



## Overview of Bank South Pacific

Integrity Professionalism Leadership  
Quality People Teamwork Community

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## Table of contents

1. PNG overview
2. Introduction to BSP
3. Key investment highlights
4. Strategic outlook
5. Financial performance

Appendix

# 1. PNG overview

# PNG overview



## Papua New Guinea



GDP (2014)	: US\$17.6bn
Land Area	: 462,840 sq km
Population	: 7.5m
Languages	: Tok Pisin (Pidgin English), English and Hiri Motu More than 800 other distinct languages also in use
Currency	: Kina
Exchange rate <sup>(1)</sup>	: USD : PGK 3.01 GBP : PGK 4.45
Main industries	: Oil and gas extraction, agriculture, forestry and fishing, transport, storage and communication, construction, trade, community, social and personal services, manufacturing, finance, real estate and business services, utilities
Key trading partners	: Australia, Japan, China
Political structure	: <ul style="list-style-type: none"> <li>▪ Papua New Guinea became self-governing on 1 December 1973 and achieved independence from Australia on 16 September 1975</li> <li>▪ National parliament consists of members representing constituencies; provincial leaders and representatives from the capital</li> <li>▪ Provincial governments may levy taxes to supplement grants received from the national government</li> <li>▪ Next election due in mid-2017</li> </ul>

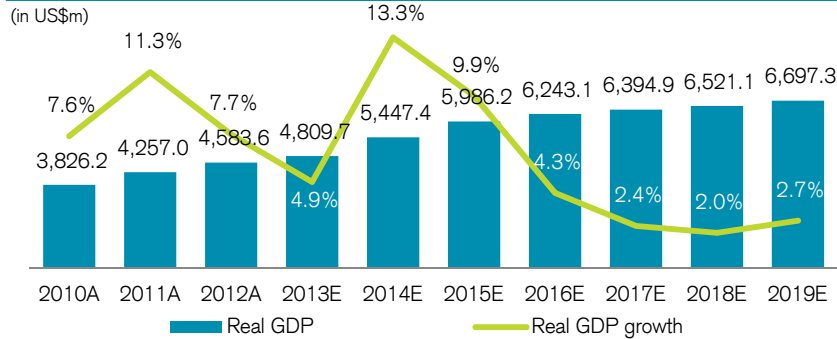
Source: EIU country report as of December 2015, EIU, CIA Factbook, PNG 2016 national budget, PNG Treasury.

(1) USD/PGK exchange rate per BPNG official midrate and GBP/PGK exchange rate per BSP midrate as of Dec 2015.

# PNG macroeconomic overview

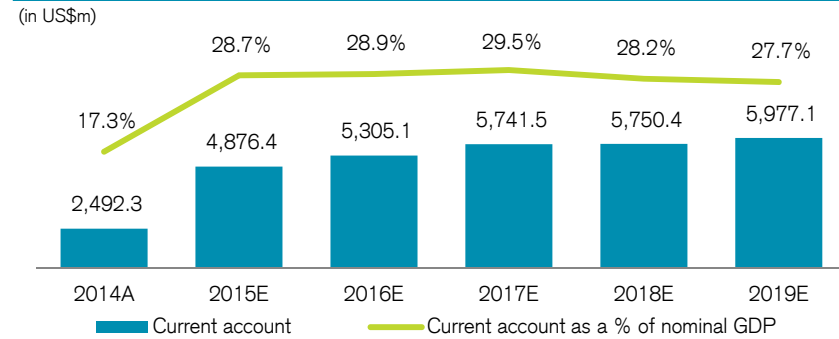


## Real GDP growth



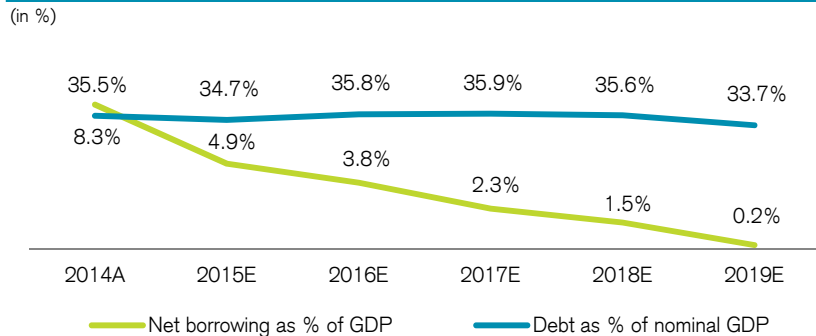
- The PNG macroeconomy is closely related to international commodity prices and export volumes.
- Real GDP growth expected to continue on a stable trend in 2016-19, powered by LNG exports and the commencement of new projects in the resources sector

## Current account



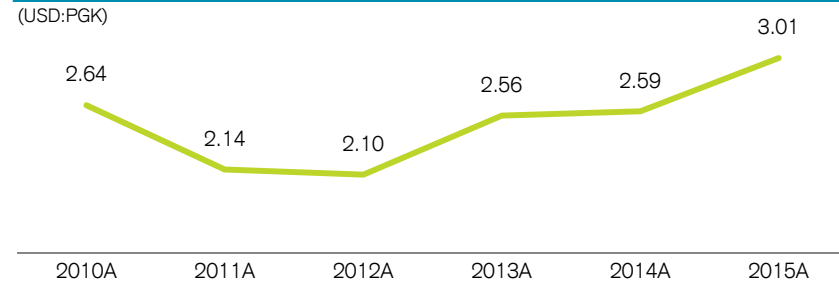
- Strong export revenue growth in 2015 due to commencement of production at the ExxonMobil LNG project
  - Imports will increase from 2017 due to the construction of new LNG projects

## Debt level



- Fiscal deficits and net borrowing as a result of country's strategy to invest in development projects
- Ongoing borrowings to be reduced in future due to recovery in LNG prices

## Foreign exchange



- Kina has depreciated in 2015 due to a continued current-account deficit, but is expected to appreciate going forward due to inflows of foreign direct investment and rising earnings from LNG exports

Source: PNG Treasury, 2016 Budget, EIU report, BPNG quarterly economic bulletin. Fixed exchange rate of USD/PGK: 3.01 used to convert PGK to USD to reflect trend of metrics in underlying PGK currency. For foreign exchange graph – 2010 to 2014 as per BPNG quarterly economic bulletin, and 2015 as per BPNG Dec 2015 official midrate.

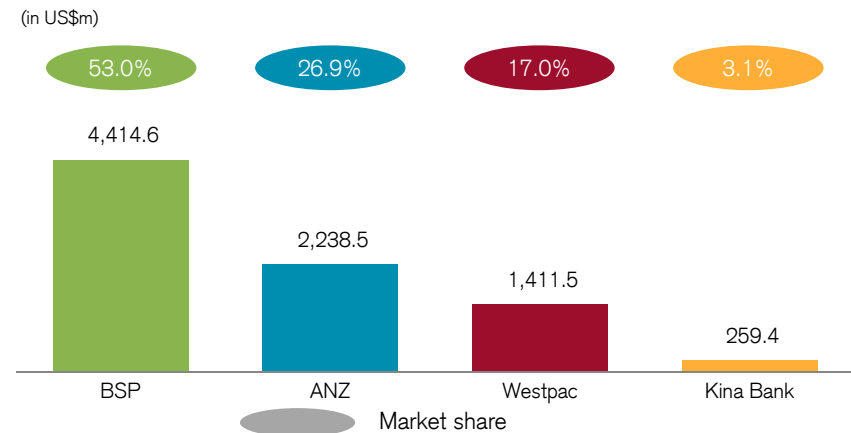
# PNG's banking sector today



## PNG banking system overview

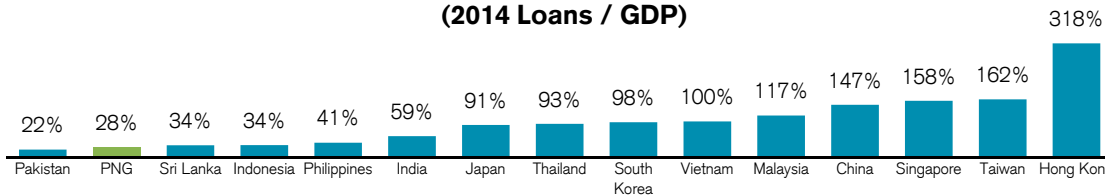
- There are only four commercial banks in PNG: BSP, ANZ, Kina Bank (formerly Maybank) and Westpac
- Bank South Pacific is considered systemically important by the IMF given its dominance in the market
- Bank of PNG is the official authority for supervision and regulation of banks and financial institutions in PNG and issues prudential standards, including the following minimum ratios for an adequately capitalised bank:
  - Tier 1 capital ratio of 8%
  - Total capital ratio of 12%
  - Leverage ratio of 6%

## The four largest banks in PNG by total assets<sup>(1)</sup>

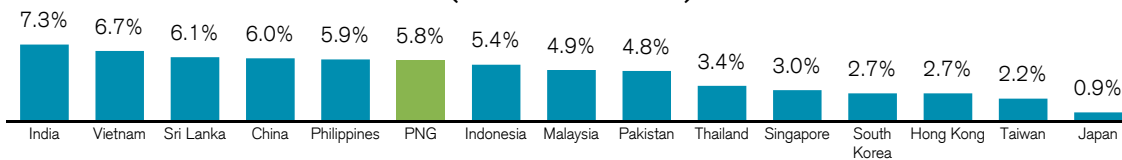


## Strong potential for long term banking sector growth<sup>(2)</sup>

### Loan penetration (2014 Loans / GDP)



### GDP growth (2014-2019E CAGR)



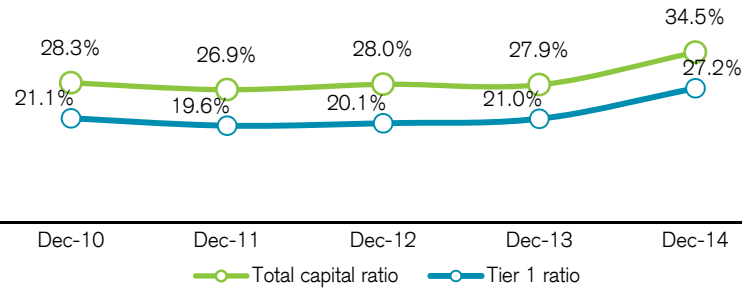
- PNG's banking system presents strong potential for long term growth, given low loan penetration at 28% of GDP and low GDP per capita of US\$2,020
- The government is committed to increasing financial inclusion
  - Majority of the adult population is currently excluded from the formal financial sector
  - Bank loans are currently extended mainly to large and medium-sized formal sector companies given low penetration of population

(1) Kina Bank data as of Jun 2015, BSP, ANZ and Westpac data as of Dec 2015.  
 (2) Source: EIU.

# PNG's banking sector today (cont'd)

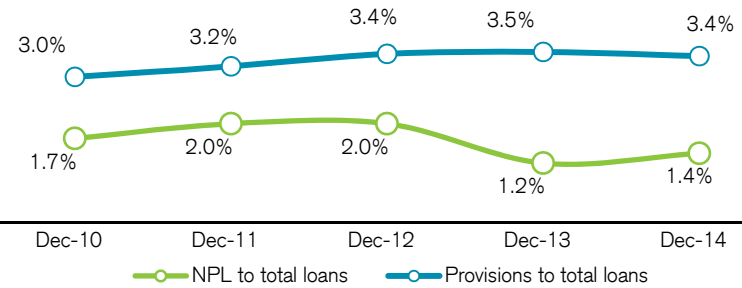


## Capital adequacy



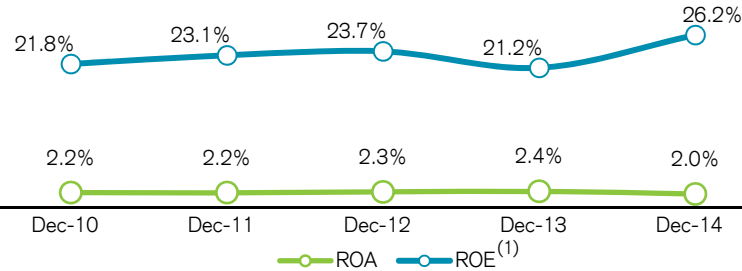
- PNG's banking system has been relatively stable in recent years and was not significantly affected by the 2008 financial crisis, due to limited exposure to foreign funding markets
- It is underpinned by strong capital adequacy

## Asset quality



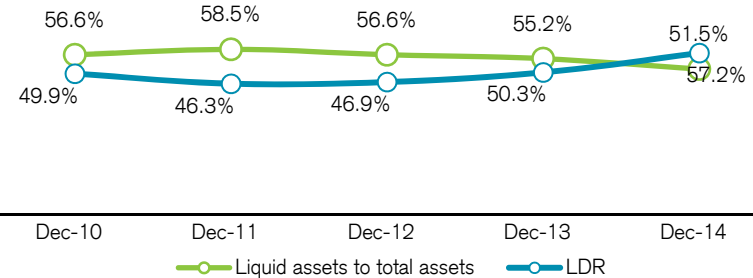
- Non-performing loans ratios have been low, with conservative provision coverage

## Earnings and profitability



- Banks have been profitable, with low cost of deposits and high loan yields due to subdued competition

## Liquidity



- All banks have very high liquidity, with more than half of their assets held in government securities or cash. The loan-to-deposit ratio has been consistently around 50%, partly due to the large proportion of the population that is not banked and not yet able to obtain credit

Source: IMF.  
(1) Calculated with Tier 1 capital.



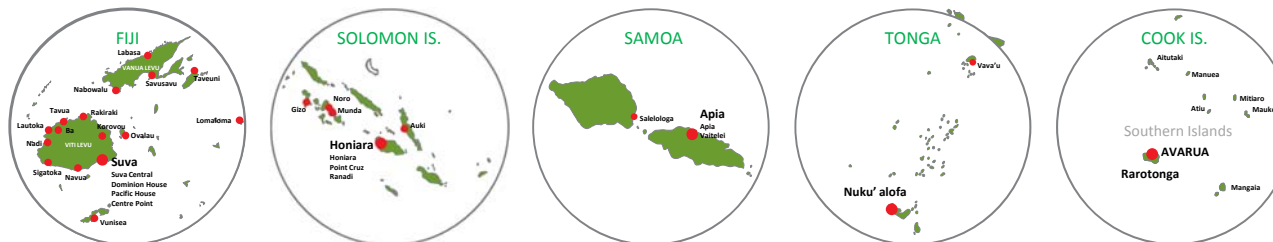
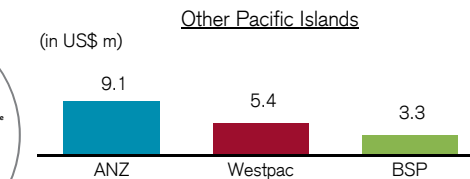
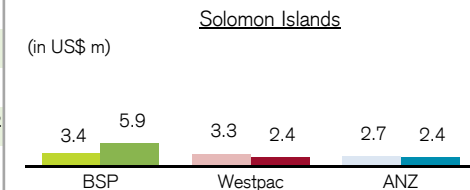
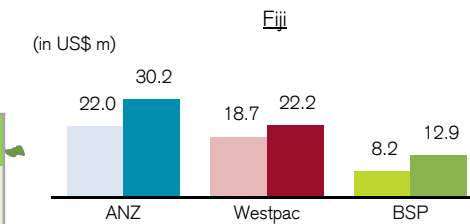
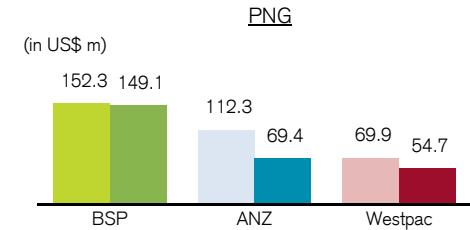
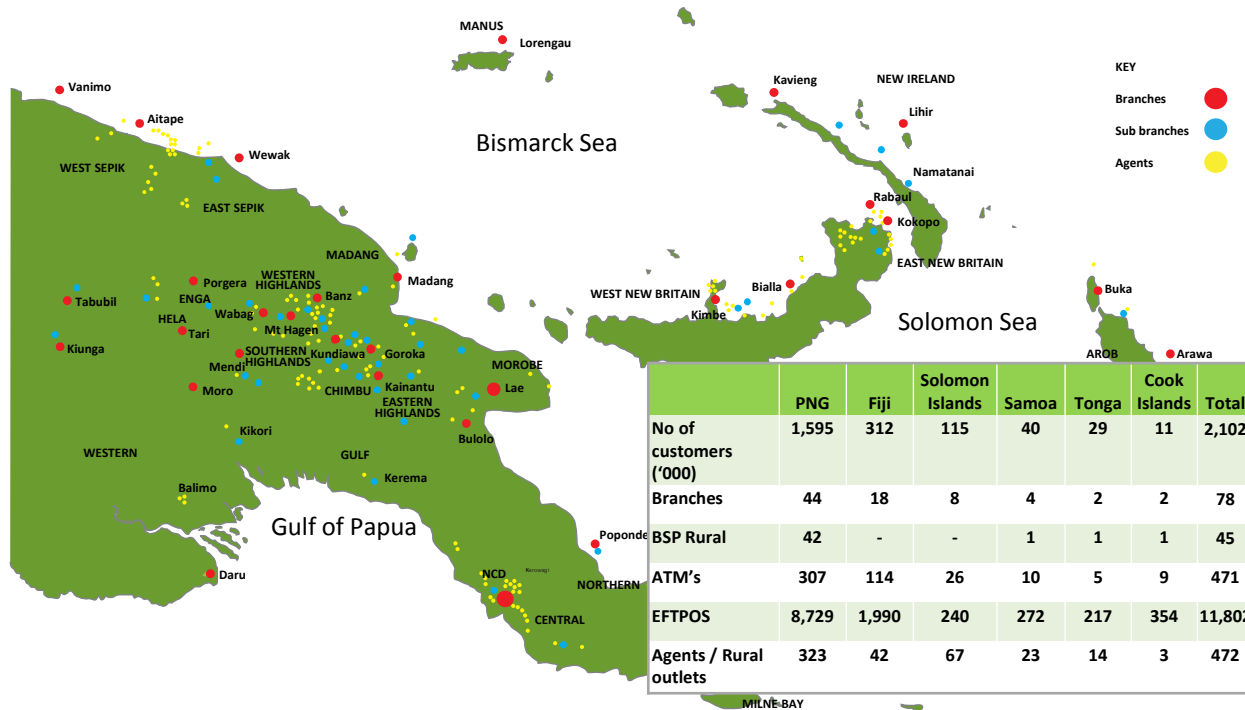
## 2. Introduction to BSP

# Bank South Pacific – The dominant bank in the Pacific Islands



## Geographical presence

12M Sep 2014 – 12M Sep 2015 PAT<sup>(1)</sup>



Source: Company, EIU.

Note: Figures before BSP's acquisition of selected Westpac's operations in the Pacific Islands. In 2015, BSP completed the acquisition of Westpac's operations in Solomon Islands, Samoa, Tonga and Cook Islands, with Vanuatu scheduled for completion in June 2016.

Source: Company.  
 Note: Lighter color denotes 12M Sep 2014 PAT and darker color denotes 12M Sep 2015 PAT.  
 Exchange rate of USD/PGK 3.01, USD/SBD 7.94, USD/FJD 2.13.  
 (1) ANZ and Westpac data for other Pacific Islands is as of 12M Sep 2014.

# Strong track record throughout the years...



## Corporate milestones

<b>1957</b>	Commenced operations in Port Moresby on 1 May 1957
<b>2002</b>	Combined with the Papua New Guinea Banking Corporation, which was privatized by the Privatisation Commission
<b>2003</b>	Listed on the Port Moresby Stock Exchange on 27 August 2003
<b>2006</b>	Expanded operations to Fiji following the acquisition of the Habib Bank Ltd interests in Fiji. These were subsequently re-branded to BSP
<b>2007</b>	Acquired the National Bank of Solomon Islands Ltd, which had the largest branch network in the Solomon Islands. These were subsequently re-branded to BSP
<b>2009</b>	Acquired the National Bank of Fiji and Colonial Fiji Life Insurance Limited from Commonwealth Bank of Australia. These were subsequently re-branded to BSP
<b>2010</b>	IFC invested 10% equity in BSP
<b>2014</b>	Launched a new subsidiary, BSP Finance Limited (Fiji & PNG)
<b>2015</b>	Announced the acquisition of Westpac's operations in Solomon Islands, Samoa, Vanuatu, Tonga and Cook Islands for AUD\$125m. All acquisitions have been completed, with the exception of operations in Vanuatu, where approval has been received and completion scheduled for June 2016.

## Major awards/achievement

BSP has been internationally recognized for its underlying liquidity and capital strength, including "The Banker" - 2013 Top 1000 Banks:

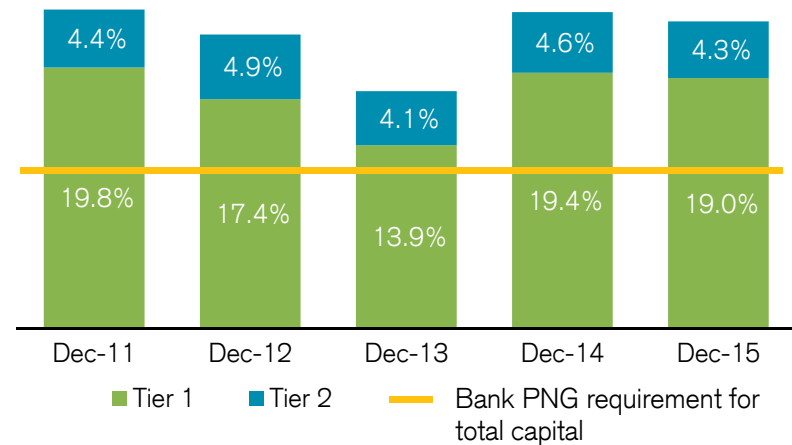


- #1 Returns on Capital (ROC) in the Asia Pacific (excluding Japan & China)
- #1 Returns on Assets (ROA) in the Asia Pacific (excluding Japan & China)
- #14 Returns on Capital (ROC) in the world



- Best Bank Led Mobile Money Programme

## Capital ratios



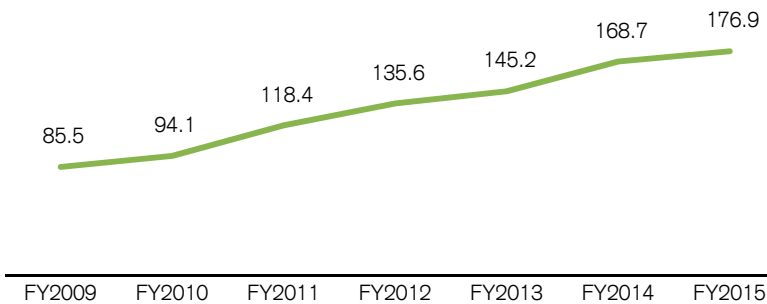
*Decline in capital adequacy ratio from 2012 to 2013 due to an increase in risk weighted assets (deposits placed with overseas banks and loans)*

# ...evidenced by BSP's delivery of returns to shareholders

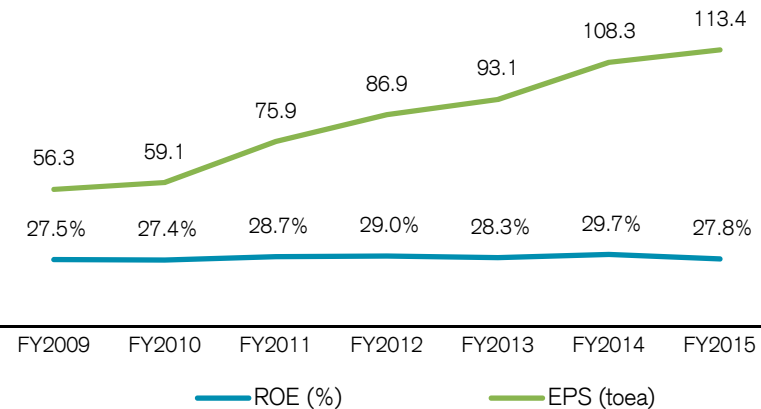


## Profitability (PAT)

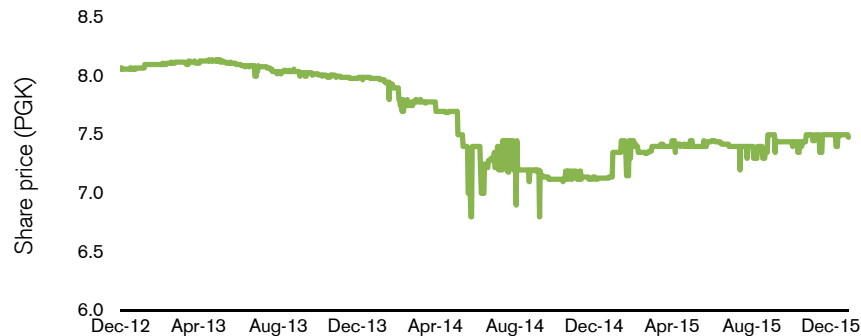
(in US\$m)



## Returns to shareholders

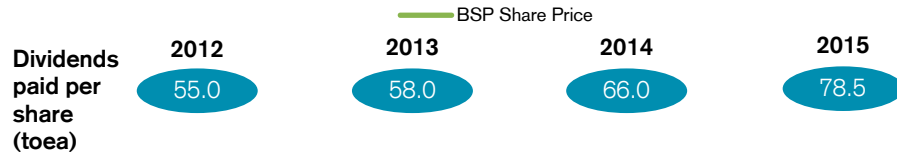


## Share price / dividends



## Shareholders as of Dec-15

Shareholders	% shareholding
Kumul Consolidated Holdings	18.03
Nambawan Super Ltd	12.32
Petroleum Resources Kutubu Ltd	9.87
International Finance Corporation	9.74
National Superannuation Fund	9.69
Credit Corporation (PNG) Ltd	7.67
Motor Vehicle Insurance Ltd	6.68
PNG Sustainable Development Program Ltd	6.25
Others	19.75



Source: Company filings, company information. Fixed exchange rate of USD/PGK: 3.01 used to convert PGK to USD to reflect trend of metrics in underlying PGK currency.

### 3. Key investment highlights

# BSP investment highlights



- 1 Dominant market position
- 2 Highest NIM among top performing banks in comparable markets
- 3 Highest profitability among top performing banks in comparable markets
- 4 Strong capitalisation and liquidity providing further room for growth
- 5 Experienced management team & board

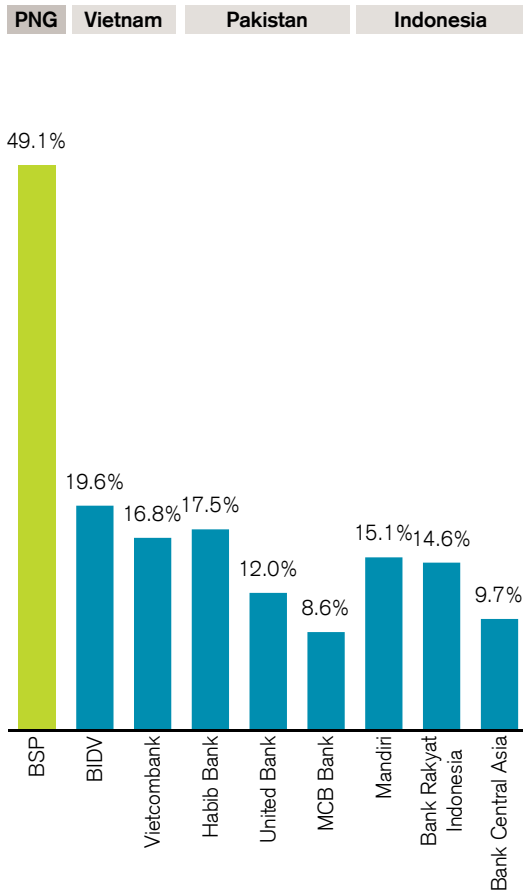
# 1

## Dominant market position

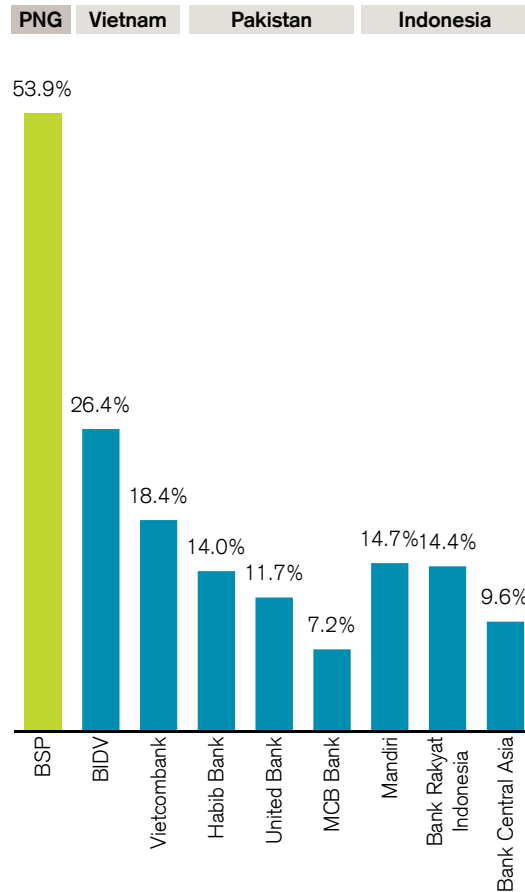
Market share of top performing banks in comparable markets | FY2015



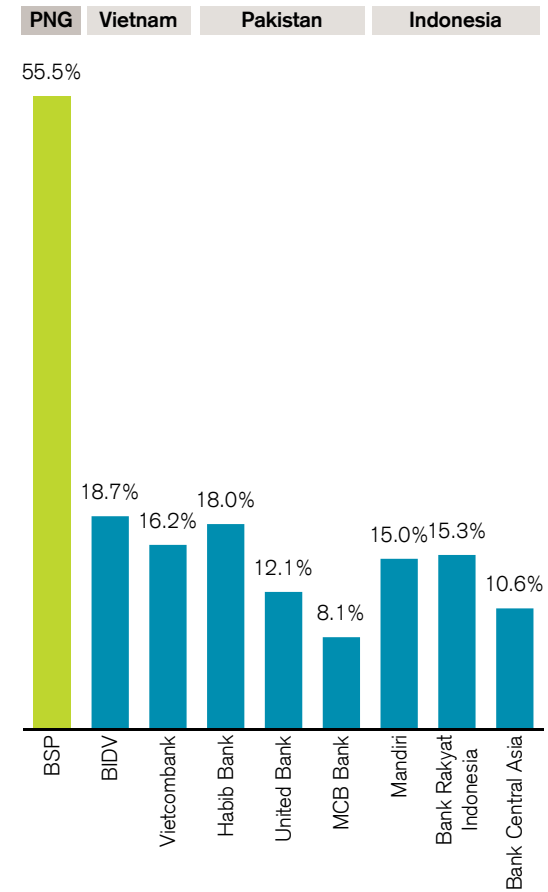
Total assets market share



Gross loans market share



Customer deposits market share



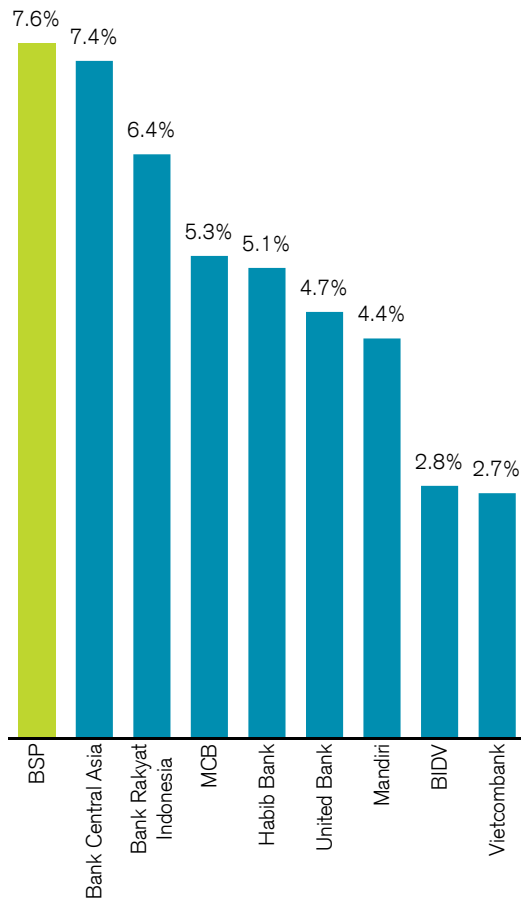
Source: Central banks, Company filings, SNL Financial.

Note: All banks are as of 4Q 2015 except BIDV, BCA, Mandiri, HBL and UBL which are as of 3Q2015

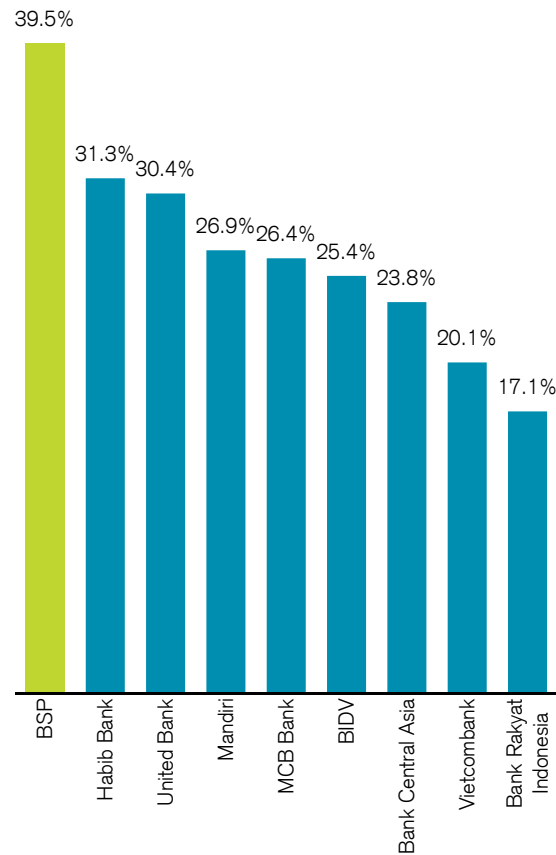
## 2 Highest NIM among top performing banks in comparable markets



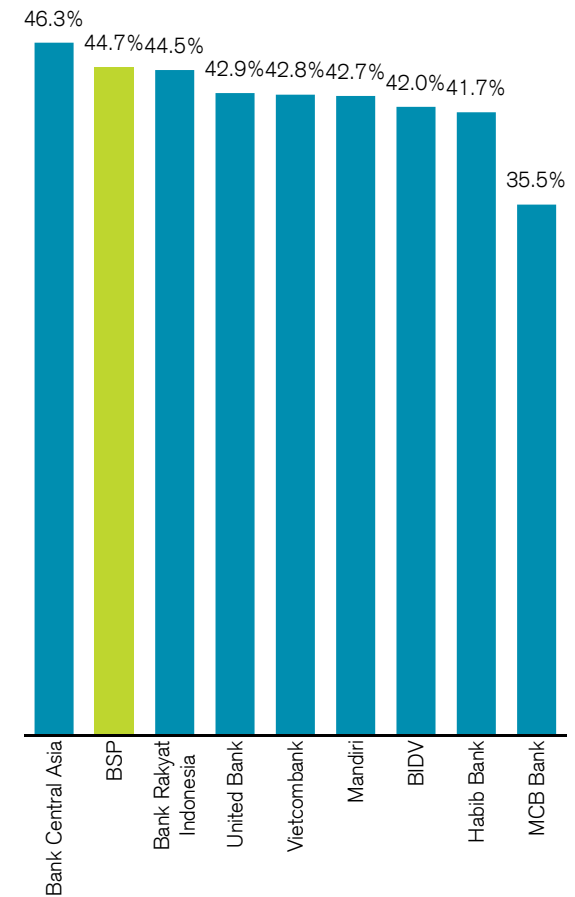
Net interest margin ("NIM")



Non-interest income ratio



Cost to income ratio



Source: Company filings, SNL Financial.

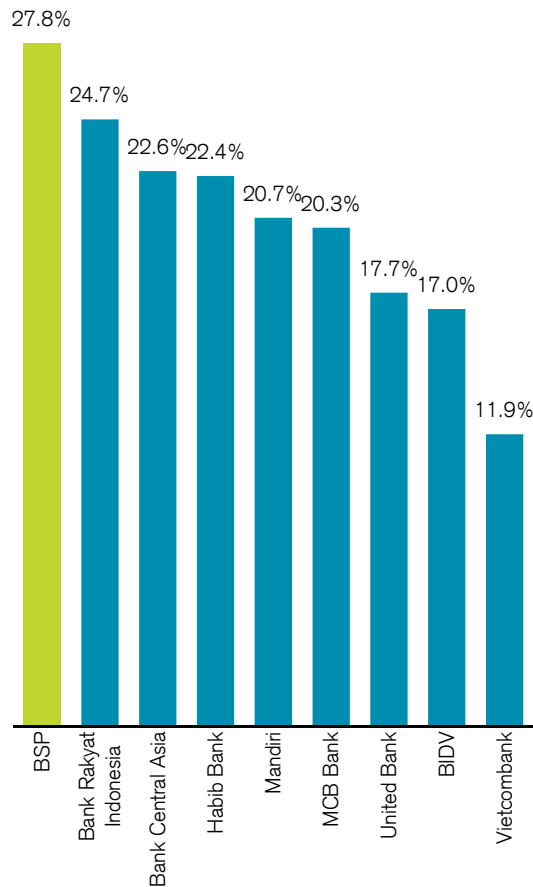
Note: All banks are as of 4Q 2015 except BIDV, BCA, Mandiri, HBL and UBL which are as of 3Q2015



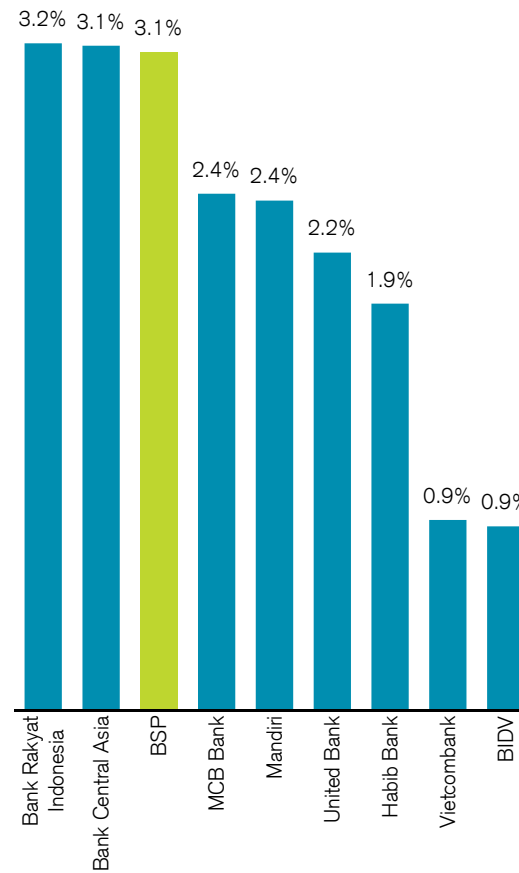
### 3 Highest profitability among top performing banks in comparable markets



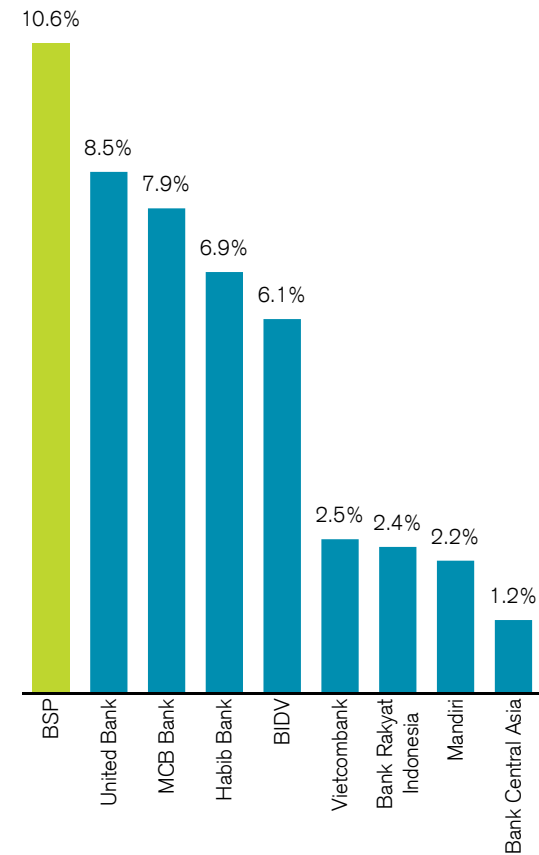
Return on Average Equity ("RoAE")



Return on Average Assets ("RoAA")



Dividend yield | 2015E



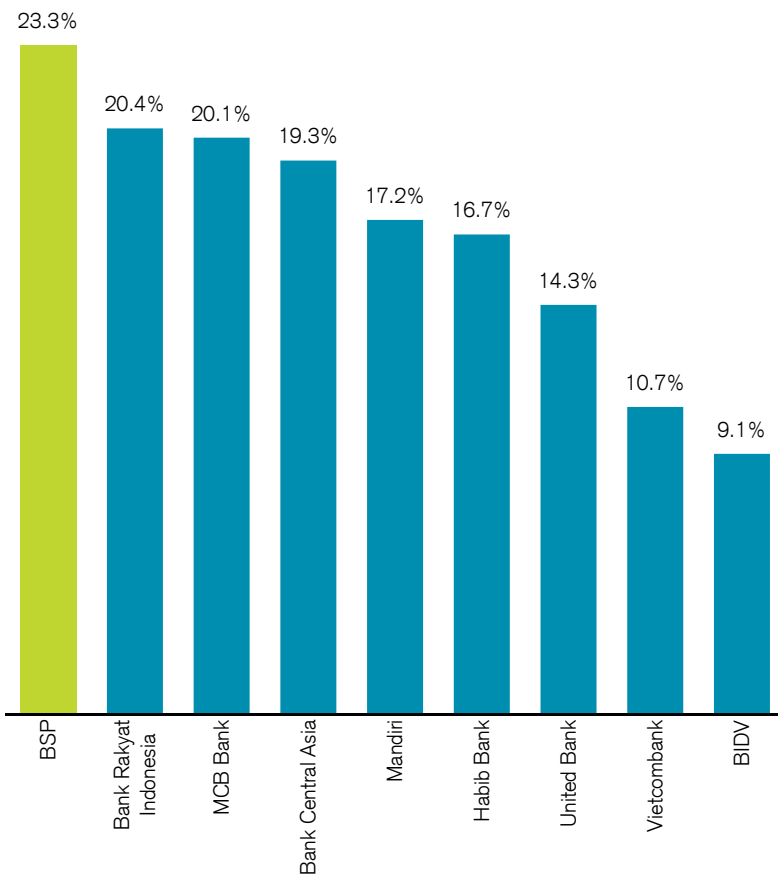
Source: Company filings, SNL Financial. Share price as of 15 February 2016  
 Note: All banks are as of 4Q 2015 except BIDV, BCA, Mandiri, HBL and UBL which are as of 3Q2015

BSP's dividend has increased in every year since listing

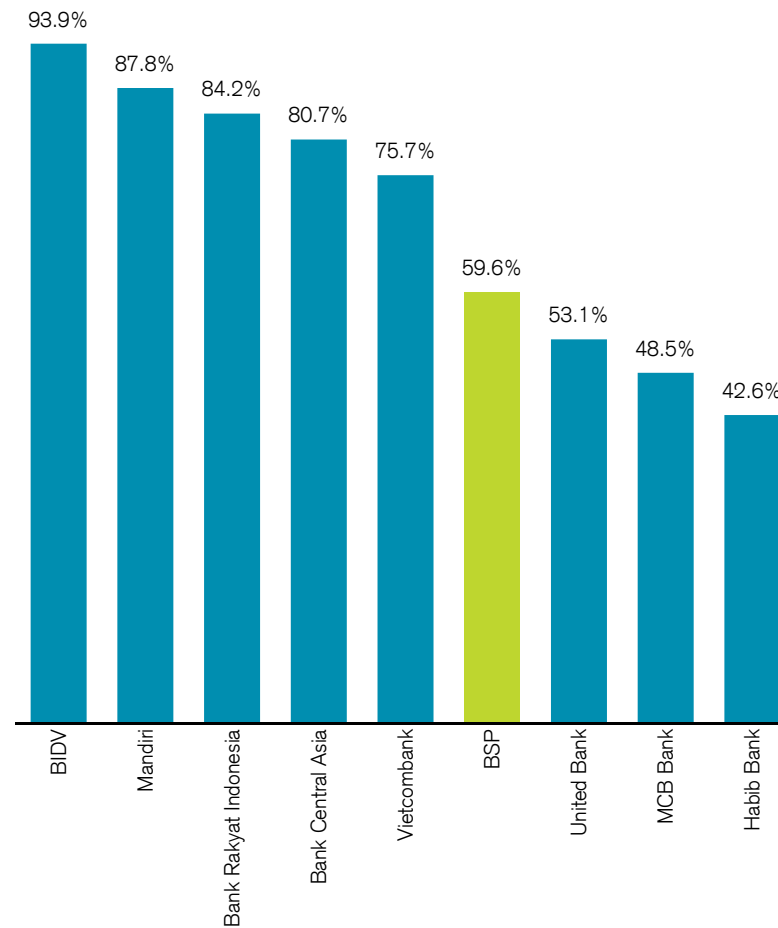
# 4 Strong capitalisation and liquidity providing further room for growth



Total Capital Adequacy Ratio ("CAR")<sup>(1)</sup>



Loan-to-deposit ratio ("LDR")<sup>(2)</sup>



Source: Company filings, SNL Financial.

(1) BIDV is as of December 2014, BCA, Mandiri, HBL and UBL are as of 3Q2015 and all other banks data are as of 4Q 2015.












(2) All banks are as of 4Q 2015 except BIDV, BCA, Mandiri, HBL and UBL which are as of 3Q2015.

# 5 Experienced management team













## Senior management

## Relevant experience

 <p><b>Robin Fleming</b> Group Chief Executive Officer since April 2013</p>	<ul style="list-style-type: none"> <li>■ Prior to appointment as Chief Executive Officer, Robin was the Deputy CEO and Chief Risk Officer since 2009. Prior to that, Mr Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate &amp; International, and Head of Risk Management with BSP</li> <li>■ Prior to the merger of Bank of South Pacific Limited and PNGBC Limited, Robin held senior management roles with PNGBC</li> </ul>
 <p><b>Johnson Kalo</b> Group Chief Financial Officer/Deputy Group CEO Since February 2010</p>	<ul style="list-style-type: none"> <li>■ Prior to this appointment as Chief Financial Officer in Sept 2005, Johnson was senior manager of Planning and Control for BSP</li> <li>■ Prior to joining BSP, Johnson's previous professional experience was assistant audit manager with KPMG Port Moresby</li> <li>■ Prior to the merger of Bank of South Pacific Limited and PNGBC Limited, Johnson was Senior Accounting Manager at PNGBC</li> </ul>
 <p><b>Haroon Ali</b> Group Chief Risk Officer since July 2013</p>	<ul style="list-style-type: none"> <li>■ Prior to appointment as Group Chief Risk Officer, Haroon was the Bank's Chief Risk Officer for Fiji</li> <li>■ Haroon brings with him more than 33 years of banking experience of which 30 years was with ANZ Bank where he held the position of Regional Risk Executive and Head of Commercial and SME Banking. He is a generalist banker specialising in corporate banking, international trade finance and risk management</li> </ul>
 <p><b>Roberto Loggia</b> Group Chief Operating Officer since April 2011</p>	<ul style="list-style-type: none"> <li>■ Prior to appointment as Group Chief Operating Officer, Roberto was CEO of State Bank, Mongolia in its initial stages of development wherein the sound assets of two failed institutions were consolidated into a new viable state sponsored bank with the support of EBRD, London</li> <li>■ Roberto has more than thirty years' experience working in Asia and emerging markets in Central Europe, South America and Africa holding roles for middle and back office functions supporting businesses in Retail Banking, Corporate &amp; Investment Banking and Private Banking</li> </ul>
 <p><b>Paul Thornton</b> Group General Manager Retail Banking since in August 2013</p>	<ul style="list-style-type: none"> <li>■ Previously the Executive Manager Strategic Planning with the PNG Banking Corporation, Paul also was the founding Managing Director of PNG Microfinance Limited. Since returning to BSP in 2010, Paul has held the positions of Head of BSP Rural, Deputy General Manager Retail and General Manager Network before being appointed to this current position</li> <li>■ Paul has more than 40 years of retail banking experience, 32 years of which have been in Papua New Guinea</li> </ul>
 <p><b>Peter Beswick</b> Group General Manager Corporate Banking since June 2011</p>	<ul style="list-style-type: none"> <li>■ Prior to BSP, Peter was CEO of a national wholesale, import and retail business in Australia</li> <li>■ Peter has over 20 years Banking and Finance experience, covering Australia and South East Asia with Commonwealth Bank of Australia, National Australia Bank and Bank of New Zealand; holding senior executive positions in Risk Management and Business Development</li> <li>■ Extensive experience in the finance, Government, retail, wholesale, telecommunications, and property sectors, with extensive knowledge in foreign exchange, risk management and governance</li> </ul>
 <p><b>Aho Baliki</b> General Manager Paramount Banking since 2002</p>	<ul style="list-style-type: none"> <li>■ Mr Baliki is a career banker having joined the Commonwealth Banking Corporation in 1974. Since joining the bank, he has progressed through the banking hierarchy to the position of Chief Executive officer of the PNG Banking Corporation in 1999. He was further appointed as General Manager Human Resources in 2000 when PNG Banking Corporation merged with Bank South Pacific</li> </ul>
 <p><b>Richard Borysiewicz</b> General Manager BSP Capital since March 2013</p>	<ul style="list-style-type: none"> <li>■ Prior to joining BSP Capital, Richard was the Director of Strategy and Distribution for a recent start-up firm focused on Global Equities and Domestic Equities in Australia. Prior to this he was CEO at Credit Agricole Asset Management and managed its merger with Societe Generale Asset Management, and has also held senior roles at Skandia, Principal, Bankers Trust and Rothschild</li> <li>■ Richard has over 25 years of sales and senior management experience in the funds management industry and at Board level in Australia and Asia</li> </ul>
 <p><b>Rohan George</b> General Manager Treasury since February 2015</p>	<ul style="list-style-type: none"> <li>■ Prior to joining BSP, Rohan worked at ANZ as Head of Global Markets, Cambodia &amp; Laos (5 years), at Westpac as Treasurer PNG &amp; Pins (8 years), and at BNP Paribas Investment Management in Sydney, as Head of Fixed Income</li> <li>■ Rohan has extensive knowledge in developed and emerging financial markets spanning 30 years, covering fixed income, foreign exchange, commodities and structured derivatives markets</li> </ul>
 <p><b>Christophe Michaud</b> General Manager BSP Finance since May 2015</p>	<ul style="list-style-type: none"> <li>■ Prior to joining BSP, Christophe was the Head of Consultants for Asia Pacific region for Equance in Singapore. Prior to this, he was the Managing Director for Credit Agricole CIB in India</li> <li>■ He joined BSP in February 2011 as the Deputy GM, Corporate Banking bringing with him more than 30 years of diversified banking experience</li> </ul>
 <p><b>Giau Duruba</b> General Manager Human Resources since October 2004</p>	<ul style="list-style-type: none"> <li>■ Prior to joining BSP he was employed with South Pacific Brewery Limited for 27 years and his most recent appointment was Human Resources/Corporate Affairs Manager</li> <li>■ Mr. Duruba has been involved in Human Resources Management in Papua New Guinea at a senior management level for over 20 years</li> </ul>

# 5 Experienced board



Board of Directors	Relevant experience
 <p><b>Sir Kostas Constantinou OBE</b> Chairman Director since April 2009 Appointed Chairman February 2011</p>	<ul style="list-style-type: none"> <li>Chairman of Airways Hotel &amp; Apartment, Lamana Hotel Limited, Lamana Development Limited, Hebou Constructions and Alotau International Hotel, director of Heritage Park Hotel in Honiara, Gazelle International Hotel in Kokopo and Grand Pacific Hotel Fiji, Oil Search Limited and Airlines PNG Limited</li> <li>Deputy President of Employers Federation of Papua New Guinea, Honorary Consul for Greece in Papua New Guinea and Trade Commissioner of Solomon Islands to Papua New Guinea, member of APEC Business Council</li> </ul>
 <p><b>Robin Fleming</b> Group Chief Executive Officer Director since June 2013</p>	<ul style="list-style-type: none"> <li>Appointed CEO of Bank of South Pacific Limited in April 2013. Prior to this, he had been Deputy CEO and Chief Risk Officer since 2009. Prior to that, Mr Fleming held senior executive roles as Chief Risk Officer, General Manager Corporate &amp; International, and Head of Risk Management with BSP</li> <li>Prior to the merger of Bank of South Pacific Limited and PNGBC Limited Robin held senior management roles with PNGBC</li> </ul>
 <p><b>Tom Fox, OBE Bec</b> Deputy Chairman Director since June 1993</p>	<ul style="list-style-type: none"> <li>Director of BSP Capital Limited, Teyo No.1 Limited and Akura Limited; trustee for the Institute of National Affairs, and a foundation member and Fellow of the PNG Institute of Directors</li> <li>Commenced career with the Reserve Bank of Australia, and gained experience in senior management roles within semi-government institutions, and private sector companies, including serving as the Managing Director of the Investment Corporation of Papua New Guinea for eight years</li> </ul>
 <p><b>Gerea Aopi, CBE, MBA</b> Non-executive Director Director since April 2002</p>	<ul style="list-style-type: none"> <li>Currently Executive General Manager, External &amp; Government Affairs and Sustainability at Oil Search Limited</li> <li>Substantial public service and business experience in Papua New Guinea, including Secretary of Finance &amp; Planning and Managing Director of Telikom PNG Limited. He was previously the Chairman of Telikom PNG Limited and Independent Public Business Corporation (IPBC)</li> </ul>
 <p><b>Dr Ila Temu, PhD, Mec</b> Non-executive Director Director since 2003</p>	<ul style="list-style-type: none"> <li>Distinguished academic career with the University of Papua New Guinea, the National Research Institute, the Australian National University and the University of California, Davis USA where he was awarded his PhD</li> <li>Entered the private sector during 1996 when he was appointed Managing Director, Mineral Resources Development Company. From 2000 to 2008, Ila held senior positions in Placer Dome, including Country Manager, Tanzania. Since 2008, Ila has been Director of Corporate Affairs for Barrick's Australia</li> </ul>
 <p><b>Ernest Brian Gangloff</b> Non-executive Director Director since November 2013</p>	<ul style="list-style-type: none"> <li>Qualified and experienced accountant having recently retired as a Partner from with the Risk and Consulting Services of Deloitte in PNG, to start his private consulting services providing capacity building programs, risk management and corporate governance</li> <li>Extensive skills and experience in internal audit, risk management and public finance management having managed clients in public and private sector organisations</li> </ul>
 <p><b>Sir Nagora Bogan, KBE, LLb</b> Non-executive Director Director since 2003</p>	<ul style="list-style-type: none"> <li>Chairman and CEO of In Touch Media Limited, a multimedia/record label company, Chairman of Nambawan Super Limited and Director on several private company boards</li> <li>Sir Nagora received his knighthood during 1997 in recognition of his distinguished public service. Previous appointments include Commissioner General of the PNG Internal Revenue Commission, PNG's Ambassador to the United States with accreditation as Ambassador to Mexico and High Commissioner to Canada</li> </ul>
 <p><b>Freda Talao</b> Non-executive Director Director since April 2012</p>	<ul style="list-style-type: none"> <li>Member of the External Stakeholders Advisory Panel (ESAP) to the Morobe Mining Joint Venture (MMJV) which owns the Hidden Valley Gold Mine in Morobe Province; National Airports Corporation Board (NAC) and Chair for the newly established Airport City Development Limited (ACDL)</li> <li>Previously on several Boards, including the Mama Graun Conservation Trust Fund, Liklik Dinau Trust Fund, Individual and Community Advocacy Forum (ICRAF), Civil Aviation Authority (CAA)</li> </ul>
 <p><b>Geoffrey J Robb, MBA</b> Non-executive Director Director since April 2012</p>	<ul style="list-style-type: none"> <li>Highly qualified and experienced banker having occupied several senior executive positions including Head of Complex and Strategic Transactions, and Global Head of Acquisition Finance with the ANZ Banking Group, and Head of Resource Finance at Bank of America. As Head of Bank of America in Melbourne, led resource financings with BHP, CRA, Elders Resources, Bougainville Copper and Ok Tedi</li> <li>Mr Robb has travelled extensively in emerging markets and has received the Medal of the Order of Australia for his services to mountaineering and charity</li> </ul>
 <p><b>Augustine Mano</b> Non-executive Director Director since August 2014</p>	<ul style="list-style-type: none"> <li>Currently Chairman and Directorship in a number of entities, including MRDC and related companies, Hevilift Group, Insurance Pacific and Pearl Resort.</li> <li>Qualified economist and has been the Managing Director of the Mineral Resource Development Corporation (MRDC) for the last 7 years, where he led the organisation in undertaking some major investments in property development and hospitality within PNG, Fiji and Solomon Islands</li> </ul>

## 4. Strategic priorities

# Strategic priorities



Pacific Islands	Cement domestic leadership position	<ul style="list-style-type: none"> <li>■ Diversify loan portfolio concentrations in PNG: Develop stronger focus on agriculture, oil &amp; gas, and construction, for medium to long term stability in PNG</li> <li>■ Continually prepare and develop regional corporate leadership skills of our managers, for gender and cultural diversity and depth to match business line and regional growth plans</li> <li>■ Upgrade sales and customer service skills of our employees to adapt to competitive environment</li> </ul>
	Broaden product footprint	<p>Develop capabilities in new product segments:</p> <ul style="list-style-type: none"> <li>■ New product segments include asset management, financial products for institutional and high net worth investors, and structured investments for new opportunities in PNG</li> <li>■ Pursue opportunities for asset finance in all markets where BSP operates</li> </ul>
	Insurance	<ul style="list-style-type: none"> <li>■ Develop a bancassurance model in all countries BSP operates via an increased profile of BSP Life and potentially general insurance with a JV partner with industry expertise</li> </ul>
	Strategy capability	<ul style="list-style-type: none"> <li>■ Develop an enhanced effective strategy capability, including investor relations and enhanced MIS</li> <li>■ To balance strategic, operational and planning requirements of an organisation that is growing in size and complexity.</li> </ul>
Regional	Growth acquisitions in Pacific and Southeast Asia Region	<ul style="list-style-type: none"> <li>■ Consolidate leading market position in Pacific markets, aiding the facilitation of regional commerce and economic growth</li> <li>■ Grow and geographically diversify the market base of the network</li> <li>■ Establish footprint in South East Asia via an asset finance J.V.:             <ul style="list-style-type: none"> <li>– Expansion in tandem with JV partner; achieve business and geographic diversity, and assess opportunities for a future retail banking entry; Initial entry to Cambodia in 1H 2016 and possible Laos 2H 2016</li> </ul> </li> <li>■ Increase market share via acquisition and expand product offering</li> </ul>

# Acquisition of selected Westpac's operations in the Pacific Islands



## Background

- BSP entered into a sale agreement in January 2015 to acquire Westpac's operations in Solomon Islands, Vanuatu, Samoa, Tonga and Cook Islands for A\$125m
  - Acquisition of the operations in Samoa, Tonga and Cook Islands was completed in Jul 2015
  - Acquisition of the operations in Solomon Island was completed in Oct 2015
  - Acquisition of the operations in Vanuatu expected to be completed by 30 June 2016

## Transaction rationale

- Satisfies BSP's key strategic criteria for acquisitions, which includes geographic and business line opportunities of economic size and merit.
- Brings profitable customers in the new countries, skilled employees and specialized processes and systems.
- Positions BSP as a leading Pacific regional financial services business, maximizing future opportunities from PNG's long term trade and economic influence in the region.

## Near term focus for 2016

- BSP is committed to complete the acquisition of Westpac's operations in Vanuatu
- Develop electronic banking capabilities and new products in each country

## 5. Financial performance



# FY2015 performance highlights



<b>Operational highlights</b>	<ul style="list-style-type: none"><li>Completed acquisition of Westpac's operations in Solomon Islands, Samoa, Tonga and Cook Islands</li></ul>
<b>Financial highlights – Revenue</b>	<ul style="list-style-type: none"><li>Loan yields continued their downward trend, falling from 10.3% in 2014 to 9.6% mainly due to increasingly competitive pricing in PNG</li><li>Cost of funds rose from 0.45% in 2014 to 0.63% mainly due to increasingly competitive pricing in PNG and Fiji</li><li>Net interest income rose by 15.3% and NIM increased from 7.1% in 2014 to 7.6%</li><li>Non-interest income fell from 46.1% of income in 2014 to 39.5% of income, mainly driven by full year impact of a fixed margin on foreign exchange transactions, and reducing market FX liquidity</li></ul>
<b>Financial highlights – Profitability</b>	<ul style="list-style-type: none"><li>Cost to income ratio continued to improve, falling from 46.9% in 2014 to 44.7% in 2015</li><li>NPAT grew by 4.8% to a record of PGK 531.9mn / US\$176.9mn</li><li>Profitability remained strong, with ROAE of 27.8% and ROA of 3.1%</li></ul>
<b>Financial highlights – Capital and asset quality</b>	<ul style="list-style-type: none"><li>Capitalisation remains strong, with Tier 1 capital at 19.0% and total capital at 23.3%, well above regulatory requirements</li><li>NPL ratio has remained low at 1.7%, rising from 0.6% at December 2014 due to a slowdown in the PNG economy affecting certain subsets of retail and corporate borrowers, combined with the impact of the newly acquired Pacific Island portfolios</li><li>Provisioning has remained strong, at 4.9% of loans, rising from 4.6% as at December 2014</li><li>Loan to deposit ratio rose from 53.6% to 59.6%, with higher asset utilisation</li></ul>

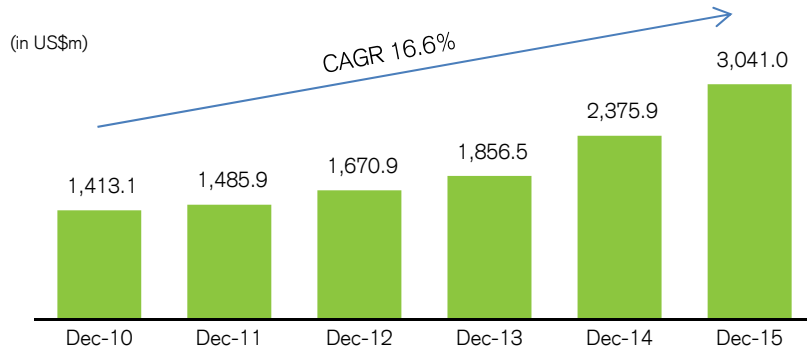
Note: Fixed exchange rate of USD/PGK: 3.01 used to convert PGK to USD to reflect trend of metrics in underlying PGK currency.

# Financial performance

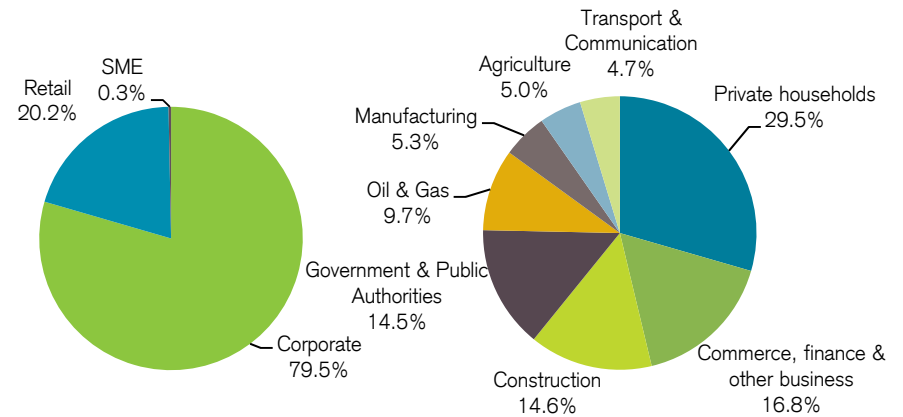
## Loans and deposits



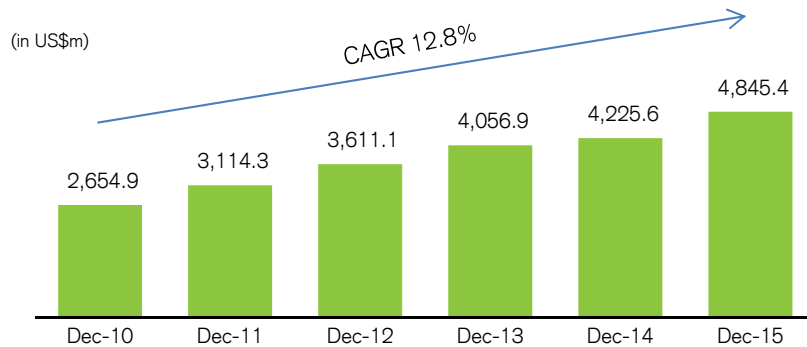
### Gross customer loans evolution



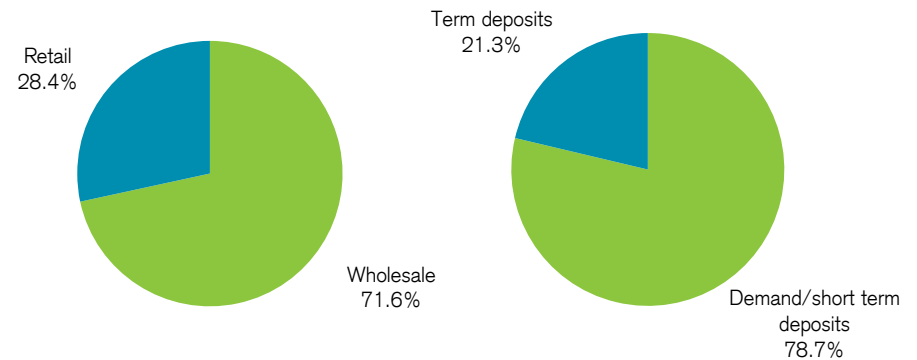
### Loan mix | Dec-2015



### Total deposits evolution



### Deposit mix | Dec-2015



Strong loan and deposit growth, with CAGR of 13.9% and 12.9% respectively

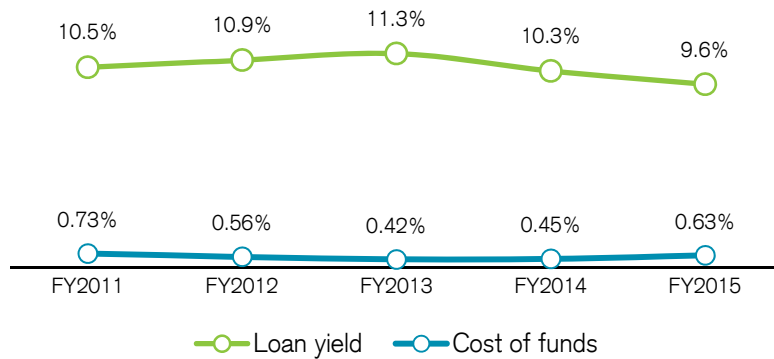
Source: Company filings, company information. Fixed exchange rate of USD/PGK: 3.01 used to convert PGK to USD to reflect trend of metrics in underlying PGK currency.

# Financial performance

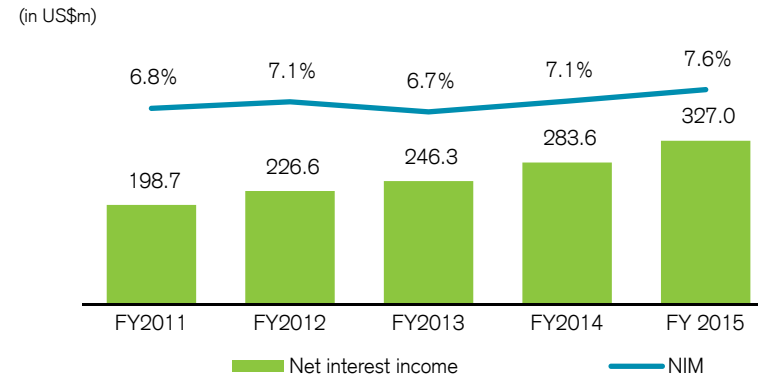
## Revenue analysis



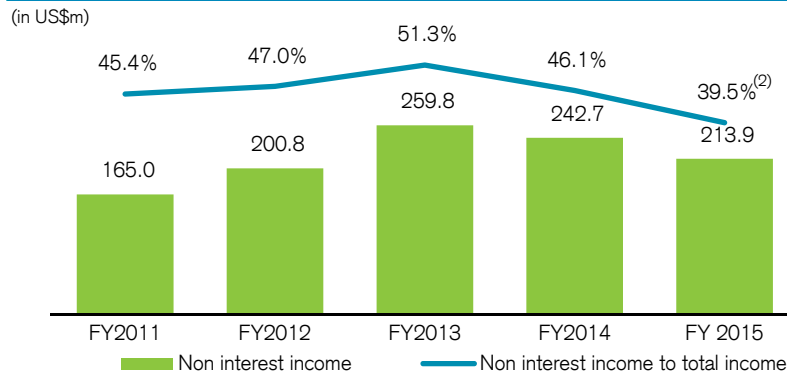
### Loan yield and deposit cost evolution<sup>(1)</sup>



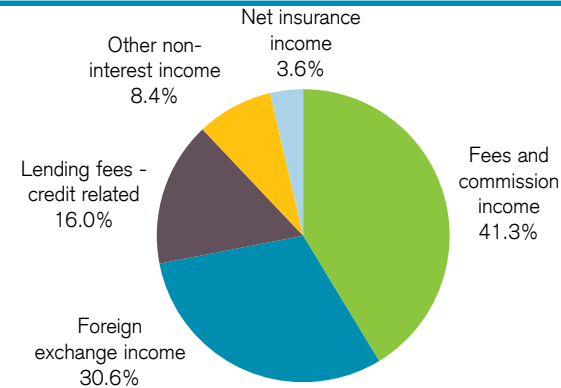
### Net interest income and net interest margin evolution



### Non-interest income evolution



### Non-interest income breakdown | Dec-15



Twin pillars of high NIM and strong non-interest income underpin profitability

Source: Company filings, company information. Exchange rate of USD/PGK: 3.01.

(1) Loan yield is calculated using interest on loans divided by closing loan balance. Deposit cost is calculated by interest expense divided by sum of amounts due to customers, subordinated debt securities and other liabilities.

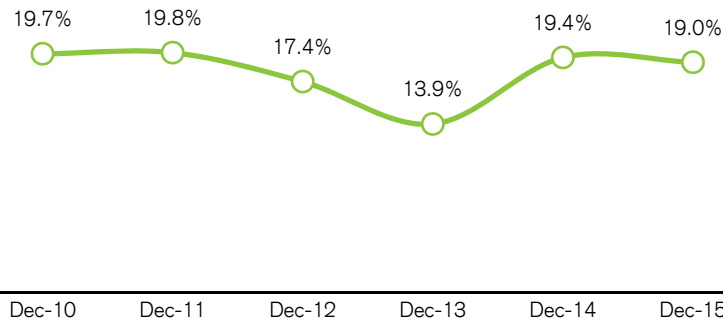
(2) Foreign exchange related income declined by 49.4% compared to 2013 due to new rules introduced by BPNG limiting margins on FX transactions.

# Financial performance

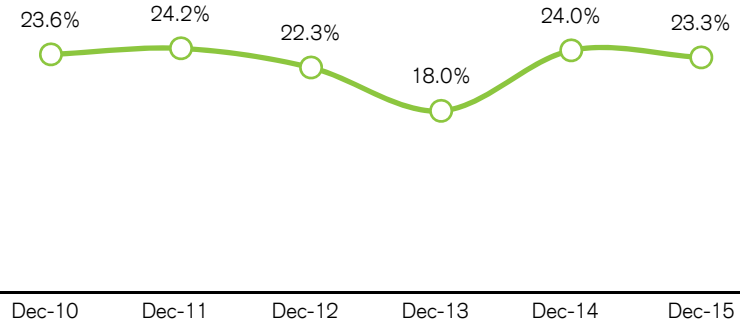
## Capital and asset quality



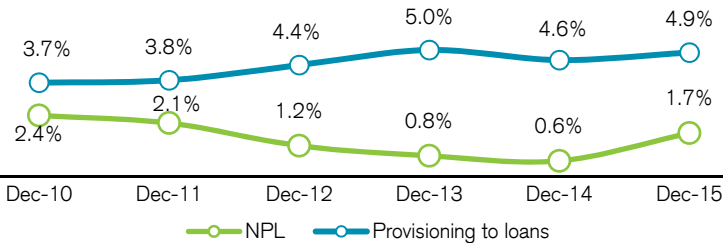
Tier 1 capital ratio evolution



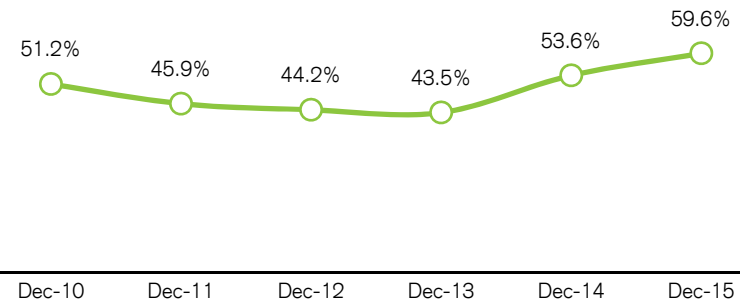
Total Capital Adequacy Ratio evolution



NPLs and provisioning to loans evolution



Loan-to-deposit evolution



Consistently strong capitalisation, steady asset quality and prudent provisioning

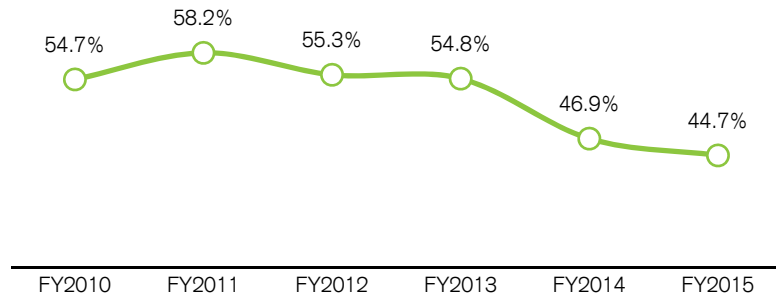
Source: Company filings, company information.

# Financial performance

## Profitability

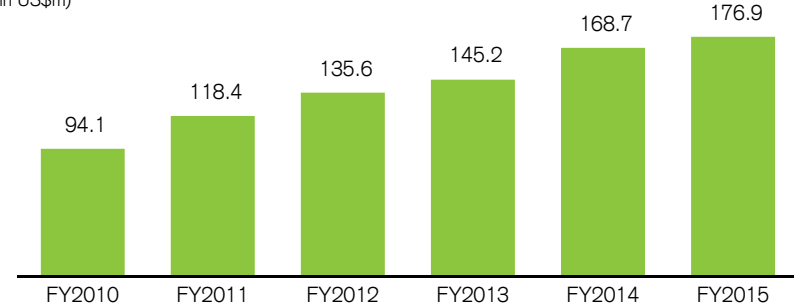


Cost to income ratio evolution<sup>(1)</sup>

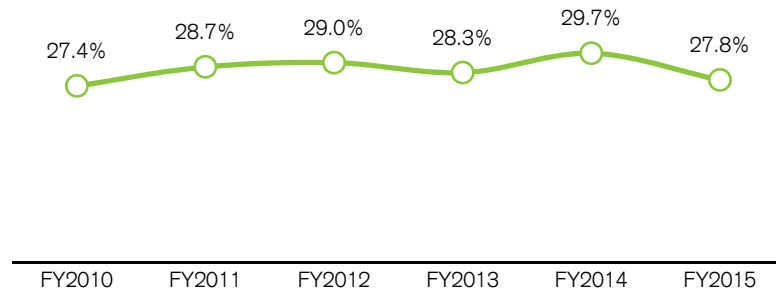


Net profit after tax

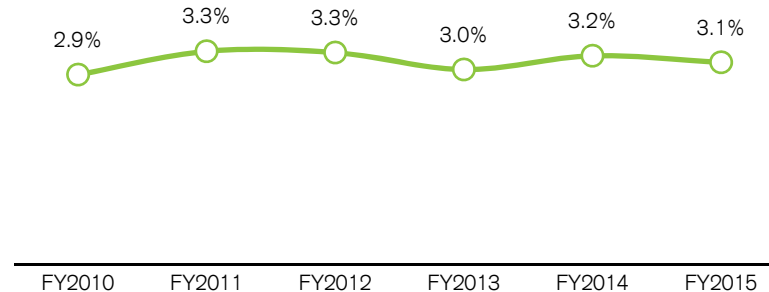
(in US\$m)



Return on Average Equity evolution



Return on Average Asset evolution



Consistently improving cost to income ratio and leading return profile

Source: Company filings, company information. Fixed exchange rate of USD/PGK: 3.01 used to convert PGK to USD to reflect trend of metrics in underlying PGK currency.

(1) Presentation of insurance business results in Statement of Comprehensive Income has been re-grouped to more accurately reflect contribution to shareholder profit. Impact is -3.5% on ratio for 2014.

# Appendix

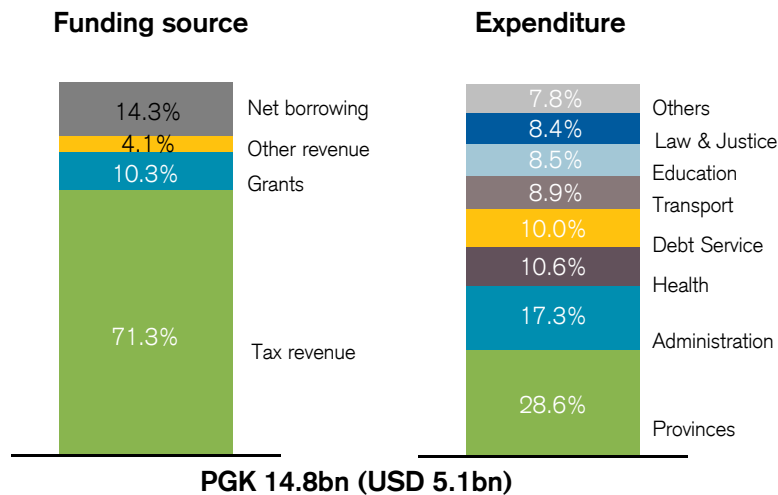
# PNG 2016 national budget



## Key estimates

	2014	Revised 2015E	Comments
Real GDP growth	13.3%	9.9%	Impacted by low commodity prices offset by increased volumes from full year LNG production
Non-mining GDP growth	1.2%	2.4%	Lower than anticipated growth in other sectors as a result of low commodity prices
Inflation (year average)	5.2%	5.1%	-
Interest rate (Kina Rate Facility)	6.25%	6.25%	-
FX depreciation (y-o-y)	N/A	8.0%	Depreciation due to ongoing strengthening of USD, as well as persistent mismatch of supply and demand of the Kina

## Financing the 2016 budget



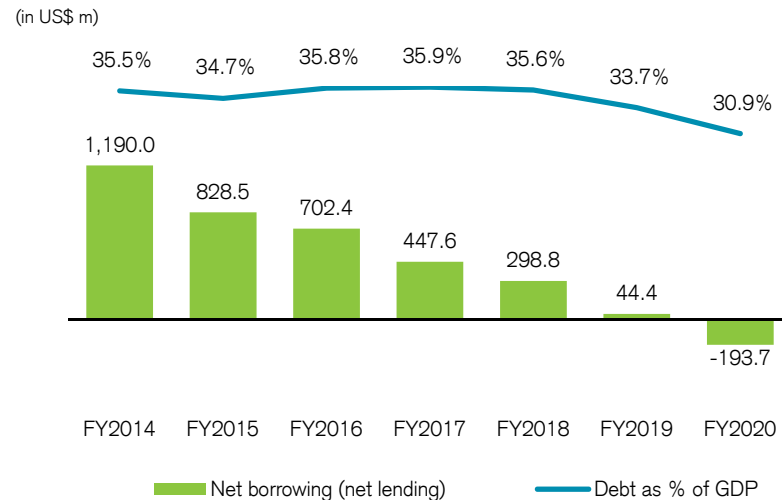
Source: Department of Treasury, PNG

Note: Fixed exchange rate of USD/PGK: 3.01 used to convert PGK to USD to reflect trend of metrics in underlying PGK currency.

## Anticipated inaugural sovereign bond offering

- The PNG government will consider undertaking a sovereign bond offering in 2016
  - Proceeds used for repurchase of domestic bonds, with the aim of reducing the high level of treasury bills within the next five years
- Anticipated benefits:
  - Reduction in reliance on short term treasury bills, leading to lower refinancing risk and higher term to maturity
  - Consolidate current bonds into larger and more liquid lines, potentially increasing the number of investors in each line and promoting secondary market transaction
  - Rejuvenate primary debt market by freeing up funds for reinvestment into government securities
  - Reduction on domestic interest expense which will partially offset interest costs of sovereign bond

## Expected Government borrowing going forward



# Recent infrastructure investments in PNG



**PNG LNG Project**

- Operator is Exxon Mobil PNG Limited
- Completed ahead of schedule in mid 2014
- Project cost approximating US\$20bn
- Project life of 30 years
- Project comprises
  - a. a 700km gas pipeline to an LNG Plant 20 kilometers north/ west of Port Moresby
  - b. 2 trains, 6.9 million tonnes pa liquefaction, storage and marine offloading facility
- Buyers of LNG are principally from China, Japan and Taiwan.

**Wafi Golpu gold / copper mine**

- Joint venture between Newcrest and Harmony Gold (50/50)
- Gold resource of 20m ozs
- Copper resource of 94 million tonnes
- Feasibility study completed
- Development cost is approximately US\$2bn



**Frieda River Project**

- Largest undeveloped copper gold project in the world
- Resource of 13 million tonnes of copper, 20 million ozs of gold and 49 million ozs of silver
- resource has 3 times the in ground metal content of all copper gold extracted from the Ok Tedi Mine over the last 25 years
- Operator is Pan Aust Limited – it acquired an 80% project interest from Glencore
- Expected mine life of 20 years
- Average processing of 30 million tonnes pa over 20 years
- Average annual copper and gold concentrate of 125,000 tonnes and 200,000 ozs respectively
- Development cost is yet to be quantified but may approximate US\$2bn

**Elk Antelope LNG Project**

- Type: Gas liquefaction plant
- Investment Cost: c. US\$20bn
- Foreign Investor: Total, InterOil, Oil Search
- Financial investment decision expected in late 2017

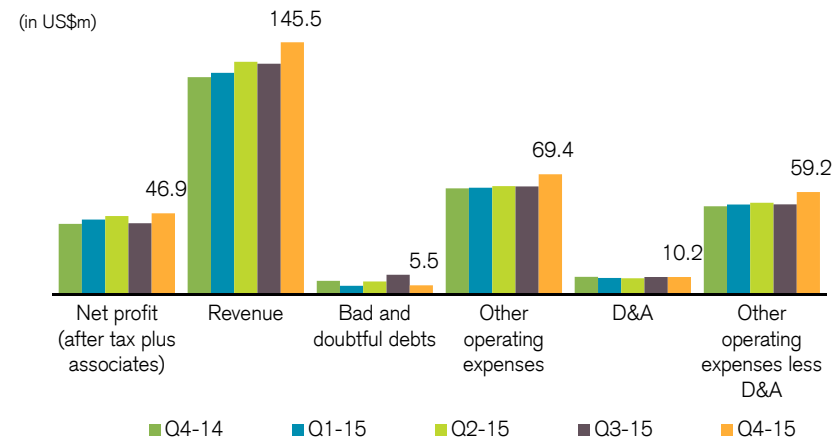


# Q4 2015 performance summary



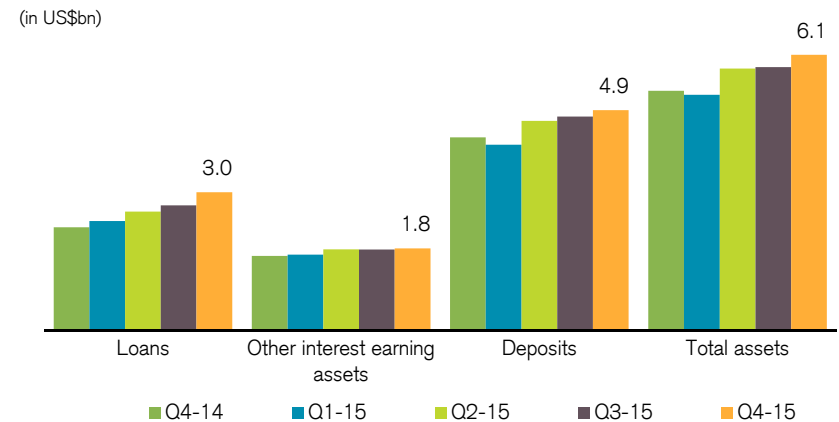
## Revenues

- NPAT was US\$176.9m (unaudited) for the financial year 2015, demonstrating 4.8% growth over 2014 amidst challenging business and economic conditions in the operating countries
- Q4 2015 revenue continued its positive trend, up 9.3% to US\$145.5m, driven by higher net interest income and channel activity, higher forex income, and includes US\$4.7m in asset revaluation gains
- The reduction in bad and doubtful debt expenses for Q4 2015 to US\$5.5m reflects higher bad debt recoveries and reduced retail write-off experience for the quarter
- Other operating expenses for Q4 2015 of US\$69.4m is driven largely by fixed asset write offs, subsequent to a review of useful life of software assets, and write offs in furniture and fittings associated with the sale of two properties in PNG



## Balance Sheet

- Total assets increased by 4.8% to US\$6.1bn at end of Q4 2015. Q4 2015 assets reflect loan book growth and the acquisition of Solomon Islands (SI) operations from Westpac
- Net loans increased by 10.7% in Q4 to US\$2.9bn, principally driven by portfolio growth in PNG and Fiji, as well as the SI acquisition which added US\$37.2m to the loans portfolio
- Other Interest Earning Assets (IEA) increased moderately to US\$1.83bn from US\$1.80bn the previous quarter
- Customer deposits grew 3.0% to US\$4.9bn in Q4 2015, mainly in the corporate segment in Fiji, as well as the addition of US\$81.5m from the acquisition of SI operations

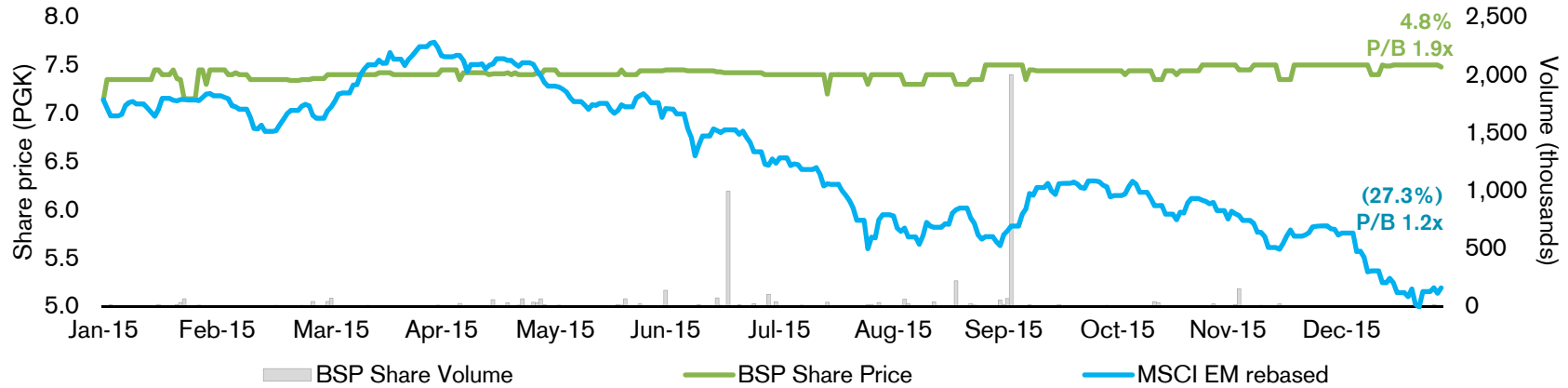


Note: Fixed exchange rate of USD/PGK: 3.01 used to convert PGK to USD to reflect trend of metrics in underlying PGK currency.

# BSP share price and trading performance

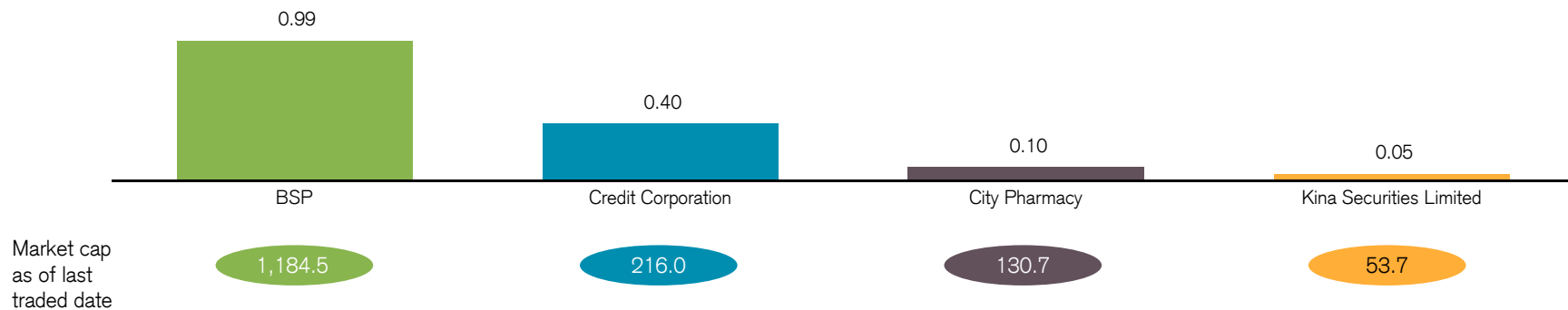


## Share price performance



## Last 3 months market turnover of companies on Port Moresby stock exchange<sup>(1)</sup>

(in US\$m)



Note: MSCI Emerging Market Index captures large and mid cap representation across 23 Emerging Markets countries including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

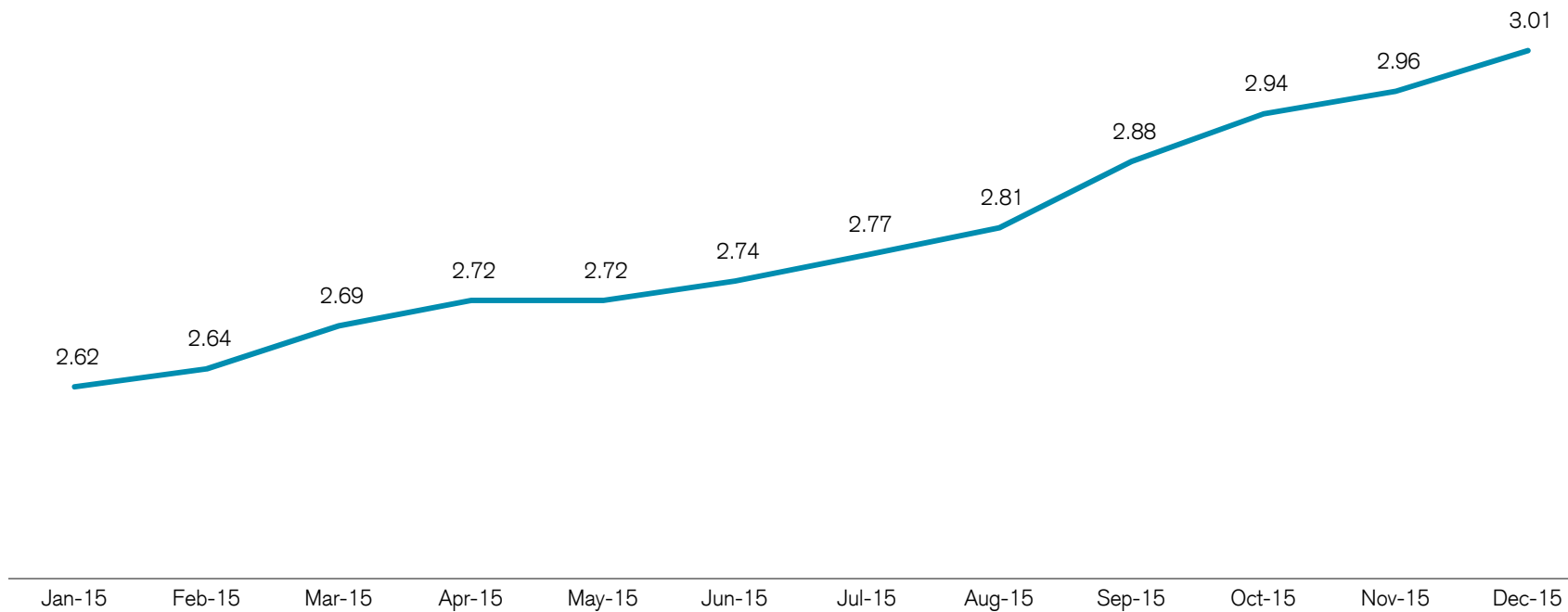
(1) Source: POMSOX. Fixed exchange rate of USD/PGK: 3.01 used to convert PGK to USD to reflect trend of metrics in underlying PGK currency.

# Foreign exchange rate



## USD:PGK foreign exchange rate (2015)

(USD:PGK)



Source: BPNG daily/monthly data.