



BANK OF SOUTH PACIFIC LIMITED

HALF YEAR RESULTS – 30 JUNE 2013

Mr Kostas Constantinou, Chairman, Board of Directors, Bank of South Pacific Limited (BSP) today released the results for the half-year to 30 June 2013.

BSP achieved a consolidated operating profit of K281.2 million, an increase of 2.8% on the consolidated operating profit of K273.5 million for the same period last year.

The steady first half 2013 results follow the solid 2012 full year results for BSP. Conditions contributing to 2012 second half performance largely continued during the first half of this year, albeit economic growth slowed as the LNG major construction phase is coming to an end. Whilst inflation remains a threat to the economy as evidenced by price increases for operating expenditures, interest rates on Bank bills have declined slightly from the low levels where they ended last year, which exerted downward pressure on net interest income.

The bank has again performed creditably, posting a slight increase in operating profit before tax over the corresponding period of 2012. After tax profit is K204.5 million compared to K204.0 million for the same period last year: growth of noninterest income (which is now at 50.5% of total income) offset increases in impairment, depreciation and tax expenses. The Bank's view is that trading conditions may become more difficult in the second half of the year, and the management team is looking to introduce cost savings initiatives in the second half of 2013, with real impact in 2014.

Consolidated revenue growth of 11% was achieved whilst maintaining a controlled lending strategy that has seen interest income grow at a reasonable rate. Business demand for credit has been up in the first half of 2013 albeit at a slower pace, but there has been a strong performance from foreign currency earnings.

Capital expenditure across the network under BSP's Transformation program continues for committed projects, but overall is reducing compared to prior years. From a cost perspective, as these programs complete and are transferred to the Bank's asset register and capitalized, the depreciation expense is impacting the Bank's cost base and will continue to do so in 2014.

BSP group total assets have continued to grow, rising from K13.333 billion at the end of 2012 to K14.813 billion at June 2013. The customer net loan and receivables portfolio now exceeds K5.24 billion, and market share remains stable.

Group's expense to income ratio for the first half year of 2013 was at 54%, compared to 53% for the same period last year. This increase was mainly due to the depreciation increase of K21M in 2013 first half in comparison to the same period in 2012.

The Bank and Group capital base is still strong. Total capital adequacy fell slightly to 19.9%, reflecting the impact of continued growth in BSP total balance sheet assets as well as the 2012 final dividend of K178.0 million accounted for during the period. This level of capital remains in line with targets set under the bank's capital management strategy. The capital ratio exceeds the Bank of Papua New Guinea minimum prudential requirement of 12.00%.

The Chairman announced that in keeping with the modest improvement in operating results, the Board of BSP has declared an interim dividend of 20toea per share which, on a post consolidation basis, is equivalent to the interim dividend of last year. The interim dividend will be paid on the 25th of October, 2013.

Mr Constantinou is confident the Bank will continue to adapt to challenging market conditions, and continue to deliver a sound underlying performance..

A large, stylized handwritten signature in black ink, consisting of several overlapping loops and a long, sweeping tail that extends downwards and to the right.

Kostas Constantinou, OBE
Chairman
Port Moresby