



29<sup>th</sup> October 2020

## **A LETTER FROM THE CHAIRMAN – SIR KOSTAS CONSTANTINOU, OBE**

Dear Shareholders,

As I write to you the world remains gripped by Covid-19, and whilst the Pacific is relatively virus free many northern hemisphere states are experiencing a sharp increase in infection and hospitalisation rates. Papua New Guinea has not been spared either. Since January, Covid-19 has impacted our lives, businesses and transformed our world, presenting an unprecedented medical, economic and human challenge. The implications of the Covid-19 outbreak for every nation and for our clients, employees and shareholders have been profound.

### **Covid-19 has impacted BSP**

For governments around the world Covid-19 has presented the challenges of implementing quarantines on a scale never seen before, and of responding to the economic and financial fallout from them. For the private sector, this has changed how companies operate and the demand for their products and services, with small and medium businesses and their employees impacted the greatest. As a result of this disruption banks globally have taken immediate steps to support Business and Retail customers. As the largest bank in Papua New Guinea, BSP has taken the role in helping business and customers seriously, and has implemented relief measures such as repayment holidays for our distressed customers. I won't repeat our half yearly announcement, however as reported the financial assistance measures have impacted BSP's results. Notwithstanding, doing right by customers creates long-term shareholder value and the Bank remains on a sound financial footing.

### **A well run bank**

As you would be aware prior to my appointment as Chairman in 2011 the Bank's capital expenditure program was escalating to the extent that the banks' cost to income ratio was reaching levels that could not be sustained without compromising future shareholder returns. As Chairman I was focused on making strategic decisions that would deliver PNG a world class bank.

Recently BSP commissioned research into a number of metrics against which global banks measure each other's performance. To highlight the turnaround since I became Chairman I share with you four of the key measures, along with a brief explanation of BSP's performance when compared to similar banks:

### a. Return on Assets

Return on assets (ROA) shows how efficiently a company is utilising its assets. It is measured as a percentage of net earnings to average assets. The research reflects BSP's ability to generate a comparatively higher rate of return from its asset portfolio, against that of comparable banks.

Return on Assets (%)	Banks <sup>1</sup>	BSP <sup>2</sup>
Top Quartile	1.23	
Average	0.94	3.7
Median	0.89	
Bottom Quartile	0.72	

### b. Return on Equity

Return on Equity (ROE) is a measure of how effectively management is using a company's Equity to create profits. The research demonstrates BSP's profitability and returns, which has been consistent over the years since I became Chairman.

Return on Equity (%)	Banks <sup>1</sup>	BSP <sup>2</sup>
Top Quartile	10.21	
Average	8.13	29.7
Median	7.87	
Bottom Quartile	5.86	

### c. Net Interest Margin

Net interest margin (NIM) is a measure of the difference between interest income from lending facilities/investment securities and interest expenses incurred on deposits, relative to the average balance of assets used to generate this interest income. NIM is a profitability indicator that approximates the likelihood of a bank thriving over the longer term. BSP's comparatively higher net interest margin is a reflection of its underlying ability to generate a superior level of return to its shareholders.

Net Interest Margin (%)	Banks <sup>1</sup>	BSP <sup>2</sup>
Top Quartile	4.24	
Average	3.74	7.57
Median	3.62	
Bottom Quartile	3.12	

### d. Efficiency Ratio

The efficiency ratio (also referred to as the Cost-to-Income ratio) shows how well the bank controls its expenses. A low cost to income ratio demonstrates BSP's efficiency of operations, enabling the Bank to generate higher levels of profitability.

<sup>1</sup> S&P Global Market Intelligence, Moody's Analytics, Financial Year 2019 Annual Reports

<sup>2</sup> Bank of South Pacific 2019 Annual Report

Efficiency Ratio (%)	Banks <sup>1</sup>	BSP <sup>2</sup>
Top Quartile	54.55	
Average	64.31	38.2
Median	64.40	
Bottom Quartile	73.12	

In all four Key Performance Measures BSP is placed in the top quartile for similar banks globally, and the Bank significantly outperforms the average and median results for its peers. These results should provide our shareholders with the confidence of knowing BSP is outperforming comparative banks and is well placed to grow from a position of operational strength. I would like to congratulate our CEO Robin Fleming, his management team and all of our staff for their hard work in producing world class results for our shareholders and customers.

### **Strategic view of BSP**

I have always believed in a long-term strategic view and have advocated for it in Board meetings. And I believe long-term thinking has never been more critical than it is today. Companies and investors with a strong sense of purpose and a long-term approach will be better able to navigate the Covid-19 crisis and its aftermath. This includes taking a strategic view of our region and the role we want BSP to play in it. The economy will recover. And for those who keep their eyes not on the shaky ground at our feet, but on the horizon ahead, there will be tremendous opportunities to be had.

As you would be aware BSP had previously pursued a dual listing on the ASX. There were various reasons as to why this did not proceed. BSP's Board and Executive team, in conjunction with Deloitte, recently conducted a Strategy Workshop to confirm the Banks strategic intentions over the coming term. Those deliberations confirmed that when the circumstances are favourable BSP should once again pursue a dual listing. Unlike the previous attempt, which was primarily focused on share liquidity, a future dual listing would be used to position BSP for potential capital raisings to fund offshore growth opportunities. A dual listing in the future accompanied by a targeted growth program in Australasia will deliver our shareholders significant financial benefits whilst increasing the value of the bank.

In summary, BSP's well-capitalised balance sheet enables the Board to consider appropriate growth opportunities that do not pose an unacceptable risk whilst adding value to our shareholders, customers, staff and Papua New Guinea.

I wish all of our shareholders well. Please do all you can to stay healthy and be safe.



**Sir Kostas Constantinou, OBE**  
**Group Chairman**  
**Bank of South Pacific Limited**