2010 Results Presentation to shareholders

BSP Annual General Meeting, May 2011
Presentation overview

- Recent performance to 2010  
  Ian Clyne, CEO
- Vision & strategy
- 2010 performance & operations
- Economic outlook  
  Robin Fleming, Deputy CEO
- Market share
- Credit quality
- Funding
- 2010 full year results  
  Johnson Kalo, Deputy CEO
- Capital management & liquidity
- Profitability & key ratios  
  Johnson Kalo, Deputy CEO
- Comparison of key Rations
- Dividends & shares
- Conclusions  
  Ian Clyne, CEO
Overview of BSP

High Level statistics

- Established, Port Moresby, 1957
- 38 branches in Papua New Guinea, 20 in Fiji, 8 in Solomon Islands, 1 in Niue
- Market share,
  
<table>
<thead>
<tr>
<th></th>
<th>Loans</th>
<th>Deposits</th>
<th>Total Assets</th>
<th>Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>&gt;50%</td>
<td>&gt;50%</td>
<td>&gt;K9,000 mil</td>
<td>K280 mil</td>
</tr>
<tr>
<td>PNG + Fiji i+ SI</td>
<td>~38%</td>
<td>~44%</td>
<td>&gt;K10,000 mil</td>
<td>K288 mil</td>
</tr>
</tbody>
</table>

- Shares publicly listed in PNG since August 2003. > 85% of shareholders are Papua New Guinean. Market Cap at end of 2010 K3.782 billion
- S&P credit rating is B+ stable
  - Strong market position
  - Good capitalisation and profitability
  - Adequate asset quality

"the bank’s size and brand recognition will continue to support our growth strategy"
Recent Performance to 2010
Recent Performance

Profit before tax

Millions of Kina

2005 2006 2007 2008 2009 2010

142.23 164.52 283.57 328.80 378.14 410.80
Recent Performance

Total assets

Billions of Kina

2005 2006 2007 2008 2009 2010

The Leading Bank in the South Pacific
Strategy Map

1. Customer sales and service focused
2. Operational excellence
3. High performing team
4. Profitable growth

To be the leading bank in the South Pacific

The Leading Bank in the South Pacific
1. Customer sales and service focused

To shift BSP from an “operational” focused organisation to a “sales” focused organisation (customer / market focused)

- Profitable growth
- Operational excellence
- High performing team

The Leading Bank in the South Pacific
### 2010 EXISTING INITIATIVES

<table>
<thead>
<tr>
<th>SBU</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>WB</td>
<td>Product review</td>
</tr>
<tr>
<td>WB/RB</td>
<td>PNG LNG</td>
</tr>
<tr>
<td>WB</td>
<td>MasterCard (Paramount)</td>
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<tr>
<td>RB/WB</td>
<td>Internet banking</td>
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<tr>
<td>RB</td>
<td>BSP First</td>
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<tr>
<td>RB</td>
<td>BSP Rural agency network</td>
</tr>
<tr>
<td>RB</td>
<td>Branch redesign (Phase 1: planning)</td>
</tr>
<tr>
<td>RB</td>
<td>ATM deployments</td>
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<tr>
<td>RB</td>
<td>SME end-to-end tool (origination and collection)</td>
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<tr>
<td>RB</td>
<td>e-channels: Moto on EFTPOS</td>
</tr>
<tr>
<td>RB</td>
<td>Call centre solution</td>
</tr>
<tr>
<td>RB</td>
<td>e-channels: SMS upgrade mobile top-up enhancements</td>
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<tr>
<td>RB</td>
<td>e-channels: Telikom CDMA on SMS banking</td>
</tr>
</tbody>
</table>

### 2011 NEW INITIATIVES

<table>
<thead>
<tr>
<th>SBU</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>WB</td>
<td>Branch service delivery model</td>
</tr>
<tr>
<td>WB</td>
<td>Customer Relationship Management system</td>
</tr>
<tr>
<td>RB</td>
<td>Product development</td>
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<tr>
<td>RB</td>
<td>Mobile money</td>
</tr>
<tr>
<td>RB/WB</td>
<td>Documenting Retail bank channel strategies</td>
</tr>
<tr>
<td>RB</td>
<td>SME migration</td>
</tr>
<tr>
<td>RB</td>
<td>e-channels: Bank-in-a-Box</td>
</tr>
<tr>
<td>RB</td>
<td>Open new branches</td>
</tr>
<tr>
<td>RB</td>
<td>New deposit products</td>
</tr>
<tr>
<td>RB</td>
<td>Visa multicurrency travelcard</td>
</tr>
<tr>
<td>RB</td>
<td>BSP First product package</td>
</tr>
<tr>
<td>BCAP</td>
<td>Landowner engagement</td>
</tr>
<tr>
<td>BCAP</td>
<td>Develop financial instruments/products for market needs</td>
</tr>
<tr>
<td>BCAP</td>
<td>Branding + marketing</td>
</tr>
</tbody>
</table>

To shift BSP from an “operationally” focused organization to a “sales” focused organization (customer / market focused)
Strategy and plans

To move BSP from 25 year old processes to modern best practice automated processes...increase operational efficiency

1. Profitable growth
2. Operational excellence
3. High performing team
4. Customer sales and service focused

The Leading Bank in the South Pacific
To be the leading bank in PNG and the South Pacific

**Operational excellence**

**2010 EXISTING INITIATIVES**

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<thead>
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<tbody>
<tr>
<td>WB</td>
<td>Treasury system</td>
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<tr>
<td>RB</td>
<td>PhotoCard system</td>
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<tr>
<td>RB</td>
<td>Biometrics</td>
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<tr>
<td>RB</td>
<td>SME end-to-end tool (origination and collection)</td>
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<tr>
<td>OPS</td>
<td>BizeDocs (including new phases, eStatements)</td>
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<tr>
<td>OPS</td>
<td>ATM monitoring tool (Proview)</td>
</tr>
<tr>
<td>OPS</td>
<td>National Clearing House</td>
</tr>
<tr>
<td>OPS</td>
<td>ATM maintenance in-sourcing</td>
</tr>
<tr>
<td>OPS</td>
<td>Kundupei system enhancements / replacement</td>
</tr>
<tr>
<td>OPS</td>
<td>My BSP - SharePoint intranet rollout</td>
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<tr>
<td>OPS</td>
<td>Operation centralisation building</td>
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<tr>
<td>IT</td>
<td>Collections system</td>
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<tr>
<td>IT</td>
<td>AS/400 upgrade</td>
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<tr>
<td>IT</td>
<td>Network upgrade</td>
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<tr>
<td>IT</td>
<td>New data centres (Prod &amp; DR)</td>
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<tr>
<td>IT</td>
<td>Postillion upgrade</td>
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<tr>
<td>IT</td>
<td>Active directory 2008 implementation</td>
</tr>
<tr>
<td>IT</td>
<td>IT security &amp; controls</td>
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<tr>
<td>IT</td>
<td>IT governance (ITIL) - IT implementation phase 1</td>
</tr>
<tr>
<td>FIN</td>
<td>Financial dashboards</td>
</tr>
<tr>
<td>FIN</td>
<td>INFOR PM budget &amp; forecasting (phase 2)</td>
</tr>
<tr>
<td>FIN</td>
<td>Procurement review implementation</td>
</tr>
<tr>
<td>FIN</td>
<td>SUN GL v5 implementation</td>
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<tr>
<td>FIN</td>
<td>Reconciliation solution</td>
</tr>
<tr>
<td>HR</td>
<td>HR system replacement</td>
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<tr>
<td>C&amp;R</td>
<td>Wholesale Process Modernisation</td>
</tr>
<tr>
<td>BCAP</td>
<td>OMS (Share Trading)</td>
</tr>
<tr>
<td>BCAP</td>
<td>RIMS (Middle office)</td>
</tr>
<tr>
<td>BCAP</td>
<td>Investier (Funds Management)</td>
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</tbody>
</table>

**2011 NEW INITIATIVES**

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<tr>
<th>SBU</th>
<th>Description</th>
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<tbody>
<tr>
<td>WB</td>
<td>RM support</td>
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<tr>
<td>RB</td>
<td>Processes in branches</td>
</tr>
<tr>
<td>IT</td>
<td>Branch risk mitigation</td>
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<tr>
<td>IT</td>
<td>IT management facility (NOC)</td>
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<td>IT</td>
<td>Project Resourcing</td>
</tr>
<tr>
<td>FIN</td>
<td>Investor relations strategy</td>
</tr>
<tr>
<td>FIN</td>
<td>Standardised financial performance reporting</td>
</tr>
<tr>
<td>C&amp;R</td>
<td>Improved matters tracking record</td>
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<tr>
<td>C&amp;R</td>
<td>Collateral sub-system implementation</td>
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<tr>
<td>C&amp;R</td>
<td>Business Continuity Planning - PNG</td>
</tr>
<tr>
<td>C&amp;R</td>
<td>Branch audit program review</td>
</tr>
<tr>
<td>C&amp;R</td>
<td>IT audit program review</td>
</tr>
<tr>
<td>C&amp;R</td>
<td>Admin audit program review</td>
</tr>
<tr>
<td>C&amp;R</td>
<td>Establish compliance office</td>
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<tr>
<td>C&amp;R</td>
<td>Personal loan charge-off</td>
</tr>
<tr>
<td>BCAP</td>
<td>POMSOX restructuring</td>
</tr>
</tbody>
</table>

To move BSP from 25 year old processes to modern best practice automated processes ...increase operational efficiency
Strategy and plans

To address BSP’s under-investment in its people and the current manpower and skills gap

The Leading Bank in the South Pacific
# High performing teams

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<table>
<thead>
<tr>
<th>SB</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR</td>
<td>Deliver account opening training</td>
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<tr>
<td>HR</td>
<td>Deliver product knowledge training</td>
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<tr>
<td>HR</td>
<td>eTraining project</td>
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<tr>
<td>HR</td>
<td>Performance management</td>
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<tr>
<td>HR</td>
<td>Rewards management</td>
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<tr>
<td>HR</td>
<td>Recruitment – BSP First</td>
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<tr>
<td>HR</td>
<td>Recruitment – New branches</td>
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<tr>
<td>HR</td>
<td>Recruitment – BSP Rural</td>
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</tbody>
</table>

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<tr>
<th>SBU</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>Processes and procedures, training</td>
</tr>
<tr>
<td>HR</td>
<td>Annual assessment of product and process knowledge</td>
</tr>
<tr>
<td>HR</td>
<td>Change management training (including sales culture)</td>
</tr>
<tr>
<td>HR</td>
<td>BSP specialist training program (BSP Academy)</td>
</tr>
<tr>
<td>HR</td>
<td>Specialist IT training and assessment</td>
</tr>
<tr>
<td>HR</td>
<td>Secondments to overseas banks</td>
</tr>
<tr>
<td>HR</td>
<td>Intercompany secondments</td>
</tr>
<tr>
<td>HR</td>
<td>Succession planning</td>
</tr>
<tr>
<td>HR</td>
<td>Employee satisfaction survey</td>
</tr>
<tr>
<td>HR</td>
<td>University program</td>
</tr>
<tr>
<td>HR</td>
<td>Develop talent pool</td>
</tr>
<tr>
<td>HR</td>
<td>Internal communication</td>
</tr>
<tr>
<td>BCAP</td>
<td>NSL Investment Manager</td>
</tr>
</tbody>
</table>

To address **BSP’s under-investment in its people and the current manpower and skills gap**

To be the leading bank in PNG and the South Pacific

Operational excellence

High performing team

Customer service and service focused

Profitable growth

The Leading Bank in the South Pacific
Strategy and plans

To maximise the value of BSP’s customer relationships to fuel profitable growth

Customer sales and service focused

Operational excellence

High performing team

Profitable growth
## Profitable growth

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<tbody>
<tr>
<td>FIN</td>
<td>Customer profitability model – Corporate</td>
</tr>
<tr>
<td>FIN</td>
<td>Customer profitability model – Paramount</td>
</tr>
<tr>
<td>FIN</td>
<td>Activity Based Model (product and branch profitability)</td>
</tr>
<tr>
<td>C&amp;R</td>
<td>Economic Capital Model</td>
</tr>
<tr>
<td>C&amp;R</td>
<td>Portfolio management</td>
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</tbody>
</table>

### To maximise the value of BSP’s customer relationships to fuel profitable growth

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<tr>
<td>FIN</td>
<td>Cost allocation review</td>
</tr>
<tr>
<td>FIN</td>
<td>Capital allocation - transfer pricing</td>
</tr>
<tr>
<td>C&amp;R</td>
<td>Moody’s upgrade</td>
</tr>
<tr>
<td>C&amp;R</td>
<td>Replacement credit scoring engine for Retail bank</td>
</tr>
</tbody>
</table>

To be the leading bank in PNG and the South Pacific

Operational excellence

High performing team

Customer sales and service focused

Profitable growth

The Leading Bank in the South Pacific
The number of strategic initiatives has more than doubled.

- 122 strategic initiatives: “Business as Usual” (BAU) tasks and projects.
- 64 are new.
- Progress slower than forecast: 47% of projects in pre-project phase due to size & complexity of some projects.

The Leading Bank in the South Pacific
Transformation Project

• The “Transformation Process” is already happening, and BSP’s “Vision” remains the same.

“There is simply no turning back”

• An enormous amount of work has been carried out by each BSP business unit in 2010, but even more needs to be delivered in 2011, in terms of timely execution & delivery of projects, commitment & accountability.

• All Commercial Businesses need to have “FAR MORE URGENCY” in focusing on New Business Generation in 2011.
BSP’s Retail Business Strategy is now “Electronic TRANSACTION Focused”.
Retail banking strategy: customer segmentation

Segmentation - Retail

Branding

BSP First

Invitation only

BSP First Potential

Upscale

Youth & Students

‘Smart’ Banking/Light Mass

High Value Segment

Inflow account >K 30,000
Total assets >K 500,000

Core Customer Segment

Inflow account >K 10,000
Total assets >K 20,000

Cost Control Segment

BSP Priority

BSP Kundu

BSP Rural

BSP Priority

BSP Kundu

BSP Rural

Youth & Students

Upscale

BSP First Potential

Invitation only

‘Smart’ Banking/Light Mass

BSP First
Retail strategy: Mass market / BSP Rural

- BSP’s Retail has a “transaction focused” business model
- Kundu Card is the “Key” banking access method.

<table>
<thead>
<tr>
<th>RETAIL CUSTOMER</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>600,000</td>
<td>800,000+</td>
<td>1,000,000+</td>
</tr>
<tr>
<td>FIJI</td>
<td>150,000</td>
<td>200,000+</td>
<td>250,000+</td>
</tr>
<tr>
<td>S.I</td>
<td>50,000</td>
<td>75,000+</td>
<td></td>
</tr>
</tbody>
</table>

“1.5 million Retail Customers by Year end 2012”
Retail strategy: Client access/electronic banking

7 Days a Week, with many service points, it is cheaper for our customers & it is cheaper for BSP.
BSP will continue to expand our Electronic Banking Service in 2011-2013

<table>
<thead>
<tr>
<th></th>
<th>ATM’s</th>
<th>EFTPOS</th>
<th>BSP RURAL</th>
<th>CASH AGENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG</td>
<td>250</td>
<td>6,000+</td>
<td>50</td>
<td>300</td>
</tr>
<tr>
<td>FIJI</td>
<td>120</td>
<td>1200+</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>S.I</td>
<td>12</td>
<td>100+</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Retail & Branch strategy: Service improvement initiatives

- Separated Retail Banking & Branch Network into separate Business Units.
- Retail is Sales & Product Development Focused, GM Retail Frans Kootte.
- Branch Network is at present a manual service delivery channel (operational).
- PWC lead Branch Process Redesign e.g. “Fast Path”.
- Kundu Card Issuance Process.
- Corporate Account Opening.
- “Change Management” Training.
- Renewed Branch Computer Programs.
- Branch Re-cabling & server Management Program.
- Built New Container Branch concept.
- Motukea, Tari, Arawa, Harbour City, Lae Commercial Center.
- Developing NEW Branch Premium Service Model Initiative.
- Corporate / Paramount / BSP First - Premium Service Areas.
Retail & Branch strategy: Branch service upgrade

Branch Remodeling is a multi year strategy:

Step 1:

- Aggressive Implementation of Kundu Card/Electronic Channels Client Acquisition. “We need to educate retail customers to use “Electronic” Channels. They are more convenient & cheaper”.

Step 2:

- Meaningful Establishment of BSP Rural Network, & Cash Agency Network in Rural Trade Stores, increased roll out of ATM’s, Eftpos, SMS Banking.

“Move more clients from our Branches to our electronic channels”
Branch Remodeling is a multi year strategy:

Step 3:
- Simplify & Automate all major Branch Processes.

Step 4:
- Remodeling of our Branches to meet:
  - “Actual” business potential of Towns in which we operate.
  - Greater focus on branches servicing our Profitable Corporate, Paramount, SME, BSP First, Retail & SME Lending, New Customer acquisition “Premium Service Centers”.
Retail strategy: client acquisition focus

- Significant Increase in Retail competition from Telco’s (E Wallet launch).
- Significant increase in Retail competition from Savings & Loan Societies, Microfinance Banks, NDB, SuperFunds & others.
- Retail Banking is not profitable based on our existing Branch Mass Market Manual Service Model. We need to move our Mass Market Retail Customers out of our Branches & into our Electronic Channels (ATM’s, EFTPOS, SMS Banking).
- BSP is making significant investment in Electronic Channels which have already helped reduce crowding in Branches. We need to increase this investment & roll out.
- BSP earns approx K70 gross per annum 90% of Mass Market customers. Mobile operators earn nearly the same amount per month, from exactly the same customer on Mobile Phone usage.
- Every 100,000 new customers = K7 Million increased gross revenue pa.
- With new ATM, EFTPOS, SMS “Payment & Top Up Services” BSP can increase this to K100+ pa (The same applies in Fiji & SI).
“Our Retail Service Modernization Strategy is a multi year investment in processes, systems, people and premises”.
Business strategy: Corporate Banking

- Corporate Banking strategy focuses on: non interest income growth, new customer acquisition, improved product & service performance, and increased cross selling.
Corporate banking strategy: customer segmentation

Segmentation - Corporate

Branding

Strategic Clients

Large Corporate

Mid Corporate

Business

Wholesale / Retail

Top 10

Turnover > K150m

Turnover K25 to K150m

Turnover = K2m to K25m

Small Business Turnover < K2m

High Value Segment

Mix of existing and potential

Core Customer Segment

Cost Control Segment
Business strategy: Corporate Banking

- Corporate Banking & Treasury are BSP’s biggest profit earners.
- Corporate Banking, Treasury & Paramount subsidize Retail Banking and make it possible for BSP to maintain & even expand our Retail Banking Network around PNG.
- In BSP Fiji we only have a 10% market share in Corporate Banking, which must be increased to a 30% market share over the next 3-5 years.
- BSP Corporate Banking is only now changing from being Lending Driven to Relationship & Cross Sell, non interest income driven model.
- Enormous New Business potential exists in PNG (LNG, Mining) & Fiji.
- Despite positive results BSP Corporate Banking can still improve its performance.
- BSP needs to modernize all aspects of our Corporate Banking service model, products, processes & people (training) across the Pacific.
- Non Interest Income is below that of our competitors.
- Our Branch Service Model for Corporate Banking clients remains below standard.
Business strategy: Corporate Banking

- Co Location of CB in PNG, Treasury & Risk Management will occur in June 2011 (New Harbor City Offices) anticipated 20% productivity gain.
- New General Manager Mr. Peter Beswick will commence in June.
- Recruited 6 new Relationship Managers (2 RMs have been/are being replaced). Additional RMs to focus on improved service to Corporate Customers i.e increasing our income, & New Business Development.
- KPMG have undertaken Product Review in 2010, and New Product Development is currently underway.
- Cross Selling of FX products jointly with Treasury Sales is improving.
- PNG LNG Team also making very good progress.
- New Client Acquisition needs to be a major focus in 2011.

“Greater focus on Non Interest Income”
Business strategy: Paramount Banking

- As a key liquidity provider, Paramount’s strategic focus is on its service model to compete for government and landowner funds.
Business strategy: Paramount Banking

- Continues to be BSP PNG’s major liquidity provider.
- For that reason Paramount Banking is a Key business unit.
- 2010 deposits increased, 2010 re-investment revenues minus K92 million vs budget (thus the reason BSP needs to focus on Interest & Non Interest income in 2011, because this negative trend continues).
- Relatively small Business Unit but in 2011 needs far greater focus, team is currently being expanded.
- Increasing competition for Government Funds & Land Owner Funds.
- Increasing Legal Issues & Challenges related to Gov & Land Owner Funds.
Operations & IT strategies

• “Always on” Technology platforms & infrastructure

By 10 trillion bits per second from a single strand of fiber.
The lack of Strategic thinking from the previous COO has impacted our overall operational performance in 2010.

New Chief Operations Officer Robert Loggia has commenced in May 2011.

New Head of IT Neil Gamble, is having a positive impact on overall technology performance.

ATM Network availability & service quality is improving, however further improvements still required.

Project Management Office & Transformation Team are key to the success of BSP’s Vision, need to be greater commercial business unit commitment to own & drive projects.

PWC are assisting BSP with the establishment of a new professional Procurement Policy & Team (1100 suppliers, K20million+ in anticipated savings).

New Communications Infrastructure Strategy has been agreed & is in implementation, significant improvements in capacity anticipated.
Other support business strategies

- Operational Risk and Internal Audit process improvements.
- Legal expertise and resources.
- Management reporting of more relevant data for business.
- New human resource management system, processes and administration.
- Training, change management.
- Security capability improvements.
Other support business strategies

Risk Management

- BSP continues to improve our overall Risk Management Framework.
- Operational Risk identified various system & process weaknesses, however positive progress is evident in addressing these risks.
- Internal/External Fraud remains a serious problem, however BSP’s capacity to identify individuals involved has significantly improved.

Audit/Legal

- PWC are undertaking a major audit improvement program.
- Legal Challenges against BSP is a thriving & growing business.
- BSP continues to fully support the honesty & integrity of our Senior Executives & former CEO in all aspects of the Yama matters. BSP continues to incur significant costs in the defense of these charges. BSP fully supports the recent decision to dismiss charges against John Maddison, and unlike Mr Yama is confident that the due processes of the legal system, will eventually find in favor of the BSP Executives, as we strongly believe that these charges have no basis under the criminal laws of PNG.

Finance

- The implementation of the New General Ledger in Feb 2011 is a major accomplishment.
- Progress is being made in Management Reporting.
Human Resources

- New HR System is currently being implemented.
- Recruitment Processes are improving.
- New Performance Bonus System for PNG has been implemented.
- Significant Improvement in Training quality & Quantity.
- Change Management Training is an important Focus.

Security

- BSP now has one of the most capable Security Operations in PNG.
- Better Trained, Better Managed, Better Motivated.
- Security Threats in PNG will increase in proportion to economic activity.
The vision
- To be the leading bank in the South Pacific

2010 Performance & Operations
The Leading Bank in the South Pacific

Share Price

Closing price (Kina)

Volume traded (millions)

Long term trend

Short term trend

High volatility

Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10

0.00 0.20 0.40 0.60 0.80 1.00 1.20 1.40 1.60

0.0 2.0 4.0 6.0 8.0 10.0

BSP your bank
The Leading Bank in the South Pacific
Branches

Number of branches

- PNG 38
- Fiji 20
- Solomon Islands 8
- 7 BSP Rural Agencies

The Leading Bank in the South Pacific
ATMs

Number of ATM machines

- PNG 178
- Fiji 88
- Solomon Islands 13

The Leading Bank in the South Pacific
Customer accounts

Kundu accounts in PNG - '000

Jan Feb Mar Apr May June July Aug Sep Oct Nov Dec
Customer accounts

Deposit accounts in Fiji - '000

<table>
<thead>
<tr>
<th>Month</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>150</td>
<td>152</td>
<td>154</td>
<td>156</td>
<td>158</td>
<td>160</td>
<td>162</td>
<td>164</td>
<td>166</td>
<td>168</td>
<td>166</td>
<td>164</td>
</tr>
</tbody>
</table>

The Leading Bank in the South Pacific
Customer accounts

Deposits in Solomons - '000

Jan | Feb | Mar | April | May | June | July | Aug | Sep | Oct | Nov | Dec
--- | --- | --- | ----- | --- | ---- | ---- | --- | --- | --- | --- | ---
44  | 46  | 48  | 50    | 52  | 50   | 50   | 52  | 52  | 52  | 52  | 52  

The Leading Bank in the South Pacific
ATM & EFTPOS transactions

PNG ATM and EFTPOS Transactions

<table>
<thead>
<tr>
<th>Month</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>
ATM & EFTPOS transactions

Fiji ATM & EFTPOS Transactions

Thousands

Jan  Feb  Mar  April  May  June  July  Aug  Sep  Oct  Nov  Dec

The Leading Bank in the South Pacific
PNG SMS Users and Transaction Values

Thousands (users)  Millions (transaction value)

Jan  Mar  May  July  Sep  Nov

SMS users  Transaction value

The Leading Bank in the South Pacific
SMS banking

Fiji SMS Users and Transaction Values

Thousands (Users)

Millions (Transaction Value)

May Jun Jul Aug Sep Oct Nov Dec

SMS Users Transaction Value

The Leading Bank in the South Pacific
Economic Outlook

WE ARE FOR THE GOODTIMES

AND BAD
• growth in 2011, at slightly slower rate than 2010
• stable, slow growth in medium term
• Emerging economies to perform above global average

IMF global GDP growth

Forecast

World
Advanced economies
Emerging and developing economies

The Leading Bank in the South Pacific
The EIU expects the pace of growth in PNG to accelerate over the next years reaching 8.9% in 2012.

The PNG Department of Treasury (DoT) is forecasting GDP growth to decline after 2011.

The IMF is projecting slowing GDP growth between 2010 and 2013.

2011 growth projections range: 5.5% - 8.0%

will exceed global average

These growth projections do not include the impacts of the PNG LNG project

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)
Market Share
BSP market share in PNG

- BSP’s market share in PNG deposits 51.6% and lending is at 50.3%
Market share

BSP Market Share in PNG, Fiji, Solomons

- PNG: 1
- Solomon Islands: 2/1
- Fiji: 3
- All: 1

All countries aggregate:

- Deposits: 44%
- Lending: 38%
  - #1 Ranking
  - Total assets
  - Total liabilities
  - Net assets

The Leading Bank in the South Pacific
Credit Quality
Credit quality

- Disciplined reduction in loan provision % to 2008.
- Conservative approach – increase in general provisioning %.

**Loan provisions to gross loans**

<table>
<thead>
<tr>
<th>Year</th>
<th>BSP PNG</th>
<th>Colonial Fiji effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>3.3%</td>
<td></td>
<td>3.4%</td>
</tr>
<tr>
<td>2006</td>
<td>2.8%</td>
<td></td>
<td>3.3%</td>
</tr>
<tr>
<td>2007</td>
<td>2.6%</td>
<td></td>
<td>2.90%</td>
</tr>
<tr>
<td>2008</td>
<td>2.1%</td>
<td></td>
<td>2.90%</td>
</tr>
<tr>
<td>2009</td>
<td>0.5%</td>
<td></td>
<td>0.5%</td>
</tr>
<tr>
<td>2010</td>
<td>3.17%</td>
<td></td>
<td>3.7%</td>
</tr>
</tbody>
</table>
Economic sector risk concentration

- Lending is diversified across sectors.
- Commerce, finance and other business includes various business types.
- Stable distribution from prior year.

- Private households: 22%
- Commerce, finance and other business: 41%
- Agriculture: 8%
- Transport and communication: 10%
- Manufacturing: 6%
- Construction: 10%
- Government and Public Authorities: 3%
Funding
Deposit mix

- Wholesale deposits still represent the majority of the portfolio.
• Demand deposits include savings account funds.
• Term deposits range from 30 days to 2 years
  - Average duration is < 12 months.

**Deposits by type**

- **Demand** / current: 76.9%
- **Term**: 23.1%

**Deposits by country**

- PNG: 89.55%
- Niue: 0.02%
- Solomon Islands: 0.4%
- Fiji: 10.03%
2010 Full Year Results
## 2010 results overview

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>Growth 2010 vs. 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after tax</td>
<td>K 283.1m</td>
<td>10.1%</td>
</tr>
<tr>
<td>Revenue</td>
<td>K 954.9m</td>
<td>31.6%</td>
</tr>
<tr>
<td>Expenses</td>
<td>K 522.8m</td>
<td>56.0%</td>
</tr>
<tr>
<td>Bad and doubtful debt expense</td>
<td>K 20.6m</td>
<td>37.0%</td>
</tr>
<tr>
<td>Earnings per Share</td>
<td>5.9 toea</td>
<td>5.4%</td>
</tr>
<tr>
<td>Customer deposits</td>
<td>K 7.984b</td>
<td>6.6%</td>
</tr>
<tr>
<td>Net loans and advances</td>
<td>K 4.091b</td>
<td>12.4%</td>
</tr>
</tbody>
</table>
2010 results overview

[Graph showing trends for 2005 to 2010 for EPS (toea), DivPS (toea), and profit after tax (Km).]

Central Bank Bill Rate

The Leading Bank in the South Pacific
• BSP maintained its market share at above 50%, in deposits and lending in PNG.

• Because of Interest rate declines in PNG, net interest income in PNG increased by only 5.5%.

• Non-lending fee income increased by 47%.

• Transformation activity intensified in 2010.

• Profit after tax grew from K257m in 2009 to K283m in 2010 – supported by corporate lending, fee revenue and foreign exchange income.

• K143.6 million equity capital transaction with IFC.

• Total assets increased from K9,397.8 million in 2009 to K10,027.3 million in 2010 - liquidity and capital growth.
The Leading Bank in the South Pacific

Profit before tax

Profit before tax

Millions of Kina

2005 2006 2007 2008 2009 2010

142.23 164.52 283.57 328.80 378.14 410.80

The Leading Bank in the South Pacific
## 2009-2010 profit movement

### Group profit
- Up K26.0 million or 10% after tax
- Up K32.7 million or 9% before tax

### K25.7 million or 7% increase in profit before tax from 2009, for PNG bank

### Profit change from prior year

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest Income</td>
<td>25.9</td>
<td>69.0</td>
</tr>
<tr>
<td>Non Interest Income</td>
<td>376.8</td>
<td>402.5</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>480.0</td>
<td></td>
</tr>
<tr>
<td>Bad &amp; doubtful debts</td>
<td>2.7</td>
<td></td>
</tr>
</tbody>
</table>

The Leading Bank in the South Pacific
Growth in total assets

28% compound annual growth since 2005
2009-2010 asset movement

Asset change from prior year

- K629.5 million kina increase in assets dominated by loans

The Leading Bank in the South Pacific
Growth in deposits and loans

compound annual growth since 2005:
- loans 36%
- deposits 26%

The Leading Bank in the South Pacific
Capital Management and Liquidity
• Base capital target for 2010 achieved during the year
Prudential management

- **Strong capital adequacy position**
  - Tier 1 19.7%
  - Tier 2 3.9%
  - Total 23.6%

- **Within the range of Basel II and III requirements**

![Tier 1 Capital and Total Capital Adequacy](chart)

- Tier 1 capital adequacy
- Tier 2 capital adequacy
- BPNG min requirement

The Leading Bank in the South Pacific
Capital planning

- Benchmark capital adequacy 18%
- Currently 22%
- Need for capital is moderate for the most likely base scenario – can be addressed in medium term.
- A short term response would be required under more aggressive growth scenarios or dramatically changed regulations.

scenarios
1. Base: current growth trends
2. Margins < current trend
3. Significant loan losses
4. Exceptional Asset growth
5. Capital adequacy ratio > than 18%
Key prudential ratios

- BPNG prudential definitions met or exceeded.
- Minimum liquid asset ratio removed, Oct 2010 (25% up to October 2010).

The Leading Bank in the South Pacific
Profitability and Key Ratios
• 156% increase in earnings per share since 2005.
• 33% Average ROE over the 6 year period.

Earnings Per Share and Return On Equity

- Earnings per share (toea per share, LHS)
- Return on equity % (RHS)

The Leading Bank in the South Pacific
• 55% Cost to income ratio is at 2005 levels.
• 47% Average over the 6 year period.
• 3% of 2010 ratio is for transformation costs.
• 43% of total income - up from 35% in 2009.
• 75% of net interest income – up from 53% in 2009.
• Long term target is to equalise revenue streams.

Non interest income

% of total income

% of net interest income

2005 2006 2007 2008 2009 2010

The Leading Bank in the South Pacific
Net interest margin

- Overall net increase over last 5 years.
- PNG Bank bill rate in decline from 2009.
Comparison of Key Ratios
BSP’s performance is strong, when compared to the Australian banks.
Dividend and Shares
• the Directors have declared a **final dividend for 2010** of
  
  3.13 **toea** per share
  (Payable in June 2011 – final date to be announced).

• Interim paid in Nov 2010:
  
  1.37 **toea** per share

• full dividend for the year ending 31\textsuperscript{st} Dec 2010
  
  4.50 **toea** per share

• Yield at current price: **6.6\%**
A fundamental problem

- **BSP performance has been increasing quarter on quarter**
- **Share price has been on a downward trend since about Q3-2008.**
  
  - Sep-08: 135 toea
  - Dec-08: 98 toea
  - Dec-09: 80 toea
  - Sep-10: 63 toea
  - April-11: 68 toea
Share Price

Solutions:

- Share Consolidation
- Share buyback
- Also list on another exchange in South Pacific?
- Convert some equity capital to debt capital?
Conclusion
Conclusion

• There were many “positives” in 2010:
  - 10% YOY Growth in Profitability.
  - Balance Sheet now exceeds K10 Billion.
  - Continued Loan & Deposit Growth.
  - Very strong Capital & Liquidity position.
  - Significant expansion of our Electronic Banking Platform (ATM’, Eftpos, SMS Banking, Internet). Largest Networks in PNG & Fiji.
  - All of BSP’s key performance indicators remain sound.
  - Introduced semi annual dividend payments to shareholders.
  - Paid BSP’s highest ever dividend payments to shareholders.
• IFC acquired an approx. 10% equity participation in BSP investing US$110 mln.
  - Enhanced the international reputation of BSP.
  - in excess of US$2.5 mln in technical support.
Conclusion

• **Organizational split between BSP Fiji & BSP Life businesses, and initiated a strategic review of both businesses (Under implementation).**

• First ever **Fiji Dollar Convertible Note Issue** was successfully concluded.

• Launched **BSP Rural** a rural agency banking network using Electronic Banking Solutions – currently 7 agencies opened.

• Implemented a **New Customer Segmentation Methodology** which allows BSP to have a more efficient & appropriate service model aimed at significantly improving the way BSP services our customers, improving profitability & reducing costs.

• A number of major Transformation Projects were initiated & positive progress achieved.

• Developed “Container Branch” solution that will allow BSP to open new banking branches quickly as a 1st step to a permanent solution. e.g. Arawa.
Conclusion

- 183 Projects are currently ongoing.

- BSP’s “Social & Community” Projects have achieved major milestones:
  - “Go Green” Environmental Initiative (international recognition).
  - BSP School Kriket won “2010 ICC Global School Cricket Award” (85 countries. 52,000 children).
  - 70 local community projects carried out in PNG, SI & Fiji.

The Transformation Process is already happening & BSP’s “Vision” remains the same.

“There is simply no turning back”

An enormous amount of work has been carried out by each BSP business unit in 2010. However this is a multi year Project.
Conclusion

“BSP’s Vision to be the Leading Bank in the South Pacific is very much achievable!”

Thank You