PNGX MARKET RELEASE

6 December 2019

CREDIT CORPORATION RESPONDS TO NON-BINDING SHAREHOLDER PROPOSAL: DISTRIBUTION OF BANK OF SOUTH PACIFIC LIMITED SHARES IN SPECIE

The Board of Credit Corporation (PNG) Limited (the **"Company"** or **"Credit Corporation"**) is pleased to announce that, in response to the non-binding shareholder resolutions passed at the Annual General Meeting on 27 June 2019, it has completed its review of the likely impacts of a potential in specie distribution of the shares held by the Company in Bank of South Pacific Limited (**"BSP"**) (the **"Proposal"**).

The non-binding resolutions proposed by Teachers Savings and Loan Society Limited sought, among other things, the appointment of an independent expert to determine whether the Company would satisfy the solvency test if the Proposal was implemented.

As noted in earlier market announcements on this issue, any consideration of the Proposal required a broader review to be undertaken by the Board to ascertain the financial, strategic, taxation and legal implications and risks that the Proposal would have for the Company and the broader group, if it was implemented. This included consideration of whether the Company would satisfy the "solvency" test in the Companies Act to effect a distribution of the BSP shares.

The Board obtained independent corporate advice from PwC Securities Limited (Australia), tax advice from PwC Services (PNG) Limited, and legal advice from Corrs Chambers Westgarth.

Having considered the external advice, and all of the surrounding circumstances, the Board has unanimously resolved that an in specie distribution of BSP shares is not in the best interests of the Company at this time.

In reaching its conclusion, the Board considered a number of key factors including (but not limited to) the following:

- **Solvency and financial strength:** Comparatively, by implementing the Proposal, the Company will be in a much weaker financial position due to the loss of both the investment assets on the balance sheet and the associated dividend income. This is particularly important, given the Company has provided letters of support to banking regulators of the Company's finance subsidiaries across the South Pacific region, underpinned by the Company's financial position. Notwithstanding these factors, the Company would still hold sufficient capital to meet its requirements under the Bank of PNG's prudential standards, and is also expected to generate sufficient net operating income to meet its expenses (the 'solvency test');

- **Growth potential:** The removal of a significant asset from the Company's balance sheet will significantly reduce the Company's scale and diminish its platform for growth. The loss of

dividend income from the BSP shares and the removal of these shares from the balance sheet would negatively impact the Company's capacity and flexibility to fund its future growth strategy across the South Pacific region;

- **Share price:** The Proposal may result in a further reduction of the the Company's share price relative to the Group's net tangible asset backing, given it will be a smaller entity with fewer options for growth and a significantly lower dividend per share; and

- **Tax:** A significant proportion of the in specie distribution of BSP shares will be treated as a dividend for tax purposes and therefore attract dividend withholding tax for some shareholders, giving rise to tax consequences for the Company and its shareholders as well as administrative and transactional costs for the Company.

Chairman's statement

Credit Corporation Chairman Syd Yates said: "The review process has been comprehensive and the Board is committed to ensuring that the Company is best-positioned for sustainable long-term growth.

"Credit Corporation, as a homegrown PNG financial services company, has played a significant role in PNG's and the South Pacific's business and economic life for more than 40 years, building a trusted brand throughout the region," Mr Yates said.

"At Credit Corporation, the ambition of the Board and Management is to become PNG's and the South Pacific's leading financial services organisation, assisting in developing the aspirations of all Pacific Island Nations. Core to this ambition is a strategic plan to continue to grow its presence in the region, leveraging the recent strong performance of the Group, and continuing to improve the customer experience in each of its core markets," he said.

"To achieve this ambition, and in support of PNG and the South Pacific's broader economic and development objectives, the Directors believe that it is appropriate at this time for Credit Corporation to maintain the strongest possible financial position.

"As a Board, it is therefore our priority to ensure we maintain a strong balance sheet, provide funding capacity to support our strategic objectives and to enable us to continue to pay strong dividends to our shareholders. Retaining the BSP assets at this time is core to achieving these objectives to maintain Credit Corporation's scale and competitiveness."

Shareholder briefing

The Company will hold a shareholder briefing in relation to the Board's decision in relation to the Proposal at 9am on Thursday 12 December 2019 at Grand Papua Hotel, Mary St, Port Moresby. There will be an opportunity for interested shareholders to ask questions at that briefing.



Syd Yates
Chairman, Credit Corporation (PNG) Limited
6 December 2019

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