



Monday September 13<sup>th</sup>, 2010

## **BANK OF SOUTH PACIFIC LIMITED HALF YEAR RESULTS – 30 JUNE 2010**

Mr Noreo Beangke, Chairman, Board of Directors, Bank of South Pacific Limited (BSP) today released the results for the half-year to 30 June 2010.

A consolidated operating profit of K209.05 million is recorded for the half year, an increase of almost 10% on the consolidated operating profit of K190.48 million achieved for the same period last year. After tax profit is K163.45 million.

In 2009 the after-effects of the global financial crisis occasioned a year of mixed business prospects and economic lethargy and persistent uncertainty. Under these conditions, the bank performed creditably to post a solid year-on-year increase in profit, buoyed by PNG's economy being relatively insulated from the global financial crisis, some resilience and recovery in the prices of its key exports, and of course the optimism surrounding the LNG Project.

In 2010, the PNG economy has progressed along this same path, and the underlying contributing factors remain unchanged. This is reflected in the outcomes for the first half of 2010.

Revenue growth is moderate, due in part to a more controlled lending strategy, which has seen interest income growth level off slightly. Robust non interest income growth has offset weaker interest income, as a result of aligning some bank fees to market levels, and strong performance from foreign currency earnings as transactional volumes improved in line with economic conditions.

In terms of expenses, work on operational improvement initiatives across the organization which commenced in 2009 under BSP's Transformation Program, have continued strongly in the first half of 2010. Increased investments in risk management and internal control activities, management information systems, technology systems and physical security, and process reengineering throughout the organization are some of the continuing focus areas. Support activities for electronic banking channels continue to receive expert resources. The BSP branding exercise was also extended across the Solomon Islands and Fiji in the first half of the year.

Expenses related to preparation and implementation of our Fiji capital raising transactions (BSP Fiji Convertible Notes) were incurred in the period. Much energy has also been devoted to the practical integration of the recently acquired Fiji businesses into the BSP group, as well as on efforts to carry out the plan to sell the Fiji based insurance operation should the opportunity arise.

The bank has continued to obtain expert advice to work on strategies to protect its legal rights, status and reputation as well as those of its offices, under ongoing challenges to fundamental principles of commercial law and commercial banking practice. BSP believes that the defense of these principles is also in the best interests of the financial system.



## Media Statement

Despite these challenges, there has been continued growth in the level of BSP group total assets from K9.398 billion at the end of 2009 to K9.815 billion at June 2010. The customer loan and receivables portfolio now exceeds K3.77 billion, a net increase of 4% or K136 million from the level of K3.638 billion as at year-end 2009. Market share in lending assets has grown slightly over the period.

The Bank's expense to income ratio for the first half year of 2010 is 47% and reflects moderate income growth and continuing necessary commitments on transformation program activities. The outcome was signalled to the market earlier this year, when the 2009 results were presented. The profit achievement for the first half of 2010 is commendable, considering the bank is well into its transformation program of operational and risk management improvements, combined with proposed upgrades of many of the banks current systems, processes and organizational structures.

The bank and group capital base is still strong at the 2010 half year point. Total capital adequacy is 19.2%, reflecting the impact of continued growth in BSP total balance sheet assets as well as the increased dividends of K182.37 million accounted for during the period. This level of capital is still 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 Beangke noted current trends in the economy still present some serious earnings challenges for the Bank for the remainder of 2010. Comments made earlier in the year highlighted that monetary and fiscal policy responses will be critical over the medium term. This opinion is still relevant.

With the build phase of the LNG project commencing, and with export performance continuing solidly, liquidity in the system has continued to grow since the end of 2009 and the opportunity to invest surplus liquidity in short-term instruments is often not available. The pace of liquidity growth has increased even more in recent months, and this has been accompanied by significant initial downward pressure on interest rates of Central Bank debt instruments. Monetary policy settings and the deployment of tools for the stabilisation of interest rates has not kept pace in the initial stages of the surge in liquidity.

BSP is already experiencing pressure on expected revenues from its investment portfolio, which has the potential to impact second half earnings. Much energy is being directed to strategic measures to preserve revenue stability in the short term. Notwithstanding initiatives to fill any revenue gaps, there is likely to be some lag in replacing investment earnings.

Mr Beangke expects sound underlying performance of BSP to continue, but the group will need to continually adapt to exceptionally challenging market conditions.

### **N.N. BEANGKE**

Chairman  
Port Moresby

13 September 2010