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Kina provides trading update – FY2017 profit expected in PGK39-41 million range

Summary

- Trading conditions remain resilient despite volatile global markets
- Lending growth and deposits have been strong and net interest margins have been in line with previous guidance
- Foreign exchange income is expected to be lower in second half due to the withdrawal of a key correspondent bank.
- FY2016 statutory profit is expected to be in the range of PGK39-41 million

Brisbane, 12 December 2016: PNG banking and financial services company **Kina Securities Ltd** (ASX: KSL) provides shareholders with the following trading update ahead of the release of its full year profit results in February 2017.

Overall trading conditions for Kina remain resilient, with solid growth in lending and deposits, continued low levels of bad debts and strong net interest margins being maintained.

Total lending is expected to reach approximately K600 million at the end of December 2016, which represents growth of approximately 60% from K374 million at December 2015. Growth has mainly been achieved in the second half of the year, with lending increasing from PGK437 million at June 2016.

Deposit growth also has been strong, with total customer deposits expected to reach approximately PGK880 million at year end, compared with PGK634 million at June 2016.

Net interest margins are anticipated to remain above 8% for the full year, in line with guidance provided at the release of the half year results.

Non-interest income is forecast to be well above the PGK26.8 million reported for the year to December 2015. However, non-interest income is expected to be lower in the second half of 2016 than in the six months to June, due to reductions in foreign exchange income. The Company's foreign exchange income, which totalled PGK12.4 million in the first half of 2016, has been affected by the withdrawal of the Company's former correspondent banking partner for US dollar transactions. A number of major banks have curtailed their correspondent banking arrangements in the past 18 months due to a re-evaluation of their business models in relation to developing countries. Kina has consequently experienced delays in securing a replacement correspondent banking partner for USD transactions. This has led to minimal foreign exchange income being received in November and December. Kina's correspondent banking arrangements for other major currencies are not affected.

The Company is continuing to work to secure a reliable correspondent banking partner for US dollar transactions to support its operations.

Kina anticipates statutory profit after tax for the 12 months to December 2016 will be in the range of PGK39-41 million. This compares with a 2015 statutory profit result of PGK7.6 million. Kina reported a net profit of PGK20.5 million for the six months to June 2016.

The Company continues to focus on organic growth of its franchise in PNG. Cheque accounts are up approximately 8.5%YTD and savings account are up approximately 21% YTD. The Company has successfully launched a revised campaign for its EsiLoan product together with a new housing loan product.

Kina also recently announced winning the mandate for the Nasfund fund administration business, which will take Kina's total funds under administration during the next financial year to PGK9.7 billion with more than 700,000 members.

Expenses remain under tight control, with the cost to income ratio expected to be within the range of 48%-50% for the year. The bad debt expense is forecast to be less than PGK4 million reconfirming the quality of the loan book.

Chief executive Syd Yates said the performance during the second half had been encouraging. "We are continuing to make excellent progress. The strengthened management team that has been in place this year has achieved solid results and positioned the company for continued strong growth in 2017," Mr Yates said.

Kina will provide further commentary and analysis with the release of the full year results in February.

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