

BSP CONVERTIBLE NOTES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

**BSP CONVERTIBLE NOTES LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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DIRECTORS' REPORT

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of the company as at 31 December 2012, the related statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended on that date and report as follows:

Directors

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

Ian Barton Clyne
Kevin Bernard McCarthy
Johnson Kalo
Robin Gerard Fleming
Cecil Browne (appointed on 21/02/12)

Principal Activities

The principal activity of the company is to facilitate the issue of convertible notes to Fiji investors and lend the proceeds to Bank of South Pacific Limited – Fiji Branches for use in its business activities in Fiji.

The company commenced business operations in April 2010.

Results

The loss after income tax for the year ended 31 December 2012 was \$15,498 (2011: \$25,757).

Dividends

The directors recommend that no amounts be paid by way of dividends for the year ended 31 December 2012.

Reserves

It is proposed that no amounts be transferred to reserves within the meaning of the Seventh Schedule of the Companies Act, 1983.

Going Concern

The financial statements have been prepared on a going concern basis on the understanding that sufficient funds will be obtained from future operations and in the short term, if need be, from the parent entity, to enable the company to meet its obligations as and when they fall due.

Unusual Transactions

In the opinion of the directors, the results of the operations of the company during the financial year were not substantially affected by any item, transaction or event of a material unusual nature, nor has there arisen between the end of the financial year and the date of this report any item, transaction or event of a material unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the company.

DIRECTORS' REPORT [CONT'D]

Events Subsequent to Balance Date

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

Other Circumstances

As at the date of this report:

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

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

Directors' Benefits

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

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

Dated this 20th day of February 2013.



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Director



.....
Director

STATEMENT BY DIRECTORS

In accordance with a resolution of the board of directors of BSP Convertible Notes Limited, we state that in the opinion of the directors:

- [i] the accompanying statement of comprehensive income of the company is drawn up so as to give a true and fair view of the results of the company for the year ended 31 December 2012;
- [ii] the accompanying statement of changes in equity of the company is drawn up so as to give a true and fair view of the changes in equity of the company for the year ended 31 December 2012;
- [iii] the accompanying statement of financial position of the company is drawn up so as to give a true and fair view of the state of affairs of the company as at 31 December 2012;
- [iv] the accompanying statement of cash flow of the company is drawn up so as to give a true and fair view of the cash flows of the company for the year ended 31 December 2012;
- [v] the financial statements have been properly prepared in accordance with International Financial Reporting Standards.
- [vi] at the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due; and
- [vii] all related party transactions have been adequately recorded in the books of the company.

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

Dated this 20th day of February 2013.



.....
Director



.....
Director

INDEPENDENT AUDITORS' REPORT

To the members of BSP Convertible Notes Limited

Report on the Financial Statements

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We have audited the accompanying financial statements of BSP Convertible Notes Limited, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 7 to 19.

Director's and Management's Responsibility for the Financial Statements

Directors and management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act, 1983. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT [CONT'D]

To the members of BSP Convertible Notes Limited (Cont'd)

Opinion

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In our opinion:

- (a) proper books of account have been kept by the company, so far as it appears from our examination of those books; and
- (b) the accompanying financial statements which have been prepared in accordance with International Financial Reporting Standards:
 - i) are in agreement with the books of account;
 - ii) to the best of our information and according to the explanations given to us:
 - (a) give a true and fair view of the state of affairs of company as at 31 December 2012 and of the results, cash flows and statement of changes in equity of the company for the year ended on that date; and
 - (b) give the information required by the Companies Act, 1983 in the manner so required.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

**SUVA, FIJI
20 FEBRUARY 2013.**



CHARTERED ACCOUNTANTS.

BSP CONVERTIBLE NOTES LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

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	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Interest income	4	\$ 1,149,158	1,149,484
Interest expense	5	<u>(1,126,357)</u>	<u>(1,126,357)</u>
Net interest income / (expense)		22,801	23,127
Expenses	6	<u>(38,299)</u>	<u>(48,884)</u>
Loss before income tax		(15,498)	(25,757)
Income tax expense	3	<u>-</u>	<u>-</u>
Loss for the year		(15,498)	(25,757)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive expense for the year		\$ <u>(15,498)</u>	(25,757)

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 19.

BSP CONVERTIBLE NOTES LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

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	Share Capital	Accumulated Losses	Total
	\$	\$	\$
Balance as at 31 December 2010	250,000	(911,383)	(661,383)
Issue of share capital	-	-	-
Loss for the year	-	(25,757)	(25,757)
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	(25,757)	(25,757)
Balance as at 31 December 2011	250,000	(937,140)	(687,140)
Issue of share capital	-	-	-
Loss for the year	-	(15,498)	(15,498)
Other comprehensive income for the year	-	-	-
Total comprehensive expense for the year	-	(15,498)	(15,498)
Balance as at 31 December 2012	250,000	(952,638)	(702,638)

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 19.

BSP CONVERTIBLE NOTES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

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	<u>Notes</u>	<u>2012</u>	<u>2011</u>
CURRENT ASSETS			
Cash at bank	12	\$ 330,386	347,971
Receivables	7	191,267	191,791
Total current assets		521,653	539,762
NON-CURRENT ASSETS			
Advance to Bank of South Pacific Ltd - Fiji Branches	8	15,100,000	15,100,000
TOTAL ASSETS		15,621,653	15,639,762
CURRENT LIABILITIES			
Payables	9	11,299	13,910
NON-CURRENT LIABILITIES			
Convertible notes	10	16,312,992	16,312,992
TOTAL LIABILITIES		16,324,291	16,326,902
NET LIABILITIES		(702,638)	(687,140)
SHAREHOLDERS' FUNDS			
Share capital	11	250,000	250,000
Accumulated losses		(952,638)	(937,140)
TOTAL SHAREHOLDERS' FUNDS DEFICIT		\$ (702,638)	(687,140)

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 19.

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


 Director


 Director

**STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2012**

	2012	2011
	Inflows/ (Outflows)	Inflows/ (Outflows)
	<hr/>	<hr/>
Cash flows from operating activities		
Interest received	\$ 1,149,682	1,149,484
Interest paid	(1,126,357)	(1,126,357)
Payments to suppliers	(40,910)	(50,399)
	<hr/>	<hr/>
Net cash used in operating activities	(17,585)	(27,272)
	<hr/>	<hr/>
Net increase/ (decrease) in cash and cash equivalents	(17,585)	(27,272)
	<hr/>	<hr/>
Cash and cash equivalents at the beginning of the year	347,971	375,243
	<hr/>	<hr/>
Cash and cash equivalents at the end of the year (Note 12)	\$ 330,386	347,971
	<hr/> <hr/>	<hr/> <hr/>

The statement of cash flow is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 19.

NOTE 1. GENERAL INFORMATION

BSP Convertible Notes Limited (the company) is a limited liability company incorporated and domiciled in Fiji. The company was incorporated under the name "Tourmaline Limited" on 27 October 2006. Subsequently, the name of the company was changed to BSP Convertible Notes Limited on 26 October 2009.

The address of its registered office and principal place of business in Fiji is disclosed in Note 19 to the financial statements. The company is listed on the South Pacific Stock Exchange.

The principal activity of the company is to facilitate the issue of convertible notes to Fiji investors and lend the proceeds to Bank of South Pacific Limited - Fiji branches for use in its business activities in Fiji. The company commenced operations in April 2010.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The financial statements have been prepared in accordance with the requirements of the Companies Act 1983 and International Financial Reporting Standards ('IFRS').

b) Basis of Preparation

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

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

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

The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are critical to the financial statements include:

Fair value of Convertible Notes

Convertible notes issued by the company are regarded as compound instruments, consisting of a liability component equivalent to the 3 year fixed coupon amount and an equity component equivalent to the balance. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the company, if any, is included in equity (refer Note 10).

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

c) Basis of Preparation (Cont'd)

Going Concern

The financial statements have been prepared on a going concern basis on the understanding that sufficient funds will be obtained from future operations and in the short term, if need be, from the parent company, to enable the company to meet its obligations as and when they fall due.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

d) Convertible Notes

Convertible notes issued by the company are regarded as compound instruments, consisting of a liability component equivalent to the 3 year fixed coupon amount and an equity component equivalent to the balance. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the company, if any, is included in equity (refer Note 10).

The interest expense on the liability component is calculated by applying the coupon rate of 7% to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible notes.

e) Cash and cash equivalents

For the purpose of statement of cash flow, cash and cash equivalents comprise cash at bank.

f) Comparatives

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

g) Foreign Currencies

Functional and presentation currency

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

Transactions and balances

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

h) Income Tax

Current tax

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

Deferred tax

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

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affects neither taxable income nor accounting profit.

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

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

i) Payables

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

j) Interest Income

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

NOTE 3. INCOME TAX

2012 **2011**

(a) Income Tax Expense

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

Loss before income tax	\$ (15,498)	(25,757)
Prima facie tax thereon at 20% (2011 at 28%)	(3,100)	(7,212)
Tax effect of:		
Tax losses not recognized as deferred tax assets	3,100	7,212
Income tax expense	-	-

(b) Benefit of Income Tax losses not Brought to Account

As at 31 December 2012, the company had unconfirmed unrecouped income tax losses of approximately \$265,499.

In accordance with the Income Tax Act (Amendment) Decree 2012 (Decree No. 33 of 2012), section 22 (5) relating to tax losses has been amended whereby all losses incurred in any trade, business, profession or vocation with effect from 1st January 2012 shall only be carried forward for a period of up to 4 years in succession.

Accordingly, all unutilized tax losses as at 31 December 2012 will be available and carried forward.

NOTE 4. INTEREST INCOME

Advance to Bank of South Pacific Limited – Fiji Branches	1,147,600	1,147,600
Deposits with Bank of South Pacific Limited – Fiji Branches	1,558	1,884
Total interest income	1,149,158	1,149,484

NOTE 5. INTEREST EXPENSE

Convertible notes	1,126,357	1,126,357
Total interest expense	1,126,357	1,126,357

NOTE 6. EXPENSES

Auditors' remuneration – audit	7,820	6,500
– other services	1,563	1,800
Professional fees	-	-
General expenses	28,916	40,584
Total expenses	\$ 38,299	48,884

BSP CONVERTIBLE NOTES LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS [CONT'D]
FOR THE YEAR ENDED 31 DECEMBER 2012

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NOTE 7. RECEIVABLES	<u>2012</u>	<u>2011</u>
Accrued interest on advance to Bank of South Pacific Limited – Fiji Branches	\$ 191,267	191,791

NOTE 8. ADVANCE TO BANK OF SOUTH PACIFIC LIMITED – FIJI BRANCHES

Advance to Bank of South Pacific Limited – Fiji Branches	<u>15,100,000</u>	<u>15,100,000</u>
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Advance to Bank of South Pacific Limited – Fiji Branches is subject to interest at the rate of 7.6% and repayable by demand made after the earlier of:

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

NOTE 9. PAYABLES

Payables and accrued liabilities	<u>11,299</u>	<u>13,910</u>
Total payables	\$ <u>11,299</u>	<u>13,910</u>

NOTE 10. CONVERTIBLE NOTES

The convertible notes were issued on 20 April 2010. The notes are convertible into Fiji class shares on the earliest of:

- The coupon payment date immediately following the giving of a conversion notice by a note holder;
- The date specified by BSP Convertible Notes Limited. BSP Convertible Notes Limited may only do so after the first date on which the BSP Board declares a dividend which together with any dividends declared in the preceding 12 month period (measurement period), gives a dividend yield on BSP ordinary shares of at least 6.5%. For the purpose of this calculation, dividend yield is calculated as:
 - (i) Dividends declared in the measurement period; divided by
 - (ii) The BSP ordinary share reference price;
- Certain specified events or conversion events as stated below; and
- 3 years from issue.

The conversion events either result in an automatic exchange or an exchange at the option of BSP Convertible Notes Limited. The conversion events mirror the exchange events (other than those exchange events which result in a right to exchange at the election of the Fiji Class Shareholder – there are no conversion events of this nature).

BSP will covenant to exchange the Fiji Class Shares for BSP Ordinary Shares at a predetermined exchange fraction when certain exchange events occur or at any time at the discretion of Bank of South Pacific Limited. The exchange events either result in an automatic exchange, an exchange at the option of BSP Convertible Notes Limited or an exchange at the option of the Fiji class shareholder.

NOTE 10. CONVERTIBLE NOTES (CONT'D)

The Conversion Date based on 3 years from the date of issue of the Notes will be 20 April 2013, unless there is an occurrence of a specified event as per the Deed at an earlier date. Management is now in the process of facilitating the conversion which includes obtaining approvals for BSP to enter into the Voting Deed, requesting the Central Share Registry to provide registry services for the Fiji Class Shares and meeting the South Pacific Stock Exchange requirements following the conversion.

At BSP's Annual General Meeting held on 20 May 2011 in Port Moresby, the shareholders approved a re-organisation of the company's capital via a Share Consolidation, by which 10 existing BSP ordinary shares were consolidated into 1 BSP share.

BSP Convertible Notes Limited (BCN) and BCN Noteholders are bound by the Mandatorily Convertible Notes Deed dated 5 March 2010. This sets the initial Conversion Ratio (that is, the number of Fiji Class Shares to which one Note will convert at Conversion Date) at 10:1. This Conversion Ratio is subject to change and adjustable in accordance with the Note Conditions should there be a change to BSP's capital structure.

Accordingly, as a result of the share consolidation, the Conversion Ratio has been adjusted in accordance with the Deed to 1:1. Therefore at Conversion Date (that is three years from the date of issue or on the occurrence of specified events in the Deed, whichever is earlier) each Note issued by BCN will convert to a single Fiji Class share.

The effective interest rate which is used to calculate the interest charged to the statement of comprehensive income was 7%.

Note holders have no right to vote at meetings of BSP Convertible Notes Limited.

The net proceeds received from the issue of the convertible notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the company as follows:

	<u>2012</u>	<u>2011</u>
Net proceeds of convertible notes	\$ 16,312,992	16,312,992
Equity component	-	-
Liability component at date of issue	16,312,992	16,312,992
Interest charged	1,126,357	1,126,357
Interest paid	(1,126,357)	(1,126,357)
Liability component at 31 December 2012 (a)	<u>16,312,992</u>	<u>16,312,992</u>

The directors estimate the fair value of the liability component of the convertible loan notes at 31 December 2012 to be approximately \$16.31 million.

- a) The company has issued 571,429 notes amounting to \$3,000,000 to fellow subsidiary, BSP Life (Fiji) Limited. Interest payable on the issue of convertible notes to BSP Life (Fiji) Limited amounted to \$41,311 as at balance date (2011: \$41,425).

NOTE 11. SHARE CAPITAL	2012	2011
Authorised capital		
500,000,000 A class shares of \$0.01 each	5,000,000	5,000,000
200,000,000 Fiji class shares of \$0.01 each	2,000,000	2,000,000
	<u>7,000,000</u>	<u>7,000,000</u>
Issued and paid up capital		
25,000,000 A class shares of \$0.01 each	\$ 250,000	250,000

On 29 April 2010, 24,999,998 A class shares of \$0.01 each were issued to Bank of South Pacific Limited. Bank of South Pacific Limited is a company incorporated in Port Moresby, Papua New Guinea.

NOTE 12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of balances with banks. Cash and cash equivalents included in the statement of cash flow comprise the following statement of financial position amounts:

Cash at bank	\$ 330,386	347,971
Total cash and cash equivalents	<u>\$ 330,386</u>	<u>347,971</u>

NOTE 13. FINANCIAL RISK MANAGEMENT

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

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

(a) Market risk

i) Price risk

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

ii) Cash flow and fair value interest rate risk

The company has interest-bearing assets in the form of advance to Bank of South Pacific Limited – Fiji Branches. This is at fixed interest rate of 7.6% as per the First Loan Agreement and is subject to change upon execution of the Second Loan Agreement following conversion of Notes to Fiji Class Shares.

The company has also issued convertible notes to Fiji investors. These are at fixed interest rate of 7% for a maximum of 3 years and hence there are no interest rate risks.

Given the fixed nature of interest rates described above, the company has a high level of certainty over the impact on cash flows arising from interest income and expenses. Accordingly the company does not require simulations to be performed over impact on net profits arising from changes in interest rates.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS [CONT'D]
FOR THE YEAR ENDED 31 DECEMBER 2012****NOTE 13. FINANCIAL RISK MANAGEMENT (CONT'D)****(b) Credit risk**

The company's financial assets are cash and cash equivalents, receivables and advance to Bank of South Pacific Ltd - Fiji Branches which represent the company's maximum exposure to credit risk in relation to financial assets. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings and Bank of South Pacific Limited - Fiji branches is a related entity.

(c) Liquidity risk

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

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

NOTE 14. CONTINGENT LIABILITIES

Contingent liabilities as at 31 December 2012 amounted to \$Nil.

NOTE 15. COMMITMENTS

Capital expenditure commitments as at 31 December 2012 amounted to \$Nil.

NOTE 16. RELATED PARTY TRANSACTIONS

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

Significant related party transactions during the year were:

- Interest on advance to Bank of South Pacific Limited - Fiji Branches of \$1,147,600 (2011:\$1,147,600).
 - Interest on convertible notes issued to fellow subsidiary, BSP Life Fiji Limited of \$210,000 (2011: \$210,000).
- c) Amounts due to, and receivable from related parties:

Appropriate disclosure of these amounts is contained in the respective notes to the financial statements

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS [CONT'D]
FOR THE YEAR ENDED 31 DECEMBER 2012**

NOTE 16. RELATED PARTY TRANSACTIONS (CONT'D)

d) Directors

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

Ian Barton Clyne
Kevin Bernard McCarthy
Johnson Kalo
Robin Gerard Fleming
Cecil Browne (appointed on 21/02/12)

NOTE 17. EVENTS SUBSEQUENT TO BALANCE DATE

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

NOTE 18. PRINCIPAL ACTIVITY

The principal activity of the company is to facilitate the issue of convertible notes to Fiji investors and lend the proceeds to Bank of South Pacific Limited – Fiji Branches for use in its business activities in Fiji.

The company commenced business operations in April 2010.

NOTE 19. COMPANY DETAILS

Company Incorporation

The company was incorporated in Fiji under the Companies Act, 1983.

The company was incorporated under the name “Tourmaline Limited” on 27 October 2006. Subsequently, the name of the company was changed to BSP Convertible Notes Limited on 26 October 2009.

Registered office and principle place of Business

The registered office and principle place of business of the company is:

Level 12, Suva Central Building
Corner of Renwick Road and Pratt Street
Suva

NOTE 20. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized on 20 February 2013.