



Press Release

PNG's Bank of South Pacific Ltd. Assigned 'B+' Rating; Outlook Positive

Melbourne, Nov. 11, 2005—Standard & Poor's Ratings Services today assigned its 'B+' local and 'B' foreign currency counterparty credit ratings to Papua New Guinea-based Bank of South Pacific Ltd. (BSP). The outlook is positive.

The ratings are constrained by the sovereign ratings on Papua New Guinea (PNG; local currency: B+/Positive/B, foreign currency: B/Positive/B), as sovereign bonds comprise a majority of BSP's assets. BSP is subject to the risks associated with operating in a small, developing, commodity based low-income economy with moderate fiscal flexibility. BSP has a large exposure to PNG's government, represented by investments in government securities that formed 49.1% of total assets at the half year ended June 30, 2005. "As the ratings on BSP reflect those on the government, an upward adjustment to BSP's long-term ratings will depend on the economic performance of PNG and an improvement in the sovereign rating," said credit analyst Derryl D'silva, Financial Institution Ratings.

Based at Port Moresby, BSP provides a range of corporate and retail banking services, and is PNG's largest bank with total assets of PNG Kina 2.4 billion (US \$816 million) at June 30, 2005. The standalone credit strength is supported by BSP's strong market position, very good funding and liquidity profile, and adequate asset quality within a domestic context. These strengths are moderated by its higher credit risk portfolio, and limited business and geographic diversification.

BSP has a strong market position in PNG, with a 55% market share of the banking system's advances and deposits. BSP's strategy to maintain its leading market position is soundly based, and aims to leverage off its local franchise and brand as the only indigenous bank in PNG. The bank's strategy includes an increased focus on loan growth while improving operating efficiency and improving management information capabilities. Standard & Poor's expects the bank's leading market position and local brand-name recognition to facilitate the bank's meeting of its objectives, although the bank will remain challenged by a volatile and high-risk operating environment existent in PNG.

Equally important in the bank securing an upgrade to its long-term rating will be the ability of the bank to realize its loan growth and profitability targets. "Migration to a higher rating will also be assisted by continued improvement of the bank's stand-alone performance particularly against key asset quality, and profitability measures," said Mr. D'silva.

About Standard & Poor's

Standard & Poor's is the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research and data. With approximately 6,300 employees located in 20 countries, Standard & Poor's is an essential part of the world's financial infrastructure and provides investors with the independent benchmarks they need to feel more confident about their investment and financial decisions. In Australia, we have been voted INSTO "Rating Agency of the Year" for the fifth year running. For more information, visit www.standardandpoors.com.au.

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