



BSP Financial Group Limited and Subsidiaries

ARBN 649 704 656

Interim Condensed Financial Statements

For the half year ended
30 June 2025



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APRA Disclaimer:

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

DIRECTORS' REPORT

The Directors of BSP Financial Group Limited ("the Bank" or "BSP") present the financial report on the consolidated entity consisting of the Bank and its controlled entities (collectively referred to as "the Group") for the half year ended 30 June 2025.

Directors and officers

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

Mr R G Bradshaw

Mr M T Robinson

Mr I A Tarutia

Ms P Kevin

Mr S C Beach

Mr S G Brewis-Weston

Mr F D Bouraga

Mrs P F Taureka-Seruvatu

Ms D Cooper (appointed 19 February 2025)

Mr D Hornery (appointed 19 February 2025)

Dr F M Lua'iufi (retired 19 February 2025)

Mr S A Davis (retired 19 February 2025)

Principal activities

The principal activity of the Bank is the provision of commercial banking and financial services throughout Papua New Guinea 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 Securities 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 Laos. The registered office is at Section 34, Allotment 6 & 7, Klinki Street, Waigani Drive, Port Moresby.

Review of operations

The net profit of the Group for the half year ended 30 June 2025, after tax was K572 million (2024: K521 million).

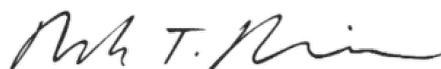
In the Directors' opinion, the attached interim condensed financial statements and notes thereto are in accordance with the Listing Rules of both the PNGX and the ASX, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

Dated and signed at Port Moresby this 21st day of August 2025.



Robert G Bradshaw

Chairman



Mark T Robinson

Group Chief Executive Officer and Managing Director



Report on review of interim condensed financial statements

to the Directors of BSP Financial Group Limited

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of BSP Financial Group Limited (the Bank) and its subsidiaries (the Group) as at 30 June 2025 and the related consolidated interim condensed statements of comprehensive income, changes in shareholders' equity and cash flows for the six-month period then ended and notes, comprising material accounting policy information and other explanatory notes. The Directors are responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this consolidated interim condensed financial information 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 consolidated interim condensed 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 the conclusion we have formed.

PricewaterhouseCoopers

Jonathan Grasso
Partner
Registered under the Accountants Act 1996

Port Moresby
21 August 2025

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 June 2025

	Note	Consolidated Half Year Ended 30 June	
		2025	2024
<i>All amounts are expressed in K'millions</i>			
Interest income	2(a)	1,080	1,040
Interest expense	2(a)	(63)	(58)
Net interest income		1,017	982
Fee and commission income	2(b)	212	184
Other income	2(b)	345	268
Net insurance operating income		28	25
Net operating income before impairment and operating expenses		1,602	1,459
Impairment of financial assets	2(c)	(67)	(84)
Operating expenses	2(d)	(681)	(615)
Additional company tax settlement	4	-	95
Profit before income tax		854	855
Income tax expense	4	(282)	(334)
Net profit for the period attributable to parent		572	521
Other comprehensive income			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Translation of financial information of foreign operations to presentation currency	7	134	22
<i>Items that will not be reclassified to profit or loss:</i>			
Recognition of deferred tax on asset revaluation reserve	7	-	1
Net movement in asset revaluation reserve	7	(8)	(3)
Other comprehensive income, net of tax		126	20
Total comprehensive income attributable to parent		698	541
Earnings per share – Basic and diluted (toea)	7	122.5	111.4

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

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

AS AT 30 June 2025

		Consolidated As at 30 June 2025	As at 31 December 2024
<i>All amounts are expressed in K'millions</i>			
	Note		
ASSETS			
Cash and operating balances with Central Banks		3,125	3,362
Amounts due from other banks		2,233	1,874
Treasury and Central Bank bills		3,184	2,518
Cash reserve requirement with Central Banks		3,058	3,255
Other financial assets		7,446	7,158
Loans and receivables from customers	5	17,003	16,270
Assets held for sale	14	15	14
Property, plant and equipment		1,089	1,047
Aircraft subject to operating lease		29	30
Deferred tax assets		250	257
Other assets		1,484	1,338
Total assets		38,916	37,123
LIABILITIES			
Amounts due to other banks		215	260
Customer deposits		30,711	29,083
Insurance contract liabilities		1,574	1,438
Other liabilities		1,569	1,631
Deferred tax liabilities		66	58
Total liabilities		34,135	32,470
SHAREHOLDERS' EQUITY			
Ordinary shares	7	372	372
Retained earnings	7	3,734	3,732
Other reserves	7	640	514
Equity attributable to the members of the company		4,746	4,618
Minority interests		35	35
Total shareholders' equity		4,781	4,653
Total equity and liabilities		38,916	37,123

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

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE HALF YEAR ENDED 30 JUNE 2025

<i>All amounts are expressed in K'millions</i>	Note	Share Capital	Reserves	Retained earnings	Minority interest	Total
GROUP						
Balance at 1 January 2025	7	372	514	3,732	35	4,653
Net profit		-	-	572	-	572
Other comprehensive income		-	126	-	-	126
Total comprehensive income		-	126	572	-	698
Dividends paid during the period		-	-	(570)	-	(570)
Total transaction with owners		-	-	(570)	-	(570)
Balance at 30 June 2025		372	640	3,734	35	4,781
Balance at 1 January 2024		372	455	3,415	1	4,243
Net profit		-	-	521	-	521
Other comprehensive income		-	20	-	-	20
Total comprehensive income		-	20	521	-	541
Dividends paid during the period		-	-	(501)	-	(501)
Partial sale of investment in subsidiary ¹		-	-	-	34	34
Total transaction with owners		-	-	(501)	34	(467)
Transfer from asset revaluation reserve		-	(2)	2	-	-
Balance at 30 June 2024		372	473	3,437	35	4,317

¹BSP Life (Fiji) Limited in 2024 divested 40% of its interest in Future Farms Limited during the reporting period. The entity retained control over the investment.

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

INTERIM CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 June 2025

		Consolidated Half Year Ended 30 June	
	Note	2025	2024
<i>All amounts are expressed in K'millions</i>			
CASH FLOW FROM OPERATING ACTIVITIES			
Interest received		1,165	1,072
Fees and other income		502	407
Interest paid		(58)	(36)
Insurance premiums		153	161
Claims, surrenders and maturity payments		(109)	(86)
Additional company tax settlement		-	95
Amounts paid to suppliers and employees		(599)	(603)
Operating cash flow before changes in operating assets and liabilities		1,054	1,010
Increase in loans and receivables from customers		(298)	(470)
Increase/(decrease) in customer deposits		905	55
(Increase)/decrease in cash reserve requirements with the Central Banks		250	(445)
(Increase)/decrease in other assets		(150)	79
Increase/(decrease) in other liabilities		(14)	296
Net cash flow from operating activities before tax		1,747	525
Income taxes paid		(268)	(285)
Net cash flow from operating activities		1,479	240
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from Government Securities		4,444	10,161
Purchases of Government Securities		(5,433)	(10,194)
Expenditure on property, plant and equipment		(67)	(64)
Proceeds for disposal of property, plant and equipment		-	3
Net cash flow used in investing activities		(1,056)	(94)
CASH FLOW FROM FINANCING ACTIVITIES			
Dividends paid		(570)	(501)
Sale of minority interest in subsidiary		-	34
Net cash flow used in financing activities		(570)	(467)
Net decrease in cash and cash equivalents		(147)	(321)
Effect of exchange rate movements on cash and cash equivalents		314	42
Cash and cash equivalents at the beginning of the period		4,976	4,722
Cash and cash equivalents at the end of the period	13	5,143	4,443

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 June 2025

1. Statement of material accounting policies

1.1 Statement of compliance

The interim condensed financial statements are prepared in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The interim condensed financial statements do not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

1.2 Basis of preparation

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

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

The accounting policies and methods of computations adopted in preparation of the half year financial report are consistent with those adopted and disclosed in the Group's 2024 financial report for the financial year ended 31 December 2024. The Bank has streamlined the presentation of financial information. Where the presentation of financial information has changed, comparative information has been changed to ensure consistency.

New and amended standards adopted by the Group

A number of amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

1.3 Critical Accounting estimates and judgments

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

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

The areas involving significant estimates and judgments are:

- Estimation of current tax liability in the multiple tax jurisdictions – Note 4
- Estimated impairment of financial or non-financial assets - Note 6
- Estimated insurance liabilities
- Estimation of fair value of financial and non-financial assets and liabilities – Note 9

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 6, which also sets out key sensitivities of the ECL to changes in these elements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 June 2025

1.3 Critical Accounting estimates and judgments (continued)

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

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

2. Operating profit before income tax

Operating profit before income tax is determined after including:

(a) Net interest income

Accounting Policy

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

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

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 June 2025

2. Operating profit before income tax (continued)

	Consolidated	
	June 2025	June 2024
<i>All amounts are expressed in K'millions</i>		
Interest income		
Loans and receivables from customers	699	715
Other financial assets - inscribed stock	254	232
Treasury bills	91	54
Central Bank bills	2	2
Other	34	37
	1,080	1,040
Less:		
Interest expense		
Customer deposits	58	52
Other banks	4	3
Other borrowings	1	3
	63	58
	1,017	982

(b) Fee and commission income and other income

Accounting Policy

Fee and commission income

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

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

Foreign exchange income or losses

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

	Consolidated	
	June 2025	June 2024
<i>All amounts are expressed in K'millions</i>		
Fee and commission income		
Electronic banking related fee income	139	115
Electronic banking related fee expense	(54)	(42)
Net electronic banking related fee income	85	73
Trade and international related	12	11
Product related	80	81
Other	35	19
	212	184

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 June 2025

2. Operating profit before income tax (continued)

(b) Fee and commission income and other income (continued)

All amounts are expressed in K'millions	Consolidated	
	June 2025	June 2024
Other income		
Foreign exchange related ¹	320	259
Operating lease rentals	2	2
Other	23	7
	345	268

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

(c) Impairment of financial assets

Accounting Policy

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

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

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

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; 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 6 provides more detail of how the expected credit loss allowance is measured.

Impairment of financial assets by asset class as follows:

All amounts are expressed in K'millions	Consolidated	
	June 2025	June 2024
Loans and receivables from customers	62	84
Treasury and Central Bank bills	4	(4)
Other financial assets – Inscribed stock	1	4
	67	84

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 June 2025

2. Operating profit before income tax (continued)

(d) Operating expenses

Accounting Policy

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

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

Non-Salary technology 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.

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

<i>All amounts are expressed in K'millions</i>	Consolidated	
	June 2025	June 2024
Employment expenses	308	269
Depreciation	66	65
Non-salary technology expenses	101	78
Occupancy expenses	60	57
Administration and other costs	146	110
Impairment of Joint Ventures	-	36
	681	615

3. Segment information

Accounting Policy

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 June 2025

3. Segment information (continued)

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

Half Year Ended 30 June 2025 <i>All amounts are expressed in K'millions</i>	PNG Bank	Pacific Markets	Non-Bank Services	Inter Segment Adjustments	Total
Interest income	854	240	4	(18)	1,080
Interest expense	(43)	(40)	-	20	(63)
Net interest income	811	200	4	2	1,017
Net fee, commission and other income	370	71	9	(213)	237
Foreign exchange related	237	83	-	-	320
Net insurance income	-	-	28	-	28
Total operating income	1,418	354	41	(211)	1,602
Operating expenses	(539)	(138)	(2)	(2)	(681)
Impairment expenses	(59)	(9)	1	-	(67)
Profit before income tax	820	207	40	(213)	854
Income tax	(225)	(52)	(5)	-	(282)
Net profit after income tax	595	155	35	(213)	572
As at 30 June 2025					
Total Assets	25,671	12,990	2,345	(2,090)	38,916
Total Liabilities	(22,540)	(11,389)	(1,738)	1,532	(34,135)
Net Assets	3,131	1,601	607	(558)	4,781

Half year Ended 30 June 2024 <i>All amounts are expressed in K'millions</i>	PNG Bank	Pacific Markets	Non-Bank Services	Inter Segment Adjustments	Total
Interest income	830	209	21	(20)	1,040
Interest expense	(44)	(33)	(2)	21	(58)
Net interest income	786	176	19	1	982
Net fee, commission and other income	208	59	6	(80)	193
Foreign exchange related	187	72	-	-	259
Net insurance income	-	-	25	-	25
Total operating income	1,181	307	50	(79)	1,459
Operating expenses ¹	(456)	(119)	(44)	4	(615)
Impairment expenses	(75)	2	(11)	-	(84)
Additional company tax settlement	95	-	-	-	95
Profit before income tax	745	190	(5)	(75)	855
Income tax	(279)	(49)	(6)	-	(334)
Net profit after income tax	466	141	(11)	(75)	521
As at 30 June 2024					
Total Assets	26,118	10,931	2,362	(1,969)	37,442
Total Liabilities	(23,207)	(9,505)	(1,767)	1,354	(33,125)
Net Assets	2,911	1,426	595	(615)	4,317

¹ Non Bank Services operating expenses includes Impairment loss of K35,816 million in Joint Ventures (BSP Finance Cambodia and Laos).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 June 2025

4. Income Tax Expense

Accounting Policy

Current Tax

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

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Interim Condensed 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 affect neither taxable income nor accounting profit.

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

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

Current and deferred tax for the period

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

Critical accounting assumptions and estimates

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

Income tax expense

<i>All amounts are expressed in K'millions</i>	Consolidated	
	June 2025	June 2024
Tax calculated at 43% (2024:45%) of bank profit before tax	330	402
Tax calculated at respective subsidiary tax rates	53	9
Tax impact on change in corporate structure	(35)	-
Expenses not deductible for tax	(5)	19
Tax loss not recognised	1	5
Income not recognised for tax purposes ¹	(64)	(94)
Adjustment to prior year estimates	2	(7)
Income tax expense	282	334

¹ K42.750 million in 2024 represents the tax impact of K95.0 million Additional Company Tax Settlement, which is not assessable income.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 June 2025

5. Loans and receivables from customers

Accounting Policy

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

<i>All amounts are expressed in K'millions</i>	Consolidated	
	June 2025	Dec 2024
Overdrafts	1,280	1,161
Lease financing	240	217
Term loans	12,416	12,147
Mortgages	3,656	3,307
Gross loans and receivables from customers net of reserved interest	17,592	16,832
Less allowance for losses on loans and receivables from customers	(589)	(562)
At 30 June/31 December	17,003	16,270

Allowance for losses includes K109 million (December 2024: K103 million) provision taken up for interest recognised on stage 3 loans.

6. Allowance for Expected Credit Losses

6 (a) Accounting Policy

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

The ECL determined under IFRS 9 is recognised as follows:

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

Measurement

The Group calculates the provisions for ECL based on a three stage approach. ECL are a probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant timeframe. They are determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The models use three main components to determine the ECL including:

- Probability of default (PD): the probability that a counterparty will default;
- Loss given default (LGD): the loss that is expected to arise in the event of a default; and
- Exposure at default (EAD): the estimated outstanding amount of credit exposure at the time of the default.

6. 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 (SICR) since origination, a provision for 12 months ECL is recognised.

Stage 2: Lifetime ECL – performing

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

Stage 3: Lifetime ECL – non-performing

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

Collective and individual assessment

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

Expected life

In considering the lifetime time frame for expected credit losses in stages 2 and 3, the standard generally requires use of the remaining contractual life adjusted where appropriate for prepayments, extension and other options. For certain revolving credit facilities which include both a drawn and undrawn component (e.g. 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 Interim Condensed Statement of Comprehensive Income.

Critical accounting assumptions and estimates

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

6. 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.

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

Probability weighting of each scenario

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 June 2025

6. Allowance for Expected Credit Losses (continued)

Where appropriate, adjustments will be made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models. Judgements can change with time as new information becomes available which could result in changes to the provision for expected credit losses.

6. (b) Loss Allowance – Loans and receivables from customers

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

<i>All amounts are expressed in K'millions</i>	Consolidated	
	June 2025	Dec 2024
Provision for impairment		
Movement in allowance for losses on loans and receivables from customers:		
Balance at 1 January	562	712
Net new and increased provisioning	37	(18)
Loans written off against provisions/(write back of provisions no longer required)	(10)	(132)
At 30 June / At 31 Dec	589	562
 <i>Provision for impairment is represented by:</i>		
Collective provision for on balance sheet exposure	247	230
Individually assessed or specific provision	298	290
Total provision for on balance sheet exposure	545	520
Collective provision for off balance sheet exposure	44	42
At 30 June / 31 Dec	589	562

<i>All amounts are expressed in K'millions</i>	Consolidated	
	June 2025	June 2024
Loan impairment expense		
Net collective provision funding	13	(16)
Net new and increased individually assessed provisioning	24	74
Total new and increased provisioning/(release of provisions)	37	58
Recoveries during the period	(45)	(46)
Net write off during the period	70	72
At 30 June	62	84

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 June 2025

6. Allowance for Expected Credit Losses (continued)

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; and
- 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.

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

All amounts are expressed in K'millions

EAD - Loans and receivables from customers	Stage 1	Stage 2	Stage 3	Total
1 January 2024	15,386	675	664	16,725
Transfers to/(from)				
Stage 1	(146)	128	18	-
Stage 2	204	(251)	47	-
Stage 3	-	-	-	-
Net financial assets originated/(repaid)	599	(52)	(36)	511
Total movement in EAD for the period	657	(175)	29	511
30 June 2024	16,043	500	693	17,236

ECL - Loans and receivables from customers

1 January 2024	271	95	291	657
Transfers to/(from)				
Stage 1	(4)	4	-	-
Stage 2	22	(26)	4	-
Stage 3	-	-	-	-
Net financial assets originated/(repaid)	(16)	15	9	8
Movements due to risk parameter and other changes	-	(3)	57	54
Total net P&L charge for the period	2	(10)	70	62
Loans written off against provision/(write back of provision no longer required)	-	-	(23)	(23)
30 June 2024	273	85	338	696

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 June 2025

6. Allowance for Expected Credit Losses (continued)

All amounts are expressed in K'millions

EAD - Loans and receivables from customers	Stage 1	Stage 2	Stage 3	Total
1 July 2024	16,043	500	693	17,236
Transfers to/(from)				
Stage 1	(18)	(48)	66	-
Stage 2	(15)	(21)	36	-
Stage 3	-	-	-	-
Net financial assets originated/(repaid)	(171)	(65)	(168)	(404)
Total movement in EAD for the period	(204)	(134)	(66)	(404)
31 December 2024	15,839	366	627	16,832
ECL – Loans and receivables from customers				
1 July 2024	273	85	338	696
Transfers to/(from)				
Stage 1	(5)	5	-	-
Stage 2	14	(17)	3	-
Stage 3	-	-	-	-
Net financial assets originated/(repaid)	(5)	(77)	(16)	(98)
Movements due to risk parameter and other changes	(65)	22	74	31
Total net P&L charge for the period	(61)	(67)	61	(67)
Loans written off against provision/(write back of provision no longer required)	-	-	(109)	(109)
31 December 2024	212	18	290	520
EAD - Loans and receivables from customers				
1 January 2025	15,839	366	627	16,832
Transfers to/(from)				
Stage 1	(304)	259	45	-
Stage 2	106	(130)	24	-
Stage 3	-	1	(1)	-
Net financial assets originated/(repaid)	880	(36)	(84)	760
Total movement in EAD for the period	682	94	(16)	760
30 June 2025	16,521	460	611	17,592
ECL – Loans and receivables from customers				
1 January 2025	212	18	290	520
Transfers to/(from)				
Stage 1	(5)	4	1	-
Stage 2	8	(9)	1	-
Stage 3	-	-	-	-
Net financial assets originated/(repaid)	(8)	10	14	16
Movements due to risk parameter and other changes	(6)	23	2	19
Total net P&L charge for the period	(11)	28	18	35
Loans written off against provision/(write back of provision no longer required)	-	-	(10)	(10)
30 June 2025	201	46	298	545

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 June 2025

6. Allowance for Expected Credit Losses (continued)

Total off balance sheet

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

<i>All amounts are expressed in K'millions</i>	June 2025		Dec 2024	
	Stage 1		Stage 1	
	Gross exposure	Provisions	Gross exposure	Provisions
Opening balance	3,830	42	3,501	55
Net (decrease)/increase	(27)	2	329	(13)
Closing balance	3,803	44	3,830	42

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

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

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

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

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

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

The below three scenarios and respective weightings were applied to each economic variable at 30 June 2025:

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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 June 2025

6. Allowance for Expected Credit Losses (continued)

Sensitivity Analysis

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

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

Set out below are the changes to the ECL as at 30 June 2025 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions, while keeping other factors constant:

<i>All amounts are expressed in K'millions</i>	30 June 2025	31 Dec 2024
Reported probability weighted ECL	589	562
100% base scenario	567	538
100% downside scenario	622	591

Sensitivity of provisions for impairment to SICR assessment criteria

- If 1% of Stage 1 credit exposures as at 30 June 2025 was included in Stage 2, provisions for impairment would approximately increase by K8.3 million for the bank. (31 Dec 2024 K7.4 million).
- If 1% of Stage 2 credit exposures as at 30 June 2025 was included in Stage 1, provisions for impairment would approximately decrease by K0.2 million for the bank. (31 Dec 2024 K0.2 million).

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

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

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

Retail – Groupings for collective measurement

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 June 2025

6. Allowance for Expected Credit Losses (continued)

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

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

<i>All amounts are expressed in K'millions</i>					December 2024
ECL staging	Stage 1	Stage 2	Stage 3	Total	Total
	12-month	Lifetime	Lifetime		
Credit grade					
Standard monitoring	16,521	270	-	16,791	16,037
Special monitoring	-	190	-	190	168
Default	-	-	611	611	627
Gross carrying amount	16,521	460	611	17,592	16,832
Loss allowance	(201)	(46)	(298)	(545)	(520)
Net carrying amount	16,320	414	313	17,047	16,312

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

Off balance sheet items, which are in scope for impairment, totalled K3.8 billion (December 2024: K3.8 billion) and are classified as stage 1 with a loss allowance of K44.1 million (December 2024: K42.3 million).

The total balance of investment securities measured at amortised cost K10.0 billion (December 2024: K9.1 billion) is classified as Stage 1 with a credit grade of 'standard monitoring'. Total loss allowance carried against this balance is K60.8 million (December 2024: K55.3 million).

6 (f) Write-off policy

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 June 2025

7. Shareholders' Equity

Accounting Policy

Share issue costs

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

<i>Number of shares in 'millions, Book value in K'millions</i>	Number of shares	Book value
1 January 2025	467	372
30 June 2025	467	372

Earnings per ordinary share

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

<i>All amounts are expressed in K'millions</i>	Consolidated	
	June 2025	June 2024
Net Profit attributable to shareholders (K'millions)	572	521
Weighted average number of ordinary shares in use ('millions)	467	467
Basic and diluted earnings per share (expressed in toea)	122.5	111.4

Dividends on ordinary shares

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

On 25 February 2025, the Directors declared a final dividend of 121 toea per share for the year ended 31 December 2024 which was paid on 21 March 2025. The declared final gross dividend amount was K570 million (June 2024: K501 million). Net dividend paid after dividend withholding tax was K563 million (June 2024: K488 million).

Retained earnings

<i>All amounts are expressed in K'millions</i>	Consolidated	
	June 2025	Dec 2024
At 1 January	3,732	3,415
Net profit for the year	572	1,038
Final dividends paid	(570)	(501)
Interim dividends paid	-	(212)
Disposal of assets – transfer from asset revaluation	-	1
BSP Life policy reserve	-	(9)
At 30 June/31 December	3,734	3,732

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 June 2025

7. Shareholders' Equity (continued)

	Consolidated	
	June 2025	Dec 2024
<i>All amounts are expressed in K'millions</i>		
Other reserves comprise:		
Asset revaluation reserve	137	145
Capital reserve	1	1
Equity component of Fiji Class Shares	22	22
Statutory insurance reserve	72	72
Foreign currency translation reserve	408	274
At 30 June / 31 December	640	514

Movement in reserves for the period:

Asset revaluation reserve

At 1 January	145	134
Net asset revaluation increment / (decrement)	(8)	(3)
Transfer asset revaluation reserve to retained earnings	-	(2)
Release of Deferred tax on disposal of properties	-	1
Impact of PNG tax rate change	-	15
At 30 June / 31 December	137	145

Capital reserve

At 1 January	1	1
At 30 June / 31 December	1	1

Statutory insurance reserve

At 1 January	72	62
BSP Life policy reserve	-	10
At 30 June / 31 December	72	72

Foreign currency translation reserve

At 1 January	274	236
Movement during the period	134	38
At 30 June / 31 December	408	274

Equity component of Fiji Class Shares

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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 June 2025

8. Capital adequacy

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

The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether a Bank is under, adequately, or well-capitalized, and also specifies the leverage capital ratio. The Group complies with the prevailing prudential requirements for total capital and leverage capital. As at 30 June 2025, the Group's total capital adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for a 'well-capitalised' bank. The minimum capital adequacy requirements as set out under the standard are as follows: capital adequacy ratio for Tier 1 is 8%, total capital adequacy is 12% and the leverage capital ratio is 6%.

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

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

The Group's capital adequacy is as follows:

Risk weighted capital ratios (unaudited)	30 June 2025		31 Dec 2024	
	K'millions	%	K'millions	%
Tier 1 capital	3,529	20.2%	3,959	24.2%
Total capital	4,442	25.4%	4,294	26.2%
Leverage capital ratio		9.2%		10.8%

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

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

The different levels have been defined as follows:

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 June 2025

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

Consolidated

All amounts are expressed in K'millions

As at 30 June 2025	Level 1	Level 2	Level 3	Total
a) Financial assets				
Equity security	-	357	13	370
Treasury bills	-	19	-	19
Government inscribed stock	-	347	-	347
Non-financial assets				
Land and buildings	-	-	584	584
Investment properties	-	-	421	421
Assets subject to operating lease	-	-	29	29
Total assets	-	723	1,047	1,770
b) Financial liabilities				
Insurance contract liabilities	-	-	(1,574)	(1,574)
Total liabilities	-	-	(1,574)	(1,574)
As at 31 December 2024	Level 1	Level 2	Level 3	Total
a) Financial assets				
Equity security	-	333	4	337
Treasury bills	-	14	-	14
Government inscribed stock	-	308	-	308
Non-financial assets				
Land and buildings	-	-	571	571
Investment properties	-	-	388	388
Assets subject to operating lease	-	-	30	30
Total assets	-	655	993	1,648
b) Financial liabilities				
Insurance contract liabilities	-	-	(1,438)	(1,438)
Total liabilities	-	-	(1,438)	(1,438)

Consolidated

Financial assets & non financial assets at fair value through profit and loss

	June 2025	Dec 2024
Opening balance (1 Jan 2025 and 2024)	993	984
Total gains and losses recognised in:		
- Profit and loss	(17)	(33)
- Other comprehensive income	3	17
Purchases	31	33
Disposals	-	(2)
Translation movements	37	(6)
As at 30 June 2025 / 31 December 2024	1,047	993

There were no changes in valuation technique for Level 3 recurring fair value measurements during the period ended 30 June 2025.

Land and buildings 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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 June 2025

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

The frequency of valuations comply with Group policy. The significant inputs used in preparing the valuations relates 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 observables valuation assumptions would not have a material impact on the Groups' reported results.

10. Contingent liabilities and commitments

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

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

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

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

	Consolidated	
	As at 30 June 2025	As at 31 Dec 2024
<i>All amounts are expressed in K'millions</i>		
Letters of credit	152	231
Guarantees and indemnities issued	342	324
Commitments to extend credit	3,309	3,275
	3,803	3,830
Commitments for capital expenditure		
Amounts with firm commitments, and not included in the accounts	134	87

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 June 2025

10. Contingent liabilities and commitments (continued)

Legal proceedings

A number of legal proceedings against the Group were outstanding as at 30 June 2025. For all litigation where a loss is probable, an appropriate provision has been made. Based on information available at 30 June 2025, the Group estimates a contingent liability of K18 million (31 December 2024: K17 million) in respect of these proceedings.

11. Derivative financial instruments

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

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

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

All amounts are expressed in 'millions

As at 30 June 2025		USD	AUD	EURO	GBP	JPY	Others	Total
Selling	FCY	(8)	-	(1)	-	-	(1)	
	Kina	(32)	(1)	(4)	-	-	(3)	(40)
Buying	FCY	-	-	-	-	-	10	
	Kina	-	1	-	-	-	39	40
As at 31 Dec 2024		USD	AUD	EURO	GBP	JPY	Others	Total
Selling	FCY	(1)	-	-	-	(127)	(1)	
	Kina	(4)	-	-	-	(3)	(2)	(9)
Buying	FCY	1	-	-	-	135	-	
	Kina	4	-	-	-	3	2	9

12. Related parties

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

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

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 June 2025

12. Related parties (continued)

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

	Consolidated	
	As at 30 June 2025	As at 31 Dec 2024
<i>All amounts are expressed in K'millions</i>		
Loans and receivables from Customers :		
Parties where the related party is a director	870	877
Parties where the related party is an executive & general staff	11	10
	881	887
Customer deposits		
Opening balances	164	83
Net movements	(68)	81
Closing balance	96	164

13. Notes to interim condensed statement of cash flows

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

	Consolidated As at 30 June	
	2025	2024
<i>All amounts are expressed in K'millions</i>		
Cash and operating balances with Central Banks	3,125	2,936
Amounts due from other banks ¹	2,233	1,832
Amounts due to other banks	(215)	(325)
	5,143	4,443

¹The Group undertakes thorough compliance and due diligence reviews before entering into any correspondent banking relationships. Amounts due from other banks include deposits of K76 million (June 2024: K63 million) held with counter-party Banks that are not available for use by the Group.

14. Assets held for sale

At 30 June 2025, the Group continues to classify its investment in the joint ventures (BSP Finance Cambodia & BSP Finance Laos) as held for sale. The investment is expected to be sold in the next financial year. The carrying amount of the investment has been measured at the lower of its carrying amount and fair value less costs to sell.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 June 2025

15. Fiji branch conversion to Subsidiary

As part of BSP Financial Group's strategic initiative to strengthen operational structure and regulatory compliance, the Fiji branch was converted into a wholly owned subsidiary, BSP Financial Group (Fiji) Pte Limited, effective 1 January 2025. This restructuring was undertaken to enhance operational efficiency, meet local regulatory requirements, and align with global trends in corporate structuring.

The conversion involved the transfer of all assets, liabilities, and operations of the Fiji branch to the newly incorporated subsidiary. The transaction was accounted for as a reorganization within the Group.

Financial Impact

Net assets amounting to K714 million were transferred from the Bank to the subsidiary. The conversion also resulted in a tax benefit of K35 million recognised at the Group level. Other than the tax benefit, the conversion has no material impact on the Group's assets, liabilities, equity and profit and loss account as these are eliminated on consolidation.

16. Subsequent events

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