2009 Financial Year

presentation to **Shareholders**

BSP Annual General Meeting, 21 May 2010

Presentation overview

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2009 Overview

Ian B. Clyne,
Chief Executive Officer

Historic Overview

- Headquartered at Port Moresby, BSP is PNG's largest retail and commercial bank with 35 branches in PNG and overseas branches in Niue (1), Fiji (20) and the Solomon Islands (8). The acquisition of the National Bank of Fiji in November 2009, added 18 branches to the BSP Pacific network, making it one of the largest businesses in the Pacific
- BSP currently holds in excess of 50% of the market share of both deposits and loans in PNG, 30% of the market in the Solomon Islands, and nearly 20% of the market in Fiji.
- As at 31 December 2009, the BSP Bank held total assets of K8.1 billion (Group K9.4 billion). The compounded annual growth rate of total assets in the bank has been 29% since 2005 (Group, 34%). The acquisition of the Colonial businesses in Fiji added about K1.3 billion of assets to the Group.

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Historic Overview (continued)

- BSP is a publicly listed company incorporated in PNG. BSP's shares were listed on POMSoX on 27 August 2003. Its shares are widely held by individuals, companies and financial institutions, the majority of which are PNG nationals. It is therefore truly a PNG bank.
- In November 2005, Standard & Poor's issued an inaugural credit rating for BSP. The rating was B+ Stable, consistent with the Standard & Poor's sovereign rating for PNG.
- The latest credit rating was issued in December 2008 and remained B+ Stable. Standard & Poor's commented:

  "The ratings on BSP reflect the bank's strong market position, good capitalization and profitability, and adequate asset quality in a domestic context…Standard & Poor's believes that the bank's size and local brand recognition will continue to support its growth strategy."

Brief history

Year	Profit after tax	Key events
1957		The Bank commenced operations on 1 May 1957 in Port Moresby as a branch of the National Bank of Australasia Limited.
1974		Operations were expanded to several centres and on 17 May 1974 the Company was incorporated as Bank of South Pacific Limited, a wholly owned subsidiary of the Australian Parent.
1993		On 24 August 1993, the nationally owned company, National Investment Holdings Limited (NIHL) acquired the 87% shareholding held by National Australia Bank. NIHL eventually acquired 100% ownership of the Bank and later changed its name to BSP Holdings Limited.
2001		In 2001 the Privatisation Commission, on behalf of the Government of Papua New Guinea, offered for sale a 51% interest in the Papua New Guinea Banking Corporation (PNGBC) through a competitive trade sale process. BSP participated in this process by lodging a bid whereby it proposed to effect the acquisition of PNGBC by way of an amalgamation under the Companies Act rather than through a sale and purchase. The Commission accepted BSP's bid and the amalgamation was completed on 9 April 2002.
2003	K 39.9 m	BSP's shares were listed on the Port Moresby Stock Exchange on 27 August 2003.
2005	K 99.2 m	In November 2005, Standard & Poors (S&P) issued an inaugural credit rating for Bank of South Pacific Limited. The rating was B+ Stable, consistent with the S&P sovereign rating for Papua New Guinea. During 2005 Capital Stockbrokers Limited was acquired and renamed BSP Capital Limited.
2006	K 111.6 m	On 18 December 2006 a BSP branch was established in Suva, Fiji following the acquisition of the Habib Bank Ltd interests in Fiji.
2007	K 191.1 m	The acquisition of the National Bank of Solomon Islands Ltd was completed during April 2007. Now rebadged as a branch of BSP, it has the largest branch network in the Solomon Islands.
2009	K 257.7 m	BSP agrees to buy Colonial National Bank in Fiji from Commonwealth Bank of Australia.

Share price *movements 2004-2010*

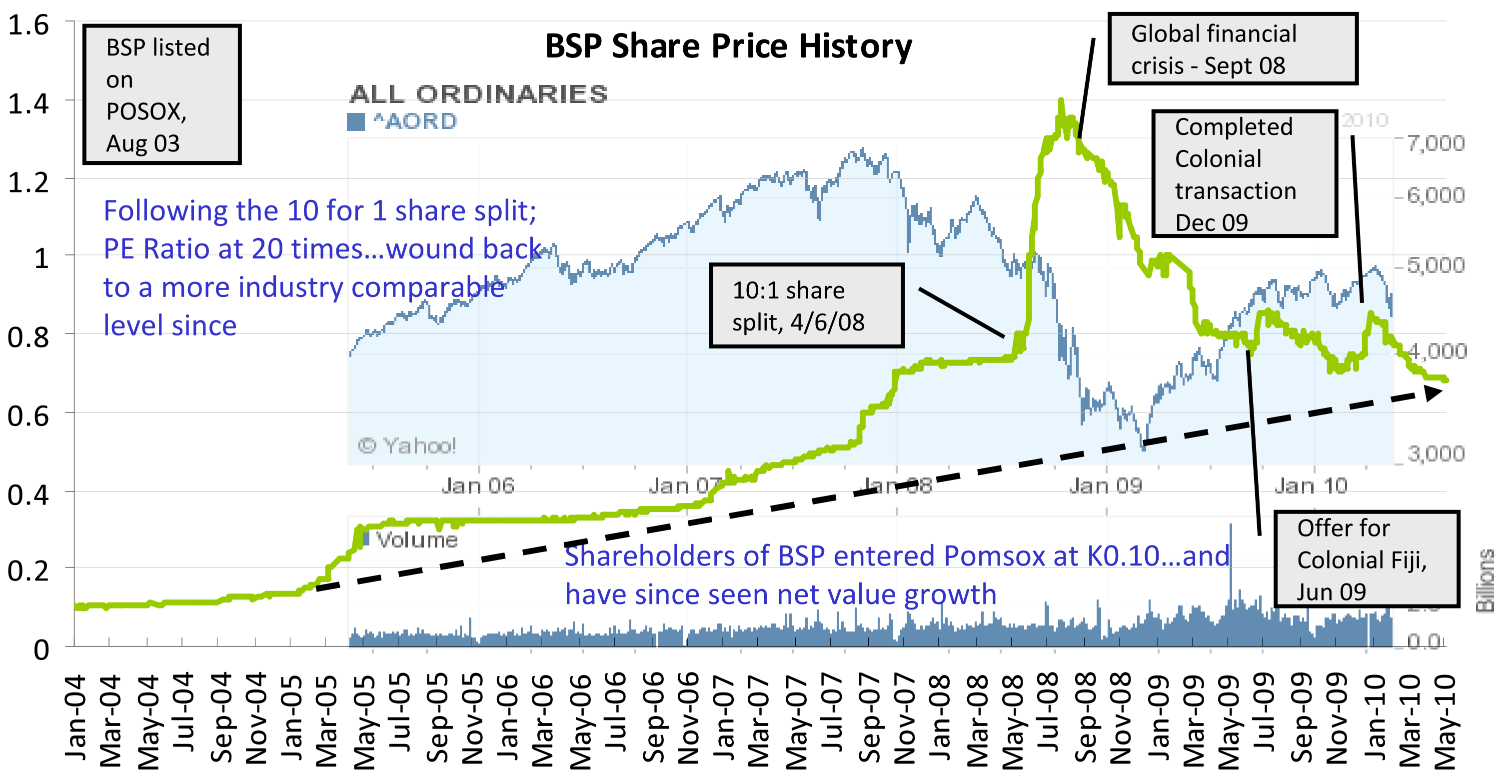
BSP's share price increased from K0.1* in 2004 and reached K1.4 in July 2008.

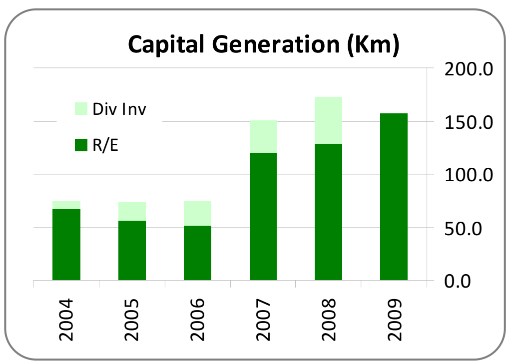
*K1 adjusted for 10 for 1 share split

Since July 2008 BSP's share price has decreased to K0.7 in November 2009, largely due to the global financial crisis.

Incidentally, this is about where the price sat just before the share split

Share price has been adjusted for 1 for 10 share split in 2008.





- BSP's Tier 1 capital growth has been internally generated on an annual, cumulative cycle
- This has been sufficient to meet growth and risks so far, but we are faced with a period of significant growth/risk, which might occur on a short cycle

2009: "A Year of Significant Uncertainty"

- Global Financial Crisis (GFC) – created enormous unknowns in terms of potential impact.
- BSP focused on "Capital & Liquidity" planning, and "Credit Risk" management.
- PNG Gov.'s Fiscal Management was tested.
- Bank of PNG's Monetary Policy & Inflationary concerns saw lending & funding rates increase.
- Commodity Export Volumes decreased & prices decreased (however fortunately to only 5 year lows).
- Unknown impact concerns regarding the potential PNG LNG Project.
- PNG's ever increasing socio economic challenges & risks.
- Significant reduction in Foreign Exchange activity, combined with a significant increase in competition for business.

"Globally All Banks aggressively raised Capital & Liquidity, and became far more conservative in terms of Lending Policies"

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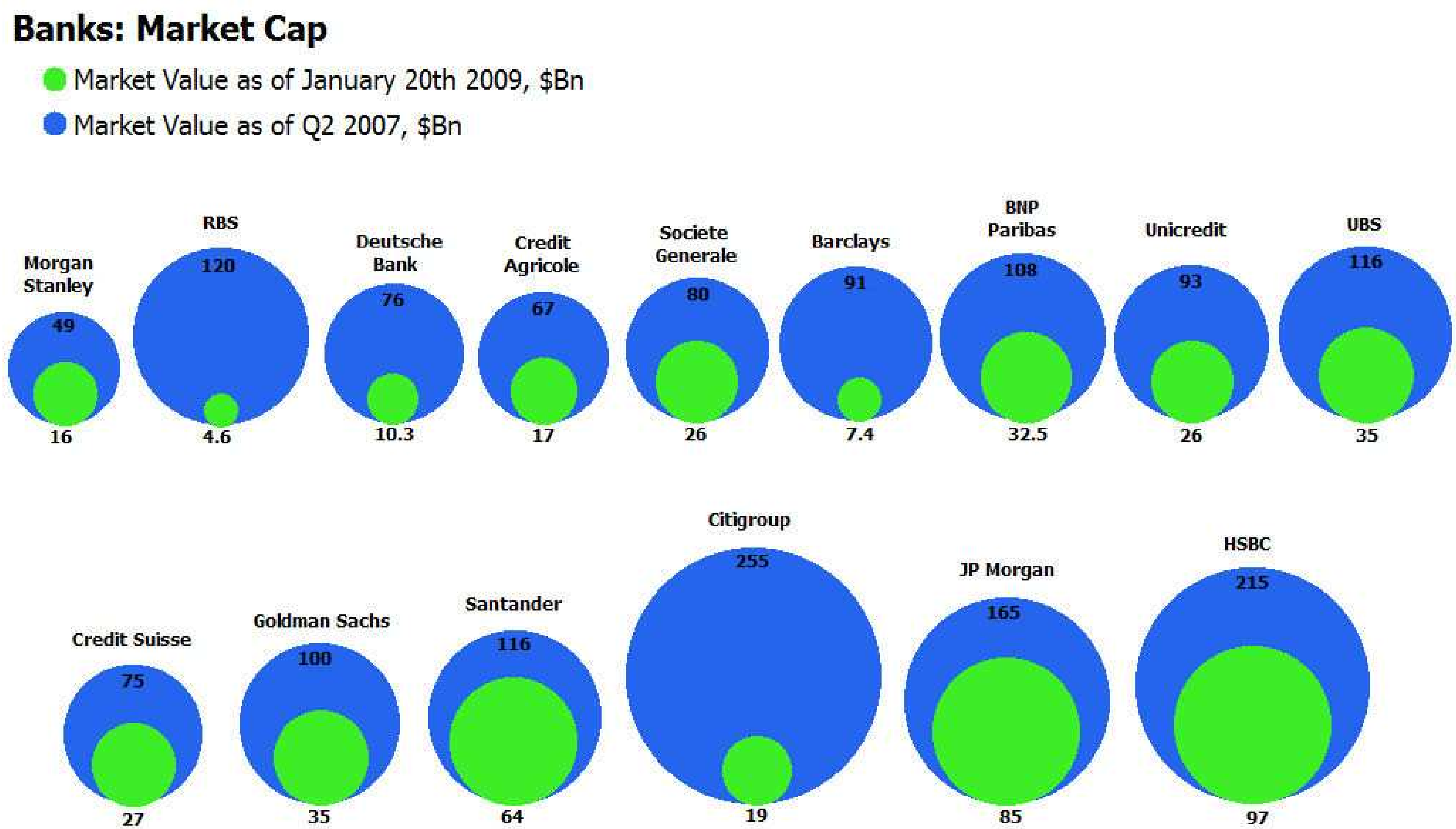
2009: “A Year of Significant Uncertainty”

- The future of many banks was definitely uncertain….



Source: Bloomberg, Jan 20th 2009

2009: BSP’s Internal Challenges

- BSP’s Customer Service Levels, Product Offers, Systems & Operational Processes, and Staff Training were “simply” not at level required to meet future client expectations, future competition levels, to support the potential business needs in PNG LNG went ahead, and finally meet shareholder expectations regarding Profit Growth/Dividend Expectations and medium term shareholder value growth.
- BSP needed to analyze, identify & understand our strengths, weaknesses challenges and threats.
- Develop & implement a “Strategic Planning Process” and “ Transformation Program Plan” to rectify & address our shortcomings, and underperformance.
- Obtain Board of Directors, Executive Management & Staff’s recognition and “Buy In” of the need to change & to improve.

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2009: BSP's Internal Challenges (continued)

- Actions – Appointed International Consultants to review "Every Business Unit"
- Findings:

  - 25 year old manual processes.

  - Core System poorly configured & under developed.

  - Lack of Integration & Automation.

  - Basic Customer Service Model *"One Model Fits All".*

  - Customer Service was *"Operationally Reactive verses Sales Focused & Proactive".*

  - Very basic Product Offer, Insufficient Focus on Product Development and Product Promotion.

  - Staff Training was simply "*inadequate*".

Described as *"A 1980's Bank"*

BSP your bank

2009: BSP's Internal Objectives

- Simplify, Standardize, Modernize & Automate all our Major Systems, and Processes.
- Upgrade BSP's Branch Network to give "Vastly Improved" products & customer service levels to all business segments.
- Leader in E Banking services & innovation.
- Fully exploit "All" the functionality capabilities of ICBS (Core Banking System).
- "Back to Basics" in terms of Staff Training, focus on BSP's basic Products, Processes and Services.
- Significantly improve BSP's Operational Risk Management, Credit Inspection, Market Risk & Liquidity Risk Management Capabilities.
- Enhanced Strategic Planning Capabilities
- Enhanced Management Information Capabilities & Reporting.
- Continued Profit Growth YOY.

"Make BSP into a 21st Century Bank"

BSP your bank

2009: BSP's Achievements

- 12.6% improvement in after tax Profitability – K257 million.
- 21% increase in loan growth – K2.86 billion.
- Balance sheet now exceeds K9 billion.
- Re branded Bank of South Pacific to "BSP", with a new "young, modern, energetic" look.
- Launched PNG's 1st ever "Subordinated Note" Issue & raised K75.5m.
- Implemented a "New" Organisational Structure inline with International Best Practices.
- Established a "New" Operational Risk Team & "New" Credit Inspection Team.
- Implemented "New" Anti Money laundering Software.
- Significantly increased BSP's ATM & Eftpos Network for greater customer access & service.
- Purchased Colonial Fiji Group.
- Re-engineered BSP Capital (People, Systems, Processes).
- Launched BSP's "Social & Community Program" to give back to the communities in which we operate.

BSP your bank

BSP's Vision

2010 & Beyond

Ian B. Clyne,
Chief Executive Officer

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Vision

BSP's vision is…

To be the leading bank in PNG and the South Pacific

… in terms of:

- ✓ ***Customer and Sales focus***
- ✓ ***Modern, best practice operations***
- ✓ ***Investment in people and performance***
- ✓ ***Growth based on profitability***

Through transforming ourselves into a modern, technologically driven 21st Century Bank.

BSP 2010 & Beyond: "Strategies & Plans

BSP's key strategies and plans include:

Customer and sales focus

- Market profiling and Segmentation – customers & products
- Improved customer data & profitability metrics
- Product & channel innovation and continuous improvement
- Marketing & branding intensity
- Customer Financial literacy
- Process automation
- Cross-selling opportunities

Growth based on Profitability

- Pricing for risk and customer value
- Cross-selling for share-of-wallet growth
- Revenue balance between interest and non interest sources
- Revenue & Risk diversification
- Foreign Currency Business Growth
- Optimise use of capital
- Diversify & grow funding base
- Reduce operational costs through automation & risk control

Modern, best practice operations

- Simplified, standardised & automated client transaction processing ("straight-through")
- Embed operational risk framework and improve compliance monitoring
- Channel strategy to drive electronic banking and provide services to the "unbanked"
- Enhancement of Management Information System
- Improved operational co-ordination and communications
- Centralised Operations function
- Business Continuity Planning & Readiness

Investment in Performing People

- Centralised HR function to coordinate Group HR management
- New HR systems & streamlined processes
- "Back to Basics" Training using improved facilities
- Creative talent management

BSP 2010 & Beyond: "Strategies & Plans

BSP's key strategies and plans include:

"Customer and sales focused":

- Market profiling and Segmentation – customers & products.
- Improved customer data & profitability metrics.
- Product & channel innovation and continuous improvement.
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- Customer Financial literacy.
- Process automation.
- Cross-selling opportunities.

BSP 2010 & Beyond: "Strategies & Plans

BSP's key strategies and plans include:

"Modern, International Best Practice" operations:

- Simplified, standardised & automated client transaction processing ("straight-through").
- Embed operational risk framework and improve compliance monitoring.
- Channel strategy to drive electronic banking and provide services to the "unbanked".
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BSP 2010 & Beyond: "Strategies & Plans

BSP's key strategies and plans include:

Growth based on "Profitability"

- Pricing for risk and customer value.
- Cross-selling for share-of-wallet growth.
- Revenue balance between interest and non interest sources.
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- Foreign Currency Business Growth.
- Optimise use of capital.
- Diversify & grow funding base.
- Reduce operational costs through automation & risk control.

BSP 2010 & Beyond: "Strategies & Plans

<u>BSP's key strategies and plans include:</u>

Reward employees who "Perform", penalize employees who "under perform".

- Centralised HR function to coordinate Group HR management.
- New HR systems & streamlined processes.
- "Back to Basics" Training using improved facilities.
- Creative talent management.
- Introduction of a "Performance" Bonus System.

2009 Performance

overview

Ian B. Clyne,
Chief Executive officer

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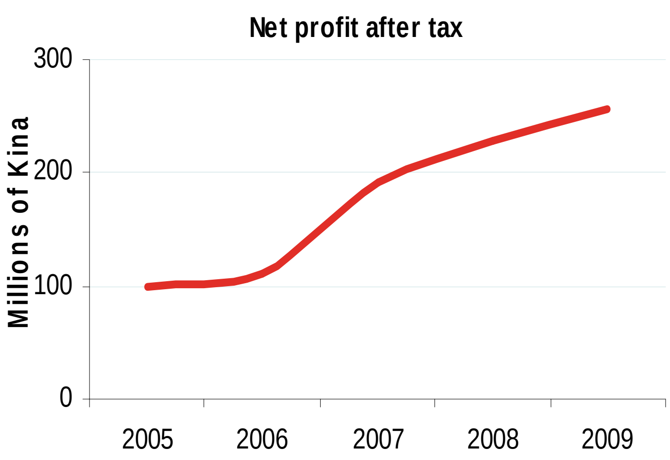
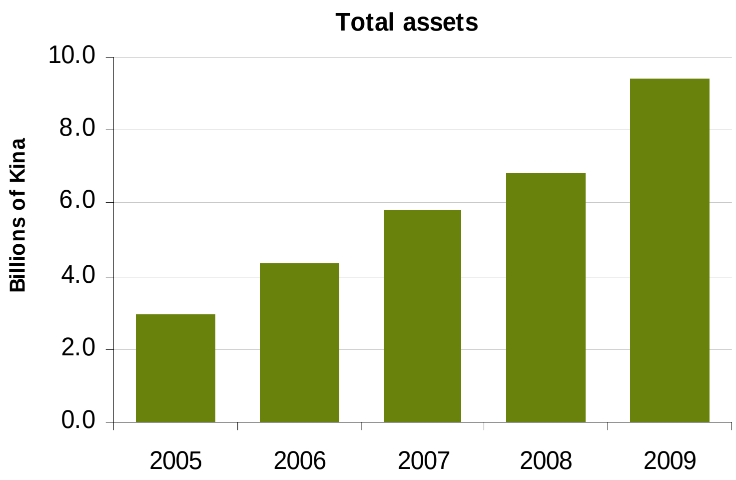
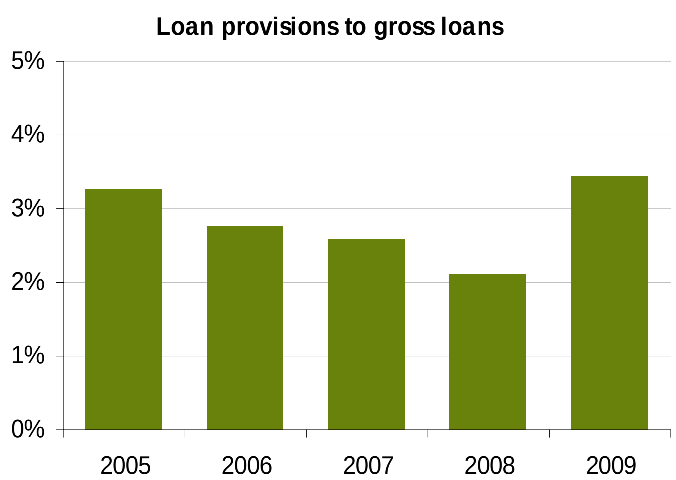
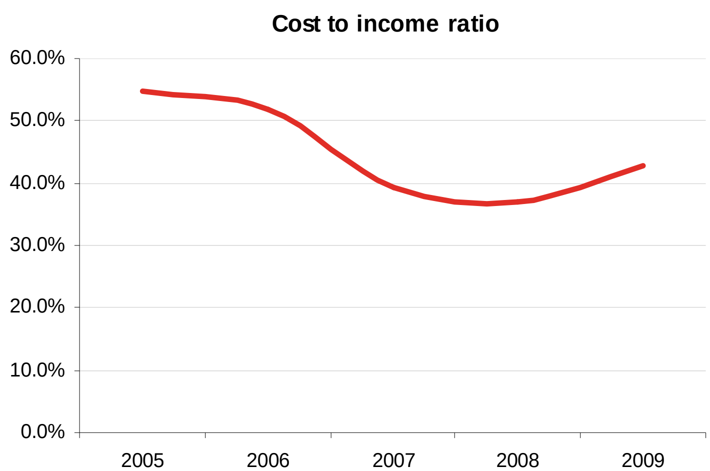
Recent performance









BSP your bank

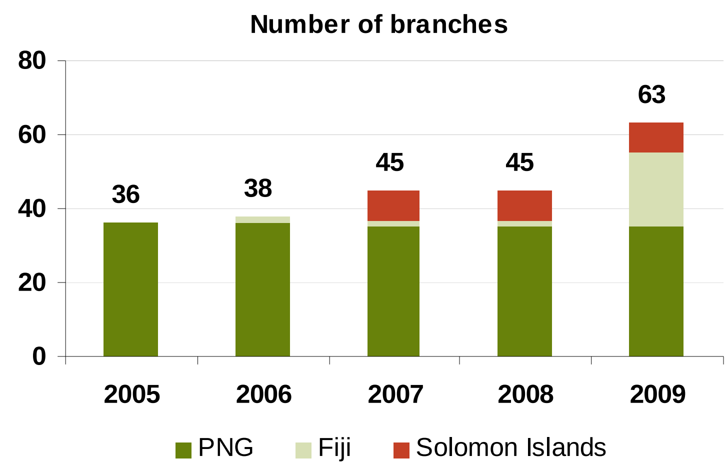
Operations – branches & ATMs

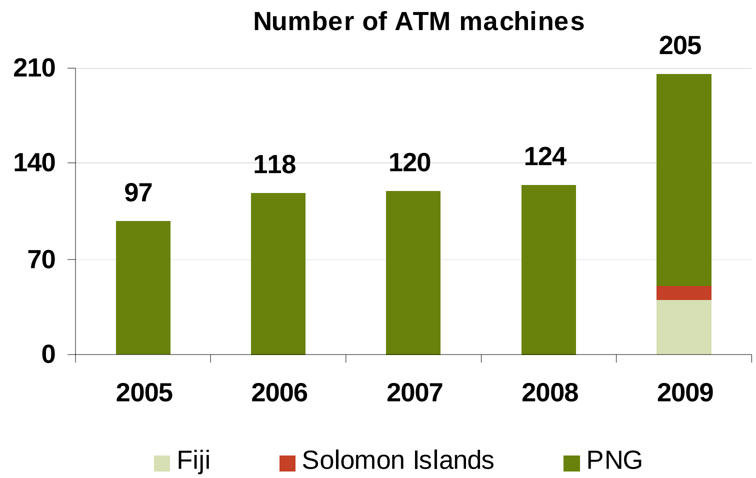
The number of branches:

- Has remained steady in PNG from 2005 to 2009
- Increased by 2 in 2006 when BSP commenced in Fiji
- Increased by 8 in 2007, when BSP expanded to the Solomon Islands
- Increased by 18 after BSP acquired the National Bank of Fiji in 2009

The number of ATMs:

- In PNG has increased from 97 in 2005 to 154 in 2009.
- Increased by 11 in Solomon Islands in 2009
- Increased by 40 in Fiji with the acquisition of the National Bank of Fiji

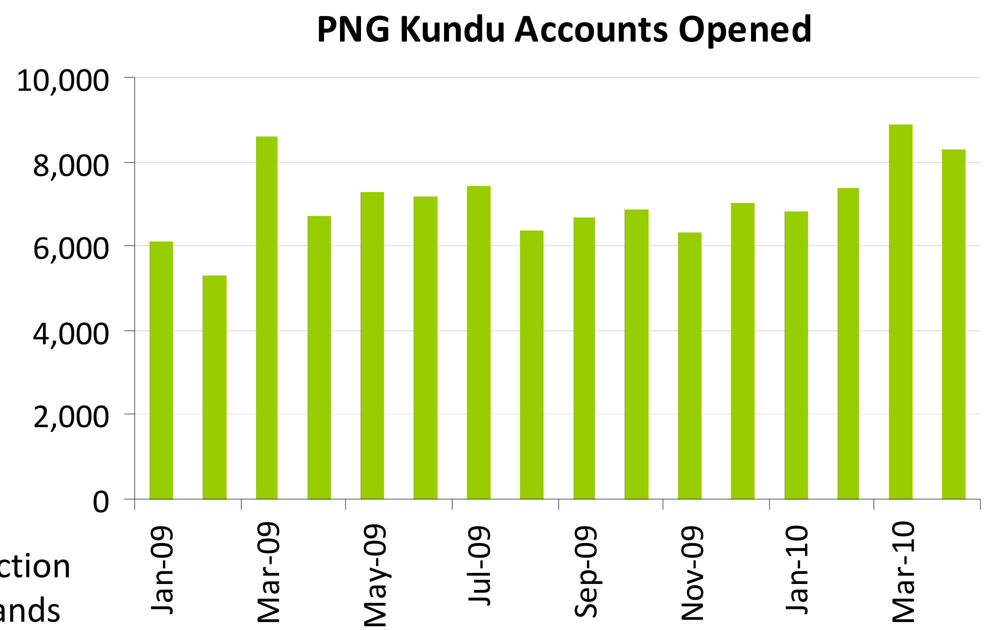




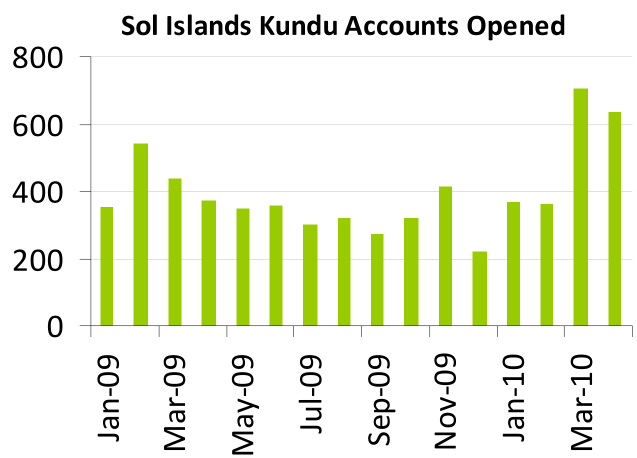
Operations – Customer Accounts

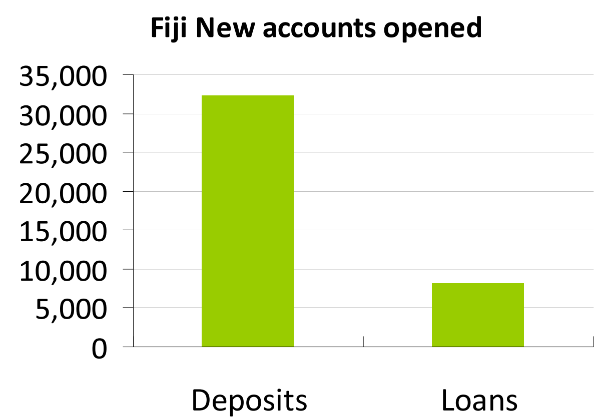
- Opened 82,000 Kundusaver Accounts in PNG
- Opened over 4,000 Kundusaver accounts in Solomon Islands
- Opened over 30,000 deposit accounts in Fiji in 2009

Over 580,000 savings & transaction accounts in PNG



49,000 savings & transaction accounts in Solomon Islands





180,000 depositor accounts in Fiji

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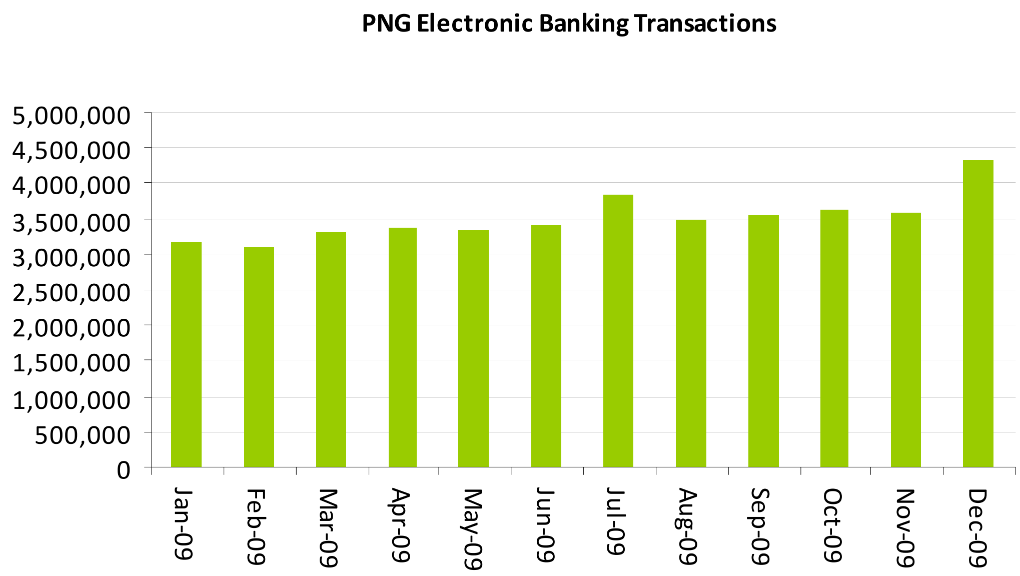
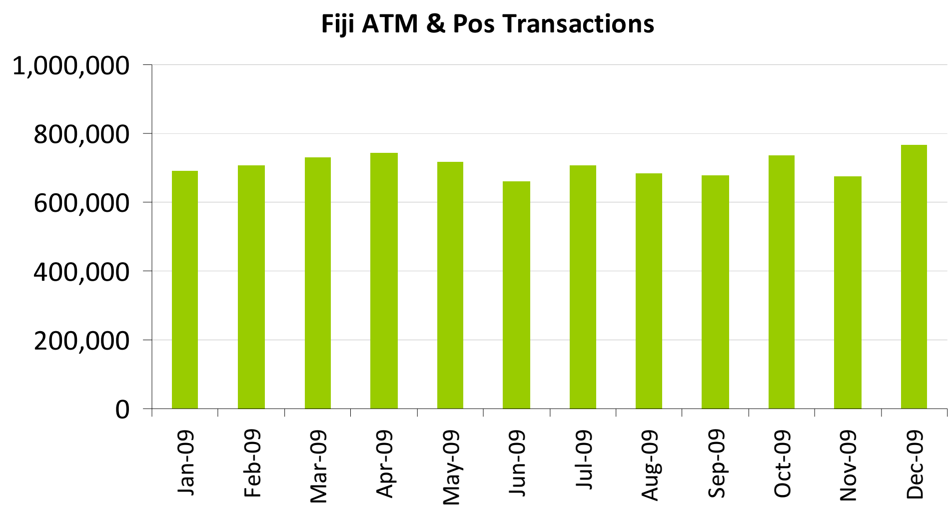
Operations – ATM and EFTPOS Transactions

IN PNG

- Over 42 million electronic banking transactions in PNG in 2009, and monthly average still growing
- 8.5 million annual Fiji business ATM & POS transaction volume





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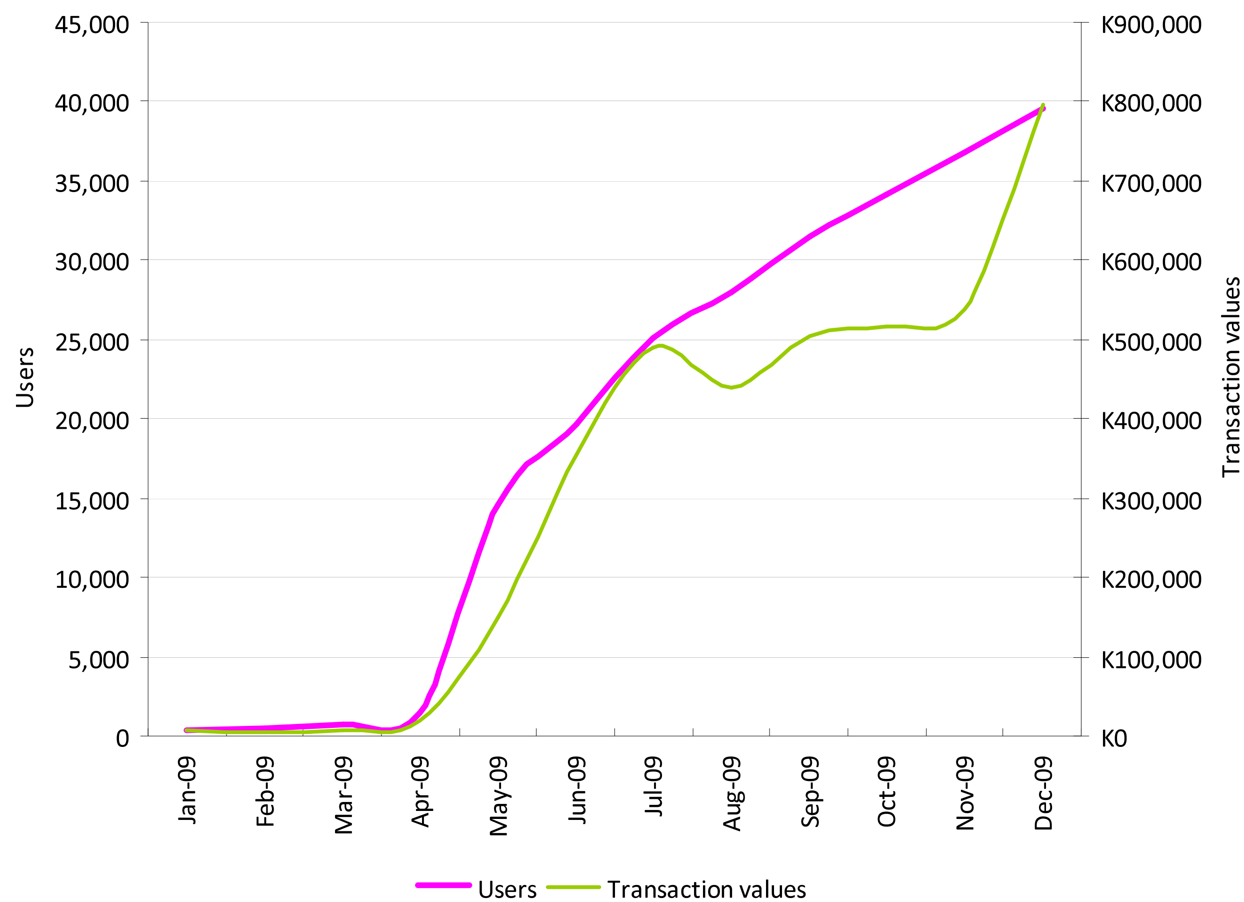
Operations – SMS banking in PNG

- SMS banking users reached 40,000 at the end of Dec 09, and is still growing



Economic

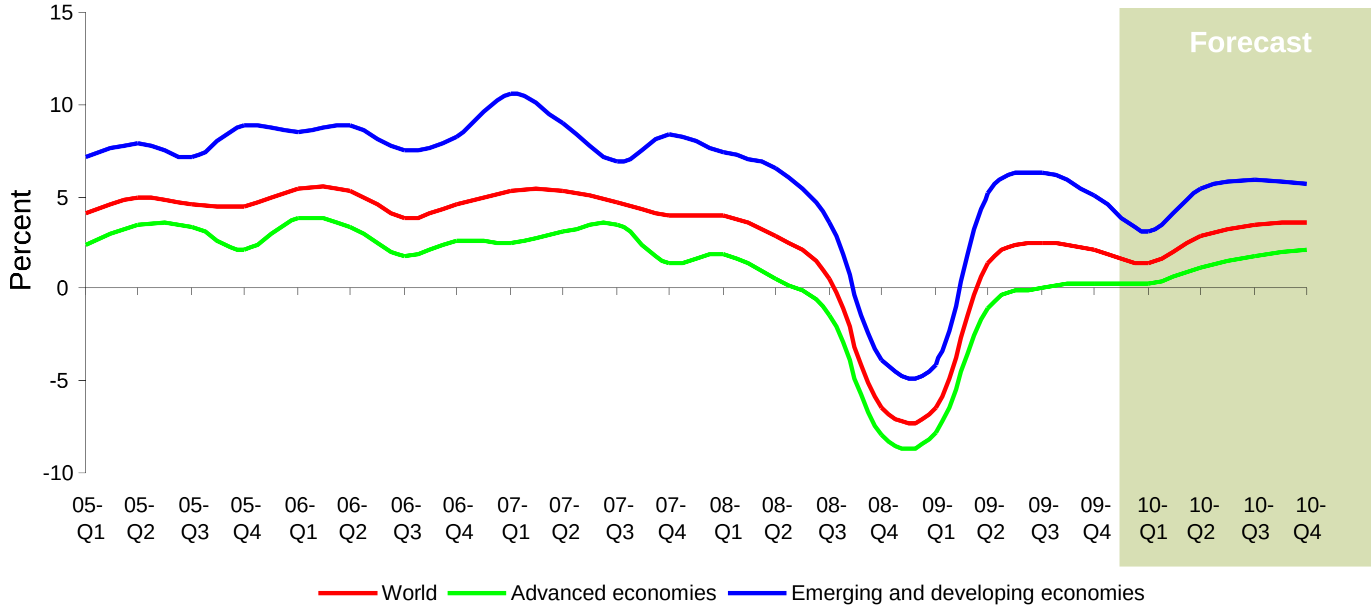
outlook

Robin Fleming,
Deputy CEO, Chief Risk Officer

Economic outlook - global

- Global economy is expected to regain growth momentum in early 2010
- Emerging and developing economies, including the Pacific region, are expected to achieve stronger growth than advanced economies

IMF – Global GDP Growth (percent; quarter-over-quarter, annualised)



Economic outlook - PNG

- PNG's economy is projected to grow in the range from 3.3% to 5.3% per year in 2010 and 2011 depending on the source
- The growth is forecasted to exceed the global economic growth
- These growth projections do not include the impacts of the PNG LNG project which is estimated deliver real GDP growth of 99.1% in the long run

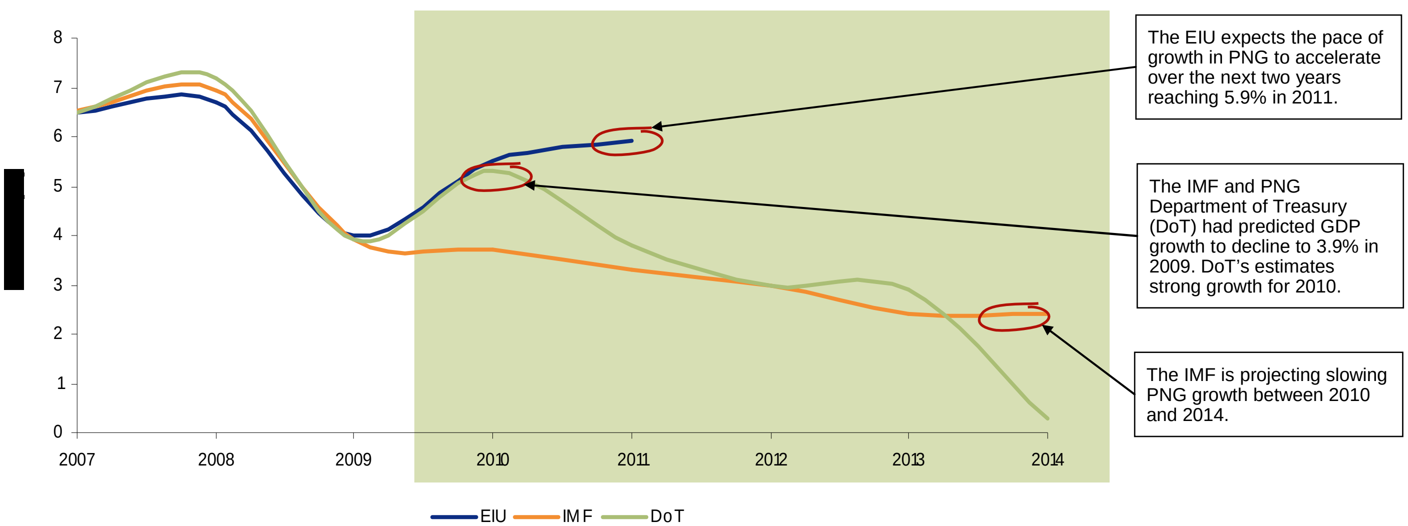
LNG's impact on PNG economic Growth

PNG LNG

ACIL Tasman estimates that the PNG LNG project will:

- Deliver real GDP growth of **96.6%** (short run impact – 0 to 5 years)
- Deliver real GDP growth of **99.1%** (long run impact – 5 to 10 years)

PNG - Real GDP Growth (%)



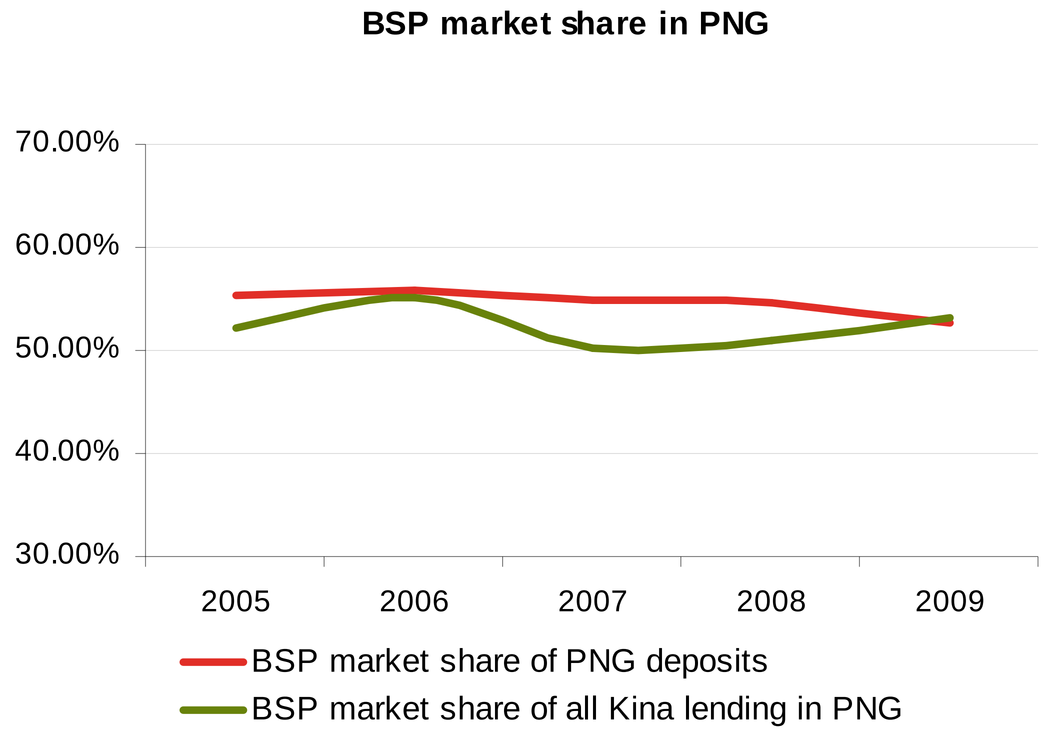
BSP your bank

Market share

BSP's market share in both PNG deposits and lending is above 50%.

BSP's Solomon Islands operations currently claim 30% of the market in the Solomon Islands

The acquisition of the National Bank of Fiji from CBA in 2009 increased market share from 2% to nearly 20% in Fiji.



Fiji

transaction

Robin Fleming
Deputy CEO, Chief Risk Officer

Purchase of Colonial National Bank in Fiji

- In October 2009 BSP agreed to buy National Bank of Fiji Limited, Colonial Fiji Limited and associated companies from Commonwealth Bank Australia; Ownership changed hands on 1 December 2009. The price was a fraction over net assets
- The purchase is a key step in BSP's strategy to be the leading bank in the South Pacific
- National Bank of Fiji Limited trades as BSP Colonial National Bank (BSP CNB) and enjoys a market share of around 20% of the Fiji banking sector
- BSP CNB held more than K790 million and BSP Colonial Fiji Life (BSPCFL) over K516 million in total assets at 30 June 2009;

BSP your bank

Purchase of Colonial National Bank in Fiji (continued)

- The group reported earnings were K24.5 million for the year ended 30 June 2009;
- At the end of the year, the combined assets of the newly acquired Fiji businesses were about K1.3 billion, about K940 million in BSP CNB; Combined December month contribution to profit was K3.5 million (BSP CNB K1.8 million).
- BSP CNB’s 20% market share reflects a strong Retail segment presence. A key strategic initiative is to strengthen this loyalty with product and channel growth; The other major initiative is to significantly improve market share in the corporate segment.
- The strategy is to focus on our core banking business, and sell the Life Insurance Business in 2010

Financial Results

2009 full year review

Johnson Kalo
Deputy CEO, Chief Financial Officer

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Overview of 2009 results

	Group 2009	Bank 2009	Bank Growth 2009 vs. 2008
Profit after tax	K 257.1m	K 257.7m	10.5%
Revenue	K 725.7 m	K 701.9m	14.2%
Expenses	K 335.1 m	K 308.7m	10.7%
Bad and doubtful debt expense	K 15.0 m	K 16.4m	44.3%
Earnings per Share	5.6 toea	5.7 toea	10.1%
Customer deposits	K 7,493.8 m	K 6,759.6m	16.8%
Net loans and advances	K 3,638.6 m	K 2,860m	21.9%

BSP your bank

2009 Highlights

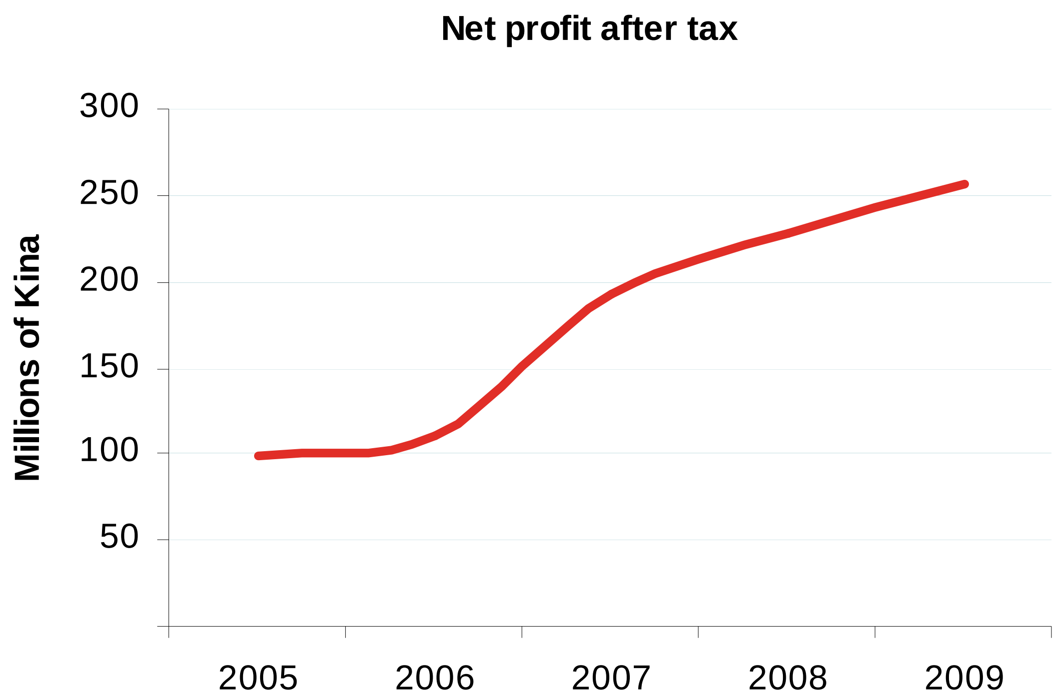
- BSP maintained its market share above 50% in deposits and lending in PNG
- Group profit after tax grew from K227m in 2008 to K258m in 2009. Solid liquidity growth in the home market underpinned the year's results, with competitive growth in corporate lending; Bank net interest income was up K93.4m from 2008.
- Non Interest income increased by 27% following a review of fees in August 2009, but this was moderated by a K23m drop in FX earnings from 2008 levels, due to the impact of the GFC on exporter foreign currency inflows.
- Operating expenses increased by K84.6m over 2008 levels, with cost to income ratio moving from 40% to 45%. This represents underlying operational requirements of both organic and acquired growth. In 2009 a major long term re-branding exercise commenced, a transformation project was started, community engagement initiatives were introduced, a major domestic capital raising was undertaken, and work performed on a major business acquisition. Also included in this result are relatively exceptional security & litigation costs and the impact of 2 major fraud losses.

Profit after tax

BSP's profit after tax has grown from K99.2m in 2005 to K257.1m in 2009.

The compounded annual growth rate has been 27% from 2005 to 2009.

**BSP CNB effect on the profit for the year is minor as profit & loss is consolidated starting December 2009*



Profit & loss trends

While BSP's profit has grown in dollar terms its profitability has also improved as total income has grown at a Compounded Annual Growth Rate (CAGR) of 24% and operating expenses have only grown at a CAGR of 19% from 2005 to 2009.

Total income has more than doubled from K306m in 2005 to K725.7m in 2009.

Earnings Per Share and Dividends per share have grown steadily over the period.

PROFIT & LOSS TREND ANALYSIS

(Millions of Kina)	2005	2006	2007	2008	2009	CAGR
Income						
Net interest income	161.8	209.6	276.9	377.1	474.0	31%
Foreign exchange income	87.3	64.6	116.2	127.1	104.3	5%
Fee and other income	56.9	70.0	86.3	116.8	147.4	27%
Total income	**306.0**	**344.1**	**479.4**	**620.9**	**725.7**	**24%**
Expenses						
Operating expenses	(167.3)	(178.6)	(188.9)	(229.6)	(335.1)	19%
Bad and doubtful debts	4.0	1.3	4.3	(11.4)	(15.0)	NM
Other expenses	(0.5)	(2.4)	(11.3)	(51.2)	2.6	NM
Profit before tax	**142.2**	**164.5**	**283.6**	**328.8**	**378.1**	**28%**
Tax expense	(43.0)	(52.9)	(92.5)	(100.5)	(121.0)	30%
Profit after tax	**99.2**	**111.6**	**191.1**	**228.3**	**257.1**	**27%**
EPS (toea)	2.3	2.5	4.2	5.0	5.6	**25%**
Dividends per share (toea)	1.1	1.4	1.6	2.2	2.2	

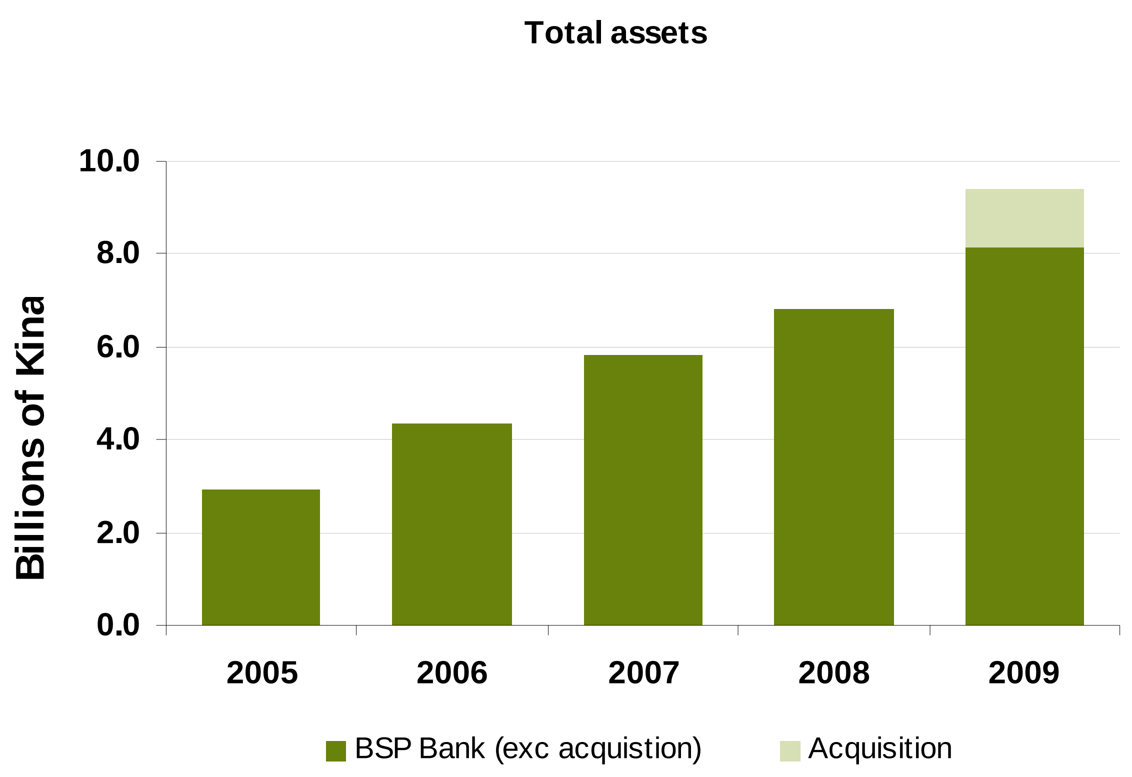
Note: NM – not meaningful

Total assets

BSP's total assets have grown from K2.9 billion in 2005 to K8.1bn in December 2009.

The compounded annual growth rate has been 29% from 2005 to 2009.

On a group basis, the major addition to date has been with the acquisition of the Colonial Group in Fiji, adding K1.3bn of assets on consolidation. This represents a compounded annual growth rate of 34% from 2005 to 2009.

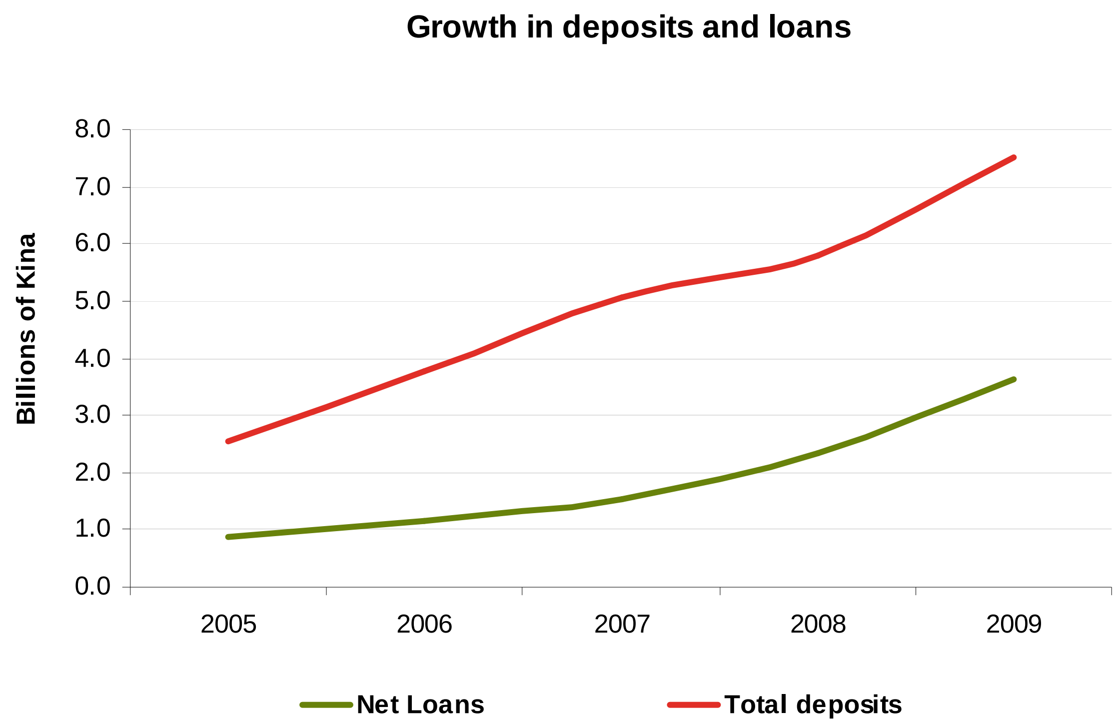


Deposits and loans

Total loans and deposits have grown strongly from 2005 to 2009.

Total loans have grown from K874m in 2005 to K3.6bn in 2009 while total deposits have grown from K2.54bn to K7.5bn during the same period.

From 2005 to 2009, loans have grown relatively faster at a compounded annual growth rate of 43% compared to a compounded annual growth rate of 31% for deposits.



Balance sheet trends

BSP's total assets show compounded annual growth of approximately 34% from 2005 to 2009.

The growth has been driven by an increase in customer deposits growing by 31% annually from K2.5bn in 2005 to K7.5bn in 2009.

Investments comprising treasury bills, central bank bills and government bonds have grown from K0.7bn in 2005 to K3.8bn in 2009. The compounded annual growth rate of investments has been 56% from 2005 to 2009.

BALANCE SHEET TRENDS

(Millions of Kina)	2005	2006	2007	2008	2009	CAGR
Assets						
Cash and short term deposits	211.3	268.5	440.8	434.6	996.4	47%
Loans and advances	873.5	1163.3	1550.3	2343.8	3638.6	43%
Investment	652.9	1235.4	1564.1	3363.1	3838.3	56%
Fixed assets / Others	1214.6	1666.5	2264.4	666.3	924.6	-7%
Total assets	**2952.5**	**4333.7**	**5819.5**	**6807.9**	**9397.8**	**34%**
Liabilities						
Customer deposits	2542.9	3773.8	5055.9	5782.0	7493.8	31%
Provisions	37.1	74.8	91.5	147.5	165.0	45%
Other liabilities	64.1	88.8	100.5	134.1	805.0	88%
Total liabilities	**2644.2**	**3937.4**	**5247.8**	**6063.6**	**8463.7**	**34%**
Shareholders equity	**308.3**	**396.3**	**571.7**	**744.3**	**934.1**	**32%**

BSP your bank

Liquidity and Capital management

Johnson Kalo
Deputy CEO, Chief Financial Officer

Capital management

In late 2008, BSP planned to reach *K1 billion in capital in 2010*.

K75.5m in tier 2 capital raised in 2009 (FJ$10m) targeted in April 2010)

K1 billion of prudential capital almost achieved at the end of 2009, prior to dividend payment, but the target is shifting higher

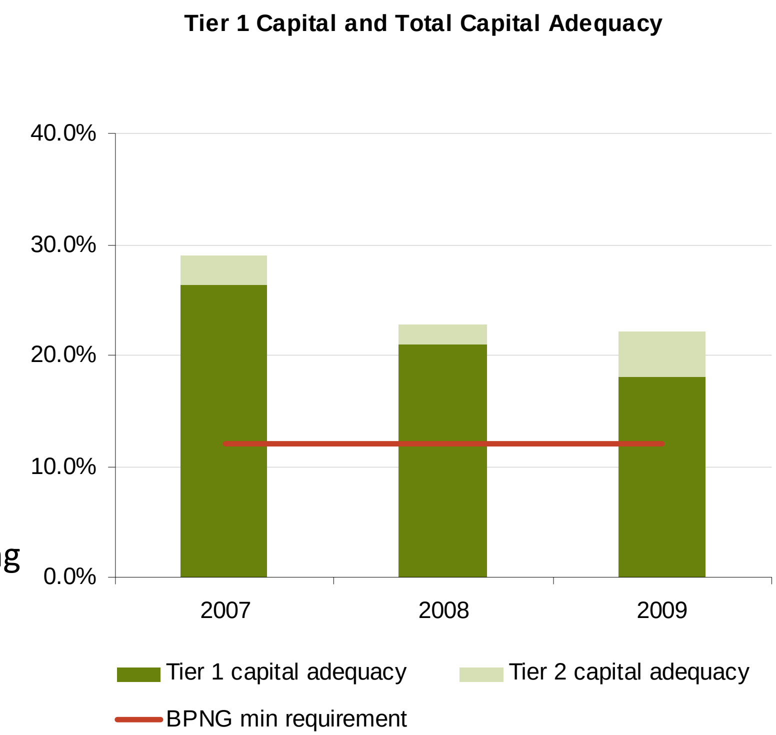
BECAUSE…

PNG domestic asset growth could easily continue at >20% in 2010, with even higher growth expected in medium term (LNG GDP impact).

Dividend policy is a critical part of capital management

Capital Management Agenda

- Maintain strong capital position & improve long term liquidity
  - PNG domestic market lending capacity (*LNG impact difficult to quantify*)
  - Medium Term Transformation program expenditure
  - Pacific Expansion
  - Risk of balance sheet loss (NPLs)
  - Operational Risk coverage
- manage cost of capital
  - Tier 2 / Tier 1 capital mix
- Improve Long Term Liquidity
- Dividend Policy driven towards rewarding shareholders over the long term for support shown now:
  - Semi annual dividends
  - Yield improvement
- Other options:
  - Seek new equity alliances or partnerships
  - Follow up initial tier 2 capital raising with a tier 2 program over coming years



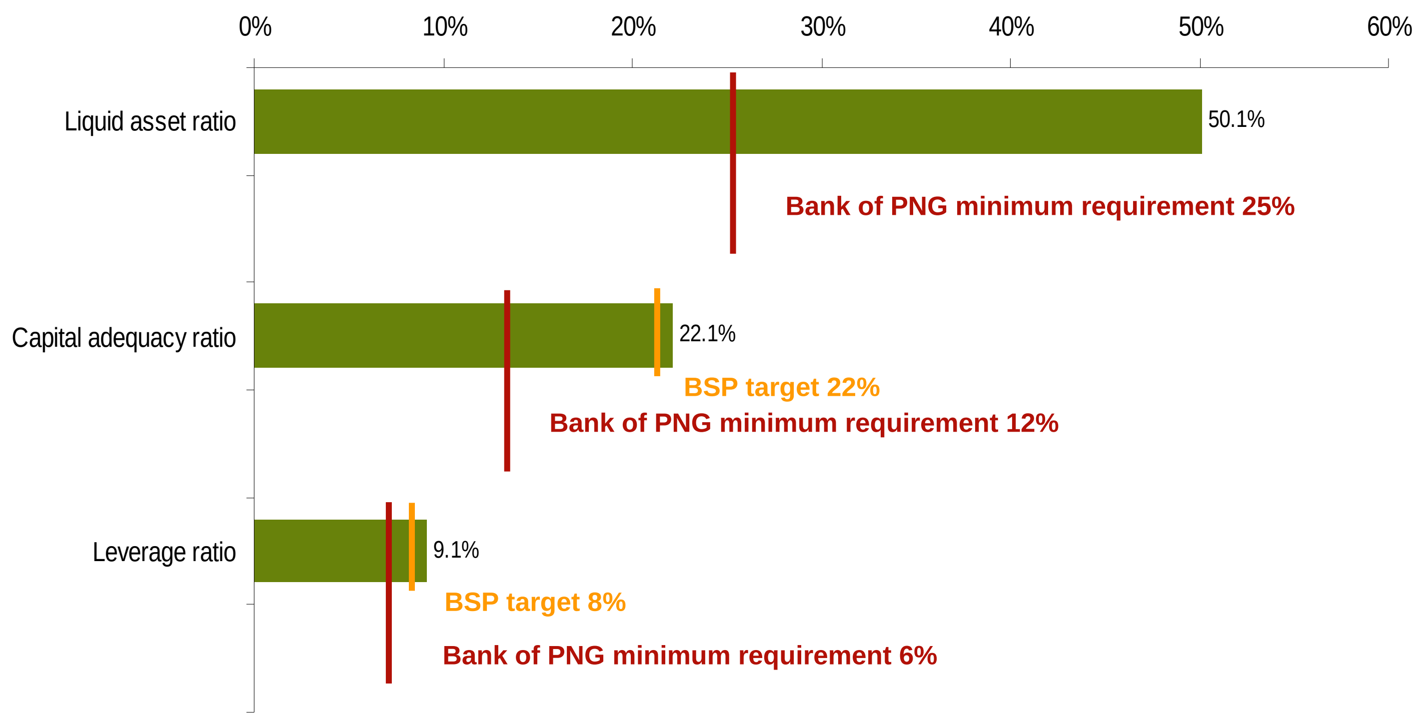
Key prudential ratios

Key prudential ratios

In 2009, BSP's liquid asset ratio was 50.1%, well above the Bank of PNG minimum requirement of 25%.

Similarly, the capital adequacy and leverage ratios at the end of 2009 were clearly above the Bank of PNG minimum requirements.

The ratios are at internal BSP target levels, according to BSP capital management plan



Credit

quality

Robin Fleming
Deputy CEO, Chief Risk Officer

Credit quality

BSP loan provisions as a percentage of gross loans reduced from 3.3% in 2005 to 2.1% in 2008 reflecting improved credit processes and arrears management.

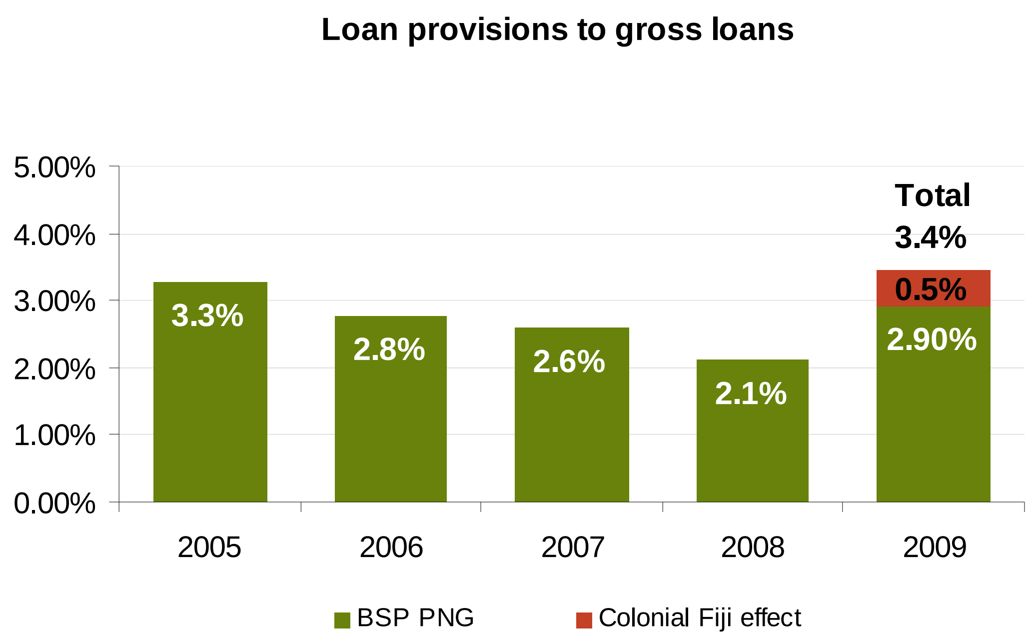
Provisions increased to a total of 3.4% of gross loans in 2009. The reason for this increase is:

•Increasing inherent portfolio risk requiring increases in general provisions

Perceptions of inherent risk

•impact of the global financial crisis on the performance of Retail and Wholesale borrowers in the Pacific.

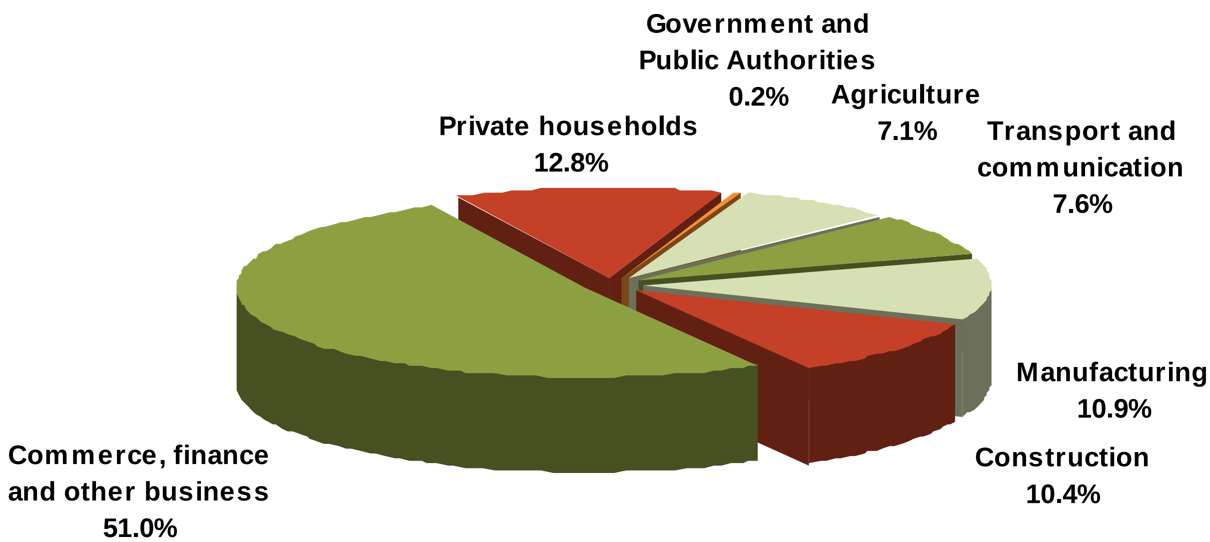
•Acquisition of Colonial Fiji



Economic sector risk concentration

BSP's lending is well diversified across industry sectors.

The largest exposure is to 'commerce finance and other business' which totals 51% of all lending as at 31 December 2009.



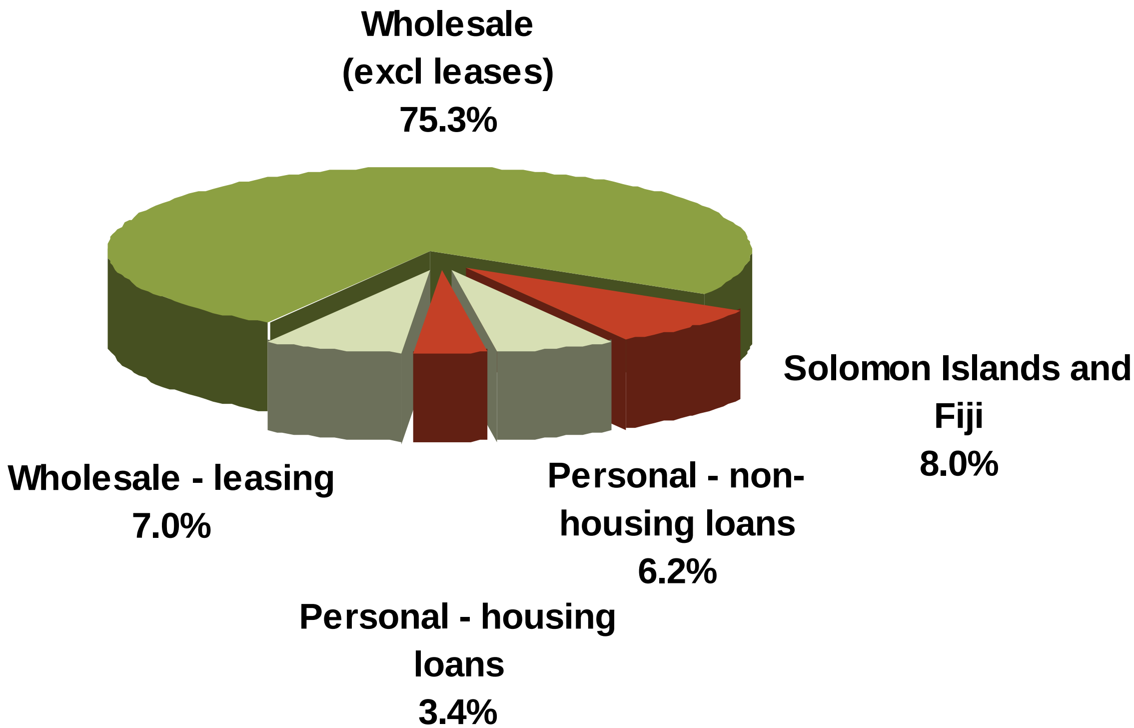
BSP your bank

Lending by type – PNG, SI & Fiji branches

Wholesale lending in PNG accounts for approximately 82% of total lending.

Retail lending in PNG makes up approximately 10% of the portfolio with the remainder comprised of loans in the smaller Fiji branches and the Solomon Islands

**BSP CNB not included in analysis*

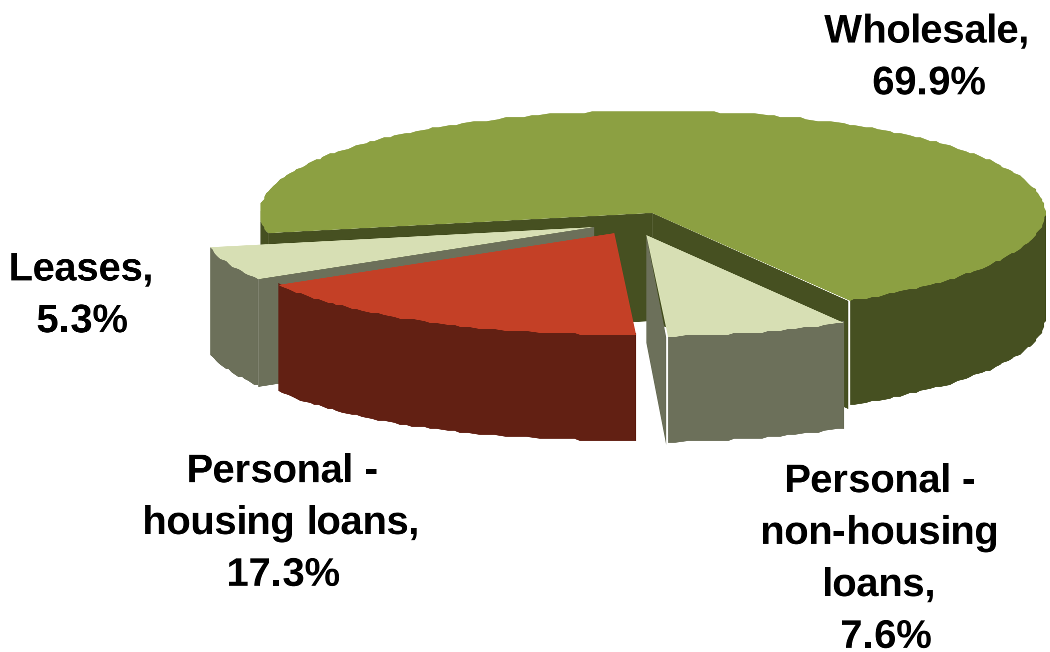


Lending by type – including BSP Colonial subsidiary

On a group basis:

•wholesale lending accounts for 69.9% of total lending.

•Housing loans total 17.3% and other personal loans 7.6% of total lending.



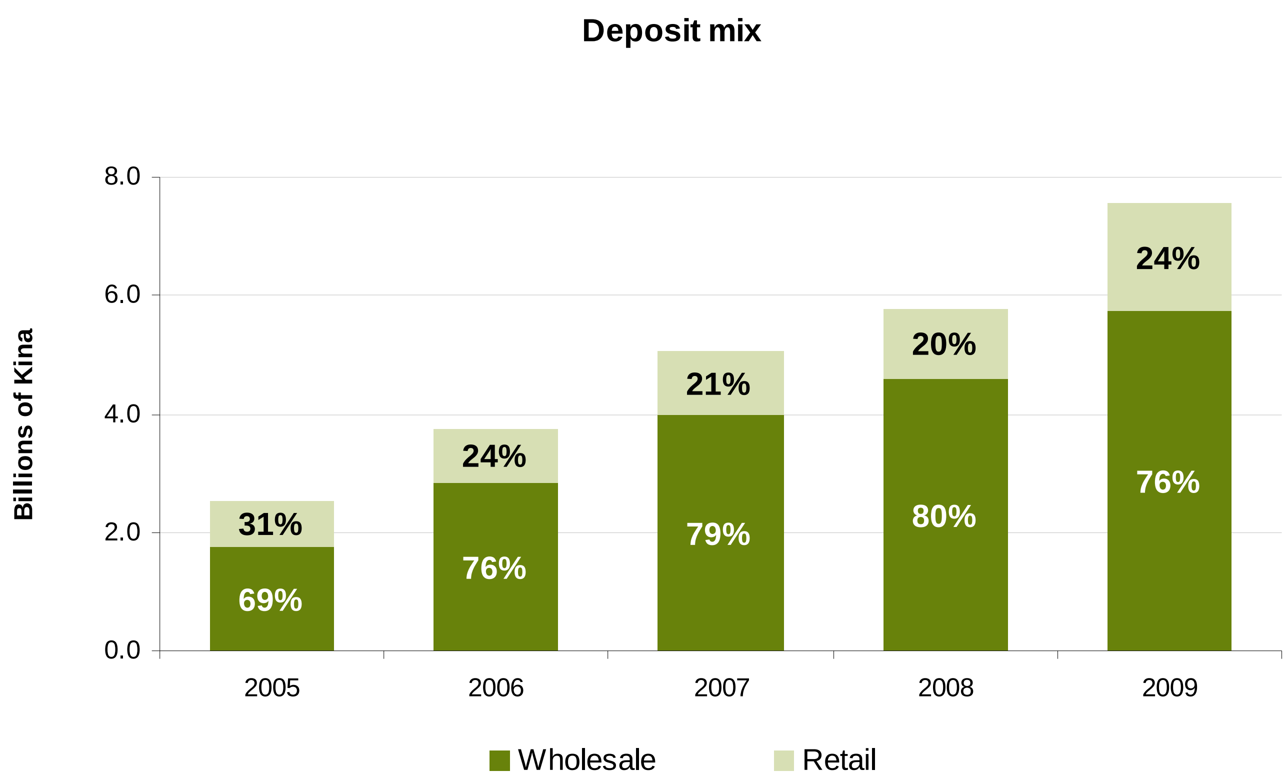
Funding

profile

Johnson Kalo
Deputy CEO, Chief Financial Officer

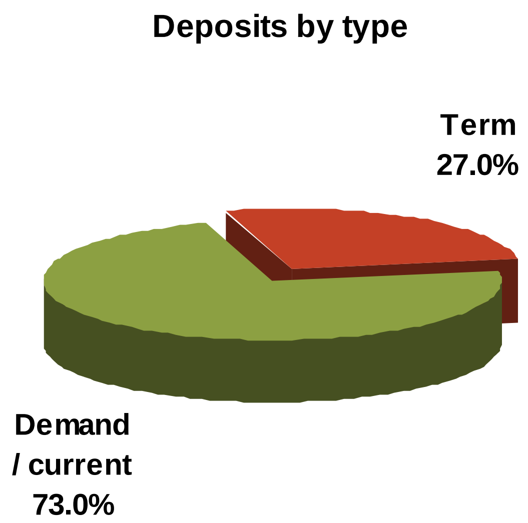
Deposit mix

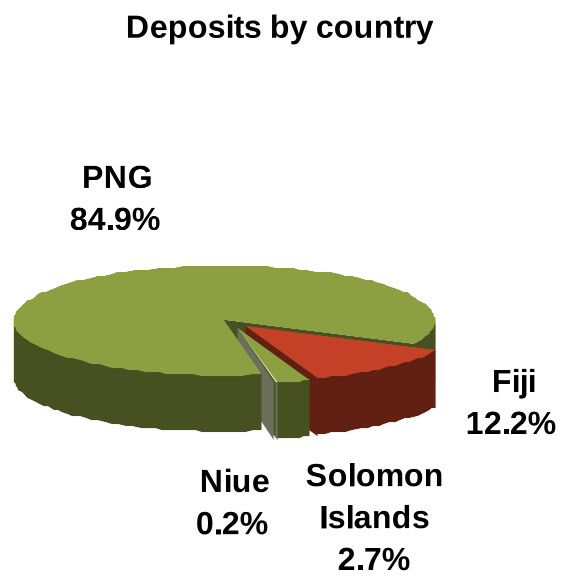
Wholesale deposits accounted for approximately 75% of total deposits as at 31 December 2009.



Deposits by type and country

Deposits at call total approximately 70% of all deposits while wholesale deposits account for approximately 75% of total deposits.





Profitability

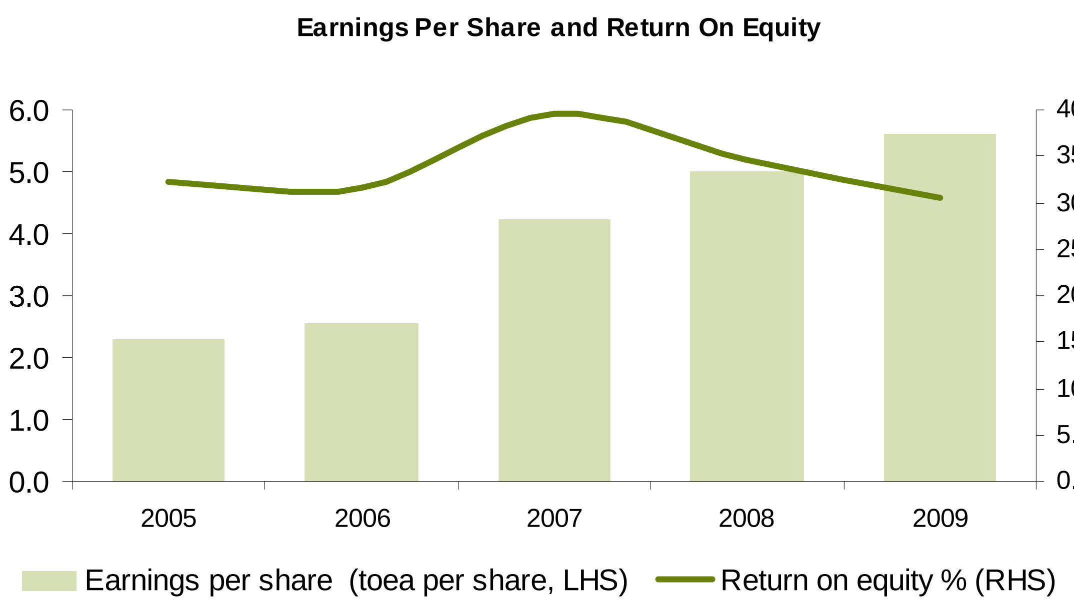
and key ratios

Johnson Kalo
Deputy CEO, Chief Financial Officer

Earnings per share and return on equity

BSP's earnings per share have increased from 2.3 toea per share in 2004 to 5.6 toea per share in 2009.

BSP's Return on Equity (ROE) has remained above 30% from 2005 to 2009.



Note: Earnings per share have been adjusted for 2008 share split 1/10

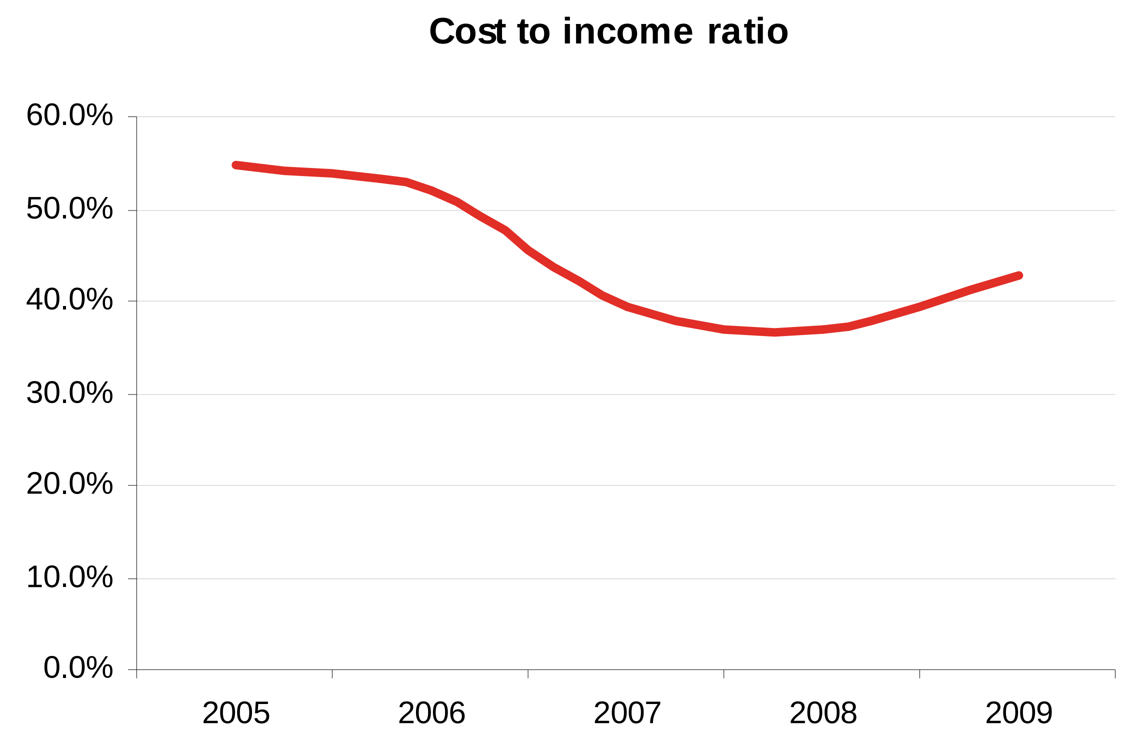
Cost to income ratio

BSP's cost to income ratio declined from 55% in 2005 to 40% in 2007, rising to 43% (Group) in 2009.

The reduction in the ratio has been driven by strong growth in income and discipline on operational costs.

The global economic downturn impacted revenues in the last 2 years.

The transformation strategy has identified some required investment in operations which will see the ratio trend towards a more normal range of 45% – 50%

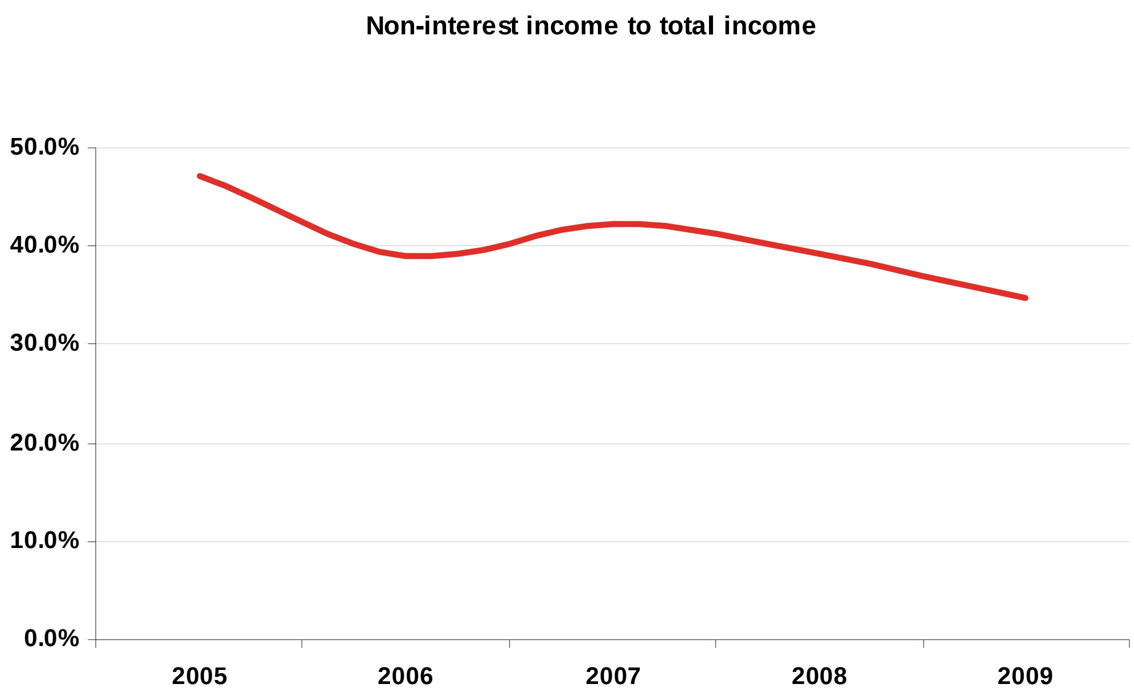


Non-interest income

BSP's non-interest income to total income ratio has declined as lending volumes and interest income has increased.

2009 Non interest income also suffered from the impact of the global downturn through a K23m decline in foreign exchange earnings from the prior year.

In 2009 non-interest income totalled 35% of total income.

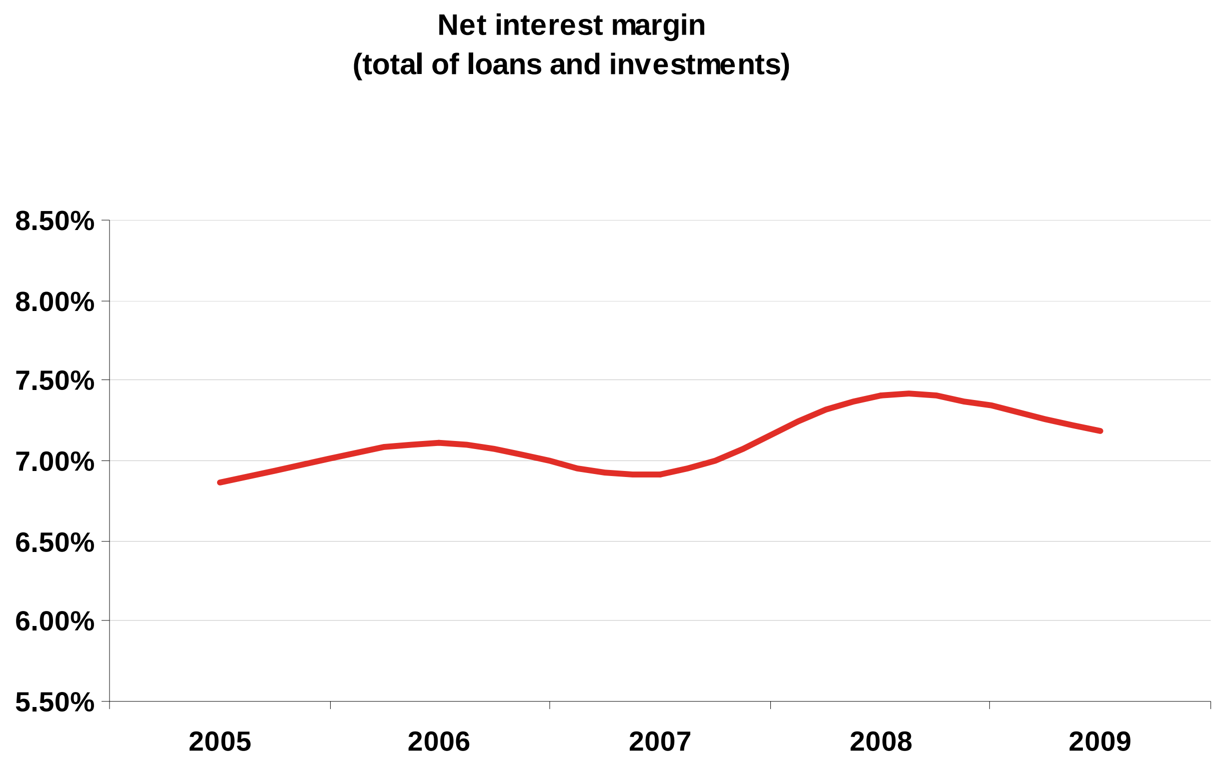


BSP
your bank

Net interest margin

BSP's net interest margin (including loans and investments) has increased from 6.87% in 2005 to 7.19% in 2009.

The return on loans and investments has increased more than the gross cost of funds.



Key Ratios

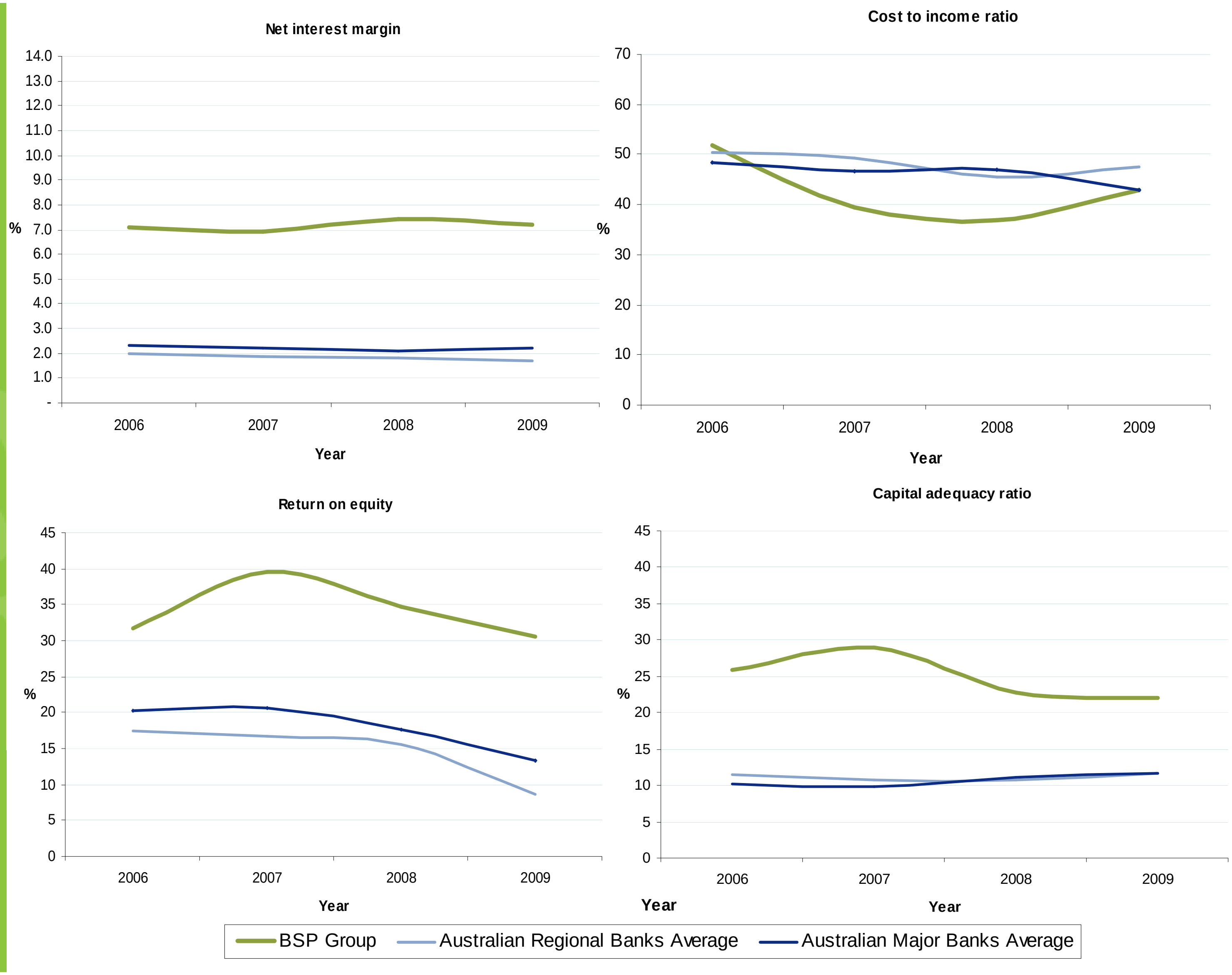
comparisons

Johnson Kalo
Deputy CEO, Chief Financial Officer

Comparisons

BSP's Net Interest Margin, Return on Equity and Capital Adequacy ratios are above Australian regional and major banks.

BSP's Cost to Income ratio, however, is in the same range as Australian banks.



IFC transaction

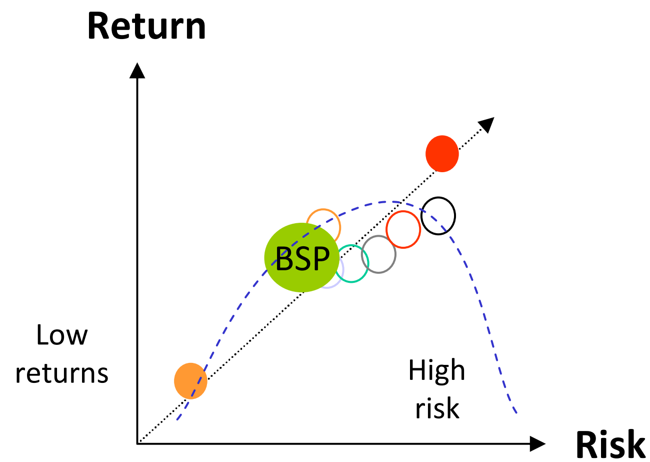
& Scenario analysis

Robin Fleming
Deputy CEO, Chief Risk Officer

Addressing capital requirements

- BPNG Prudential requirements
- BSP targets
- International standards

- BPNG Prudential requirements for well capitalised: **14%** capital adequacy
- BSP capital management targets:
  - BPNG prudential + allowance for operational risk, asset growth, and global risk management standards
- At 22% capital adequacy, an independent Pacific bank assumes limited stress test or scenario variation.



	Nominal target	Stress test
BPNG prudential	14%	14%
Allow % balance sheet change – loss or growth	5%	10%
Additional allowance for international risk standards	2%	4%
Capital Adequacy	21%	28%

Why does BSP need capital?

- A prudent approach; be safe rather than sorry
  - recent bank failures & shrinkage in capitalisation because of crisis in the financial market
  - banks prided themselves on running at "efficient" capital levels of 8-12% of risk weighted assets, and leveraging on non-core debt
  - Capital support is primarily required to ensure that:
    - an acceptable, quantified portion of losses in asset or balance sheet value can be absorbed before normal business liquidity is impacted, and short term solvency is threatened; depositor protection and going concern viability
  - Additional capital is required to support balance sheet growth
    - Increased scale of risk/reward
  - Optimal levels of capital ensure returns can be improved at acceptable levels of risk.
  - Cost of capital management is possible when you feel safe

Why does BSP need capital?

Scenario planning

LNG F.A.Q

- If PNG GDP is going to double, what about BSP's balance sheet?
- What sort of businesses (potential BSP clients) will operate & grow (or fail) because of LNG related activity?
- Social impacts? What will this do to the finance & banking industry in PNG?

CAPITAL REQUIREMENT F.A.Q

- What if there is a large withdrawal of funds?
- What if margins reduce?
- What if there is major growth in lending? How do we cope with additional risks?

BSP your bank

- What sort of business (or risk) can BSP expect because of LNG?
  - What sort of businesses (potential BSP clients) will operate & grow (or fail) because of LNG related activity?
    - Domestic growth (& risks)?
    - International entrants with international risk tolerance (& cross border risks)?
  - Social impacts? What will this do to the finance & banking industry in PNG?
    - bank customer expectations & behaviour?
    - Transactional activity & risks?
    - Risks to infrastructure? Security?
- How reliable is the current funding base?
- What are other growth options? How will BSP fund acquisitions under the Pacific Expansion Strategy?
- How will BSP's Pacific Islands businesses perform?
- **All scenarios considered by BSP indicate a need for capital**

Can BSP get the capital if/when it needs it?

- All scenarios considered by BSP indicate a need for capital
- The need is short or long term, depending on the scenario

- **Not easily…**
  - The PNG capital market is still developing.
  - BSP is likely to need more capital than the local market can supply:
    - Tier 2 capital raising in 2009 demonstrated that our existing sources of capital are close to exhausted.
    - Opportunities & access to capital from outside traditional sources need to be seriously considered.
- The IFC is a source of capital which is being offered at a time when BSP is seeking it.

"Murphy's Law".

Better to have access to potential capital & not ever need it, than not have access & suddenly urgently need it!

BSP your bank

How else BSP and its stakeholders benefit from an association with IFC?

- Access potentially to sizeable amounts of capital.
- Taking opportunity of IFC's own change in global investment and operational strategy:
  - Technical expertise
    - Market & product trends & development.
    - Risk management.
    - Banking technology applications.
    - Training.
  - International / regional credibility:
    - International customers.
    - Ratings considerations & countering the sovereign risk argument.
    - IFC has equity investments in over 400 Banks Worldwide.

Shareholder returns

& capital management

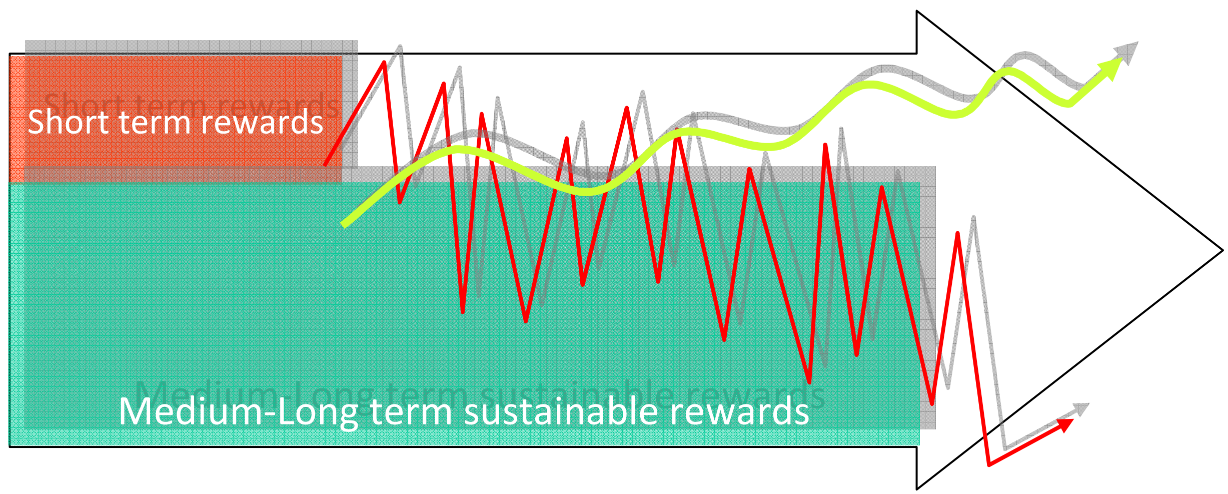
Johnson Kalo
Deputy CEO, Chief Financial Officer

Dividend Policy

- Capital management decisions are driven by the critical need to sustain BSP as a viable, profitable business for the long term benefit of shareholders
- The IFC transaction is a capital one; it is aimed at fundamentally strengthening the financial capacity of BSP for future growth

BSP your bank

- Capital maintenance and dividends are distinct and critical parts of the same question of shareholder value:
  - A reasonable return is an expectation that should be met
  - That returns should be sustainable is also an expectation that needs to be met
  - returns should be competitive and preferably stable



Dividend 2010

•A decision can still be made to reward existing shareholders with a beneficial return based on known performance

The directors declare:

- a total dividend of **4.0 toea** per share
- Comprising:
  - normal dividend of **2.2 toea**
  - special dividend of **1.8 toea**
- this represents a total yield of **5.9%** on the share at the current share price
- The directors also amend the dividend policy to adopt the payment of semi-annual dividends

BSP
your bank

Regularly Re-assess the need for capital

Regularly Re-assess the need for capital

- The natural follow on from the dividend decision is to continually assess capital needs

- Ensure earnings stability;
- Seek asset and earnings growth opportunities, at acceptable risk
- Determine the need for capital
- Consider an appropriate dividend policy
- If there is capital that is surplus to needs, return it to shareholders

BSP
your bank

Conclusions

Ian B. Clyne,
Chief Executive Officer

Conclusion

- 2009 was in "Management's" view a very good financial performance from a year with considerable "uncertainties".
- There were many "positives" in 2009
  - Continued YOY Growth & Enhanced Profitability.
  - Better Management Processes & Strategic Planning.
  - Effectiveness of Re branding.
  - Fiji Acquisition.
  - Community & Social Initiatives.
- There were some "negatives"
  - Internal Fraud levels.
  - Operational inefficiency/manual processes.
- The BOD and Management are "fully" committed to the "Transformation Program", there is a unanimous view that the changes are "needed", and will enhance both "profitability & shareholder value" in the future.
- BSP is being 100% modernized .
- To "upgrade" a bank such as BSP is a 3+ year process.

2010 & Beyond

- Transformation Programs are aimed at delivering
  - Better Product Offers.
  - Better Customer Service levels.
  - More access options ATMs/Eftpos/SMS/Internet Banking.
  - New Delivery Channels: BSP first/BSP priority/BSP rural.
  - New Branches (Porgera/Vision City/Harbour City).
  - Automation of many major operational process.
  - Reduced Operational Risks (especially internal Fraud).
  - Reduced Operational Costs.
  - Improved Management Information Systems.
- Leading to
  - potentially better Profitability.
  - potentially greater shareholder value.

"We simply have no choice, we must change, we must improve & we must deliver"

BSP your bank

BSP's Transformation Program

The portfolio of programs and projects required to fundamentally shift BSP's people, process and technology to the desired state

2. CREDIT & RISK PROGRAM

Credit & Risk
- ORM framework rollout
- Economic capital model
- Portfolio management
- Anti money laundering
- Business continuity
- Change to wholesale process

3. FINANCE PROGRAM

Finance
- Customer profitability
- SUN GL V5 implementation
- Activity based model
- INFOR PM budget and forecasting
- Financial dashboards

4. IT & OPERATIONS PROGRAM

Operations
- Guava upgrade
- Payment systems implementation
- ATM monitoring and in-sourcing
- National electronic clearing house
- Postillion upgrade
- BizEdocs implementation

Information Technology (IT)
- Platform resilience
- IT governance (Strg Cttee, ITIL, CoBIT)
- SharePoint Capability
- Security controls
- Active directory implementation

CORE

1. CORE BANK TRANSFORMATION PROGRAM

Process review (PwC)
- Retail bank processes
- Retail lending lifecycle

ICBS transformation
- CIF data cleansing
- Aperio restart
- GL reimplementation
- TA & quick wins
- ICBS security
- Aldon reimplementation
- Products and services
- Testing tools
- Proof system trans server

CEO / strategic initiatives
- Product review
- Segmentation

5. RETAIL PROGRAM

Retail bank
- Internet banking
- BSP Priority banking
- BSP rural
- Branch design (process and facilities)
- ATM deployment
- Change to wholesale process
- Electronic channels
- Community projects
- PhotoCard system

6. HR PROGRAM

Human Resources (HR)
- Training
- Performance, talent and reward
- Recruitment
- HR system replacement

7. WHOLESALE PROGRAM

Commercial & International (C&I)
- Product review
- PNG LNG
- Paramount Bank
- Corporate credit card

BSP Capital
- RIMS/OMS share trading system
- Investor funds management

Critical path project

BSP your bank

Thank You