ASX/POMSoX announcement

16 May 2017

Kina AGM Trading Update – 16th May 2017

Notwithstanding ongoing efforts to establish USD correspondent banking arrangements, a solution continues to be a challenge with permanent and diverse arrangements not yet established. As a result, and despite ongoing customer demand, the foreign exchange income in 1H17 is expected to be impacted by approximately K10 m.

The core domestic banking business continues to grow strongly with approximately 10% growth in the loan portfolio year to date.

Mr. Isikeli Taureka appointed Chairman.

Summary

- Due to continued delays in establishing diverse and permanent USD correspondent banking arrangements, foreign exchange income is expected to be K10m lower in the first half. Discussions with correspondent banks are ongoing and productive, Kina is hopeful this can be finalised in coming months.
- Domestic business continues to demonstrate robust growth with loan growth of 10% as at April 2017 YTD.
- Lending Market Share increased from 2.8% (April 2016) to 5.5% (April 2017).
- Asset quality remains a core focus with loan impairment expense remaining low at 0.15% (improvement from 0.48% at Dec 2016) and total arrears at 4.3% (improvement from 5.7% at Dec 2016).
- The Net Interest Margin remains within guidance (7-9%) however due to increased competition for deposits the Net Interest Margin is likely be at the lower end of this range in 1H17.
- Other Non-Interest income has benefitted from strong growth in the fund administration business.
- Kina is the first bank in PNG to partner with ADB's Trade Financing Program (TFP) and the third bank in the Pacific Islands to join the program. This is a significant milestone for Kina and its customers.
- Kina continues to optimise its funding mix by realigning its mix of customer deposits between low-cost deposits and term deposits.
- Kina continues to invest in the future, including planned technology upgrades of the core banking system and a new state-of-the-art branch at Vision City in Port Moresby. This facility will further increase the financial inclusion of the local community.

Other Information

Reduced Foreign Exchange trading income

As advised to shareholders in the announcement of November 2016, the foreign exchange income business was affected by the withdrawal of the Company's former correspondent banking partner for US dollars following tightening of regulations by the US Federal Reserve which has resulted in correspondent banking relationships globally falling 25% since 2009.

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CEO and Managing Director Syd Yates said “Engaging a new partner is a priority for us, it has however been challenging as most major banks have curtailed their correspondent banking partner arrangements in developing countries in the past 18 months. Notwithstanding this challenge, Kina continues to seek alternate arrangements and is in discussion to establish reliable foreign exchange trading arrangements for USD.”

Mr Yates said non-interest income was expected to be lower due to this continued delay in on-boarding permanent USD correspondent banking arrangements. The Company’s foreign exchange income is expected to be K10m lower in the first half of 2017.

Operational priorities

Kina remains focused on delivering its key operational priorities for 2017. These include:

- Establishing a diverse and permanent correspondent banking arrangement in USD.
- Continued growth of the low-cost deposit base.
- Leveraging relationships with key superannuation funds to facilitate cross-selling opportunities.
- Delivering the Nasfund transition to Kina fund administration services.
- Completing the bank’s technology transformation. This includes expanding Kina’s suite of personal and business banking products and services such as mobile applications and internet banking for retail and corporate customers.
- Profitable growth with a focus on credit quality.

Kina will provide a further update with the release of the half year results in August 2017.

SYD YATES, OBE

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