

Bank South Pacific 2022 Databook

 **JMP** | SECURITIES

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Papua New Guinea

 **BSP**

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www.jmpmarkets.com



What is in this Databook?

- JMP Securities Limited (*'JMP'*) is committed to delivering quality research and analysis to the investing public in Papua New Guinea.
- BSP Financial Group (*'BSP'*) (*PNGX:BSP - ASX:BFL*) is one of the leading securities traded on the PNGX and plays an important role in the broader economy of PNG and the Pacific. Understanding the company's performance has intrinsic value to observers of Pacific economies as well as being important to all market participants on the PNGX.
- With the FY2022 Half-Year Results set to be released in the coming weeks, JMP is providing investors and analysts with selective commentary about BSP's performance in recent years, with particular emphasis on the FY2021 Annual Report.
- The *Capital Market Act 2015* restricts JMP's ability to provide research that includes trading recommendations or price targets. As such, this Databook does not contain trading guidance or recommendations. We encourage all readers to make their own further enquiries and reach their own investment decisions as it pertains to BSP or any other securities or investment opportunities.
- This Databook must be read in light of the Legal Disclaimer on page 66.

How to use this Databook?

- Based on analysis of the annual reports and market announcements by BSP for the period from 2017 through 2021, we have provided 54 datapoints which we think are relevant to investors and the general public in terms of the performance and prospects of BSP.
- You may choose consider the summarized datapoints as presented on pages 7 – 11 of this paper, however we recommend that you review the detailed charts and tables in respect of each datapoint on pages 12 – 65 in order to develop a more fulsome understanding of the context of the datapoints and their implications on the performance of BSP into the future. In addition, we believe that considerable additional information, beyond the individual datapoints, are presented in this paper.
- It is our hope that readers will find the datapoints and the associated tables and charts instructive when performing your own analysis of BSP as a potential investment and that readers will use the information in this paper as points of reference when evaluating the FY2022 Half-Year result announcements.
- As always, the datapoints presented in this paper do not constitute investment advice or a recommendations in terms of specific trading strategies. This paper merely sets out to assist interested investors and the public at large by summarizing and presenting information about BSP in a convenient and intuitive manner.

What did we find: Some Observations

- ✓ BSP performed strongly in FY2021, with a record NPAT of K1.075bn.
- ✓ The company delivered strong Return on Equity (29.75%) and growth in earnings (33.37%).
- ✓ BSP paid strong dividends in FY2021 (K1.44 per share) and is expected to continue to pay good dividends into the future
- ✓ The business has a very strong brand, a healthy balance sheet and capital position and proven management team.
- ✓ The dual listing on the ASX is over time likely to provide greater liquidity and more acute pricing of BSP shares. As earnings and dividends grow, this will be supportive of strong share price performance.
- ✓ The PNG economy, which is the most important to BSP, is likely to perform well in coming years.

BUT: Some things to consider

- Whilst Total Assets are growing strongly, almost all growth in recent years have come from investments in T-bills, CB-bills and GIS, all of which are Government exposures. In PNG, interest rates have been trending downwards rapidly during 2022 on these assets and this may put pressure on income in coming months.
- BSP's Loan Book has not grown much in recent years. Virtually all growth in interest income has resulted from lending to governments. These assets now account for 35% of Total Assets.
- The strong financial performance in FY2021 was in part due to writing back "excessive" provisioning put in place during FY2020 as part of dealing with the possible impact of Covid-19. Arguably, FY2020 presented an overly negative view of the business and perhaps FY2021 a somewhat overly positive view of performance. Looked upon in combination, the two years probably give a good picture of the strength and positioning of the company.

BUT: Some things to consider cont'd

- ❑ Yields on financial assets of BSP are under pressure. Average yields in FY2021 were reduced to 6.39%. During FY2022, yields on government paper (in particular T-bills and GIS in PNG) have come under pressure. Shifting to growing the loan book and maintaining margins are critical success factors for BSP in FY2022 and beyond.
- ❑ Adjustments to impairment provisions for the loan book were arguably quite aggressive in FY2021. The aggregate provision for the loan book has been reduced significantly when compared with previous years. At the same time loan delinquency has increased considerably.
- ❑ FY2021 saw significant growth in operating expenses, in particular staff costs. Some of this growth is likely one-time adjustments associated with benchmarking as a company listed on the ASX, however cost-control continues to be an important success factor for management.

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Our BSP FY2021 Datapoints:



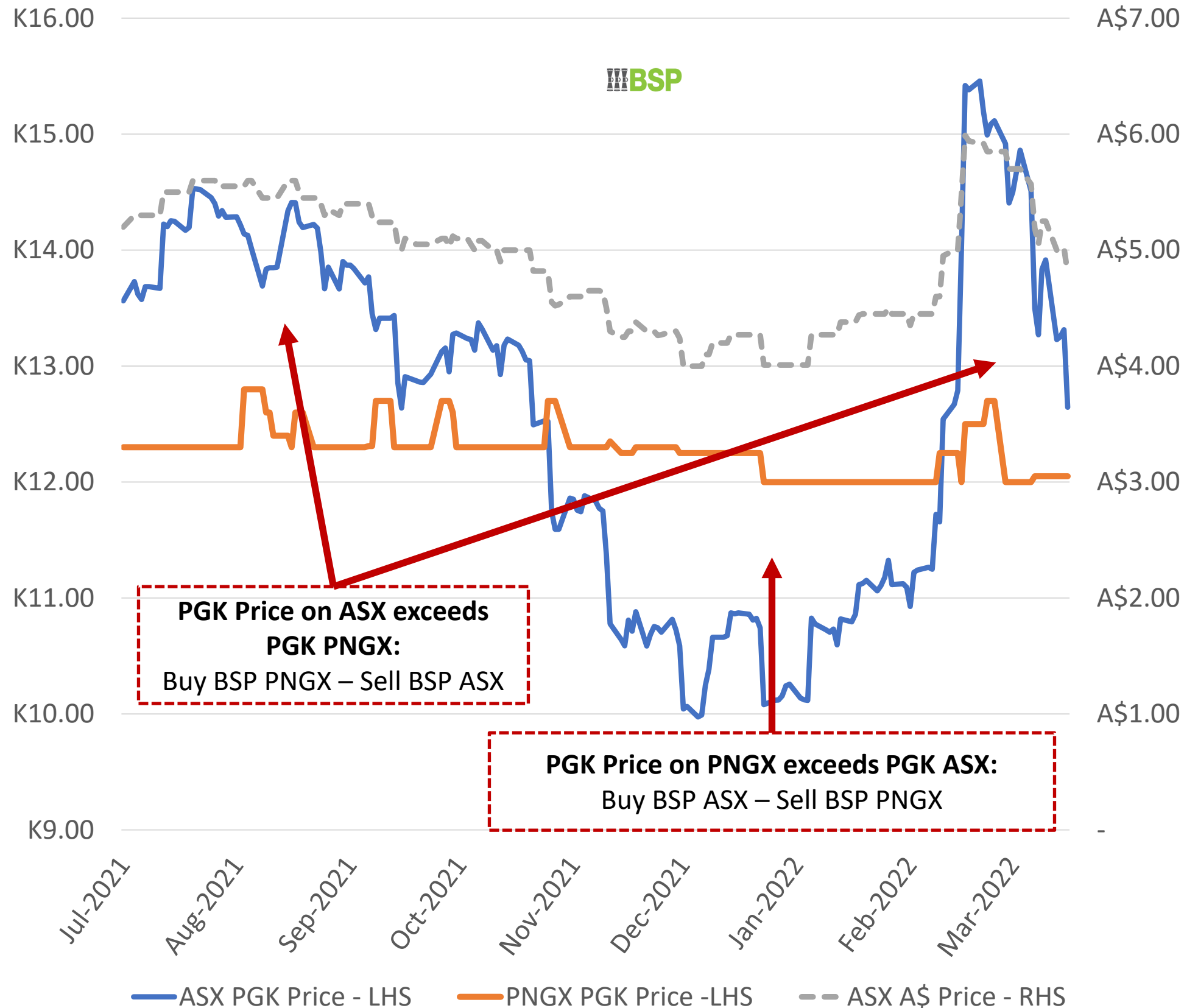
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Our BSP FY2021 Datapoints:



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#1 - BSP shares trade at differential prices on PNGX and ASX



In frictionless, connected and interchangeable markets, arbitrageurs would be expected to eliminate price differentials between markets for the same commodity.

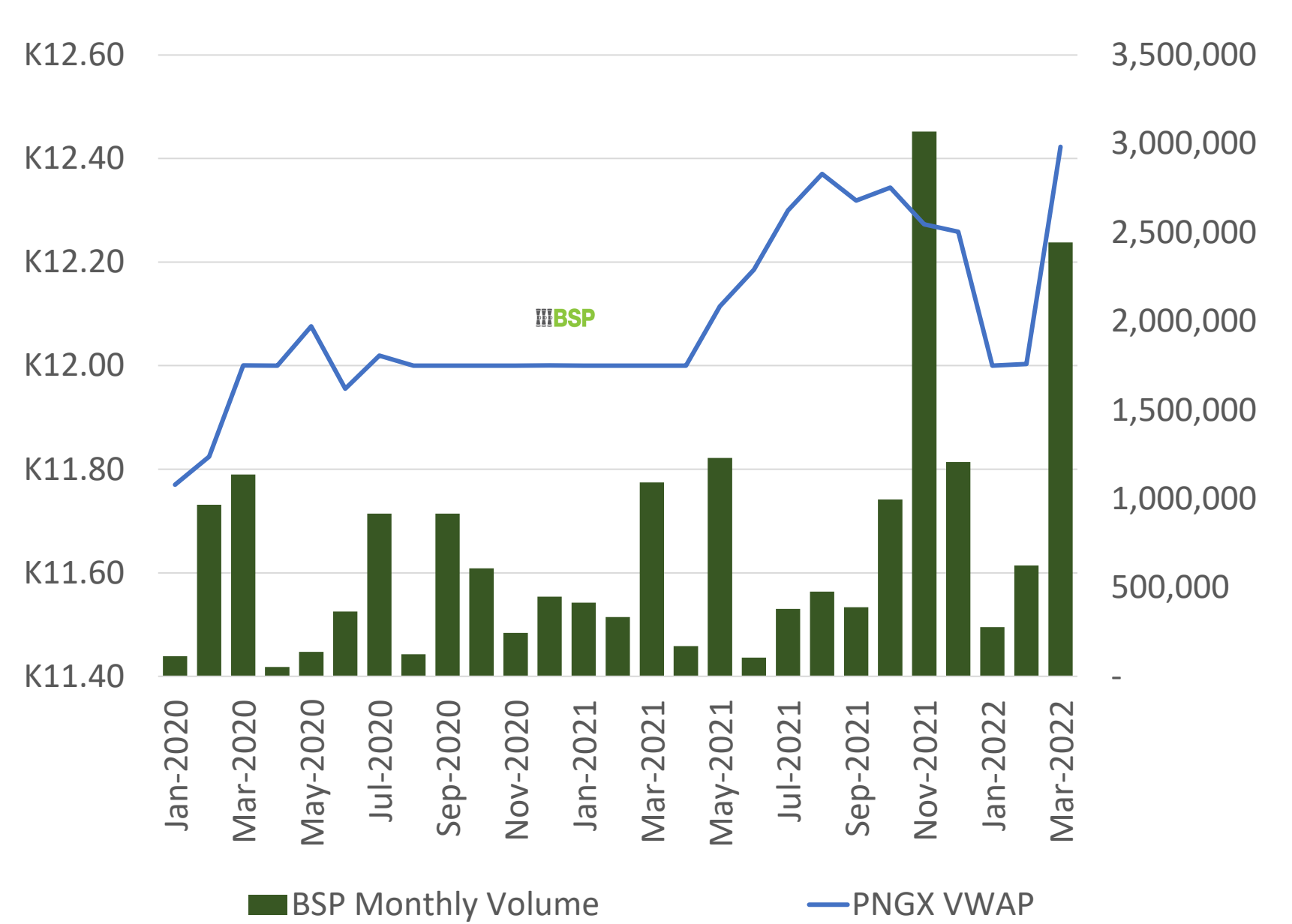
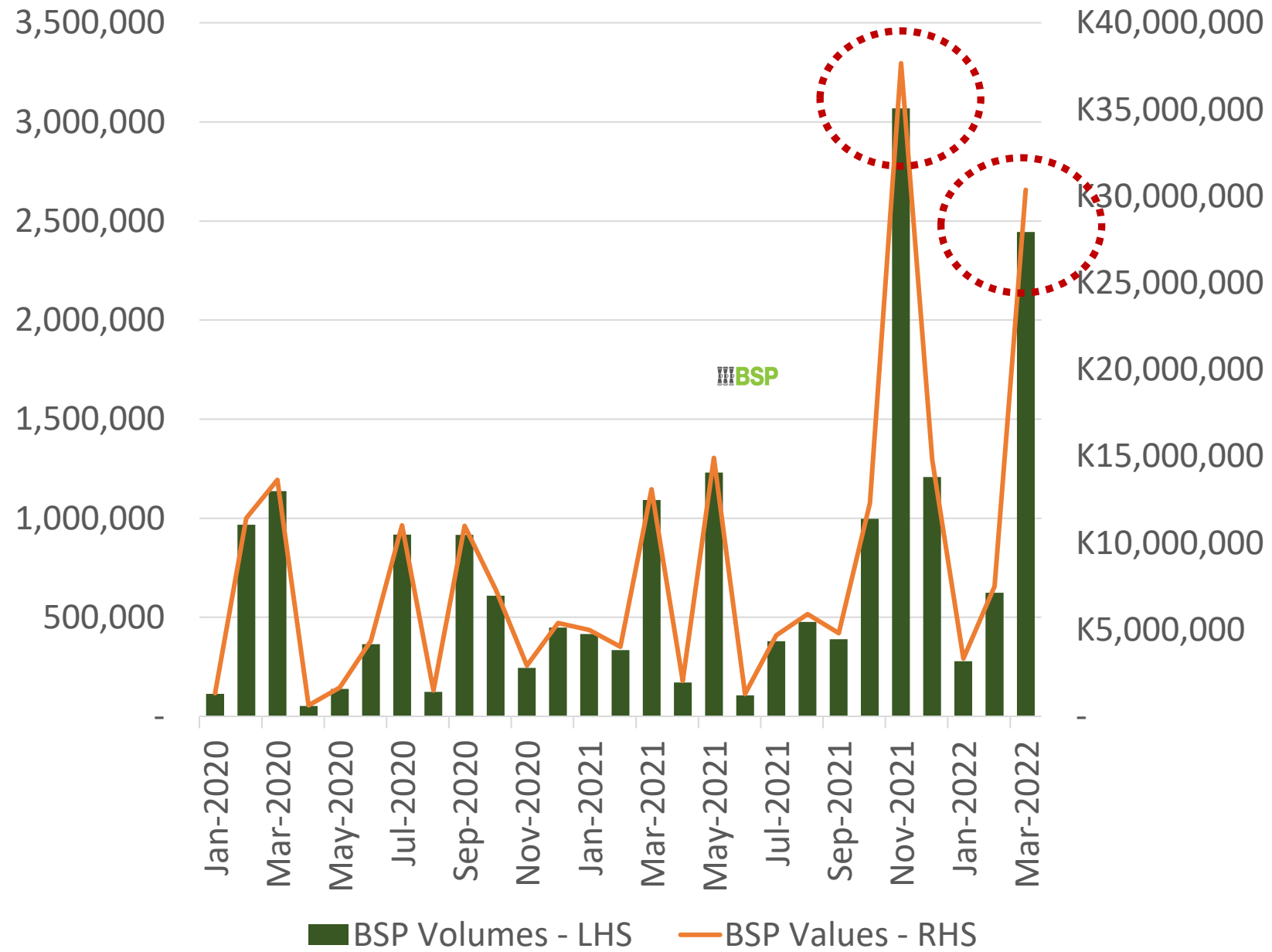
On this basis, if investors could move money and securities seamlessly between PNGX and ASX, we would expect the PGK denominated price of BSP shares on both markets to be identical.

However, this is not currently the case. Since dual listing on the ASX in 2021, the price of one BSP share has frequently differed between the two markets when expressed in either PGK or A\$ terms.

Limitations on short-selling or derivatives trading on PNGX, the timing and regulatory hurdles in shunting shares between markets as well as the difficulty of moving money between Australia and PNG are all examples of frictions that make the elimination of arbitrage difficult.

Arguably, the differential pricing between the two markets does not represent an example of "Risk Free" arbitrage and as such these differential prices may well continue. Greater trading volumes in both markets should reduce the differential over time.

#2 - PNGX trading volumes and values for BSP are increasing 13



Trading volumes in BSP shares on PNGX continue to trend upwards, with more than 3 million shares changing hands in November 2021 and close to 2.5 million shares in March 2022. The BSP share price has been reasonably stable since Jan 2020, trading in a narrow range between K11.80 and K12.40 per share during that time, with only isolated trades at higher levels.

#3 - Net Profit After Tax in FY2021: a record K1.075bn

	FY21	FY20	FY19	FY18	FY17	FY16
	K'Millions	K'Millions	K'Millions	K'Millions	K'Millions	K'Millions
Income Statement						
Interest Income	1,707.61	1,591.99	1,585.77	1,561.69	1,432.64	1,267.91
<i>Less: Interest Expense</i>	<i>(106.68)</i>	<i>(144.98)</i>	<i>(193.99)</i>	<i>(180.90)</i>	<i>(154.96)</i>	<i>(160.23)</i>
Net Interest Income	1,600.94	1,447.01	1,391.78	1,380.80	1,277.68	1,107.69
Fee and Commissions	372.30	345.18	384.76	382.51	373.67	362.34
Other Income	363.76	323.93	364.13	363.49	307.17	298.08
Net Banking Operating inc.	2,336.99	2,116.13	2,140.68	2,126.79	1,958.52	1,768.10
Net Insurance Operating inc.	35.05	29.53	30.68	38.91	39.83	23.96
Net Operating Income	2,372.05	2,145.65	2,171.35	2,165.71	1,998.35	1,792.06
Impairment Charges	42.66	(201.27)	(99.18)	(82.44)	(77.68)	(98.62)
Operating Expenses	(888.84)	(802.54)	(819.25)	(887.10)	(852.15)	(770.00)
Profit before income tax	1,525.86	1,141.84	1,252.92	1,196.17	1,068.52	923.44
Income tax expense	(450.64)	(335.62)	(362.56)	(352.10)	(311.52)	(280.34)
Profit after tax	1,075.22	806.22	890.36	844.07	757.00	643.10



FY2021 saw BSP deliver record Net Operating Income of K2.37bn and a record Profit After Tax of K1.075bn, the first time the company beat K1.0 bn.

Net Operating Income increased by 10.55% in FY2021 compared with FY2020, with Net Interest Income increasing by 10.6% although Gross Interest Income increased by only 7.2%. This resulted from a reduction in BSP's cost of funds and thereby the Interest Expense paid to depositors.

Non-interest Income increased by 10.6% during FY2021.

After a reduction in Profit After Tax in FY2020, partly driven by aggressive provisioning for Covid-19, BSP came roaring back in FY2021.

#4 - BSP Gross Revenue in FY2021: K2.48bn

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BSP delivered record Gross Revenue of K2.48bn in FY2021. Of this, K1.708 bn or 68.9% was made up of Gross Interest Income, being interest income received from borrowers.

K372 million (15.0%) of Gross Revenue in FY2021 derived from Fees & Commissions, including K126 million in Electronic Banking Fees.

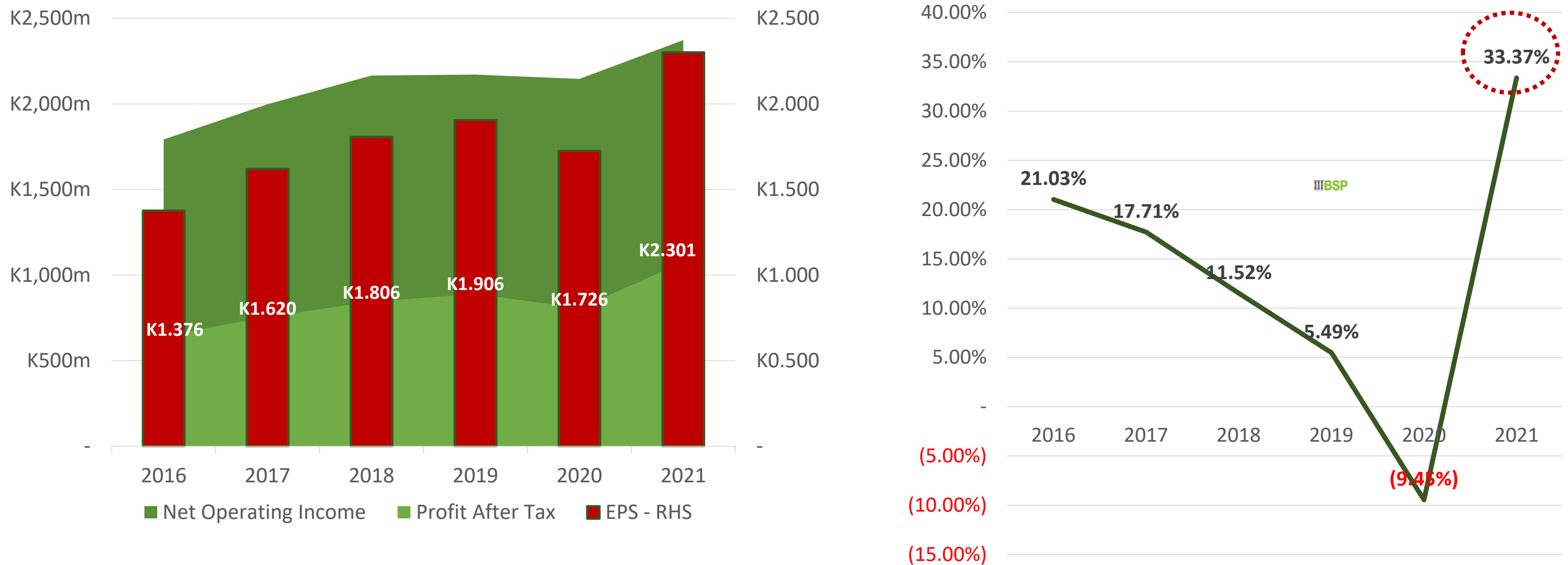
Foreign Exchange income amounted to K326 million (13.2% in FY2021).

Income from other sources, including insurance operations across the South Pacific, represented less than 5% of total income.

In terms of business segments contributing to the performance of the BSP business, the overall BSP Bank represented more than 95% of total revenue, the PNG banking operations representing more than 80% of the total Bank.



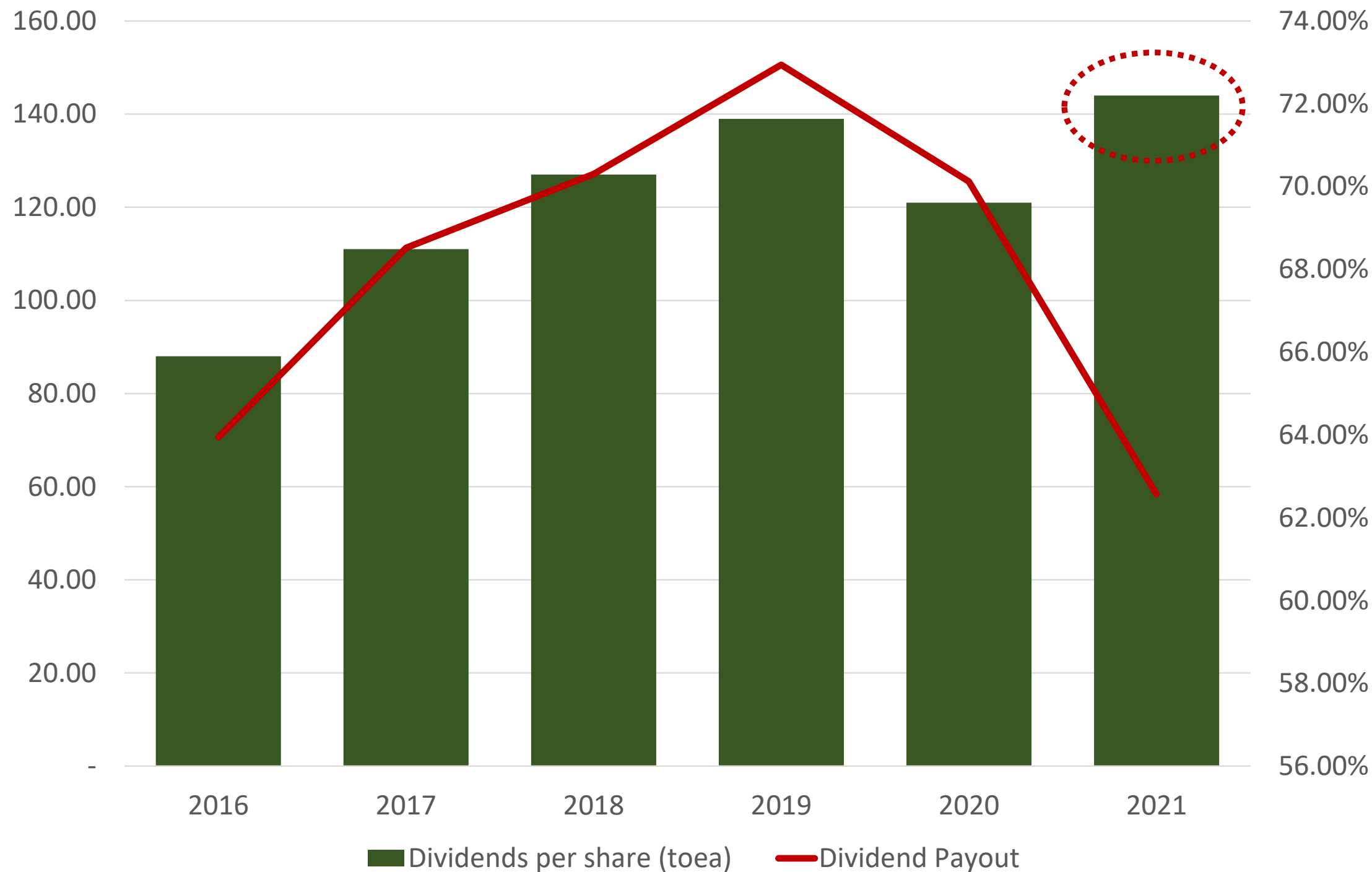
#5 - BSP Earnings Per Share Growth in FY2021: 33.37%



	Dec-21	Dec-20	Dec-19	Dec-18	Dec-17	Dec-16
Dividends per share (toea)	144.00	121.00	139.00	127.00	111.00	88.00
Number of Shares on Issue (million)	467.23	467.23	467.24	467.25	467.31	467.32
EPS	K2.301	K1.726	K1.906	K1.806	K1.620	K1.376
EPS Growth	33.37%	(9.45%)	5.49%	11.52%	17.71%	

FY2021 growth in EPS mirrors the overall improvements in the business during the year. After weakness in FY2020, BSP's performance has rebounded strongly.

#6 - Dividends per Share in FY2021: K1.44



BSP has a strong track record in paying dividends.

During FY2021, the company paid K1.05 per share in 2020 Final Dividend as well as K0.39 per share in 2021 Interim Dividend, for a total Dividend Payment during the 2021 financial year of K1.44 per share:

Dividend Payments during FY2021:

FY2020 Final Dividend	=	K1.05
FY2021 Interim Dividend	=	K0.39
Total Dividend Payments	=	K1.44

K1.44 per share represents 62.6% of the K2.30 in earnings during the 2021 financial year.

When compared with the dividends declared in respect of FY2021, the actual dividend payout ratio is 75.2%:

FY2021 dividends declared:

FY2021 Interim Dividend	=	K0.39
FY2021 Final Dividend	=	K1.34
Total Dividend Payments	=	K1.73

This rate is consistent with recent years' payout ratio.



#7 - Total Assets 31 Dec 2021: K30.44bn

	Dec-21 K'Millions	Dec-20 K'Millions	Dec-19 K'Millions	Dec-18 K'Millions	Dec-17 K'Millions	Dec-16 K'Millions
Balance Sheet						
ASSETS						
Cash Balances (Operating)	2,807.63	2,897.20	1,816.56	1,253.45	1,205.20	1,656.26
Amounts due from other banks	1,310.25	1,187.46	1,022.47	854.02	949.21	804.23
Treasury and Central Bank bills	4,644.60	2,841.01	2,459.50	2,494.70	3,298.63	2,933.62
Cash reserve req. with Central Banks	1,719.87	1,559.28	1,766.60	1,685.54	1,598.38	1,474.66
Other financial assets	4,079.17	3,242.23	2,121.07	2,555.44	2,457.33	2,331.47
Loans and receivables from customers	13,631.28	13,506.66	13,200.81	12,530.65	11,209.49	10,102.91
Property, plant and equipment	926.21	895.48	879.94	693.28	738.67	683.50
Other assets	1,327.27	1,394.13	1,260.17	1,014.14	912.96	845.15
Total assets	30,446.27	27,523.44	24,527.12	23,081.22	22,369.86	20,831.80
LIABILITIES						
Amounts due to other banks	248.79	126.27	83.93	51.54	160.40	47.32
Customer deposits	23,934.84	21,654.02	19,339.06	18,232.77	17,901.69	16,912.35
Other liabilities	2,467.68	2,309.54	1,987.10	1,924.78	1,679.43	1,557.79
Total liabilities	26,651.30	24,089.83	21,410.09	20,209.09	19,741.53	18,517.47
SHAREHOLDERS' EQUITY						
Ordinary shares	372.13	372.19	372.31	372.36	373.00	373.00
Retained earnings	3,025.13	2,622.25	2,394.38	2,156.87	1,904.46	1,670.60
Other reserves	396.93	439.17	350.34	342.90	350.87	270.64
Total Shareholders' Equity	3,794.19	3,433.61	3,117.03	2,872.14	2,628.34	2,314.24
<i>ROE</i>	29.75%	24.61%	29.73%	30.69%	30.63%	55.93%
<i>ROA</i>	3.71%	3.10%	3.74%	3.71%	3.50%	3.30%
<i>Expense to Income Ratio</i>	37.50%	37.40%	37.70%	41.00%	42.60%	42.90%
<i>Capital Adequacy</i>	25.70%	23.20%	22.00%	22.90%	24.50%	23.10%
<i>Liquid Asset Ratio</i>	37.20%	32.60%	30.00%	33.60%	36.90%	35.80%
<i>Leverage Ratio</i>	10.60%	10.30%	10.50%	10.30%	10.00%	9.30%



FY2021 Book Value per BSP share was K8.12 which meant that at a year end closing price of K12.25 per share on the PNGX, BSP was trading at 1.50x book value per share.

#8 - FY2021 Return on Equity: 29.75%



Return on Equity ('ROE') is a measure of the rate of return that a company delivers to its shareholders compared with the amount of equity capital contributed to the business.

For the calculation of ROE for BSP, we use the following basic formula:

BSP ROE FY2021:

$$\frac{\text{2021 Net Profit After Tax}}{\text{2021 Shareholders' Equity}} = \frac{\text{K1.075bn}}{\text{K3.794bn}} = 29.75\%$$

It is important to note that the calculation is based on the book value of equity capital employed and does not rely on the market value of that equity as defined by the share price and number of shares trading on the PNGX or ASX.

Since 2016, BSP has delivered ROE in excess of 29% every year except in the Covid-19 impacted year of 2020.

This makes BSP the best performing company on the PNGX over most of that period from an ROE perspective.

	2016	2017	2018	2019	2020	2021
Return on Equity	29.61%	30.63%	30.69%	29.73%	24.61%	29.75%

#9 - FY2021 Return on Assets: 3.71%



Return on Assets ('ROA') is a measure of the rate of return that a company delivers when compared with the total assets employed in its operations.

For the calculation of BSP's ROA, we use the following basic formula:

BSP ROA FY2021:

$$\frac{\text{2021 Net Profit After Tax}}{\text{2021 Total Assets}} = \frac{\text{K1.075bn}}{\text{K30.446bn}} = 3.71\%$$

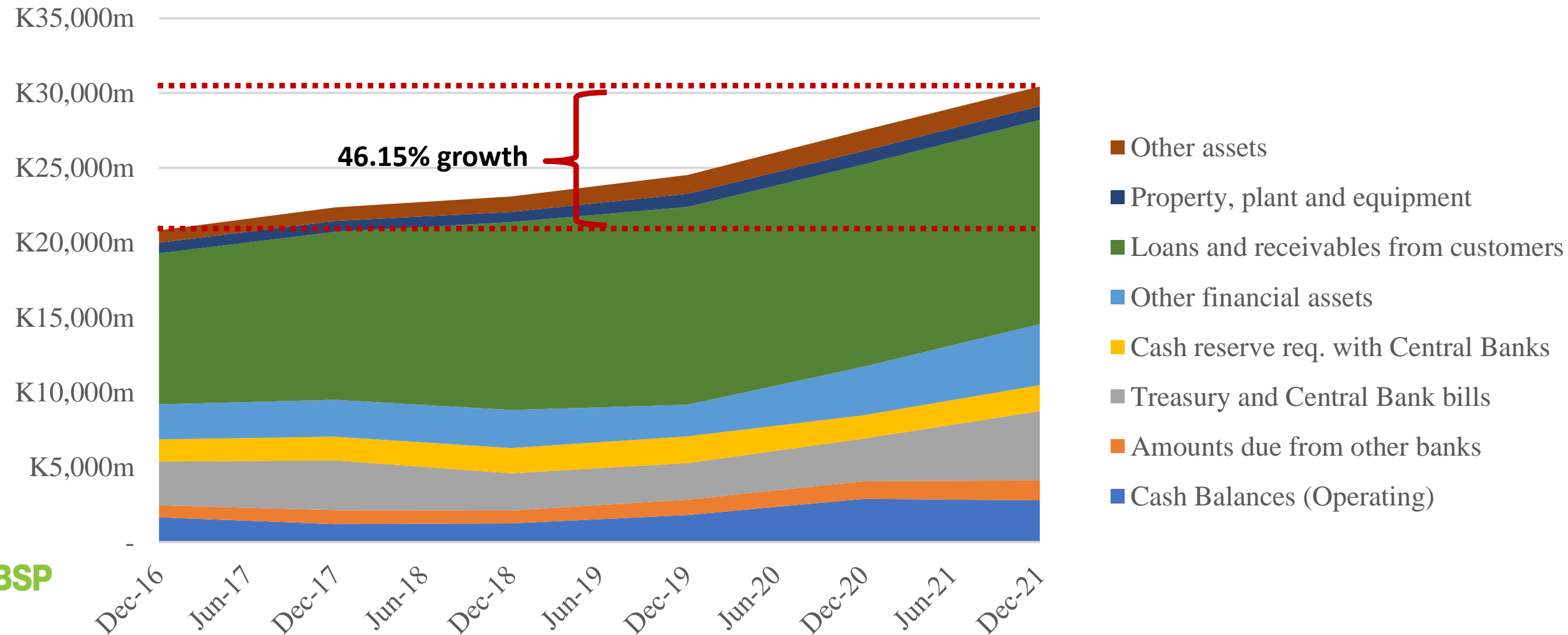
Since 2016, has delivered ROA between 3.10% and 3.74%.

The relatively low return on assets (total capital employed in the business – debt and equity) when compared with the return on equity capital is a function of the nature of banking business.

Bank balance sheets are typically more heavily leveraged than many other businesses. This results from the fact that the nature of banking involves the taking of deposits from customers and on-lending or investing these funds at a margin.

	2016	2017	2018	2019	2020	2021
Return on Assets	3.30%	3.50%	3.71%	3.74%	3.10%	3.71%

#10 - Growth in Total Assets since 2016: 46.15%



Total Assets have grown from K20.83 bn as at 31 Dec 2016 to K30.45 bn as at 31 Dec 2021. This represents an increase of K9.6bn or 46.15% over those 5 years.

The growth in Total Assets of BSP is a major contributor to the growth in the aggregate value of assets in the PNG and Pacific banking industries.

During this period, Loans & Advances to customers have grown by K3.5 bn or around 35%.

The fastest growth by asset class has been in 'Other Financial Assets', being mainly Government Inscribed Stock – 74.9% – and Treasury and Central Bank Bills – 58.3%.



	Dec-21	Dec-20	Dec-19	Dec-18	Dec-17	Dec-16
	K'Millions	K'Millions	K'Millions	K'Millions	K'Millions	K'Millions

Balance Sheet

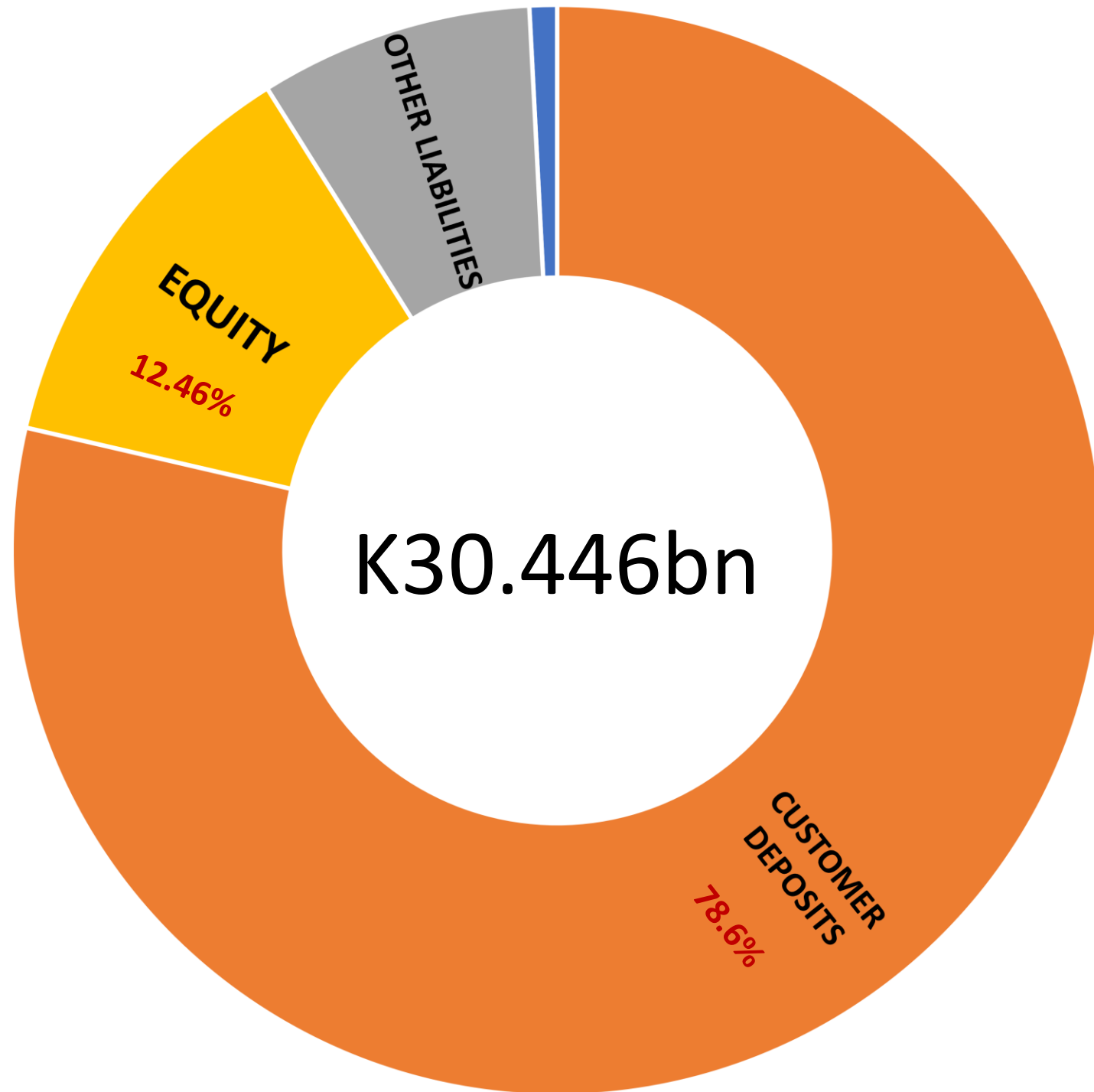
ASSETS

Cash Balances (Operating)	2,807.63	2,897.20	1,816.56	1,253.45	1,205.20	1,656.26
Amounts due from other banks	1,310.25	1,187.46	1,022.47	854.02	949.21	804.23
Treasury and Central Bank bills	4,644.60	2,841.01	2,459.50	2,494.70	3,298.63	2,933.62
Cash reserve req. with Central Banks	1,719.87	1,559.28	1,766.60	1,685.54	1,598.38	1,474.66
Other financial assets	4,079.17	3,242.23	2,121.07	2,555.44	2,457.33	2,331.47
Loans and receivables from customers	13,631.28	13,506.66	13,200.81	12,530.65	11,209.49	10,102.91
Property, plant and equipment	926.21	895.48	879.94	693.28	738.67	683.50
Other assets	1,327.27	1,394.13	1,260.17	1,014.14	912.96	845.15
Total assets	30,446.27	27,523.44	24,527.12	23,081.22	22,369.86	20,831.80

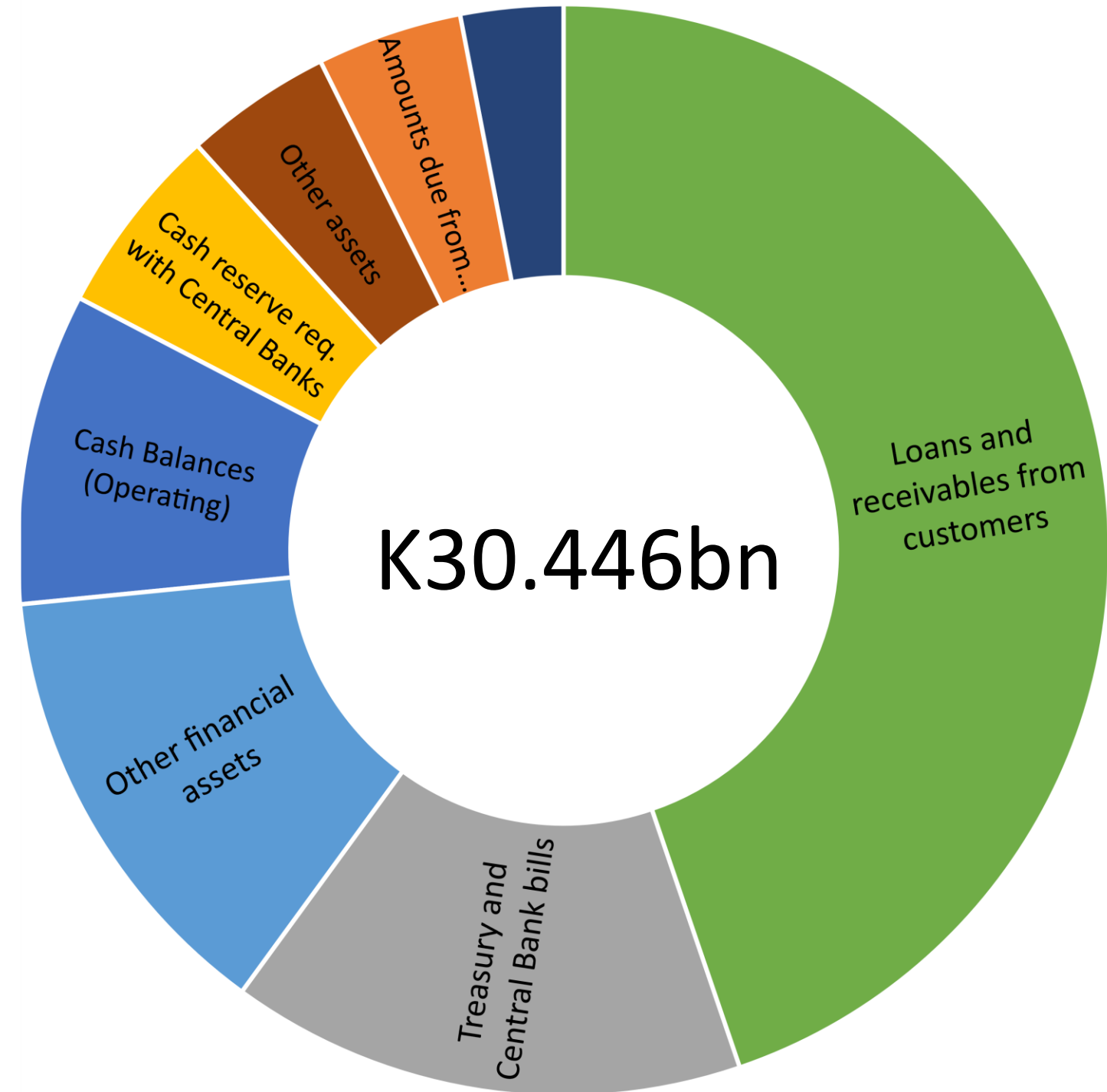
#11 - Share of BSP's Balance Sheet funded with deposits: 78.6%



Sources of Funds

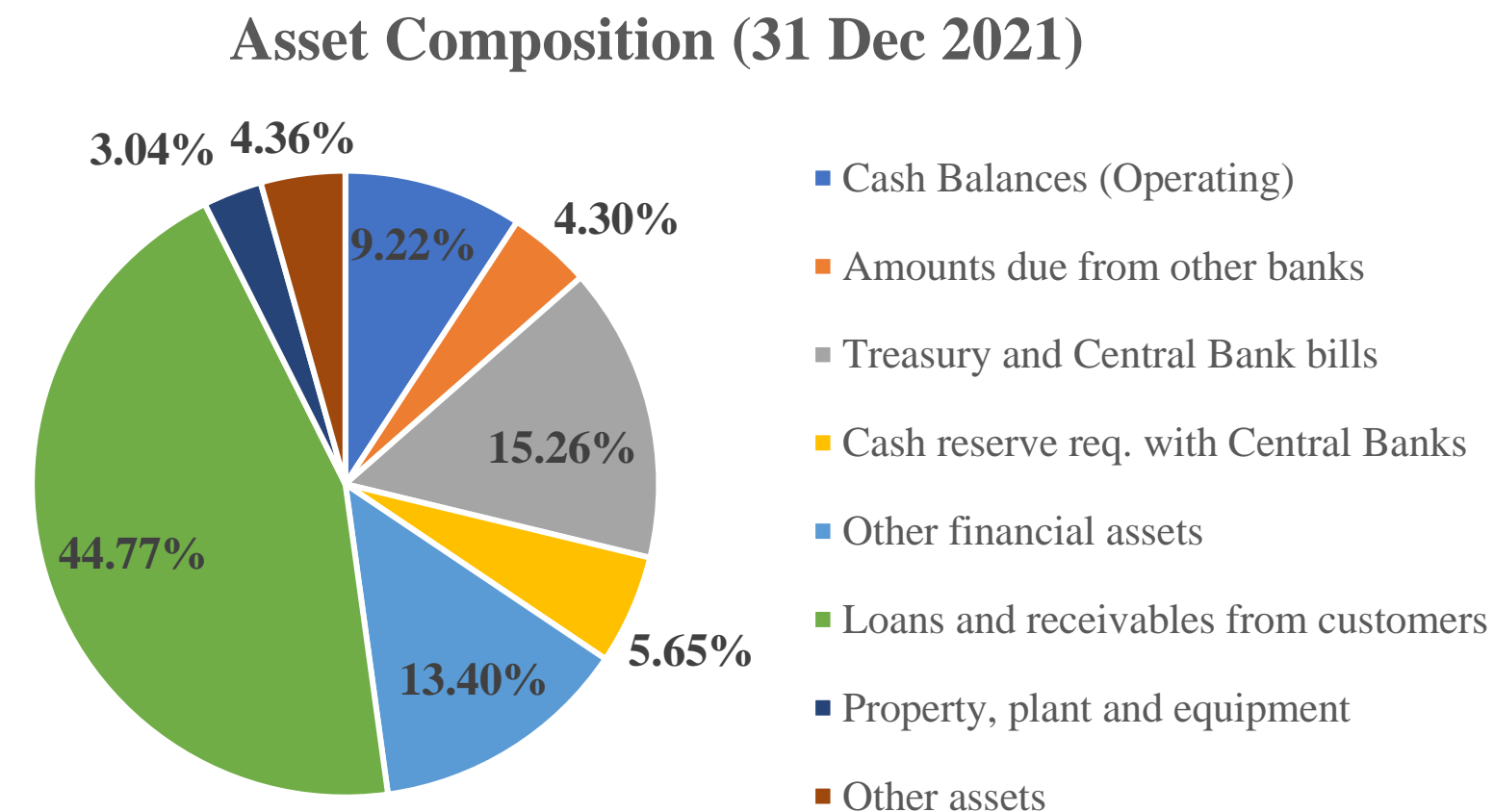


Uses of Funds



#12 - Loans as a share of Total Assets: 44.77%

Balance Sheet	Group			Bank		
	2021	2020	2019	2021	2020	2019
	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM
Assets						
Cash and operating balances with Central Banks	2,807.6	2,897.2	1,816.6	2,203.6	2,379.5	1,510.4
Amounts due from other banks	1,310.2	1,187.5	1,022.5	1,152.1	1,130.8	997.8
Treasury and Central Bank bills	4,644.6	2,841.0	2,459.5	4,617.6	2,801.3	2,420.1
Cash reserve requirement with Central Banks	1,719.9	1,559.3	1,766.6	1,627.8	1,475.1	1,693.3
Other financial assets	4,079.2	3,242.2	2,121.1	3,457.6	2,653.6	1,572.8
Loans and receivables from customers	13,631.3	13,506.7	13,200.8	12,286.4	12,058.2	11,820.0
Property, plant and equipment	926.2	895.5	879.9	720.4	691.6	698.8
Asset subject to operating lease	32.7	36.4	48.1	32.7	36.4	48.1
Investment in subsidiaries	-	-	-	388.8	385.1	378.3
Deferred tax assets	269.3	290.5	250.8	261.8	284.6	246.1
Other assets	1,025.3	1,067.2	961.2	436.6	537.2	505.3
Total assets	30,446	27,523	24,527	27,185	24,434	21,891



	2021	2020	2019	2018	2017	2016
Loans as share of Total Assets	44.77%	49.07%	53.82%	54.29%	50.11%	48.50%

Loans and advances to customers have been declining as a share of Total Assets since 2018.

In 2018, loans made up more than 54% of Total Assets on the BSP balance sheet, however by the end of 2021 this had reduced to 44.77%.

Treasury Bills, CB Bills and Government Inscribed Stock (long term bonds issued by sovereign governments in markets where BSP operates) represented more than 28% of Total Assets at the end of FY2021.

Cash Balances and Cash Reserves with Central Banks represented 14.87% of Total Assets at that time.



#13 - BSP's Net Loan Book at 31 Dec 2021: K13.63bn

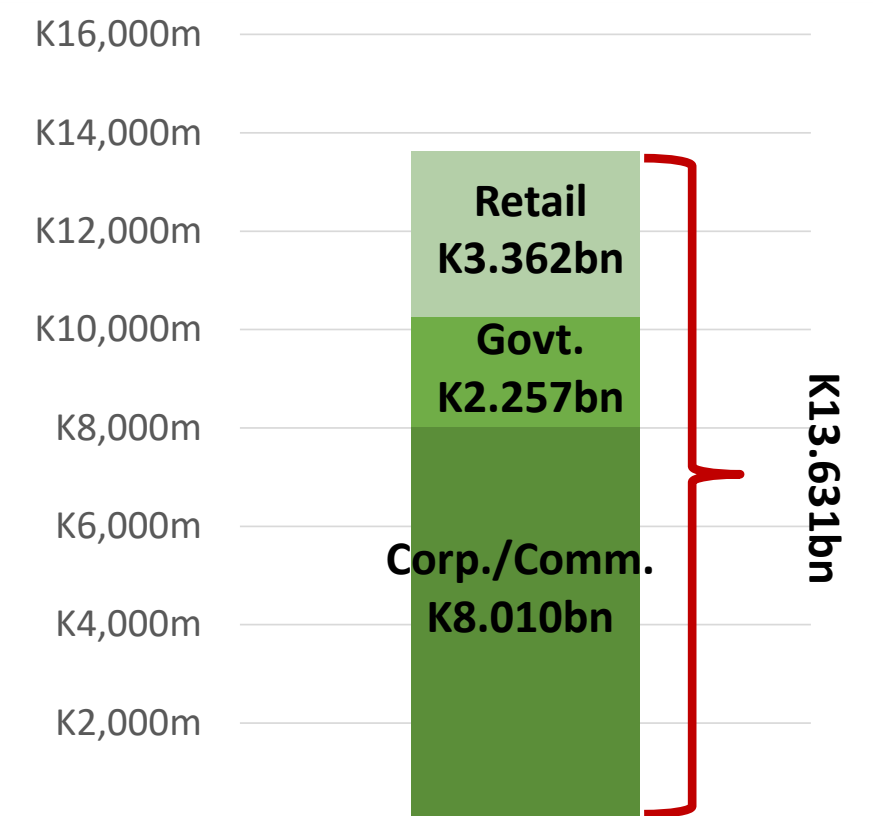
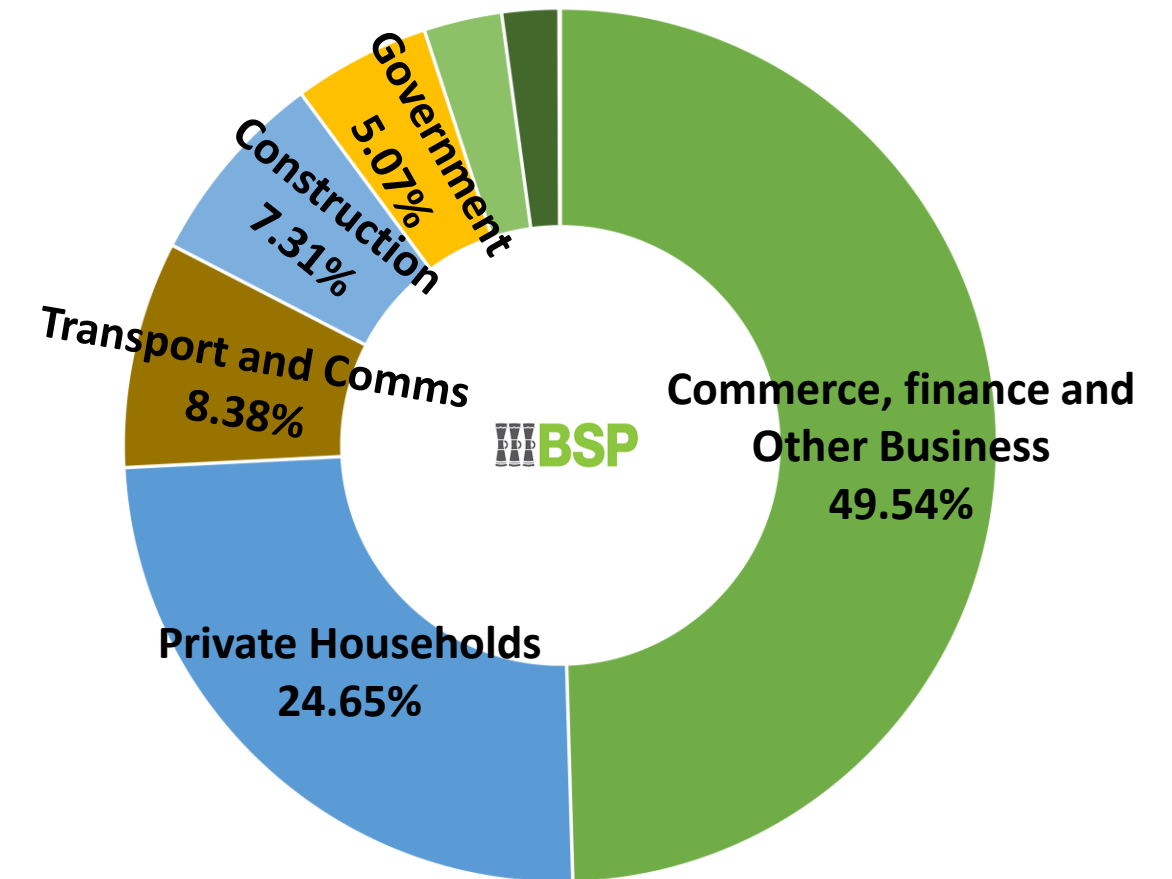
	2021		2020		2019	
	PGK'MM	%	PGK'MM	%	PGK'MM	%
Commerce, finance and other business	6,753.33	49.54%	7,019.48	51.69%	7,159.86	54.24%
Private households	3,359.52	24.65%	3,232.60	23.80%	2,987.46	22.63%
Government and public authorities	691.29	5.07%	532.61	3.92%	252.13	1.91%
Agriculture	286.70	2.10%	218.77	1.61%	327.15	2.48%
Forestry	6.95	0.05%	18.71	0.14%	0.00	0
Transport and communication	1,142.93	8.38%	1,218.79	8.97%	1,311.31	9.93%
Manufacturing	393.78	2.89%	383.73	2.83%	332.34	2.52%
Construction	996.78	7.31%	956.46	7.04%	830.55	6.29%
Net loan portfolio balance	13,631.28	100.00%	13,581.15	100.00%	13,200.81	100.00%

	2021	%	2020	%	2019	%
Corporate / Commercial	8,010.99	58.77%	8,099.28	59.64%	7,703.34	58.36%
Government	2,257.73	16.56%	2,247.79	16.55%	2,510.82	19.02%
Retail	3,362.56	24.67%	3,234.08	23.81%	2,986.65	22.62%
Net loan portfolio balance	13,631.28	100.00%	13,581.15	100.00%	13,200.81	100.00%

BSP's loan book, making up 44.77% of Total Assets, is dominated by loans to corporate entities, including State Owned Enterprises. Private Households make up 24.65% of the total loan book.

This category is dominated by K2.8bn mortgages.

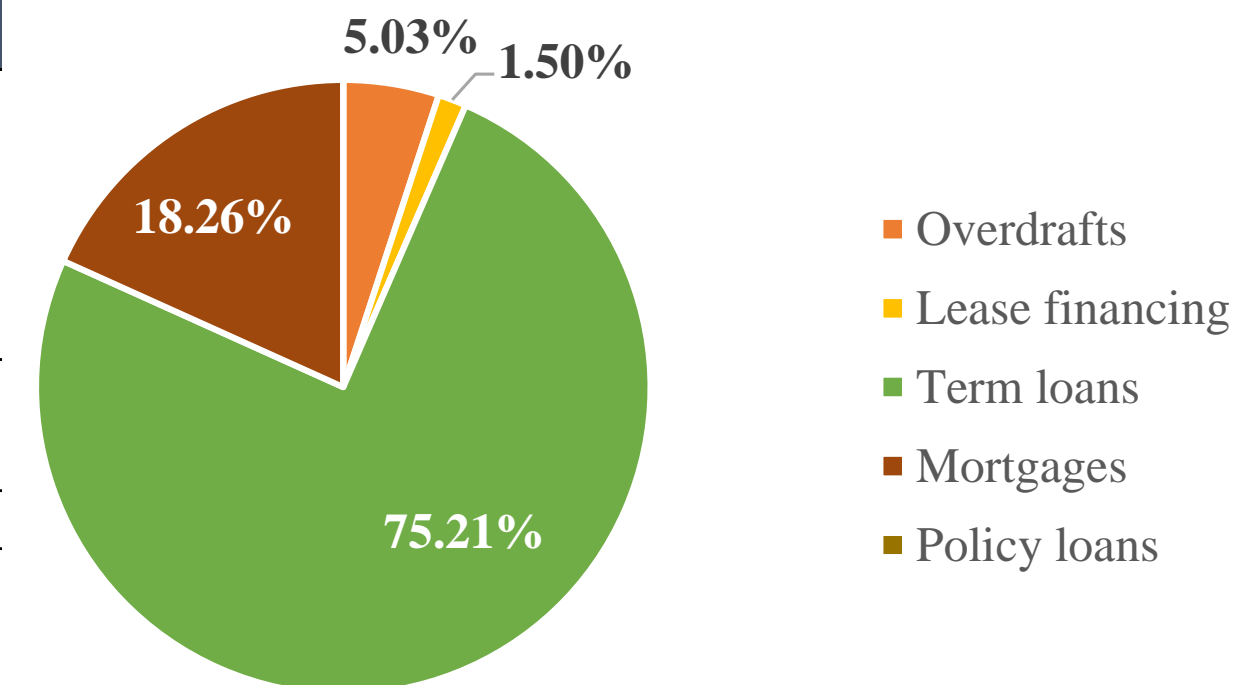
Total lending to Government – made up of National and Provincial Governments, Public Authorities as well as State Owned Enterprises makes up 16.56% or K2.257bn.



#14 - Term Loans as share of Loan Book: 75.21%

Loans by Type	Group			Bank			%
	2021	2020	2019	2021	2020	2019	
	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM	
Overdrafts	714.5	812.3	1,008.9	651.8	737.5	933.8	5.03%
Lease financing	225.6	278.8	295.4	193.7	246.6	258.7	1.50%
Term loans	10,485.9	10,340.7	9,903.6	9,742.6	9,503.6	9,114.4	75.21%
Mortgages	2,819.5	2,813.4	2,605.3	2,365.8	2,350.0	2,159.7	18.26%
Policy loans	111.3	105.2	88.3	-	-	-	-
Total	14,356.8	14,350.4	13,901.4	12,953.9	12,837.7	12,466.6	100.00%
<i>Less: Provision for Losses</i>	<i>(725.5)</i>	<i>(843.7)</i>	<i>(700.6)</i>	<i>(667.5)</i>	<i>(779.5)</i>	<i>(646.6)</i>	
Net Loans	13,631.3	13,506.7	13,200.8	12,286.4	12,058.2	11,820.0	

BSP - Bank Loans by Type (Dec 21)




The K13.63bn in Net Loans as at 31 December 2021 was made up of Gross Loan Balances of K14.36bn net of K725.5 million in Provision for Losses.

Of the K14.36bn in Gross Loan Balances, K10.49bn or 75.21% of the total was made up of Term Loans. Mortgage Backed Loans made up K2.82bn or 18.26%.

In recent years, Overdraft Facilities have reduced considerably, both in terms of overall contribution to the value of the Loan Book as well as in total value. This represents a continuing shift in the focus of the company's lending business.

#15 - FY2021 Group Financial Assets increase: 11.73%

Group Financial Assets	2015	2016	2017	2018	2019	2020	2021
	PGK'MMM						
Loans and receivables from customers	8,621.51	10,102.91	11,209.49	12,530.65	13,200.81	13,506.66	13,631.28
Other financial assets - inscribed stock	2,308.93	2,331.47	2,457.33	2,555.44	1,865.70	2,972.83	3,787.94
Treasury and Central Bank bills	 2,503.11	2,933.62	3,298.63	2,494.70	2,459.50	2,841.01	4,644.60
Cash and balances with Central Banks	1,202.47	1,656.26	1,205.20	1,253.45	3,583.17	4,456.48	4,527.50
Other	710.16	804.23	949.21	854.02	1,277.84	1,456.86	1,601.47
Total	15,346.17	17,828.50	19,119.86	19,688.26	22,387.01	25,233.83	28,192.79

Out of Total Assets of K30.446bn, Financial Assets represented K28.19bn.

Financial Assets were made up of the Loan Book, Treasury Bills, CB Bills and Government Inscribed Stock as well as cash balances and accounts with Central Banks.

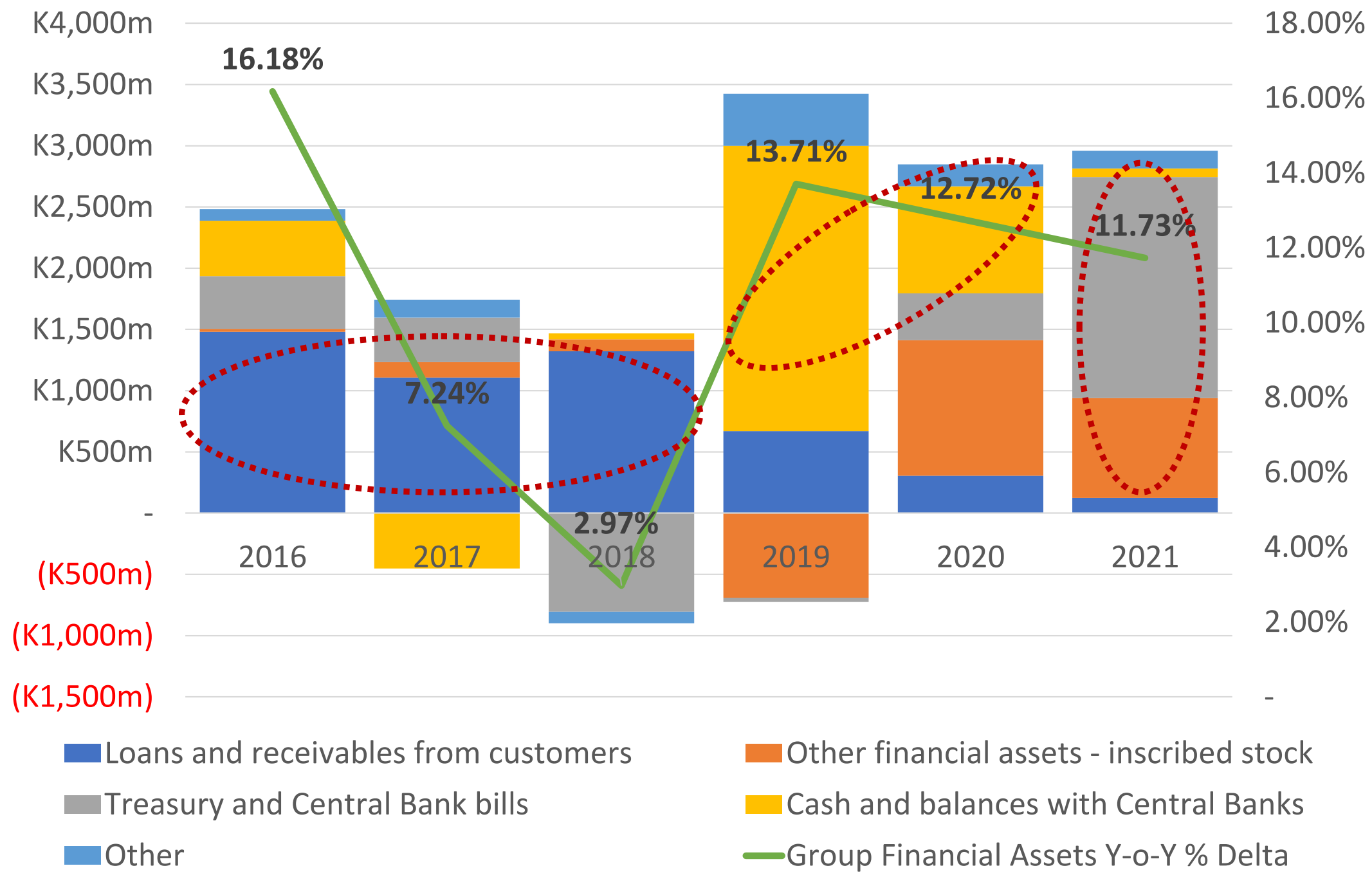
During 2019 and 2020 BSP saw a significant increase in cash balances (2019; +K2.33bn, 2020: +K0.87bn).

During 2020 and 2021 the bank's resources were shifted aggressively into Treasury Bills, CB Bills and GIS.

Net Annual Growth in value of Group Financial Assets:	2016	2017	2018	2019	2020	2021
	PGK'MMM					
Loans and receivables from customers	1,481.40	1,106.58	1,321.16	670.16	305.85	124.62
Other financial assets - inscribed stock	22.55	125.86	98.12	(689.74)	1,107.13	815.12
Treasury and Central Bank bills	430.51	365.01	(803.93)	(35.20)	381.51	1,803.60
Cash and balances with Central Banks	453.79	(451.06)	48.25	2,329.72	873.31	71.02
Other	94.08	144.98	(95.20)	423.82	179.02	144.61
Total	2,482.32	1,291.36	568.40	2,698.75	2,846.82	2,958.96

Group Financial Assets Y-o-Y % Delta	2016	2017	2018	2019	2020	2021
	%					
Loans and receivables from customers	17.18%	10.95%	11.79%	5.35%	2.32%	0.92%
Other financial assets - inscribed stock	0.98%	5.40%	3.99%	(26.99%)	59.34%	27.42%
Treasury and Central Bank bills	17.20%	12.44%	(24.37%)	(1.41%)	15.51%	63.48%
Cash and balances with Central Banks	37.74%	(27.23%)	4.00%	185.86%	24.37%	1.59%
Other	13.25%	18.03%	(10.03%)	49.63%	14.01%	9.93%
Group Financial Assets Y-o-Y % Delta	16.18%	7.24%	2.97%	13.71%	12.72%	11.73%

#16 - BUT: FY2021 growth came from Government Paper



During FY2021 the aggregate financial assets of BSP increased by 11.73%. This followed increases in FY2020 of 12.72% and 13.71% in FY2019.

Between 31 December 2018 and 31 December 2021, the aggregate value of Financial Assets on the BSP balance sheet increased by more than K8.5bn.

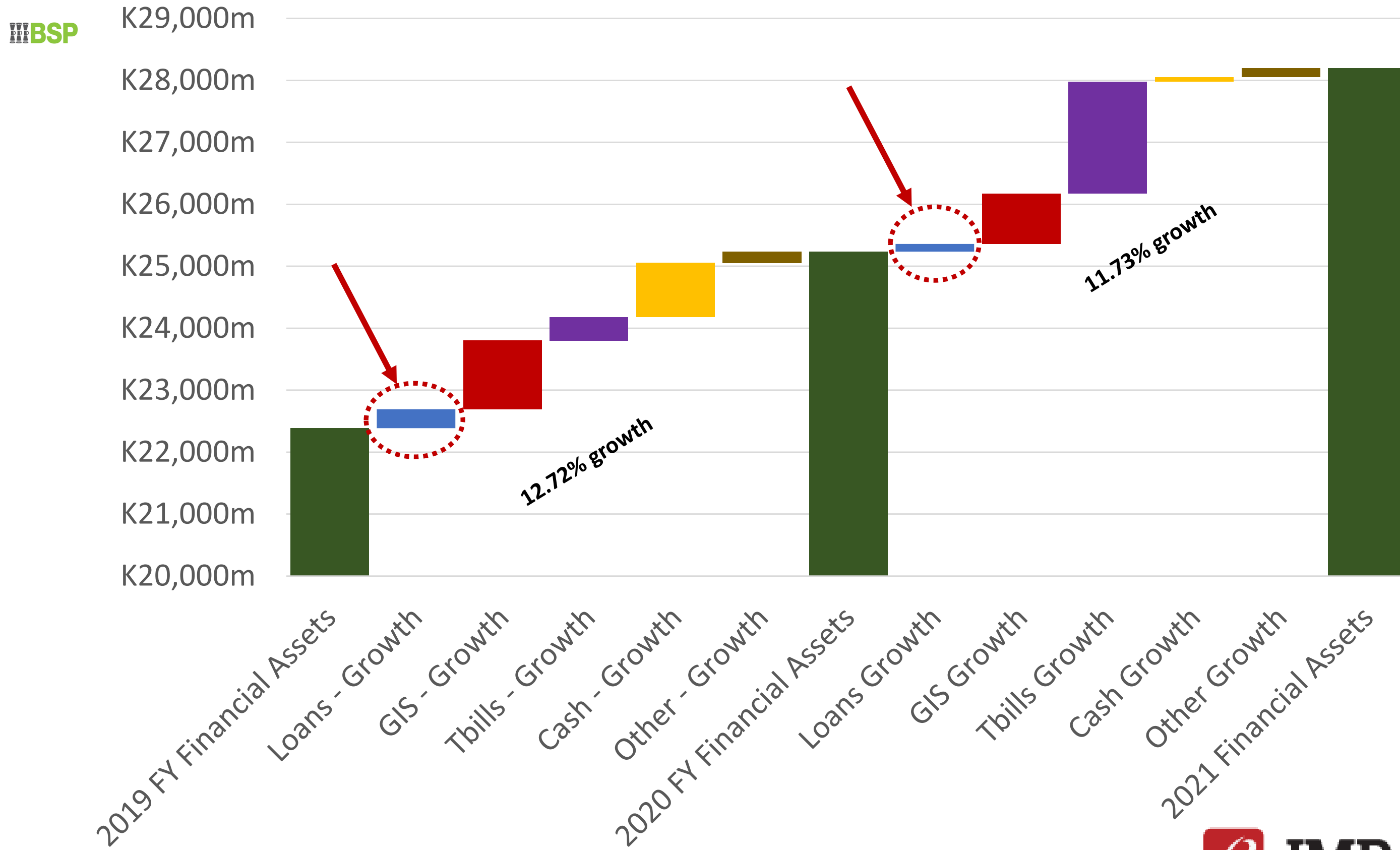
During 2019 and 2020 there was a significant increase in the cash holdings of the bank (2019:K2.33bn and 2020: K0.87bn). In 2021 cash holdings increased only marginally but remain at historic highs of around K4.5bn.

After a considerable reduction in 2018 and little movement in 2019, BSP's investment in Treasury Bills and CB Bills increased dramatically in 2020 and 2021.

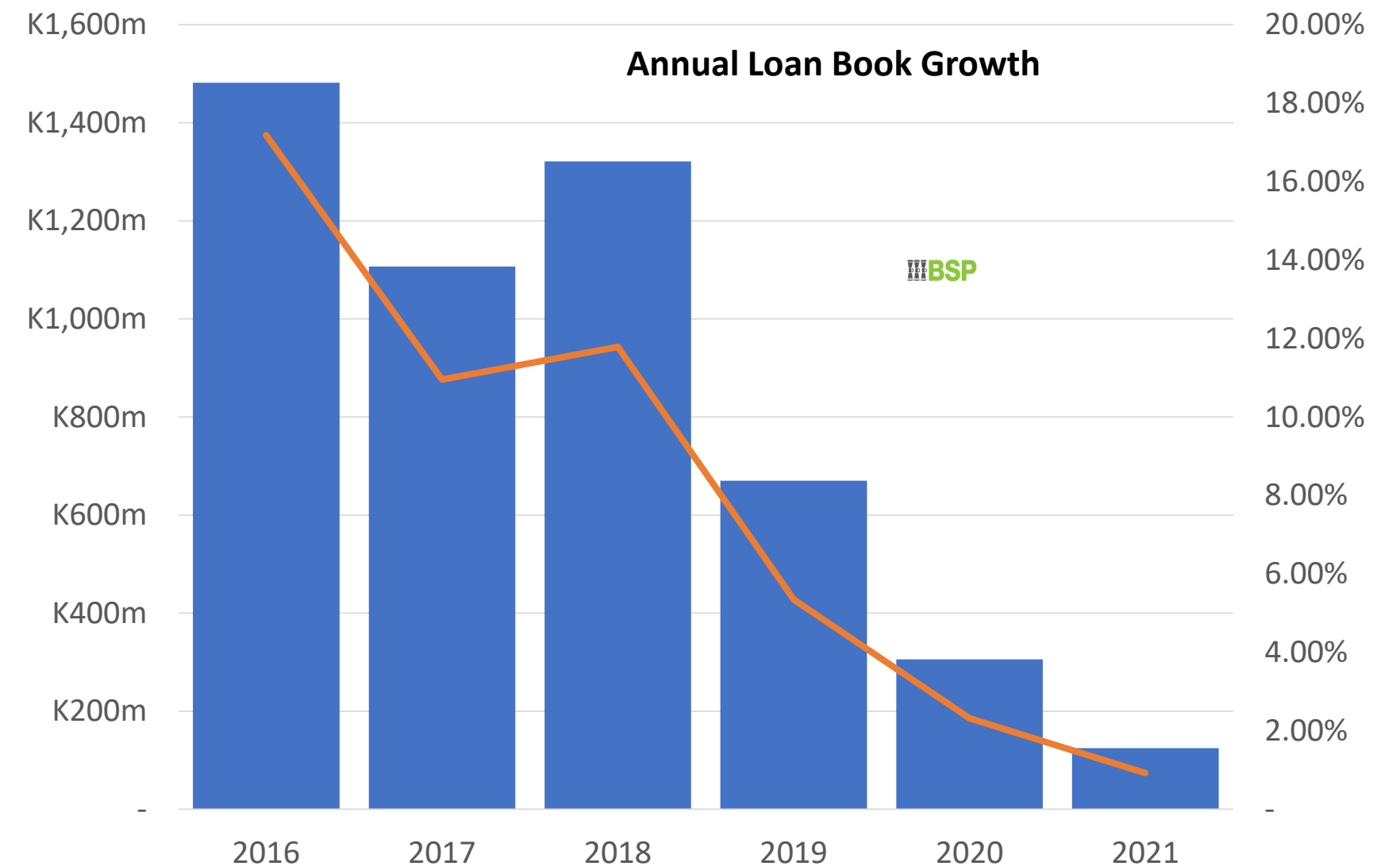
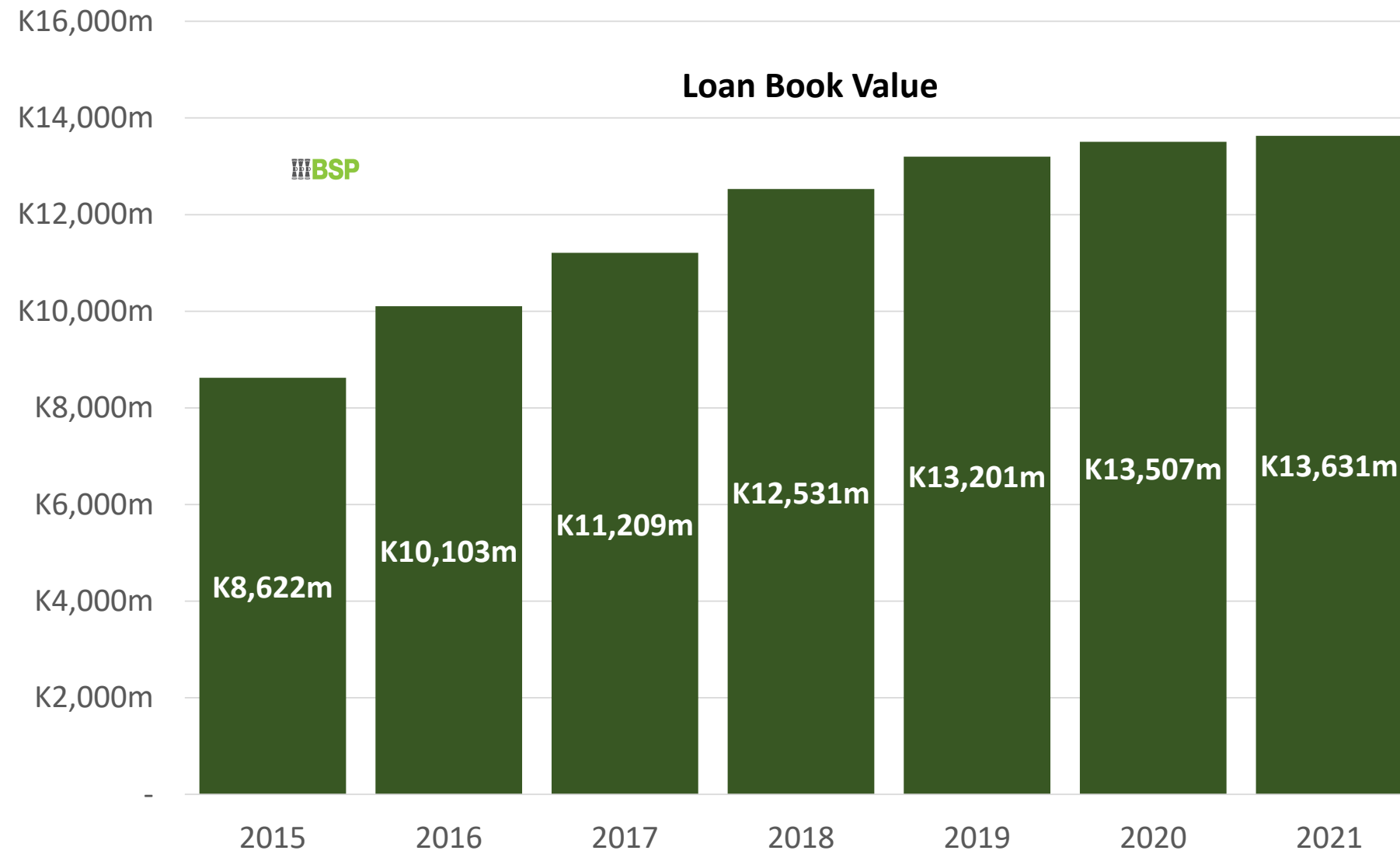
This growth was accompanied by the growth in investments in Government Inscribed Stock which, after a reduction in 2019 were increased dramatically in 2020.

Loan Book growth has largely stopped since 2018 and early 2019, perhaps reflecting the impact of Covid-19.

#17 - Loans have contributed little to growth since 2018



#18 - BSP's Loan Book grew by ONLY 0.92% in FY2021



The above charts outline how the growth in the BSP loan book appears to have largely stalled since around 2019. The period from 2016 through 2018 saw considerable expansion in lending which saw the loan book increase from K8.62bn at the end of 2015 to K12.5bn at the end of 2018, an increase of close to K4bn in 3 years. Since that time, the loan book has only grown by a further K1.1bn in 3 years.

Growth in the loan book was a modest 2.32% in FY2020 and an even lower 0.92% in FY2021.

#19 - The PNG Bank share of Revenue: 78.8%

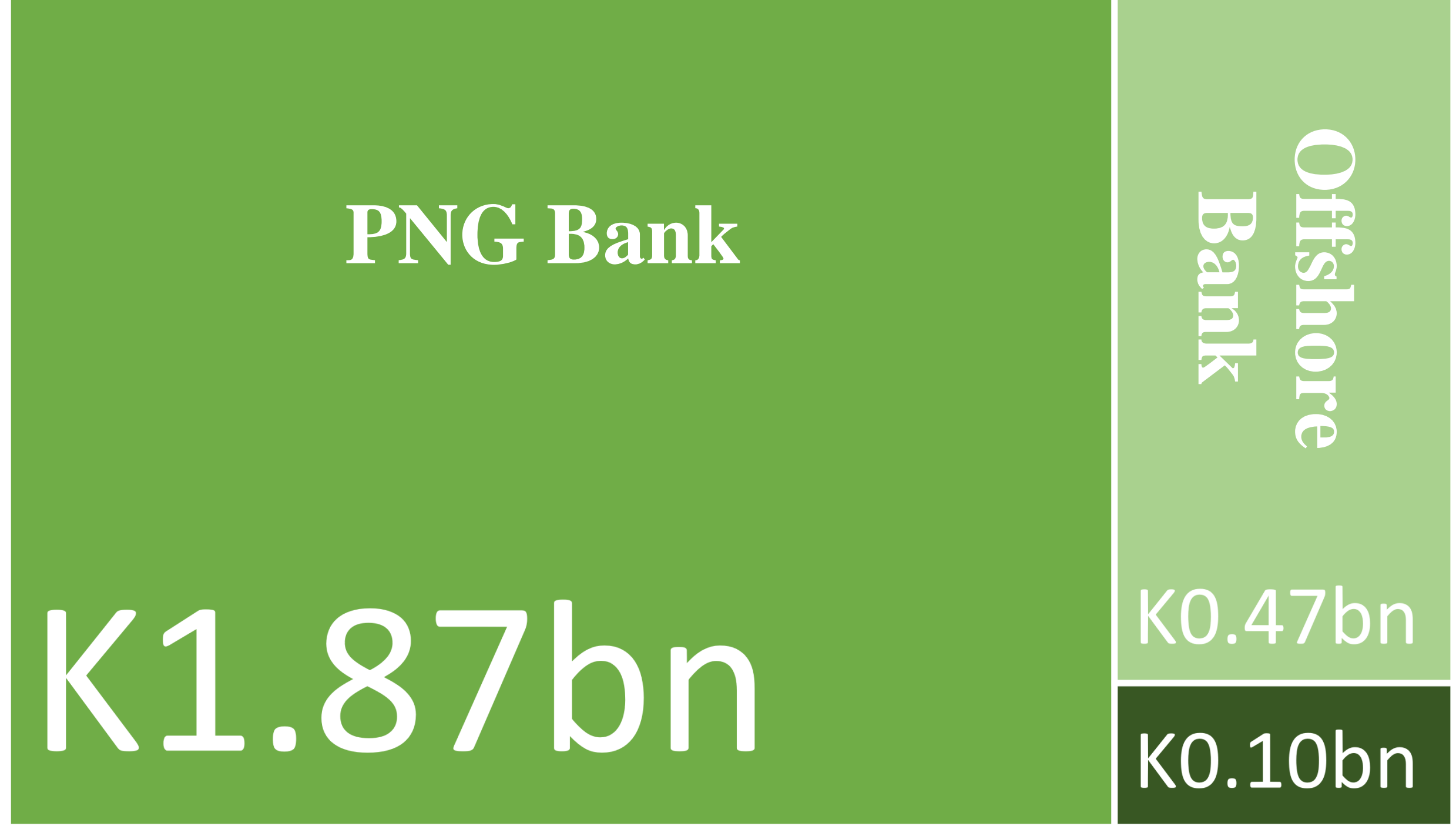
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Analysis by segment	PNG Bank		Offshore Bank		Bank Total		Non-Bank Entities		Inter segments		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM	PGK'MM
Income												
Net interest income	1,295.0	1,148.7	272.3	263.8	1,567.3	1,412.5	32.5	32.3	1.1	2.2	1,600.9	1,447.0
Other income	574.8	496.1	201.1	196.2	775.9	692.3	30.0	24.3	(69.9)	(47.6)	736.1	669.1
Net insurance income	-	-	-	-	-	-	36.9	32.2	(1.8)	(2.7)	35.1	29.5
Total operating income	1,869.8	1,644.8	473.5	460.0	2,343.2	2,104.8	99.4	88.9	(70.6)	(48.1)	2,372.0	2,145.7
Operating expenses	(661.4)	(581.4)	(210.2)	(207.6)	(871.7)	(789.1)	(20.0)	(18.8)	2.8	5.3	(888.8)	(802.5)
Impairment expenses	42.9	(146.5)	4.6	(48.8)	47.5	(195.3)	(4.9)	(6.0)	-	-	42.7	(201.3)
Profit before income tax	1,251.2	916.9	267.9	203.5	1,519.1	1,120.4	74.5	64.2	(67.8)	(42.8)	1,525.9	1,141.8
Income tax	(372.5)	(275.0)	(63.6)	(50.2)	(436.2)	(325.2)	(14.5)	(10.4)	-	-	(450.6)	(335.6)
Net profit after income tax	878.7	641.9	204.3	153.3	1,083.0	795.2	60.1	53.7	(67.8)	(42.8)	1,075.2	806.2
Assets	21,191.0	18,579.9	8,853.2	8,566.7	30,044.2	27,146.6	1,991.6	1,921.8	(1,589.5)	(1,545.0)	30,446.3	27,523.4
Liabilities	(18,427.1)	(16,104.1)	(7,693.7)	(7,463.8)	(26,120.8)	(23,567.9)	(1,474.1)	(1,418.4)	943.6	896.5	(26,651.3)	(24,089.8)
Net assets	2,763.9	2,475.9	1,159.5	1,102.8	3,923.4	3,578.7	517.4	503.4	(645.9)	(648.5)	3,795.0	3,433.6
<i>Return on Equity</i>	33.54%	26.62%	18.06%	14.85%	28.87%	23.09%	11.76%	11.22%			29.75%	24.61%
NPAT	878.7	641.9	204.3	153.3	1,083.0	795.2	60.1	53.7	(67.8)	(42.8)	1,075.2	806.2
<i>Adjusted ROE</i>	33.54%	26.62%	18.06%	14.85%	28.87%	23.09%	11.76%	11.22%			29.75%	24.61%
<i>Effective Tax Rate</i>	29.77%	29.99%	23.75%	24.66%	28.71%	29.02%	19.41%	16.27%			29.53%	29.39%
Original EPS	K1.88	K1.37	K0.44	K0.33	K2.32	K1.70	K0.13	K0.11	(K0.15)	(K0.09)	K2.30	K1.73

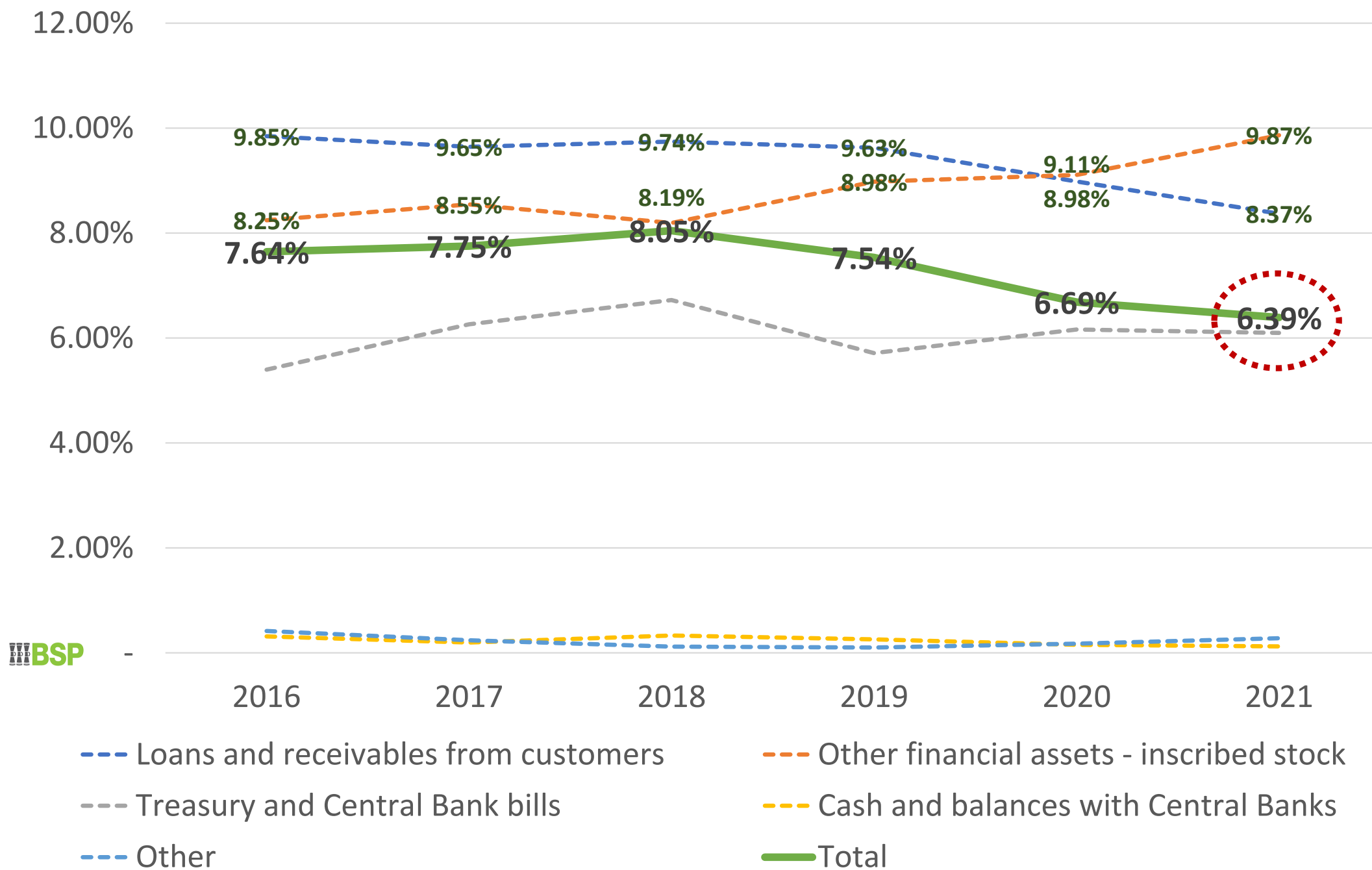


#20 - PNG Bank share of Operating Income: K1.87bn

BSP Financial Group
2021 Operating Income



#21 - Average Yield on Financial Assets: 6.39%



The 'Yield' on Financial Assets on the BSP balance sheet represents the percentage return on those assets through interest income during the year.

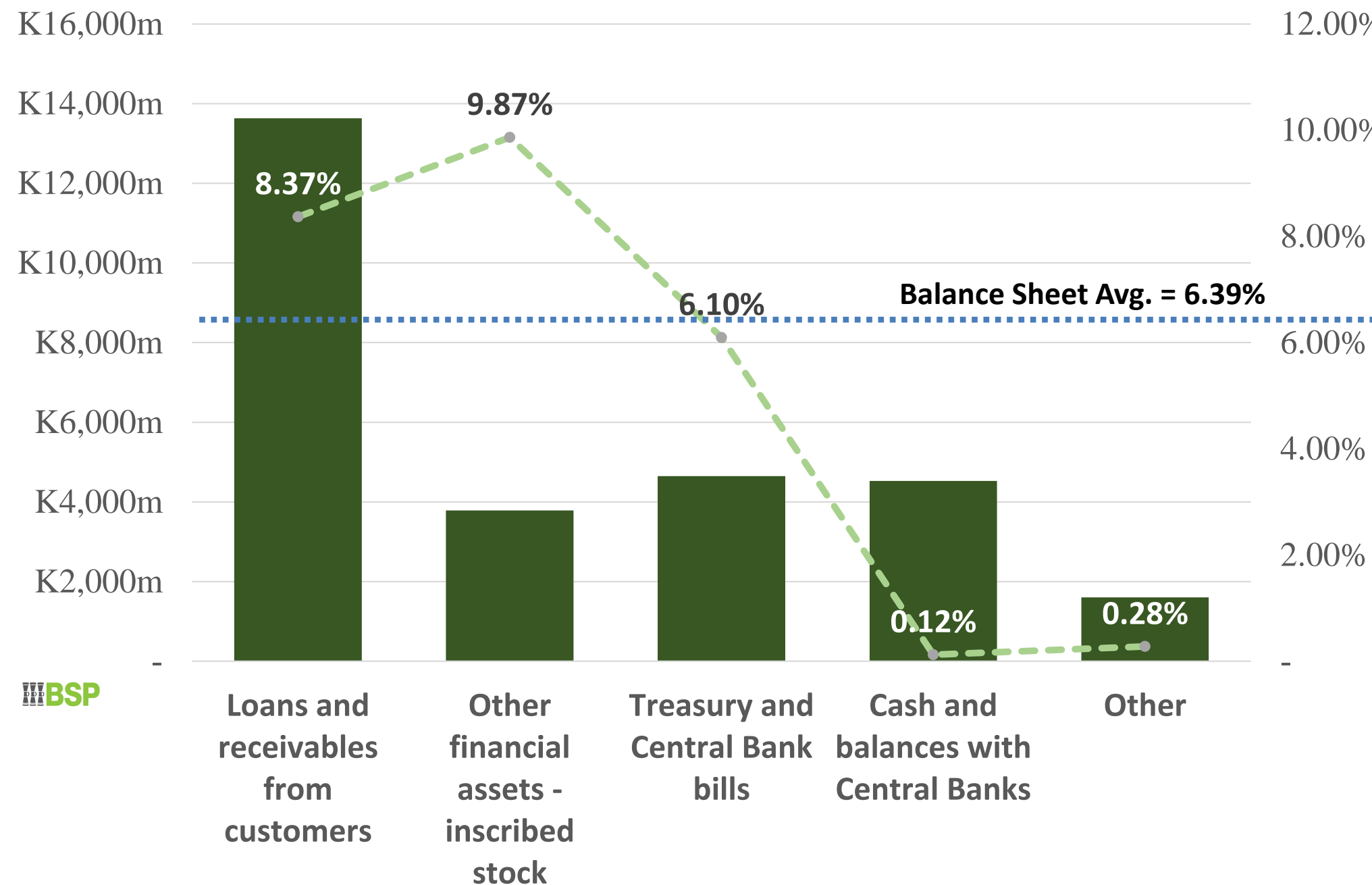
Since peaking at 8.05% in 2018, we estimate that the average yield on financial assets achieved by BSP in 2021 had dropped to 6.39%.

In order to continue to grow profits and to compensate for this compression in average interest income, the company needs to manage a combination of pressures, including reducing its cost of funds (largely the average interest paid to depositors) as well as growing the aggregate value of its financial asset base.

Loan yields have reduced from an average of 9.74% in 2018 to 8.37% in 2021.

Yield on Group Assets	2016	2017	2018	2019	2020	2021
Loans and receivables from customers	9.85%	9.65%	9.74%	9.63%	8.98%	8.37%
Other financial assets - inscribed stock	8.25%	8.55%	8.19%	8.98%	9.11%	9.87%
Treasury and Central Bank bills	5.40%	6.26%	6.73%	5.72%	6.16%	6.10%
Cash and balances with Central Banks	0.31%	0.20%	0.33%	0.26%	0.15%	0.12%
Other	0.42%	0.24%	0.12%	0.10%	0.17%	0.28%
Total	7.64%	7.75%	8.05%	7.54%	6.69%	6.39%

#22 - Group Net Interest Margin dropped from 6.02% to 5.96%



Avg. Yield on Financial Assets = 6.39%
Avg. Cost of Funds = 0.43%
Net Interest Margin = 5.96%

The reduction in Average Yields on BSP financial assets in recent years has been partially offset by a drop in the average cost of funds – i.e. the interest rate paid to average depositors.

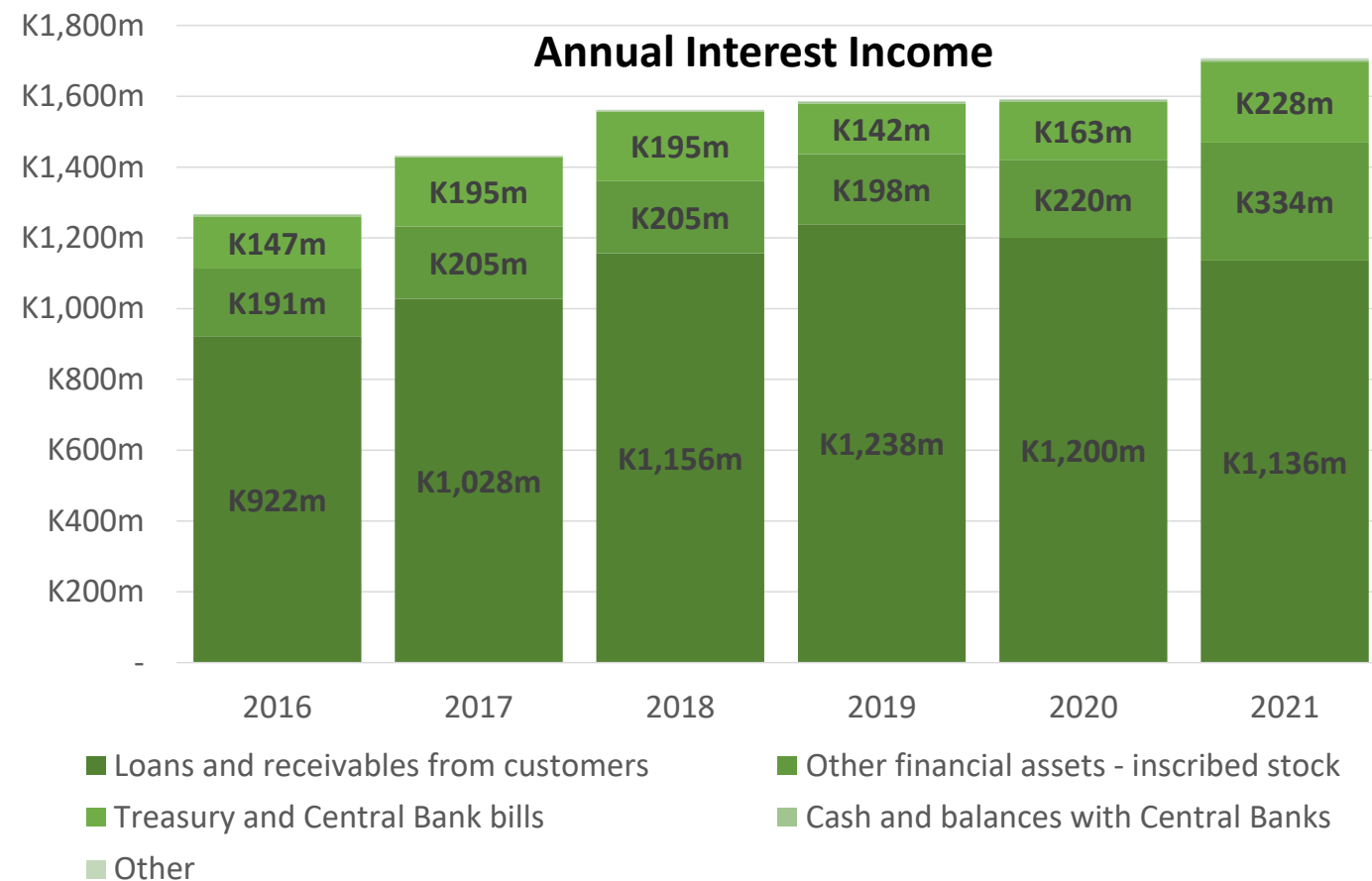
During 2022, the yields on Government Treasury Bills have dropped dramatically, from around 7.20% as at 31 December 2021 to around 2.50% in June 2022.

This reduction has been accompanied by a smaller but still considerable reduction in the interest rate on GIS.

These developments, coupled with the considerable net investment in these asset classes in recent years has the potential to put income under some pressure in the coming years.

	GROUP			BANK		
	2021	2020	2019	2021	2020	2019
	PGK'MMM	PGK'MMM	PGK'MMM	PGK'MMM	PGK'MMM	PGK'MMM
Interest Paid on Customer Deposits	97.28	136.69	178.05	79.60	116.39	162.91
Customer Deposits	23,934.84	21,654.02	19,339.06	22,342.32	20,104.35	17,981.76
Average Balance	22,794.43	20,496.54	18,785.91	21,223.33	19,043.05	17,470.46
Cost of Funds	0.43%	0.67%	0.95%	0.38%	0.61%	0.93%

#23 - Group Interest Income increase in FY2021: 7.25%



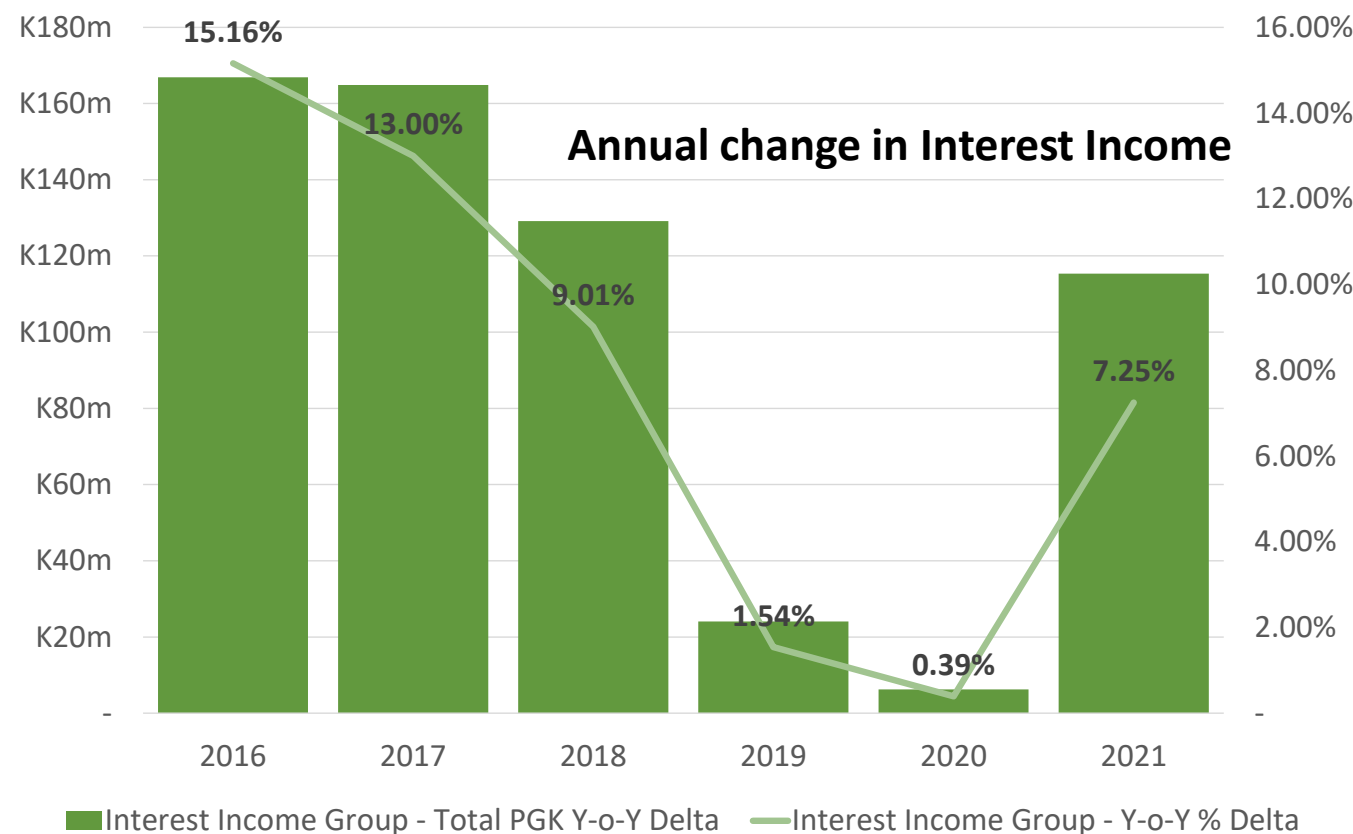
Interest Income Group	2016	2017	2018	2019	2020	2021
PGK'MMM						
Loans and receivables from customers	922.05	1,027.86	1,156.43	1,238.45	1,199.82	1,135.81
Other financial assets - inscribed stock	191.33	204.69	205.33	198.48	220.33	333.51
Treasury and Central Bank bills	146.69	195.09	194.82	141.57	163.33	228.19
Cash and balances with Central Banks	4.50	2.80	4.04	6.19	6.14	5.60
Other	3.16	2.12	1.07	1.07	2.37	4.25
Total	1,267.72	1,432.56	1,561.69	1,585.77	1,591.99	1,707.37

Interest Income Group - PGK Delta	2016	2017	2018	2019	2020	2021
PGK'MMM						
Loans and receivables from customers	139.43	105.82	128.57	82.03	(38.63)	(64.01)
Other financial assets - inscribed stock	(18.94)	13.35	0.65	(6.85)	21.84	113.18
Treasury and Central Bank bills	50.06	48.40	(0.28)	(53.24)	21.76	64.86
Cash and balances with Central Banks	(4.57)	(1.70)	1.24	2.15	(0.05)	(0.54)
Other	0.88	(1.04)	(1.04)	-	1.30	1.88
Interest Income Group - Total PGK Y-o-Y Delta	166.86	164.83	129.13	24.08	6.22	115.37

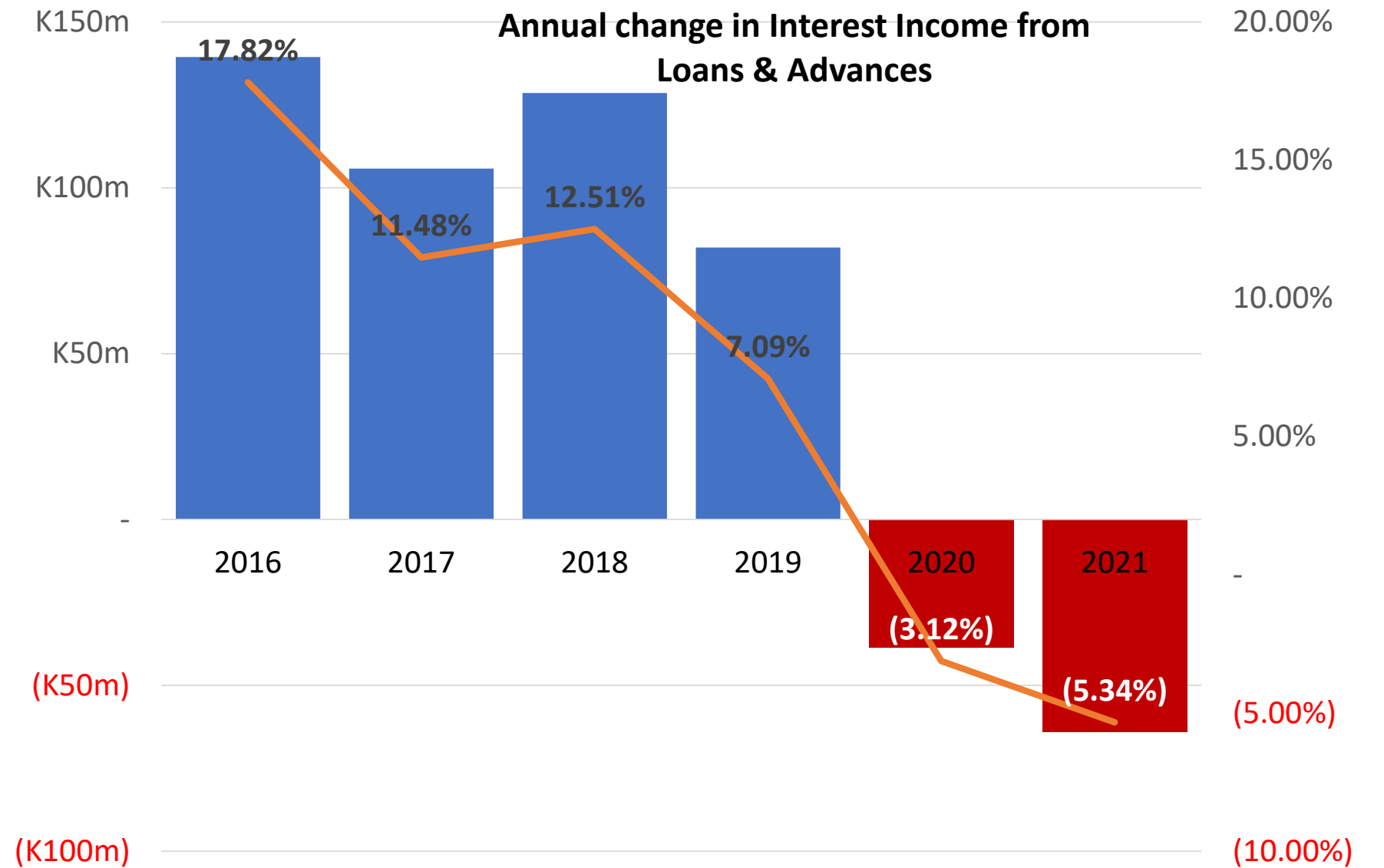
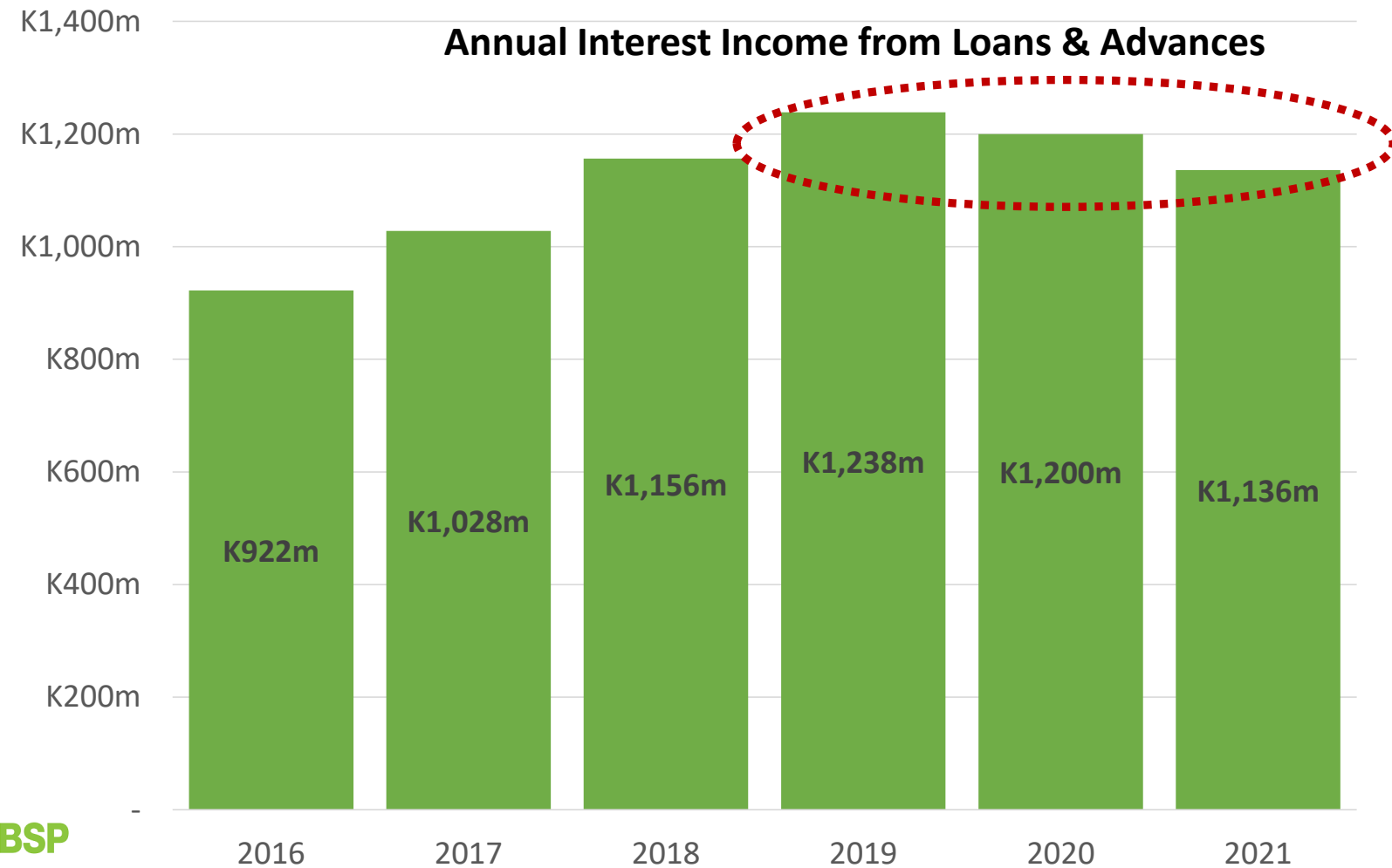
Interest Income Group - Y-o-Y % Delta	2016	2017	2018	2019	2020	2021
%						
Loans and receivables from customers	17.82%	11.48%	12.51%	7.09%	(3.12%)	(5.34%)
Other financial assets - inscribed stock	(9.01%)	6.98%	0.32%	(3.34%)	11.01%	51.37%
Treasury and Central Bank bills	51.80%	32.99%	(0.14%)	(27.33%)	15.37%	39.71%
Cash and balances with Central Banks	(50.40%)	(37.71%)	44.25%	53.12%	(0.82%)	(8.78%)
Other	38.80%	(32.93%)	(49.24%)	-	120.76%	79.29%
Interest Income Group - Y-o-Y % Delta	15.16%	13.00%	9.01%	1.54%	0.39%	7.25%

After growing by only 1.54% in 2019 and 0.39% in 2020, growth in interest income re-accelerated in 2021 to 7.25%. This is still lower than the rate of increase in 2016 – 2018.

In addition, it is important to note that growth came largely from government securities, not from growing the loan book.

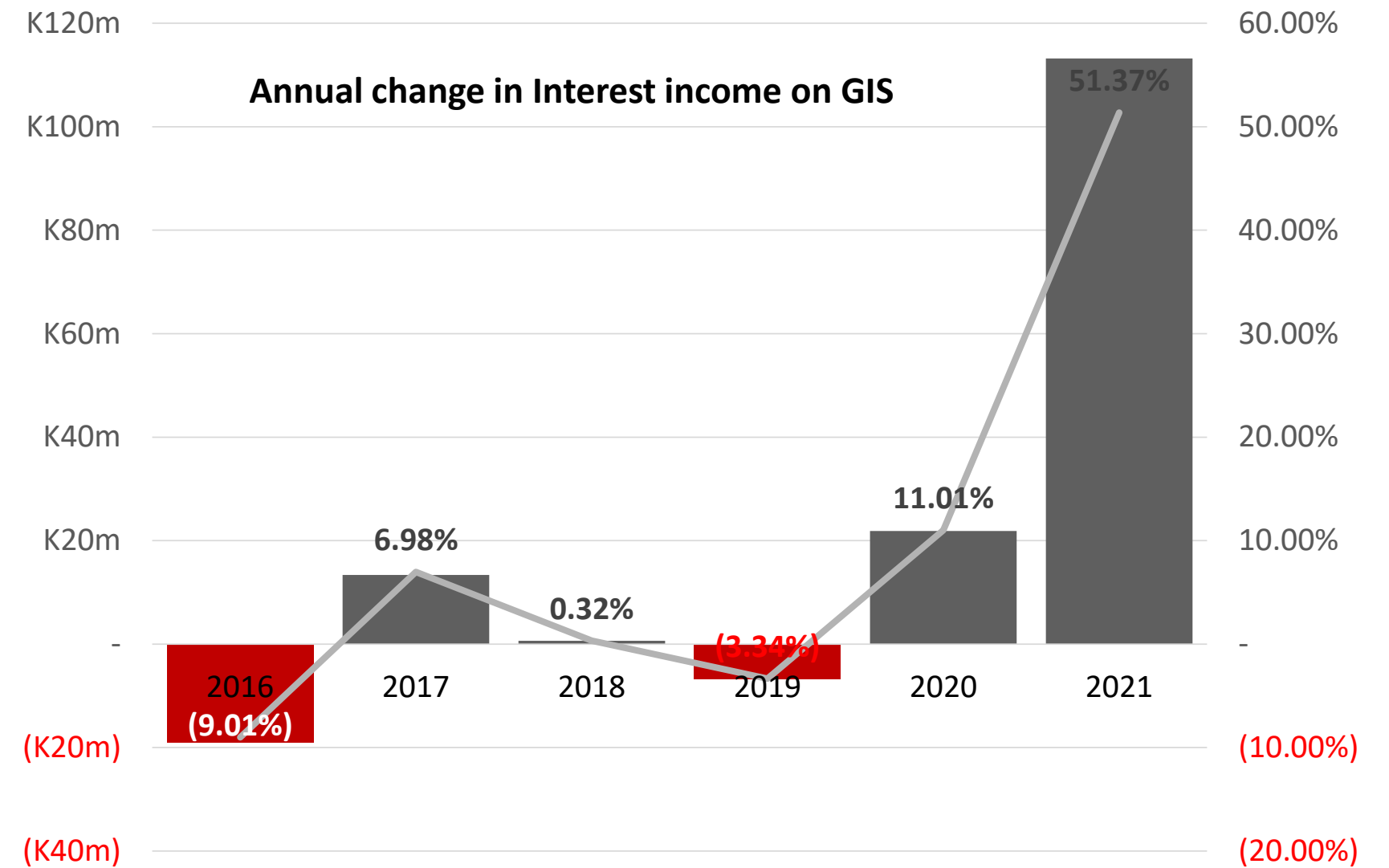
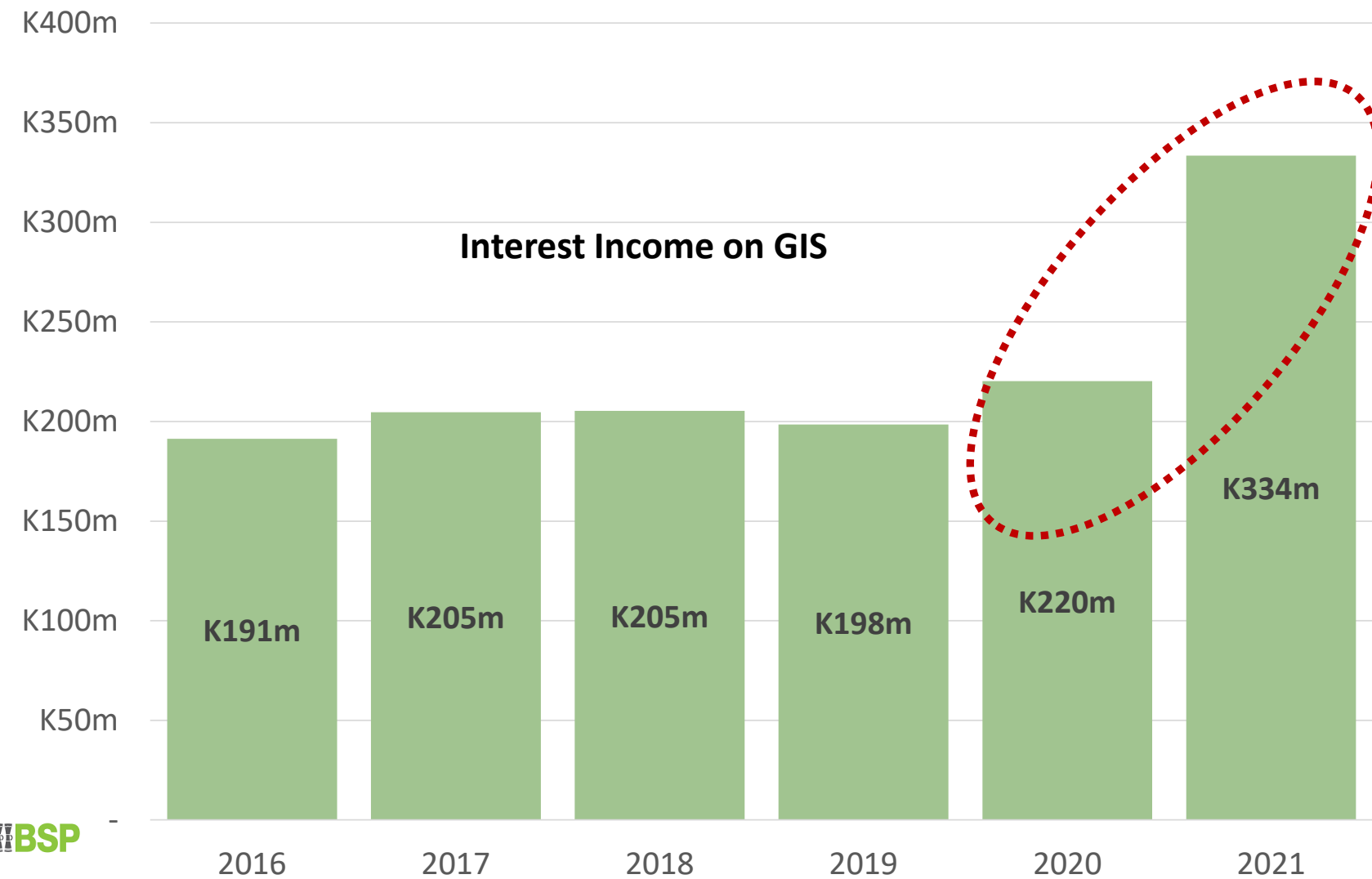


#24 - BUT: Interest Income on Loans reduced by 5.34%



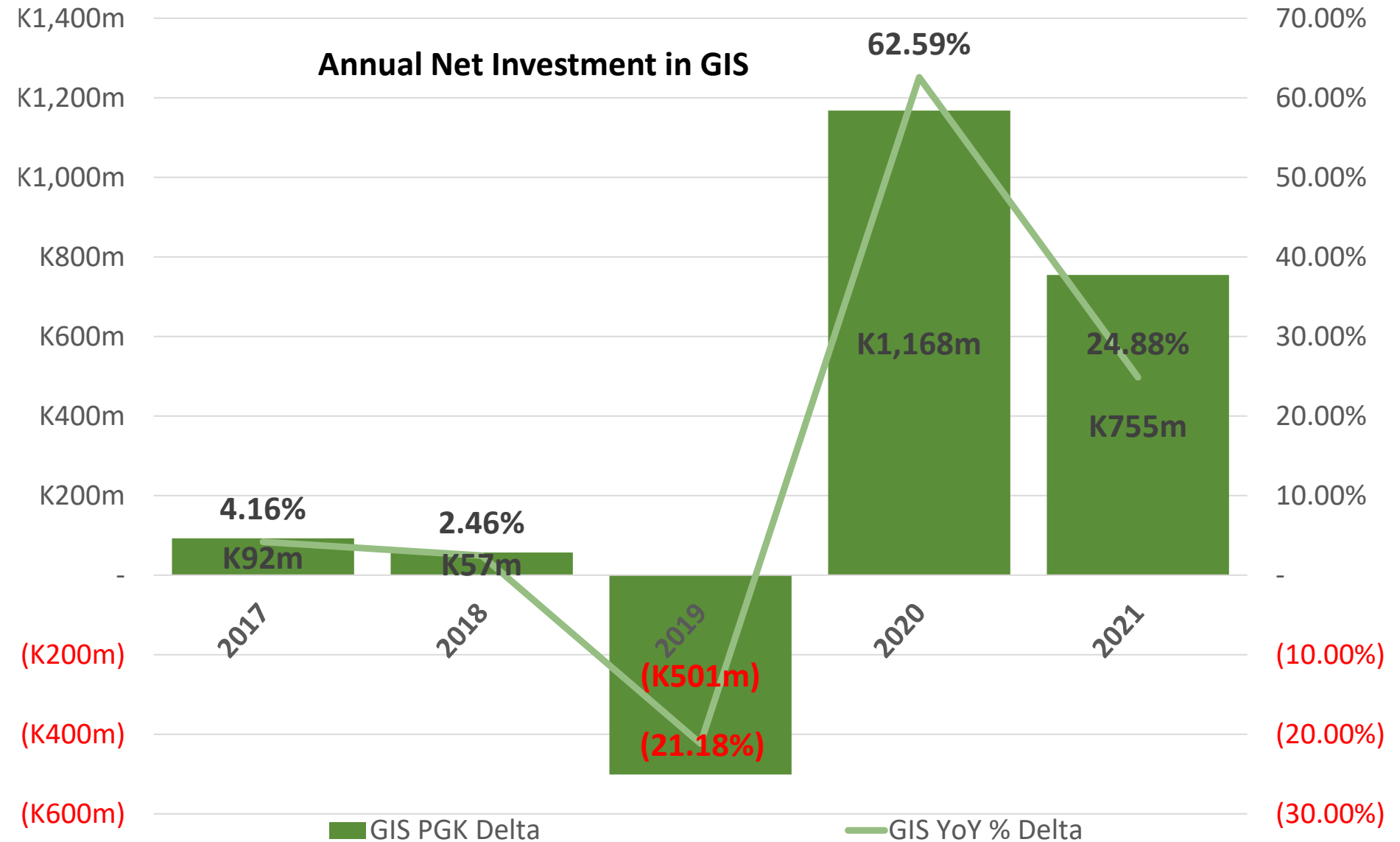
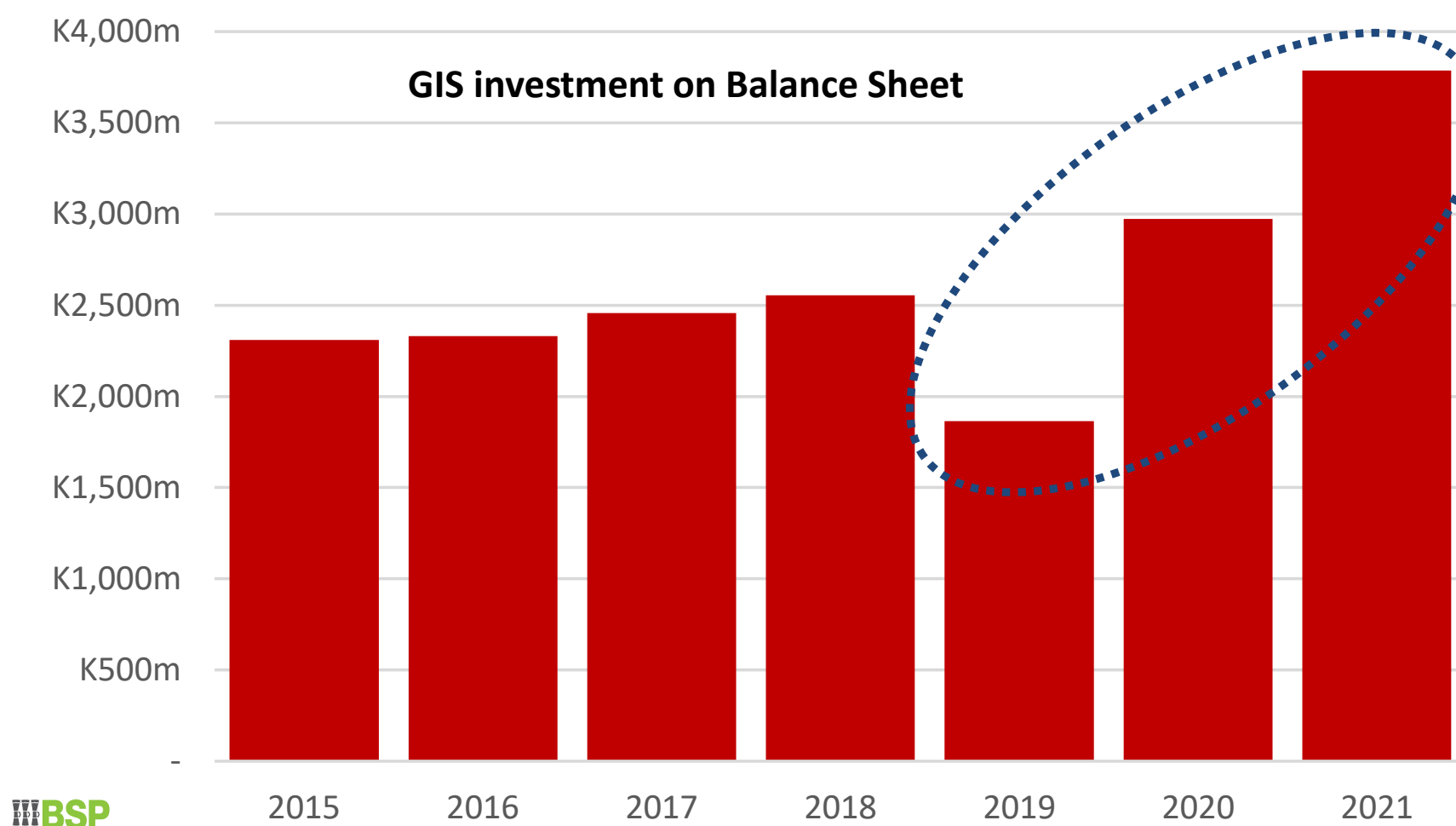
Interest Income Group	2016	2017	2018	2019	2020	2021
	PGK'MM					
Loans and receivables from customers	922.05	1,027.86	1,156.43	1,238.45	1,199.82	1,135.81
Other financial assets - inscribed stock	191.33	204.69	205.33	198.48	220.33	333.51
Treasury and Central Bank bills	146.69	195.09	194.82	141.57	163.33	228.19
Cash and balances with Central Banks	4.50	2.80	4.04	6.19	6.14	5.60
Other	3.16	2.12	1.07	1.07	2.37	4.25
Interest Income Group	1,267.72	1,432.56	1,561.69	1,585.77	1,591.99	1,707.37

#25 - AND: Interest Income on GIS increased by 51.37%



Interest Income Group	2016	2017	2018	2019	2020	2021
	PGK'MM					
Loans and receivables from customers	922.05	1,027.86	1,156.43	1,238.45	1,199.82	1,135.81
Other financial assets - inscribed stock	191.33	204.69	205.33	198.48	220.33	333.51
Treasury and Central Bank bills	146.69	195.09	194.82	141.57	163.33	228.19
Cash and balances with Central Banks	4.50	2.80	4.04	6.19	6.14	5.60
Other	3.16	2.12	1.07	1.07	2.37	4.25
Interest Income Group	1,267.72	1,432.56	1,561.69	1,585.77	1,591.99	1,707.37

#26 - Investment in GIS increased by 103% since FY2019



During the period from 31 December 2019 through to 31 December 2021, the aggregate investment by BSP in GIS (Government Inscribed Stock – i.e. long term bonds) has increased by more than K1.92bn.

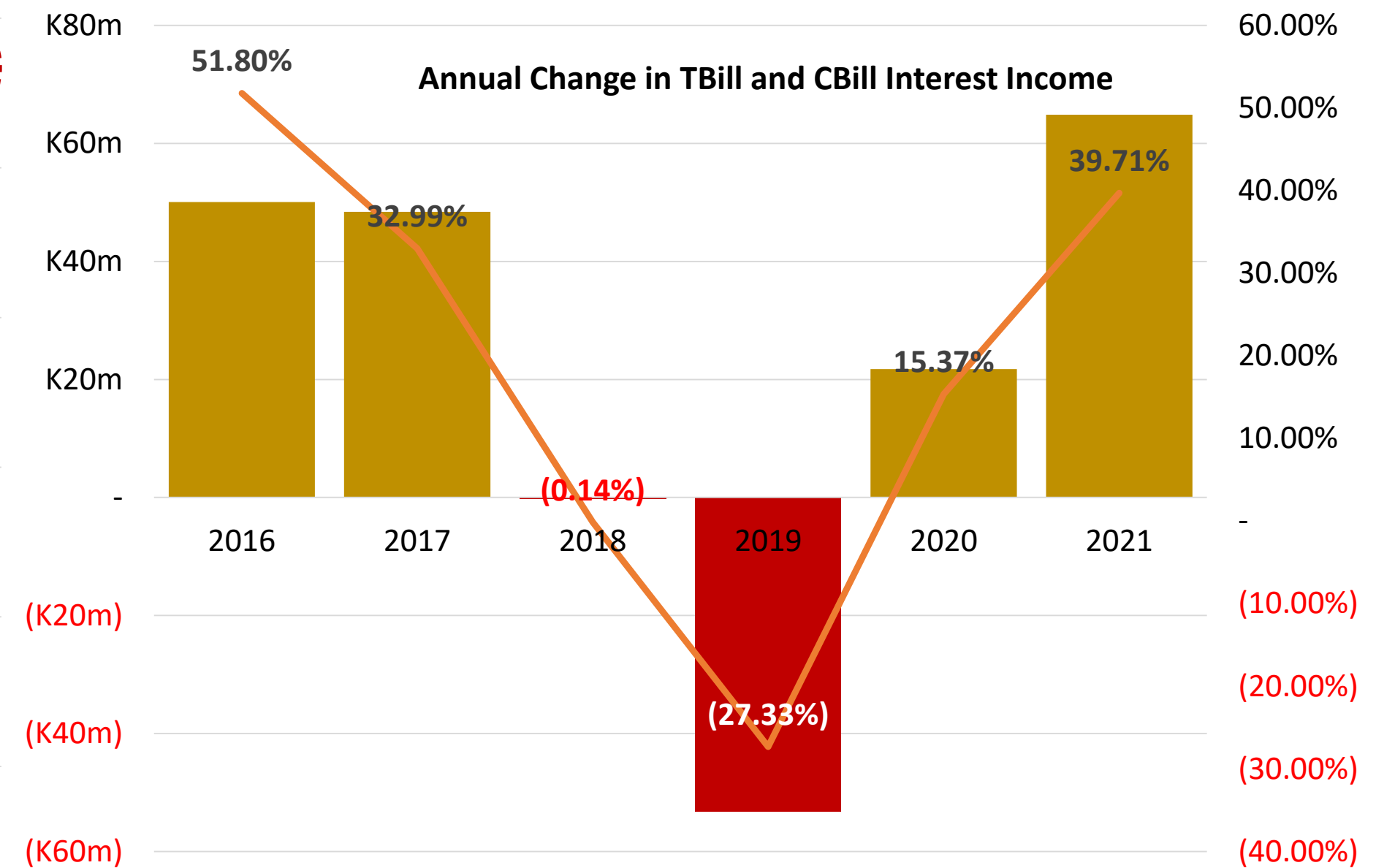
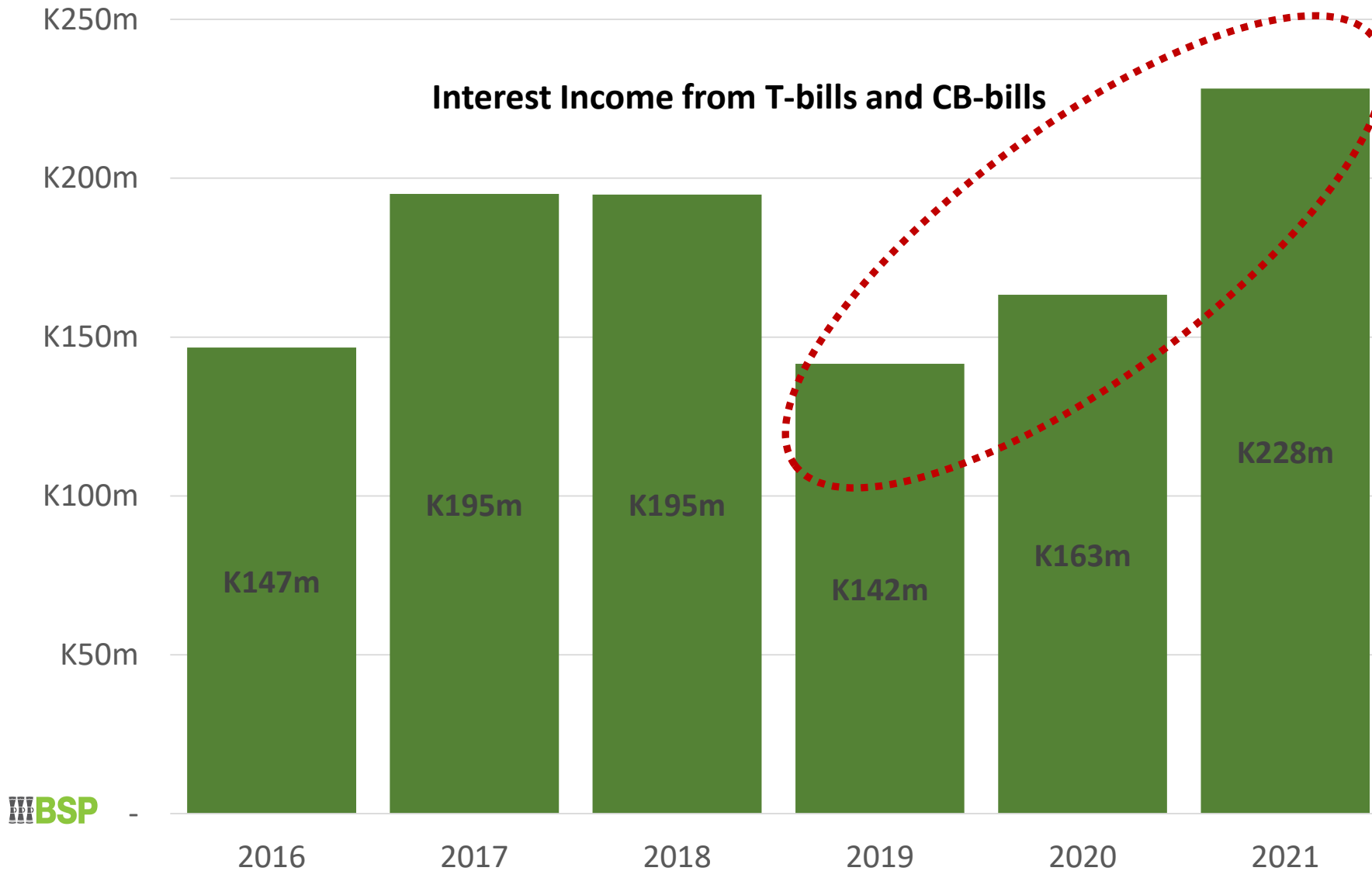
This represents a significant shift in the BSP balance sheet over a short period and stands in contrast with the modest growth in the loan book during the same period.

It does explain the explosive growth in interest income from GIS.

FY2019 Net Investment	=	(K501m)
FY2020 Net Investment	=	K1,168m
FY2021 Net Investment	=	K755m

3-year Net Investment	=	K1,422m
2-year Net Investment	=	K1,923m

#27 - Interest Income from T-bills and CB-bills increased 39.7%



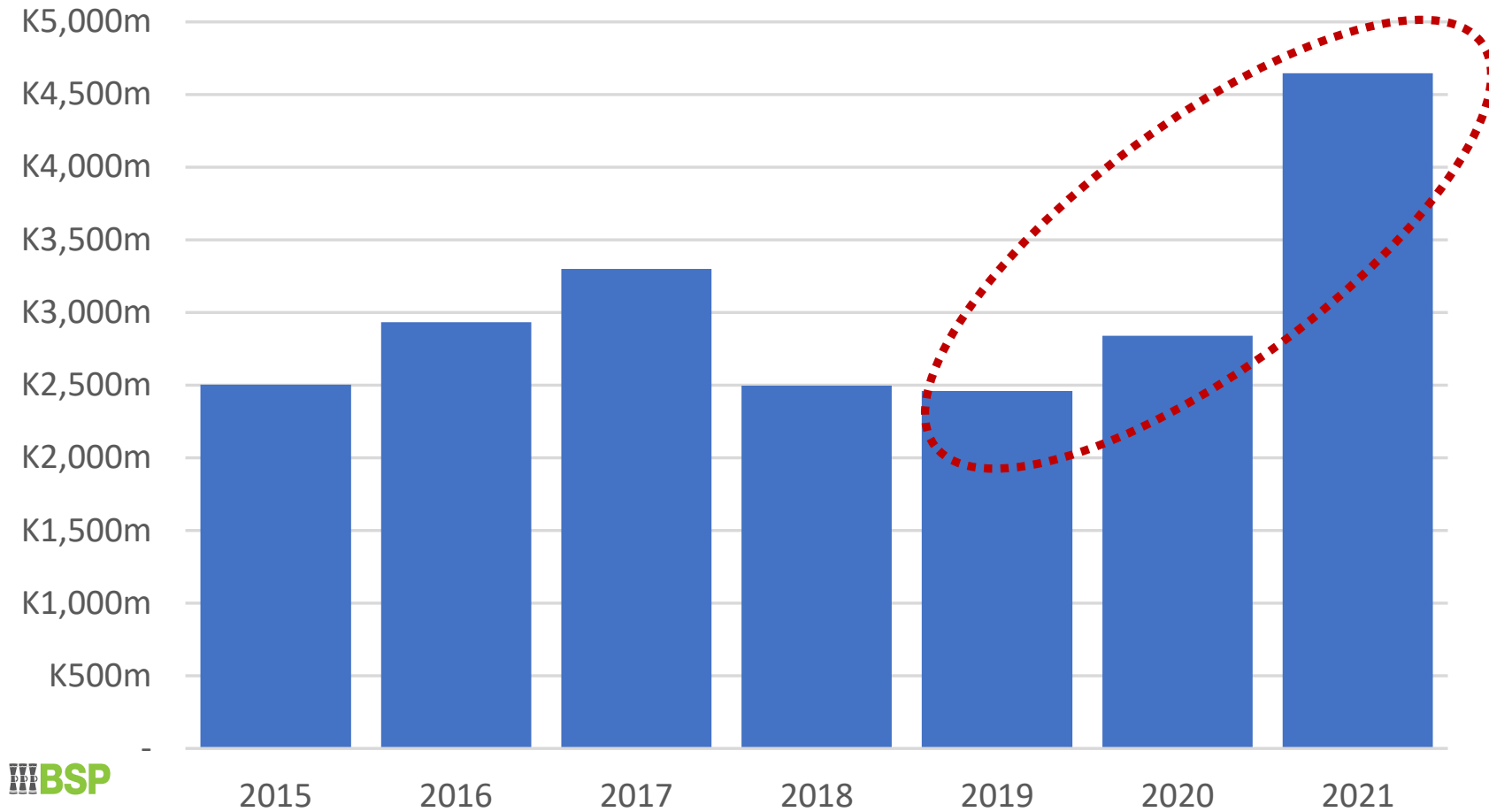
Interest Income from Treasury Bills and CB Bills increased by 39.71% in 2021 and has increased by more than 60% since 2019.

Compression of PNG Treasury Bill rates puts this under pressure in 2022 and possibly beyond.

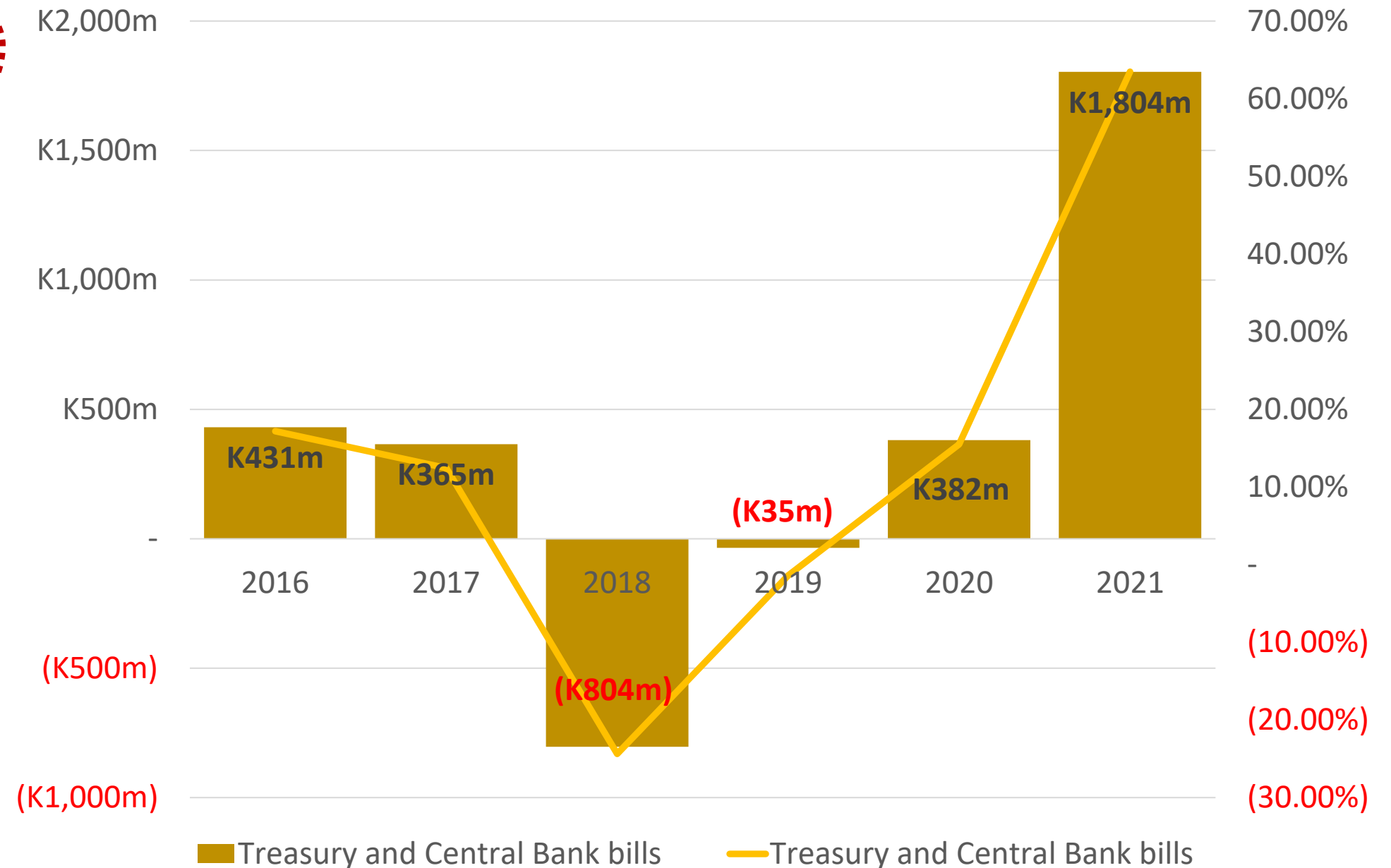
Interest Income Group	2016	2017	2018	2019	2020	2021
	PGK'MM					
Loans and receivables from customers	922.05	1,027.86	1,156.43	1,238.45	1,199.82	1,135.81
Other financial assets - inscribed stock	191.33	204.69	205.33	198.48	220.33	333.51
Treasury and Central Bank bills	146.69	195.09	194.82	141.57	163.33	228.19
Cash and balances with Central Banks	4.50	2.80	4.04	6.19	6.14	5.60
Other	3.16	2.12	1.07	1.07	2.37	4.25
Interest Income Group	1,267.72	1,432.56	1,561.69	1,585.77	1,591.99	1,707.37

#28 - T-bill and CB-bill investments increased K1.8bn in FY2021

TBill and CBill investment on Balance Sheet



Annual Net Investment in T-bills and CB-bills



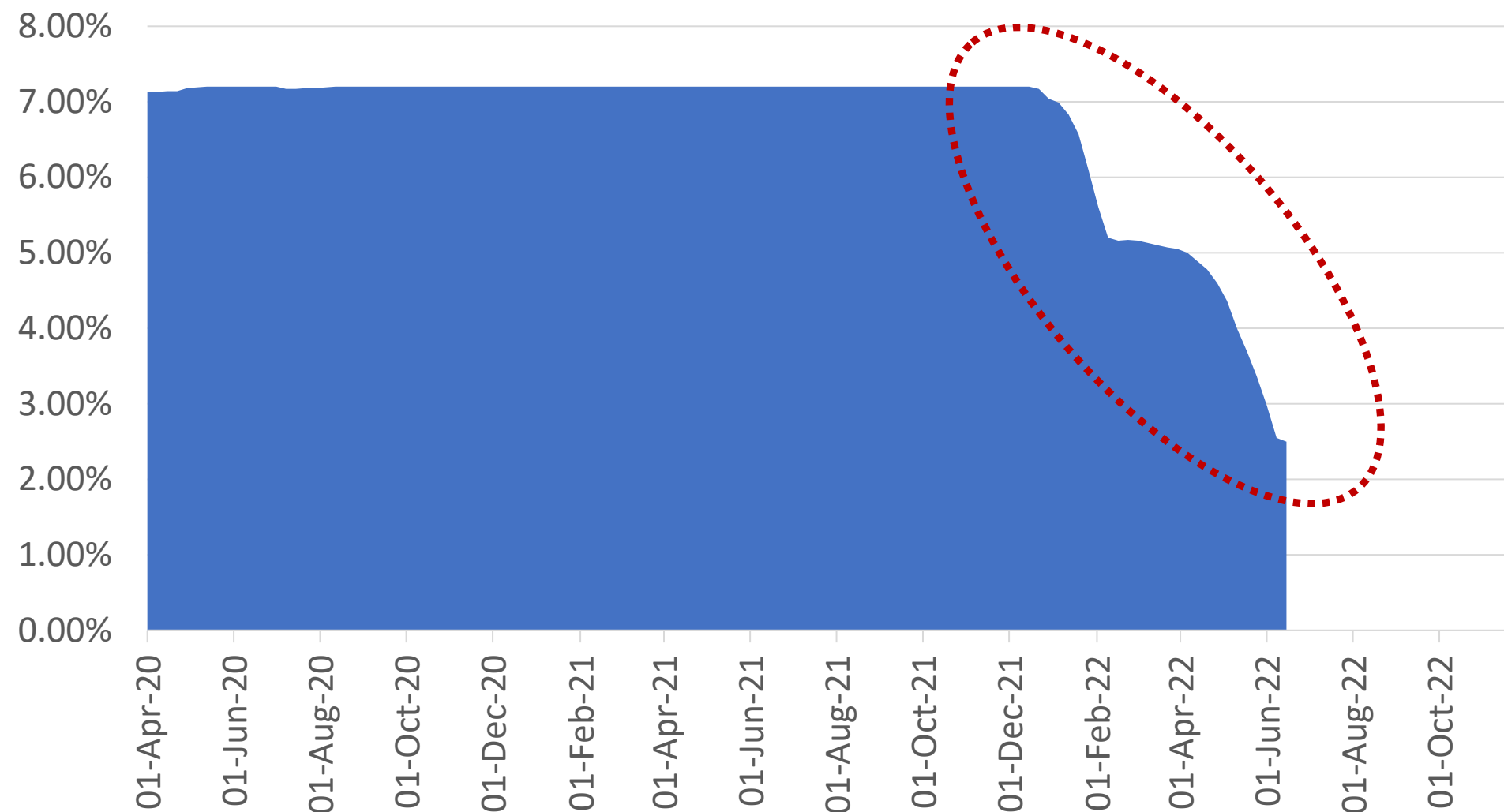
FY2019 Net Investment = (K35m)
FY2020 Net Investment = K382m
FY2021 Net Investment = K1,804m

3-year Net Investment = K2,151m
2-year Net Investment = K2,186m

#29 - PNG Treasury Bill rates dramatically reduced in 2022

T-Bill Auction Rates

■ 364 Days

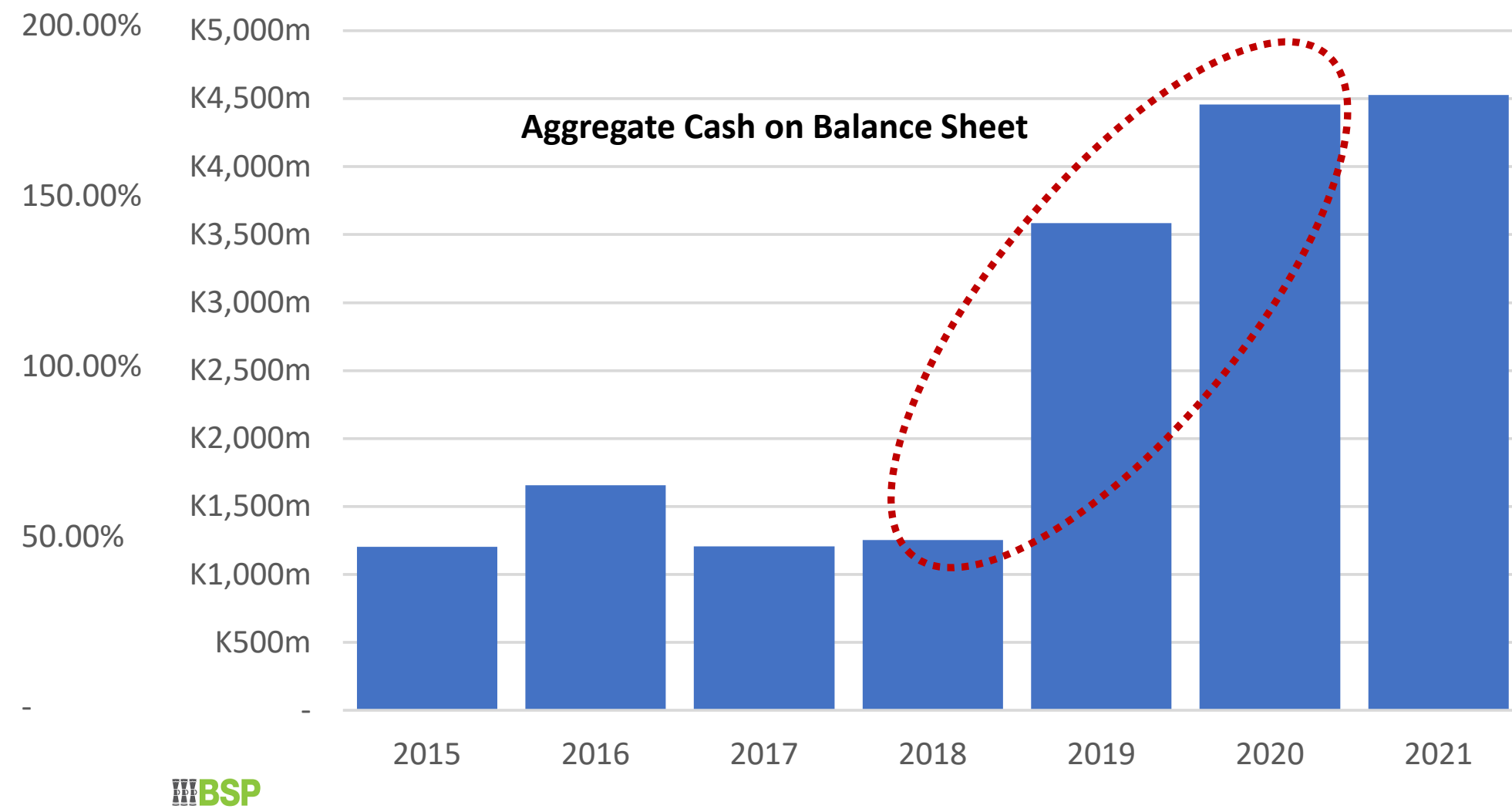
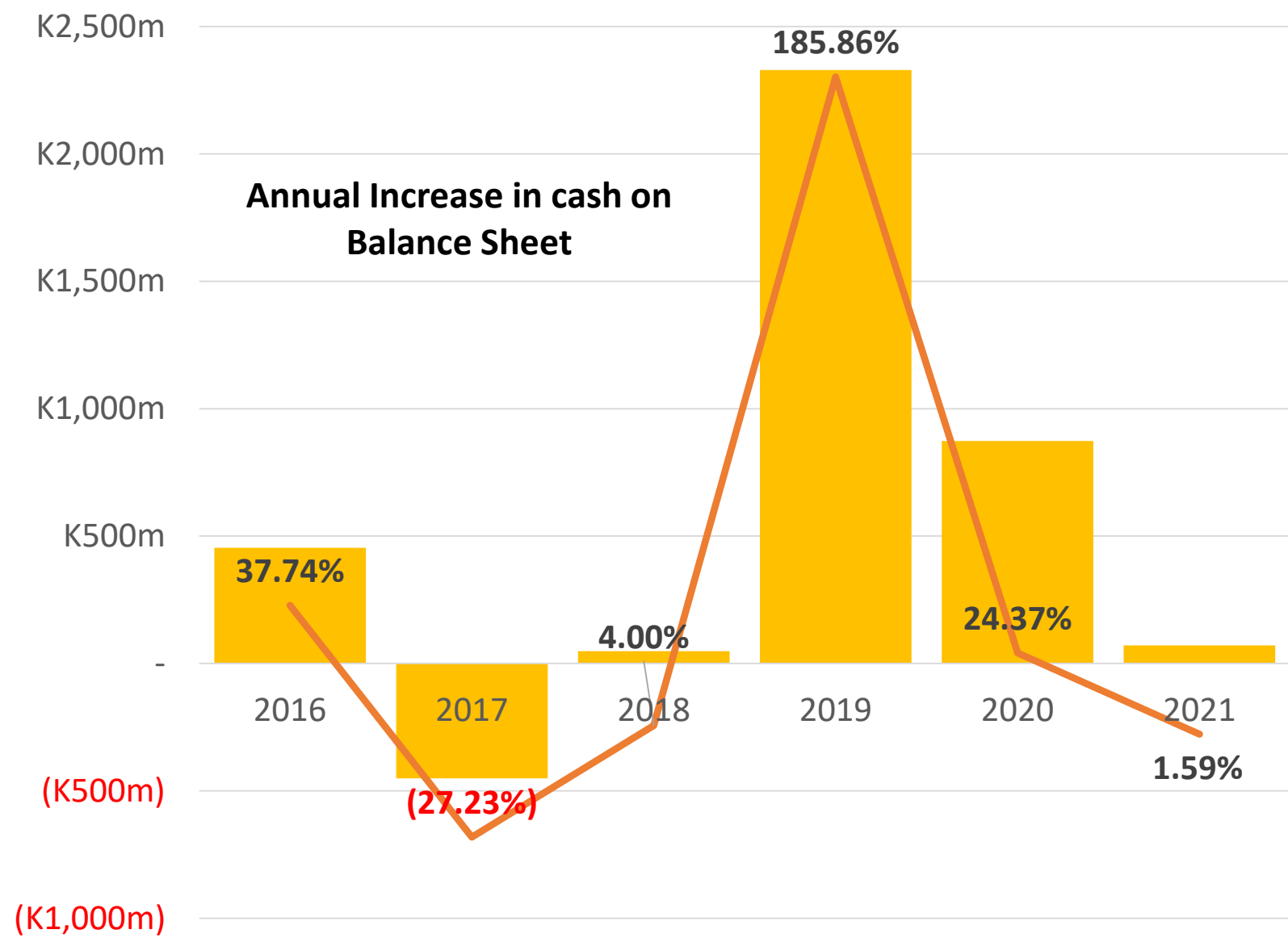


During 2022, auction and secondary market yields in PNG Government Treasury Bills have decreased significantly. After a long period of stable rates around the 7.20% level, rates started a rapid decline in late 2021.

In recent auctions, 364-day treasury bills have been issued at yields around 2.50%, representing a margin compression of 4.70% over a short period. Longer dated paper, including PNG GIS have also seen considerable, albeit less dramatic reductions in interest rates during late 2021 and early 2022. When considered against BSP's Treasury and CB Bill portfolio at the end of 2021 of K3.7bn, it is clear that a 4.7% drop in the interest rate achieved would potentially cost BSP more than K150 million in lost income.

To be clear, the drop in the 364-day rate will take some time to work its way into the BSP portfolio of treasury bills. At the same time, it is possible that BSP will use the drop in Treasury Bill interest rates as a catalyst to reorient its asset base towards other assets, including more traditional lending. However, investors should keep an eye on developments in fixed interest markets in PNG as it is by far the largest market in which BSP operates.

#30 - Liquidity (Cash Holdings) remains at historic highs

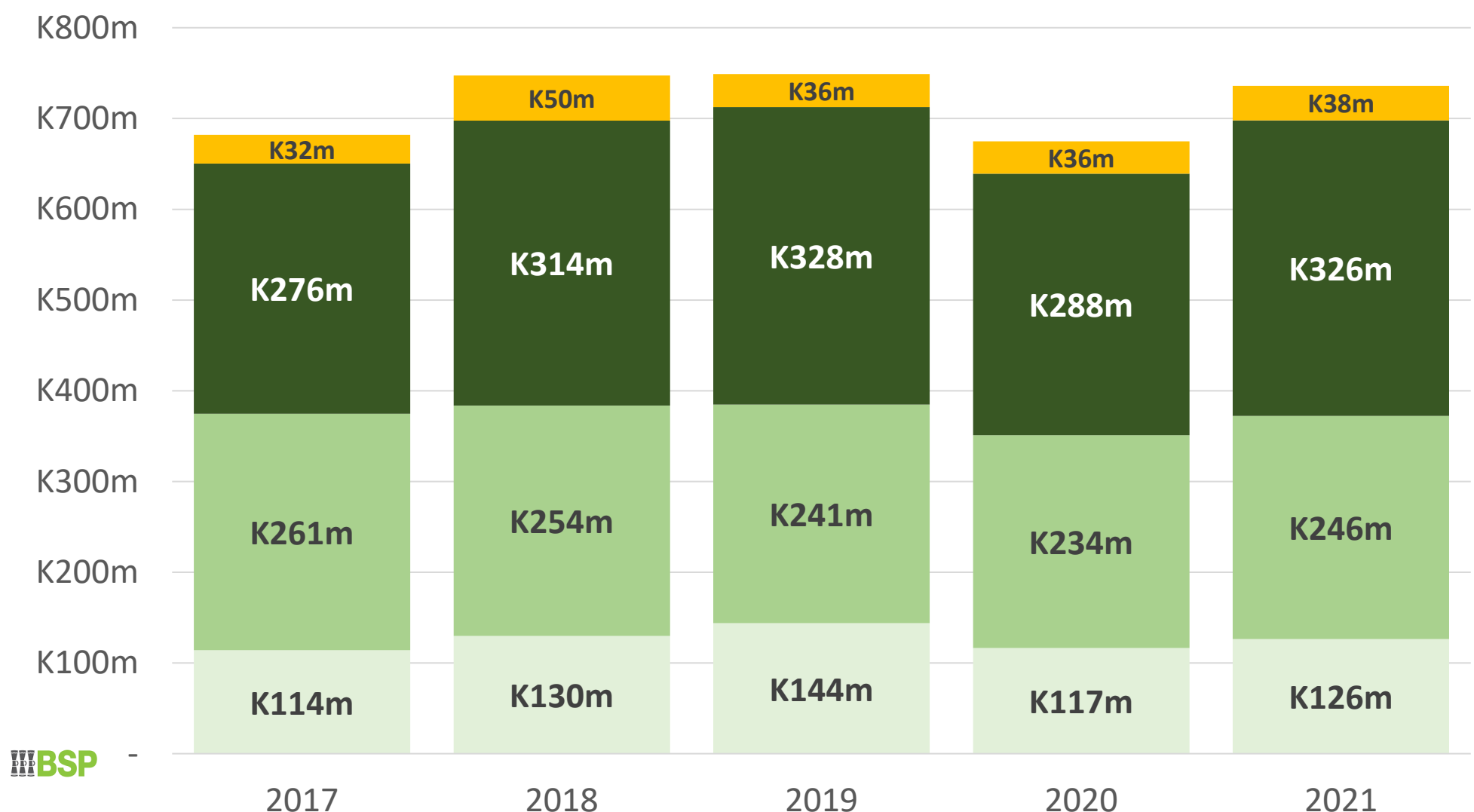


Interest Income Group	2016	2017	2018	2019	2020	2021
PGK'MM						
Loans and receivables from customers	922.05	1,027.86	1,156.43	1,238.45	1,199.82	1,135.81
Other financial assets - inscribed stock	191.33	204.69	205.33	198.48	220.33	333.51
Treasury and Central Bank bills	146.69	195.09	194.82	141.57	163.33	228.19
Cash and balances with Central Banks	4.50	2.80	4.04	6.19	6.14	5.60
Other	3.16	2.12	1.07	1.07	2.37	4.25
Interest Income Group	1,267.72	1,432.56	1,561.69	1,585.77	1,591.99	1,707.37

Cash balances (including Central Bank deposits) increased dramatically in 2019 and 2020. Although the increase was checked in 2021, cash holdings remain high by historical standards.

Cash balances are relatively inefficient as they typically attract very low interest yields.

#31 - Other Income in FY2021: K736 million



■ Electronic Banking Fee Income ■ Other Fees & Commissions ■ FX Revenue ■ Other Income

Other income increased by K61 million (9.06%) in 2021.

Most of this increase (K37.5 million) came from growth in FX related revenue. FX revenue had suffered a considerable reduction (12.05%) as a result of the early impacts of Covid-19 in 2020.

Net Fee & Commission Income	2017	2018	2019	2020	2021
Group	K'Million	K'Million	K'Million	K'Million	K'Million
Product Related	206.88	198.02	182.22	178.51	190.17
Trade and International Related	18.54	18.90	21.26	19.32	19.78
Electronic Banking Related	114.18	129.83	143.80	116.51	126.27
Other	35.14	37.10	37.48	36.62	36.08
Total Fees and Commissions	374.75	383.84	384.76	350.96	372.30

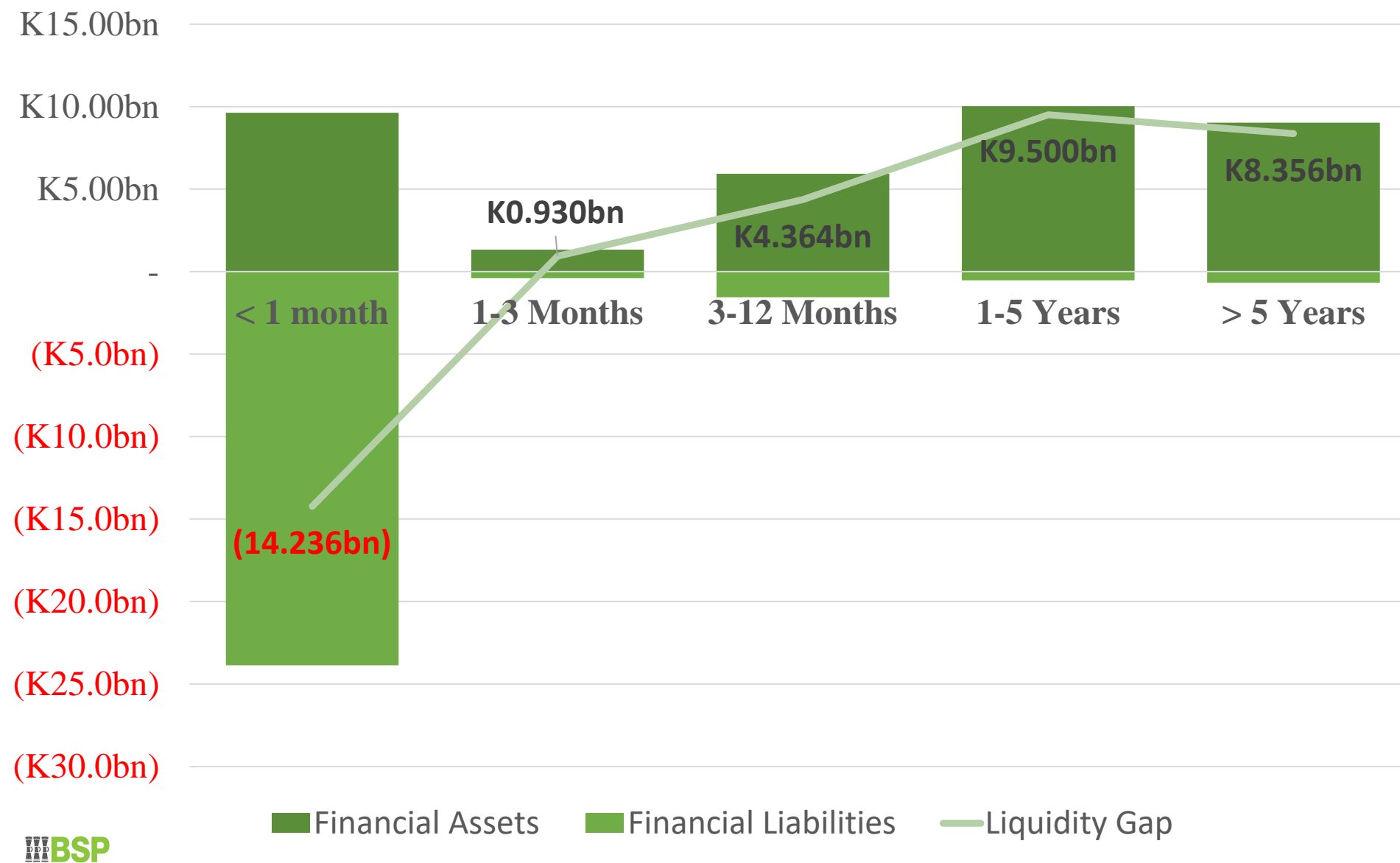
Other Income	2017	2018	2019	2020	2021
Group	K'Million	K'Million	K'Million	K'Million	K'Million
Foreign Exchange Related	275.58	313.79	327.71	288.20	325.68
Operating Lease Rentals	9.43	8.47	7.50	7.50	7.26
Other	22.17	41.23	28.92	28.23	30.82
Total Other Income	307.17	363.49	364.13	323.93	363.76

Other Income - PGK Delta	2017	2018	2019	2020	2021
Group	K'Million	K'Million	K'Million	K'Million	K'Million
Electronic Banking Fees - PGK Delta	8.42	15.65	13.97	(27.29)	9.76
Other Fees & Commissions - PGK Delta	3.04	(6.55)	(13.06)	(6.51)	11.58
FX Revenue - PGK Delta	21.82	38.21	13.92	(39.50)	37.48
Other Income - PGK Delta	(12.73)	18.11	(13.28)	(0.69)	2.35
Total PGK Delta	20.56	65.41	1.56	(73.99)	61.16

Other Income - % Delta	2017	2018	2019	2020	2021
Group	K'Million	K'Million	K'Million	K'Million	K'Million
Electronic Banking Fees - % Delta	7.96%	13.70%	10.76%	(18.98%)	8.37%
Other Fees & Commissions - % Delta	1.18%	(2.51%)	(5.14%)	(2.70%)	4.94%
FX Revenue - % Delta	8.60%	13.87%	4.44%	(12.05%)	13.00%
Other Income - % Delta	(28.71%)	57.31%	(26.71%)	(1.91%)	6.56%
Total % Delta	3.11%	9.59%	0.21%	(9.88%)	9.06%

#32 - 1-month Liquidity Gap: K14.24bn

Liquidity Gap Analysis - Dec 2021



The essence of banking business is the taking of deposits on short or on-call terms and on-lending or investing these funds in long-dated transactions and instruments.

This gives rise to a considerable mismatch between the potential timing of cash outflows (mostly to depositors who may choose to withdraw and redeploy their cash balances) and cash inflows from principal and interest payments from borrowers.

In the case of BSP, the 1-month Liquidity Gap is more than K14.23 bn. Although this is a very significant imbalance, it is not a new development and is an intrinsic feature of banking.

Only in times of significant turmoil, or in the face of doubt on the part of depositors as the safety of their deposits with BSP would we expect a 'run' on the bank. This remains a very unlikely prospect at this stage.

#33 - 1-month run-off of liabilities exceeds K27bn

Total Liabilities 2021 - Run-Off



The Liquidity Gap is further illustrated by looking at the run-off profiles of BSP's Financial Assets and Liabilities.

As the vast majority of BSP liabilities are Customer Deposits, the run-off diagram illustrates how the bulk of its liabilities are technically repayable within 1 month. In reality, the majority of depositors maintain running cash balances with financial institutions, however this cannot negate the fact that the bank's deposits are largely on-call or short term in nature.

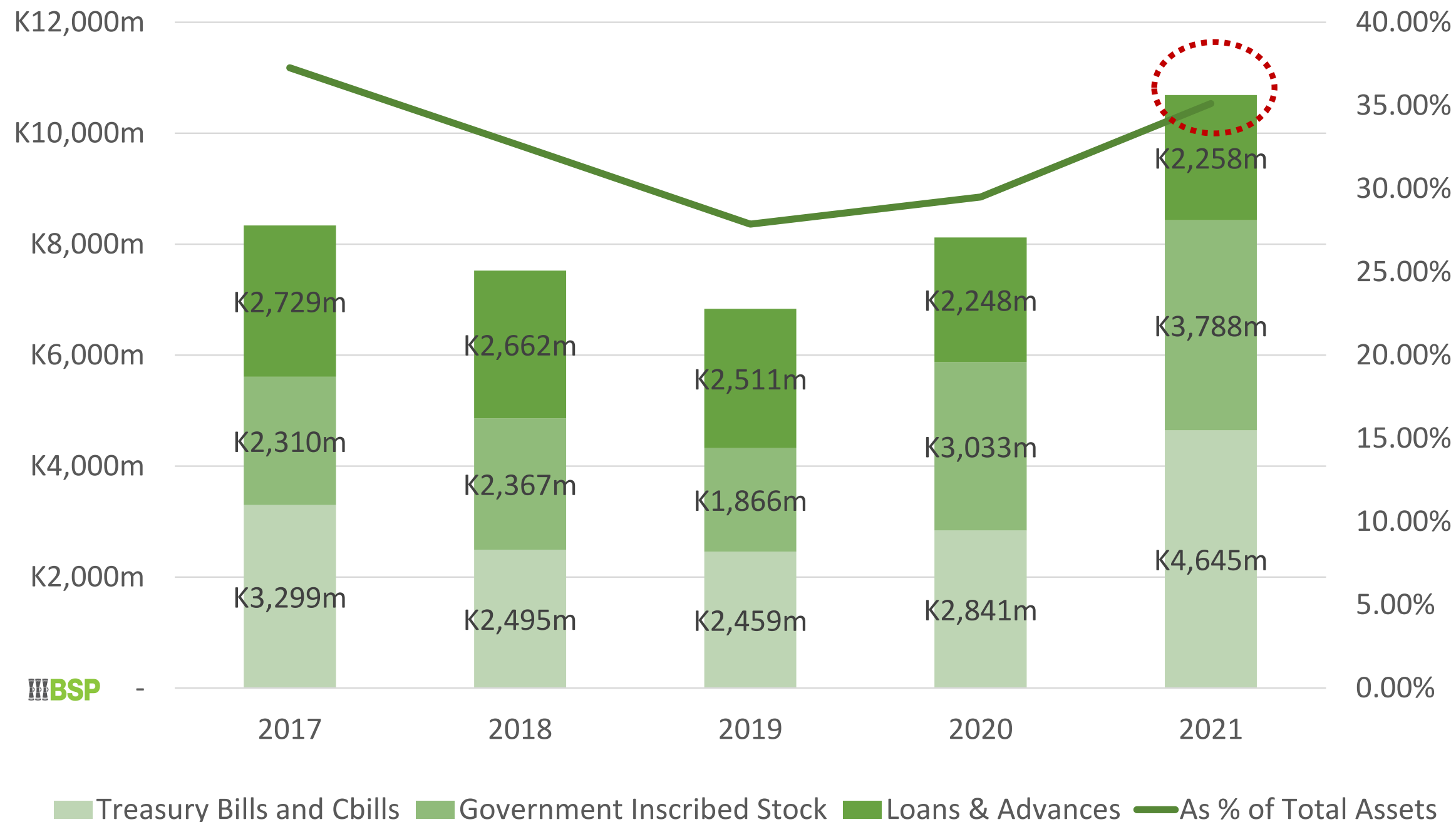
Total Assets 2021 - Run-Off



A much smaller share of the company's assets are forecast to be convertible into cash during the same period. This is consistent with BSP lending monies to customers for extended periods, including through the acquisition of government paper.

#34 - Exposure to Governments: 35.11% of Total Assets

Balance Sheet Exposure - Government



After a period of reduction up to and including 2019, the aggregate share of BSP's Total Assets that is directly exposed to regional governments has increased significantly in 2020 and 2021.

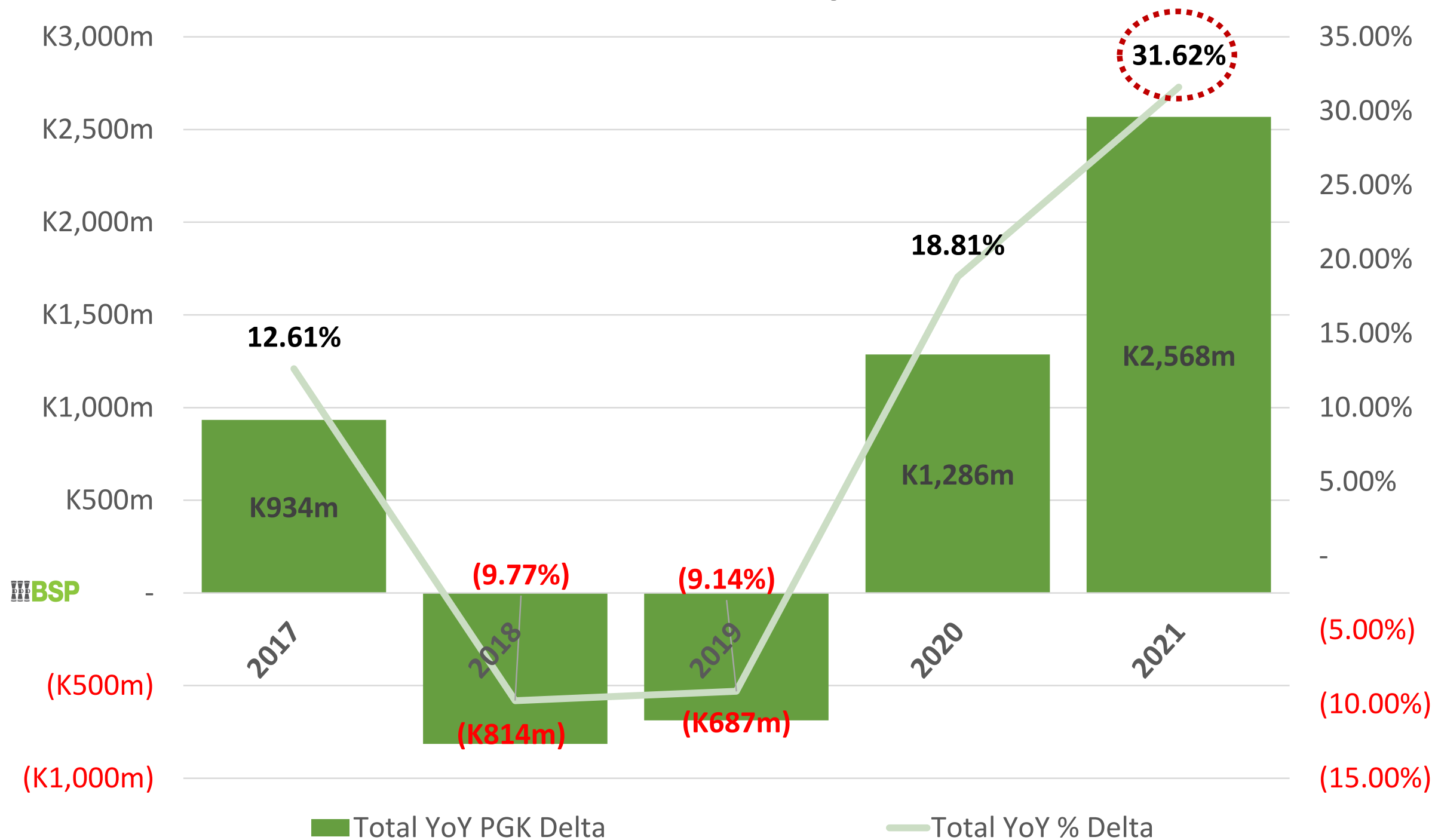
As at 31 December 2021, the share of Total Assets that ultimately involved lending to governments was 35.10% and amounted to a total of K10.69 bn.

Much of the increase in exposure to governments in recent years has resulted from considerable net investment in Treasury Bills and GIS during the Covid-19 period.

The vast majority of government exposures of BSP is to the PNG Government, public authorities and state owned enterprises.

#35 - FY2021 Increase in exposure to Governments: 31.62%

Annual Government Exposure Delta



FY2019 Change in Exposure = (K687m)
FY2020 Change in Exposure = K1,286m
FY2021 Change in Exposure = K2,568m

3-year Increase in Exposure = K3,854m
2-year Increase in Exposure = K3,166m

Since 2019, the aggregate exposure of BSP to regional governments has increased by K3.85 billion.

Whilst this increase is significant, the dislocation and instability associated with the Covid-19 period is a likely major contributor to this re-orientation of the company's balance sheet.

It is also an indication of strong market liquidity during this period.

#36 - Government exposure has increased 56.4% since FY2019

Government Balance Sheet Exposure	Group				
	2021	2020	2019	2018	2017
	K'Million	K'Million	K'Million	K'Million	K'Million
Treasury Bills and Cbills	4,644.60	2,841.01	2,459.50	2,494.70	3,298.63
Government Inscribed Stock	3,787.94	3,033.35	1,865.70	2,367.10	2,310.28
Loans & Advances	2,257.73	2,247.79	2,510.82	2,661.69	2,728.96
Total GoPNG Exposure	10,690.28	8,122.15	6,836.01	7,523.49	8,337.86
<i>As % of Total Assets</i>	<i>35.11%</i>	<i>29.51%</i>	<i>27.87%</i>	<i>32.60%</i>	<i>37.27%</i>

Only K2.257bn out of a total of K10.690bn in aggregate exposure to regional governments represented Loans & Advances to those governments or their instrumentalities, authorities and state owned enterprises.

The balance of the exposure to governments was represented by Treasury and CB Bills (K4.64bn) and Government Inscribed Stock (K3.79bn).

It is in Treasury Bills and GIS that the bulk of the recent net increase in government exposure has occurred.

Treasury Bill exposure has increased by 88.8% since 2019, whilst GIS exposure has more than doubled during the same period (103%).

The growth in the net exposure to governments as a share of Total Assets in recent years reflects the difficulty experienced by BSP in growing its loan book during the period from 2019.

After making considerable progress in shifting its aggregate government exposures from 37.2% in 2017 to less than 28% in 2019, this trend has been reversed in recent years.

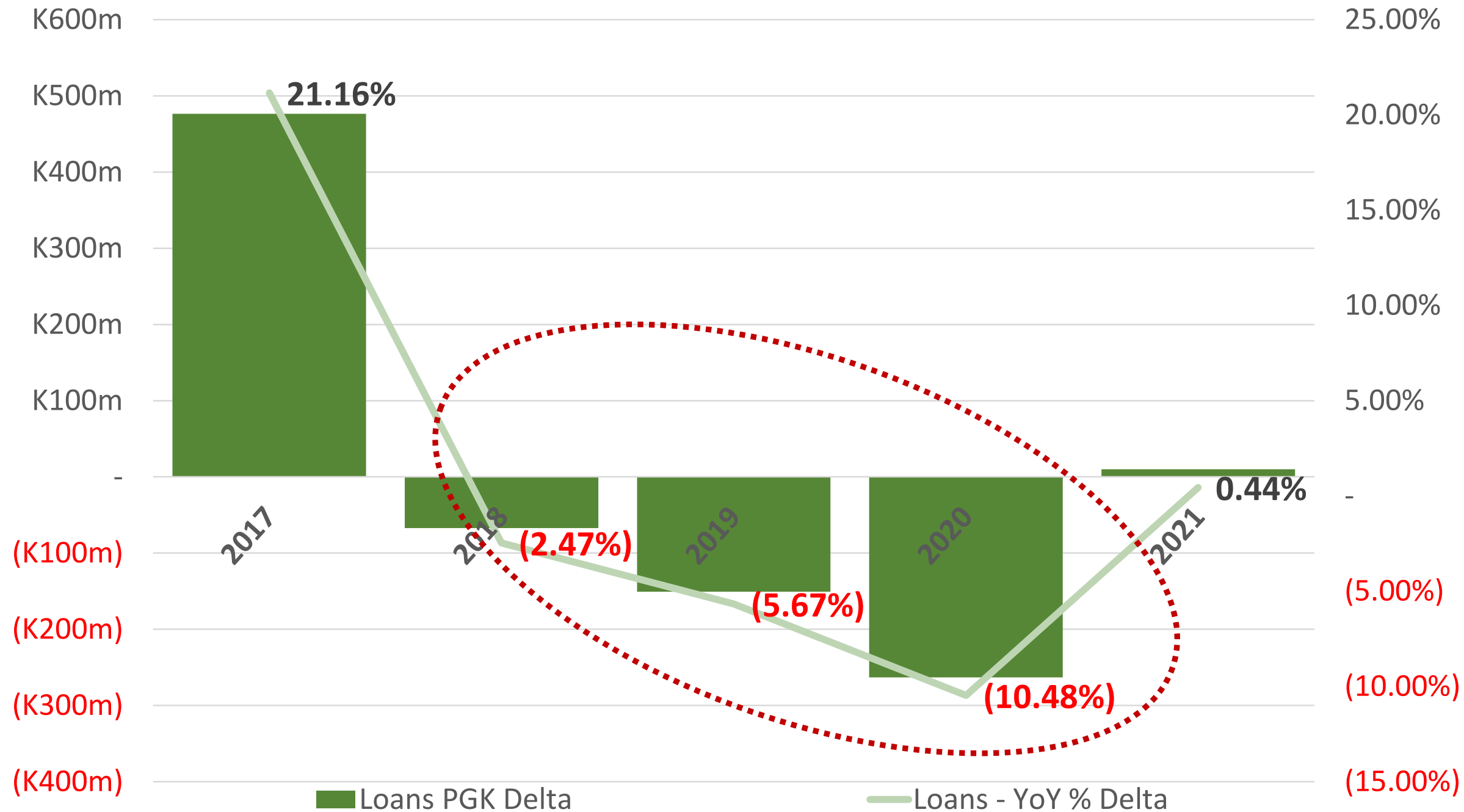
Successful resumption of the growth in traditional banking business to non-government customers will be an important factor in evaluating the ongoing success of BSP's business.

Lending to governments is an important part of the overall banking franchise across the markets in which BSP operates.

However this needs to be balanced with the risks and limits to future sustainable growth that focusing on lending to government involves.

#37 - Commercial Loan exposure to Governments was flat

Commercial Loans - Government Exposure Delta



Notwithstanding the significant growth in BSP's exposure to government borrowers in recent years, Commercial Loan exposure to government borrowers dropped by more than K250 million in 2020.

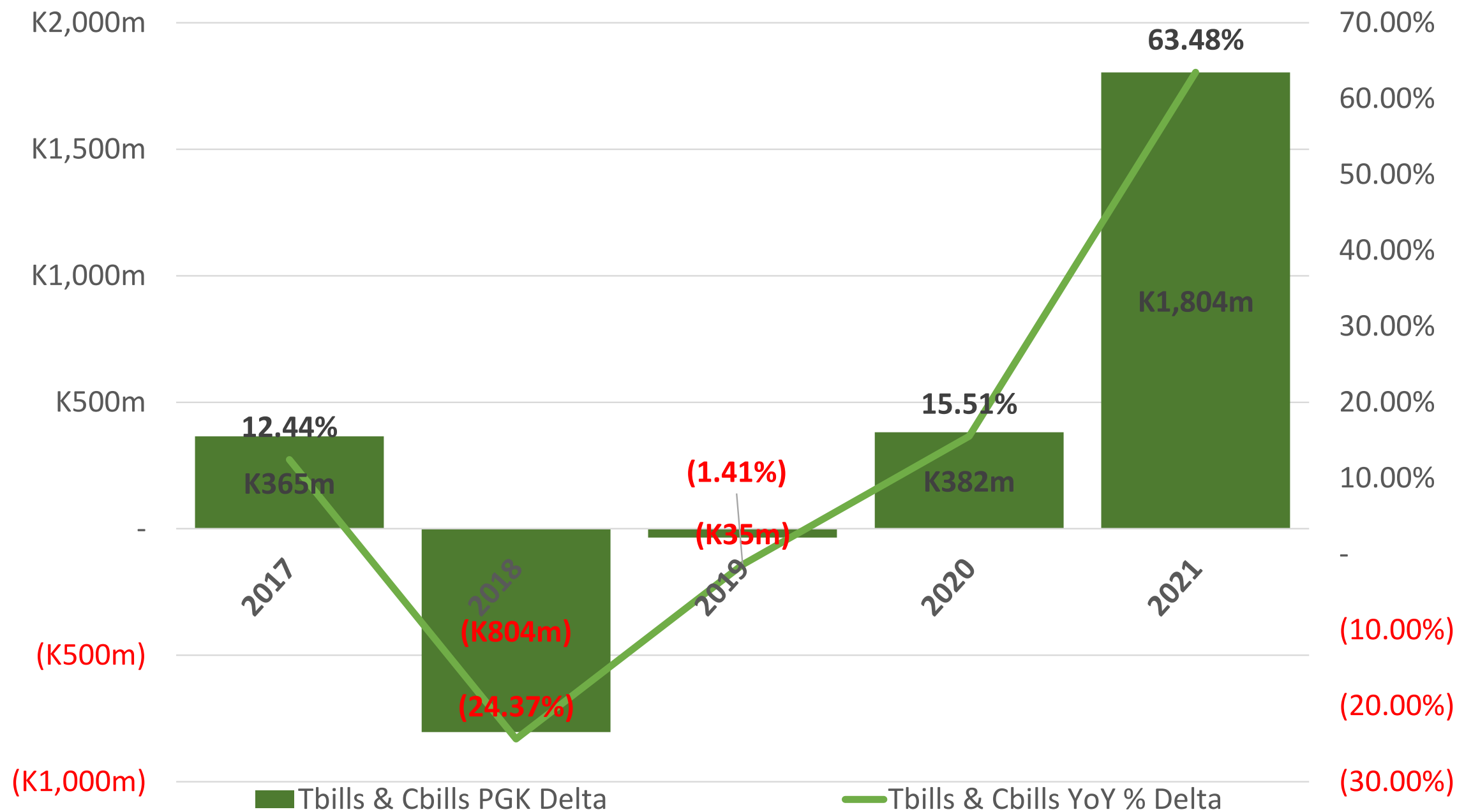
This was likely a result of the dislocation in regional economies from the emerging Covid-19 pandemic.

In 2017, lending to government borrowers had increased by more than K470 million (21.16%). In the three subsequent years, loan exposure to governments decreased at an accelerating pace.

This reduction was halted in 2021, although commercial loans to government customers only increased by 0.44% during that year.

#38 - T-bill and CB-bill exposure increased 63.48% in FY2021

TBills & CBills Government Exposure Delta



By contrast, BSP’s aggregate exposure to government issued Treasury Bills and CB Bills has increased significantly since 2019.

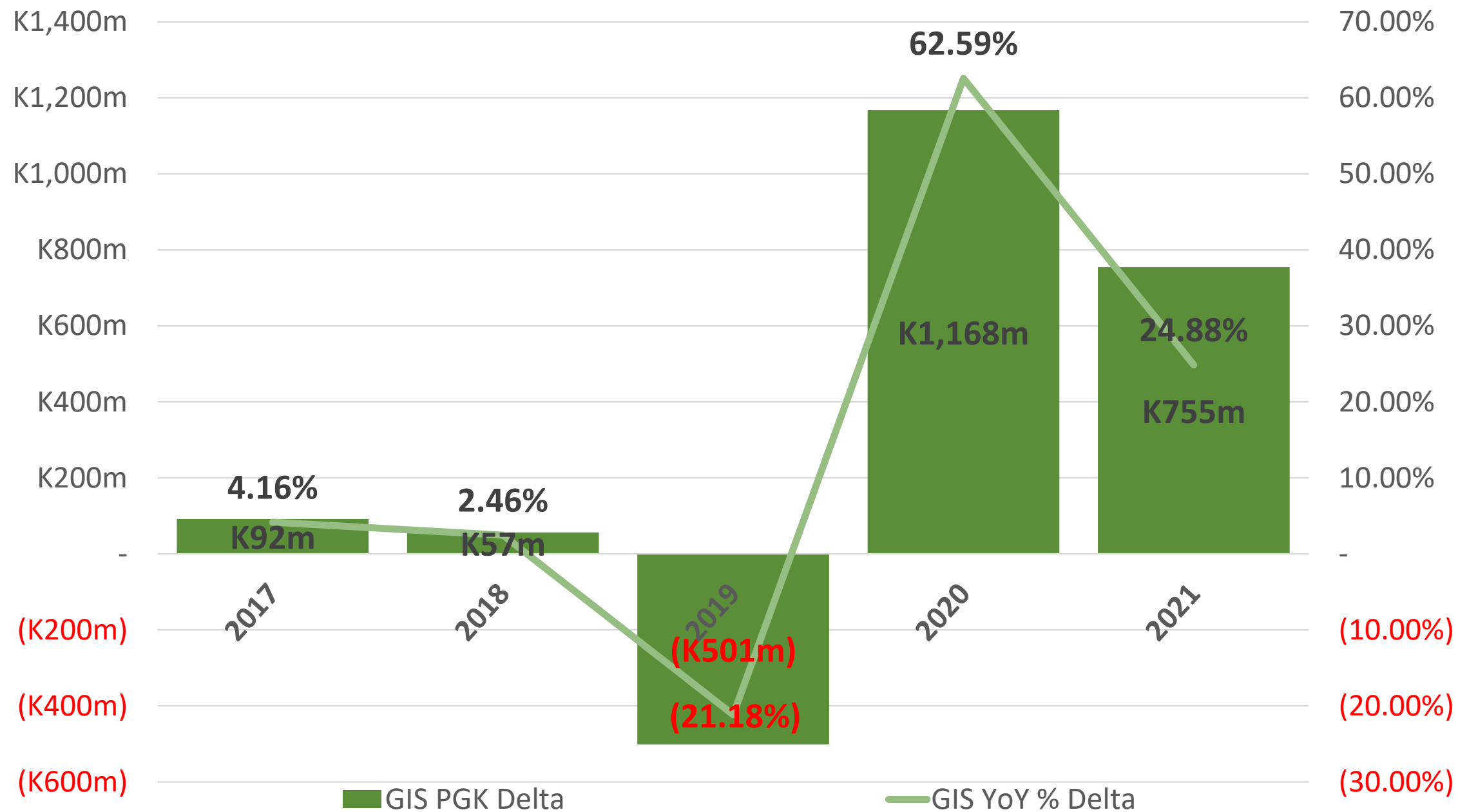
During 2021, the net investment by BSP in these instruments increased by K1.8bn or 63.48%.

This followed an increase of K382 million in 2020.

Net investment in Treasury Bills at these levels reflects the significant increase in system liquidity during the Covid-19 period.

#39 - GIS exposure increased K755m in FY2021

GIS Annual Exposure Delta



BSP’s aggregate exposure to government issued Inscribed Stock – i.e. long term bonds – has also increased significantly since 2019.

BSP was a very active participant in the Government of PNG’s GIS auctions during 2020 aimed at funding the costs associated with Covid-19.

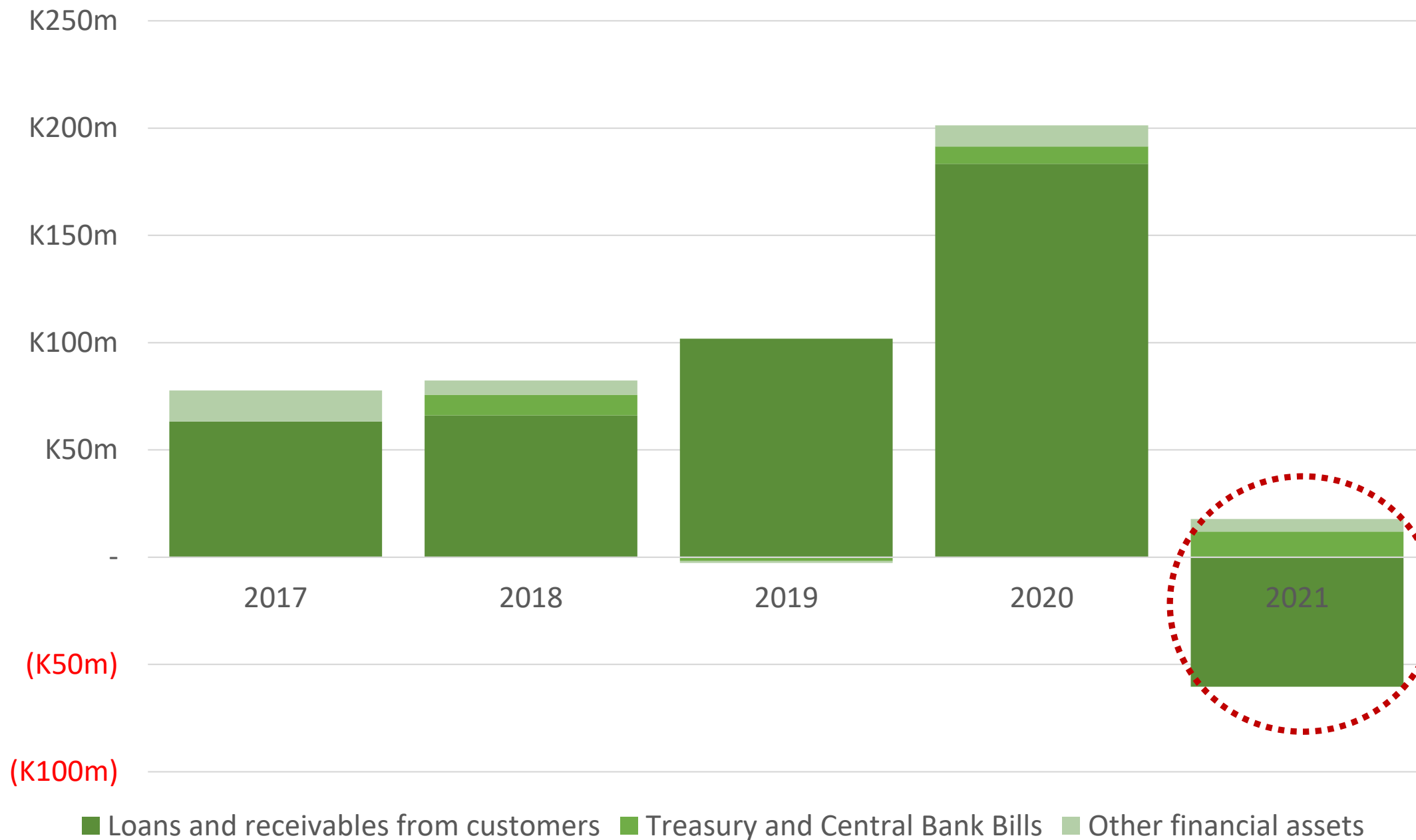
This resulted in BSP acquiring a net K1.17bn in GIS during that year, representing a 62.59% increase.

Active participation in further auctions as part of funding rounds by the PNG government in 2021 resulted in a net investment of K755 million.

It is hoped that BSP will now rebalance its balance sheet in 2022.

#40 - FY2020 Covid provisions partially written back in FY2021

Net Impairment Charge



After impairment charges increased significantly in 2020 to more than K201 million, more than K110 million of this provisioning was reversed in 2021 when it became clear that the impact of the pandemic on BSP's loan book was less than initially feared.

	FY21 K'Millions	FY20 K'Millions	FY19 K'Millions
Income Statement			
Interest Income	1,707.61	1,591.99	1,585.77
<i>Less: Interest Expense</i>	<i>(106.68)</i>	<i>(144.98)</i>	<i>(193.99)</i>
Net Interest Income	1,600.94	1,447.01	1,391.78
Fee and Commissions	372.30	345.18	384.76
Other Income	363.76	323.93	364.13
Net Banking Operating inc.	2,336.99	2,116.13	2,140.68
Net Insurance Operating inc.	35.05	29.53	30.68
Net Operating Income	2,372.05	2,145.65	2,171.35
Impairment Charges	42.66	(201.27)	(99.18)
Operating Expenses	(888.84)	(802.54)	(819.25)
Profit before income tax	1,525.86	1,141.84	1,252.92
Income tax expense	(450.64)	(335.62)	(362.56)
Profit after tax	1,075.22	806.22	890.36

Banks and financial institutions are obligated to make provisions against at-risk or anticipated losses on their loan portfolios.

Such impairment provisioning takes the shape of both providing for specific loans and customers who have been identified as missing scheduled payments and being at risk of default as well as more generalized provisions based on portfolio metrics. In 2020, BSP significantly increased its provisioning based on the uncertainties associated with the dislocation occasioned by the Covid-19 pandemic.

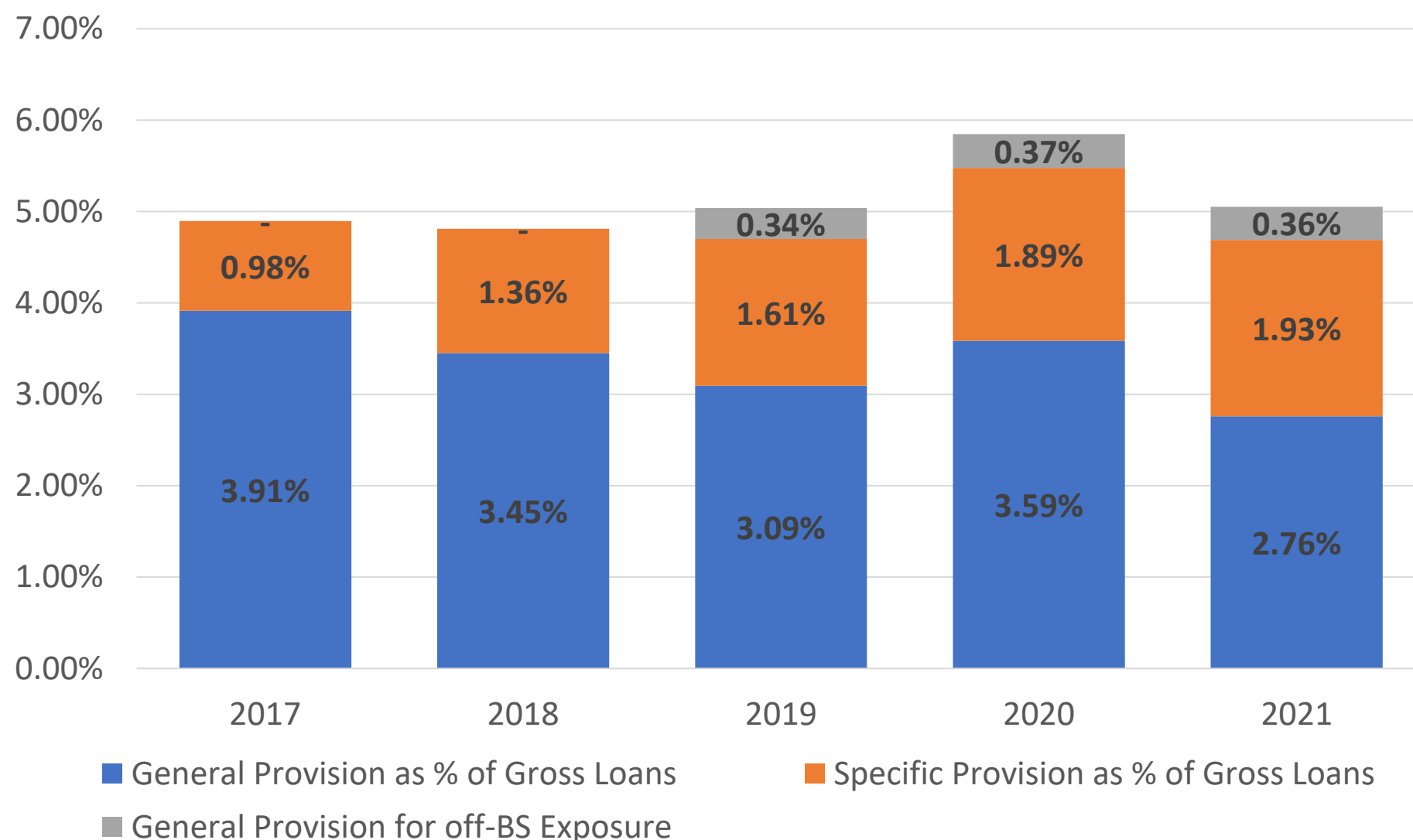
#41 - Loan Provisions reduced to 5.05% from 5.85% in 2021

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Impairment of Financial Assets	Group				
	2021	2020	2019	2018	2017
	K'Million	K'Million	K'Million	K'Million	K'Million
Loans and receivables from customers	(60.39)	183.35	101.88	66.07	63.18
Treasury and Central Bank Bills	11.89	8.13	(1.87)	9.58	-
Other financial assets	5.85	9.80	(0.83)	6.73	14.50
Net Impairment Charge	(42.66)	201.27	99.18	82.38	77.68

Loan Impairment Expense	Group				
	2021	2020	2019	2018	2017
	K'Million	K'Million	K'Million	K'Million	K'Million
Net General provision funding	(113.37)	79.05	17.55	15.03	40.93
Net new and increased Specific provisioning	54.02	64.78	61.51	51.04	22.26
Total increased provisioning/(release of provisions)	(59.35)	143.82	79.06	66.07	63.18
Recoveries during year	(61.92)	(56.50)	(64.04)	(58.94)	(64.56)
Net (write back) / write off	60.89	96.02	86.86	75.24	79.06
Full-year expense	(60.39)	183.35	101.88	82.38	77.68

Aggregate Loan Provisioning



Provision for Impairment	Group				
	2021	2020	2019	2018	2017
	K'Million	K'Million	K'Million	K'Million	K'Million
Opening Balance 1 January	843.71	700.60	633.57	577.19	523.66
Increase/(release) of Provisioning	(59.35)	143.82	79.06	66.07	63.18
Write Offs/(Write Backs)	(58.81)	(0.72)	(12.03)	(9.69)	(9.66)
Closing Balance 31 December	725.55	843.71	700.60	633.57	577.19
Represented by:					
General Provision	396.16	517.46	429.93	454.35	461.39
Specific Provisions	277.08	272.82	223.30	179.22	115.80
Total Provisions - Financial Assets	673.24	790.28	653.23	633.57	577.19
General provision - off BS exposure	52.31	53.43	47.37	-	-
Total Provision	725.55	843.71	700.60	633.57	577.19
General Provision for off-BS Exposure	0.36%	0.37%	0.34%	0.00%	0.00%
General Provision as % of Gross Loans	2.76%	3.59%	3.09%	3.45%	3.91%
Specific Provision as % of Gross Loans	1.93%	1.89%	1.61%	1.36%	0.98%
Total Provision as % of Gross Loans	5.05%	5.85%	5.04%	4.81%	4.90%

#42 - Past due loan accounts as share of Total Loans: 10.31%

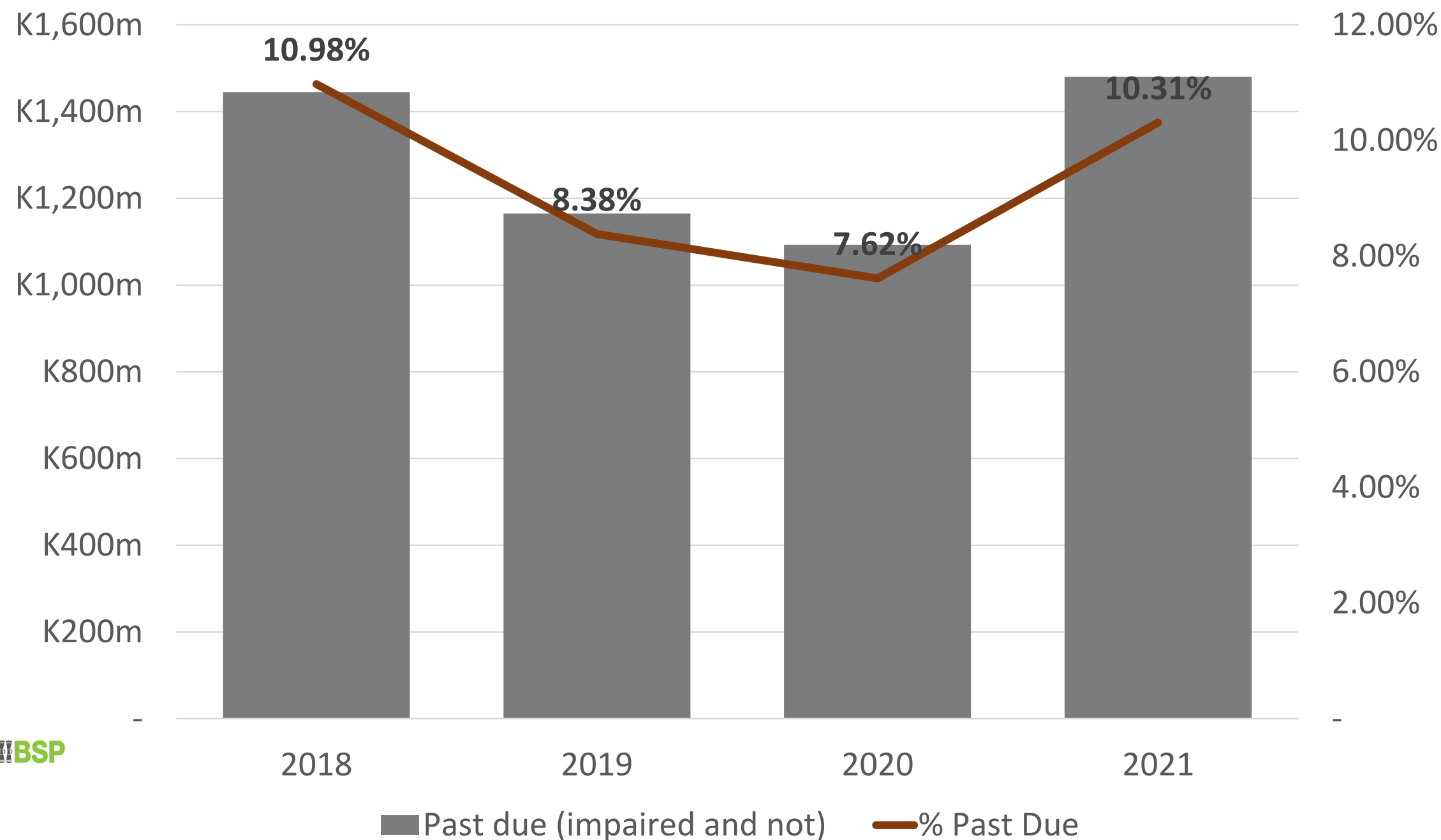
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Impairment by Loan Type - Dec 2021

	Overdrafts	Term Loans	Mortgages	Lease Financing	Policy Loans	Total 2021	Total 2020	Total 2019	Total 2018
	K'Million	K'Million	K'Million	K'Million	K'Million	K'Million	K'Million	K'Million	K'Million
Neither past due nor impaired	643.07	9,589.33	2,323.93	208.96	111.17	12,876.45	13,257.27	12,736.01	11,719.03
Past due but not impaired									
- Less than 30 days	56.58	529.46	134.63	4.60	-	725.26	430.98	532.64	941.54
- 30 - 90 days	3.29	204.31	90.35	5.36	-	303.32	267.36	336.46	231.74
- 91 - 360 days	-	-	-	-	-	-	-	-	23.49
- More than 360 days	-	-	-	-	-	-	-	-	3.95
	59.87	733.77	224.98	9.96	-	1,028.58	698.34	869.10	1,200.71
<i>As % of Gross Loans and Advances</i>	<i>8.38%</i>	<i>7.00%</i>	<i>7.98%</i>	<i>4.41%</i>	<i>-</i>	<i>7.16%</i>	<i>4.87%</i>	<i>6.25%</i>	<i>9.12%</i>
Individually Impaired Loans (Specific Prov.)									
- Less than 30 days	2.73	3.24	4.16	0.08	-	10.22	16.66	11.31	12.86
- 30 - 90 days	1.32	11.91	9.20	0.24	-	22.68	29.04	22.12	52.02
- 91 - 360 days	2.70	35.24	28.54	0.19	0.18	66.84	107.11	62.52	70.82
- More than 360 days	4.80	112.43	228.69	6.14	-	352.06	241.95	200.35	108.77
	11.54	162.83	270.59	6.66	0.18	451.79	394.77	296.30	244.48
<i>As % of Gross Loans and Advances</i>	<i>1.61%</i>	<i>1.55%</i>	<i>9.60%</i>	<i>2.95%</i>	<i>0.16%</i>	<i>3.15%</i>	<i>2.75%</i>	<i>2.13%</i>	<i>1.86%</i>
Gross Loans and Advances to Customers	714.48	10,485.92	2,819.50	225.58	111.34	14,356.82	14,350.37	13,901.41	13,164.22
Less Impairment Provision	(40.71)	(613.92)	(64.79)	(6.13)	-	(725.55)	(843.71)	(700.60)	(633.57)
Net Loans and Advances to Customers	673.77	9,872.00	2,754.71	219.45	111.34	13,631.28	13,506.66	13,200.81	12,530.65
<i>Impairment Provision as % of Gross Loans</i>	<i>5.70%</i>	<i>5.85%</i>	<i>2.30%</i>	<i>2.72%</i>	<i>-</i>	<i>5.05%</i>	<i>5.88%</i>	<i>5.04%</i>	<i>4.81%</i>
<i>Delinquent Loans</i>	<i>9.99%</i>	<i>8.55%</i>	<i>17.58%</i>	<i>7.37%</i>	<i>0.16%</i>	<i>10.31%</i>	<i>7.62%</i>	<i>8.38%</i>	<i>10.98%</i>

#43 - Past due loans (>30 days) was K1.49 bn

Total Loan Book Delinquencies



The proportion of the value of the BSP loan book that was 30 days or more past due (meaning borrowers had missed scheduled payments) increased to 10.31% during 2021.

As at the end of the 2020 financial year, the delinquency rate was at a historic low of 7.62%. Prior to 2021, the rate had continuously improved since 2018.

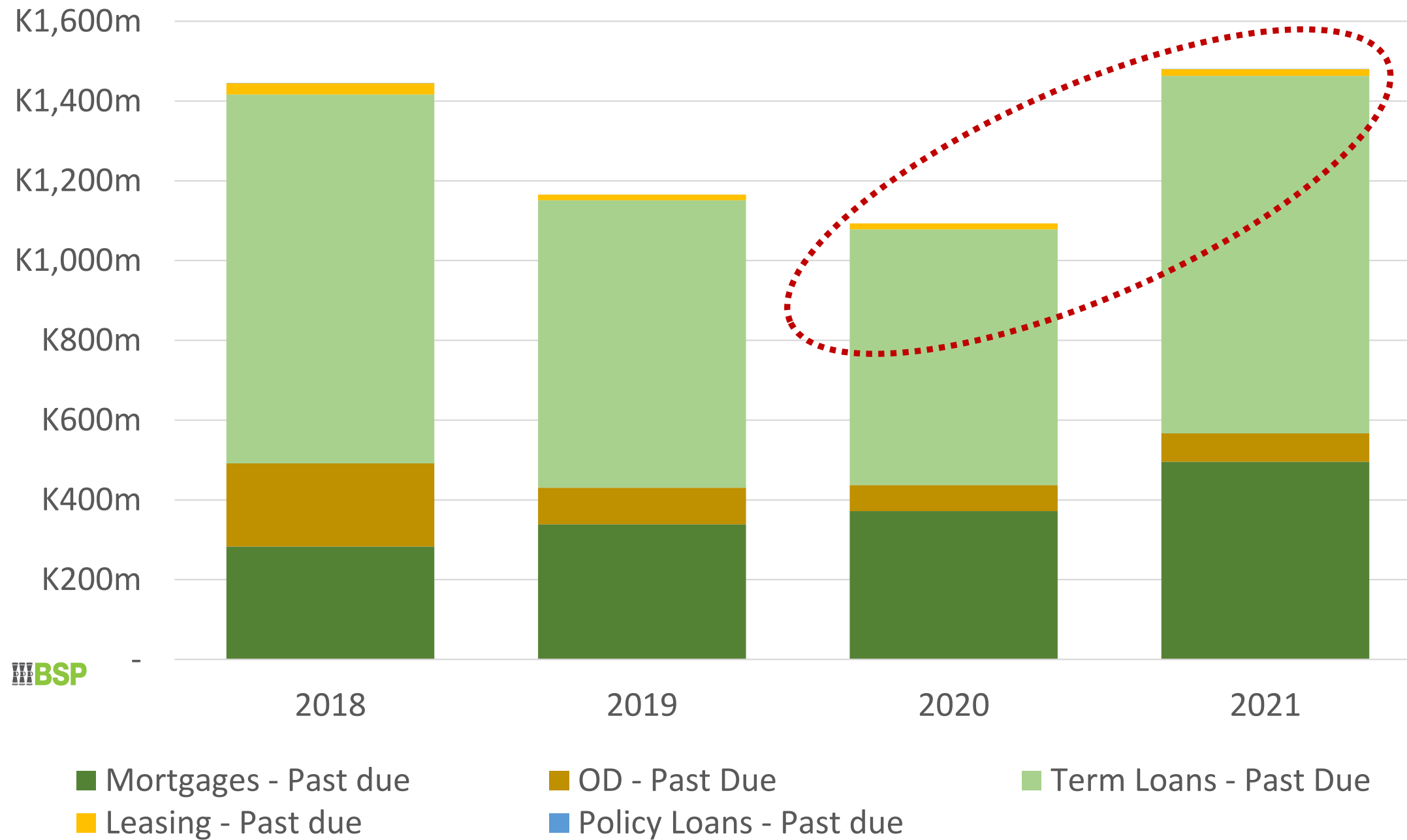
The increased delinquency in the loan portfolio is a matter that investors should pay attention to in the coming reporting periods.

It may be an early indication of increased strain on the part of BSP's borrowers.



#44 - Delinquent loans (>30 days) increased by K387m

Aggregate Delinquency by Type



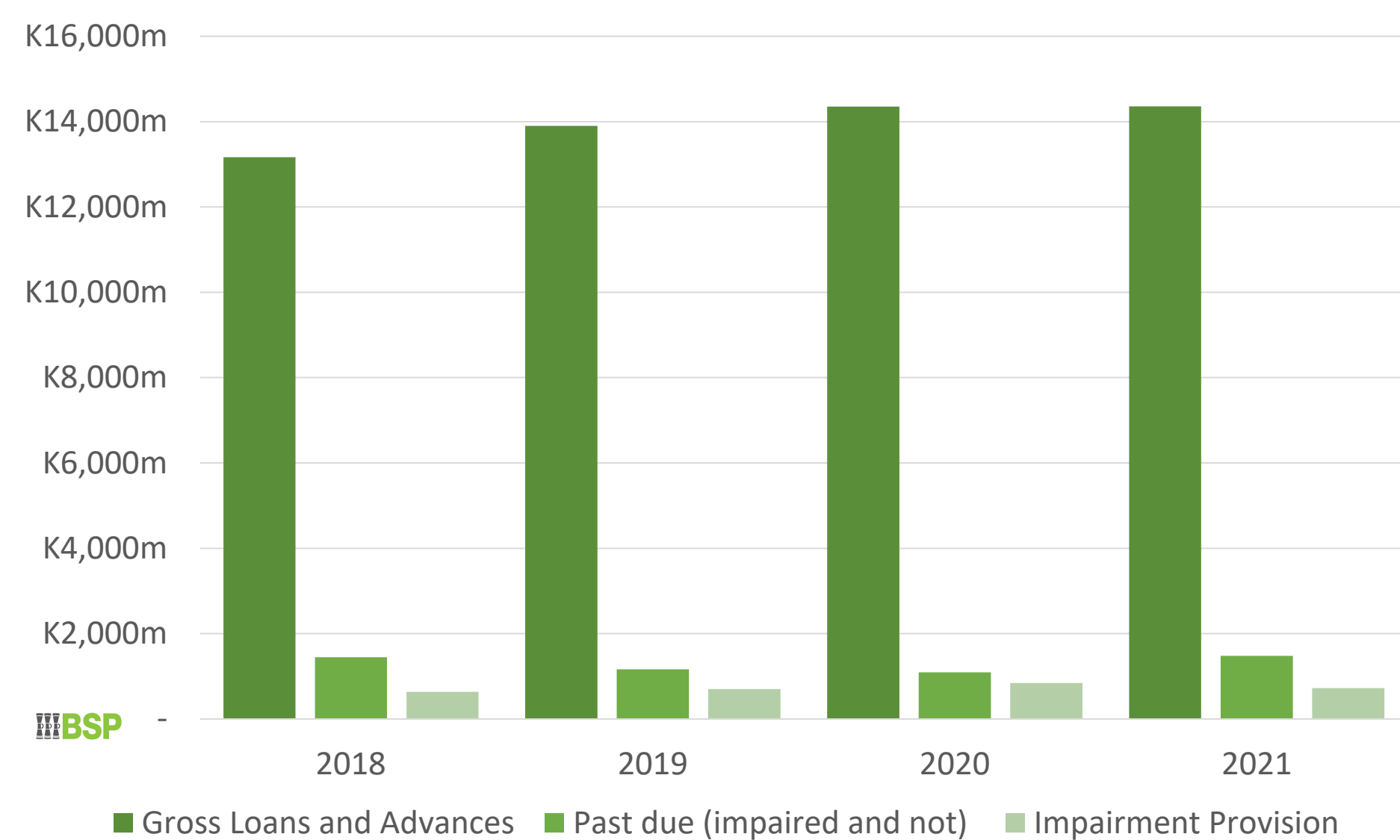
The value of loans past due as at 31 December 2021 was K387 million greater than 12 months earlier.

Mortgages represent a disproportionate share of overall loan delinquency, reflecting the difficulties faced by borrowers in this category during the Covid-19 pandemic period.

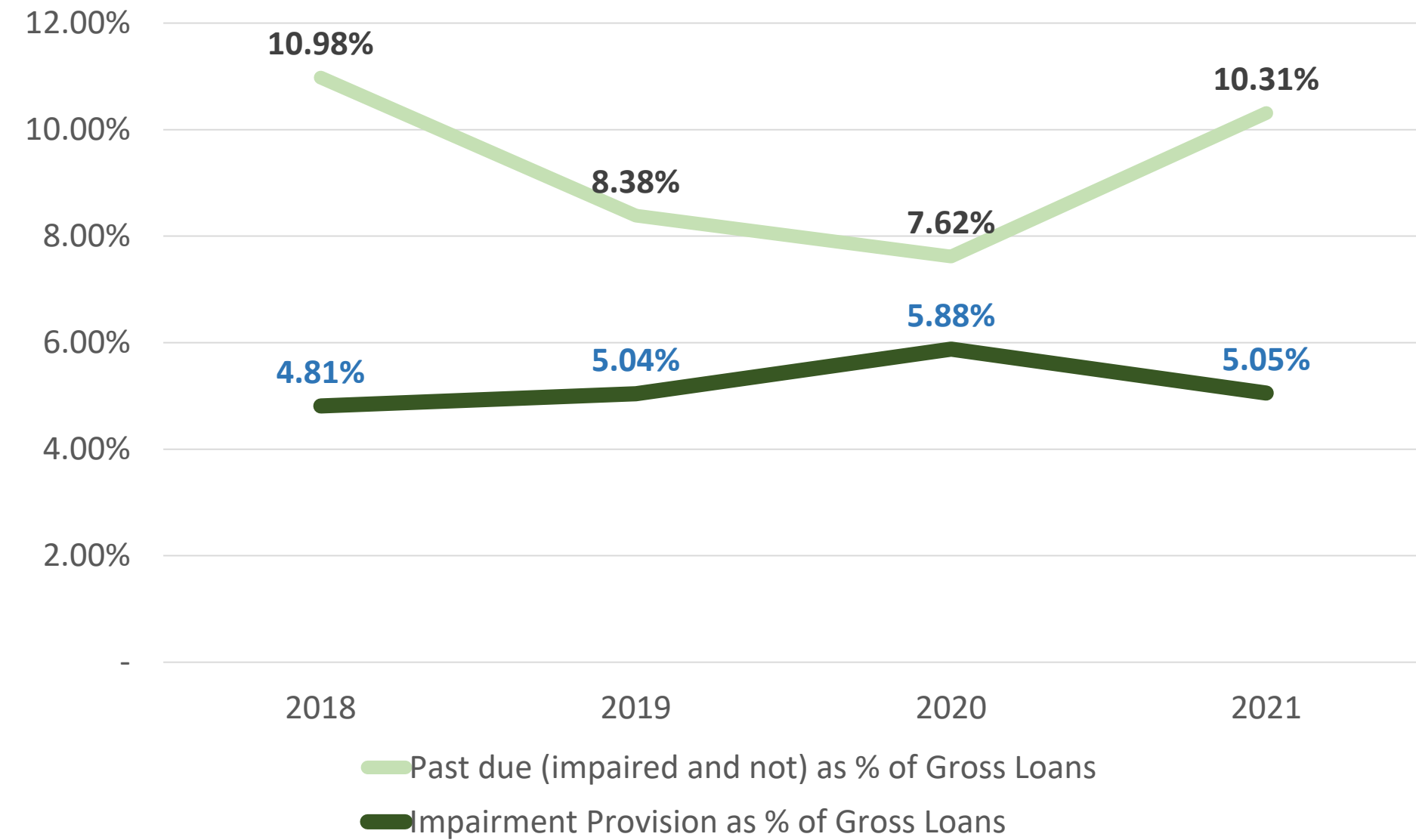
Aggregate loan balances past due amounted to K1.48bn.

#45 - Provision covered 49% of delinquent loans

Loans, Delinquency and Provisions



2018 - 2021 Loan Delinquency

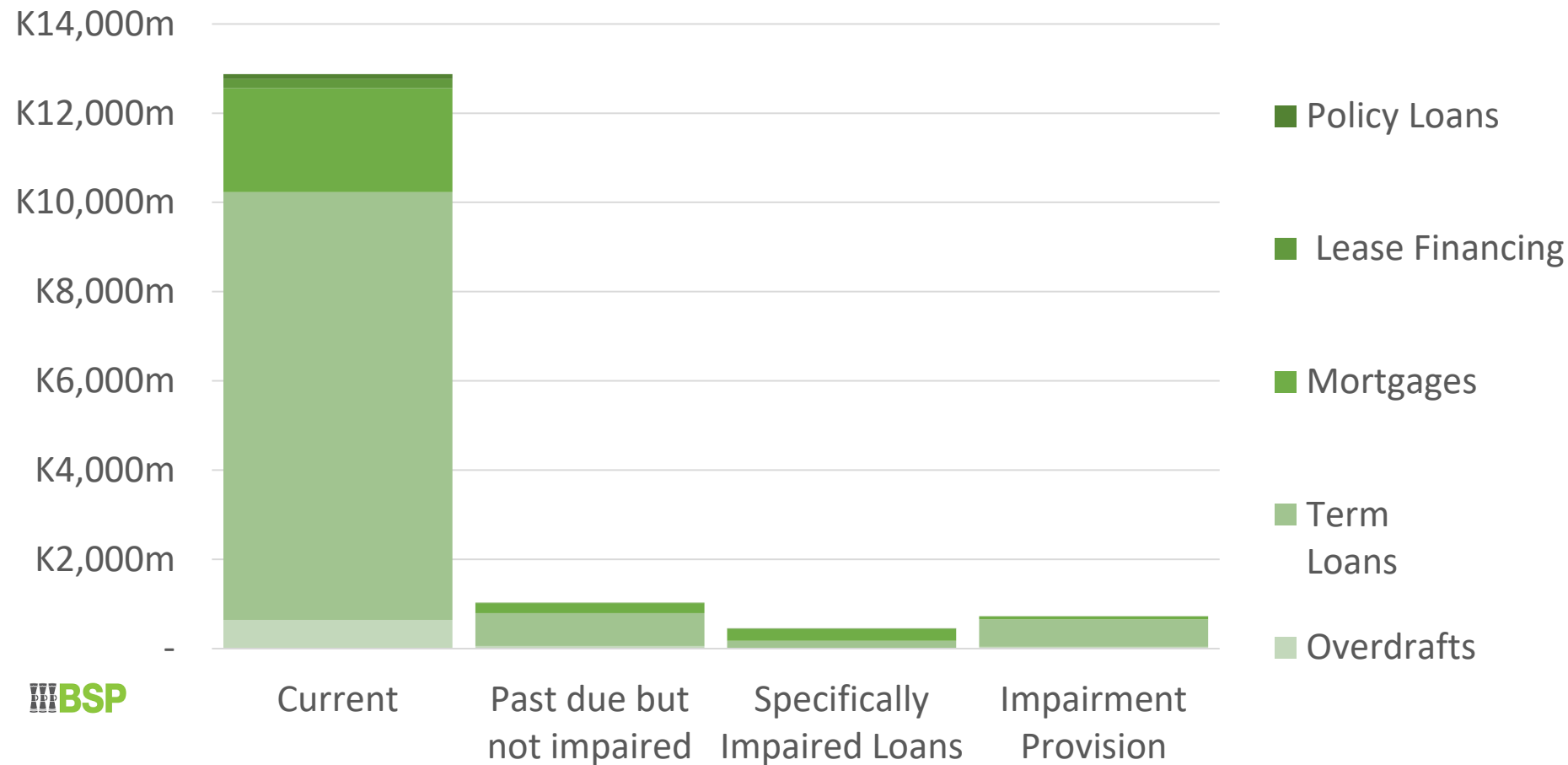


2021 Delinquency	Overdrafts	Term Loans	Mortgages	Lease Financing	Policy Loans
	K'Millions				
Current	643.07	9,589.33	2,323.93	208.96	111.17
Past due but not impaired	59.87	733.77	224.98	9.96	-
Specifically Impaired Loans	11.54	162.83	270.59	6.66	0.18
Impairment Provision	(40.71)	(613.92)	(64.79)	(6.13)	-

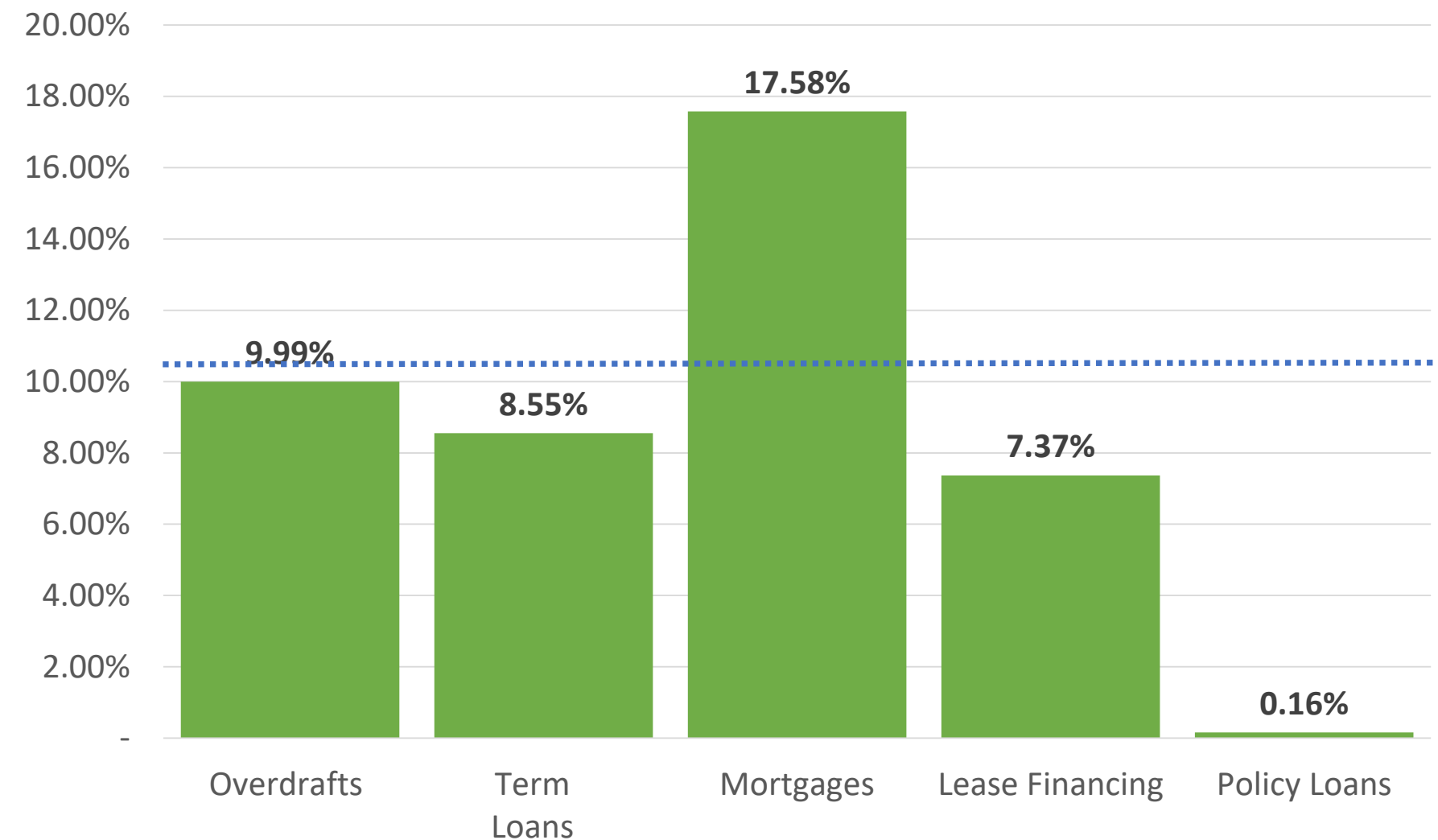
During 2021 the past due delinquency of the BSP loan portfolio increased to 10.31% of all loans. During the same period, the aggregate provision for doubtful loans was reduced from 5.85% of the total loan book value to 5.05%.

#46 - 17.58% of Mortgages (by value) were past due in Dec 21 57

2021 Loans and Advances



2021 Past due (impaired and not) as % of Gross Loans

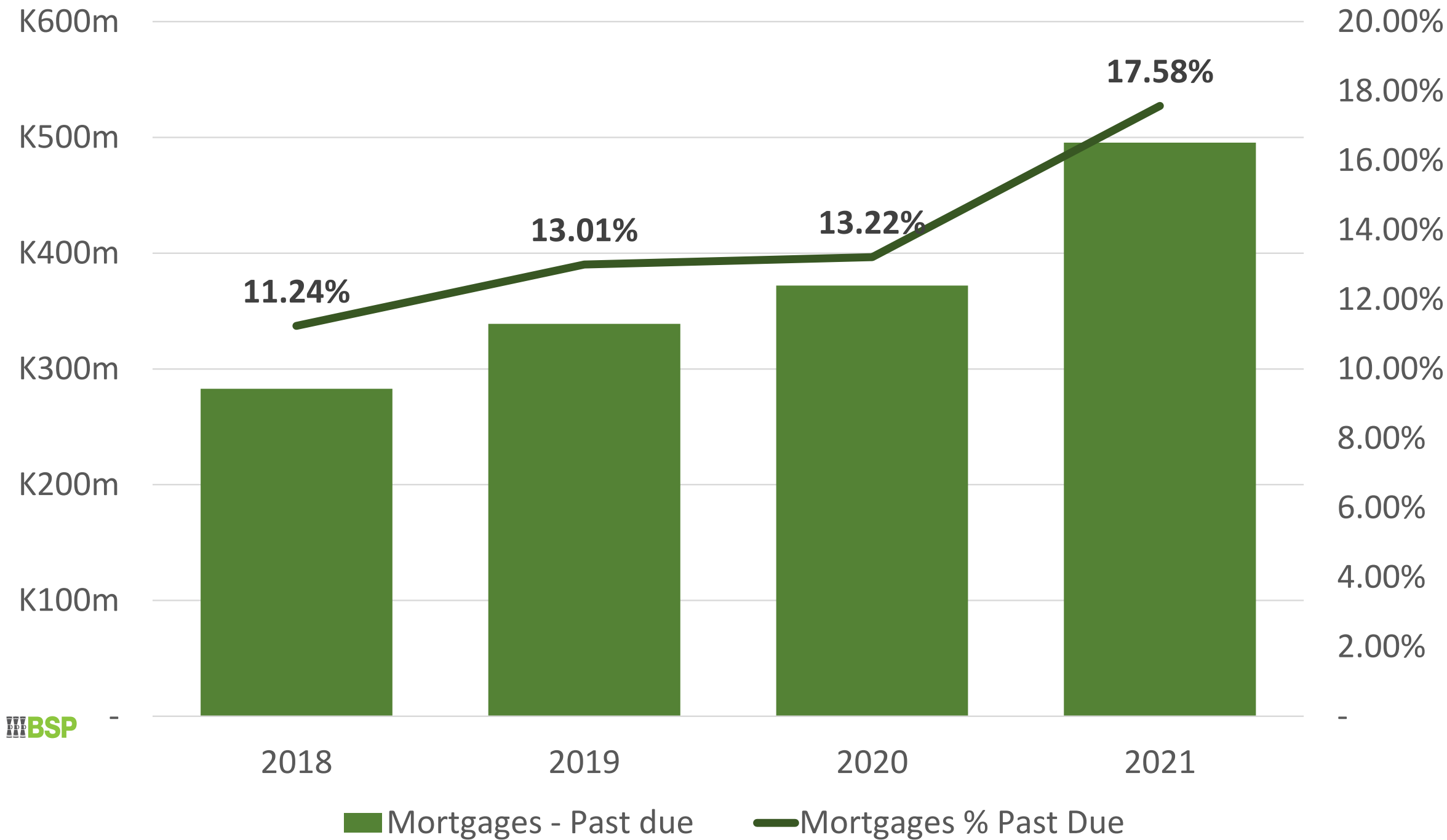


17.58% of all BSP mortgages by value were at least 30 days past due as at 31 December 2021, meaning the borrowers had missed a payment. This represents a very significant proportion of the category. However, as the bank is generally very well covered by security in these facilities, it may not be a very considerable concern in terms of the magnitude of future losses. In addition, the provision of mortgages is also an important part of BSP's social license in the markets in which it operates.

Nevertheless, we expect management to continue to pay attention to this segment in coming periods.

#47 - Mortgage delinquency increased by K123 million

Mortgage Delinquencies

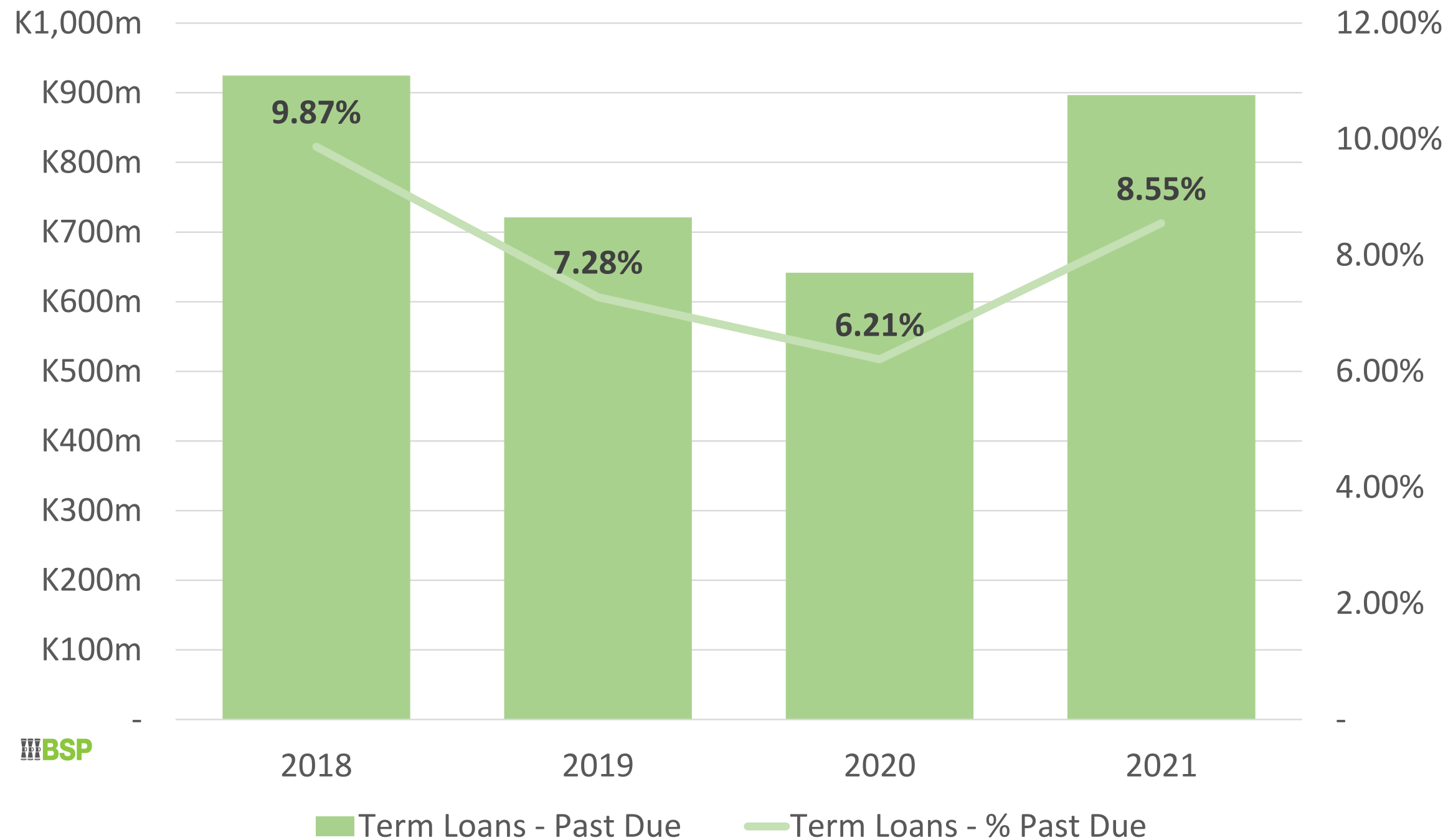


The increase in mortgage loans past due during the year ended 31 December 2021 amounted to K123 million.

During the period from 2018 through to 2021, the overall delinquency rate of mortgages has increased significantly from 11.24% to 17.58%.

#48 - Term Loan delinquency increased K255 million

Term Loan Delinquencies



Delinquency rates on Term Loans are less than 50% of mortgages.

However, delinquencies in Term Loans also increased significantly during 2021, reflecting the difficult economic backdrop in which BSP and its customers operated.

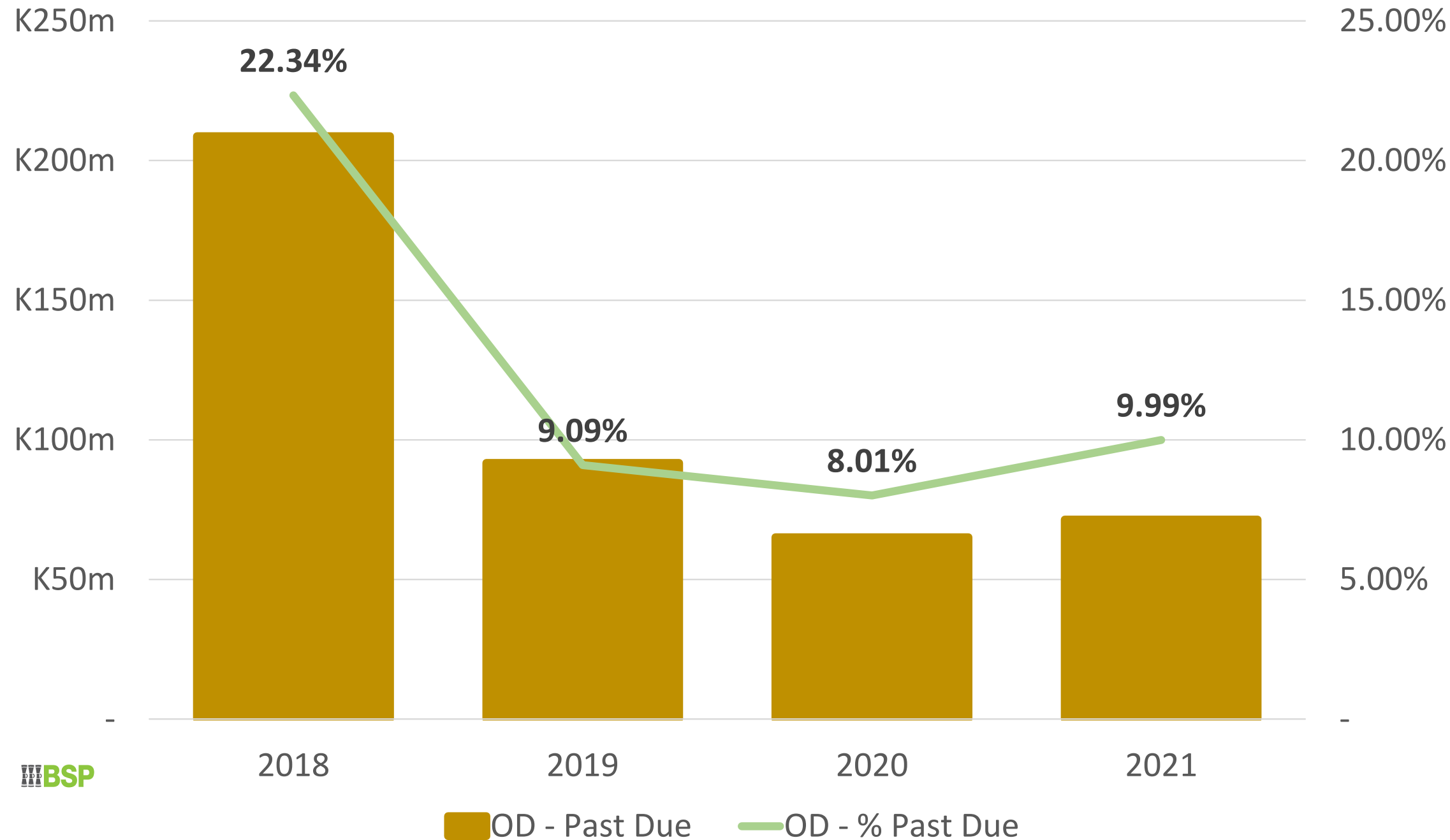
The net increase in the overall value of Term Loans more than 30 days past due during 2021 was more than K255 million to just shy of K900 million.

It is important that BSP's management team continue to monitor the term loan portfolio in coming reporting periods in order to ensure that the growing trend of delinquencies is reversed and not allowed to result in the crystallization of greater losses on the portfolio.



#49 - Overdraft delinquency has reduced in recent years

Overdraft Delinquencies



Overdraft delinquencies have improved dramatically in recent years.

However, like other loan categories, Overdrafts saw an increase in delinquency during 2021.



#50 - Operating & Staff Costs increased K80 million in FY2021 61

Operating Expenses	Group			Bank		
	2021	2020	2019	2021	2020	2019
	K'Million	K'Million	K'Million	K'Million	K'Million	K'Million
Administration	119.22	115.49	95.25	107.09	104.90	90.69
Computing	137.78	109.72	125.41	122.25	93.90	111.25
Depreciation	78.82	75.20	80.96	72.10	68.26	63.41
Amortisation of Computer Dev. Costs	30.24	25.60	28.17	30.04	25.38	22.58
Non-executive Directors' Costs	4.24	4.23	3.64	3.61	3.54	3.04
Non-lending Losses	6.07	10.78	2.32	5.58	10.35	1.65
Fixed Asset Impairment Costs	1.04	0.64	1.98	1.04	0.64	1.98
Premises and Equipment	87.17	86.18	87.94	80.85	80.42	83.44
	464.57	427.83	425.66	422.55	387.38	378.04
Staff Costs						
Wages and Salaries	341.32	301.89	312.24	313.36	275.68	286.00
Defined Contribution Plans	16.71	14.79	15.53	14.99	13.36	14.13
Statutory Benefits Contribution	9.73	10.89	10.93	8.75	10.06	10.32
Other Staff Benefits	56.51	52.93	54.89	53.58	50.19	52.24
	424.27	380.49	393.59	390.68	349.29	362.69

Operating & Staff costs during the 2021 financial year amounted to K889 million, K80 million more than the previous reporting period.

The increase in cost resulted from a K40 million increase in staff wages & salaries as well as K28 million in increased computing costs.

BSP's cost-to-income ratio was maintained at 37.50% during 2022.

	2021	2020	2019	2018	2017	2016
Expense to Income Ratio	37.50%	37.40%	37.70%	41.00%	42.60%	42.90%



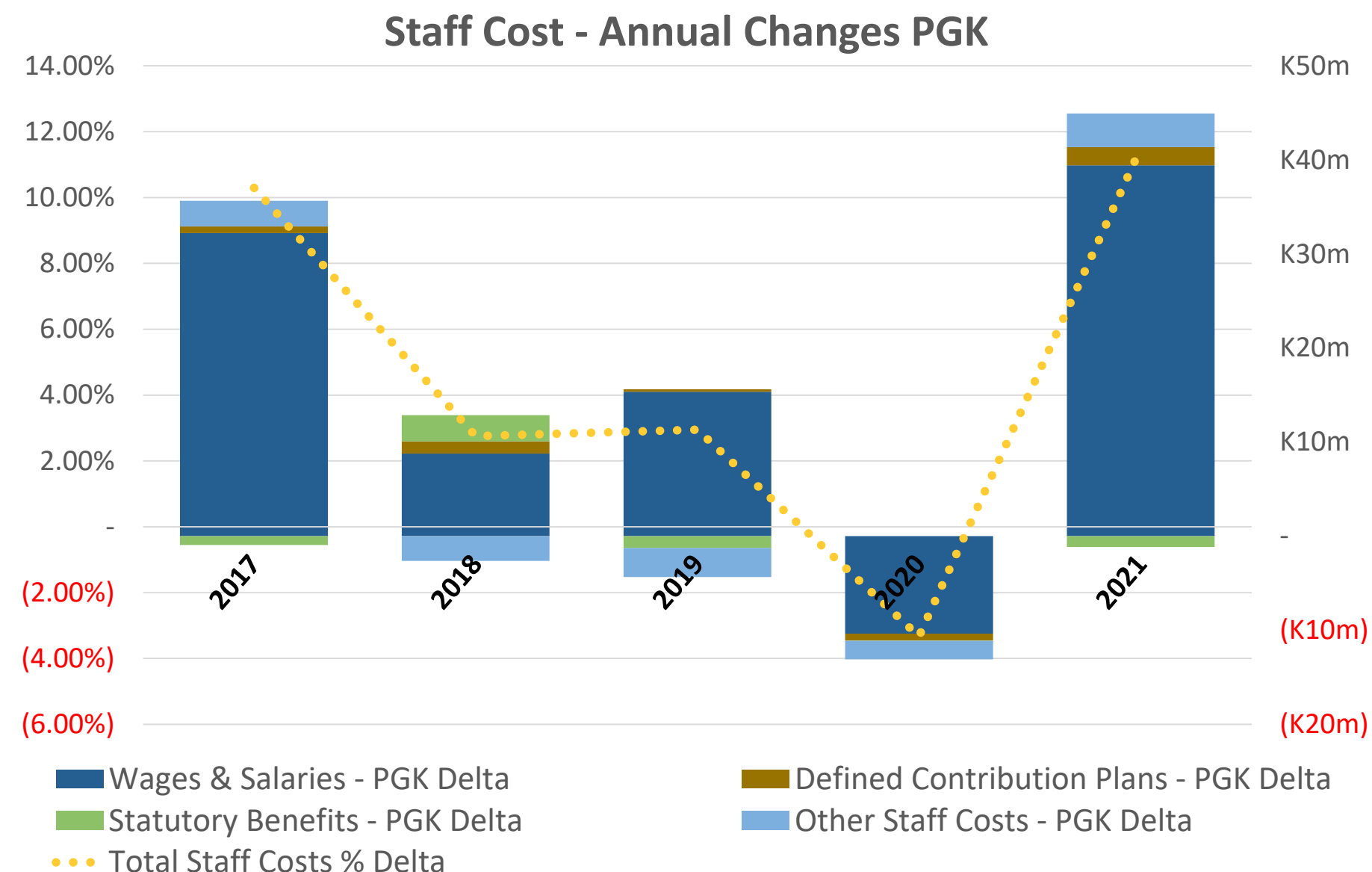
#51 - Staff Costs increased by K43.78 million (11.51%) in FY2021

Operating Expenses	2017	2018	2019	2020	2021
	K'Million	K'Million	K'Million	K'Million	K'Million
Wages and salaries	288.12	296.89	312.24	301.89	341.32
Defined contribution plans	13.94	15.26	15.53	14.79	16.71
Statutory benefit contributions	9.39	12.17	10.93	10.89	9.73
Other staff benefits	60.62	57.99	54.89	52.93	56.51
Total Staff Costs	372.06	382.31	393.59	380.49	424.27
Estimated FTE*	4,261	4,307	4,300	4,000	4,400
Avg. Cost per FTE (PGK)	87,318	88,765	91,532	95,123	96,425

* 2020 and 2021 FTE numbers are estimates only - based on Annual Reports

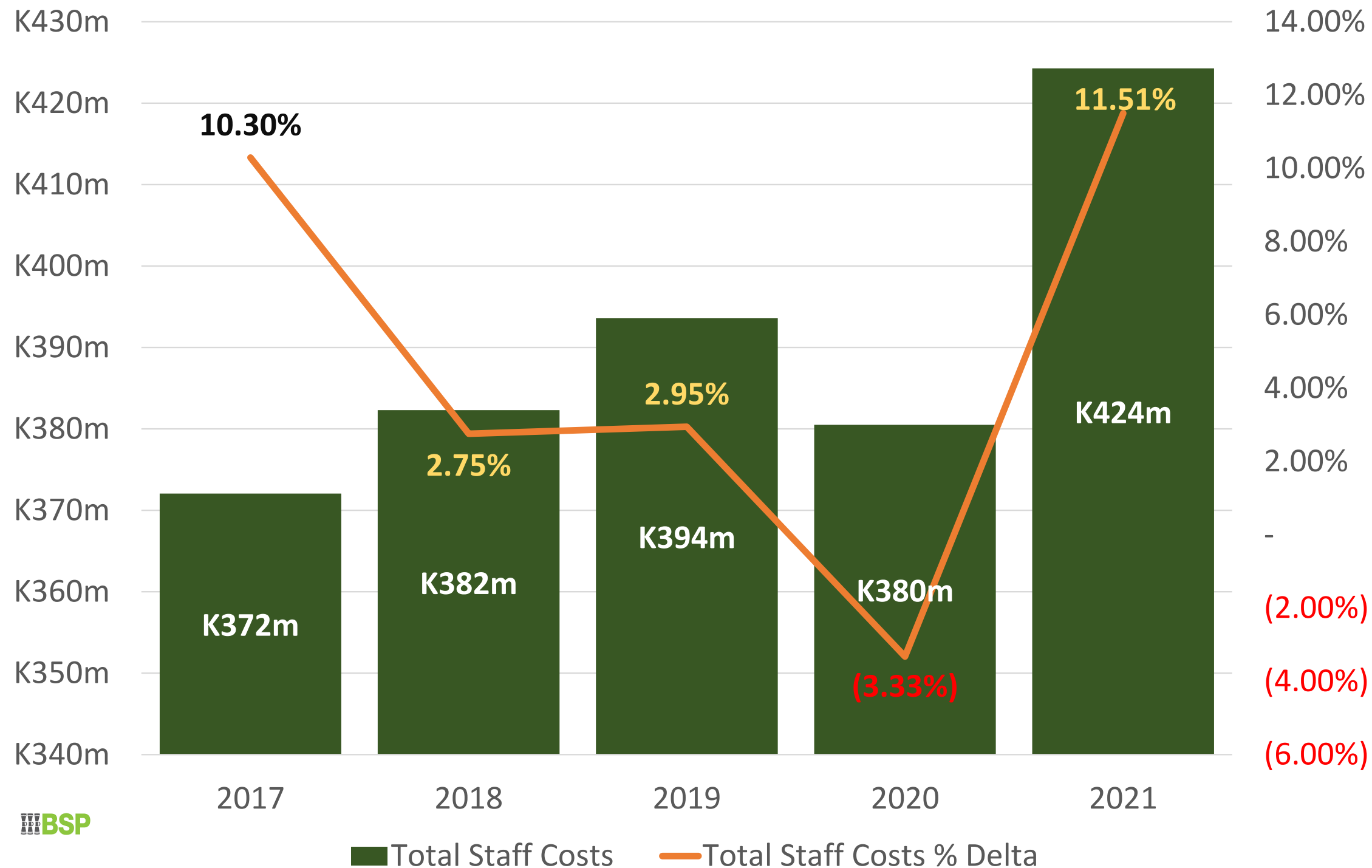
Operating Expenses	2017	2018	2019	2020	2021
Year-on-Year % Change			% YoY Chng.		
Wages and salaries	12.59%	3.04%	5.17%	(3.32%)	13.06%
Defined contribution plans	5.40%	9.46%	1.76%	(4.79%)	13.01%
Statutory benefit contributions	(9.00%)	29.60%	(10.18%)	(0.36%)	(10.62%)
Other staff benefits	4.72%	(4.33%)	(5.36%)	(3.57%)	6.77%
Total Staff Costs Delta	10.30%	2.75%	2.95%	(3.33%)	11.51%

Operating Expenses	2017	2018	2019	2020	2021
Year-on-Year PGK Delta	K'Million	K'Million	K'Million	K'Million	K'Million
Wages & Salaries - PGK Delta	32.21	8.77	15.35	(10.35)	39.43
Defined Contribution Plans - PGK	0.71	1.32	0.27	(0.74)	1.92
Statutory Benefits - PGK Delta	(0.93)	2.78	(1.24)	(0.04)	(1.16)
Other Staff Costs - PGK Delta	2.73	(2.62)	(3.11)	(1.96)	3.58
Total Staff Costs - PGK Delta	34.73	10.25	11.28	(13.09)	43.78



Staff costs increased by 11.51% during 2021. We expect that some of this increase is associated with the adjustment of senior management cost structures as part of the company's dual listing process on the ASX.

#52 - Total Staff Costs in FY2021 was K424 million



The reduction of staff costs during 2020 reflected the impact on aggregate staffing levels and costs from the Covid-19 pandemic.

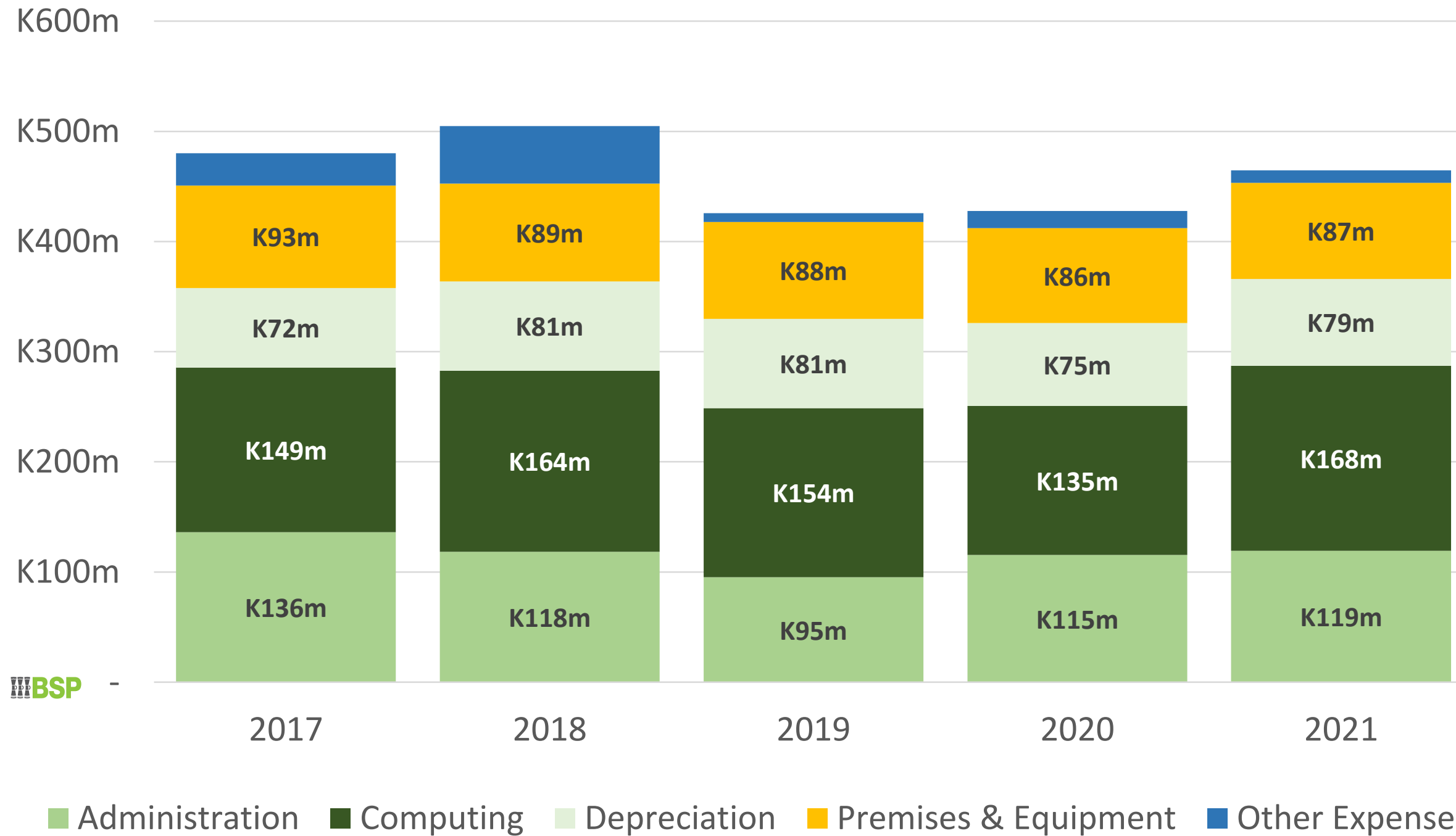
We expect that some of the increases in 2021 resulted from adjustments to senior management pay structures associated with the dual listing on the ASX.

It will be important for investors to monitor the ongoing trends in staff costs in coming reporting periods.



#53 - Operating Expenses increased by K35 million in FY2021

Operating Expenses



BSP

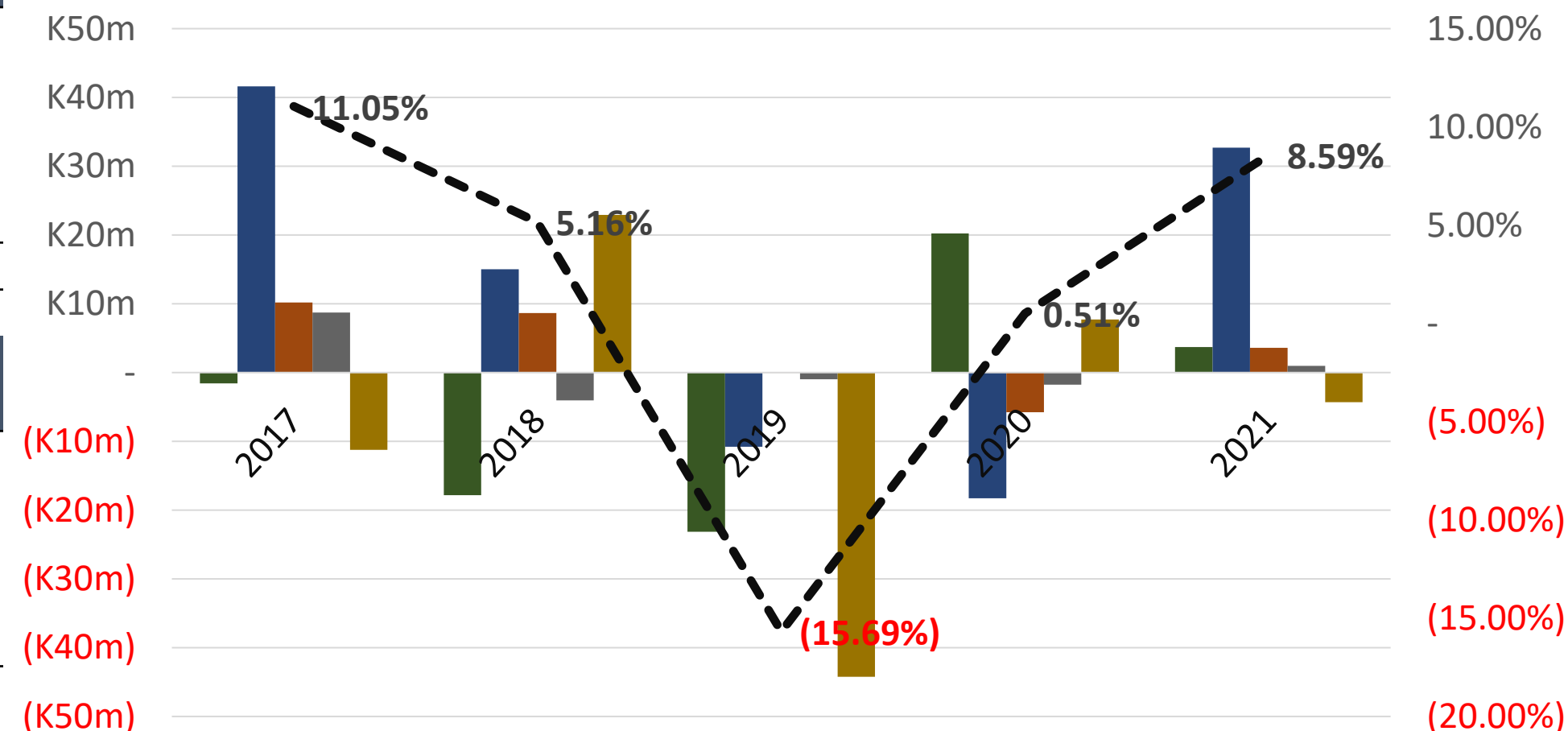
#54 - Operating Expenses in FY2021 increased 8.59%

Operating Expenses	2017	2018	2019	2020	2021
	K'Million	K'Million	K'Million	K'Million	K'Million
Administration	136.21	118.39	95.25	115.49	119.22
Computing	149.35	164.37	153.59	135.32	168.02
Depreciation	72.33	81.00	80.96	75.20	78.82
Premises & Equipment	92.98	88.92	87.94	86.18	87.17
Other Expenses	29.22	52.158	7.932	15.649	11.344
Total Operating Expenses	480.08	504.85	425.66	427.83	464.57

Operating Expenses	2017	2018	2019	2020	2021
Year-on-Year % Change	% YoY Chng.				
Administration	(1.13%)	(13.08%)	(19.55%)	21.25%	3.23%
Computing	38.65%	10.06%	(6.56%)	(11.90%)	24.17%
Depreciation	16.43%	11.99%	(0.05%)	(7.11%)	4.81%
Premises & Equipment	10.38%	(4.36%)	(1.11%)	(2.00%)	1.15%
Other Expenses	(27.79%)	78.52%	(84.79%)	97.29%	(27.51%)
Total Operating Expenses	11.05%	5.16%	(15.69%)	0.51%	8.59%

Operating Expenses	2017	2018	2019	2020	2021
Year-on-Year PGK Delta	K'Million	K'Million	K'Million	K'Million	K'Million
Administration - PGK Delta	(1.56)	(17.82)	(23.15)	20.24	3.73
Computing - PGK Delta	41.64	15.02	(10.79)	(18.27)	32.71
Depreciation - PGK Delta	10.21	8.67	(0.04)	(5.76)	3.62
Premises & Equipment - PGK Delta	8.74	(4.05)	(0.98)	(1.76)	0.99
Other Expenses - PGK Delta	(11.25)	22.94	(44.23)	7.72	(4.31)
Total Operating Expenses PGK Delta	47.78	24.76	(79.19)	2.17	36.74

Operating Expense Annual PGK Delta



- Administration - PGK Delta
- Computing - PGK Delta
- Depreciation - PGK Delta
- Premises & Equipment - PGK Delta
- Other Expenses - PGK Delta
- - - Total Operating Expenses

30 June 2022

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- As at the date of this presentation, the Company holds bank accounts with BSP in PNG
- As at the date of this presentation, the Company's ultimate parent company has an outstanding loan facility with BSP in PNG.

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