Friday September 09th, 2011

Half-Year Results - 30 June 2011

Mr Kostas Constantinou, Chairman, Board of Directors, Bank of South Pacific Limited (BSP) today released the results for the half-year to 30 June 2011.

A consolidated operating profit of K222.9 million, an increase of 7% on the consolidated operating profit of K209.05 million achieved for the same period last year.

Steady first half 2011 results follow solid 2010 full year results for BSP. The conditions contributing to 2010 second half performance continued during the first half of this year, primarily strong domestic growth driven by the LNG project related activities and other resource projects in various stages of development, against the backdrop of a fragile and slow recovery in global economies and financial markets. Whilst inflation remains a serious threat to the economy, and evidence of this is already starting to be observed generally through operating expenditures, interest rates on Bank bills have remained at the low levels where they ended last year, and this has exerted significant downward pressure on net interest income.

Under these challenging conditions, the bank has again performed creditably to post an increase in operating profit before tax over the corresponding period of 2010. After tax profit is K158.5 million compared to K163.4 million for the same period last year, and this is due to exceptionally low income tax expense in the June 2010 period to recognize the tax effect of deductible losses identified in prior periods. On a normalized basis, the after tax profit trend is consistent with pretax trends.

Revenue growth is moderate, due in part to a more controlled lending strategy, which has seen interest income growth level off slightly. Robust non interest income growth has offset weaker interest income, as a result of aligning some bank fees to market levels, and strong performance from foreign currency earnings as volumes in this area of the business continue to improve in line with economic conditions.

In terms of expenses, work on operational improvement initiatives across the organization under BSP's Transformation Program, continues. Risk management and internal control processes, management information systems, technology systems and physical security, and process reengineering throughout the organization are some of the continuing focus areas. Support activities for electronic banking channels continue to receive expert resources, and the rebranding of the retained life insurance business in Fiji has been completed. A Fiji government decree also enabled the conversion to a branch, of the banking subsidiary, National Bank of Fiji – formerly trading as Colonial National Bank.

Despite these challenges, there has been continued growth in the level of BSP group total assets from K10.027 billion at the end of 2010 to K10.972 billion at June 2011. The customer net loan and receivables portfolio now exceeds K4.10 billion, and market share remains stable.

The Bank's expense to income ratio for the first half year of 2011 is at 50% reflecting the impact of moderate income growth, particularly the impact of low rates on re-investment of surplus funds, continuing commitments on transformation program activities, and general inflationary impacts on costs.

The bank and group capital base is still strong at the 2011 half year point. Total capital adequacy is 22%, reflecting the impact of continued growth in BSP total balance sheet assets as well as the 2010 final dividends of K149.85 million accounted for during the period. 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 Constantinou noted that current trends in the economy will continue to present further earnings challenges for the Bank for the remainder of 2011.

With the build phase of the LNG project continuing, and with high commodity prices supporting strong export performance, liquidity in the system has continued to grow but the opportunity to invest surplus liquidity in short-term instruments is becoming more limited. The growth in liquidity has been accompanied by significant initial downward pressure on interest rates of Central Bank debt instruments. The Central Bank's liquidity management methods now include increases to the Cash Reserve Requirement, which further limits earnings opportunity for the bank.

BSP is already experiencing pressure on expected revenues from its investment portfolio, which will impact second half earnings. Much energy is being directed to measures to preserve revenue stability in the short term, and attention to operating costs becomes ever critical.

The chairman announced that in keeping with the underlying improvement in operating results, the Board of BSP has declared an interim dividend of 15.4 toea per share, which on a post consolidation basis, represents a 7% increase in the interim dividend of last year.

Mr Constantinou expects sound underlying performance of BSP to continue, but the group will need to continually adapt to challenging market conditions.

K Constantinou, OBE
Chairman
Port Moresby