

Draft Press Release

BSP to issue K100 million in Subordinated Notes

Mr Noreo Beangke, Chairman, Board of Director, Bank of South Pacific today confirmed that the Board had resolved to make an offer of K100 million in unsecured and subordinated notes to the general public of PNG by way of a registered prospectus. The notes, in denominations of K25,000 will carry a fixed rate of interest of 11% which will be payable half yearly in May and November of each year. The Notes will mature on 29 May 2019.

Copies of the prospectus are expected to be available before the end of next week following registration with the Securities Commission. The issue closes on 5 June 2009 or earlier if fully subscribed although BSP has indicated that it will consider oversubscriptions. BSP will make application for the notes to be listed for trading on POMSoX.

The notes, which carry no voting rights will qualify as tier 2 capital under Bank of Papua New Guinea guidelines and are issued in compliance with Prudential Standard 1/2003 Part 1, paragraph 6.

Mr Beangke said that "The Notes are being issued as part of BSP's ongoing capital management strategy and funding plans. The funds raised by this issue will act to further strengthen our capital base and provide longer term liabilities to improve our capacity to hold longer term assets." He said that the issue is part of an integrated capital planning strategy that is under constant review at BSP.

He also pointed out that BSP's primary capital management objective was to operate with a level of capital that is well above the minimum that BPNG considers as being adequate for a bank to be regarded as well capitalised.

The total risk based ratio for BSP at 31 December 2008 was 22.8% however this comprised predominately tier 1 capital. "Overtime", said Mr Beangke "the policy of the Board is to increase the level of tier 2 capital in order to strike a more efficient balance between tier 1 and tier 2. This issue of long term subordinated debt is the first step in striking that balance."

The capital structure of most banks around the world includes subordinated debt and other hybrid instruments. This issue is the first by BSP, the first for PNG and the first publicly listed debt raising in PNG capital markets.

Mr Ian B. Clyne, the Managing Director of BSP said that this issue of publicly listed debt is a very important development in the continuing growth of capital markets in PNG. "BSP is proud to be the first issuer and to lead to the market in this way," he said. He also said that the transaction provided an important advance in markets in PNG and that it was very much in the national interest of the country.

BSP Capital is lead Manager and Broker to the Issue, Kina Securities Limited is co broker.