Bank of South Pacific Ltd.

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Table Of Contents

Major Rating Factors
Rationale
Outlook
Profile: Dominant Market Position As PNG’s Largest Bank
Support And Ownership: Strategic Partnership With The International Finance Corp.
Strategy: Maintain Leading Market Position In PNG And Build Leadership In South Pacific
Risk Management
Earnings
Capital
Related Criteria And Research
Bank of South Pacific Ltd.

Major Rating Factors

Strengths:
- Strong domestic market position
- Sound profitability

Weaknesses:
- High credit-risk portfolio although adequate asset quality in a domestic context
- High-risk economic and operating environment
- Vulnerability to erosion of confidence

Rationale

The ratings on Bank of South Pacific Ltd. (BSP) reflect the bank’s strong market position and profitability, and adequate asset quality in a domestic context. Moderating factors include the high-risk economic and operating environment, the bank’s weak sovereign credit exposures, and vulnerability to erosion of confidence given strong linkages with the sovereign (Independent Republic of Papua New Guinea (PNG), local currency: BB-/Stable/B, foreign currency: B+/Stable/B). BSP is PNG’s largest bank, with total assets of PNG kina (PGK) 10 billion (US$3.8 billion) at year-end Dec. 31, 2010.

Standard & Poor’s Ratings Services considers that BSP is materially exposed to PNG’s sovereign credit risk due to the bank’s large exposure to government securities and cash deposits with the central bank: 48% of total assets at Dec. 31, 2010. We understand that this significant exposure is partly driven by the high yield on sovereign debt investments by BSP as a result of its good access to retail funding. Although asset growth in PNG is significantly lower compared to 2009 levels, ongoing economic growth in PNG continued to contribute to BSP’s asset growth (non-organic growth in 2008 and 2009 primarily as a result of acquisitions in the Solomon Islands and Fiji). A majority of loans are made to commercial enterprises that benefit from a developing economy, driven by buoyant commodity prices.

In our assessment BSP’s credit profile is supported by its dominant market position within PNG, with a greater-than-50% market share of loans and deposits despite competition from larger international banks. BSP’s leadership position is supported by its strong local franchise, brand, branch network, focus on technology, and status as PNG’s only indigenous bank.

Standard & Poor’s considers that earning metrics are sound, supported by BSP's high interest margins and sustained revenue growth. Relative to some peers, the bank has been largely unaffected by the global financial crisis because of its limited exposure outside of PNG.

In our opinion, BSP is exposed to high-risk economic and operating environment, reflecting the vulnerabilities associated with the country’s high dependence on its minerals sector, a fragmented political structure, slippages in the implementation of fiscal frameworks, infrastructure shortcomings, and security risks that impede investment required for diversification of the economy.
Short-term credit factors
BSP’s short-term rating is ‘B’. Although the bank holds a high level of liquid assets—with 51% of total assets held in cash and government securities—in our view the bank’s liquidity is exposed to erosion of confidence due to its exposure to the sovereign risks, including the economic and political environment in PNG, and the government’s ability to service its debt. Typical of a retail funded bank, 80% of BSP’s liabilities mature within one month, whereas the assets are typically longer-term maturity. Limited lending opportunities and strong deposit growth have resulted in a low loan-to-deposit ratio of 53% at Dec. 31, 2010.

Outlook
The stable outlook on BSP reflects Standard & Poor’s expectations of BSP's ability to sustain its dominant market position in PNG, its capacity to absorb a minor deterioration in asset quality and profitability, and its strong operating efficiency. That said, any improvement or deterioration in the sovereign’s credit quality would likely affect BSP’s ratings. In the event of the sovereign’s ratings being raised, the bank’s track record of strong business growth and its improving earnings profile could support a higher rating on BSP. Conversely, the rating on BSP could be lowered if the bank’s asset-quality experience deteriorated significantly, liquidity challenges arose from sovereign or economic difficulties, and/or there were unexpected and significantly troubling consequences from acquisitions in the Solomon Islands and Fiji.

Profile: Dominant Market Position As PNG's Largest Bank
BSP’s strong market position as the largest financial institution in PNG underpins our assessment of its sound business profile. BSP has a sound domestic banking franchise and a strong brand image. Standard and Poor's expects that the bank’s size and local brand recognition will continue to support BSP’s growth strategy. That said, BSP’s performance will continue to rely on an economy that has some growth momentum but is still susceptible to political instability and economic challenges.

Headquartered in Port Moresby, BSP is PNG's only indigenous bank. It had total assets of PGK10 billion at Dec. 31, 2010, and engages in corporate & business banking, consumer banking, and treasury services. The bank has a strong, steady market share of more than 50% in both loans and deposits.

BSP remains at the forefront of the development of electronic banking facilities in PNG and the South Pacific. It has a sound domestic franchise with 67 branches and an electronic banking capability that includes more than 273 ATMs, along with SMS banking. The branch network includes 38 branches in PNG, 20 in Fiji, eight in the Solomon Islands, and one in Niue. This network increases BSP's access to low-cost deposits. The daily execution of the bank's business operations is the responsibility of the strategic business units (SBUs), namely the Retail Bank, Corporate, Treasury, Paramount Banking, Credit & Risk, Human Resources, Operations, and Finance & Planning.

On the back of acquisitions in the Solomon Islands (2007) and Fiji (2009), BSP's market position in the South Pacific region improved. As a percentage of total lending-related activities, BSP has a lending market share of about 30% in the Solomon Islands and 20% in Fiji, along with its share in PNG.
Support And Ownership: Strategic Partnership With The International Finance Corp.

BSP has a listing on the Port Moresby Stock Exchange, with more than 85% of its shareholders Papua New Guinean. The bank had a total market capitalization of PGK3.8 billion at Dec. 31, 2010, having first listed in August 2003. Shareholders comprise superannuation fund companies, other statutory organizations, and finance companies. The largest single shareholder is the Independent Business Corp., which held 17.6% of total shares at Dec. 31, 2010. BSP’s top-10 shareholders hold about 87% of total shares, and most equity investors appear to be government-related companies.

BSP established a strategic partnership with the International Finance Corp. (IFC) in July 2010. The IFC, a member of the World Bank Group, and IFC Capitalization (Equity) Fund LP, together hold 9.5% of BSP shares. As a shareholder, IFC provides BSP access to a sizeable amount of capital and offers technical expertise to assist in workflow solutions and various rural retail banking initiatives.

Strategy: Maintain Leading Market Position In PNG And Build Leadership In South Pacific

The strategic intent of BSP is to be the leading bank in PNG and the South Pacific. BSP has four high-level strategic plans to achieve its goals, namely: a customer sales and service focus, operational excellence, high performing teams, and profitable growth strategies. These plans in turn translate into 122 strategic initiatives, of which 64 are new strategic initiatives identified during the 2011-2013 medium term planning process.

In Standard & Poor’s opinion, project management is of paramount importance for BSP, especially in light of the increase in strategic initiatives. In respect of the forecasted performance 12 months ago the progress made on the existing projects has been slower than BSP anticipated and as a result, 47% of the projects were either in the pre-project phase or have low progress. To moderate project risk, BSP utilizes external parties such as consultants to facilitate implementation and evaluate various projects. A change-management process ensures that bank personnel embrace the change in their business environment. Various project management committees as well as a steering committee have also been established.

Post the acquisitions in Fiji no immediate expansion plans or acquisitions are envisaged by BSP. While BSP has a medium- to long-term strategy of market leadership in the South Pacific, we do not foresee any immediate expansion plans or acquisitions that would require the introduction of new capital.

Standard & Poor’s considers BSP’s management team as capable and committed. The majority of management team members either have backgrounds at major Australian banks or are from within PNG. The CEO also brings his diverse international banking industry experience to the team.

Risk Management

In our view, a good framework of corporate governance principles and policies is in place. The BSP board has a commitment to developing and maintaining a standard of corporate governance benchmarked against best practice in Australia (in line with ASX and Australian Prudential Regulatory Authority requirements). The group’s detailed
corporate governance principles and policies incorporate the board’s roles and responsibilities, board committees, risk management, ethical behavior, market disclosure, shareholder communications, and remuneration.

From a risk-management perspective, Standard & Poor’s acknowledges that various challenges remain. These challenges include the ability to attract and retain skilled professional staff in PNG, the complexity of managing a financial services institution across a number of jurisdictions, the large number of ongoing strategic initiatives and their successful implementation, and the ongoing difficulties of operating in an environment with security and infrastructure problems.

BSP’s risk profile is characterized by its adequate asset quality, concentrated funding profile, and vulnerable liquidity position. Market risk is limited to interest rate risk and modest foreign exchange risk. In our view, BSP’s risk management framework is further strengthened by the decoupling of the Operational Risk Business Unit and Credit Inspection Business Unit from the Audit and Risk Business unit following a restructure of the BSP’s Audit & Risk Business Unit late in 2009. We believe the restructure allows the separate business units to focus on their own specialized activities.

Credit risk
Gross nonperforming assets deteriorated in the latest financial year, primarily as a result of the consolidation of the Fijian operations. Gross non-performing assets to customer loans and other real estate owned deteriorated to 2.09% for the year ended Dec. 31, 2010 from 0.89% the prior year. Gross nonperforming advances increased to PGK 89 million from PGK 34 million.

Loan loss provisions remain satisfactory for BSP’s current level of asset quality, in our view. The total amount of specific loan provisions made in fiscal 2010 was in excess (178%) of the gross nonperforming assets, ameliorating some of our concerns about the increase in gross nonperforming assets. However, we believe that the weak legal system in PNG brings the realizable value of collateral into question and could undermine the adequacy of provisions. That said, we acknowledge the bank’s recovery performance in past years has been good and we believe that BSP’s improving capacity to generate earnings through stronger loan growth should help the bank maintain its provisioning capability.

BSP’s asset quality remains adequate by domestic standards. A large part of the asset quality is closely linked with the PNG government’s credit-risk profile, given government securities account for almost half of BSP’s total assets. Generally, we assess that government securities represent low credit risk for domestic entities, but we note that BSP’s exposure to PNG government securities leads to significant asset concentration.

Overall, we believe BSP’s credit-approval processes and standards support the credit-risk profile. BSP aims to secure most of its loans, where the net realizable value depends on the country’s economic development and the effectiveness of the judicial process during times of recovery. In 2009, BSP established a credit inspection unit, which, in our opinion, enhances the bank’s overall credit standards and credit risk profile. As a result of internal resource issues relating to transformation projects, BSP’s scheduled broad credit inspection of the corporate portfolio was curtailed in the second half of 2010. BSP’s credit inspection unit recommenced its credit file reviews and portfolio analysis schedule in 2011.

Funding and liquidity risk
BSP has a large liability contractual mismatch in its one month bucket. On a contractual basis, 80% of BSP’s total liabilities mature within one month, and the negative one month contractual liquidity gap stood at 47% of total
assets at Dec. 31, 2010. Standard & Poor's, however, assesses that the relative stability of the majority of BSP's deposits moderate the impact.

Although holding substantial on-balance-sheet liquidity, we consider that the bank's liquidity position is vulnerable to PNG's economic environment, particularly if the government were unable to service its debt. A large amount of liquidity is carried on-balance sheet, with the liquid asset ratio at 43% at Dec. 31, 2010. The high holding of liquid assets ameliorate some of our liquidity risk concerns. The shallowness of PNG's capital markets, such as a thin secondary market, could restrict the bank's flexibility to sell investments and thus affect liquidity. The bank had most of its liquid assets in cash and government securities at Dec. 31, 2010.

We believe that changes in prudential liquidity requirements may alter BSP's liquid asset composition. Prudential and monetary policy changes in 2010 resulted in the removal of the minimum liquid asset ratio and cash reserve requirements rising to 4% of customer deposits from 3%. Standard and Poor's does not expect these changes to have a material impact on the composition of BSP's balance sheet.

The funding profile is highly reliant on retail funding, albeit in low-cost deposits. Although BSP's funding flexibility is limited, with no access to wholesale funding capabilities, we assess that the bank is less affected by ongoing challenges in financial markets. Deposit growth is following a positive trend and at December 2010, BSP had total deposits of PGK8 billion, a rise of 7% on year. Standard & Poor's believes that the consistent flow of deposit funds--benefiting from BSP's wide branch network and its status as the largest and only indigenous bank in PNG--will support BSP's high market share of deposits.

The deposit mix has remained relatively steady, year-on-year. Current deposits represented 77% of total deposits at Dec. 31, 2010, while term deposits represented about 23%. Around 90% of BSP's deposit base is from PNG.

**Market risk**

BSP accepts foreign-currency denominated transactions and therefore has exposure to movements in foreign currency. The lender has a policy to offset these transactions by minimizing daily exposure by hedging material exposures as they arise. As foreign exchange contracts generally consist of offsetting commitments, they involve only limited foreign exchange risk to BSP, mitigating the risk of a material loss in our view.

The asset-liability management committee (ALCO) maintains a formal asset-liability management process. The ALCO meets on a regular basis and operates according to the policies and parameters established by the bank's board. The ALCO's mandate is to manage the structure of the bank's balance sheet, funding costs, interest and foreign-exchange rate risk, liquidity, and capital positions.

BSP has exposure to interest rate risk, although we assess this risk as low given the group's balance sheet interest rate risk position. In managing interest rate risks, the bank uses basic gap analysis and stress tests, such as assessing the impact of a 1% upward or downward movement in interest rates. At Dec. 31, 2010, BSP reported that a 1% increase in rates resulted in a PGK0.297 million decrease in net interest income, while a 1% decrease in rates resulted in a PGK0.274 million increase in net interest income, which translates to an immaterial 0.03% impact on adjusted total equity of PGK1.1 billion.

**Operational and other risk**

BSP adheres to the Basel II Standardised Approach Operational Risk Management Framework across the bank. The Operational Risk Department has a focus on strengthening BSP's overall risk management capability by embedding
the Operational Risk Management Framework across the bank, with the aim of fostering a bank-wide risk culture. In our view, this was, and continues to be, a critical step as BSP sets the foundation for all components of the risk and control environment, and provides improved discipline, integrity, and ethical values.

The bank actively monitors its top 20 enterprise risks. Of the top 20 risks, the bank assesses its top three risks as business continuity management, staff training development & succession planning, and IT service & maintenance.

**Earnings**

We assess BSP's profitability as good and a rating strength. The bank's sound operating performance is underpinned by a high net interest margin (net interest income 6.74% of average earning assets in fiscal 2010. Fiscal 2010 profit after tax rose 10% year-on-year to PGK283 million. Standard & Poor's expects BSP to maintain high its net interest margin given its very low funding costs. The margin is also supported by BSP’s holding of government securities and treasury bills.

The bank's earnings mix is sound. At Dec. 31, 2010, BSP's proportion of noninterest income stood at 43% of total revenues, up from 35% a year earlier. The change in the composition was mainly due to an increase in other income as a result of foreign exchange-related income and net insurance premium income. Other income represented the majority of total noninterest income, at 63%. BSP is able to compete with the larger Australian-owned banks in foreign-exchange business by meeting clients' needs within tight deadlines by taking on small levels of currency risk.

BSP’s cost-to-income ratio is rising due to higher expenditure and investment in the bank's major operational transformation exercise. This ratio has risen to 35% from 46% in 2010 at Dec. 31 2010 primarily due to the various strategic initiatives undertaken by the bank.

**Capital**

We consider that BSP’s capital adequacy is moderate; the Standard & Poor's estimated risk-adjusted capital ratio (RAC) was 5.4% before diversification at March 31, 2010. This ratio suggests to us that BSP’s capital and earnings are able to withstand a moderate stress, as defined by our risk assumptions.

During 2010, the bank raised approximately PGK144 million through an issue of new equity to the IFC. This issue followed a PGK76 million capital raising through an inaugural issue of term subordinated notes in PNG during 2009. As part of the bank's capital planning strategy, BSP also launched a PGK 22 million convertible note issue to support the expansion of its Fijian operations in the first half of 2010.

BSP comfortably meets its regulatory capital requirements. The bank’s Tier 1 regulatory capital ratio of 18% at March 31, 2010 is significantly higher than the 12% minimum regulatory requirement. Compared to Standard & Poor's estimated RAC ratio, BSP’s capital position is somewhat inflated by the fact that government securities for regulatory purposes do not carry any risk weight. In our view, the bank’s capital position would come under pressure if the government could not meet its debt-servicing obligations.
## Related Criteria And Research

- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Bank Rating Analysis Methodology Profile, March 18, 2004

### Table 1

#### Bank of South Pacific Ltd. Asset Quality, Funding, And Liquidity Ratios

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Gross nonperforming assets/customer loans plus other real estate owned</td>
<td>2.1</td>
<td>0.9</td>
<td>1.0</td>
<td>1.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Net nonperforming assets/customer loans plus other real estate owned</td>
<td>(1.7)</td>
<td>(2.6)</td>
<td>(1.1)</td>
<td>(1.1)</td>
<td>(1.1)</td>
</tr>
<tr>
<td>Loan loss reserves/gross nonperforming assets</td>
<td>178.3</td>
<td>386.7</td>
<td>204.7</td>
<td>172.1</td>
<td>162.0</td>
</tr>
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<td>Loan loss reserves/customer loans</td>
<td>3.7</td>
<td>3.4</td>
<td>2.1</td>
<td>2.6</td>
<td>2.8</td>
</tr>
<tr>
<td>New loan loss provisions/average customer loans</td>
<td>0.5</td>
<td>0.5</td>
<td>0.6</td>
<td>(0.3)</td>
<td>N/A</td>
</tr>
<tr>
<td>Net charge-offs/average customer loans</td>
<td>(1.1)</td>
<td>(0.7)</td>
<td>0.1</td>
<td>(0.9)</td>
<td>N/A</td>
</tr>
<tr>
<td>Customer deposits/funding base</td>
<td>98.6</td>
<td>98.5</td>
<td>99.8</td>
<td>99.9</td>
<td>99.9</td>
</tr>
<tr>
<td>Total loans/customer deposits</td>
<td>53.2</td>
<td>50.3</td>
<td>41.4</td>
<td>31.5</td>
<td>31.7</td>
</tr>
<tr>
<td>Total loans/customer deposits plus long-term funds</td>
<td>46.2</td>
<td>44.3</td>
<td>36.7</td>
<td>28.3</td>
<td>28.7</td>
</tr>
<tr>
<td>Customer loans (net)/assets (adjusted)</td>
<td>40.9</td>
<td>38.8</td>
<td>34.4</td>
<td>26.6</td>
<td>24.6</td>
</tr>
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</table>

### Table 2

#### Bank of South Pacific Ltd. Profitability Ratios

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income/average earning assets</td>
<td>6.7</td>
<td>6.8</td>
<td>6.8</td>
<td>6.3</td>
<td>N/A</td>
</tr>
<tr>
<td>Net interest income/revenues</td>
<td>57.0</td>
<td>65.3</td>
<td>60.8</td>
<td>57.9</td>
<td>61.0</td>
</tr>
<tr>
<td>Fee income/revenues</td>
<td>15.9</td>
<td>15.0</td>
<td>14.1</td>
<td>14.2</td>
<td>16.1</td>
</tr>
<tr>
<td>Market-sensitive income/revenues</td>
<td>14.6</td>
<td>14.4</td>
<td>20.5</td>
<td>24.4</td>
<td>18.9</td>
</tr>
<tr>
<td>Personnel expense/revenues</td>
<td>23.5</td>
<td>17.3</td>
<td>17.7</td>
<td>16.6</td>
<td>19.6</td>
</tr>
<tr>
<td>Noninterest expenses/revenues</td>
<td>54.8</td>
<td>46.2</td>
<td>37.0</td>
<td>39.3</td>
<td>51.8</td>
</tr>
<tr>
<td>New loan loss provisions/revenues</td>
<td>2.2</td>
<td>2.1</td>
<td>1.8</td>
<td>(0.9)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Net operating income before loan loss provisions/loan loss provisions</td>
<td>2,096.0</td>
<td>2,601.8</td>
<td>3,436.5</td>
<td>N.M.</td>
<td>N.M.</td>
</tr>
<tr>
<td>Net operating income after loan loss provisions/revenues</td>
<td>43.1</td>
<td>51.8</td>
<td>61.1</td>
<td>61.6</td>
<td>48.6</td>
</tr>
<tr>
<td>Pretax profit/revenues</td>
<td>43.1</td>
<td>52.1</td>
<td>53.1</td>
<td>59.3</td>
<td>47.9</td>
</tr>
<tr>
<td>Tax/pretax profit</td>
<td>31.1</td>
<td>32.0</td>
<td>30.6</td>
<td>32.6</td>
<td>32.2</td>
</tr>
<tr>
<td>Core earnings/revenues</td>
<td>29.7</td>
<td>35.2</td>
<td>44.9</td>
<td>42.3</td>
<td>33.2</td>
</tr>
<tr>
<td>Core earnings/average adjusted assets</td>
<td>2.9</td>
<td>3.2</td>
<td>4.4</td>
<td>3.8</td>
<td>N/A</td>
</tr>
<tr>
<td>Noninterest expenses/average adjusted assets</td>
<td>5.4</td>
<td>4.1</td>
<td>3.6</td>
<td>3.6</td>
<td>N/A</td>
</tr>
<tr>
<td>Core earnings/average risk-weighted assets</td>
<td>5.8</td>
<td>6.7</td>
<td>10.5</td>
<td>11.4</td>
<td>7.3</td>
</tr>
<tr>
<td>Core earnings/average adjusted common equity</td>
<td>27.9</td>
<td>30.8</td>
<td>42.6</td>
<td>42.6</td>
<td>29.5</td>
</tr>
<tr>
<td>Pretax profit/average common equity (%)</td>
<td>39.7</td>
<td>45.1</td>
<td>50.0</td>
<td>58.6</td>
<td>N/A</td>
</tr>
</tbody>
</table>

N/A--Not applicable. N.M.--Not meaningful.
### Table 3

**Bank of South Pacific Ltd. Capital Ratios**

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted common equity/risk assets (%)</td>
<td>20.9</td>
<td>21.0</td>
<td>22.5</td>
<td>28.5</td>
<td>24.6</td>
</tr>
<tr>
<td>Tier 1 capital ratio</td>
<td>19.7</td>
<td>18.0</td>
<td>20.9</td>
<td>26.4</td>
<td>22.9</td>
</tr>
<tr>
<td>Adjusted total equity/adjusted assets</td>
<td>10.6</td>
<td>9.2</td>
<td>10.9</td>
<td>9.6</td>
<td>8.8</td>
</tr>
<tr>
<td>Adjusted total equity/managed assets</td>
<td>10.6</td>
<td>9.2</td>
<td>10.9</td>
<td>9.6</td>
<td>8.8</td>
</tr>
<tr>
<td>Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)</td>
<td>28.8</td>
<td>26.4</td>
<td>33.1</td>
<td>37.8</td>
<td>34.9</td>
</tr>
<tr>
<td>Common dividend payout ratio</td>
<td>23.2</td>
<td>39.0</td>
<td>43.6</td>
<td>37.3</td>
<td>54.1</td>
</tr>
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</table>

### Table 4

**Bank of South Pacific Ltd. Summary Balance Sheet**

<table>
<thead>
<tr>
<th>(Mil. PGK)</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and money market instruments</td>
<td>1,344.1</td>
<td>1,188.3</td>
<td>718.6</td>
<td>978.3</td>
<td>415.8</td>
</tr>
<tr>
<td>Securities</td>
<td>3,802.7</td>
<td>3,838.3</td>
<td>3,363.1</td>
<td>2,919.3</td>
<td>2,376.7</td>
</tr>
<tr>
<td>Nontrading securities</td>
<td>3,802.7</td>
<td>3,838.3</td>
<td>3,363.1</td>
<td>2,919.3</td>
<td>2,376.7</td>
</tr>
<tr>
<td>Customer loans (gross)</td>
<td>4,250.0</td>
<td>3,768.3</td>
<td>2,394.3</td>
<td>1,591.4</td>
<td>1,196.4</td>
</tr>
<tr>
<td>Loan loss reserves</td>
<td>158.7</td>
<td>129.8</td>
<td>50.5</td>
<td>41.2</td>
<td>33.2</td>
</tr>
<tr>
<td>Customer loans (net)</td>
<td>4,091.3</td>
<td>3,638.6</td>
<td>2,343.8</td>
<td>1,550.3</td>
<td>1,163.3</td>
</tr>
<tr>
<td>Earning assets</td>
<td>8,354.8</td>
<td>7,798.5</td>
<td>6,041.4</td>
<td>5,048.3</td>
<td>3,717.9</td>
</tr>
<tr>
<td>Investments in unconsolidated subsidiaries (financial companies)</td>
<td>54.5</td>
<td>47.7</td>
<td>1.8</td>
<td>2.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Intangibles (nonservicing)</td>
<td>16.2</td>
<td>21.3</td>
<td>0.0</td>
<td>9.4</td>
<td>9.4</td>
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<tr>
<td>Fixed assets</td>
<td>364.2</td>
<td>282.2</td>
<td>175.4</td>
<td>170.7</td>
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<tr>
<td>Accrued receivables</td>
<td>51.3</td>
<td>51.8</td>
<td>50.1</td>
<td>32.0</td>
<td>32.6</td>
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<tr>
<td>All other assets</td>
<td>303.1</td>
<td>329.6</td>
<td>155.0</td>
<td>166.8</td>
<td>585.7</td>
</tr>
<tr>
<td>Total assets</td>
<td>10,027.3</td>
<td>9,397.8</td>
<td>6,807.9</td>
<td>5,819.5</td>
<td>4,736.9</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total deposits</td>
<td>8,008.3</td>
<td>7,520.4</td>
<td>5,793.4</td>
<td>5,061.6</td>
<td>3,779.3</td>
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<tr>
<td>Noncore deposits</td>
<td>23.6</td>
<td>26.6</td>
<td>11.4</td>
<td>5.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Core/customer deposits</td>
<td>7,984.7</td>
<td>7,493.8</td>
<td>5,782.0</td>
<td>5,055.9</td>
<td>3,776.4</td>
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<tr>
<td>Other borrowings</td>
<td>90.2</td>
<td>89.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Other other borrowings</td>
<td>14.7</td>
<td>13.4</td>
<td>N/A</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>794.4</td>
<td>854.4</td>
<td>270.2</td>
<td>186.2</td>
<td>561.3</td>
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<tr>
<td>Total liabilities</td>
<td>8,892.9</td>
<td>8,463.7</td>
<td>6,063.6</td>
<td>5,247.8</td>
<td>4,340.6</td>
</tr>
<tr>
<td>Total equity</td>
<td>1,134.4</td>
<td>934.1</td>
<td>744.3</td>
<td>571.7</td>
<td>396.3</td>
</tr>
<tr>
<td>Common shareholders’ equity</td>
<td>1,134.4</td>
<td>934.1</td>
<td>744.3</td>
<td>571.7</td>
<td>396.3</td>
</tr>
<tr>
<td>Share capital and surplus</td>
<td>461.6</td>
<td>318.0</td>
<td>318.0</td>
<td>271.5</td>
<td>212.2</td>
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<tr>
<td>Retained profits</td>
<td>589.0</td>
<td>553.9</td>
<td>394.4</td>
<td>264.9</td>
<td>147.6</td>
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<tr>
<td>Total liabilities and equity</td>
<td>10,027.3</td>
<td>9,397.8</td>
<td>6,807.9</td>
<td>5,819.5</td>
<td>4,736.9</td>
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</table>
### Bank of South Pacific Ltd. Summary Balance Sheet (cont.)

N/A—Not applicable.

### Bank of South Pacific Ltd. Equity Reconciliation Table

<table>
<thead>
<tr>
<th>(Mil. PGK)</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common shareholders’ equity</td>
<td>1,134.4</td>
<td>934.1</td>
<td>744.3</td>
<td>571.7</td>
<td>396.3</td>
</tr>
<tr>
<td>Minus nonservicing intangibles</td>
<td>(16.2)</td>
<td>(21.3)</td>
<td>0.0</td>
<td>(9.4)</td>
<td>(9.4)</td>
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<tr>
<td>Adjusted common equity</td>
<td>1,118.2</td>
<td>912.8</td>
<td>744.3</td>
<td>562.3</td>
<td>386.9</td>
</tr>
<tr>
<td>Total Adjusted Capital</td>
<td>1,118.2</td>
<td>912.8</td>
<td>744.3</td>
<td>562.3</td>
<td>386.9</td>
</tr>
<tr>
<td>Plus reserves</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>33.2</td>
</tr>
<tr>
<td>Minus equity in unconsolidated subsidiaries</td>
<td>(54.5)</td>
<td>(47.7)</td>
<td>(1.8)</td>
<td>(2.1)</td>
<td>(3.0)</td>
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<tr>
<td>Adjusted total equity</td>
<td>1,063.8</td>
<td>865.0</td>
<td>742.4</td>
<td>560.2</td>
<td>417.1</td>
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</table>

### Bank of South Pacific Ltd. Profit And Loss

<table>
<thead>
<tr>
<th>(Mil. PGK)</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>544.0</td>
<td>474.0</td>
<td>377.1</td>
<td>276.9</td>
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<tr>
<td>Interest income</td>
<td>646.0</td>
<td>582.9</td>
<td>436.0</td>
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<td>235.2</td>
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<tr>
<td>Interest expense</td>
<td>102.0</td>
<td>108.9</td>
<td>58.9</td>
<td>36.3</td>
<td>25.6</td>
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<tr>
<td>Operating noninterest income</td>
<td>410.2</td>
<td>252.0</td>
<td>242.7</td>
<td>201.6</td>
<td>134.0</td>
</tr>
<tr>
<td>Fees and commissions</td>
<td>152.1</td>
<td>108.8</td>
<td>87.3</td>
<td>68.0</td>
<td>55.5</td>
</tr>
<tr>
<td>Trading gains</td>
<td>139.3</td>
<td>104.3</td>
<td>127.1</td>
<td>116.2</td>
<td>64.6</td>
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<tr>
<td>Other market-sensitive income</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>0.3</td>
<td>0.3</td>
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<tr>
<td>Net insurance income</td>
<td>89.1</td>
<td>6.6</td>
<td>N/A</td>
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<td>0.0</td>
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<tr>
<td>Equity in earnings of unconsolidated subsidiaries</td>
<td>(0.8)</td>
<td>0.2</td>
<td>(1.2)</td>
<td>(0.9)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Other noninterest income</td>
<td>30.6</td>
<td>32.0</td>
<td>29.4</td>
<td>17.9</td>
<td>14.1</td>
</tr>
<tr>
<td>Operating revenues</td>
<td>954.2</td>
<td>725.9</td>
<td>619.8</td>
<td>478.5</td>
<td>343.5</td>
</tr>
<tr>
<td>Noninterest expenses</td>
<td>522.8</td>
<td>335.1</td>
<td>229.6</td>
<td>188.2</td>
<td>178.0</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>224.3</td>
<td>125.8</td>
<td>109.5</td>
<td>79.6</td>
<td>67.3</td>
</tr>
<tr>
<td>Other general and administrative expense</td>
<td>245.0</td>
<td>172.0</td>
<td>93.3</td>
<td>81.6</td>
<td>80.3</td>
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<tr>
<td>Preprovision operating income</td>
<td>431.4</td>
<td>390.8</td>
<td>390.2</td>
<td>290.3</td>
<td>165.6</td>
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<tr>
<td>Credit loss provisions (net new)</td>
<td>20.6</td>
<td>15.0</td>
<td>11.4</td>
<td>(4.3)</td>
<td>(1.3)</td>
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<tr>
<td>Operating income after loss provisions</td>
<td>410.8</td>
<td>375.8</td>
<td>378.8</td>
<td>294.7</td>
<td>166.9</td>
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<tr>
<td>Nonrecurring/special income</td>
<td>N/A</td>
<td>2.4</td>
<td>N/A</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Amortization of intangibles</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>0.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Impairment of intangibles</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>10.4</td>
<td>1.8</td>
</tr>
<tr>
<td>Pretax profit</td>
<td>410.8</td>
<td>378.1</td>
<td>328.8</td>
<td>283.6</td>
<td>164.5</td>
</tr>
<tr>
<td>Tax expense/credit</td>
<td>127.7</td>
<td>121.0</td>
<td>100.5</td>
<td>92.5</td>
<td>52.9</td>
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<tr>
<td>Net income (before minority interest)</td>
<td>283.1</td>
<td>257.1</td>
<td>228.3</td>
<td>191.1</td>
<td>111.6</td>
</tr>
<tr>
<td>Net income before extraordinaries</td>
<td>283.1</td>
<td>257.1</td>
<td>228.3</td>
<td>191.1</td>
<td>111.6</td>
</tr>
<tr>
<td>Net income after extraordinaries</td>
<td>283.1</td>
<td>257.1</td>
<td>228.3</td>
<td>191.1</td>
<td>111.6</td>
</tr>
</tbody>
</table>
### Table 6

**Bank of South Pacific Ltd. Profit And Loss (cont.)**

N/A—Not applicable.

### Table 7

**Bank of South Pacific Ltd. Core Earnings Reconciliation Table**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (before minority interest)</td>
<td>283.1</td>
<td>257.1</td>
<td>228.3</td>
<td>191.1</td>
<td>111.6</td>
</tr>
<tr>
<td>Minus nonrecurring/special income</td>
<td>0.0</td>
<td>(2.4)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Plus or minus tax impact of adjustments</td>
<td>N/A</td>
<td>0.8</td>
<td>N/A</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>Plus amortization/impairment of goodwill/intangibles</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>11.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Core earnings</td>
<td>283.1</td>
<td>255.5</td>
<td>278.3</td>
<td>202.2</td>
<td>114.0</td>
</tr>
</tbody>
</table>

N/A—Not applicable.

---

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### Ratings Detail (As Of July 14, 2011)*

**Bank of South Pacific Ltd.**

- **Counterparty Credit Rating**: B+/Stable/B
- **Bank Fundamental Strength Rating**
  - **Local Currency**: D
  - **Subordinated (1 Issue)**: B-

**Counterparty Credit Ratings History**

<table>
<thead>
<tr>
<th>Date</th>
<th>Type</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>13-Sep-2007</td>
<td>Foreign Currency</td>
<td>B+/Stable/B</td>
</tr>
<tr>
<td>07-Dec-2005</td>
<td>B/Stable/B</td>
<td></td>
</tr>
<tr>
<td>10-Nov-2005</td>
<td>B/Positive/B</td>
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</tr>
<tr>
<td>07-Dec-2005</td>
<td>Local Currency</td>
<td>B+/Stable/B</td>
</tr>
<tr>
<td>10-Nov-2005</td>
<td>B+/Positive/B</td>
<td></td>
</tr>
</tbody>
</table>

**Sovereign Rating**

Papua New Guinea (Independent State of)

- **Foreign Currency**: B+/Stable/B
- **Local Currency**: BB-/Stable/B

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor’s credit ratings on the global scale are comparable across countries. Standard & Poor’s credit ratings on a national scale are relative to obligors or obligations within that specific country.*