376	-	361,663
2015 final dividend paid	-	-	(296,854)	-	(296,854)
Share buyback	(1,347)	-	-	-	(1,347)
Total transaction with owners	(1,347)	-	(296,854)	-	(298,201)
Transfer from asset revaluation reserve	-	(686)	686	-	-
Balance at 30 June 2016	**373,274**	**314,666**	**1,404,698**	**-**	**2,092,638**
BANK					
Balance at 1 January 2017	**373,101**	**209,375**	**1,576,974**	**-**	**2,159,450**
Net profit	-	-	378,943	-	378,943
Other comprehensive income	-	16,210	-	-	16,210
Total comprehensive income	-	16,210	378,943	-	395,153
2016 final dividend paid	-	-	(369,179)	-	(369,179)
Share buyback	(46)	-	-	-	(46)
Total transaction with owners	(46)	-	(369,179)	-	(369,225)
Recognition of deferred tax on ARR	-	(5,229)	3,737	-	(1,492)
Balance at 30 June 2017	**373,055**	**220,356**	**1,590,475**	**-**	**2,183,886**
Balance at 1 January 2016	**374,621**	**216,369**	**1,340,000**	**-**	**1,930,990**
Net profit	-	-	287,572	-	287,572
Other comprehensive income	-	35,033	-	-	35,033
Total comprehensive income	-	35,033	287,572	-	322,605
2015 final dividend paid	-	-	(294,788)	-	(294,788)
Share buyback	(1,347)	-	-	-	(1,347)
Total transaction with owners	(1347)	-	(294,788)	-	(296,135)
Transfer from asset revaluation reserve	-	(686)	686	-	-
Balance at 30 June 2016	**373,274**	**250,716**	**1,333,470**	**-**	**1,957,460**

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

CONDENSED STATEMENTS OF CASH FLOWS
FOR THE HALF-YEAR ENDED 30 JUNE 2017

All amounts expressed are in K'000	Note	Group Half Year Ended 30 June 2017	Group Half Year Ended 30 June 2016	Bank Half Year Ended 30 June 2017	Bank Half Year Ended 30 June 2016
CASH FLOW FROM OPERATING ACTIVITIES					
Interest received		705,284	611,060	665,895	640,868
Fees and other income		352,043	302,833	342,164	279,079
Interest paid		(73,025)	(58,918)	(69,522)	(56,892)
Amounts paid to suppliers and employees		(359,807)	(295,794)	(337,413)	(279,527)
Operating cash flow before changes in operating assets and liabilities		**624,495**	**559,181**	**601,124**	**583,528**
Increase in loans, advances and other receivables from customers		(679,080)	(739,071)	(490,863)	(623,456)
Decrease in bills receivable and other assets		4,879	52,009	47,551	14,007
Increase in customer deposits		796,611	984,612	598,530	938,388
Increase in statutory deposits with the Central Banks		(57,931)	(45,364)	(54,978)	(41,695)
Increase/(decrease) in bills payable and other liabilities		19,661	256,693	(1,410)	117,928
Net cash flow from operations before income tax		**708,635**	**1,068,060**	**699,954**	**988,700**
Income taxes paid		(115,927)	(82,316)	(113,216)	(78,804)
Net cash flow from operating activities		**592,708**	**985,744**	**586,738**	**909,896**
CASH FLOW FROM INVESTING ACTIVITIES					
Increase in government securities		(424,851)	(155,865)	(371,744)	(115,972)
Expenditure on property, plant and equipment		(73,802)	(37,339)	(58,264)	(33,096)
Proceeds for disposal of property, plant and equipment		847	677	847	677
Additional funding of subsidiaries		-	-	(19,308)	-
Net cash flow used in investing activities		**(497,806)**	**(192,527)**	**(448,469)**	**(148,391)**
CASH FLOW FROM FINANCING ACTIVITIES					
Share buyback		(46)	(1,347)	(46)	(1,347)
Dividends paid		(371,154)	(296,854)	(369,179)	(294,788)
Net cash flow used in financing activities		**(371,200)**	**(298,201)**	**(369,225)**	**(296,135)**
Net increase/(decrease) in cash and cash equivalents		**(276,298)**	**495,016**	**(230,956)**	**465,370**
Effect of exchange rate movements on cash and cash equivalents		30,772	47,790	16,210	29,034
Cash and cash equivalent at the beginning of the year		2,159,202	1,553,400	1,773,337	1,238,379
Cash and cash equivalents at the end of the period	9	**1,913,676**	**2,096,206**	**1,558,591**	**1,732,783**

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

1. Statement of significant accounting policies

Statement of compliance

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

Basis of preparation

The condensed financial statements are denominated in Papua New Guinea Kina, which is the reporting currency of the Group. All financial information presented in Papua New Guinea Kina has been rounded to the nearest thousand dollars, unless otherwise stated.

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

The accounting policies and methods of computations adopted in preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2016 financial report for the financial year ended 31 December 2016.

2. Operating profit before income tax

Operating profit before income tax is determined after including:

(a) Net interest income

All amounts expressed are in K'000	Half Year Ended 30 June 2017	Half Year Ended 30 June 2016	Half Year Ended 30 June 2017	Half Year Ended 30 June 2016
Interest Income				
Loans, advances and other receivables from customers	503,369	443,023	464,671	421,755
Treasury bills	94,530	66,378	94,300	66,378
Central Bank bills	83	187	83	187
Other financial assets - Inscribed stock	101,249	94,107	101,099	94,107
Other loans and advances	355	737	1,296	727
Other	1,177	781	1,444	1,742
	700,763	605,213	662,893	584,896
Less:				
Interest Expense				
Customer deposits	(64,527)	(68,511)	(58,435)	(66,190)
Other banks	(6,141)	(2,414)	(6,191)	(2,449)
Subordinated debt securities	(4,131)	(4,144)	(4,131)	(4,144)
	(74,799)	(75,069)	(68,757)	(72,783)
	625,964	530,144	594,136	512,113

(b) Fee and commission income

Product related	106,104	99,554	100,950	96,911
Trade and international related	9,591	9,182	9,021	9,049
Electronic banking related	55,694	51,125	52,606	49,165
Other	16,903	13,407	12,750	9,883
	188,292	173,268	175,327	165,008

(c) Other income

Foreign exchange related	133,577	109,014	122,036	99,951
Operating lease rentals	4,968	5,052	4,968	5,052
Other	10,753	8,921	39,832	7,955
	149,298	122,987	166,836	112,958

Other income for Bank includes K32.7m dividends received from subsidiaries, which is eliminated upon consolidation

(d) Impairment on loans and advances

New write offs	33,786	37,920	33,645	37,306
Net new and increased individually assessed provisioning	31,910	28,490	25,686	26,231
Recoveries during the period	(34,076)	(26,850)	(34,933)	(27,692)
	31,620	39,560	24,398	35,845

(e) Operating expenses

All amounts expressed are in K'000	Group Half year ended 30 June 2017	Group Half year ended 30 June 2016	Bank Half year ended 30 June 2017	Bank Half year ended 30 June 2016
Staff costs	184,617	164,962	170,260	155,561
Depreciation	42,161	47,580	39,875	45,271
Computing	60,140	33,530	51,942	28,527
Premises and equipment	47,573	39,619	43,702	37,285
Administration and other costs	90,235	83,188	81,426	79,111
	424,726	368,879	387,205	345,755

3. Dividends

On 26 May 2017, the directors declared a final dividend of 79 toea per share for the year ended 31 December 2016. The declared final gross dividend amount was K371.154 million (June 2015: K296.854 million). Net dividend paid after dividend withholding tax was K363.302 million (June 2015: K281.449 million).

4. Loans, advances and other receivables from customers

All amounts expressed are in K'000	Group As at 30 June 2017	Group As at 31 December 2016	Bank As at 30 June 2017	Bank As at 31 December 2016
Gross loans, advances and other receivables from customers net of reserved interest	11,301,243	10,626,570	10,237,160	9,743,321
Less allowances for losses on loans, advances and other receivables from customers	(548,293)	(523,661)	(513,887)	(488,241)
Net loans, advances and other receivables from customers	10,752,950	10,102,909	9,723,273	9,255,080
Economic sector risk concentrations				
Commerce, finance and other business	6,247,986	5,725,076	5,606,896	5,246,320
Private households	2,220,251	2,001,460	1,985,663	1,772,158
Government and public authorities*	348,130	331,130	347,486	331,130
Agriculture	246,069	240,974	217,907	225,024
Transport and communication	654,501	925,674	600,671	869,203
Manufacturing	232,653	202,423	207,457	178,866
Construction	803,360	676,172	757,193	632,379
	10,752,950	10,102,909	9,723,273	9,255,080

**Total by Government ownership at 30 June 2017 was K2.8b (31 December 2016: K2.3b).*

5. Capital adequacy and liquid assets ratio

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 (RBF), Solomon Islands, Cooks Islands, Samoa, Tonga, Vanuatu and Cambodia are required to adhere to prudential standards issued by the Reserve Bank of Fiji, Central Bank Solomon Islands, The Financial Supervisory Commission, Central Bank of Samoa, National Reserve Bank of Tonga, Reserve Bank of Vanuatu and National Bank of Cambodia respectively. One of the most critical prudential standards is the capital adequacy requirement. All banks are required to maintain at least the minimum measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well capitalized, and also specifies the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2017, the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a 'well-capitalised' bank. The minimum requirements as set out under the standard is as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

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

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

	As at 30 June 2017		As at 31 Dec 2016	
Risk weighted capital ratios	**K'000**	**%**	**K'000**	**%**
Tier 1 Capital	1,571,283	16.0%	1,916,502	19.8%
Tier 1 + Tier 2 Capital	2,247,710	22.9%	2,233,493	23.1%
Leverage capital ratio		7.3%		9.3%

6. Contingent liabilities and commitments

The primary purpose of credit related commitments are 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 do 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.

Off-balance sheet financial instruments

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

	Group		Bank	
All amounts expressed are in K'000	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016
Standby letters of credit	34,503	29,230	31,031	29,230
Guarantees and indemnities issued	297,911	346,729	277,500	334,873
Trade letters of credit	64,067	92,540	62,695	85,897
Commitments to extend credit	1,040,629	1,195,621	1,001,934	1,163,392
	1,437,110	1,664,120	1,373,160	1,613,392

Commitments for capital expenditure

Amounts with firm commitments, and not included in the accounts as at 30 June 2017 amounted to K117.8 million (31 December 2016: K28.75 million).

Contingent liability

A number of legal proceedings (including potential claims where management cannot reasonably quantify) against the Group were outstanding as at 30 June 2017. Based on information available at 30 June 2017, the Group estimates a contingent liability of K16.6 million in respect of these proceedings (31 December 2016: K17.9 million).

Statutory deposit with Central Banks

	Group		Bank	
All amounts expressed are in K'000	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016
Cash reserve requirement – *requisite reserve requirement of respective countries*	1,532,587	1,474,656	1,495,508	1,440,530

Operating lease commitments – predominantly premises

	Group		Bank	
All amounts expressed are in K'000	As at 30 June 2017	As at 31 December 2016	As at 30 June 2017	As at 31 December 2016
Not later than 1 year	40,355	52,259	37,614	49,776
Later than 1 year and not later than 5 years	69,621	60,287	66,077	56,480
Later than 5 years	23,634	26,082	22,168	25,418
	133,610	138,628	125,859	131,674

7. Derivative financial instruments

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

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

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

As at 30 June 2017		USD	AUD	EURO	GBP	JPY	NZD	CAD	HKD	SGD	PHP	Other	Total
Selling	FCY	(11,489)	(14,380)	-	(276)	(298,978)	(675)	(160)	(2,852)	(450)	-	-	-
	Kina	(36,531)	(35,172)	-	(1,142)	(8,490)	(1,571)	(392)	(1,162)	(1,039)	-	-	(85,499)
Buying	FCY	17,146	4,550	200	-	16,000	1,260	-	-	150	10,000	-	-
	Kina	54,518	11,129	727	-	454	2,935	-	-	346	639	-	70,748

As at 31 December 2016		USD	AUD	EURO	GBP	JPY	NZD	CAD	HKD	SGD	PHP	Other	Total
Selling	FCY	(55,034)	(1,410)	-	(1,700)	(360,607)	-	-	-	-	-	(1,094)	-
	Kina	(38,981)	-	-	(4,796)	-	-	-	-	-	-	-	(43,777)
Buying	FCY	16,374	60,315	-	1,197	37,100	-	-	-	-	-	1,914	-
	Kina	16,420	-	-	-	8,400	-	-	-	-	-	-	24,820

There is no material difference between the fair value and face value of the contracts.

8. Related parties

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

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

A number of banking transactions are entered into with these related parties 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.

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

	Group	
All amounts expressed are in K'000	As at 30 June 2017	As at 31 December 2016
Loans to :		
Parties where the related party interest is primarily in a director capacity	621,425	612,601
Parties where the related party interest is primarily in an executive capacity	35,802	52,744
General staff	7,178	8,329
	664,405	**673,674**

9. Notes to condensed statements of cash flows

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

	Group As at 30 June		Bank As at 30 June	
All amounts expressed are in K'000	2017	2016	2017	2016
Cash and balances with Central Banks	1,294,048	1,342,290	1,098,547	1,117,968
Amounts due from other banks	913,095	1,170,187	804,304	1,045,501
Amounts due to other banks	(293,467)	(416,271)	(344,260)	(430,686)
	1,913,676	2,096,206	1,558,591	1,732,783

10. Segment information

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

All amounts expressed are in K'000

Half Year Ended 30 June 2017	PNG Bank	Non PNG Banks	Non Bank Entities	Adjust Inter Segments	Total
Net interest income	518,271	97,632	10,061	-	625,964
Other income	236,971	94,782	8,586	(2,749)	337,590
Net insurance income	-	-	17,033	-	17,033
Total operating income	**755,242**	**192,414**	**35,680**	**(2,749)**	**980,587**
Operating expenses	(313,982)	(99,193)	(12,484)	933	(424,726)
Impairment expenses	(14,805)	(12,271)	(4,544)	-	(31,620)
Profit before income tax	**426,455**	**80,950**	**18,652**	**(1,816)**	**524,241**
Income tax	(128,032)	(20,761)	(4,563)	-	(153,356)
Net profit after income tax	**298,423**	**60,189**	**14,089**	**(1,816)**	**370,885**
Half year Ended 30 June 2016					
Net interest income	440,747	82,435	5,650	1,312	530,144
Other income	210,018	82,667	4,023	(453)	296,255
Net insurance income	-	-	5,145	-	5,145
Total operating income	**650,765**	**165,102**	**14,818**	**859**	**831,544**
Operating expenses	(273,870)	(80,470)	(11,719)	(2,820)	(368,879)
Impairment expenses	(28,047)	(9,337)	(2,176)	-	(39,560)
Profit before income tax	**348,848**	**75,295**	**923**	**(1,961)**	**423,105**
Income tax	(105,188)	(18,837)	2,296	-	(121,729)
Net profit after income tax	**243,660**	**56,458**	**3,219**	**(1,961)**	**301,376**

11. Subsequent events

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