Friday 9th March 2012

# Bank of South Pacific Limited – Full Year Financial Results – 31 December 2011

Mr Kostas Constantinou, Chairman, Board of Directors, Bank of South Pacific Limited (BSP) today released the financial results for the full-year to 31 December 2011.

The BSP Group has again achieved very sound results in 2011, with operational and financial stability supporting solid profitability and balance sheet growth. Overall, the group's financial performance for the year has been impressive. Total revenue net of interest expense has reached K1 billion, profit before tax has risen to above K450 million, and total assets have edged K11.5 billion.

The Group achieved a consolidated operating profit before tax of K475.0 million for the 2011 financial year, a 15.6% increase on the consolidated 2010 operating profit of K410.8 million. The Group attained record revenue net of interest expense of K1.18 billion. The result after tax is K355.95 million. Total assets of the Group increased, by approximately K1.65 billion, to K11.68 billion.

The Bank's achievements are similarly strong with pre-tax profits growing 15.9% to K466.2 million, from K402.1 million in 2010, supported by K1.02 billion of revenue net of interest expense. Total assets of the Bank at the end of 2011 were just overK10.018 billion, including the assets of the former subsidiary company National Bank of Fiji Limited, which was converted to branch status in March 2011.

The 2011 results have been achieved on the back of strong domestic growth of the PNG economy, driven by continuing LNG project related activities and other resource projects in various stages of development, despite a fractious and fickle global economic environment. Monetary policy in PNG adopted a tighter stance during 2011, with the Bank of Papua New Guinea's Kina Facility Rate increasing from 7% to 7.75% through the year. Strong export performance supported by favourable global commodity prices has continued to boost liquidity levels, and this has meant interest rates on Central Bank bills have remained at the low levels where they ended 2010, maintaining significant downward pressure on net interest income. Politically, PNG's constitution has been tested. These events have influenced perceptions and attracted international criticism, leading to a downgrade in the country's sovereign credit rating. They also impacted on the Bank, with our credit rating being cut a notch by Standard and Poors. Nevertheless, the continuing advance of the PNG LNG project continues to dominate economic activity and forms the basis for a generally positive outlook for the PNG economy in 2012.

Elsewhere in the region, economies have performed reasonably well, with export performance leading the way. In Fiji, monetary and fiscal conditions have improved somewhat, although this is yet to be transmitted into major growth in domestic economic activity. It has been pleasing to note that tourism and sugar, the stalwarts of the Fijian economy, are the areas where recovery has continued in 2011. Favourable world prices are aiding resurgence in mining activities in Fiji, which could also add to the country's prospects. In the Solomon Islands, foreign aid has continued to give impetus to improving economic performance, boosting activity around public capital projects. Forestry and fisheries exports have performed well during 2011. Potential mining projects are becoming more economic, and attracting investments. The RAMSI presence is also helping to develop investor confidence.

BSP's performance not only tracks the positive trends in the economies of PNG and its Pacific neighbours, it also reflects the early benefits of the significant investments being made to extend banking services to parts of the market that have not had reliable banking services, through appropriate technology, efficient processes and effective delivery models.

Bank and Group achieved a milestone in 2011, with revenues from ordinary activities pushing past K1 billion for the first time. For the Group, revenues have increased 24% during the year, building upon the trends established in the prior year. With interest income constrained by low bank bill rates during 2011, most of the revenue growth has come from non-interest income streams. Good growth has been achieved with customer transaction volumes, through major customer acquisition campaigns supported by product and process revisions, and accelerated growth in electronic banking channels.

Other comprehensive revenue, which is not part of the ordinary activities of the business, includes a property revaluation of K98.4 million, and adjustment of prior year exchange differences on translation of foreign operations of K19.8 million.

In terms of expenses, increases have been experienced in staff costs, depreciation, and in policy liabilities and claims in the insurance business. Work has continued in the bank on significant improvements to operations, including technology systems and physical security, customer service, transaction systems and processes, and electronic banking infrastructure. The higher levels of investment being made to modernise the bank, and some adverse trends in insurance policy and claims related expenses, together with the adverse impact on revenue of low Central Bank bill rates, has produced a cost to income ratio for the Group of 58%, up slightly from 54% in 2011.

Matching the continued growth of profits for BSP group has been the growth in the level of total group assets – from K10.027 billion at the end of 2010 to K11.681 billion at December 2011. The customer loan and receivables portfolio has seen net growth of K210 million to K4.30 billion. Market share in lending assets has been maintained over the year. The bank continues to pursue its program of capital investment in technology, systems, products, infrastructure and equipment, while retaining a healthy level of capital.

The Bank and Group capital base remains very strong. Total risk weighted capital adequacy at the end of 2011 is 24% notwithstanding the impact of continued growth in balance sheet assets, as well as total dividend payments of K223.5 million and just under K40 million of shares bought back. The capital adequacy ratio exceeds the minimum Bank of Papua New Guinea prudential requirement of 12.00%.

In 2012, fragility in the global economy is likely to continue to pose challenges. Nevertheless, PNG’s growth prospects remain strong, although the 2012 national elections could create some uncertainties, with particular challenges for business. The key challenge remains that of converting the GDP growth initiated by major mining and gas projects into sustainable economic and social development. Fiji and the Solomon Islands have shown promising signs of recovery in 2011. Further progress in 2012 will depend importantly on regional and global economic conditions that affect their export activities.

Mr Constantinou said that the impressive performance of BSP in 2011 is an indication of the positive impact of the changes being implemented in the Bank. "For this to continue, the group must maintain competitiveness, anticipate market conditions, and adapt to change. In 2010 we spoke of an emerging recovery in global conditions, but this stalled in 2011. Even so, BSP has enough local strength to continue to leverage profitably off PNG's strong economic performance in 2011 and in the future. The Group is working hard to position itself as the leading bank in the South Pacific, to efficiently serve a customer base that is experiencing - and rapidly becoming accustomed to - the benefits of technologically aided banking using global standards. The 2011 results demonstrate that BSP is on course to achieve its goals. I am also confident that the Group will meet the challenges of 2012 and again return profitable results".

K Constantinou, OBE
Chairman
Port Moresby
09 March 2012