



FULL YEAR RESULTS – 31st December 2012

Mr Kostas Constantinou, Chairman, Board of Directors, Bank of South Pacific Limited (BSP) today released the results for the full-year to 31 December 2012.

The BSP Group has again achieved very sound results in 2012, with operational and financial stability supporting solid profitability and balance sheet growth.

The Group achieved a consolidated operating profit before tax of K545.3 million for the 2012 financial year, a 14.8% increase on the consolidated 2011 operating profit of K475 million. Again the Group attained revenue above K1 billion, net of interest expense, to K1.353 billion. The result after tax is K407.74 million. Total assets of the Group increased, by approximately K1.652 billion to K13.333 billion.

The bank's achievements are similarly strong with pre-tax profits growing 14.8% to K535.4 million, from K466.2 million in 2011, supported by K1.207 billion of revenues net of interest expense. Total assets of the bank at the end of 2012 are just over K13.013 billion.

2012 results have been achieved on the back of continued strong domestic growth of the PNG economy, driven by continuing LNG project related activities and other resource projects in various stages of development, despite a fractious and fickle global economic environment. Inflation and foreign exchange volatility have been the macroeconomic factors driving monetary policy in PNG. Strong export performance supported by favourable global commodity prices has continued to boost liquidity levels, and this has meant interest rates on Bank bills have remained at the low levels where they ended 2011, maintaining significant downward pressure on net interest income. PNG's elections were held and conducted without major disruption. Elsewhere in the region, economies have performed reasonably well, with export performance leading the way.

In Fiji, monetary and fiscal conditions have improved somewhat, although this is yet to be transmitted into major growth in domestic economic activity. It has been pleasing to note that tourism and sugar, the stalwarts of the Fijian economy, are the areas where recovery has continued in 2012. Favourable world prices are aiding resurgence in mining activities in Fiji, which could also add to the country's prospects.

In the Solomon Islands, foreign aid has continued to give impetus to improving economic performance, boosting activity around public capital projects. Forestry and fisheries exports have performed well during 2012. Potential mining projects are becoming more economic, and attracting investments. The RAMSI presence is also helping to develop investor confidence.

BSP's performance not only tracks the positive trends in the economies of PNG and its Pacific neighbours, it also reflects the early stage benefits of significant investments being made to extend banking services to parts of the market that have not had reliable banking services, through appropriate technology, efficient processes and effective delivery models.

Bank and Group maintained a milestone in 2012, with revenues from ordinary activities pushing past K1 billion for the second year running. For the group, revenues have increased 14% during the year, building upon the trends established in the prior year. With interest income constrained by low bank bill rates during 2012, most of the revenue growth has come from non-interest income streams. Good growth has been achieved with customer transaction volumes, through major customer acquisition campaigns, supported by product and process revisions, and acceleration in growth of electronic banking channels.

In terms of expenses, increases have been experienced in the areas of staff, depreciation, and in policy liabilities and claims related expenses in the insurance business. Work has continued in the bank, on operational improvement initiatives covering technology systems and physical security, customer service and transaction systems and processes, and electronic banking infrastructure. The higher levels of investment being made to modernise the bank, and some adverse trends in insurance policy and claims related expenses, together with the adverse impact on revenue of low central bank bill rates, has produced a cost to income ratio for the Group of 55%, down slightly from 58% in 2011.

Matching the continued growth of profits for BSP group, has been the growth in the level of total group assets – from K11.681 billion at the end of 2011 to K13.333 billion at December 2012. The customer loan and receivables portfolio has seen net growth of K504 million to K4.80 billion. Market share in lending assets has been maintained over the year. The bank continues to pursue its program of capital investment in technology, systems, products, infrastructure and equipment while retaining a healthy level of capital.

The bank and group capital base remains very strong. Total capital adequacy at the end of 2012 is 20.9% notwithstanding the impact of continued growth in balance sheet assets as well as total dividend payments of K258.994 million and just over K41.6 million of shares bought back. The capital adequacy ratio exceeds the minimum Bank of Papua New Guinea prudential requirement of 12.00%. In 2013, an improving but fragile global economy will continue to pose challenges. Whilst growth will still be at high levels in high growth emerging market economies of recent years, they are likely to experience a slight softening of growth rates. In the traditional developed economies of Europe and North America the outlook is for continued uncertainty.

PNG's growth prospects are still strong, and with the O'Neil Government now in power for over 6 months and the vote of no confidence now out at 30 months there are good prospects for stability. The overriding key issue still remains that of converting the GDP growth initiated by major mining and gas projects, into sustainable economic and social development. This will enable businesses to begin to properly frame a post-LNG view of the PNG business environment, and its increasing exposure to international markets.

Fiji and the Solomon Islands have shown promising signs of recovery and return to normalcy in 2012. Influences on further near term progress in 2013 will come from regional and global economic conditions affecting their export activities.

Mr Constantinou said that the steady performance in 2012 is an indication of the positive impact of the changes being implemented in BSP. "For this to continue, the group must maintain competitiveness, anticipate market conditions, and adapt to change. In 2010 we spoke of an emerging recovery in global conditions, but this stalled in 2011 and further weakened in 2012. Even so, BSP has enough local strength to continue to leverage profitably off PNG's strong economic performance in 2012 and in the future. The Group is working hard to position itself as the leading bank in the South Pacific, to efficiently serve a customer base that is experiencing - and rapidly becoming accustomed to - the benefits of technologically aided banking using global standards.

The 2012 results demonstrate that BSP continues on course to achieve its market goals.

"I am also confident that the Group will meet the challenges of 2013 and return more profitable results for shareholders and ultimately the people of Papua New Guinea. And we at BSP are also proud to have been recently announced as the major sponsor of the 2015 South Pacific Games."

Kostas Constantinou, OBE

Group Chairman | Bank of South Pacific Ltd