



Port Moresby Stock Exchange Release  
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7 September 2009

**Bank of South Pacific Limited**  
**Half-Year Results – 30 June 2009**

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Mr Noreo Beangke, Chairman, Board of Directors, Bank of South Pacific Limited (BSP) today released the results for the half-year to 30 June 2009.

A consolidated operating profit of K190.47 million is recorded for the half year, a small increase on the consolidated operating profit of K185.83 million achieved for the same period last year. After tax profit is K123.21 million.

Earlier this year, BSP highlighted the potential for 2009 performance to be affected by the impacts of depressed global economic conditions. Under these difficult conditions, it was anticipated that a cautious approach to lending would be adopted. The global financial crisis also provided a timely reminder of the need for operational and risk management improvements. In the bank's 2008 Annual Report, it was stated that plans for 2009 included investments in a medium term operational and risk management improvement program. The outcomes for the first half of 2009 reflect these expectations.

The global economic downturn has been a major factor on performance in the first half of this year. The stable profit outcome which is only slightly higher than the same period in 2008 is due to lower revenue growth due to a more controlled lending strategy, combined with a significant decline in foreign currency earnings as the global economic downturn caused reduced export receipts and foreign currency liquidity. Another more sobering impact of the more difficult market conditions in 2009 has been the incidence of fraud, and the stress this places on the bank's internal control environment. In the first half of this year, an abnormal provision of K7.5 million has been made to recognize a loss arising from a series of fraudulent cheque transactions instigated by a customer. Collective loan provisions have increased marginally when compared to the corresponding period in 2008, as provisioning models have been re-tuned to incorporate the potential adverse effects on operating conditions of borrowers in the PNG economy.

In terms of expenses, work on operational improvement programs across the organization commenced in March this year, with the engagement of industry and technical experts. Initial increased investments in risk management activities have also been made, commencing with a security situation re-assessment exercise.

Despite these challenges, there has been continued growth in the level of BSP total assets – from K6.81 billion at the end of 2008 to K7.58 billion at June 2009. The customer loan and receivables portfolio now exceeds K2.69 billion, an increase of 13.00% from the level of K2.34 billion as at year-end 2008. Market share in lending assets has grown slightly over the period.

The Bank's expense to income ratio has reduced from the 2008 mark. A ratio of 41.70% was achieved, an improvement on the ratio of 45.00% for 2008. This achievement is commendable, however as the bank embarks on a comprehensive program of operational and risk management improvements, combined with proposed upgrades of many of the banks current systems, processes and organizational structures, this ratio is expected to increase in the near term.

The BSP Capital base remains in the "well capitalized" range by international definition. Capital adequacy is 22.60%, reflecting the continued growth in BSP total balance sheet assets as well as the proposed dividends of K100.31 million to be released from retained earnings (paid in July). This level of capital is still in line with targets set under the bank's capital management strategy. The capital ratio exceeds the Bank of Papua New Guinea prudential requirement of 12.00%.

Mr Beangke concluded that with challenging conditions in 2009, it so far has been a period where businesses have probably had to focus more intensively on internal factors. BSP anticipates economic conditions in Papua New Guinea to remain subdued in the short-medium term, with optimism around the Exxon Mobil LNG gas project translating into more tangible economic activity to provide greater impetus in 2010. The current interest rate regime, and reasonably strong domestic liquidity are positive factors for stability in the short term however monetary and fiscal policy responses to what has been a challenging six months, will be critical over the medium term. He looks forward to completing a year of solid performance by the bank under trying conditions.

N. N. BEANGKE  
Chairman  
Port Moresby

07 September 2009