



FULL YEAR RESULTS – 31st DECEMBER 2020

Bank of South Pacific Limited (BSP) Group today announced a net profit after tax result of K806.2 million for the financial year ended 31 December 2020. The result was 9.5% lower compared to the prior year and was driven by an increase in impairment expenses to K201.3m (+102.9%) due to the impact of COVID-19 across the Group.

In announcing the 2020 results, Sir Kostas Constantinou, OBE, Chairman of the BSP Board highlighted that notwithstanding the profit reduction, the result reflects a continuing strong underlying performance by BSP which has been able to withstand the significant adverse impact of the COVID-19 pandemic due to its strong balance sheet and prudent provisioning policies.

PNG Bank results, which contributed 75% of Group profits, reduced to K604.0m in 2020, a 9.7% reduction compared to the prior year result of K669.3m. In addition to higher COVID-19 driven impairment expenses, interest income from loans were impacted by a 1% reduction in the indicator lending rate (ILR) on 1st April 2020. Total interest income from domestic loans for PNG Bank reduced by K42.9m year on year, with the ILR reduction having an impact of approximately K56.7m, partially offset by an increase in lending volumes of K208m over the year which assisted to partially offset the negative rate movement.

Key financial highlights for 2020 were:

- Total Group revenues decreased against the corresponding period by 1.2% due to the reduction in BSP PNG's ILR by 1% and overall lower transactional activity across all entities due to COVID-19. This was partially offset by increased lending and investments in government securities over the year with higher volumes partially mitigating reduced margins.
- Revenues across the Group from foreign exchange income declined by K39.5 million, with international travel restrictions resulting in significantly lower scheme card based activities especially in the offshore branches.
- Notwithstanding the challenges, BSP continued to achieve a reasonable portfolio growth with customer loans and advances increasing by K449.0 million to K14.4 billion. Deposits remained strong and increased by 12% to K21.7 billion, supported by improved market liquidity.
- The Group's operating expenses have decreased by K16.7 million compared to prior year, reflecting strong cost containment measures across all businesses to mitigate the COVID-19 related impact on income levels. The cost to income ratio for the Group is at 37.4%, a reduction from 37.7% over the same period last year.
- Total loan and investment provision charges for 2020 was K201.3 million, an increase of K102.1 million from K99.2 million in 2020. The increase was due to higher

provisions taken up to cater for deteriorating macroeconomic factors and the change in risk profile of borrowers affected by COVID-19 related downturns. As a consequence, total balance of bad and doubtful debt provisions increased to K843.7 million from K700.6 million in 2019 driven mainly by additional provisions taken up during the year, partially offset by settlement of loans against available provisions.

- The Group's capital base remains solid. Total capital adequacy at the end of the financial year stood at 23.2%, an increase from 22.0% at December 2019 with a reduced dividend payout rate in 2020 which enabled a higher level of capital to be retained to absorb potential shocks from the pandemic. The capital adequacy ratio exceeds the minimum Bank of Papua New Guinea prudential requirement of 12.0%.

Sir Kostas noted that BSP has assisted customers significantly since the onset of the pandemic by extending COVID-19 support packages to a number of customers, in line with Central Bank approved relief periods applicable in the relevant jurisdictions. He pointed out that it was pleasing to see a number of these customers had managed to revert to full repayments.

The Chairman expressed his appreciation to staff and management across the BSP Group for the 2020 results in a very difficult year.

Sir Kostas Constantinou, OBE

Group Chairman | Bank of South Pacific Ltd