

CHAIRMAN'S REVIEW

Economic growth in our key Papua New Guinea (PNG) market was once again slow in 2017, following slow years in 2015 and 2016. This impacted our key activities in PNG of finance and property rentals, and we are looking forward to improved outcomes in 2018.

- Core Operating Profit in 2017 increased to K81.5 million, an increase of 23.6% from K65.9 million in 2016. Finance revenues improved and net rental income stabilized, while investment returns increased. Pleasingly, impairment costs on loans reduced to more normal levels, following a spike in 2016. Revaluations of property and investment were slightly negative, compared to strong positive revaluations in 2016, once again reflecting the slow PNG economy and property market in particular.
- Operating Profit after revaluations and after tax fell to K75.8 million, a fall of 23.4% from K98.9 million in 2016, equating to Earnings Per Share of K0.24 in 2017 compared to K0.31 in 2016.
- Group total assets increased in 2017 to K1,364.3 million from K1,249.2 million in 2016.
- Total shareholders' equity increased in 2017 to K813.9 million, from K787.3 million in 2016. This continues the strong tradition of increasing shareholders' equity, and equates to Net Asset Backing per share in 2017 of K2.64 compared to K2.50 in 2016.
- Total dividends paid to shareholders in 2017 were maintained at K0.14 per share compared to K0.14 in 2016.

In compliance with International Financial Reporting Standards the following fair value adjustments have been included in the 2017 financial statements.

- Bank of South Pacific Limited (BSP), and shareholdings in other companies listed for trading on Port Moresby Stock Exchange (POMSox): in 2017 a positive fair value adjustment of K18.6 million was made to recognise the increase in BSP share price from K9.00 to K9.50 per share as reported from the POMSox, compared to a positive adjustment in 2016 of K56.6 million.
- Investment properties: in 2017 a negative fair value adjustment of K19.8 million was made to Group investment properties, compared to a negative adjustment in 2016 of K22.1 million. This reflects the fall in valuation through lower occupancy levels and falling rental rates.

As I have outlined in this review for the past few years, 2017 was once again a tough year in our core market of PNG. In addition to continued slow mining-related activity, the non-mining sectors have continued to struggle especially those businesses requiring foreign exchange to pay for imports. Government spending continues to exceed receipts, and while much of this infrastructure spending supports Credit Corporation clients, funding of continued budget deficits has crowded out private sector activity. As a result of this competition for funds Credit Corporation Finance has also seen higher deposit interest rates, narrowing margins and depressing profits.

2017 saw the re-election of the O'Neill government in Papua New Guinea for a further five year term. We hope the continuity will help business confidence, and that the State of Papua New Guinea will host a successful meeting of APEC in late 2018.

The Board and management addressed several pressing issues during the year, and towards the end of 2017 Mr Tor Bowen resigned as Chief Executive Officer. Mr Peter Aitsi has subsequently been appointed as the new Chief Executive Officer, and will continue implementing the Board's Strategic Plan for the next few years. I am most grateful to Mr Peter Dixon who filled the role of Acting Chief Executive Officer in late 2017 and early 2018, balancing his ongoing responsibilities managing our successful Fiji operation and also guiding the Group till a new CEO was appointed. That Plan includes growing the finance business, especially in Papua New Guinea, and improving rental income from properties by improving occupancies. We believe we now have the right team in place to execute our plans and we look forward to an improved performance in 2018. A key focus for management will be

to leverage the Group's "Pacific footprint", by not only providing finance to Pacific clients but complimentary services that we might not currently provide.

We sincerely appreciate the loyalty of our key clients, and this is most appreciated by staff and the Board. I acknowledge the ongoing support and wise counsel of my fellow Board members and the dedicated staff including our executive team.

Johnson Kalo
Acting Chairman