



Friday March 04th, 2011

Full-Year Results - 31 December 2010

Mr Kostas Constantinou, Chairman, Board of Directors, Bank of South Pacific Limited (BSP) today released the results for the full-year to 31 December 2010.

A consolidated operating profit before tax of K410.8 million is recorded for the financial year 2010, an increase of 8.6% on the consolidated operating profit of K378.14 million achieved for 2009. After tax profit is K283.15 million. The Group's total assets now stand at K10.027 billion, up K629.47 million from last year.

The bank achieved pretax profits of K402.10 million, a 6% increase from K377.96 million in 2009. Total assets of the bank at December 2010 are K8.655 billion, a 6% increase from December 2009.

Emerging from a period of some uncertainty, into a year that held out some promise of a strengthening global recovery, and some positive expectations about the domestic PNG economy, the BSP Group has achieved sound results in 2010, characterized by continued profitability and balance sheet growth, demonstrating operational and financial stability. PNG's economy performed well as global commodity prices continued their recovery path, and the physical construction activity in connection with the PNG LNG project commenced and gained momentum. In so far as the volume and monetary value of activity in the financial sector is generally indicative of local business activity, then BSP's PNG results follow a consistent positive trend. The performance trends reported in the half year 2010 results have continued in the second half of 2010.

Revenue growth from the prior year is of 13.5% in the bank, continuing the trend established in the first half of the year. Most of the revenue growth is attributable to non interest income streams, following a fall in net interest margins occasioned by a prolonged decline in bank bill rates since late in the second quarter of the year. On a group basis, the growth in revenue is 32%, reflecting the full year operation of the Fiji subsidiaries acquired in December 2009.

In terms of expenses, work on operational improvement initiatives across the organization which commenced in 2009 under BSP's Transformation Program, have intensified in 2010. Increased investments in risk management and internal control activities, management information systems, technology systems and physical security, and process reengineering throughout the organization are continuing. Support activities for electronic banking channels continue to receive expert attention. In terms of the Bank alone, despite the intensification of activities in connection with the transformation and modernization exercise, cost escalation has been well matched by increased revenue generation. At the group level, percentage year-on-year expense growth for the consolidated BSP group was higher than for revenues, resulting in the cost to income ratio for the group increasing from 46% to 54%. The re branding of BSP continued successfully in 2010, with some emphasis given to the appropriate BSP branding of newly acquired businesses in Fiji

Group operational activity relating to the preparation and implementation of our Fiji capital raising transactions (BSP Fiji Convertible Notes), the practical integration of the recently acquired Fiji businesses into the BSP group, as well as on efforts to carry out the plan to sell the Fiji based insurance operation also contributed to operating costs for the year.

The Bank has continued to obtain expert advice to work on strategies to protect its legal rights, status and reputation as well as those of its officers, under ongoing challenges to fundamental principles of commercial law and commercial banking practice. BSP believes that the defense of these principles is very much in the best interests of PNG's financial system and the integrity of commercial practices. Matching the continued growth of profits for BSP group, has been the continued growth in the level of total group assets – from K9.398 billion at the end of 2009 to K9.815 billion at June 2010, to K10.027 billion at December 2010. The customer loan and receivables portfolio has grown to a net K4.09 billion, a net increase of 12% or almost K453 million from the level of K3.638 billion as at year-end 2009. Market share in lending assets has been maintained over the year.

Overall, the group has posted well rounded financial achievements for 2010, considering that the bank is progressing with a major commitment to its transformation program, and much work has also been required on the integration of the newly acquired Fiji businesses.

The bank and group capital base remains very strong at the end of 2010 supported by the new equity capital raising of K143.6 million in June 2010, allowing the level of capital to satisfy the targets set under the bank's capital management strategy. Total capital adequacy at the end of 2010 is above 20% notwithstanding the impact of continued growth in balance sheet assets as well as historically high dividends of K182.37 million for 2009, and an interim dividend for 2010 of K65.585 million all paid during 2010. The capital adequacy ratio exceeds the minimum Bank of Papua New Guinea prudential requirement of 12.00%.

Whilst the country reports macro-economic indicators that are quite healthy, BSP's business environment in PNG continues to be characterised by abnormal risks in relation to general security, an increasingly competitive labour market compounded by a stressed education system, high communications costs by global standards, and sub-optimal standards of electricity supply. In recent years, a shortage of office and residential infrastructure in the major urban centres has developed, and this has led to a rapid escalation of rental costs. How successfully the country deals with these and other wider social issues in the context of the potential positive economic impacts of major mining and gas projects, will be critical for business in PNG.

The Solomon Islands and Fiji economies remained subdued during the year. In the Solomon Islands the economy remains heavily reliant on timber and fish exports and in the mining sector, Allied Gold has made a significant investment. The RAMSI assistance programme continues to be beneficial to the economy. Fiji's sugar industry still requires major new capital investment however the tourism industry is showing signs of a return to normality, as the global recovery from the recent economic downturn is accompanied by growing holiday consumption levels, and market confidence returns after the 2009 flooding and cyclones. Business confidence remains positive, the liquidity position has improved, and BSP's competitive position is sound.

Mr Constantinou expects the sound underlying performance of BSP to continue, but the group will need to continually adapt to exceptionally challenging market conditions. "In 2010, there is evidence of a slow strengthening of global economic conditions, with the large traditional economic powers in North America and Europe showing more sustained recovery trends, and the developing high growth Asian and South American economies continuing to accelerate. PNG's economy becomes increasingly exposed to these global trends as we move closer towards the major step change expected as the LNG project reaches production phase. In the Pacific and other emerging economies, the pace of monetization of individual and national wealth is expected to increase. BSP is striving to get itself into a position where it will be able to achieve solid performance which will be competitive by global standards, under these conditions. The 2010 results show that we continue on track with this objective"

K Constantinou

Chairman

Port Moresby