

Presentation to Shareholders

grow[↑] together.



BSP Annual General Meeting 2013

Presentation Overview

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Ian B Clyne
Group Chief Executive Officer

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THE JOURNEY will “continue”

2009 - *“The need to Change”*

2010 - *“Transformation”* Customer segmentation

2011 - *“Leading the Way”* Strategic Map

2012 - *“I Care”* Customer Service & Acquisition

2013 - *“Grow Together”*



Vision

“To be the Leading Bank in PNG and the South Pacific”.

Strategic Imperatives

“Maintain, Develop, and foster **“customer sales”** through the provision of high quality product and service delivery, that will create value for BSP, our Customers, our Shareholders, and our Staff.”



Strategic Imperatives (continued)

“Improved customer Sales & Service will be delivered through market leadership in innovation, technological advances and the modernization of all our systems and procedures, and the continued “simplification” & automation of all our operational & support processes.

“Appropriately train, develop & reward our staff.”

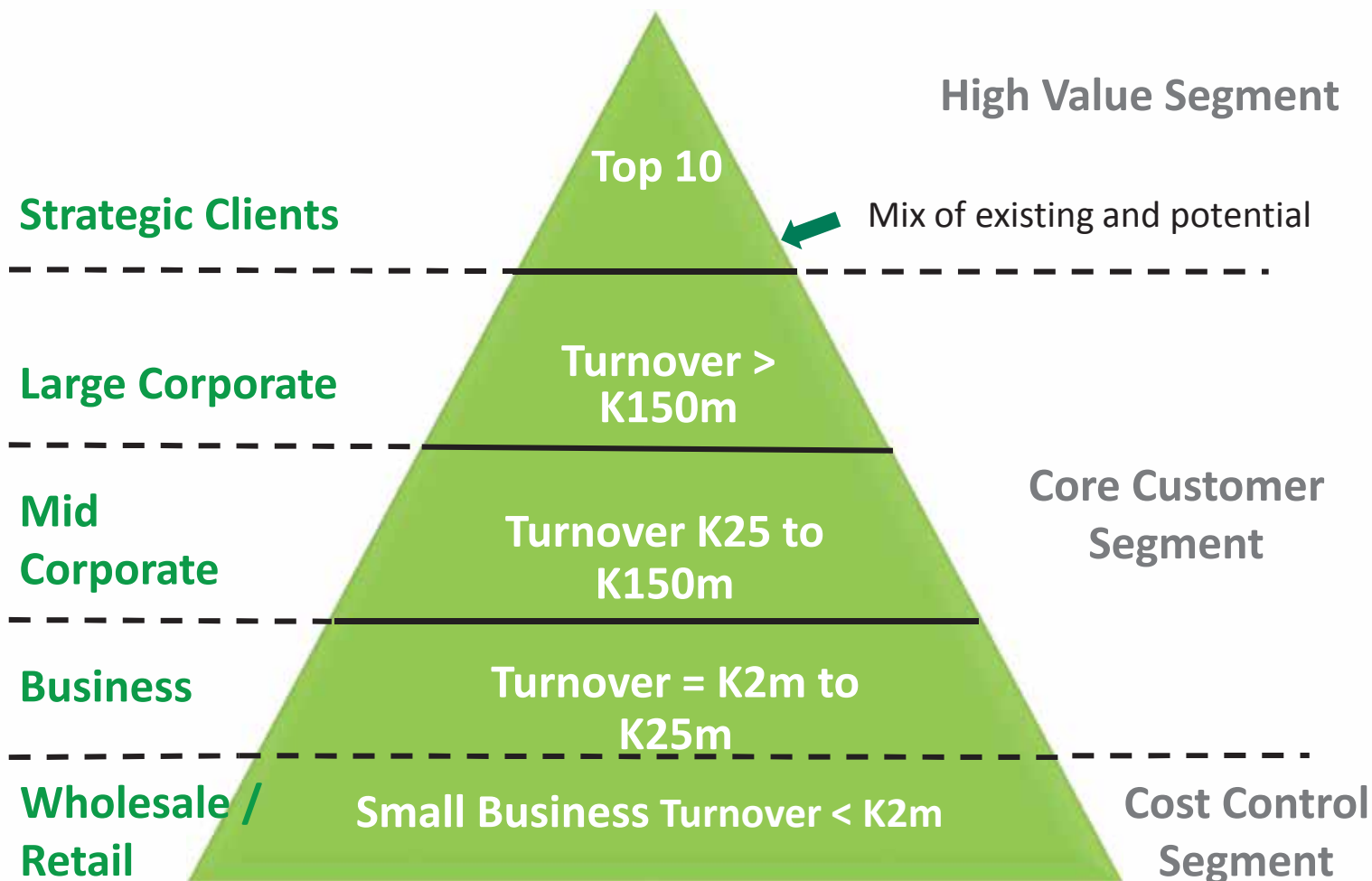
“Continue our Social & Sporting commitment to people and communities in which we operate.”



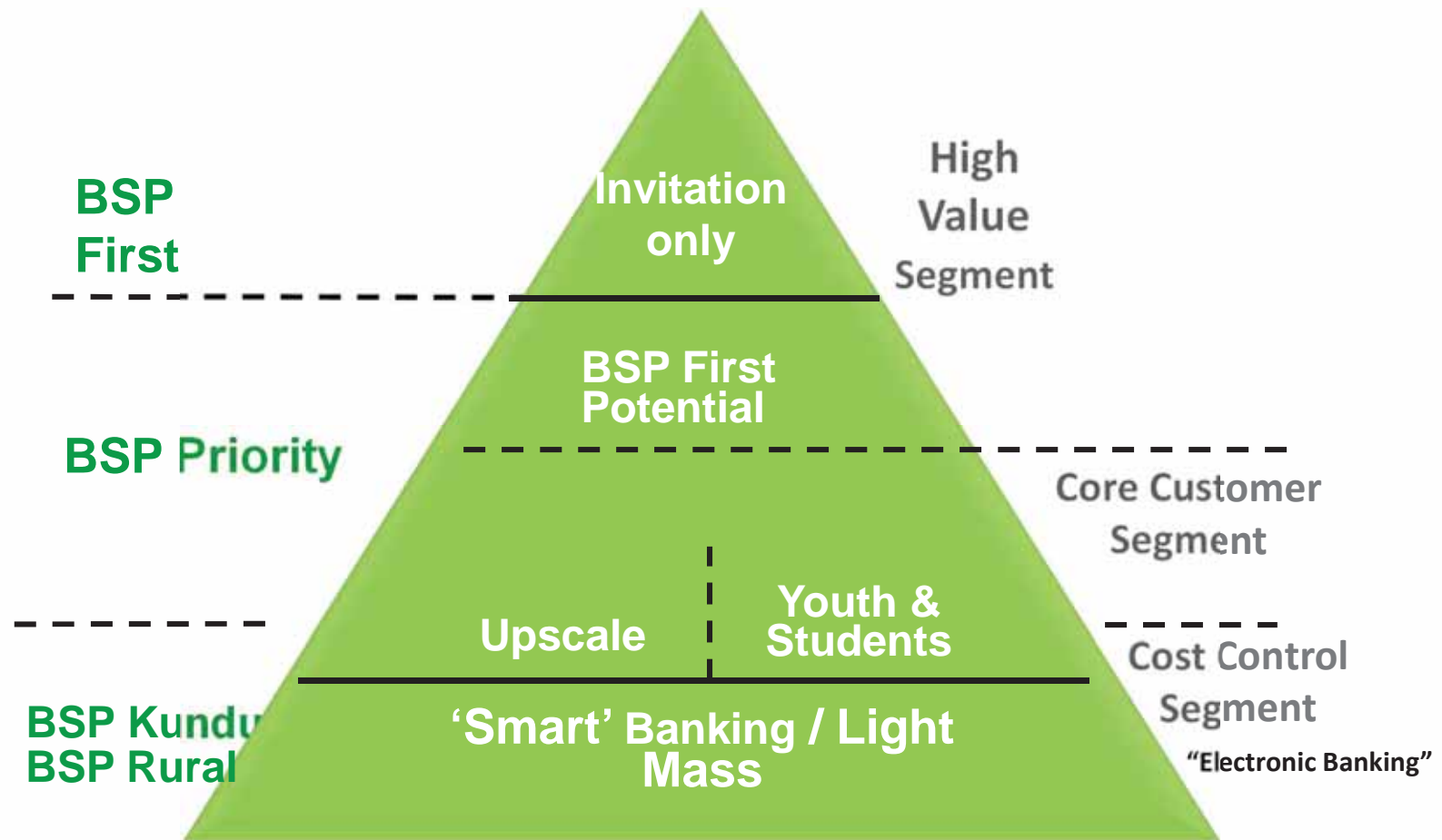
BSP'S STRATEGIC MAP



SEGMENTATION - CORPORATE



SEGMENTATION - RETAIL



Achievements & Financial Performance 2012



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GROUP PROFIT BEFORE TAX



GROUP PROFIT AFTER TAX



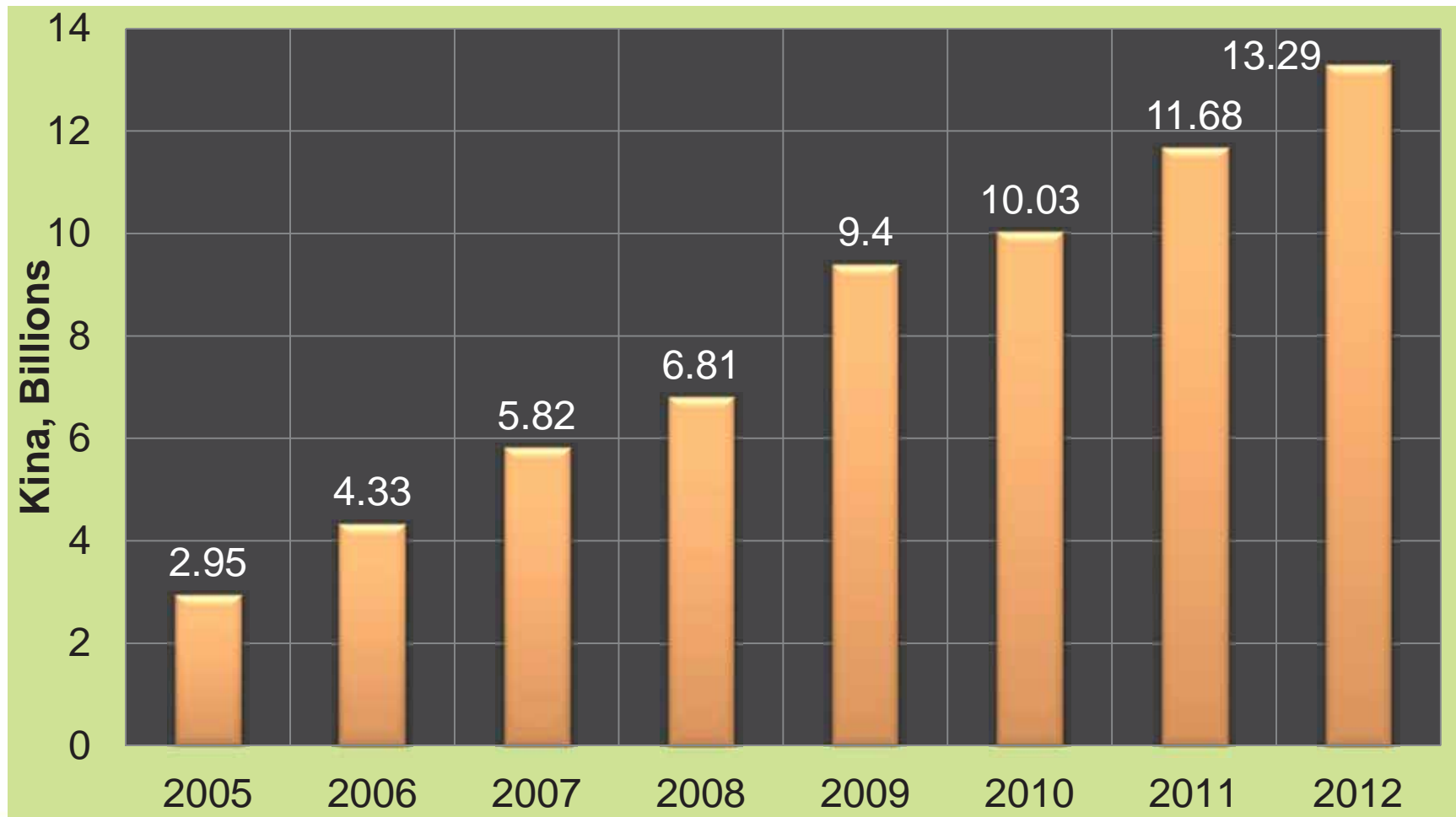
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GROUP PROFIT & LOSS TRENDS

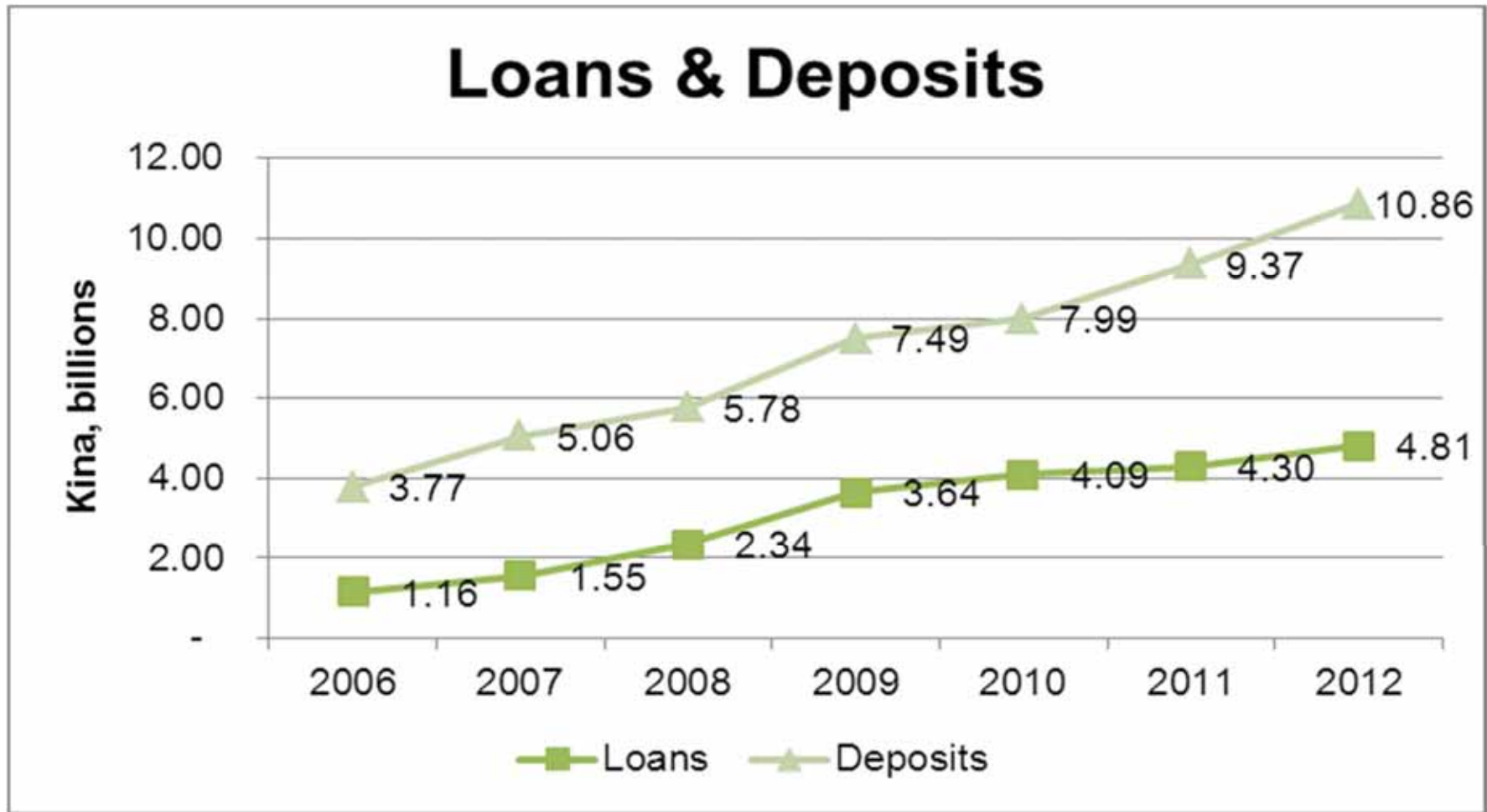
PROFIT & LOSS TREND								
(Millions of Kina)	2006	2007	2008	2009	2010	2011	2012	CAGR, last 5 yrs
Income								
Net interest income	210	277	377	474	544	597	682	13%
Foreign exchange income	65	116	127	104	139	193	224	12%
Fee and other income	70	86	117	147	272	392	458	31%
Total income	344	479	621	726	955	1,182	1,364	17%
Expenses								
Operating expenses	(179)	(189)	(230)	(335)	(523)	(682)	(748)	27%
Bad and doubtful debts	1	4	(11)	(15)	(21)	(25)	(71)	44%
Other expenses	(2)	(11)	(51)	3	(1)	-	-	NM
Profit before tax	164	284	329	378	411	475	545	11%
Tax expense	(53)	(92)	(100)	(121)	(128)	(119)	(137)	6%
Profit after tax	112	191	228	257	283	356	408	12%
EPS (toea)	25.0	42.0	50.0	56.0	59.0	74.4	86.9	12%
Dividends per share (toea)	1.4	1.6	2.2	2.2	4.0	7.6	5.5	20%



GROUP TOTAL ASSETS



GROUP DEPOSITS & LOANS



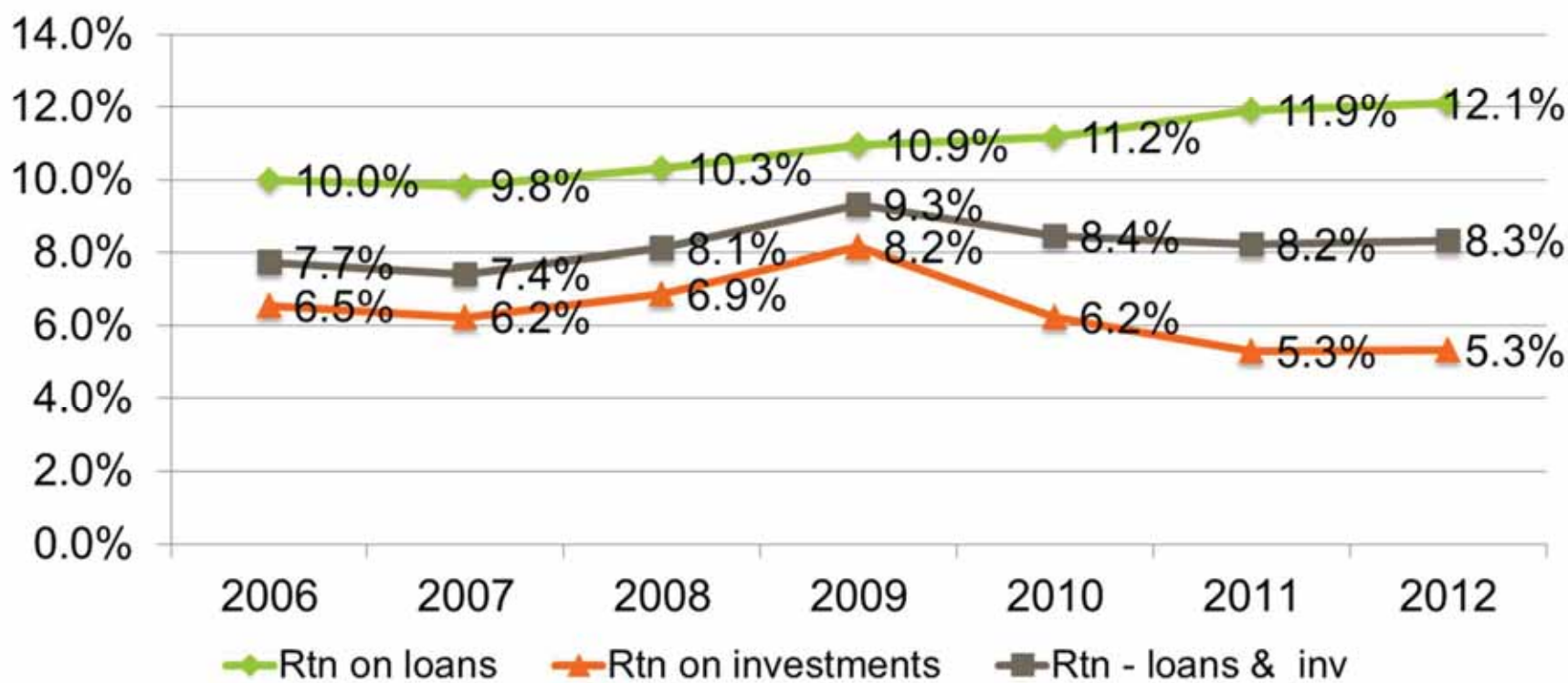
GROUP BALANCE SHEET TRENDS

BALANCE SHEET								
(Millions of Kina)	2006	2007	2008	2009	2010	2011	2012	CAGR, last 5 yrs
Assets								
Cash and short term deposits	501	1,025	788	1,188	1,344	1,501	2,134	22%
Loans and advances	1,167	1,551	2,352	3,639	4,091	4,301	4,805	15%
Investment	2,394	2,954	3,397	3,838	3,803	4,669	4,795	7%
Fixed assets + other assets	269	287	297	733	789	1,210	1,557	39%
Total assets	4,331	5,818	6,833	9,398	10,027	11,681	13,291	14%
Liabilities								
Customer deposits	3,776	5,057	5,786	7,596	8,084	9,520	10,861	13%
Provisions	88	104	164	197	125	189	122	-6%
Other liabilities	73	85	135	671	684	629	904	46%
Total liabilities	3,937	5,245	6,085	8,464	8,893	10,338	11,887	14%
Shareholders equity	394	572	748	934	1,134	1,344	1,404	13%

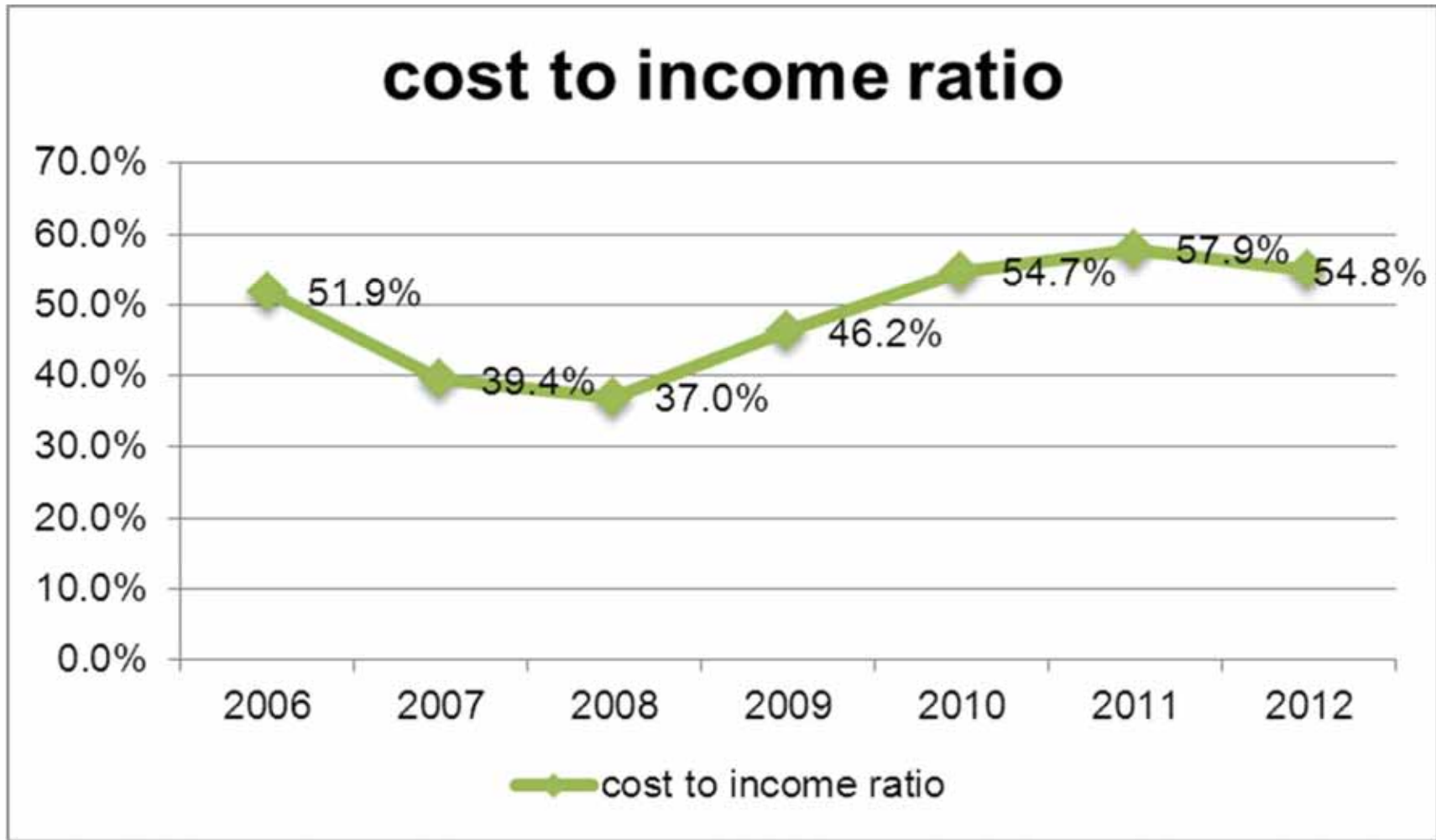


GROUP INTEREST INCOME

Returns on interest earning assets



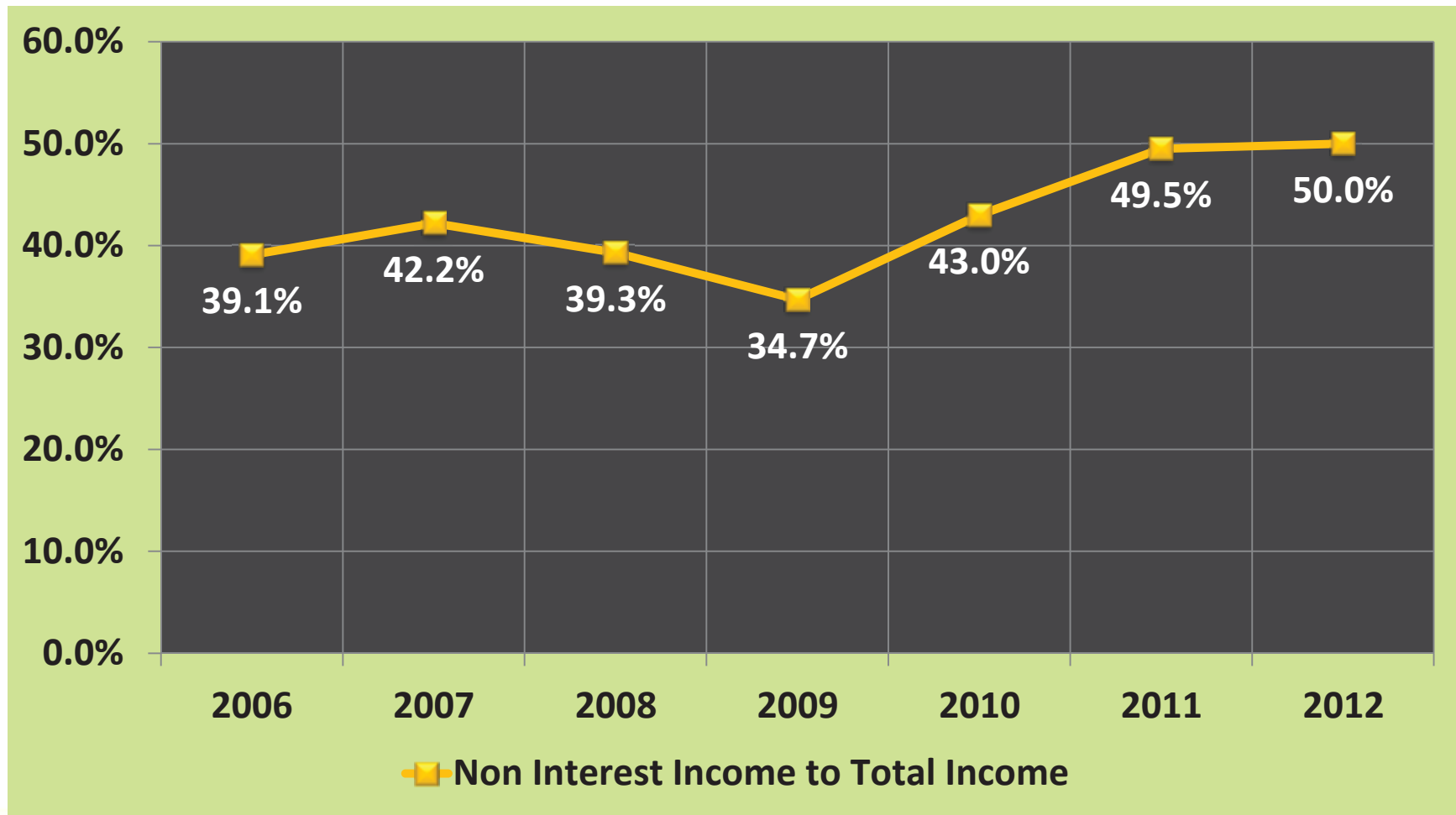
COST TO INCOME RATIO – BSP GROUP



Cost to income ratio PNG BANK



NON INTEREST INCOME

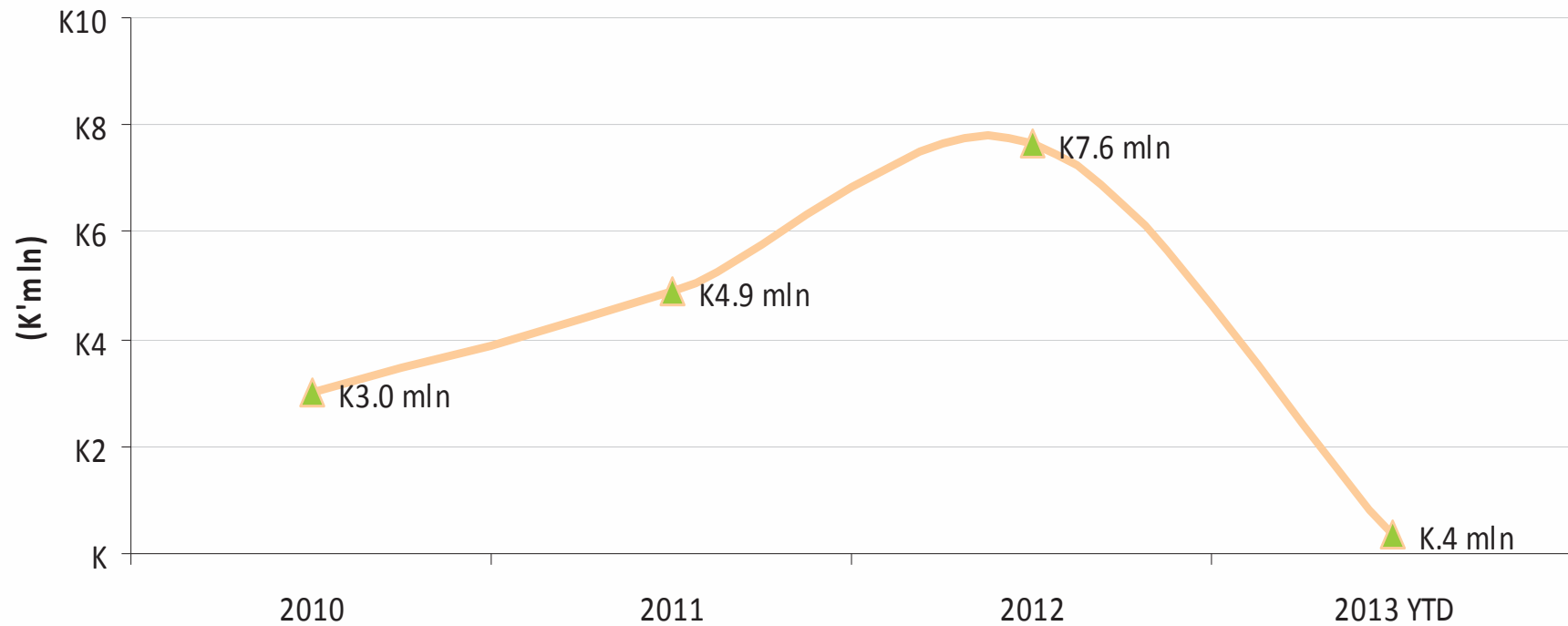


Non Lending Loss Trends

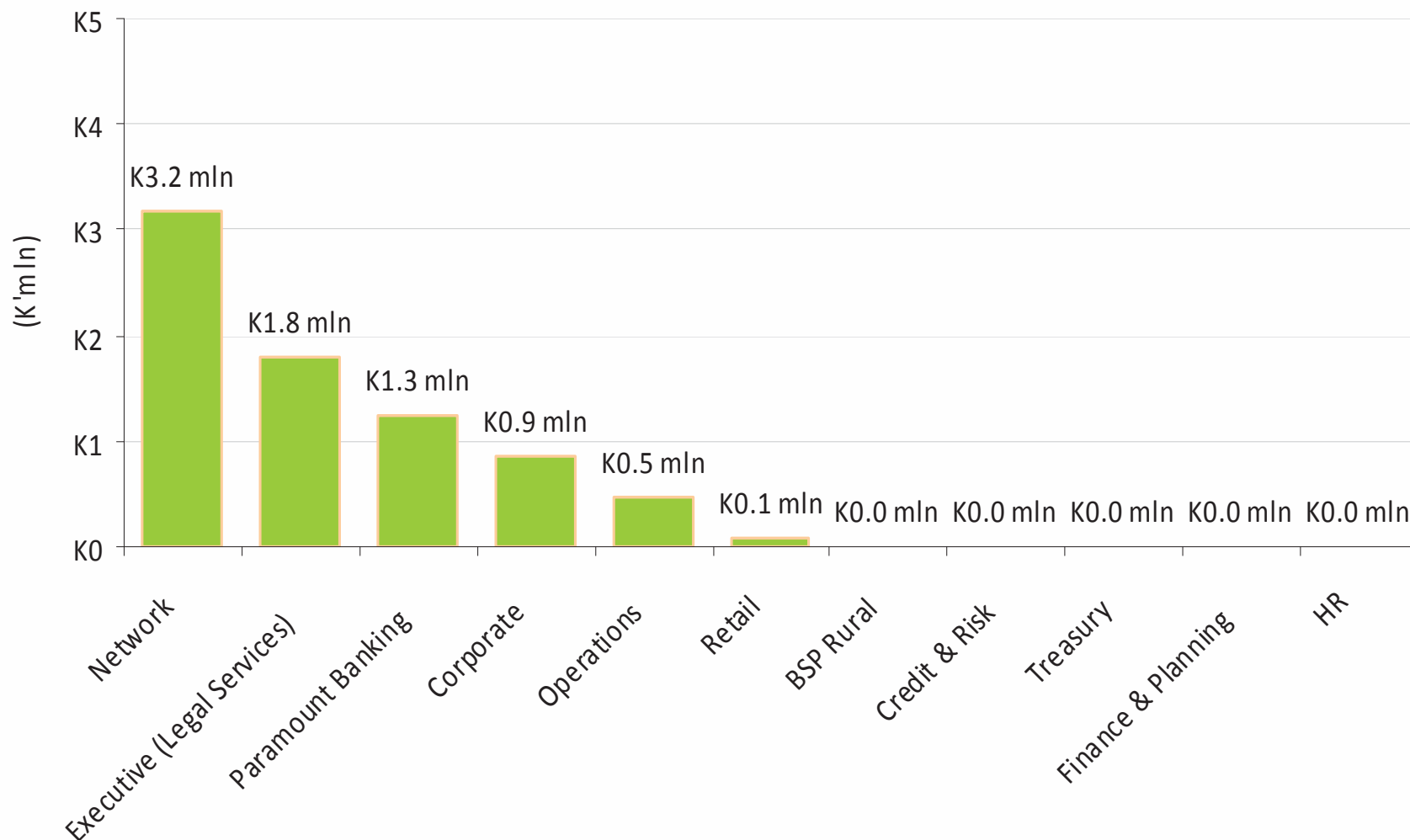


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BSP PNG OPERATING NON LENDING LOSS TREND (2010 to YTD 2013)



2012 NON LENDING LOSS (by Strategic Business Unit)



2012 NON LENDING LOSS (by Loss Type)



Channel Performance 2009 to 2013



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BSP must continue to expand our service channels in 2013 -15

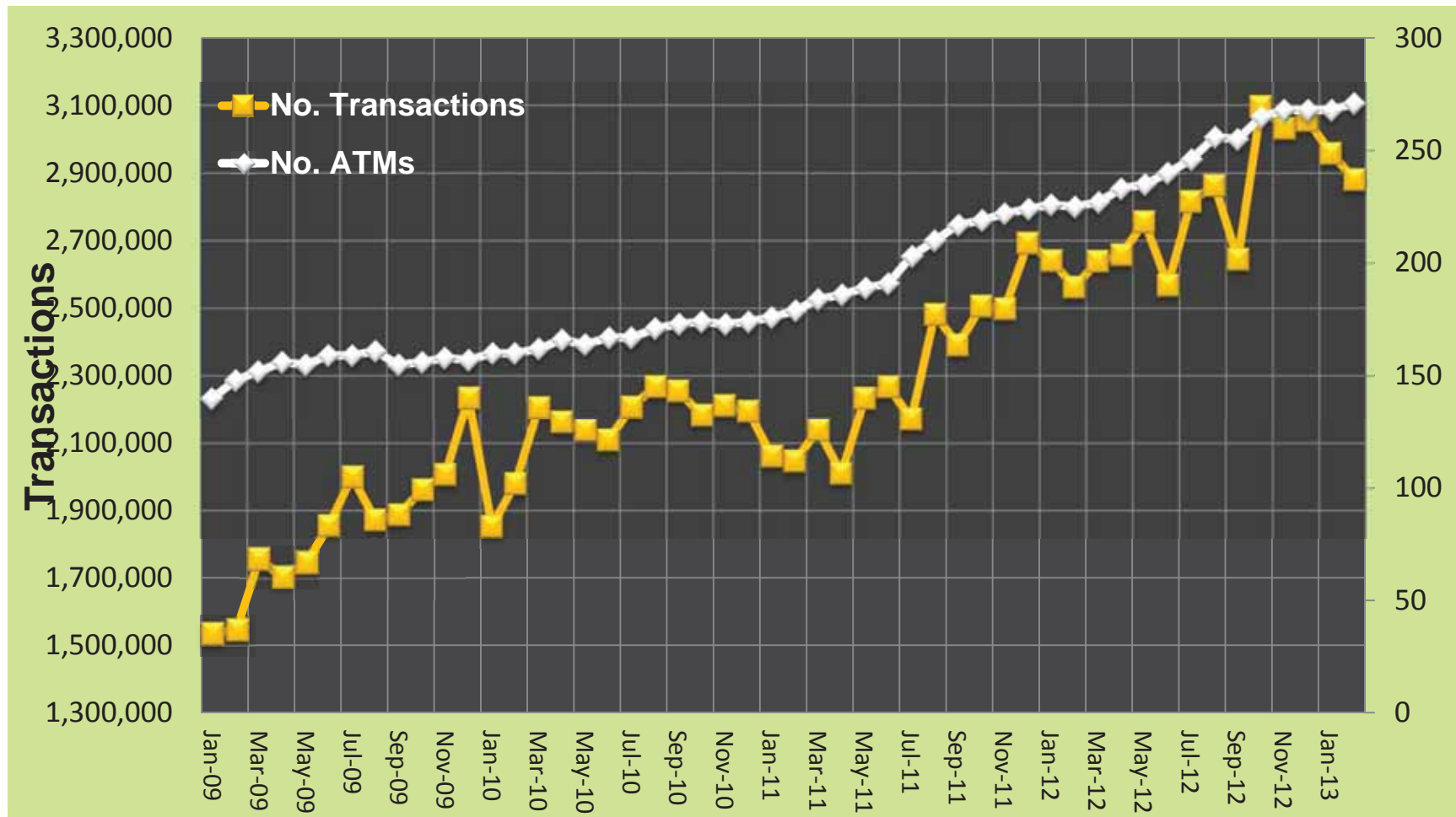
BSP Group Banking Services as at April 2013

	Branches	ATM's	EFTPOS	BSP RURAL	AGENTS / Rural Outlets
PNG	42	283	10,041	37	124
FIJI	19	104	1,437	-	38
S.I	7	18	120		4

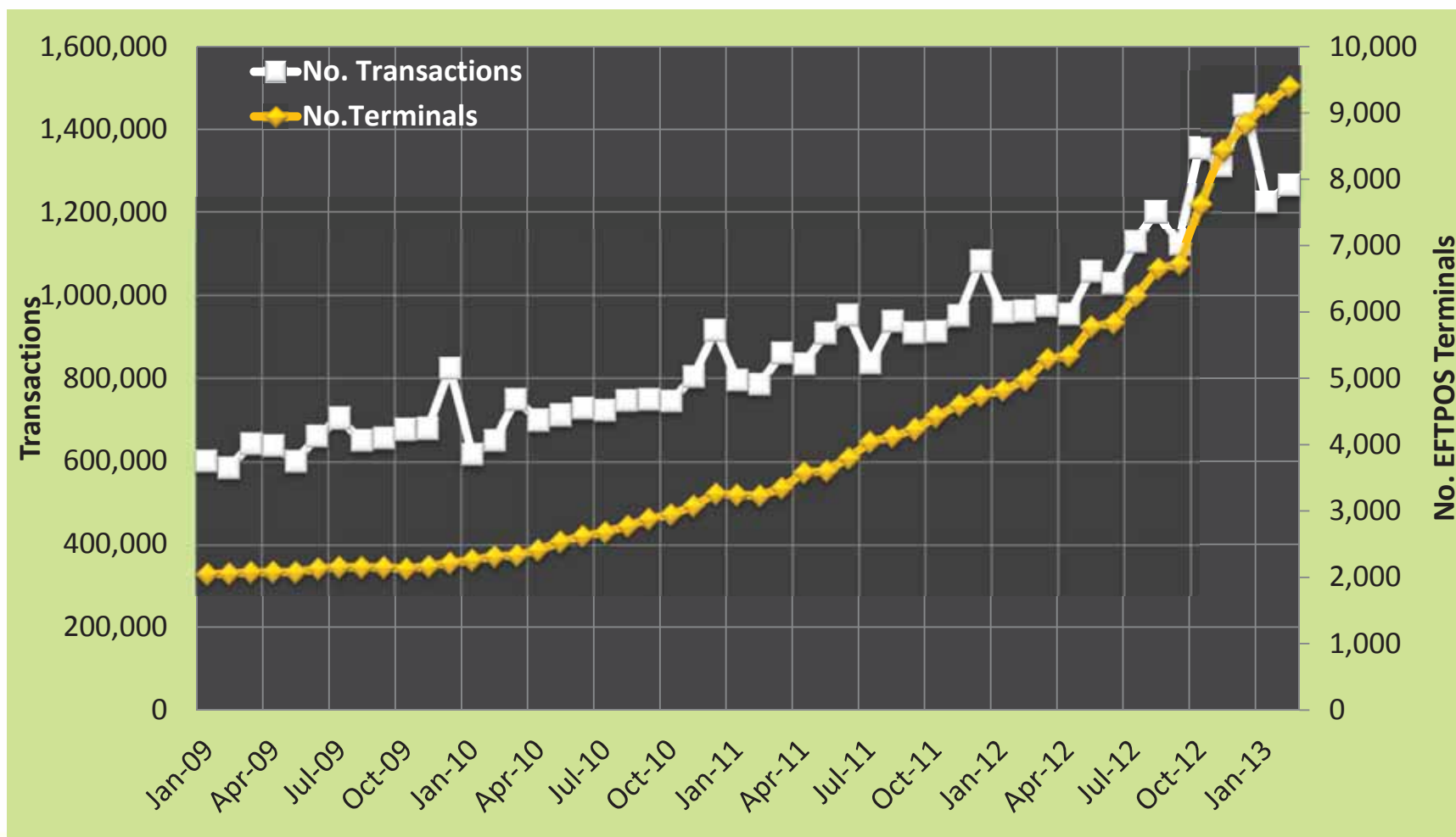
* PNG – 7,451 merchants



ATM GROWTH 2009 TO 2013



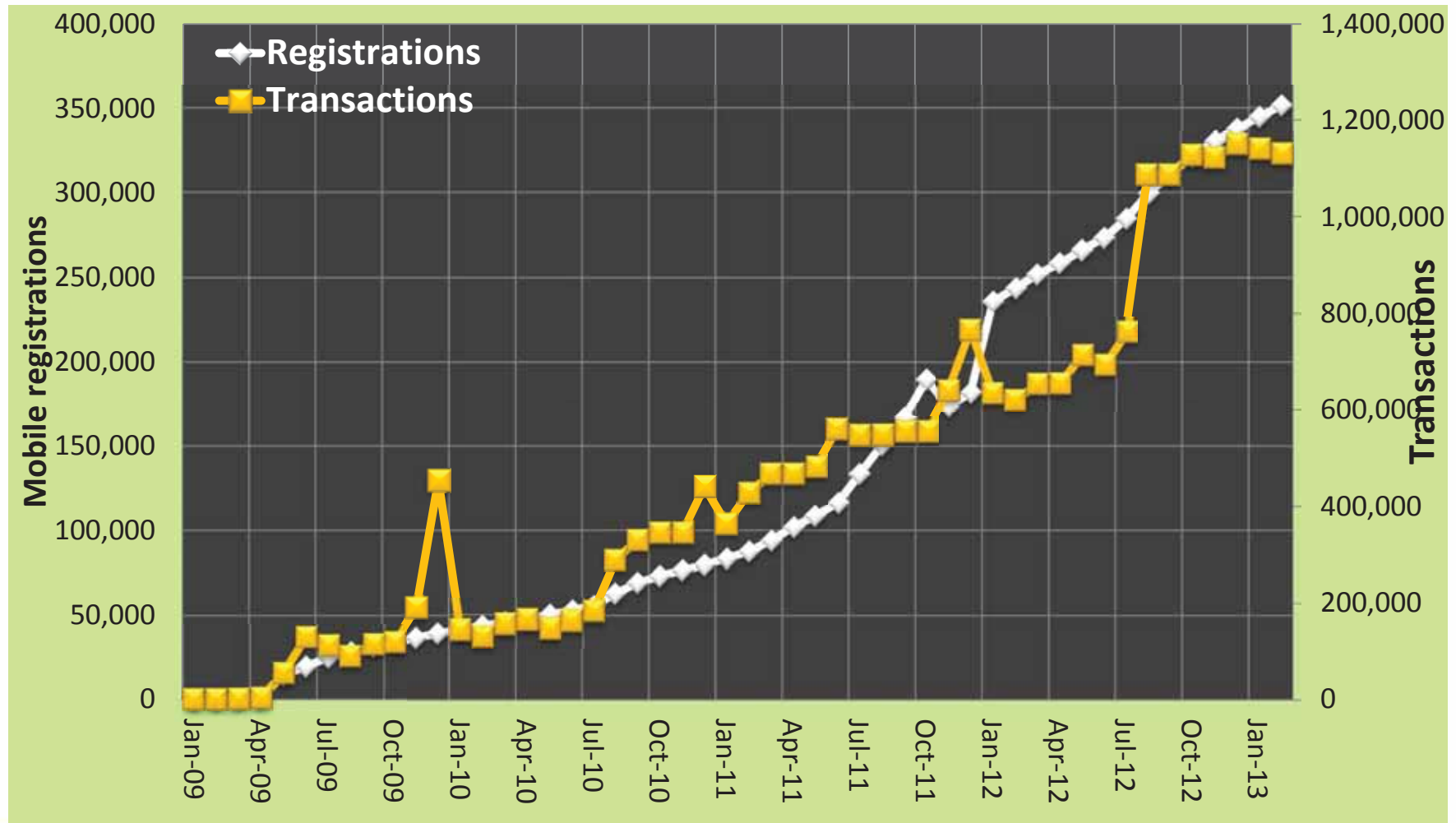
EFTPOS GROWTH 2009 – 2013



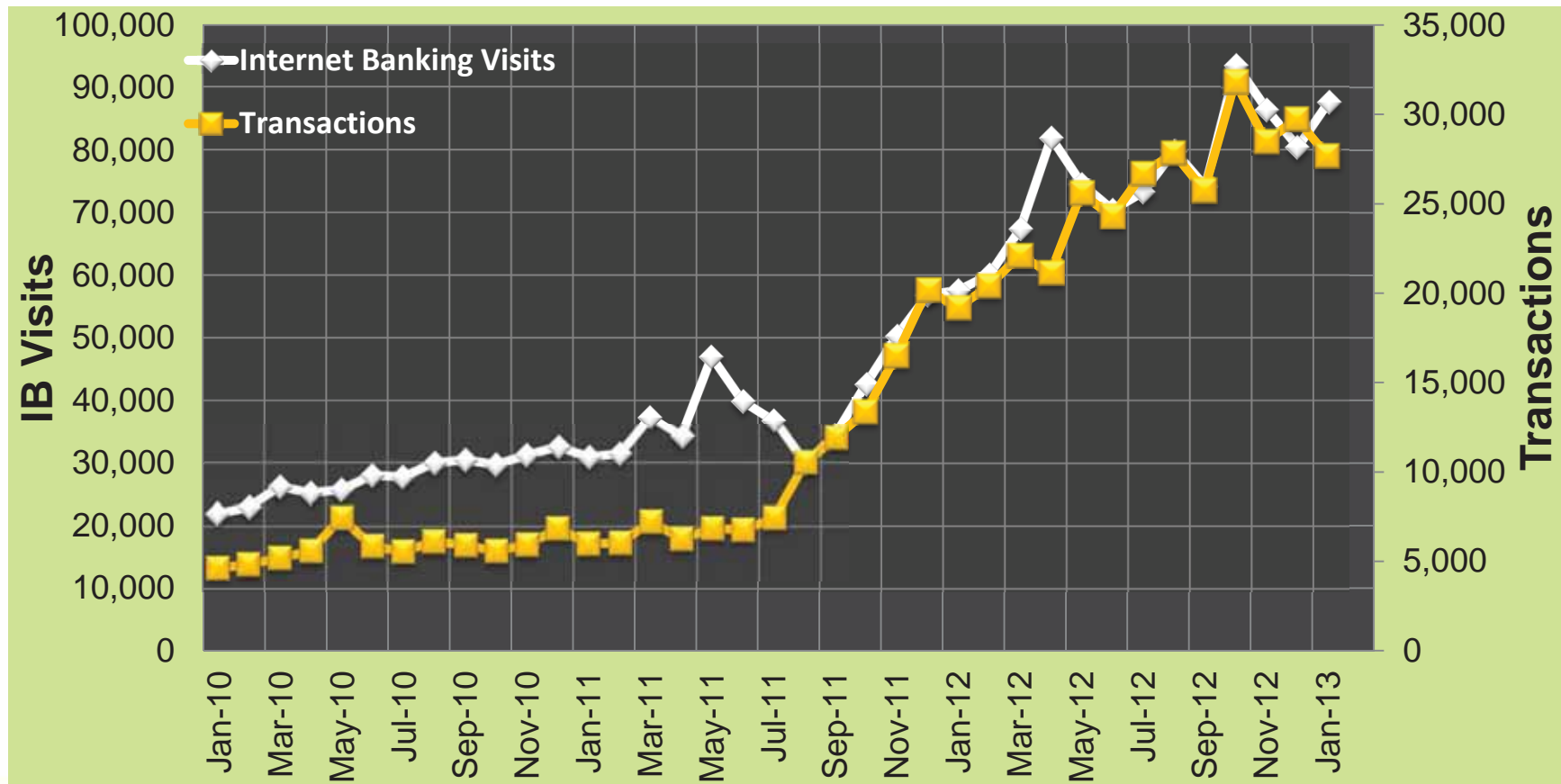
BSP

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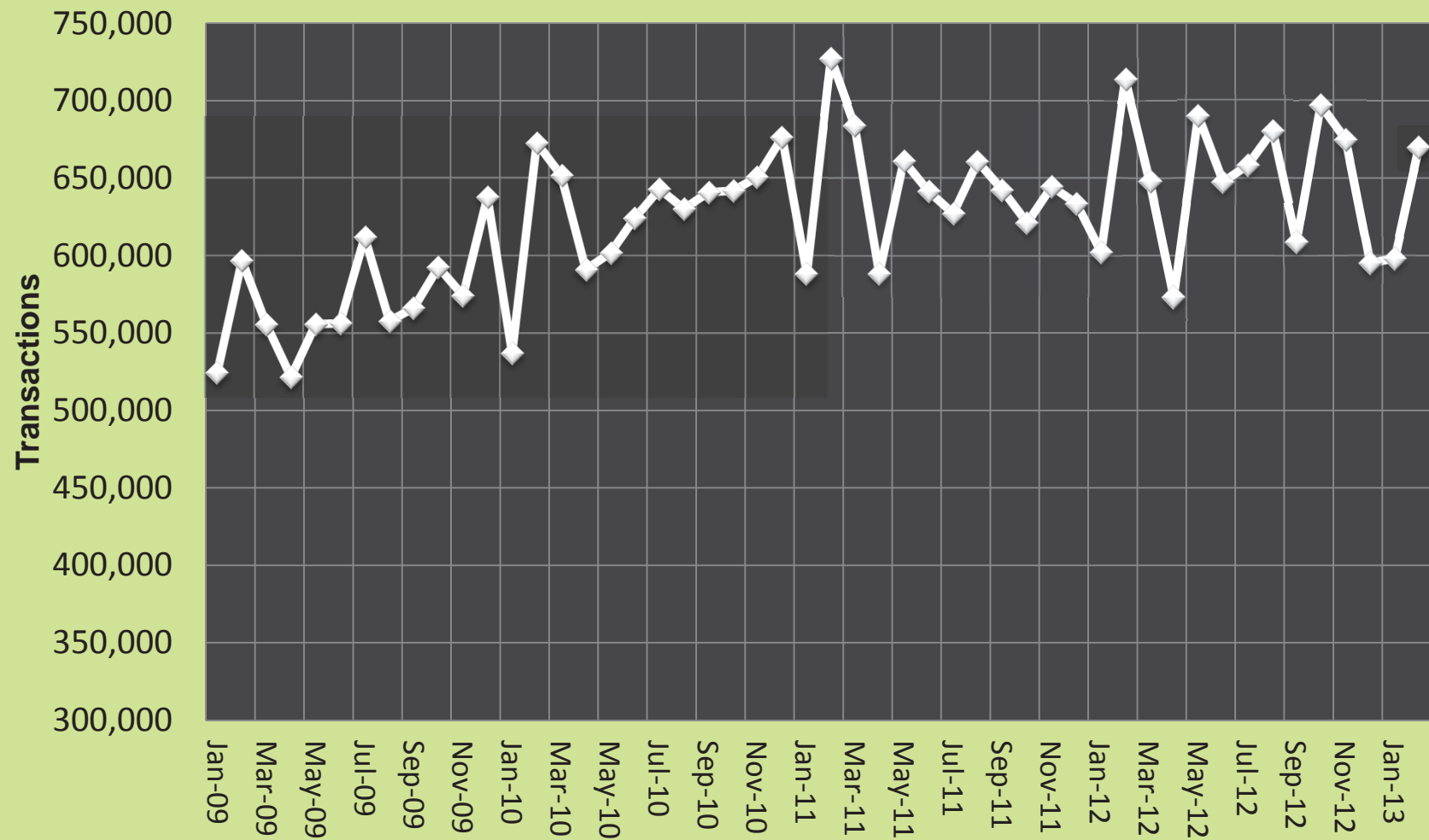
MOBILE BANKING GROWTH 2009 - 2013



INTERNET BANKING GROWTH 2009 - 2013

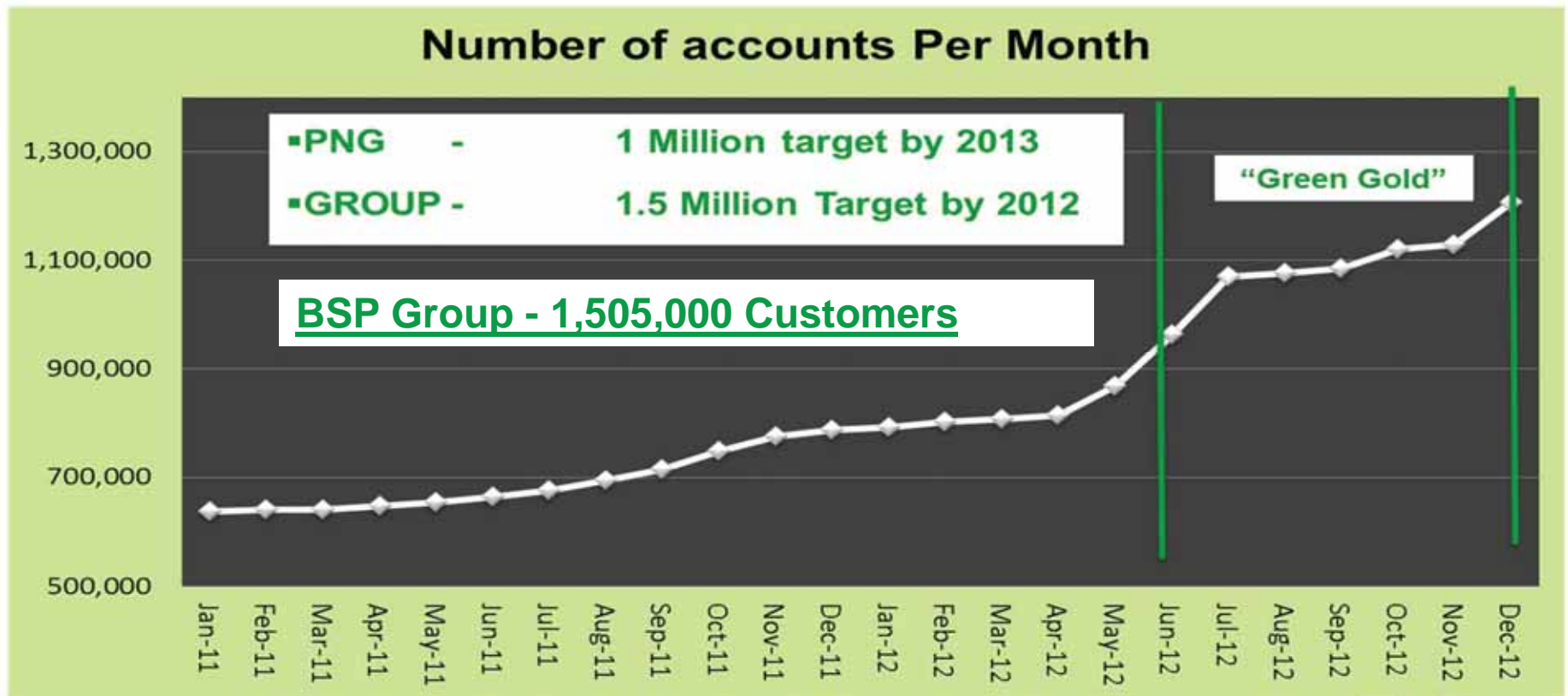


BRANCH TRANSACTIONS 2009 - 2013



2012 **BSP** PNG added 275,000 New Retail Customers

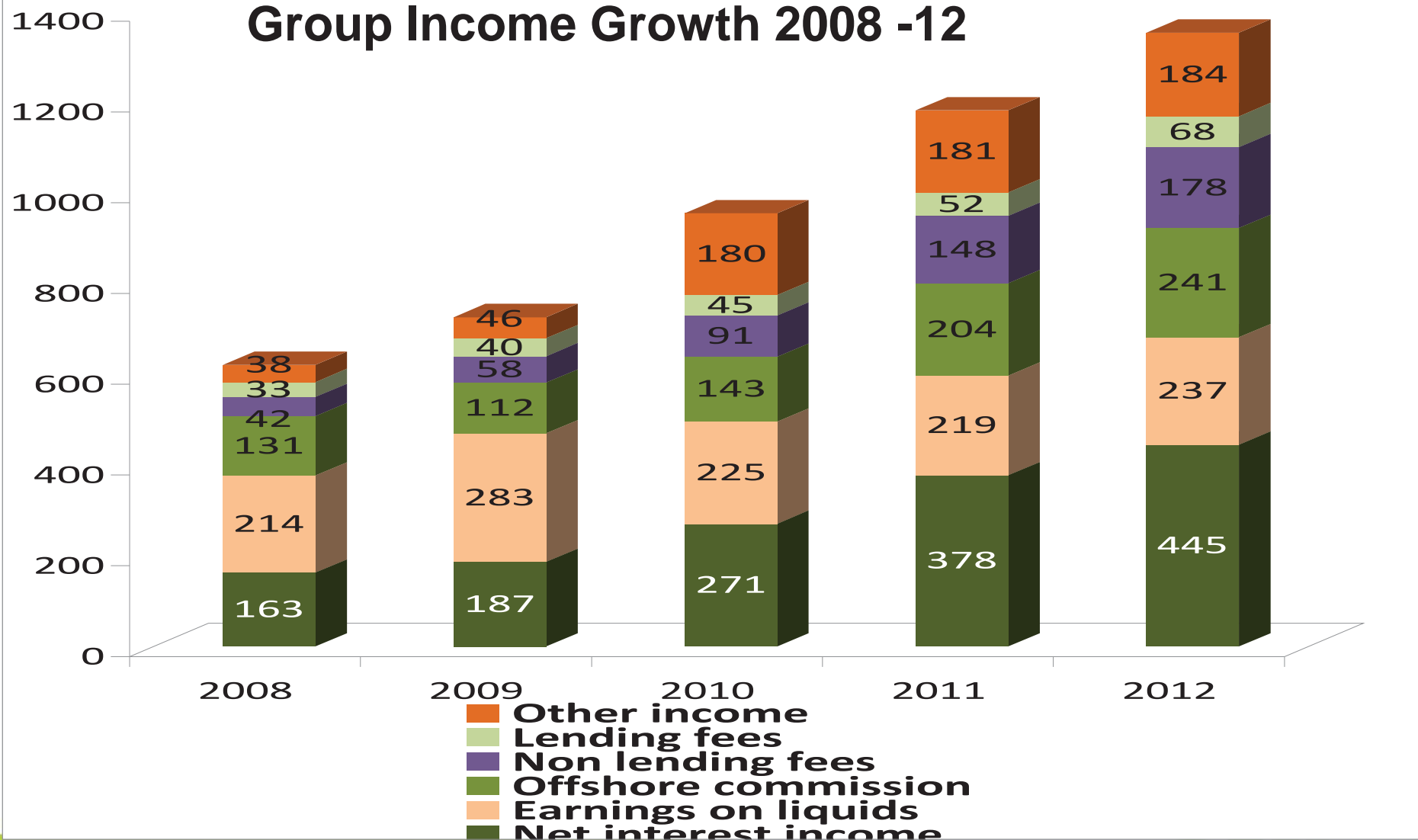
“Largest” New Customer Acquisition Initiative ever in the history of PNGBC/BSP



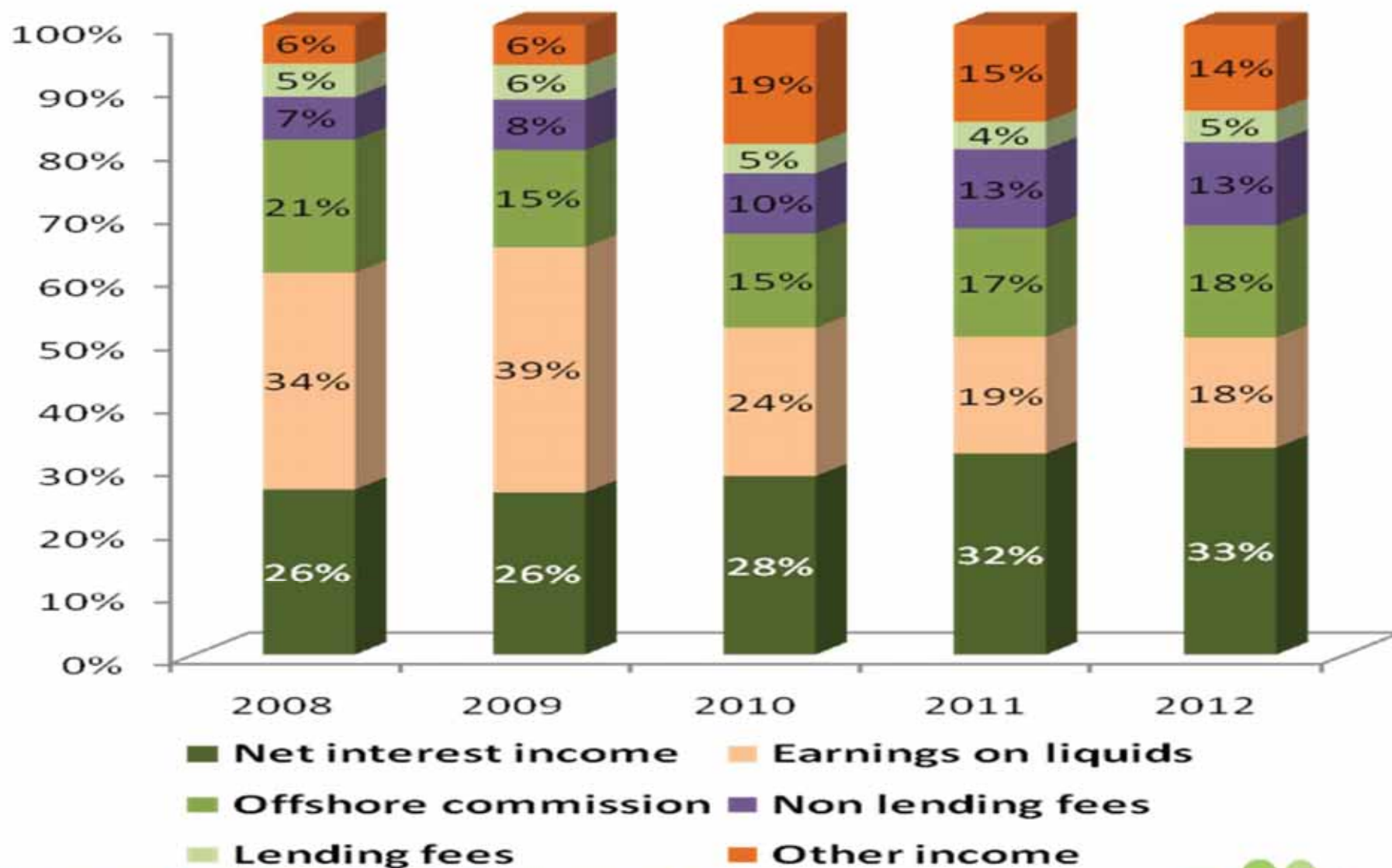
Group Income Analysis



Group Income Growth 2008 -12



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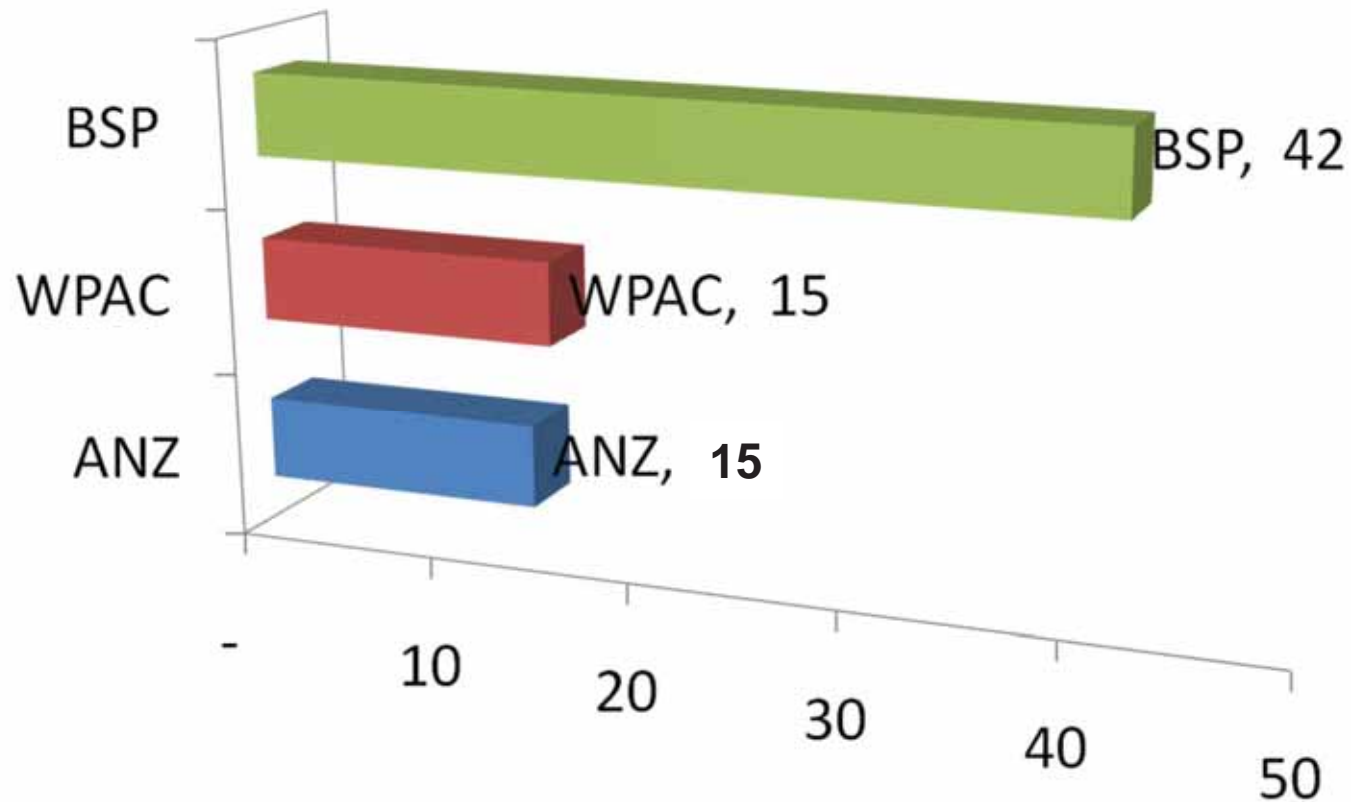


Competition Analysis PNG

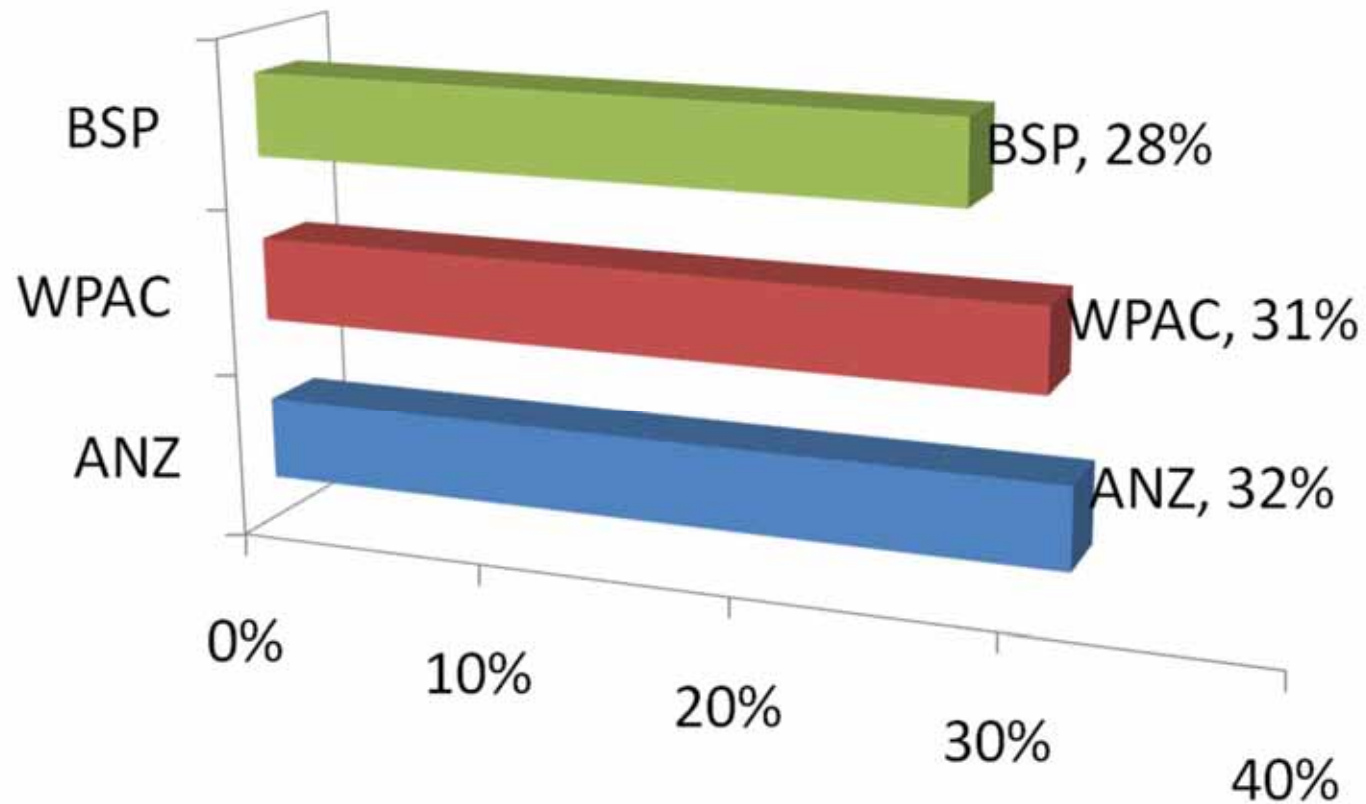
BSP, ANZ, WBC (latest financial years)



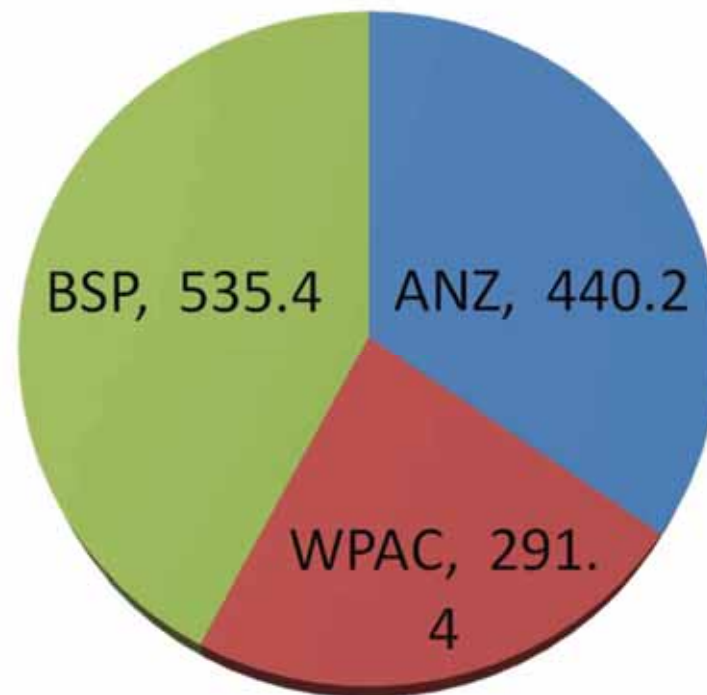
Branches



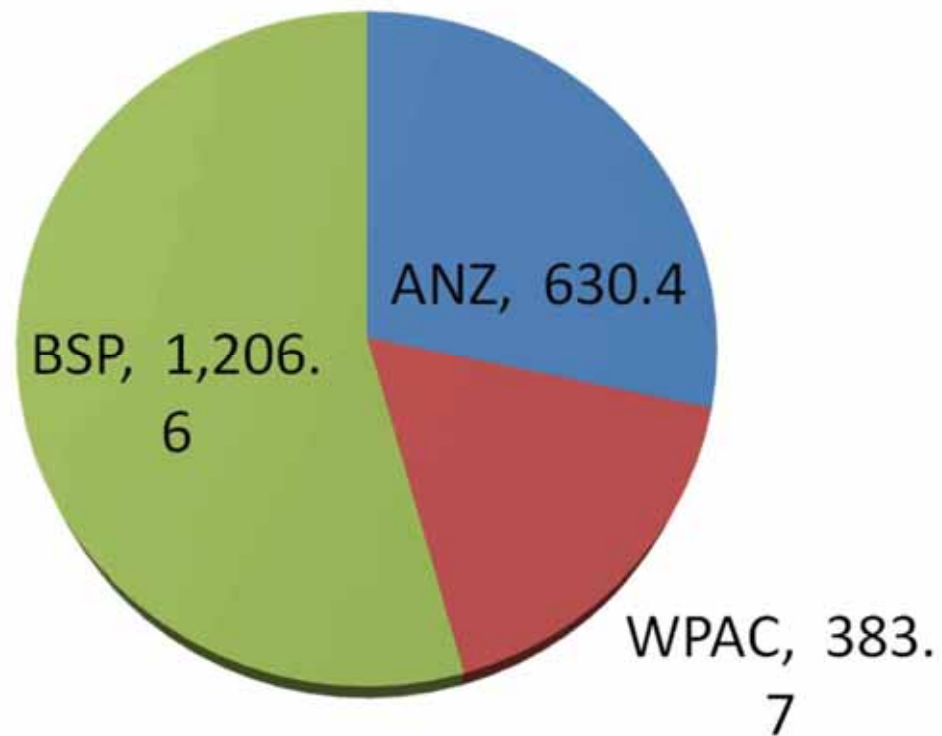
ROE



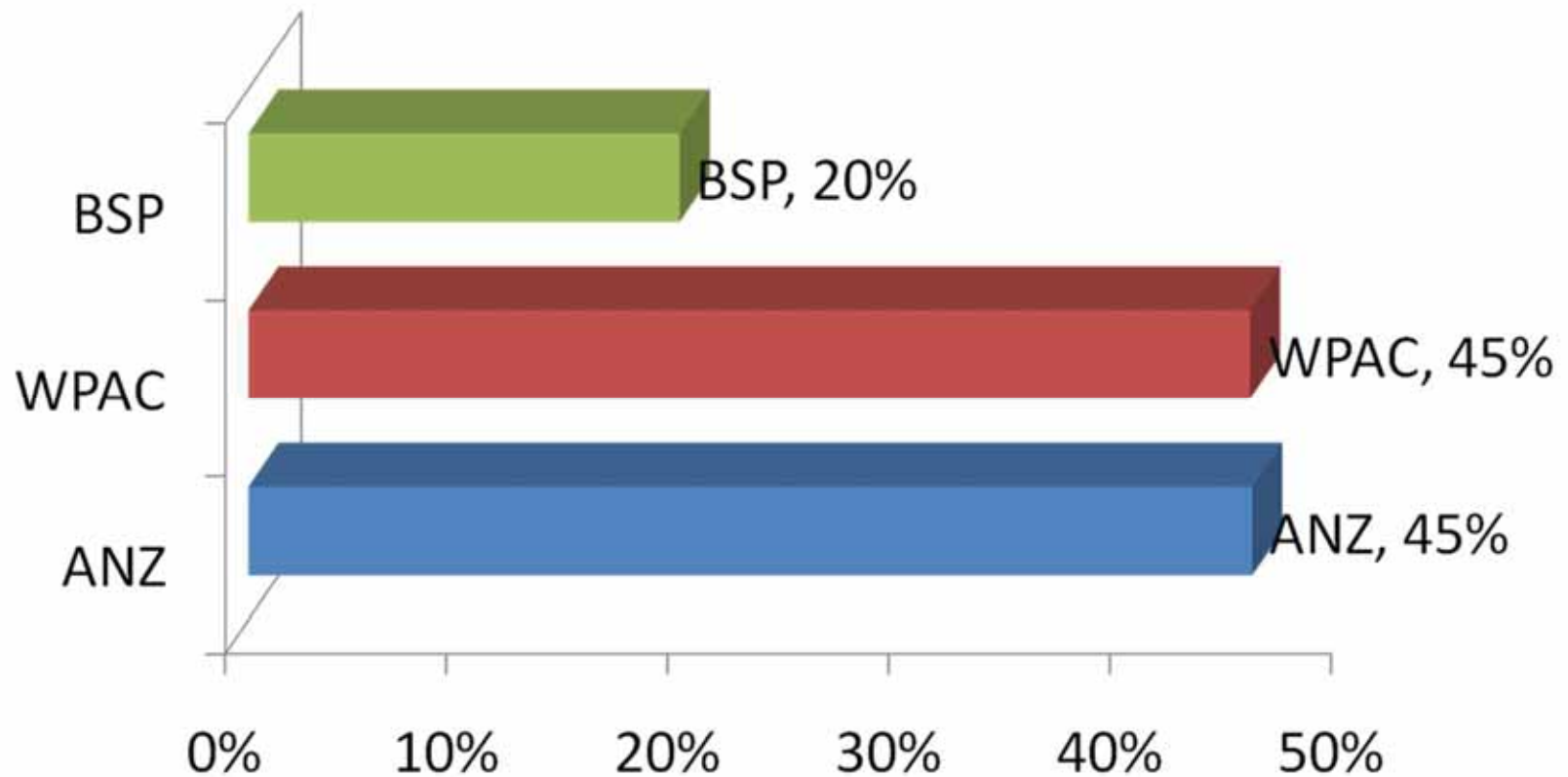
Profit Before Tax (km)



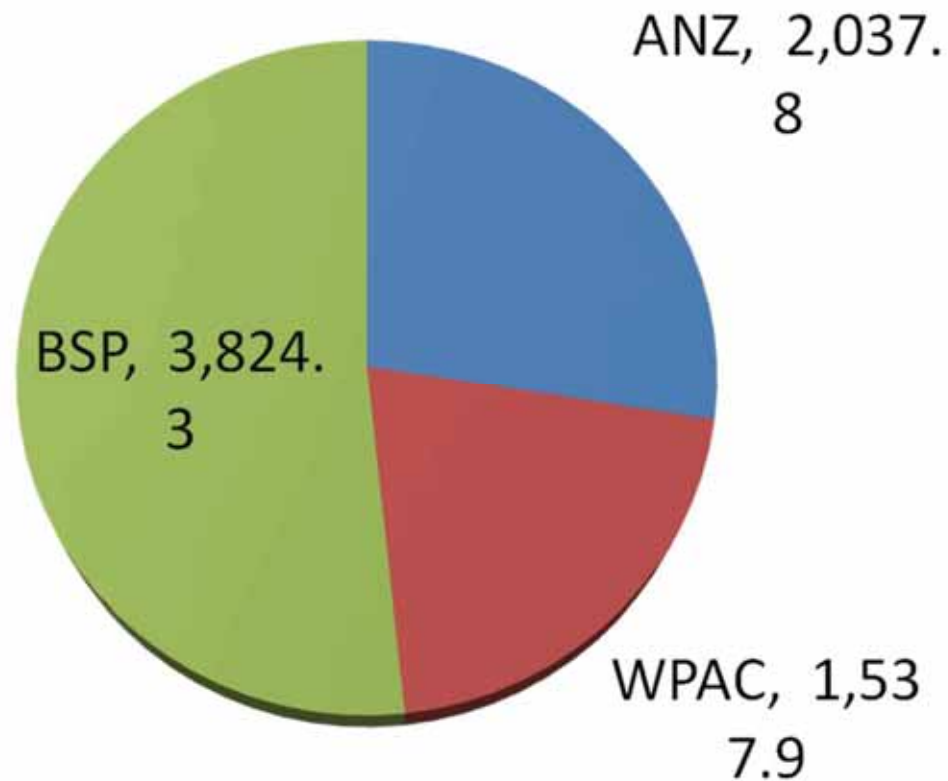
Revenue (Km)



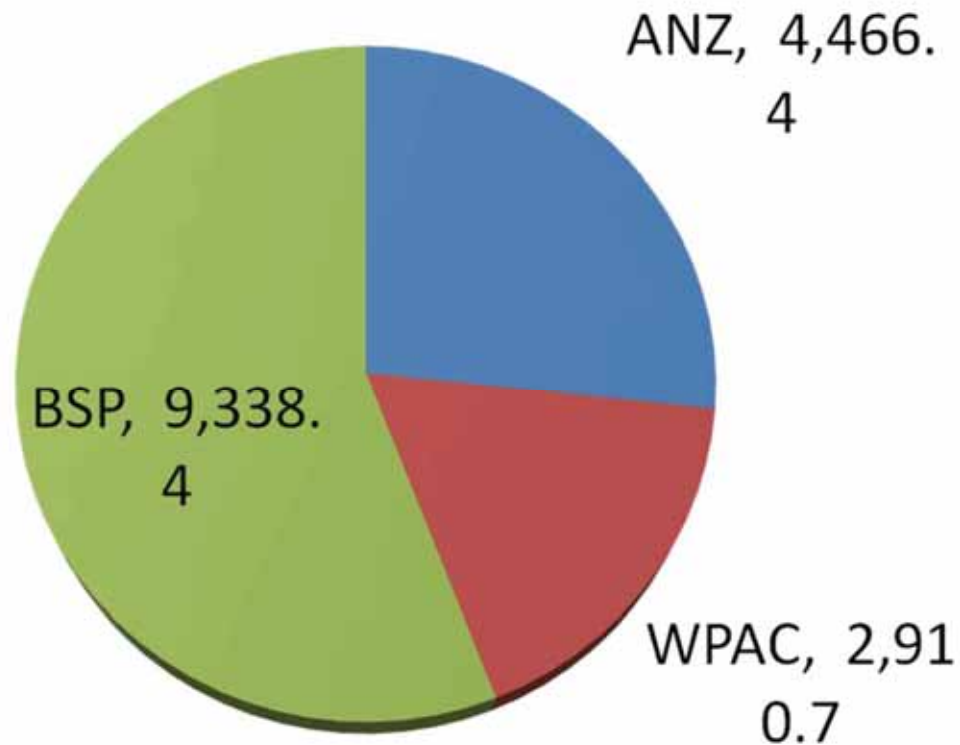
FX: % of total income



Loans (Km)



Deposits (Km)

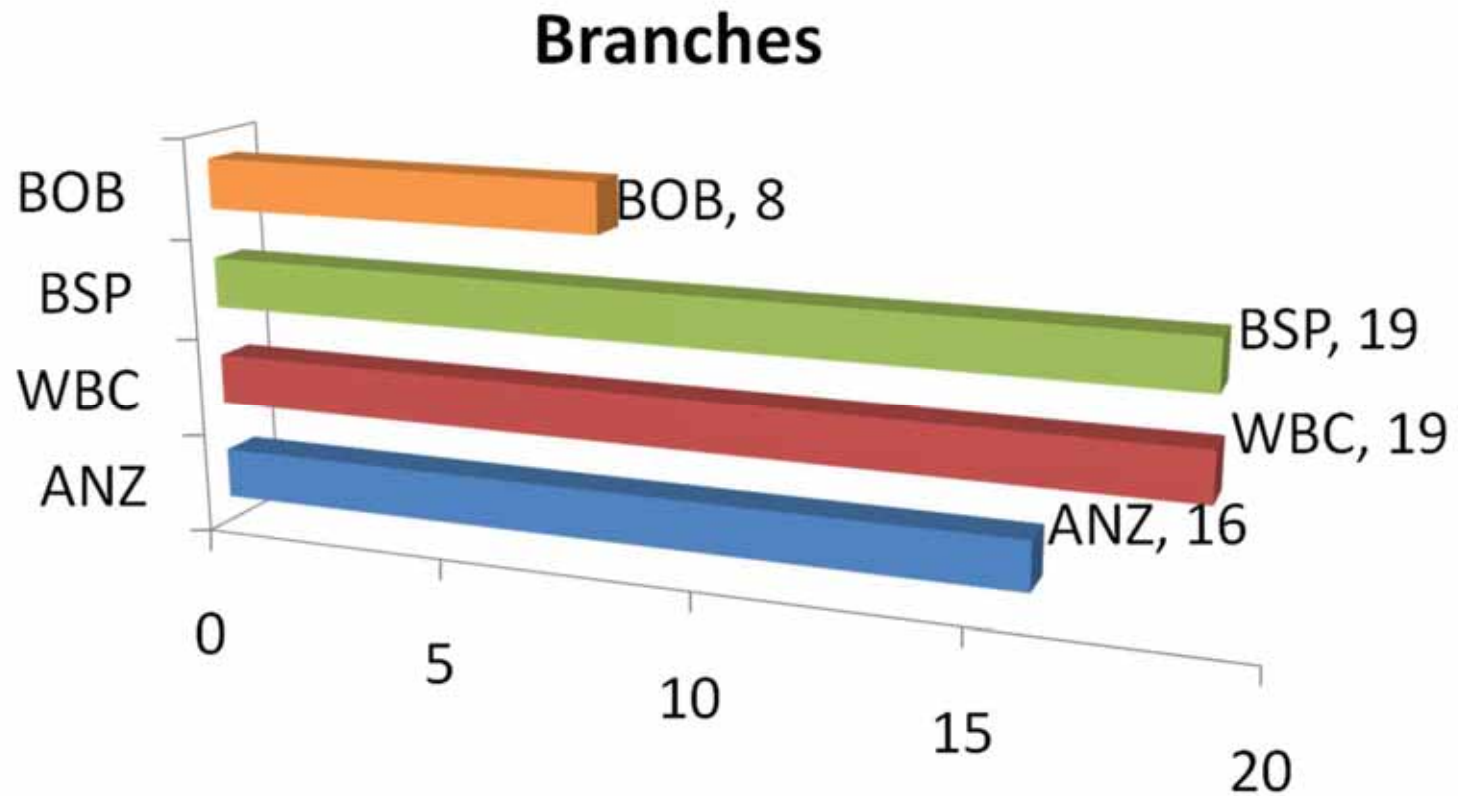


Competition Analysis Fiji

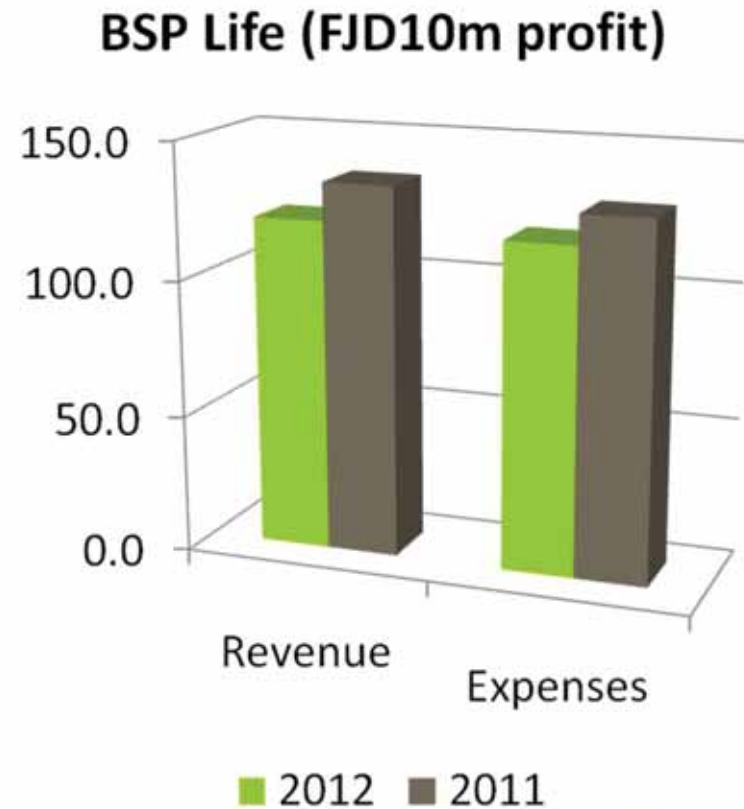
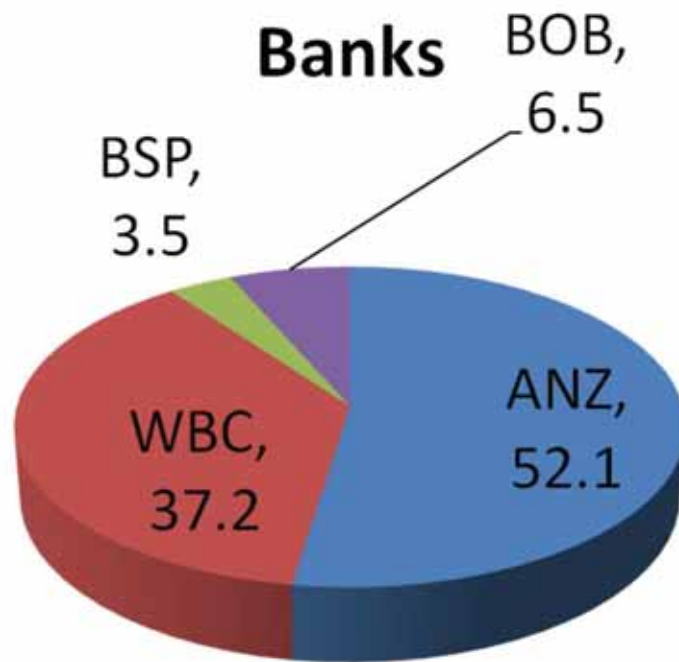
BSP, ANZ, WBC, Baroda (latest financial years)



Branches



Profit Before Tax (FJDm)



Competition Analysis Solomon Islands

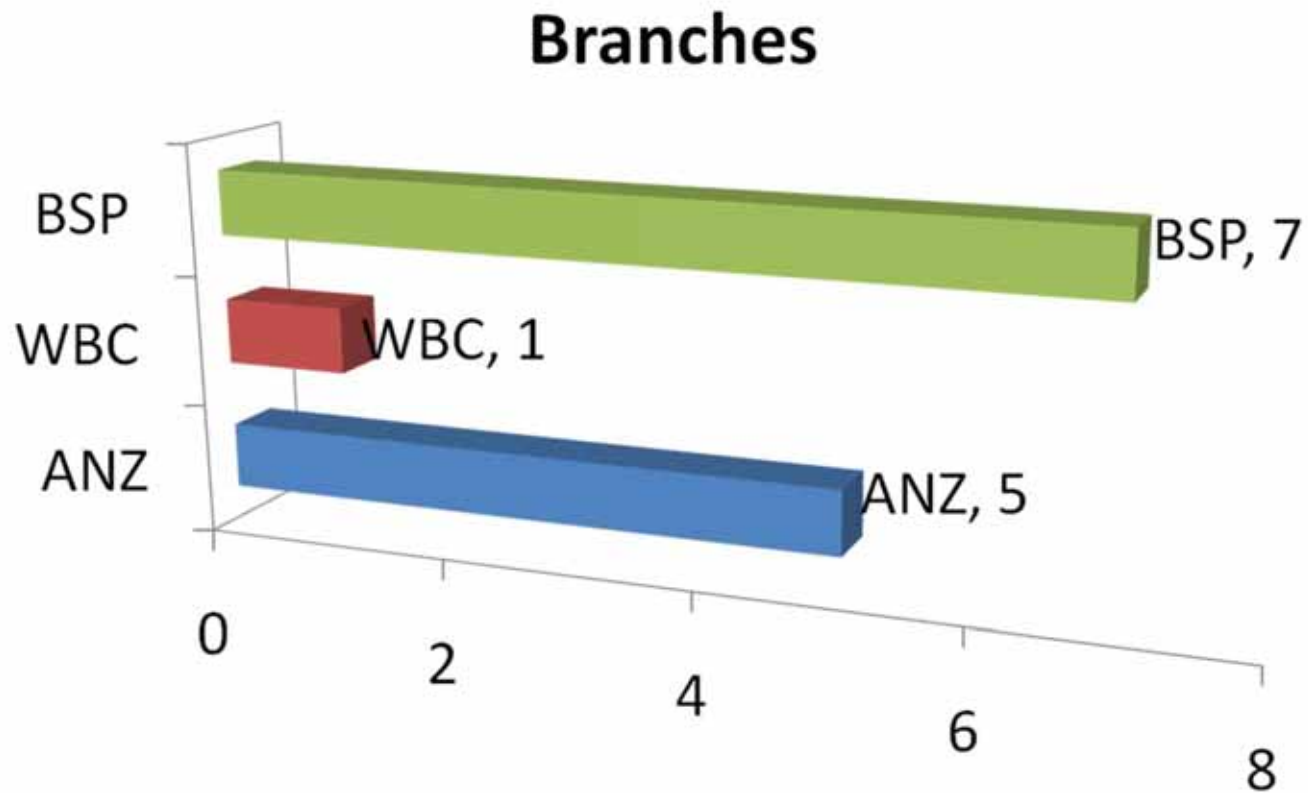
BSP, ANZ, WBC, (latest financial years)



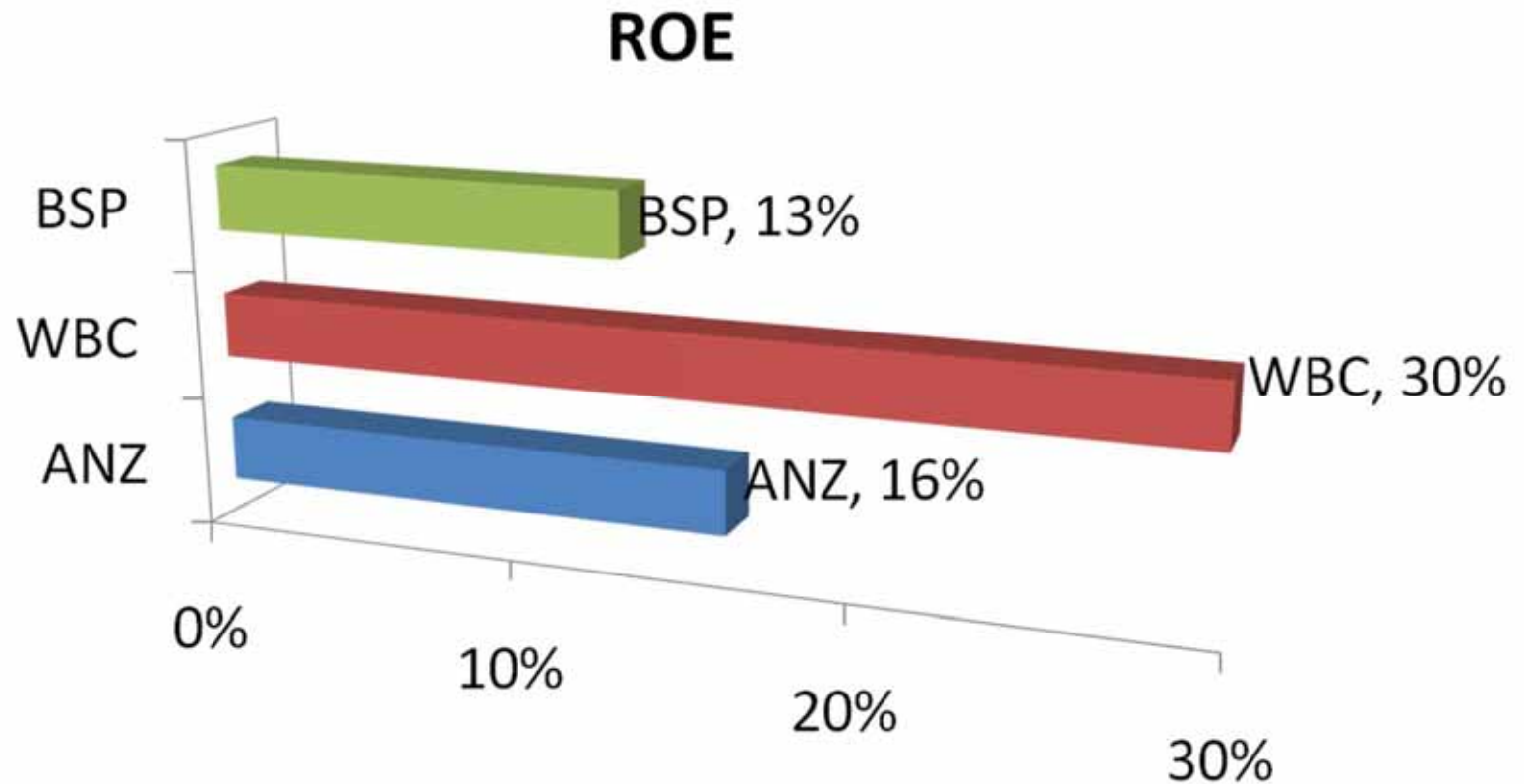
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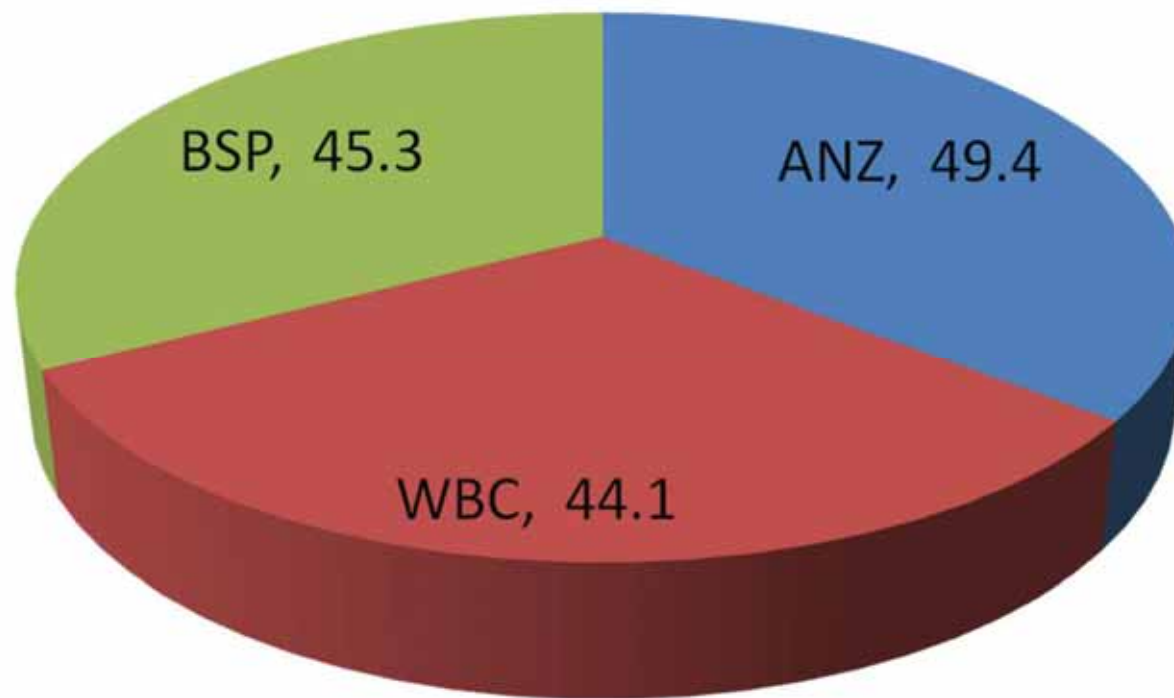
Branches



ROE



Profit Before Tax (SBDm)



BSP Strategy Setting



BSP Strategic Workshop 2013 -15 MTP

- **Asked ourselves** –

“How Do we continue to grow BSP, especially given increased competition and a more challenging economic environment?”



What are the External Trends that may impact BSP?

Outcomes:

- Competition in 2012 is intensifying in PNG, Fiji, & SL. Pressure on Lending Margins, FX margins and Fees, & will continue.
- Economic Growth began to slow (across all markets) in 2012. This will continue in 2013 – 15.
- Excess Liquidity (impacts Lending opportunities).
- Social issues & Social Awareness is challenging Governments to deliver “REAL” infrastructure & service improvements.



BSP Historic Growth Targets – Question - can we maintain these in 2013-15?

Outcomes:

- **Group Assets & Liabilities grown - 18% YoY.**
- **Group Profits – 15% YoY.**
- **Share price has recovered & is Stable - K8.12.**
- **Customer Base is now 1.5 million across the Pacific & what is the future growth potential? Why not 2 million?**
- **Still need to deliver a number of extremely important transformation projects. What is our capacity to deliver?**



What areas need greater Focus - benefits realization.

- **Acquisition** of new customers & improved **ability to sell** our Products.
- **Branch profitability**, improved in PNG, Fiji and Solomon Islands because of an improved Sales & e banking solutions, but manual operational costs remain high.
- Transformation Project **benefits realization.**
- **Communication**, sub optimal internal communication. Product knowledge, Rolls & responsibilities (network sales) SBU co-operation, lack of Individual ownership, accountability & responsibility will limit BSP's potential.



What are BSP's Prospects & Opportunities?

Outcomes:

- BSP can increase our “**share of wallet**” if we can improve our ability to “**effectively**” serve & cross sell our (Retail) products to our Customers – a “Whole of Bank” Sales & service Focus especially to Strategic and Large Corporate. (Retail, Corporate, Treasury).
- **Trade Finance & FX Income** must receive increased focus in a more competitive market.
- **Personal & SME Lending** growth “Smart Business”.



What are BSP's Prospects & Opportunities cont.

Outcomes:

- Build & Leverage on our Electronic Banking and Technological leadership position. Develop “New Business” opportunities and “Reduce Costs” – **Cashless Banking**.

“Continue to be innovative”

- Greater focus on **Branch Automation**, and Operational Efficiency.
- Capitalize on Landowner Royalty Flows, and **Fund Management opportunities** (Paramount/BSP Capital).



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Future Financial Imperatives?

Outcomes:

- Maximize Income Earning Opportunities:

“Whole of Bank Sales and Service improvements”.

- Expand our Retail and SME Lending Business.
- Expand our Trade Finance Business (lock in FX).
- Need more Strategic & Large Corporate Customers to diversify and expand our revenue base.
- Expand our Electronic Banking Network and Product Range, to give us **greater transactional Income** via BSP's low cost electronic banking network & solutions.



Future Customer Imperatives?

Outcomes:

- Improve the Customer “**Experience**” e.g. BSP First, BSP Premium Branches, BSP Rural, Agents.....
- “**Educate**” the customers to use Electronic solutions, Mobile Phone Banking, Wantok Moni.
- Protect and expand our Strategic Customer relationships. “Whole of Bank” Sales & Service.
- Deliver / Develop product & service offers that “**meet the customers needs**” – both current and potential / new.



10 Major Strategic Project Initiatives 2013



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10 Major Strategic Initiatives for 2013

1. Automation of the Loan Origination Platform “Lend fast”.
2. Automation of the Retail Collection Process, PNG retail default rate is 15%.
3. Introduction of a New Agent Management System.
4. Automation of the Branch Cheque Processing System



10 Major Strategic Initiatives for 2013

5. Embedding a proper Corporate Strategic Customer Planning process.

Facilitated by the creation of the **Strategic Customer Service team (SCS)**, who are responsible to work with the Relationship Managers and all other Commercial & Support SBU's to **“Significantly” enhance all aspects of our “Whole of Bank” sales and service model.** (Corporate, Paramount, Treasury, Retail, Network, Operations & Support SBU's).



10 Major Strategic Initiatives for 2013

6. Treasury Sales – **increase contact & value added services** for our Strategic & Large Corporate Customers.
7. Trade Finance – Outsourcing all Back Office operations to “Wells Fargo Bank” in Hong Kong. BSP focuses on an **improving Sales & middle office.**
8. Enhance Management Information System (MIS).
9. Fully operational (100% mirrored) IT Test environment.
10. BSP College. **“Must Simply Train our People Better”**



Major BSP Building Projects 2013-15



BSP Haus, Harbour City



Pacific Operations Centre, Port Moresby



Pacific Operations Centre, Port Moresby



Gordon's Commercial Centre



BSP Lae Commercial Centre



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Summary



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“2012 was another “extremely” successful year”

- **NPBT of K545 Million, NPAT of K408 Million**
- **Net Income K1.36 Billion**
- **Balance Sheet now exceeds K13 Billion**
- **Continued positive Loan & Deposit Growth**
- **Very strong Capital & Liquidity position.**



- Continued successful expansion of our Electronic Banking Platforms (ATM's, Eftpos, Mobile Phone, SMS, Internet)
- Extremely successful “Financial Inclusion” strategy BSP Rural & Agent Network
- BSP has approx 1.5 million Retail Customers in PNG, Fiji & SI.
- “Green Gold” Promotion opened 275,000 new customers in PNG in 2012.

“ All BSP’s Key Performance Indicators” remain sound”



- **BSP remains the only major Financial Institution in PNG truly committed to taking “cost effective” banking services to all Papua New Guineans including rural areas.**
- **Corporate Banking & Treasury Sales Teams continue to significantly improve their Financial Performance through a ‘Whole of Bank’ Sales & Service approach.**
- **Paramount Banking continues to provide a high quality of service to Government Departments & Landowner Groups ensure BSP continues to retain a strong deposit base.**
- **BSP’s “Social, Community, Sporting & Environmental” Program continues to achieve excellent results and has gained wide community support & recognition.**
- **BSP is the “Official” Sponsor of the 2015 Pacific Games in Port Moresby.**



BSP is the clear “Market Leader” in banking services in PNG & the Pacific.

The Transformation Program initiated in 2008, has been an “outstanding” success in changing BSP from a typical small former state owned bank into a “Globally” recognized modern, innovative emerging market bank.

We have significantly enhanced “shareholder Value” both now & into the future.



BSP Group 2012 Financial Performance

Johnson Kalo, Group Deputy CEO / CFO

Annual General Meeting, May 2013



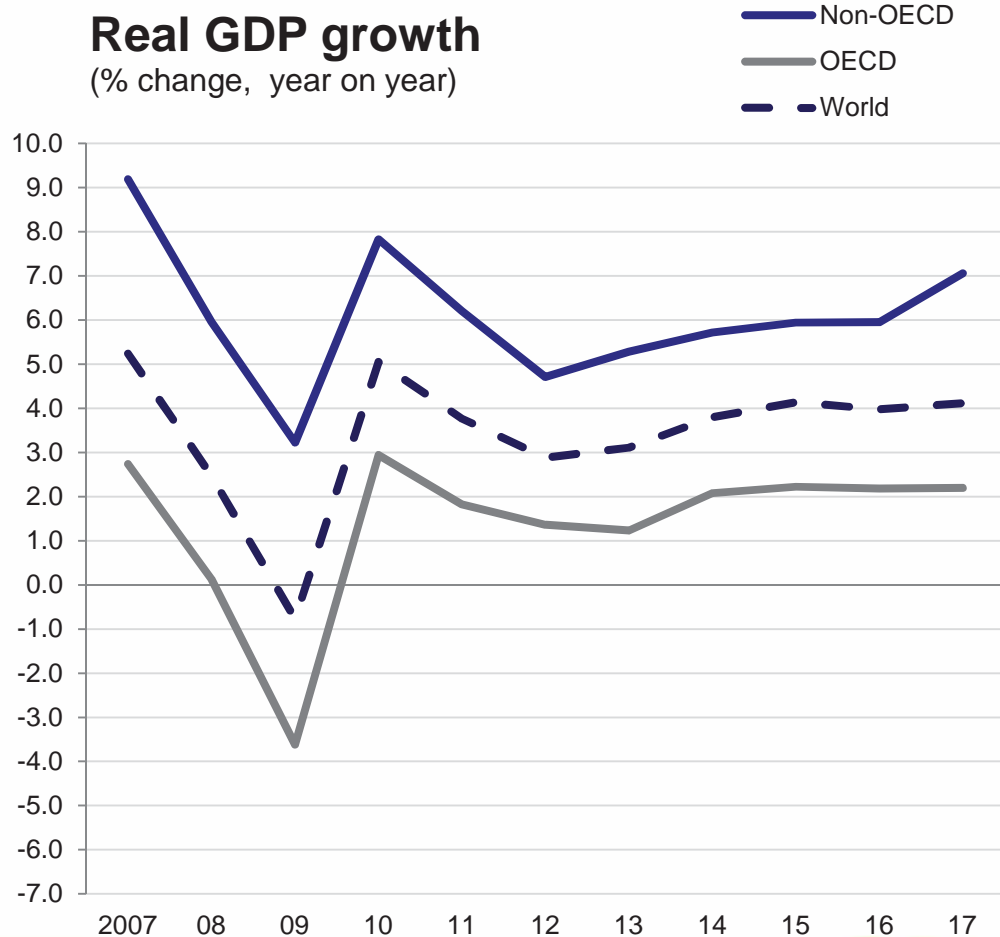
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ECONOMIC CONDITIONS



Global Economy

- Globally, Conditions have been difficult
- China's growth path is at lower levels, but India's growth is strong
- US prospects for recovery are likely to improve in 2014, Japan's growth is low but increasingly stable, and the Eurozone will remain fragile over the medium term
- Overall, a period of stability is expected in the medium term

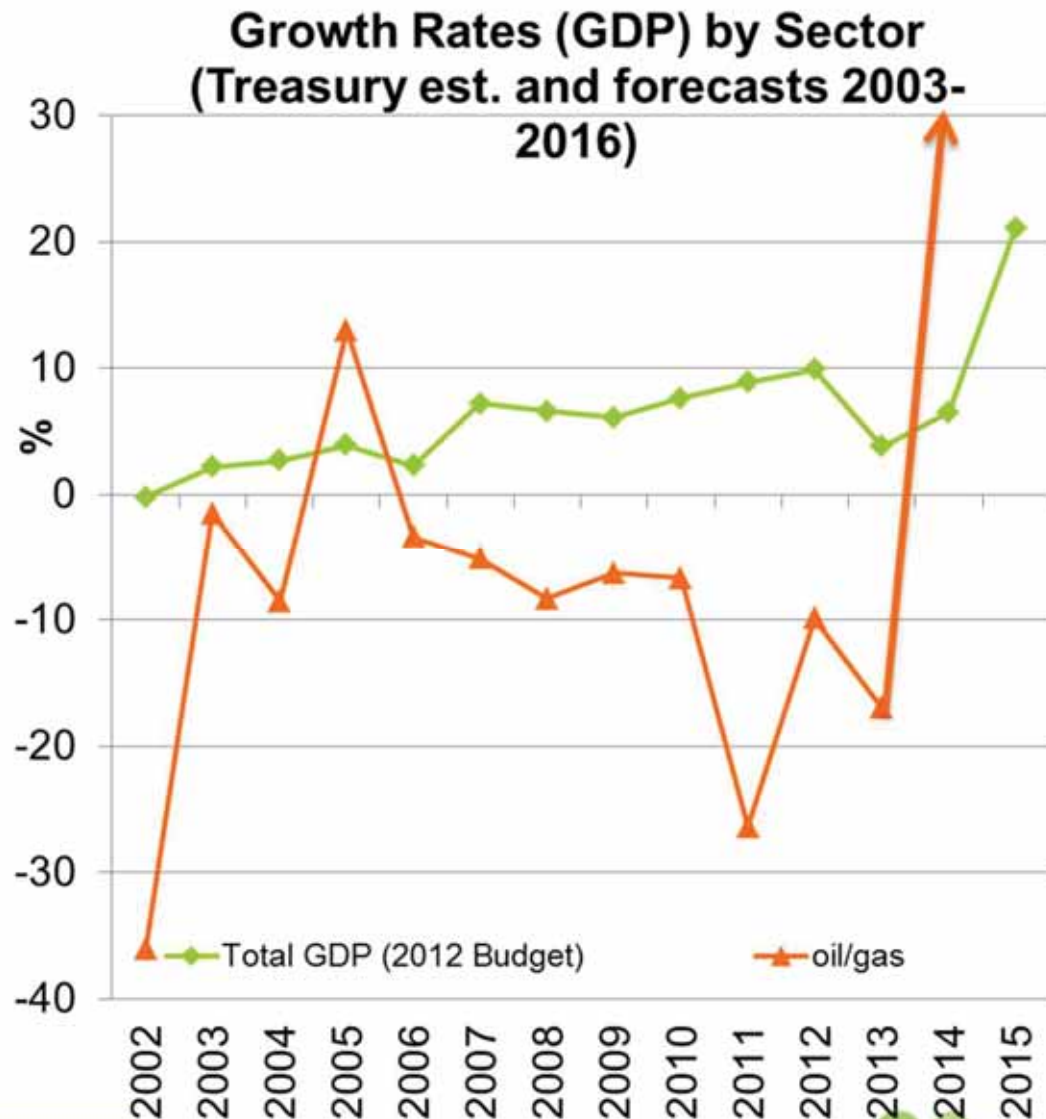


Source: The Economist Intelligence Unit, *Global Forecasting Service*.



PNG Economy

- Growth is expected to slow in 2013
- Significant step change is expected when PNG LNG Gas first flows, 2014



BSP GROUP FULL YEAR RESULTS



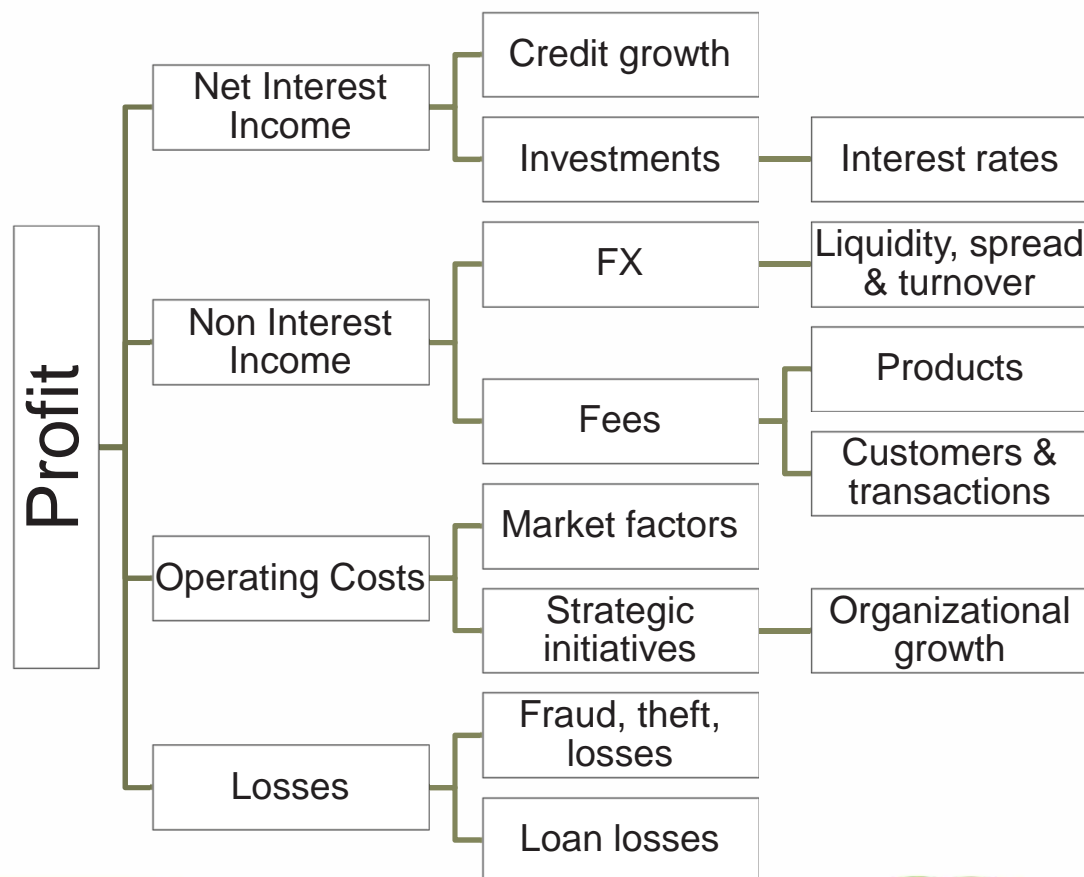
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2012 performance Drivers

The factors influencing profit in 2012 are:

- Solid credit growth, from strong sales approaches
- Depressed investment rates of return on bills and securities
- Strong FX liquidity, strong sales effort
- Innovative product offerings, effective promotions, supporting customer and transaction growth
- Costs influenced by market forces (factor supply & prices), and by growth cycle of the business
- Losses are a hazard of the business: internal controls and loan quality lapses



Financial Overview: 2012 results

	2011	2012	% Change
Profit after tax (Km)	355.9	407.7	14.6%
Revenue (Km)	1,182.3	1,353.4	14.5%
Expenses (Km)	688.6	748.3	8.7%
Net Loan loss (Km)	25.2	71.0	281.7%
Earnings per share (K)	0.75	0.87	16.0%
Customer deposits (Km)	9,366.3	10,860.5	16.0%
Loans (Km)	4,300.9	4,804.6	11.7%
Bills & Securities (Km)	4,669.0	4,795.5	2.7%
Cash (Km)	1,423.6	2,061.4	44.8%
Total Assets (Km)	11,681.3	13,333.1	14.1%



CREDIT, LIQUIDITY & CAPITAL



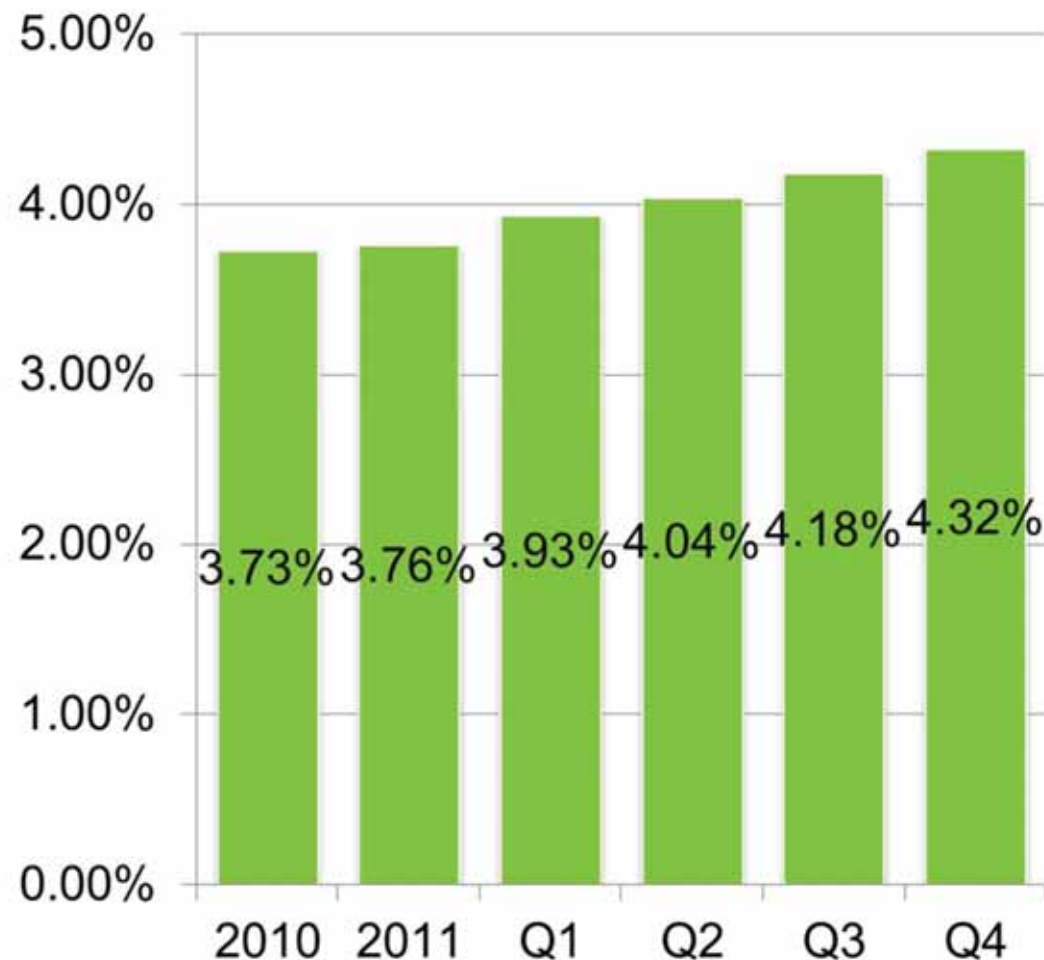
Credit Quality

Total 4.32% remains relatively stable

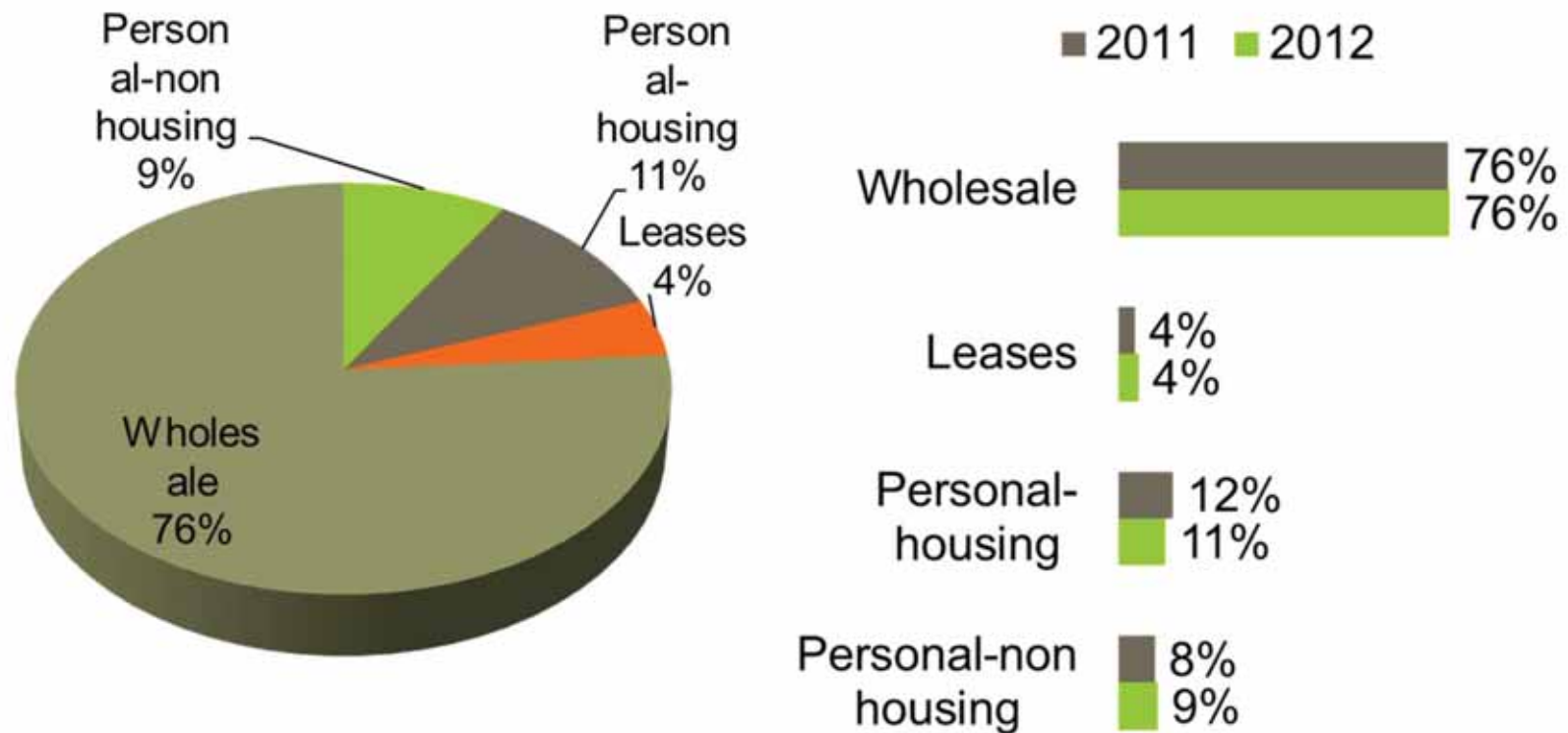
Trend reflects loan portfolio trend and evolving risk profile in a growth region, including:

- Exposure of natural resource projects to global economic conditions
- Susceptibility of markets to natural catastrophe
- Market share strategy in Fiji

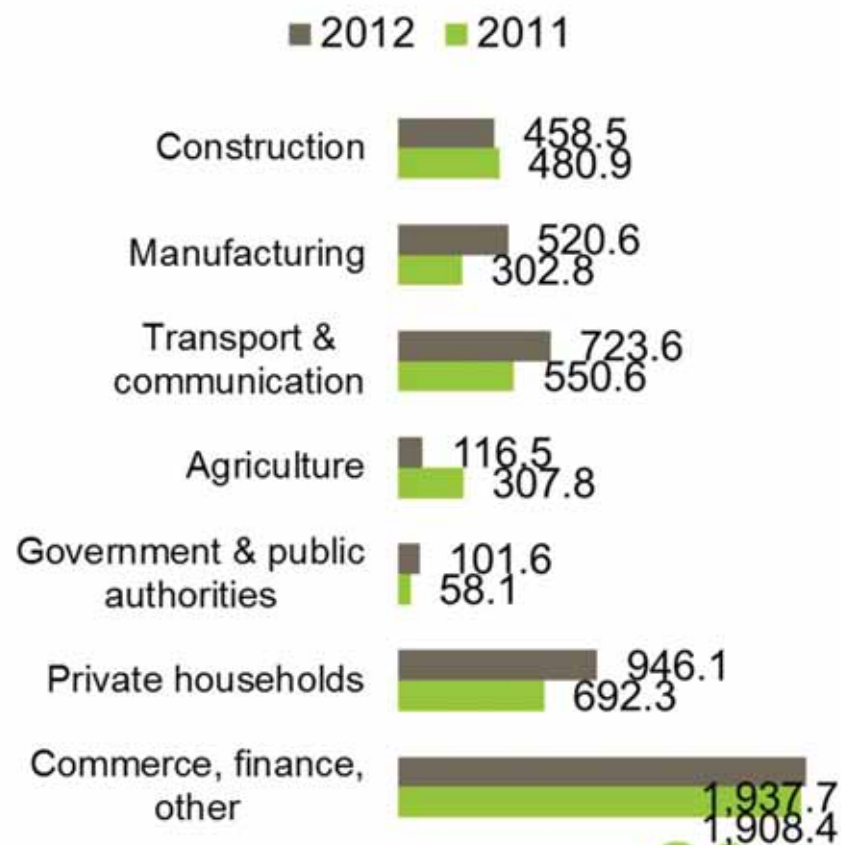
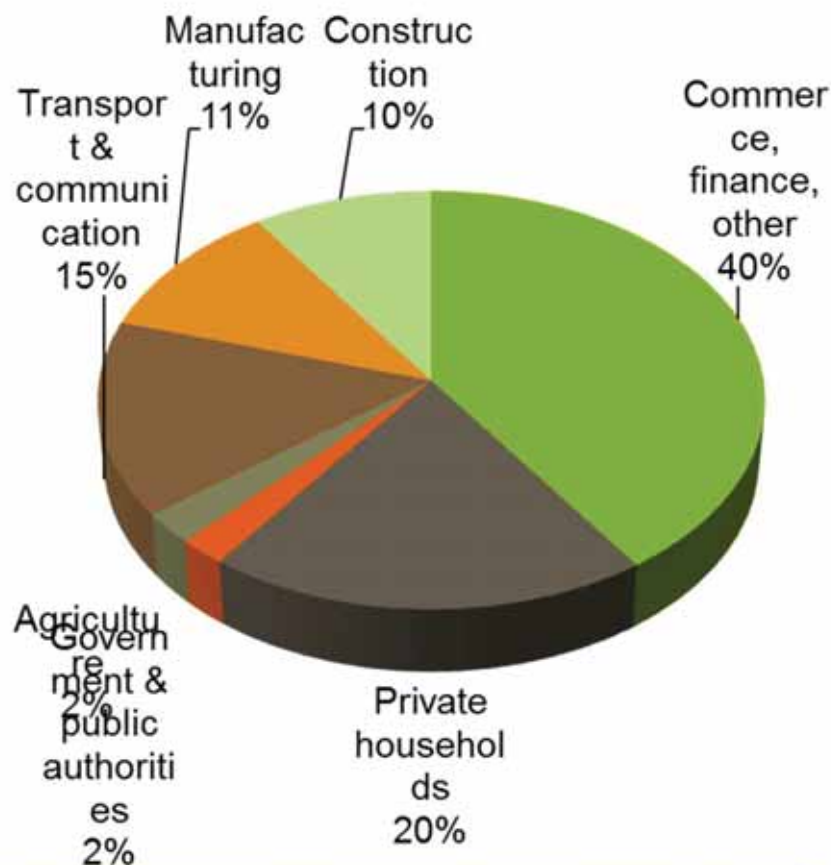
Loan Provisions to Gross Loans



Credit Quality (lending type)

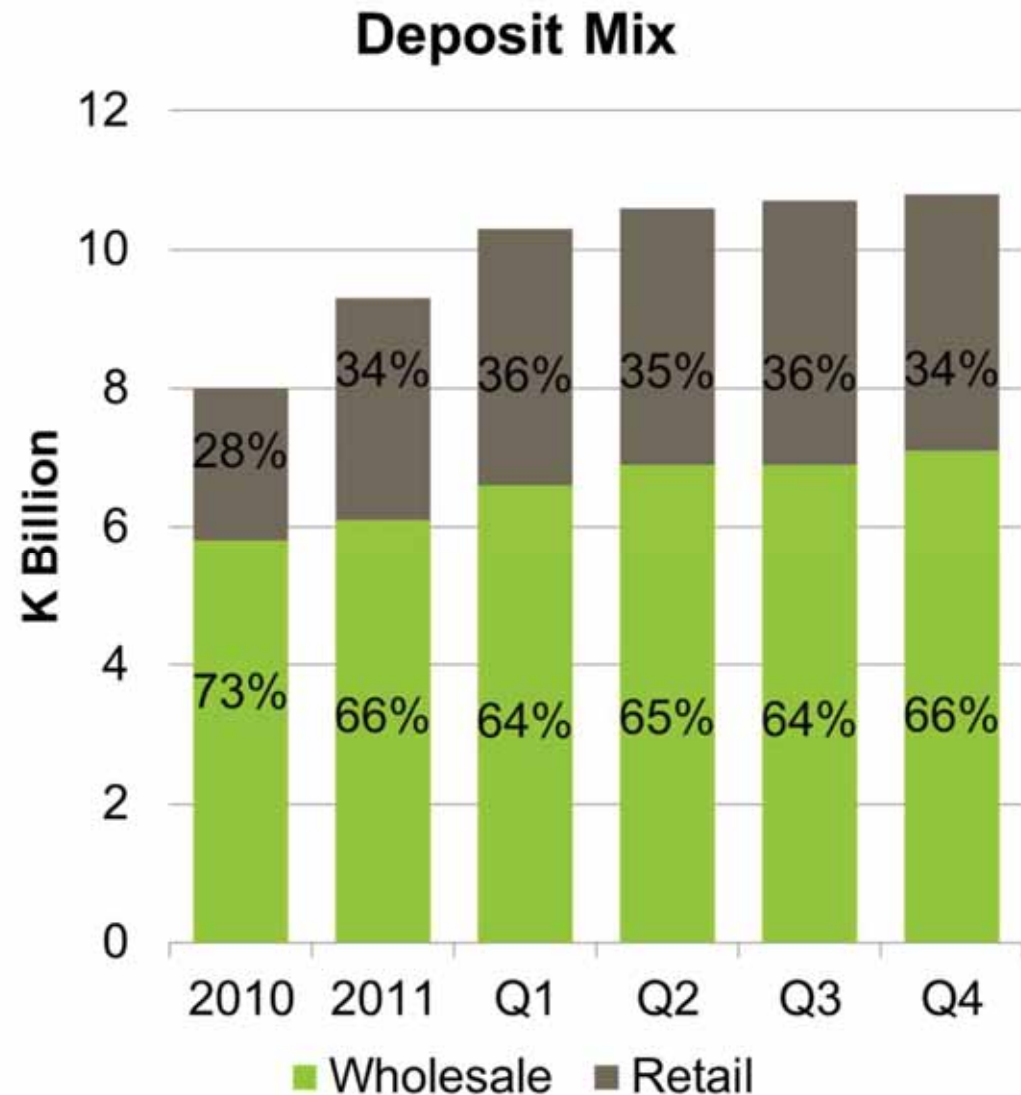


Credit Quality (sector spread)



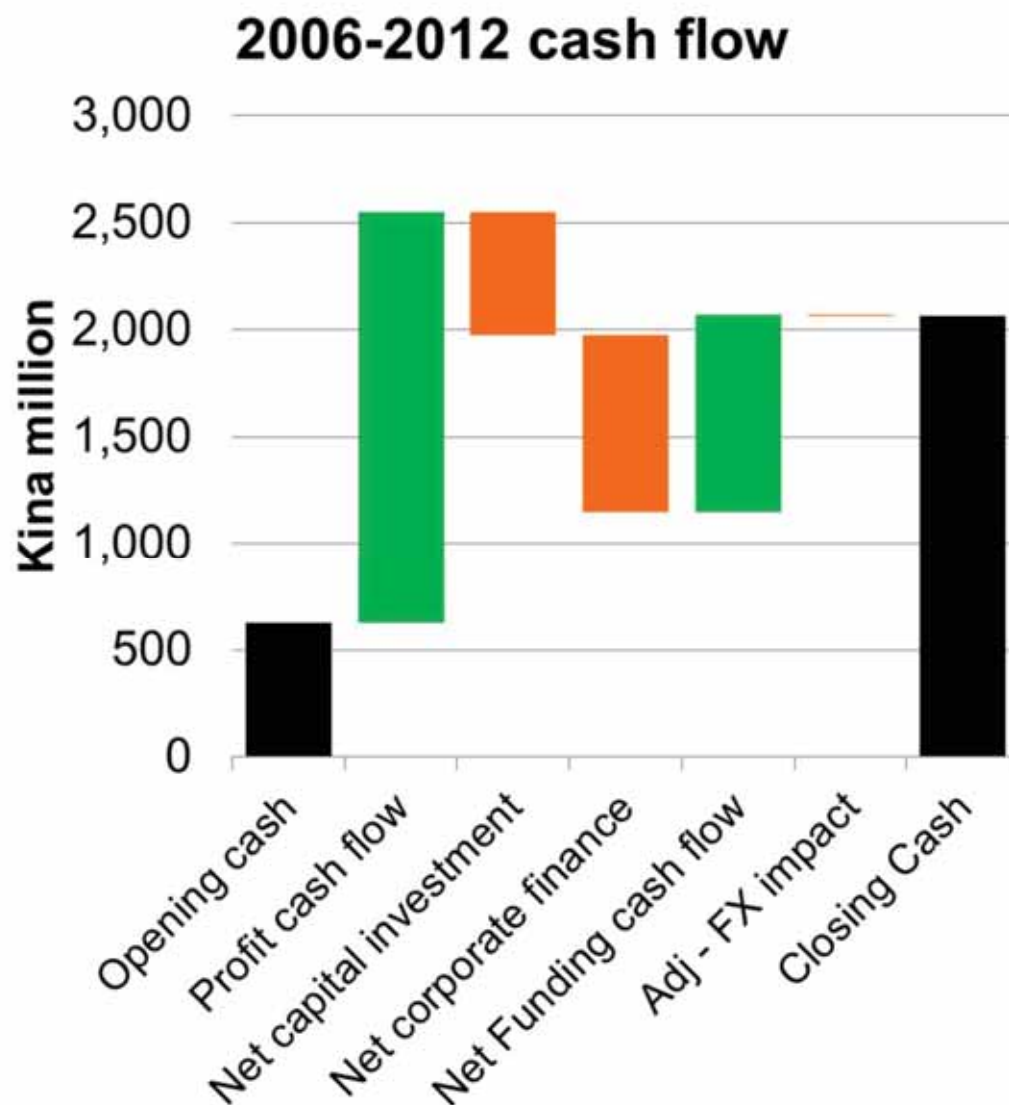
Funding

- Total funds have increased significantly from prior year.
- Proportion of wholesale funds has reduced from 2010
 - Segmentation
 - Product improvements, customer acquisition
 - PNG still retains close to 90% of deposits
 - Funds on demand still represent 80% of funding



Cash flow performance

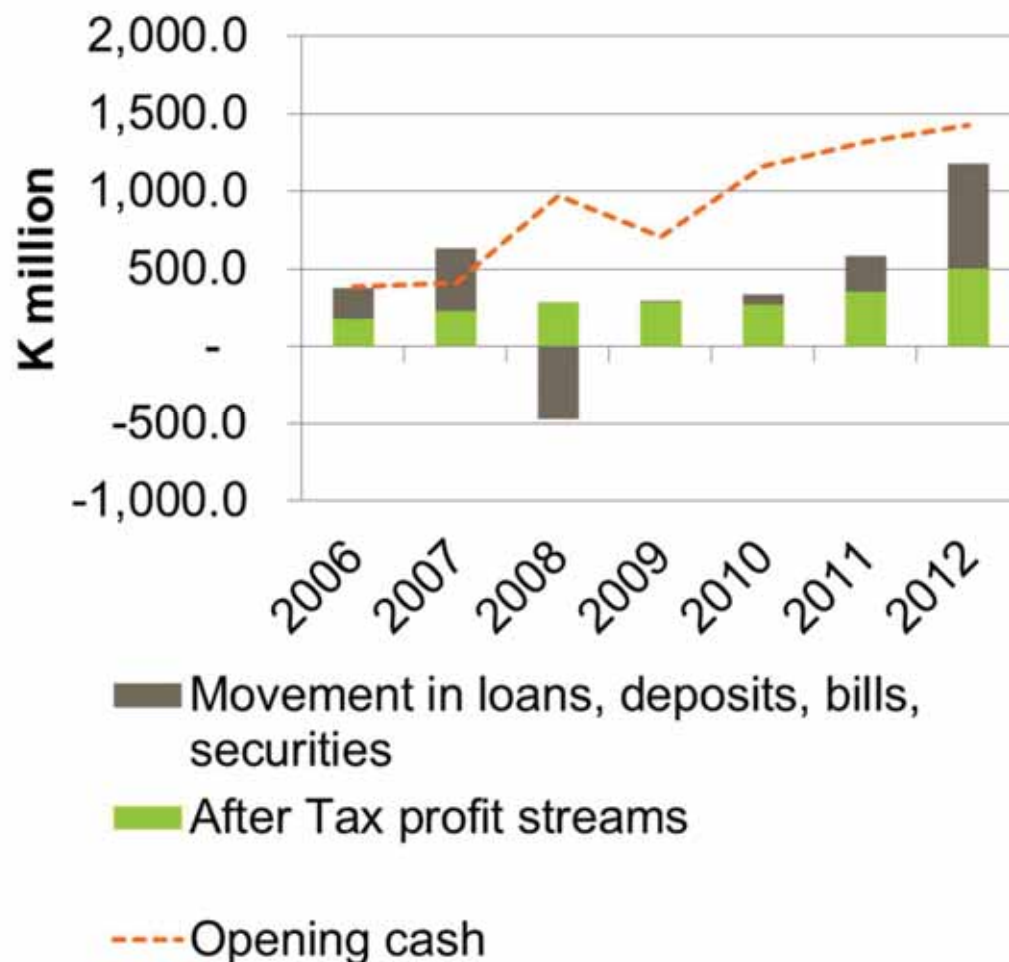
- The business generates good cash profits
 - Invested back into the business
 - Distributed, returned
- Deposit funds have increased rapidly
- The cash held:
 - 40% is reserving required by Central Bank(s)
 - 60% is held for short term liquidity protection



Strong cash profit flows

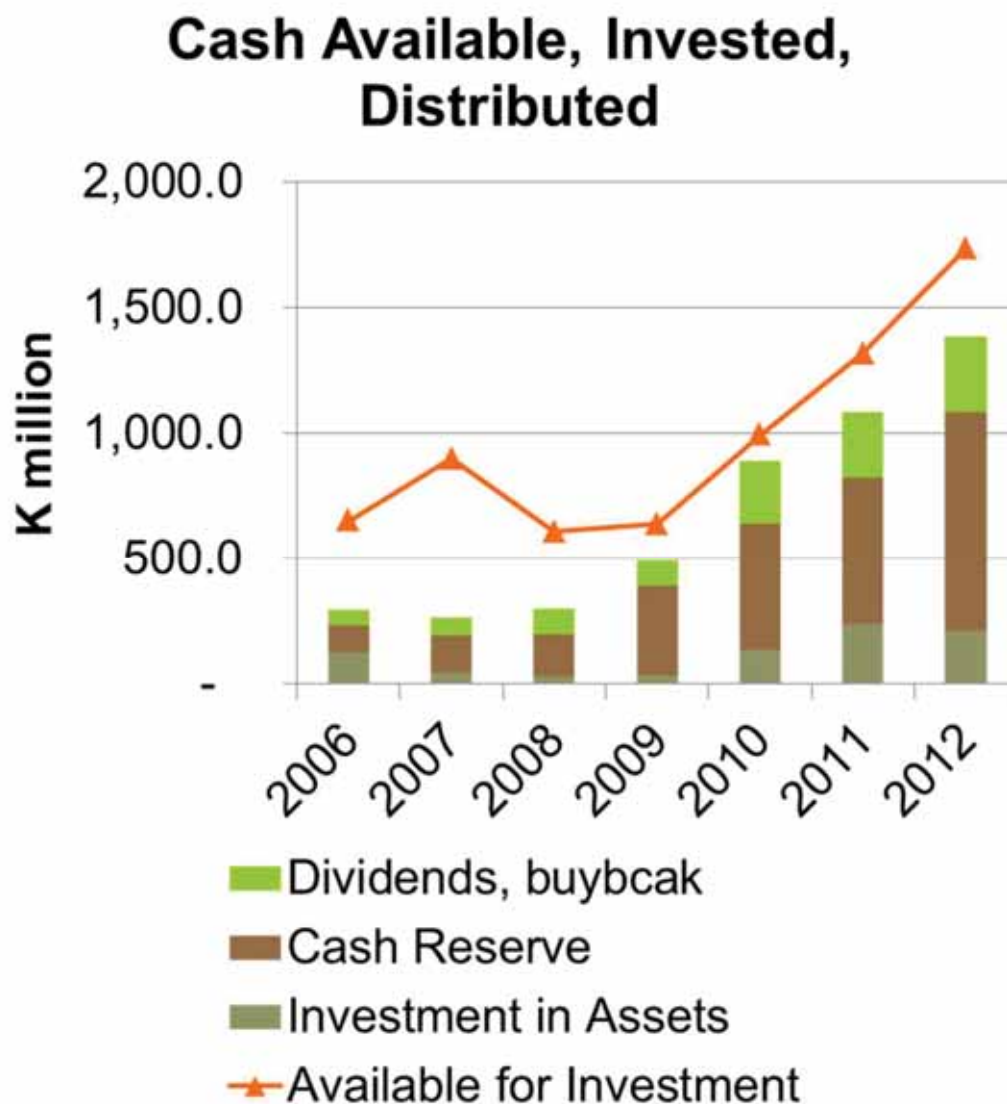
- Strong Cash Results
- In, 2012, the business generated strong cash profits
- Growth in depositors funds has also been very strong in 2012
- Each year, there has been surplus liquidity

Opening and Net Operating Cash Flows



Investment in the business

- Strong capacity to invest or distribute
- Despite regulatory cash reserving policies

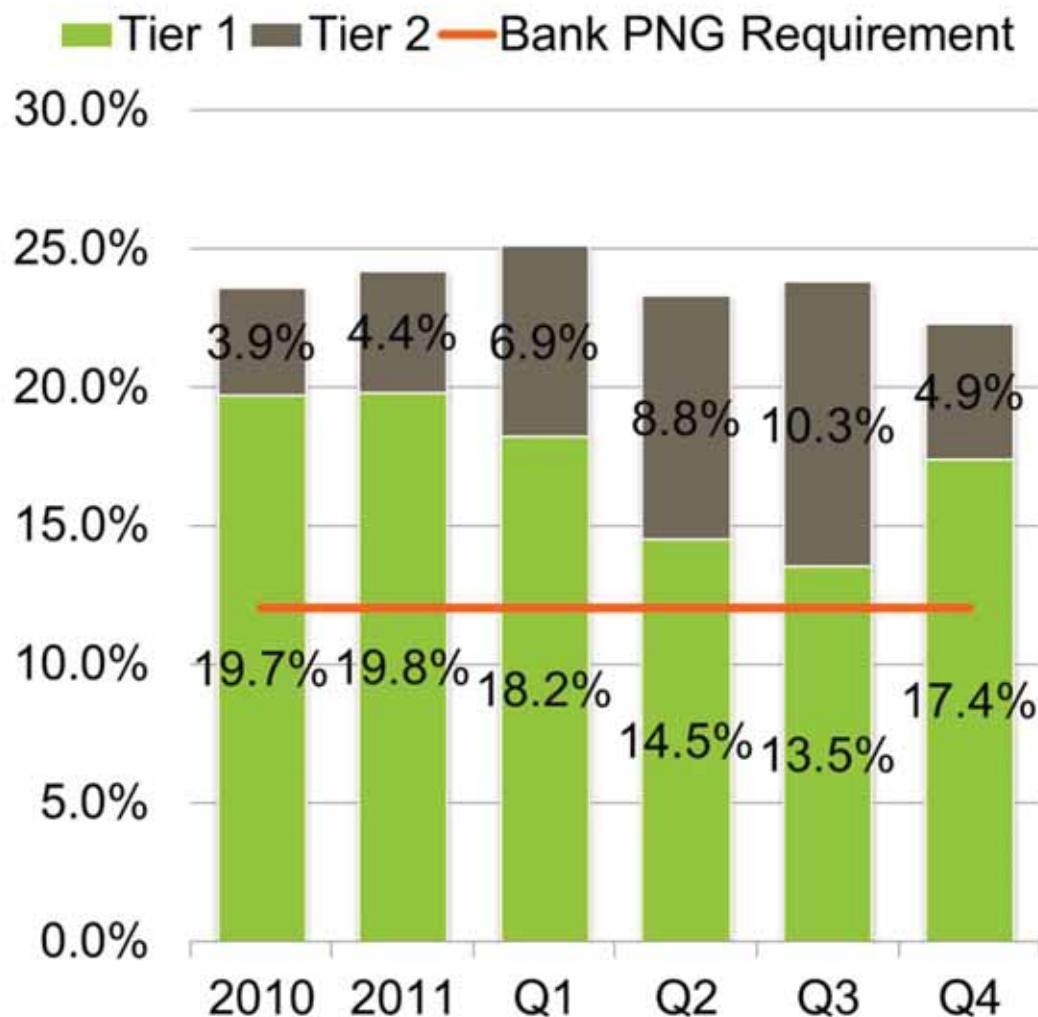


Capital Management

The Capital Base of the BSP Group exceeds regulatory standards for an adequately capitalised bank

- Profits earned during the year are tier 2 until audited
- The decrease in the overall ratio is reflected in the build up of loans, and other assets

Capital Adequacy



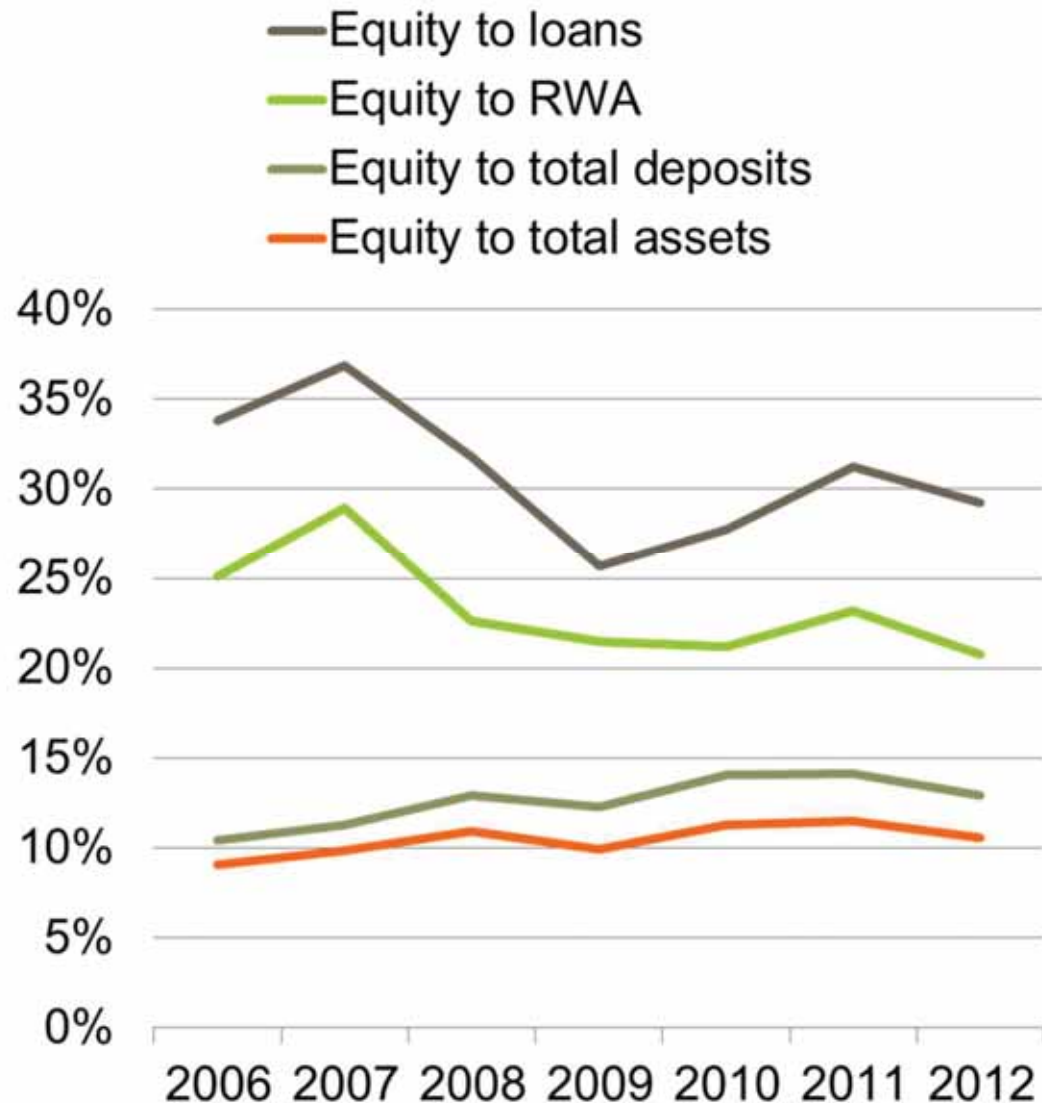
BSP

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Capital Management

Other “capital management KPIs” are trending well

- BSP's capital is mainly profits, shares, and reserves. i.e. equity
- Sound, stable capital position over the long term
- The risk in the balance sheet is with loans: credit risk

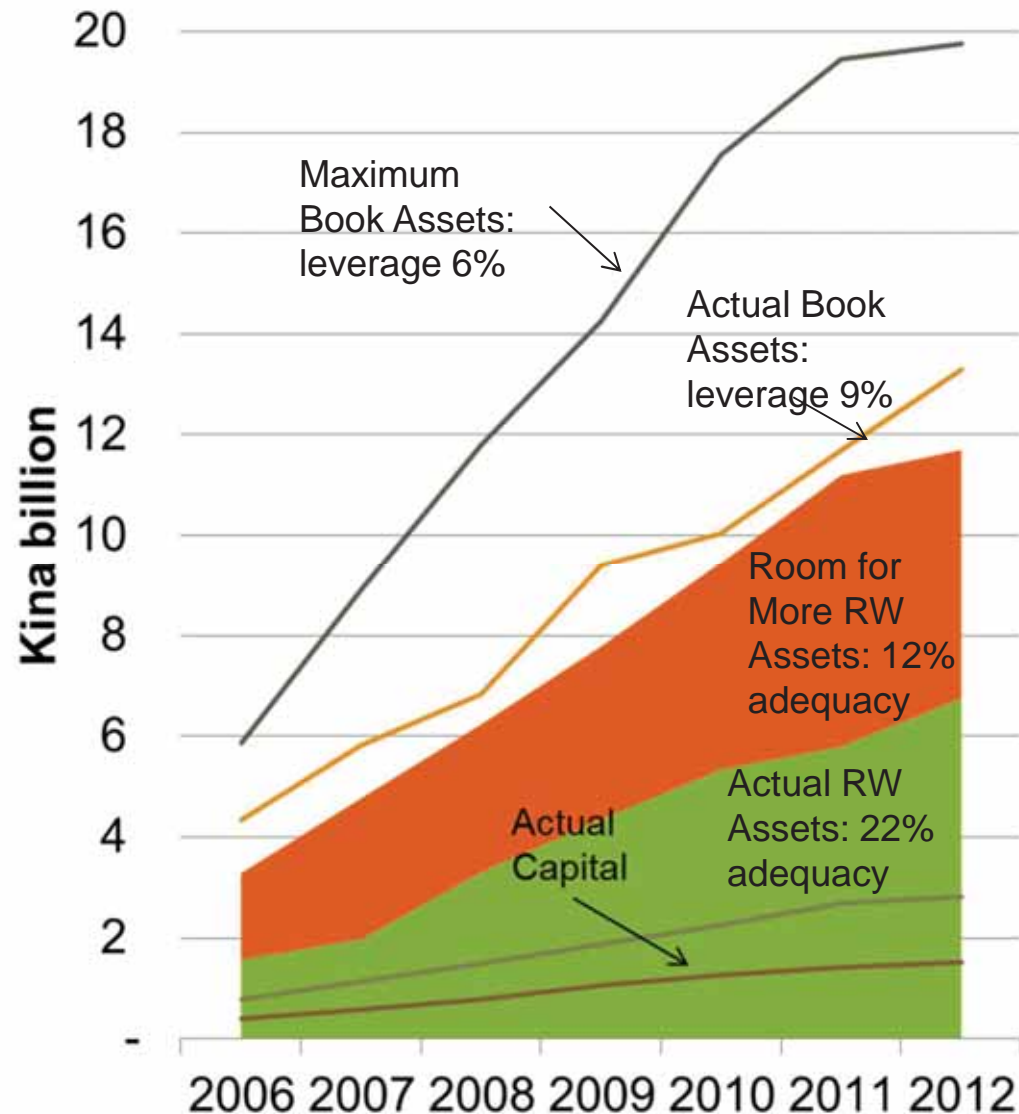


Capital Management

A conservative capital management approach:

- BSP can add another K4.9 billion of 100% risk weighted assets before it reaches its minimum capital adequacy limits
- Replace risk free assets
- Maintain balance sheet risk structure, increase total assets

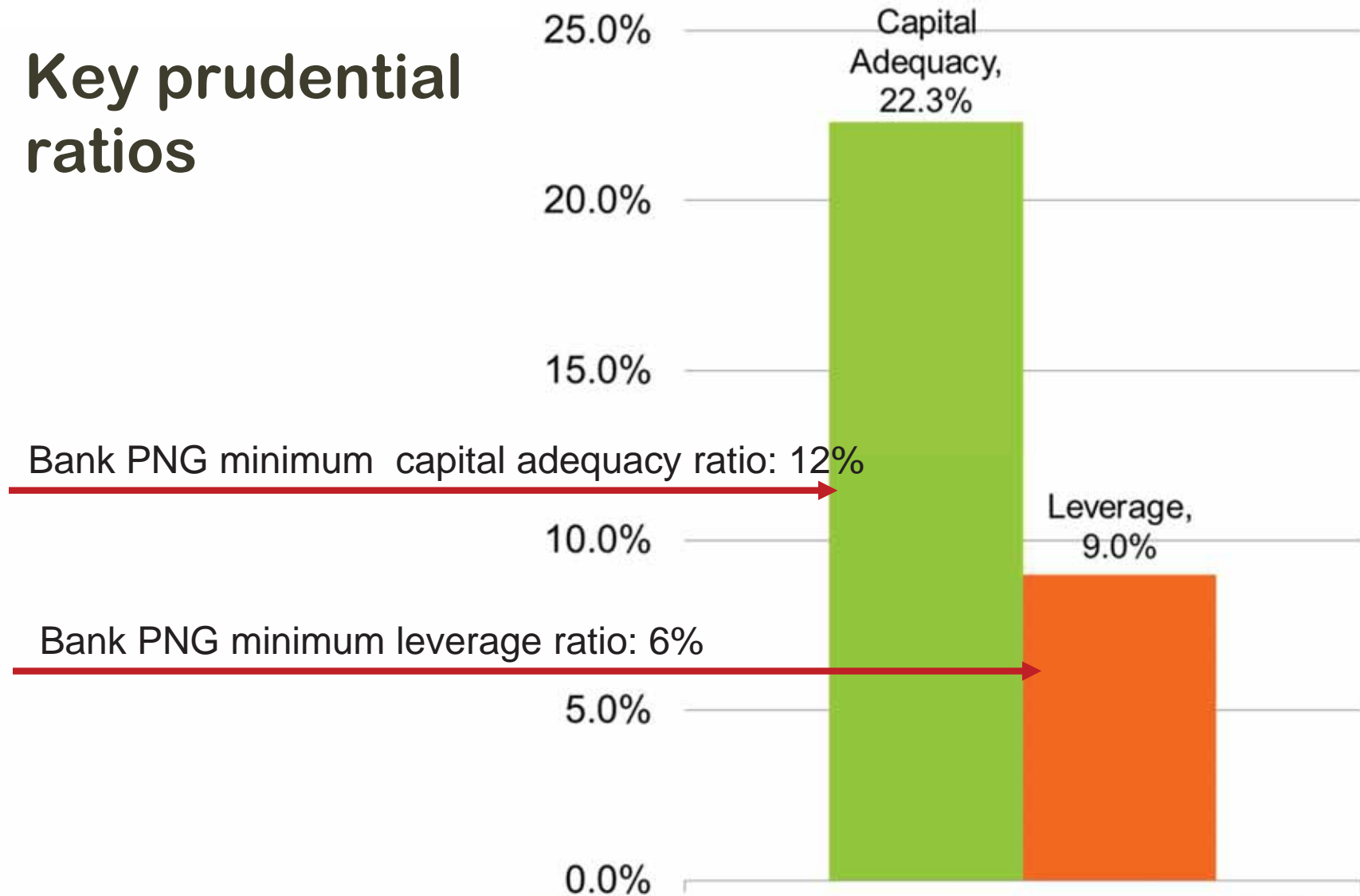
Stable risk appetite, growth outlook: more capital



PROFITABILITY AND KEY RATIOS

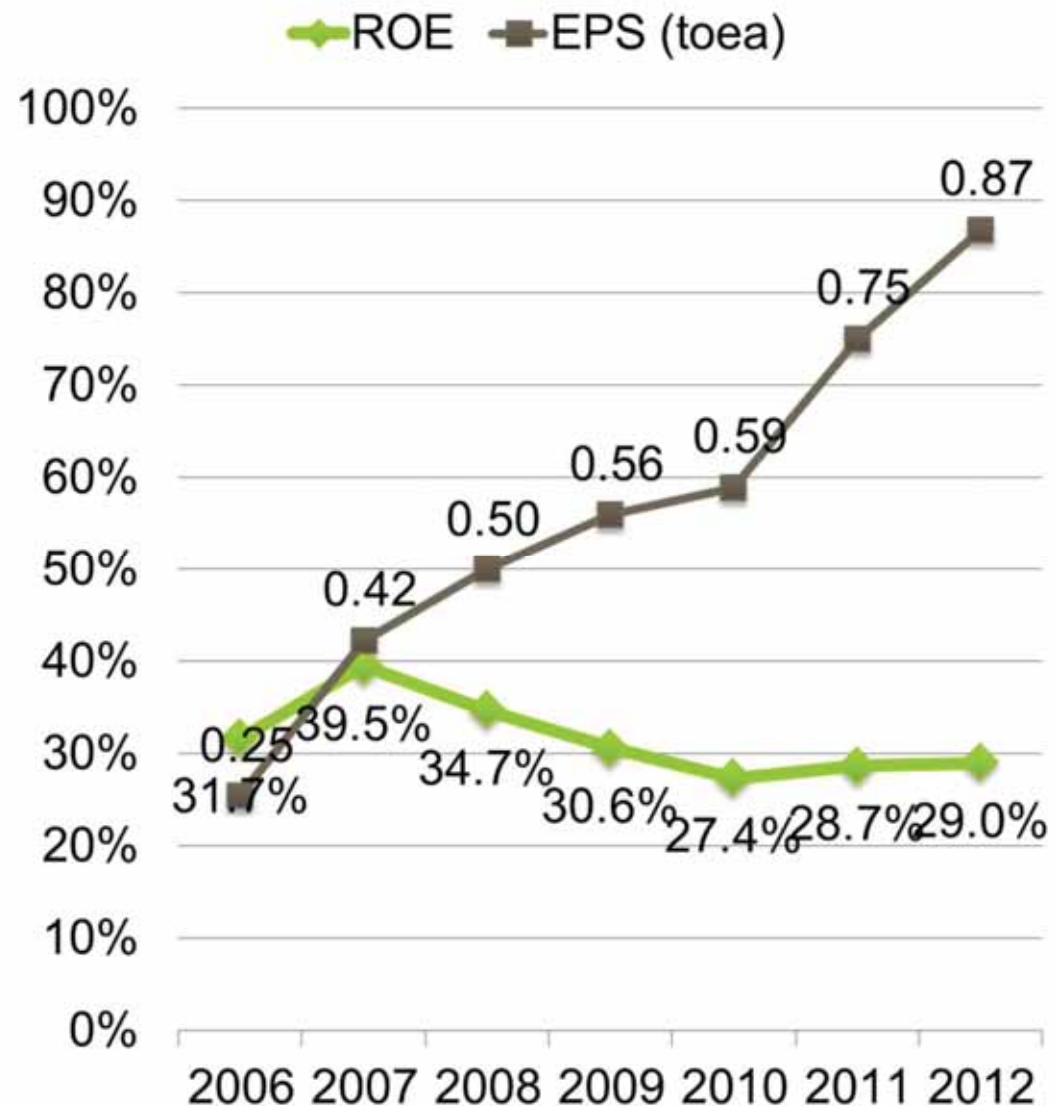


Key prudential ratios



Return on Equity

- ROE is stable, very strong
- Earnings per share continues to increase:
 - 16% increase from 2011

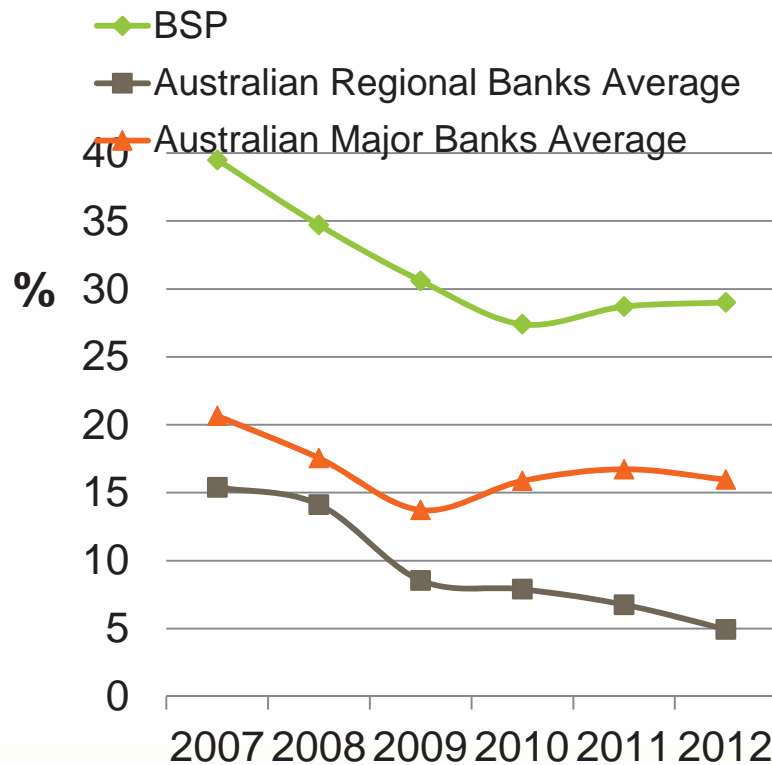


KEY COMPARISONS

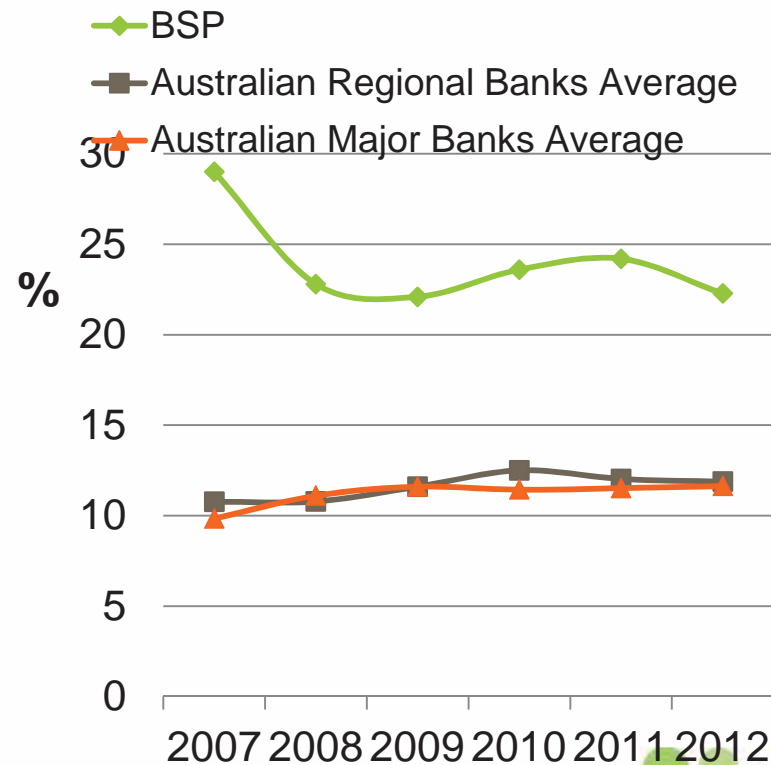


Key Ratio comparisons

Return on equity

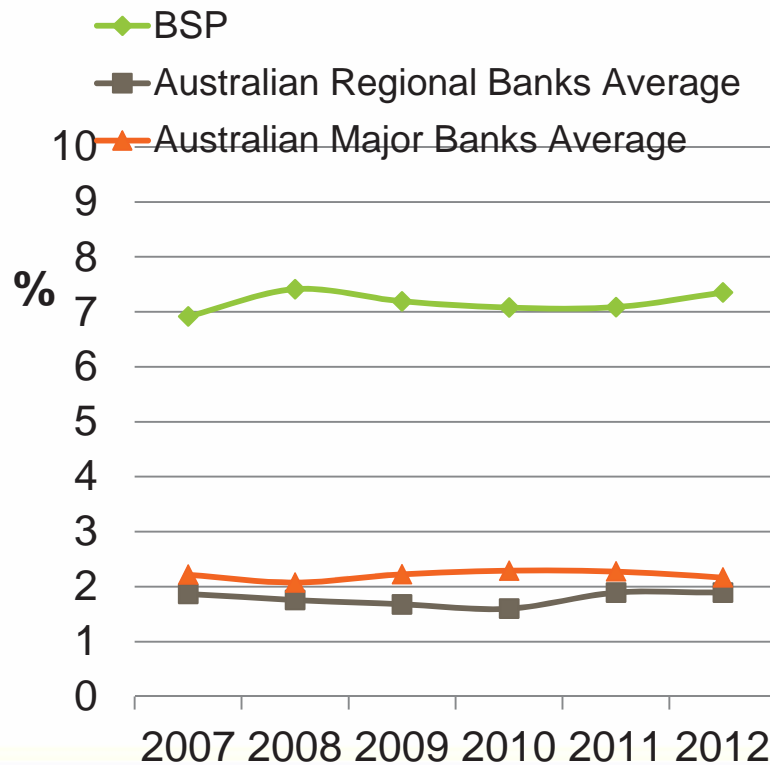


Capital adequacy ratio

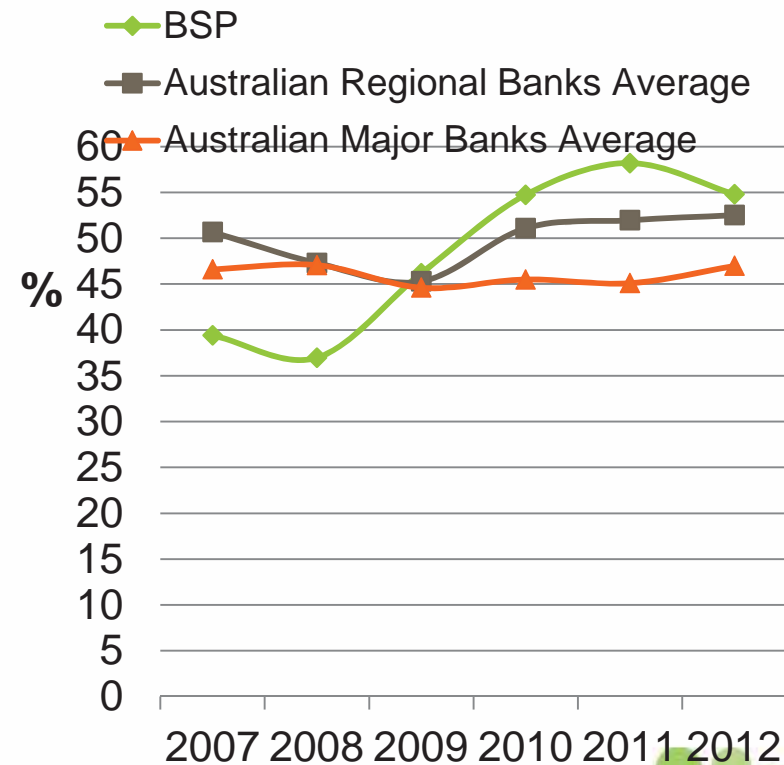


Key Ratio comparisons

Net interest margin



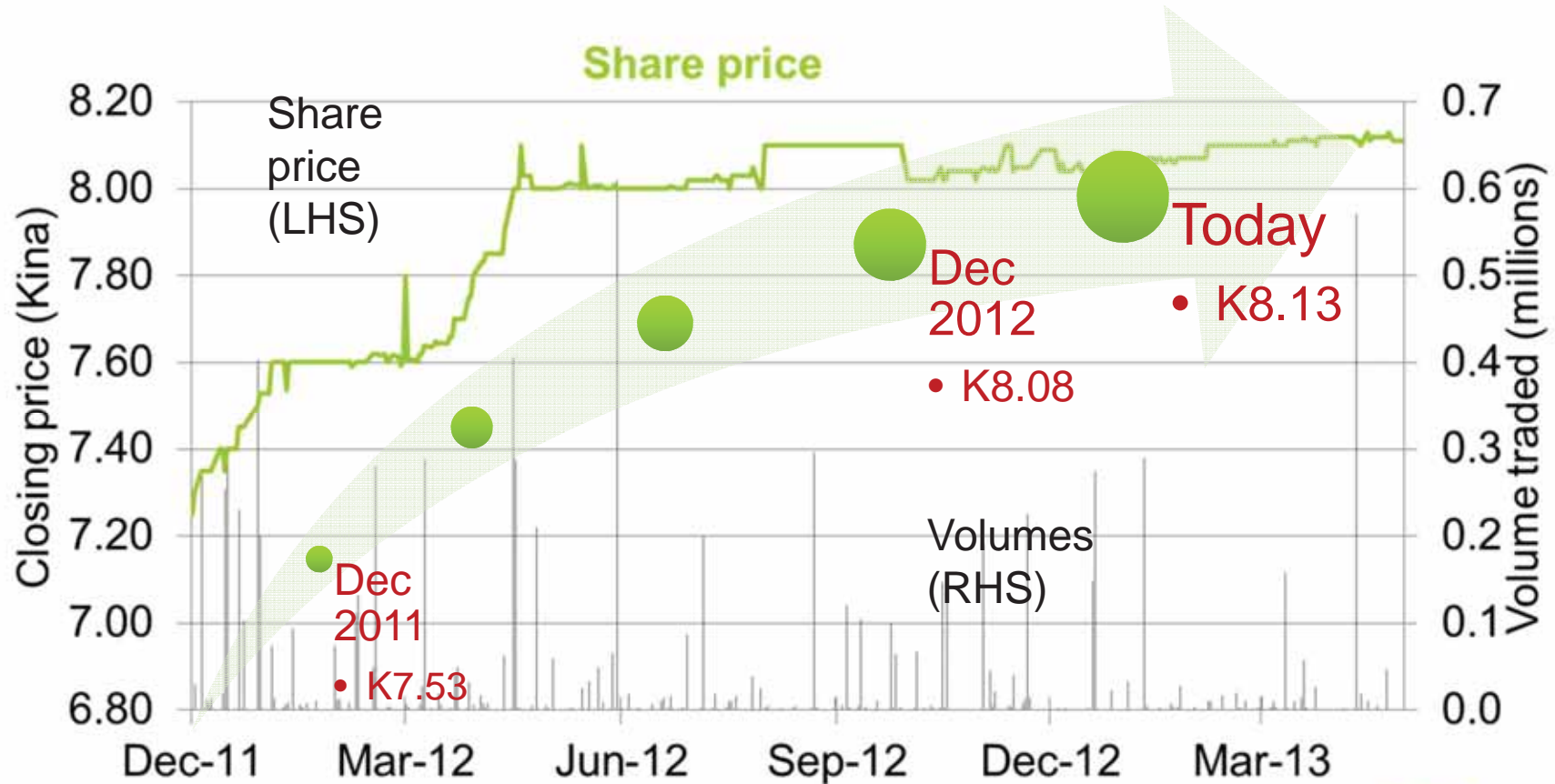
Cost to income ratio



SHARES, DIVIDEND



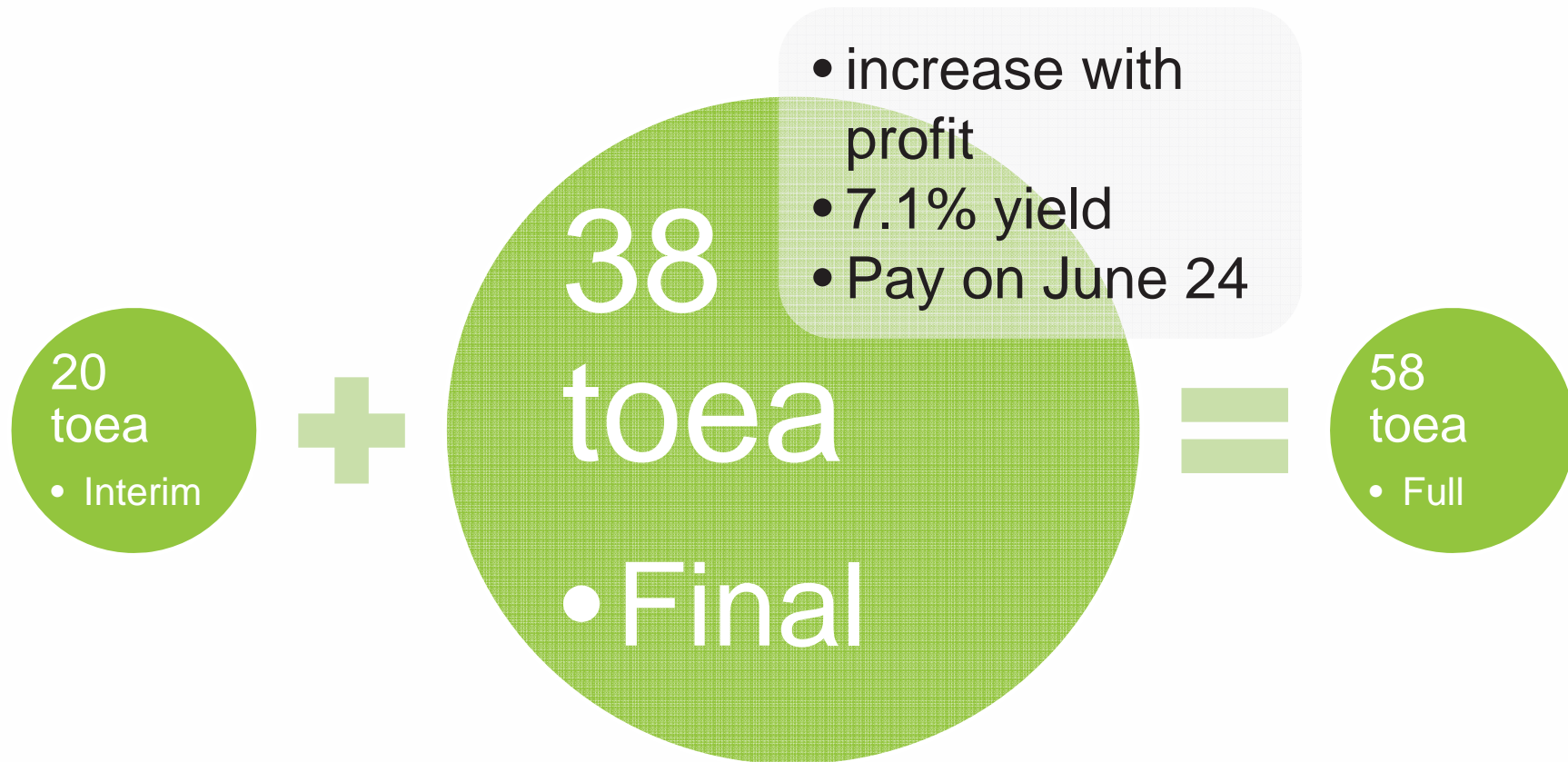
Share Price



100

BSP Annual General Meeting 2013

Dividend



BSP Qtr. 1 Results Summary

Johnson Kalo, Group Deputy CEO / CFO

Annual General Meeting, May 2013



BSP Annual General Meeting 2013

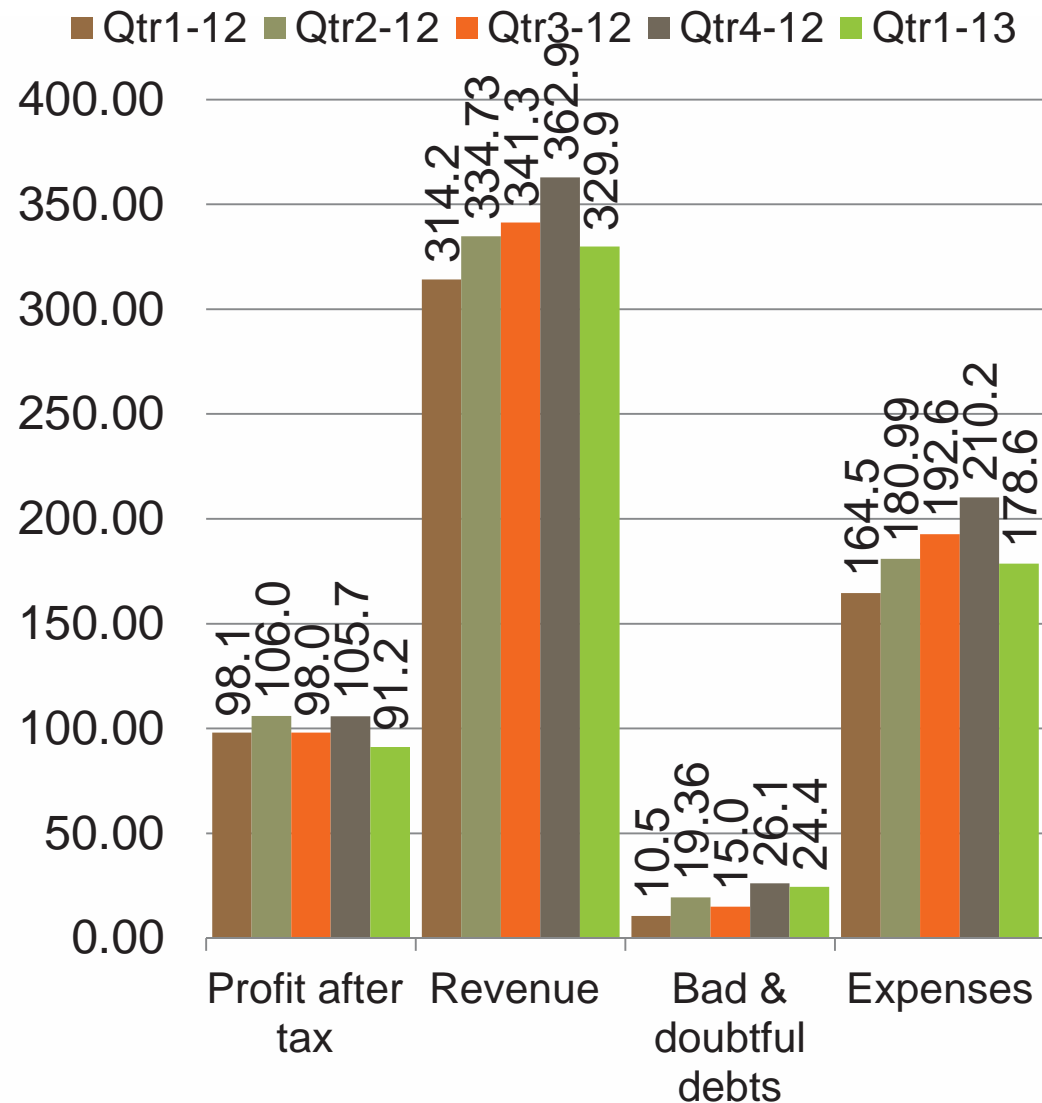
Profit & Loss

Qtr.1 2013 profit after tax of K91.2m is below Qtr. 4 2012 by K14.5m.

- Slowdown in customer transaction activity
- Low tax rate in 2012

Also slightly below Qtr. 1 2012

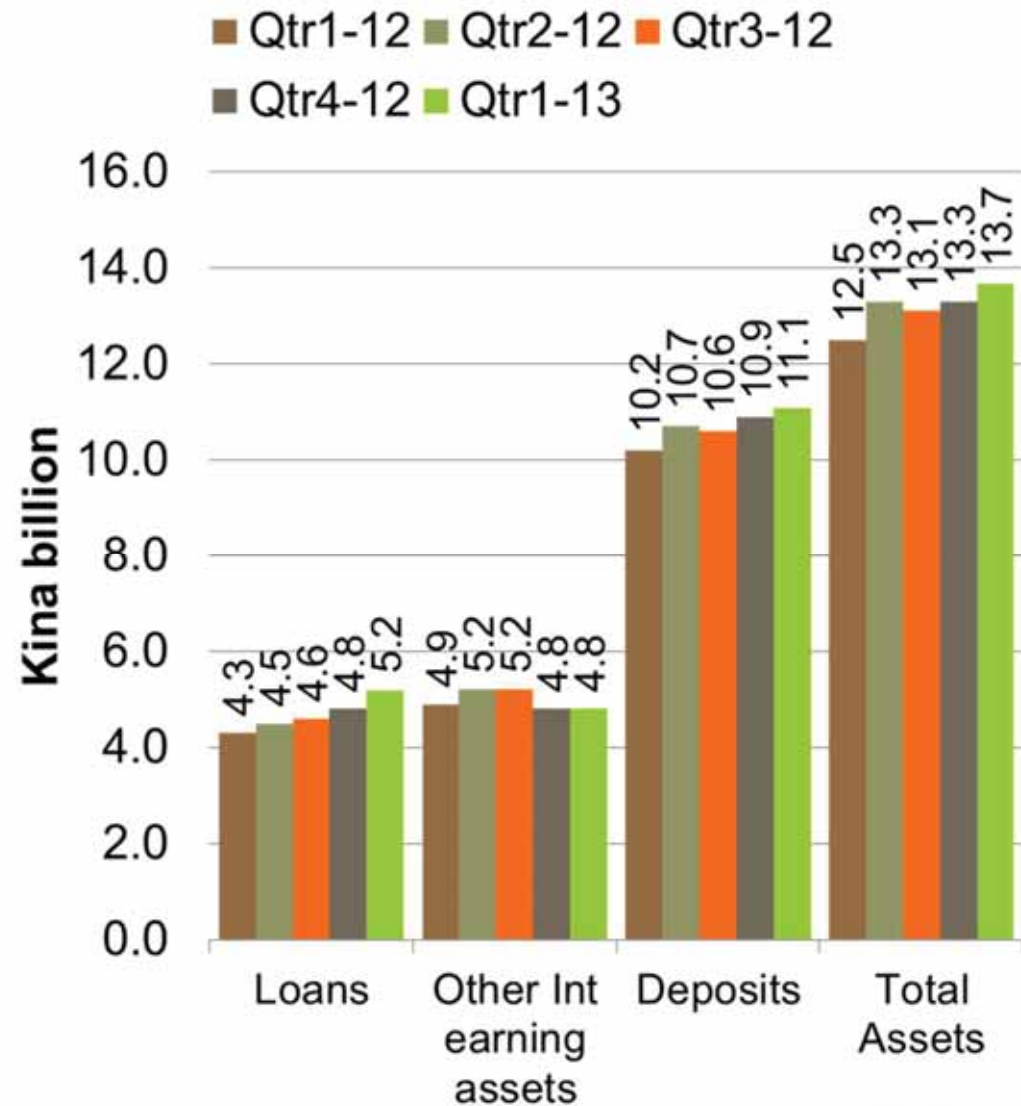
- Increased loan provisions since Qtr.2 2012



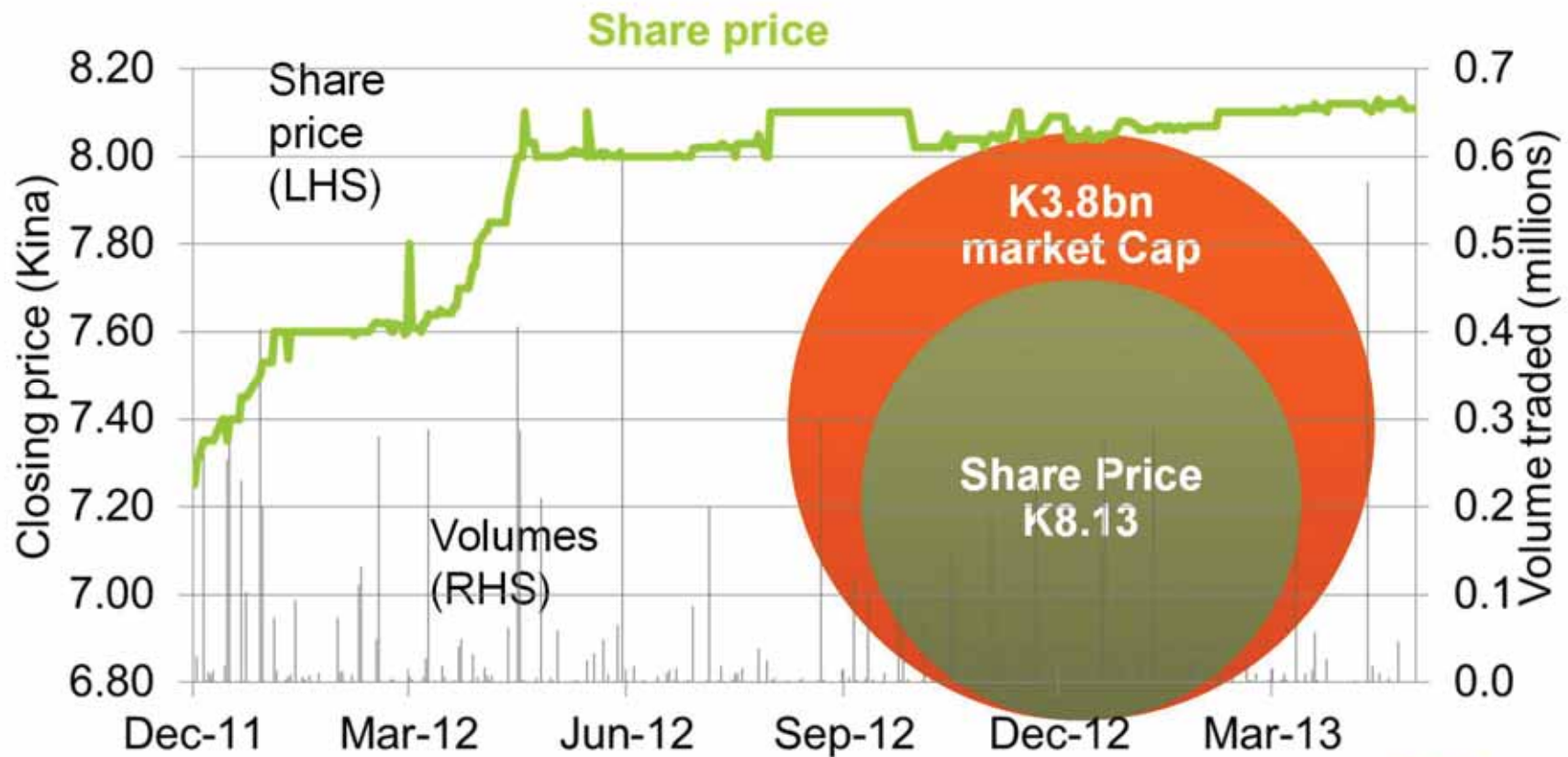
Balance Sheet

Liquidity continues to grow,

- Loans show strong growth
- Non lending Investments have reduced
 - Cash reserve requirement in PNG
- Capital expenditure has also increased



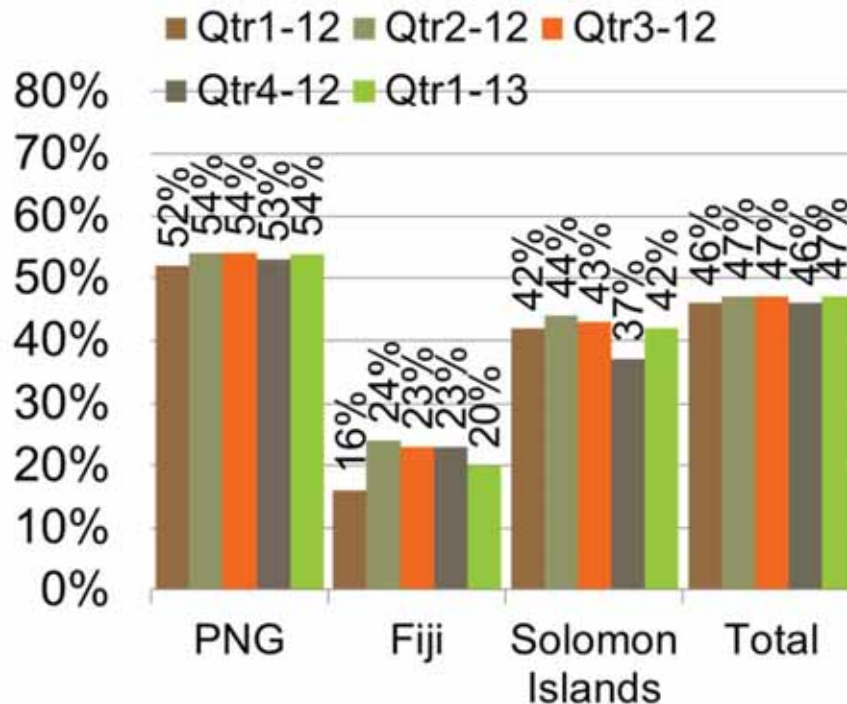
Share Price



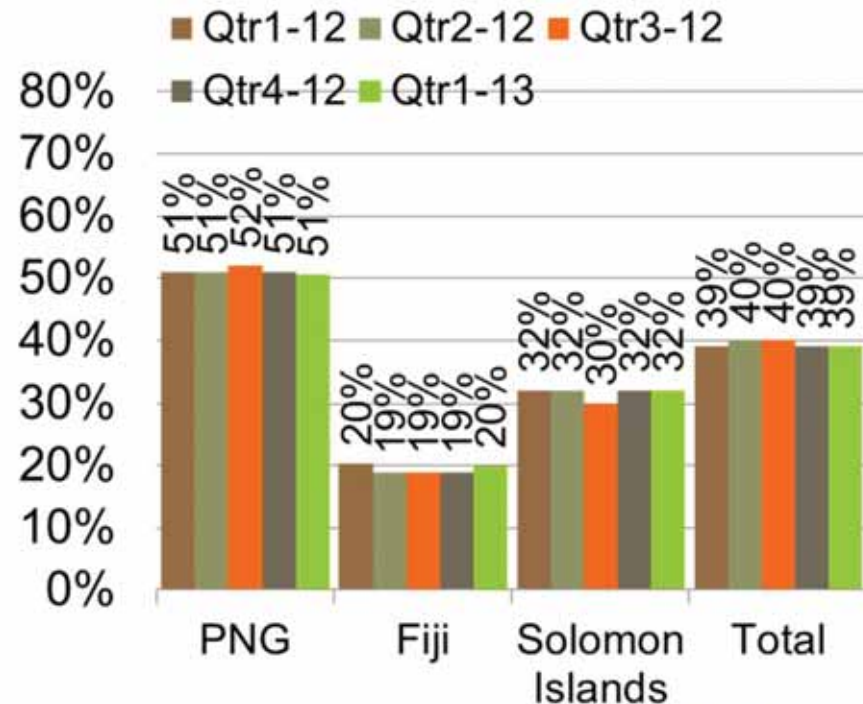
105

Market Share

Deposits

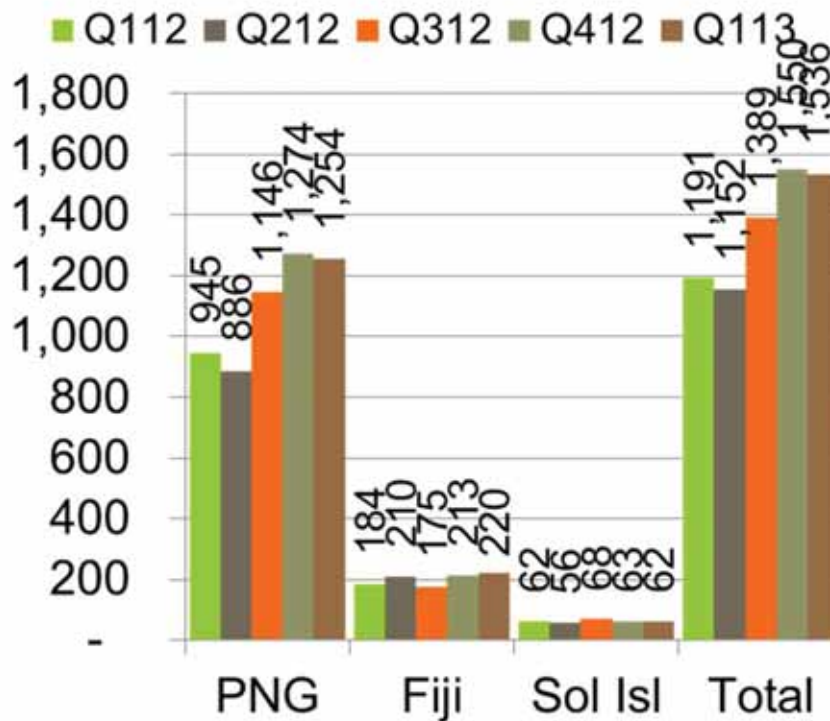


Loans

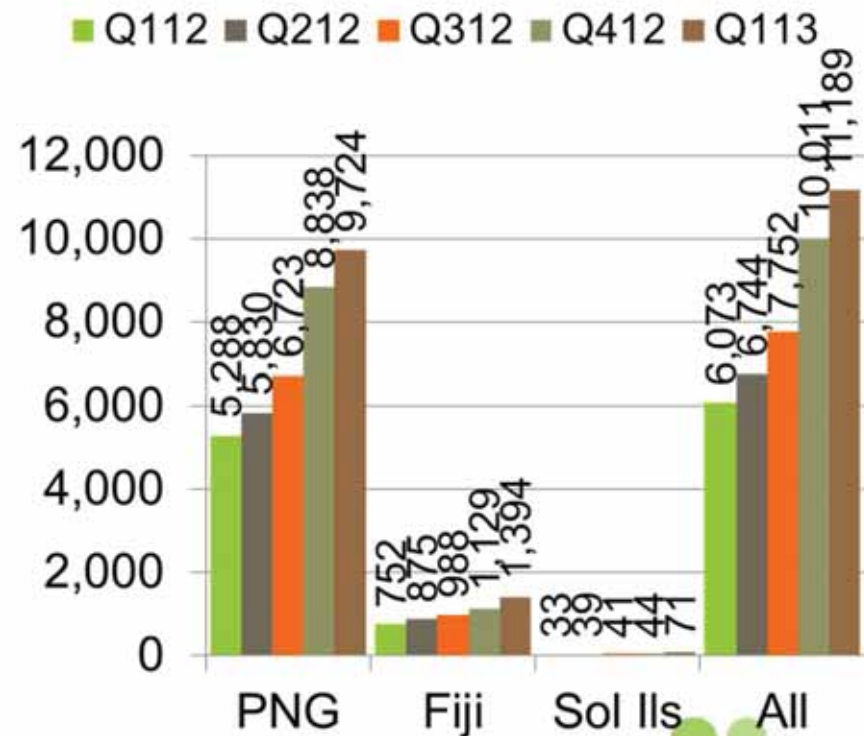


Customers and Channels

Customers ('000)

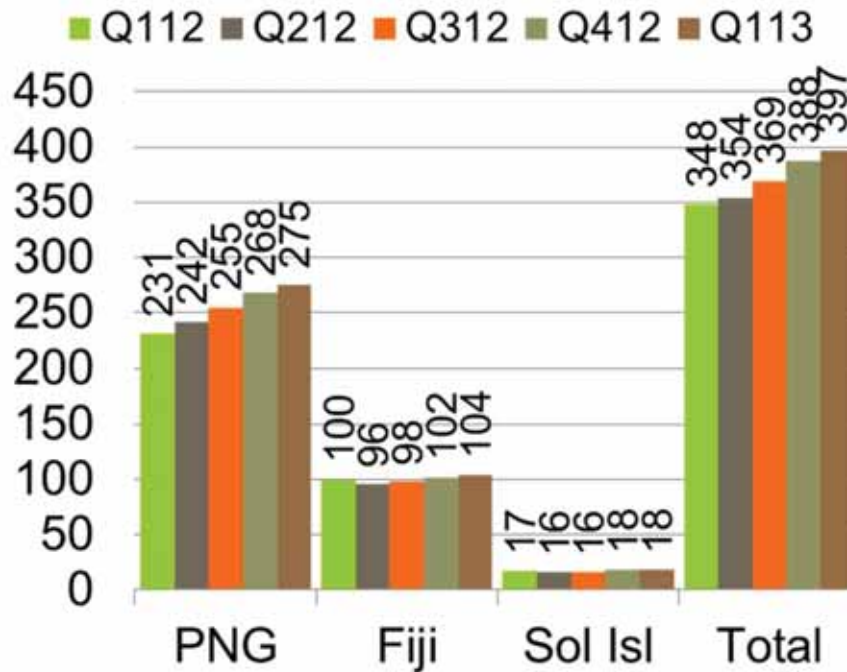


EFTPOS

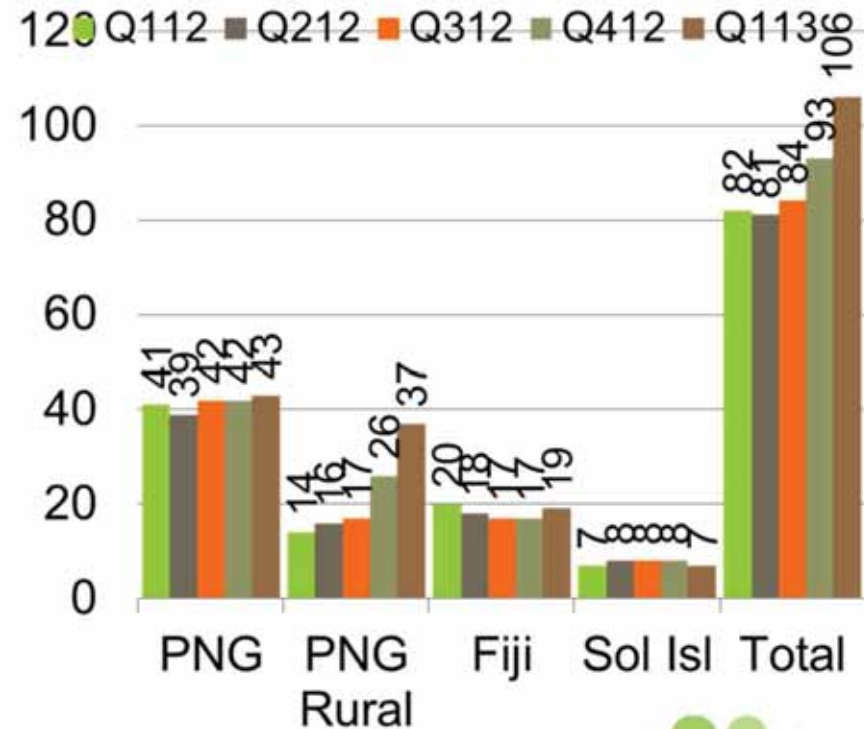


Customers and Channels

ATMs



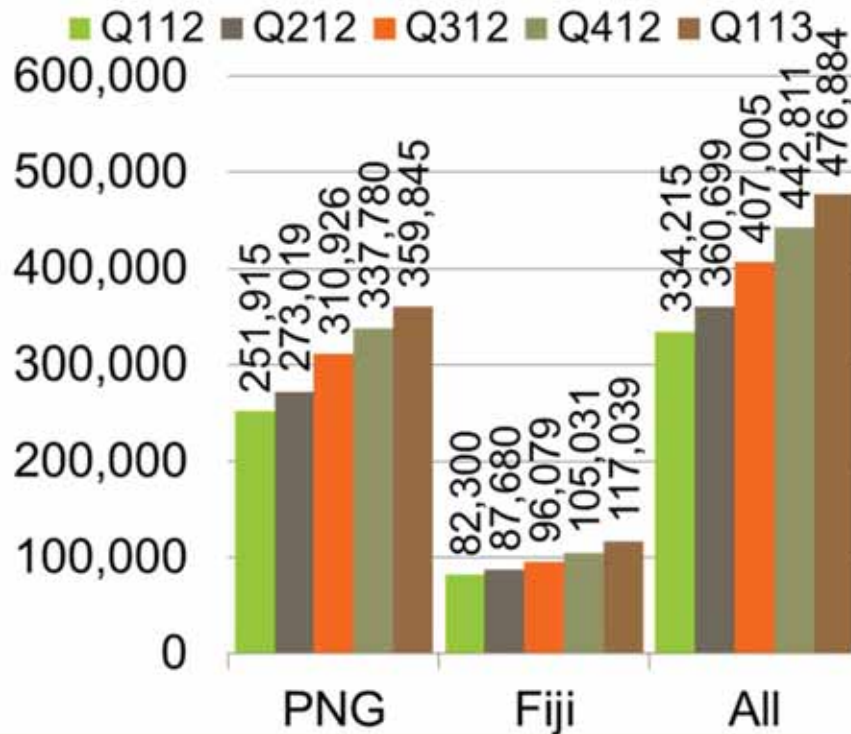
Branches, BSP Rural (PNG)



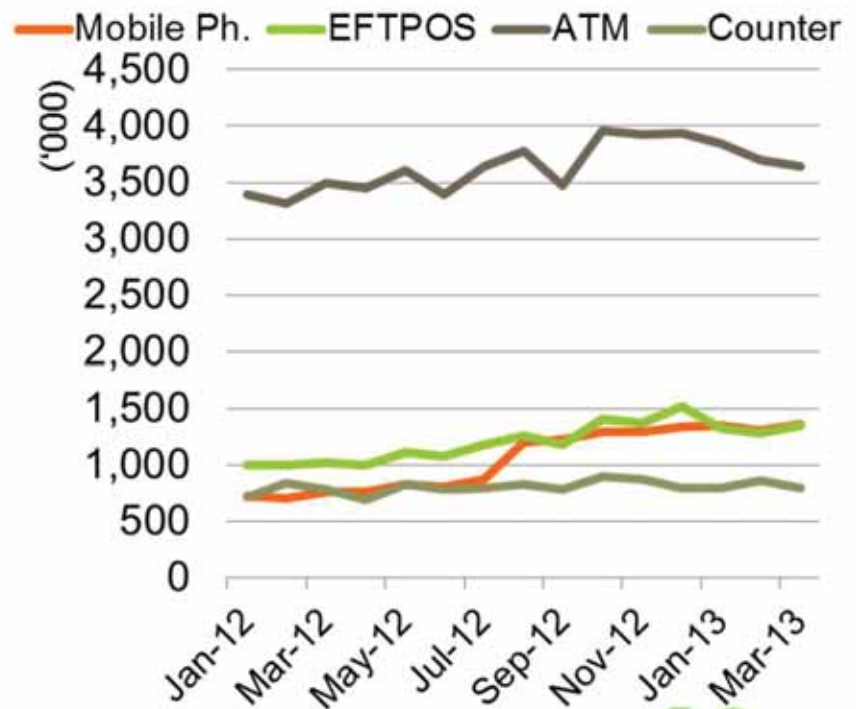
108

Customers and Channels

Mobile Banking Users

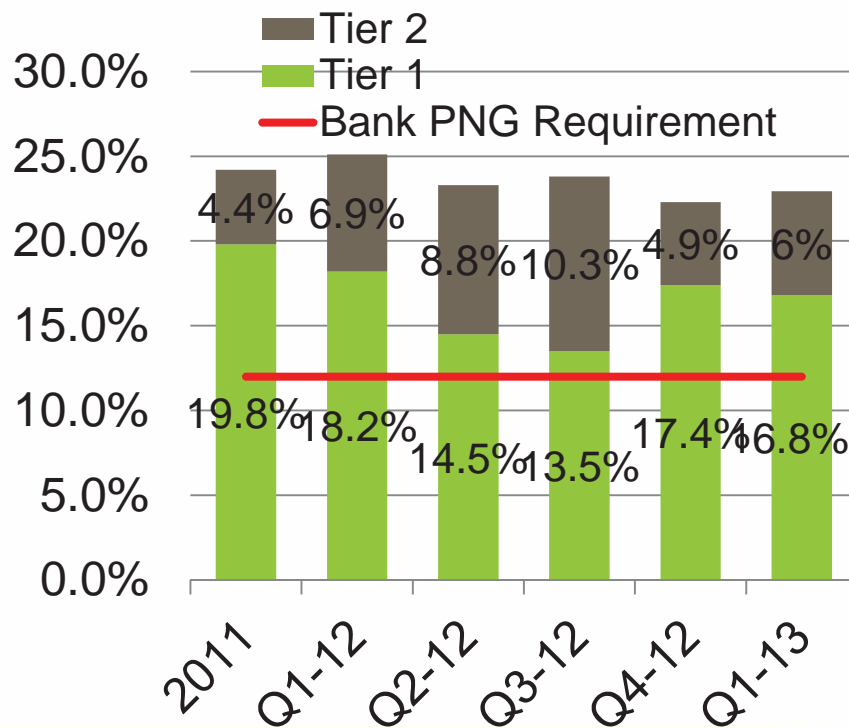


Transactions

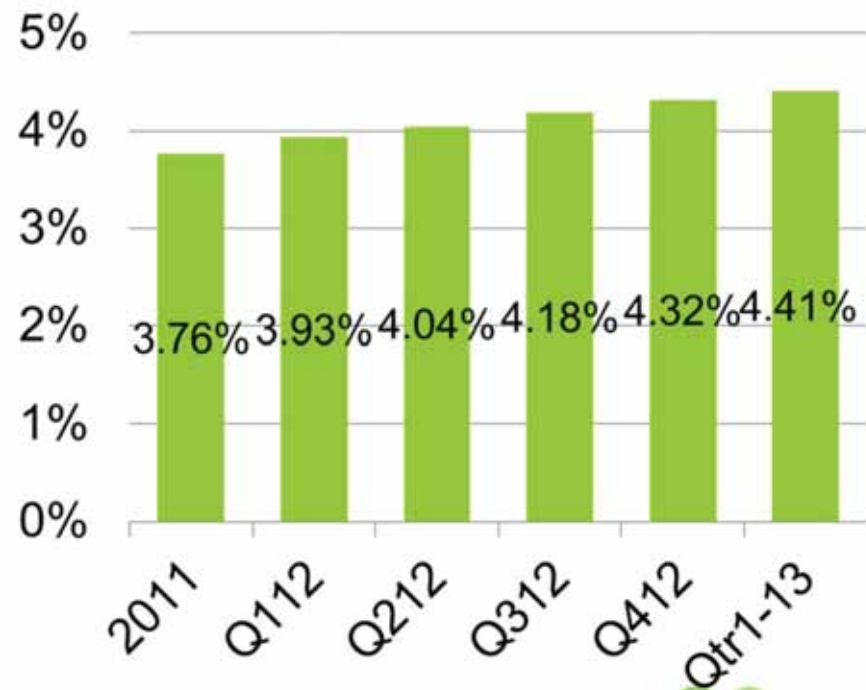


Financial Risk Management

Capital Adequacy



Provisions to Loans

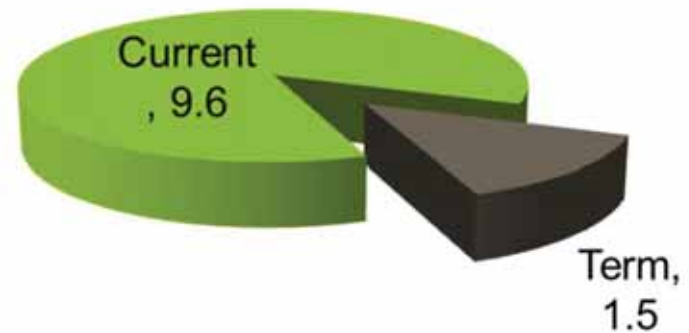


Funds

Deposit Mix



Deposit Type (Km)



Qtr.1-2013 Performance Summary

- Growth trend slowed significantly between the end of 2012 and March 2013
 - Winding down of LNG construction activity
 - Prices for export commodities softening as global conditions tightening



A woman with dark hair, smiling, wearing a white button-down shirt over a patterned top. She is in a bank lobby with green partitions and a large green wall in the background. A man in a blue shirt is visible in the background. The text 'grow smarter' is overlaid on the image, with 'grow' in a circle and an upward arrow.

grow smarter

BSP Priority is Banking with Advantages. BSP Express Tellers, Smaller Queues, Faster Banking.