

## **BANK OF SOUTH PACIFIC LIMITED HALF YEAR RESULTS – 30 JUNE 2012**

Mr. Kostas Constantinou, Chairman, Board of Directors, Bank of South Pacific Limited (BSP) today released the results for the half-year to 30 June 2012.

BSP achieved a consolidated operating profit of K273.5 million, an increase of 22.7% on the consolidated operating profit of K222.9 million for the same period last year.

Steady first half 2012 results follow solid 2011 full year results for BSP. The conditions contributing to 2011 second half performance continued during the first half of this year. Despite a limited recovery in global economies and fragile financial markets there was continued good domestic growth, driven by the LNG project related activities and other resource projects in various stages of development. Whilst inflation remains a threat to the economy as evidenced by price increases for operating expenditures, interest rates on Bank bills have declined slightly from the low levels where they ended last year, which exerted downward pressure on net interest income.

The bank has again performed creditably, posting an increase in operating profit before tax over the corresponding period of 2011. After tax profit is K204.0 million compared to K158.5 million for the same period last year, primarily due to the growth of non-interest income resulting from the delivery of several strategic initiatives.

Consolidated revenue growth of 12% was achieved whilst maintaining a controlled lending strategy that has seen interest income grow at a more than acceptable level. Business demand for credit was moderated by surplus cash holdings as well as national election uncertainties in PNG. Robust non interest income growth has been achieved as a result of aligning some bank fees to market levels, orientation of product and channel propositions to transactional business, and strong performance from foreign currency earnings.

In terms of expenses, operational improvements across the organisation under BSP's Transformation Program continue. Risk management and internal control processes, management information systems, technology systems, physical security, and process reengineering throughout the organisation are some of the continuing focus areas. Support activities for electronic banking channels continue to require expert resources, and the rebranding of the retained life insurance business in Fiji has been completed.

Despite these challenges, there has been continued growth in the level of BSP group total assets, from K10.972 billion at the end of 2011 to K13.254 billion at June 2012. The customer net loan and receivables portfolio now exceeds K4.53 billion, and market share remains stable.

The Bank's expense to income ratio for the first half year of 2012 is at 48%, compared to 50% twelve months earlier.

The bank and group capital base is still strong. Total capital adequacy fell slightly to 23.3%, reflecting the impact of continued growth in BSP total balance sheet assets as well as the 2011 final dividend of K165.01 million accounted for during the period. This level of capital remains in line with targets set under the bank's capital management strategy. The capital ratio exceeds the Bank of Papua New Guinea prudential requirement of 12.00%.

Mr. Constantinou noted that current trends in the economy will continue to present further earnings challenges for the Bank for the remainder of 2012.

Despite the build phase of the LNG project now peaking, and a slight decline in recent commodity prices, overall export performance seems likely to remain solid. Liquidity in the system continues to grow with

the opportunity to invest surplus liquidity in short-term instruments becoming more limited. Interest rates also remain low. The Central Bank's liquidity management methods now include recent increases to the Cash Reserve Requirement, which further limits earnings opportunity for the bank.

BSP is already experiencing pressure on revenues from its investment portfolio, which will impact second half earnings. Much energy is being directed to measures to preserve revenue stability, and attention to operating costs remains ever critical.

The chairman announced that in keeping with the underlying improvement in operating results, the Board of BSP has declared an interim dividend of 20 toea per share which, on a post consolidation basis, represents a 27% increase on the interim dividend of last year. The interim dividend will be paid on 26 October, 2012.

Mr. Constantinou is confident the Bank will continue to adapt to challenging market conditions, and continue to deliver a sound underlying performance.

**Kostas Constantinou, OBE**

Chairman

Port Moresby

Monday September 3, 2012