



February 2018

Kina Securities Ltd

Full Year Results – 31 December 2017

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Highlights

Statutory profit of PGK23.0m. **Underlying profit** of PGK30.0m.

Final dividend of PGK10.0 toea/AUD4.0 cents per share.

Full year dividend to PGK15.00 toea/AUD6.0 cents per share.

Restored USD correspondent banking arrangement.

Nasfund Fund Administration progressing.

T1 and T2 capital ratio 28%, compared with regulatory minimum of 12%.

Net interest margin 7.6% within target range.

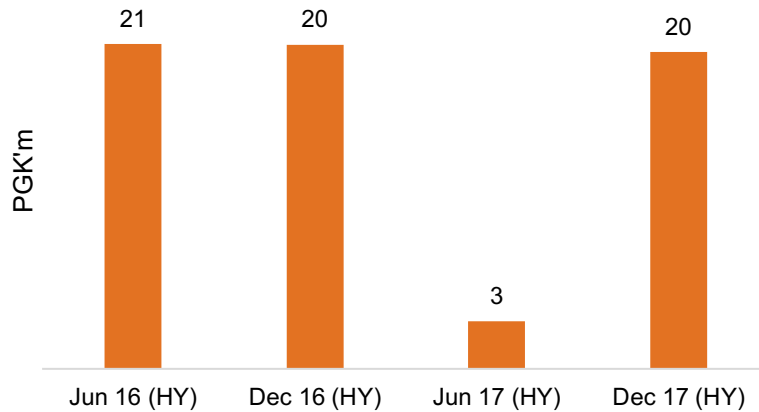
Opened a new branch at Vision City Mall.

Launched new digital banking services – retail and corporate mobile banking apps and corporate internet banking.

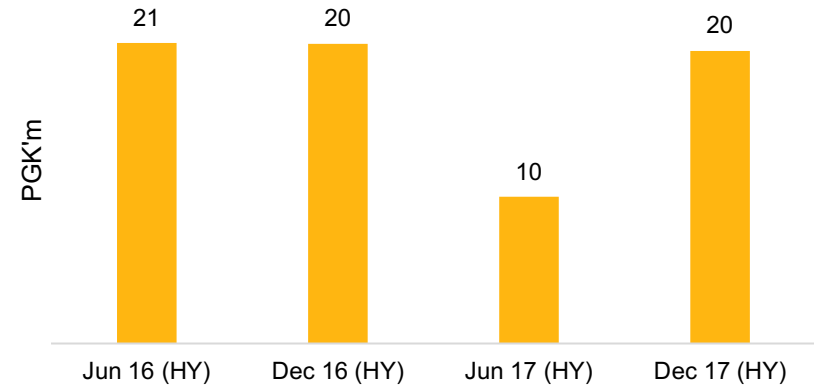


Solid underlying profit performance

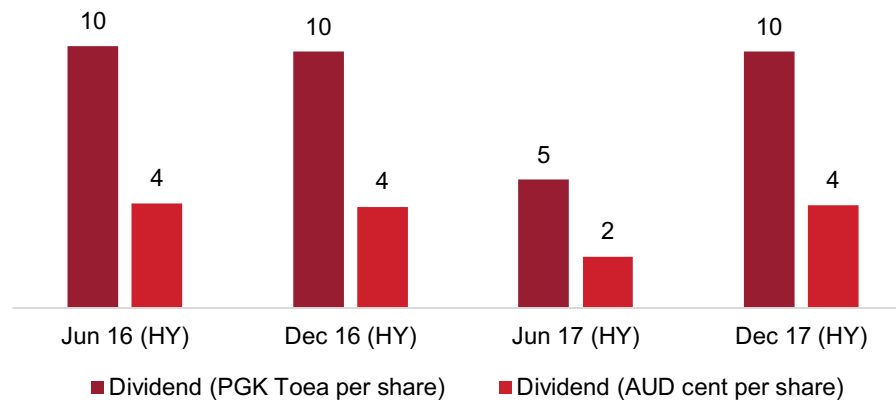
Statutory NPAT (PGK\$m)



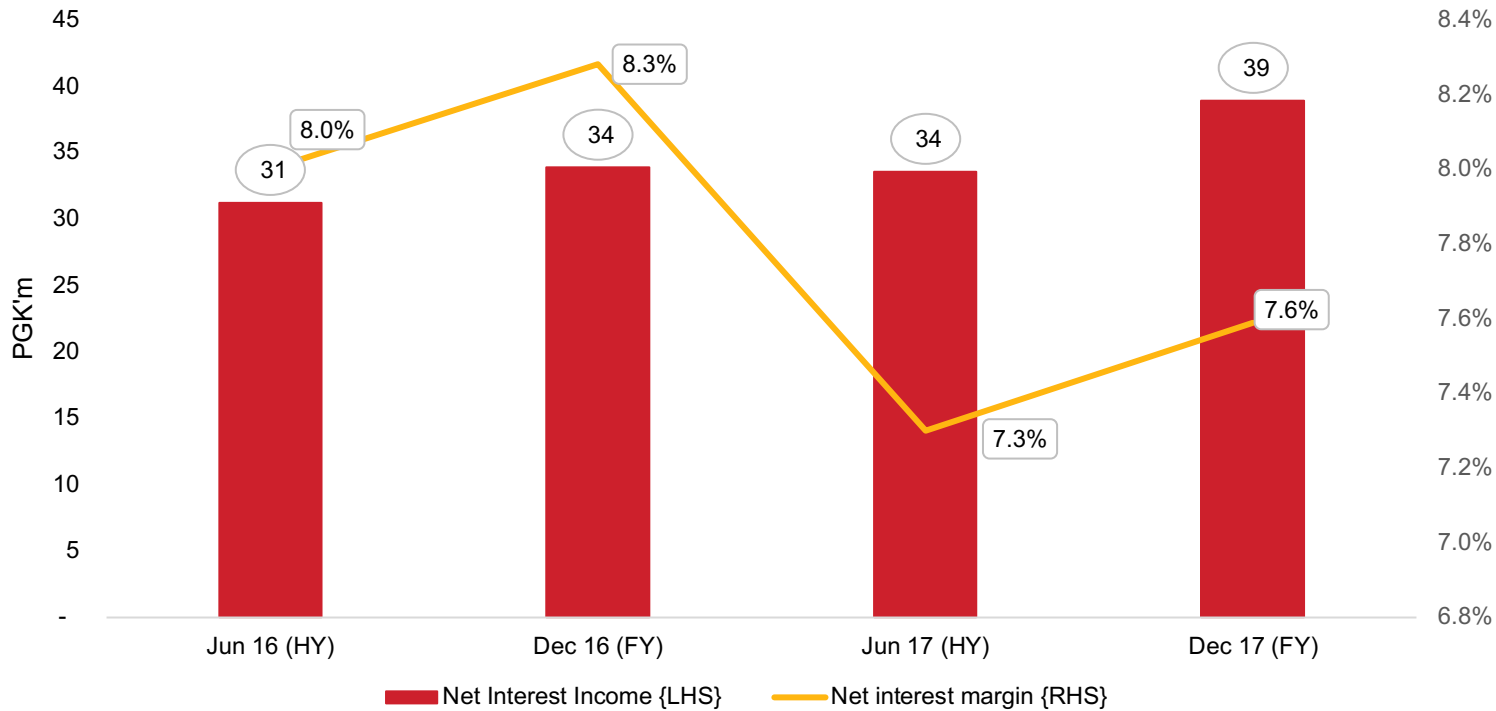
Underlying Profit (PGK\$m)



Dividend per share



Well managed margins

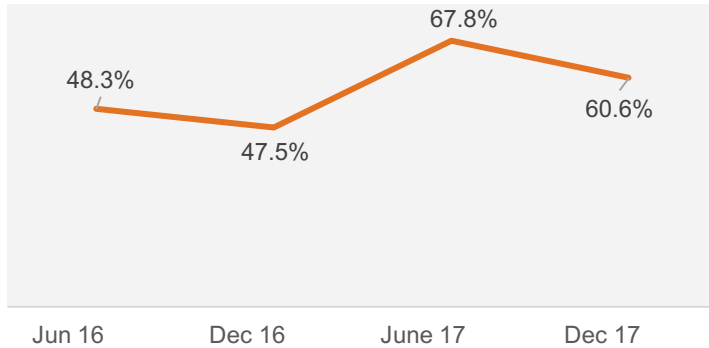


Focus on margin improvement

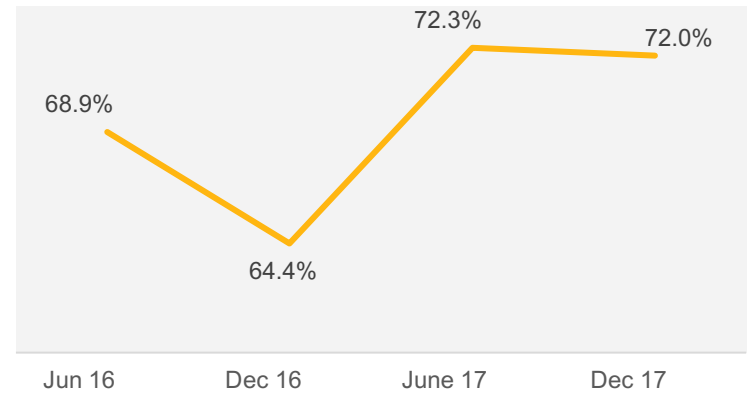
- Net interest margin (“NIM”) at 7.6%.
- Margin decline due to higher cost of funds, coupled with the impact of competitive pricing on term loans.
- Position rectified through focus on rebalancing the deposit book from high cost to low cost deposits.

Key financial ratios at a glance

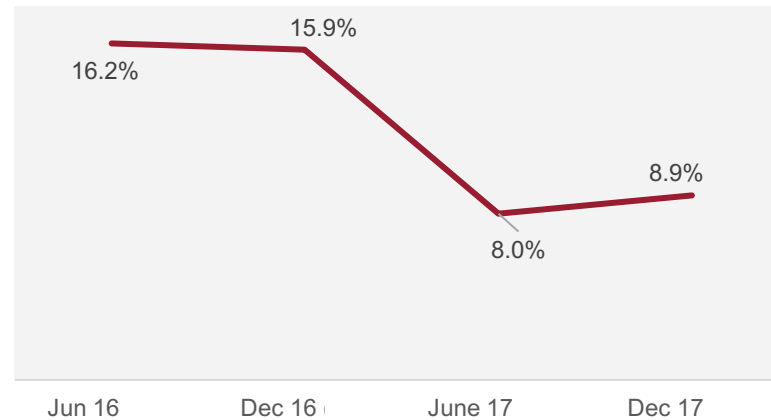
Cost to Income Ratio (excludes loan provisions and lease termination)



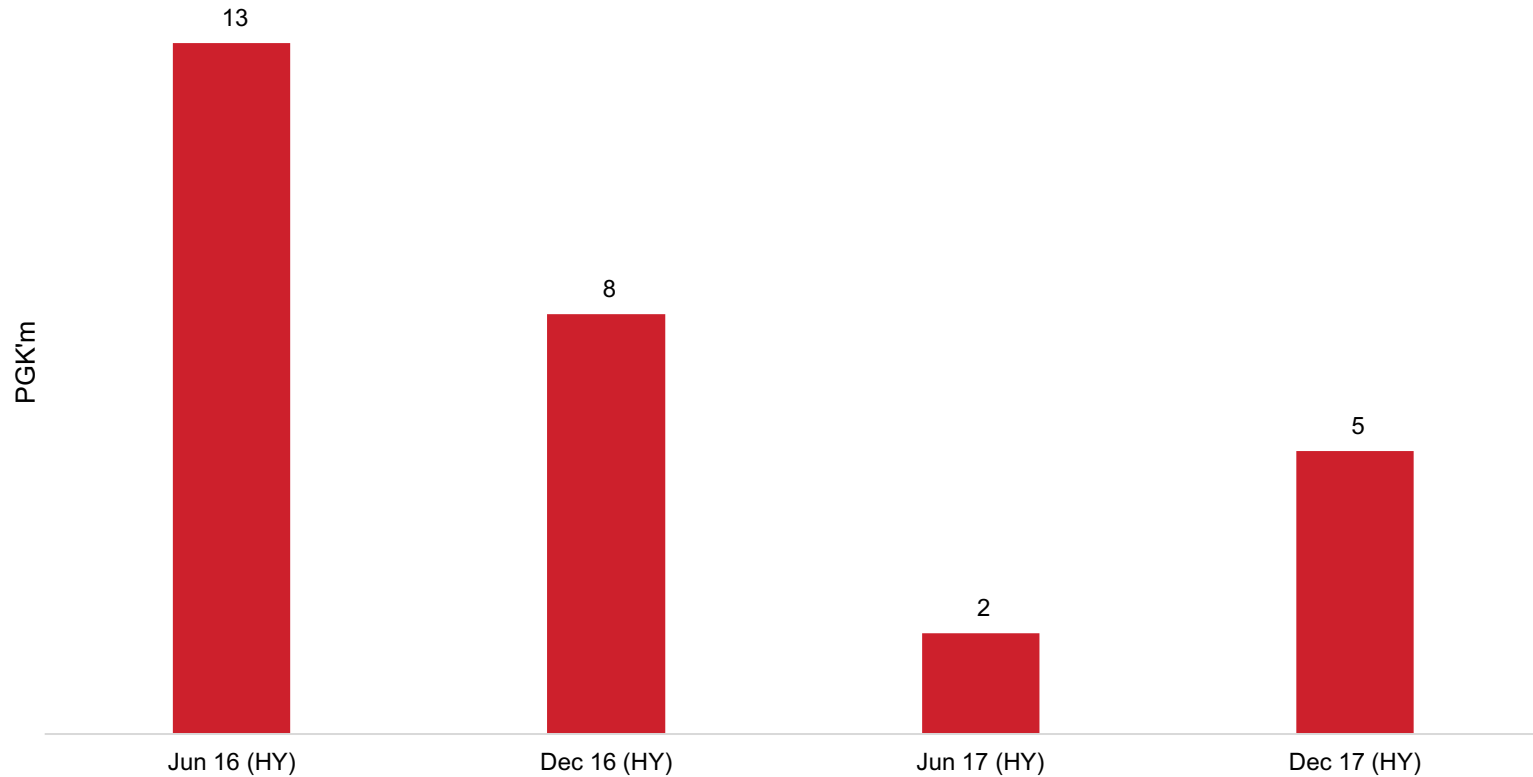
Loans to deposit ratio



Return on Equity



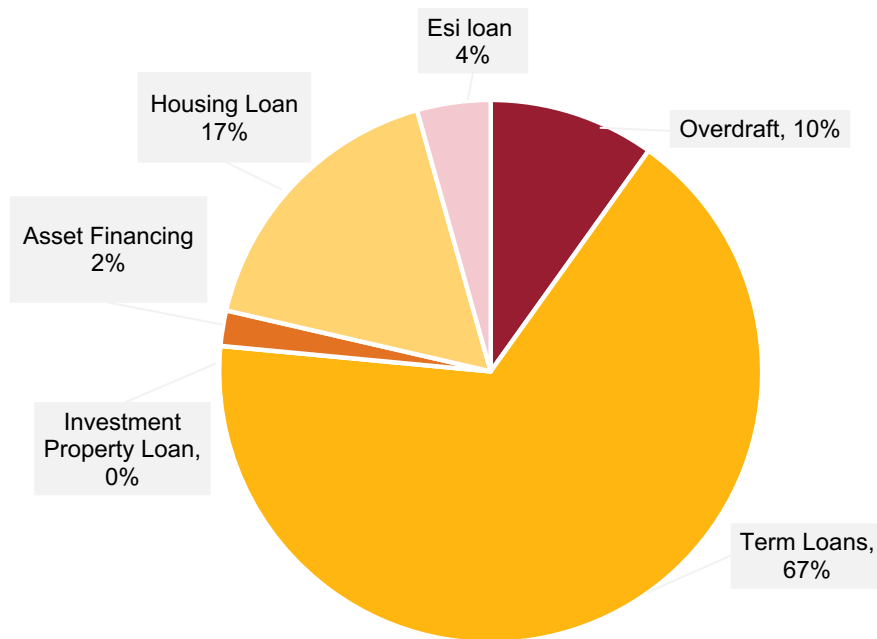
Foreign exchange revenue recovery



The process involved in securing a US Dollar corresponding Bank has had significant impact on FX Income in H1 2017

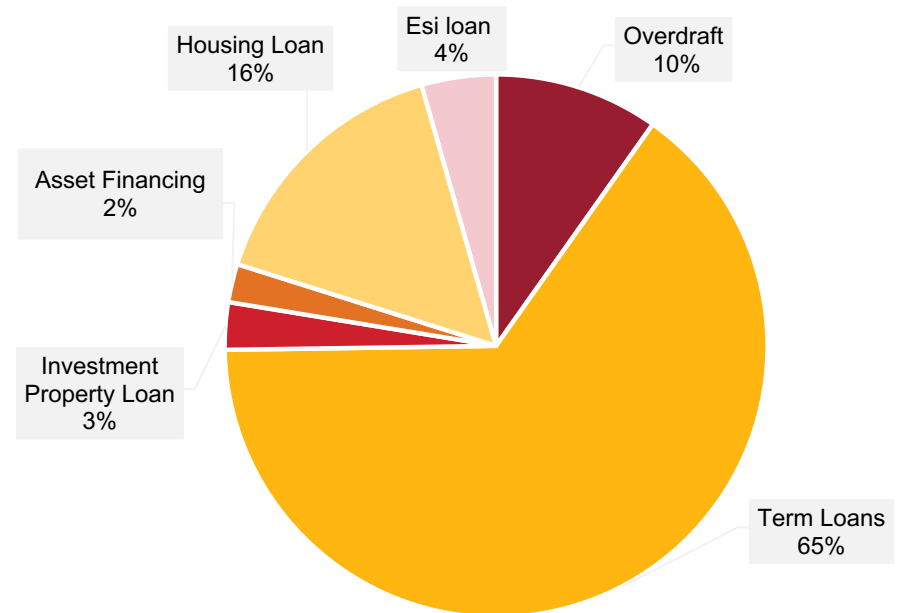
Driving loan book growth with new products and services

Lending 2016



Total lending PGK617m (gross)

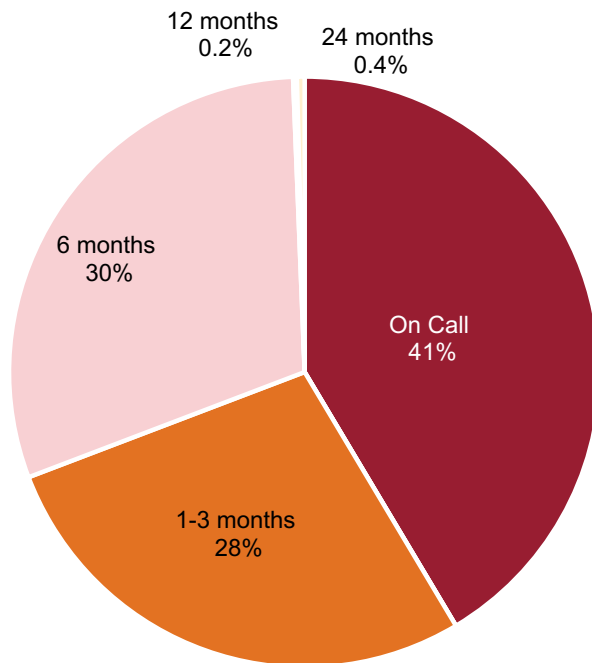
Lending 2017



Total Lending PGK746m (gross)

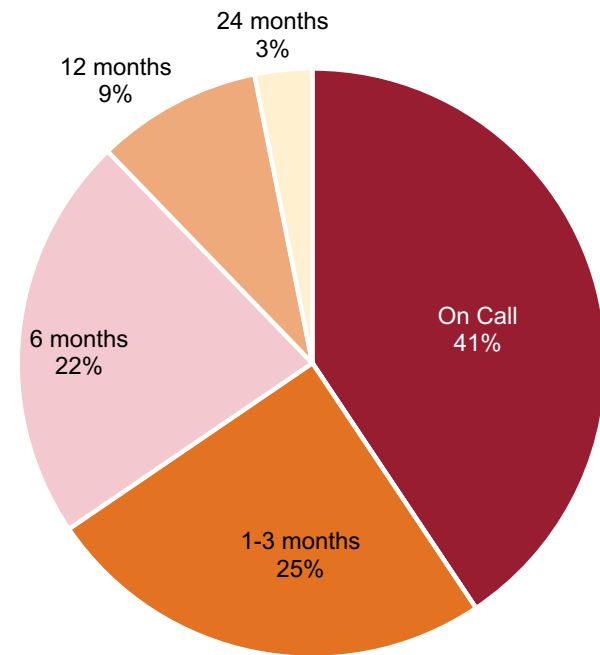
Grew deposits to more than PGK1b while managing cost of funds

Deposits 2016



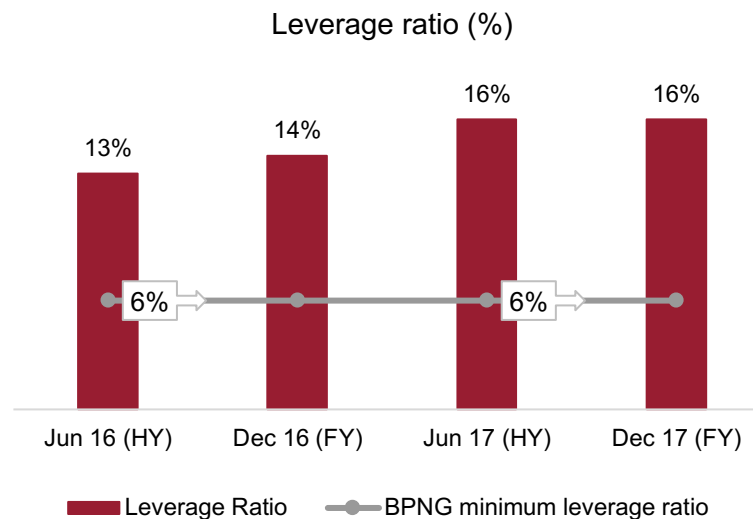
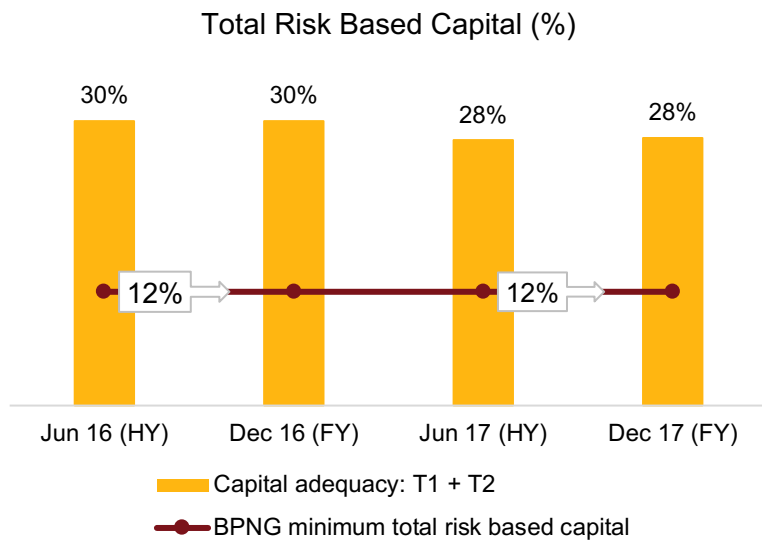
Total deposits PGK958m

Deposits 2017



Total deposits PGK1.014b

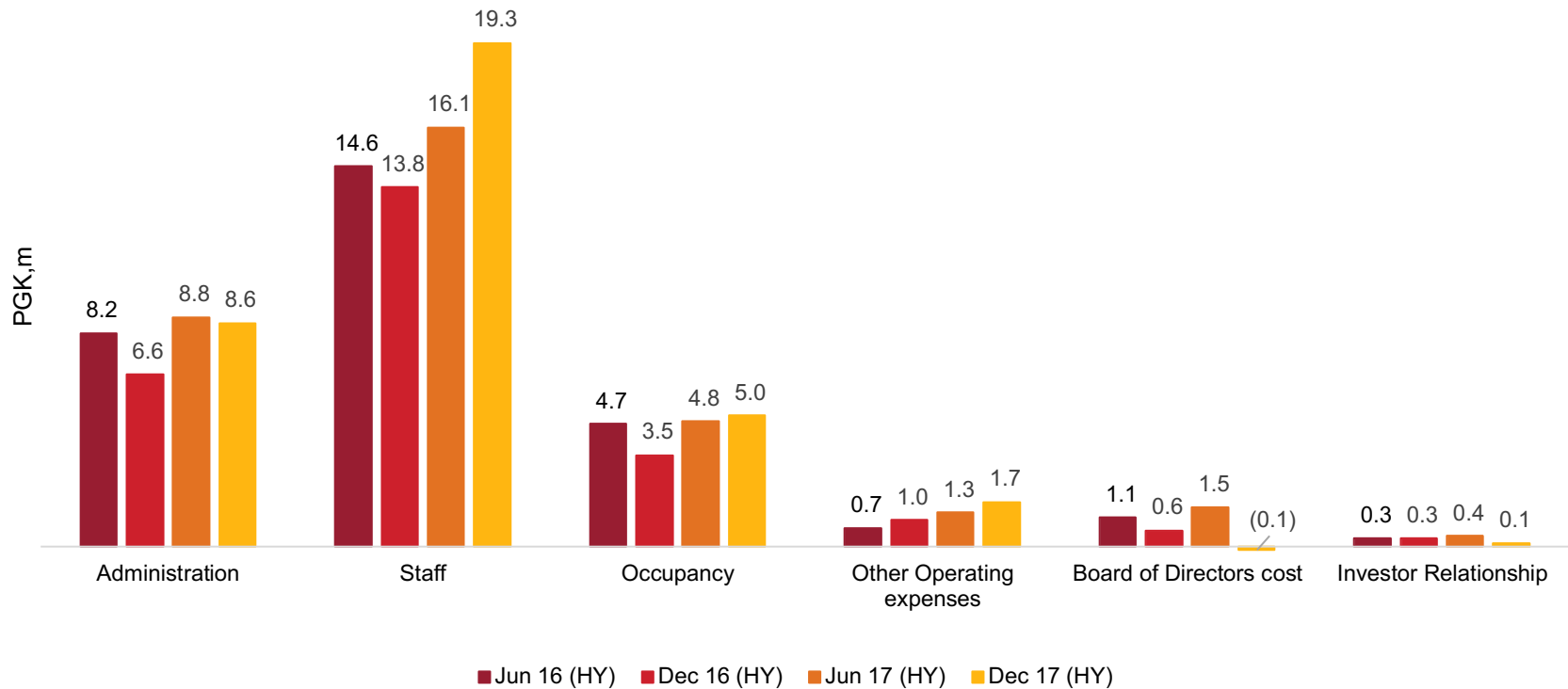
Strong balance sheet



Conservative balance sheet

- T1 and T2 capital ratio 28%, regulatory minimum 12%
- Leverage ratio 16%
- Coverage ratio stands at 105%

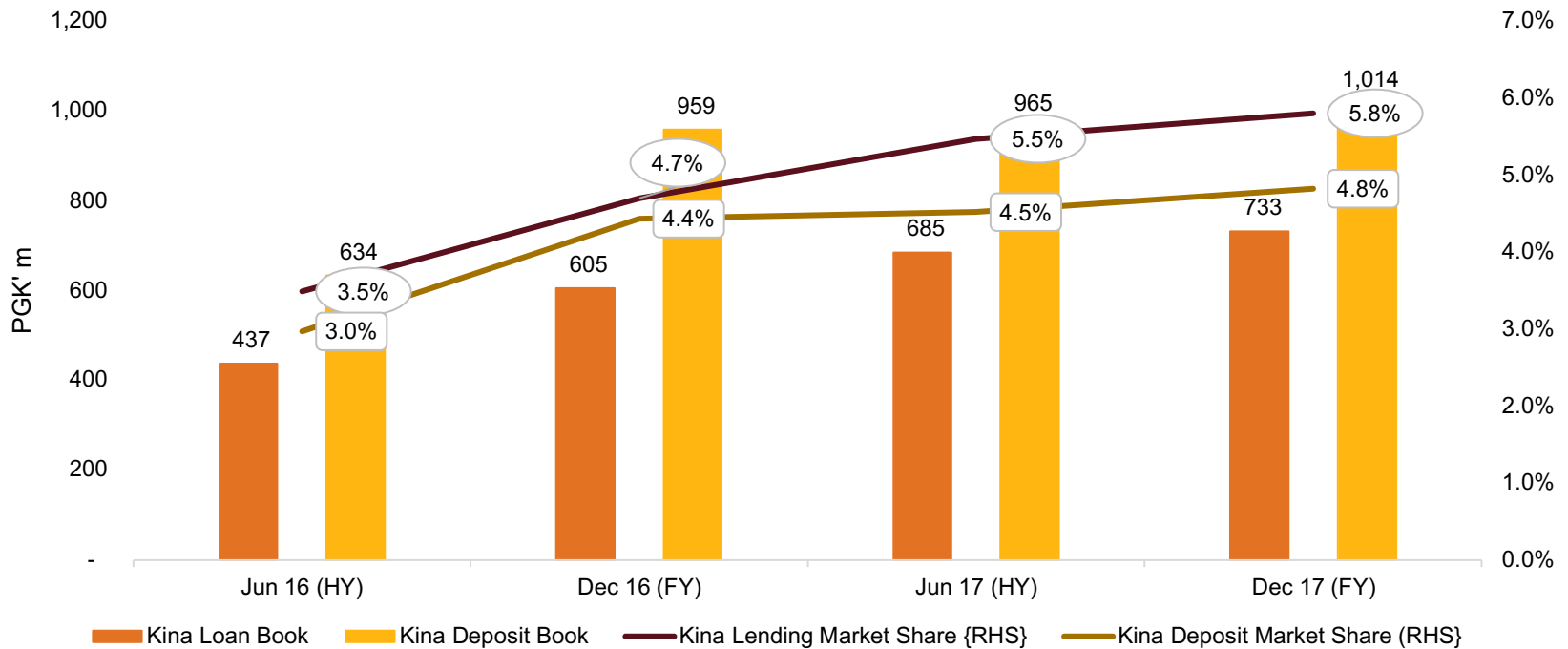
Focus on costs



Cost higher on growth initiatives

- Total operating costs up 21% (excluding the one-off lease termination cost)
- Underlying costs increase mainly due to staff and administration costs associated with planned business growth in 2017. (Nasfund contract, technology upgrades)

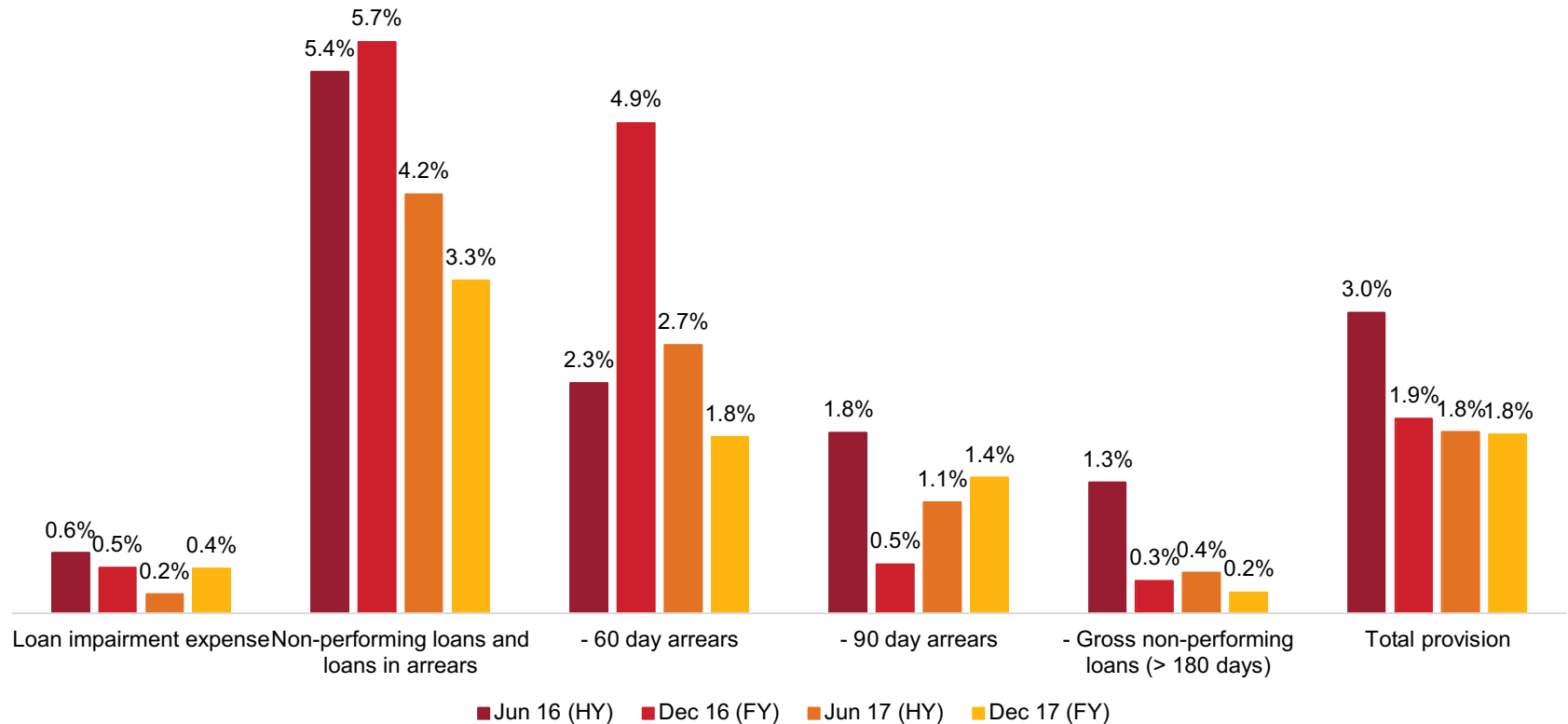
Balancing growth and returns



Disciplined growth

- Deposit growth of 6% in 2017
- Management focused on moving from high to low-cost deposits to reduce cost of funds

Sound credit quality – low impairments



Low impairments and conservative provisioning

- Loan impairment expense of PGK3.3m for 2017 (0.4% GLA)
- Total provisions 1.8% GLA (minimum statutory requirement of 1.47%, including specific provisioning).

Divisional performance highlights

Kina Bank

Disciplined balance sheet growth.

Gross loan book grew by 21% to PGK746m.

Deposit growth of 6% to PGK1,014m
(moderated growth due to focused effort to
reduce cost of funds).

Net interest income of PGK72.4m, up 11%.

Interest income on loans grew by 32%
or PGK19.3m.

Bank fees and commissions income
grew by 11%.



Divisional performance highlights

Kina Wealth Management

Growth in FUM and FUA – up 10% to PGK6.9b and 60% to PGK11b respectively.

Key highlight was Kina's Funds Administration's success in signing the agreement to provide services to PNG's largest superannuation fund Nasfund.

Funds management revenue increased to PGK10.2m.

The Funds Administration Service achieved revenues of PGK12.5m. This is budgeted to increase to PGK16.5m in 2018. Kina now provides Fund Administration services to 90% of the market.

Economy

PNG's economy grew by an estimated 2.2% in 2017 (2018 budget tabled in Parliament on November 28).

Overall GDP is estimated to increase by 2.4% in 2018.

Non-mineral GDP growth is expected to pick up from 1.9% to 3.5% over 2018 driven by policies to support the agriculture, fisheries and forestry sectors.

Our house view - largely in line with official forecasts, slightly higher as a result of the APEC event.



Vision, purpose, values

Vision

To be the best dynamic, progressive and accessible financial services company in Papua New Guinea

Purpose

Our people, customers and communities are empowered to have financial independence and security.

Values

- Integrity
- Trust
- Fairness
- Respect
- Honesty

Delivering on 2017 strategic priorities

Ongoing delivery of profitable, quality lending growth at 21%.

Achieving continued growth in the low cost deposit base thereby reducing cost of funds.

Maintaining a strong prudential position and conservative capital adequacy.

Maintain a net interest margin in target range of 7-9%.

Ongoing delivery of the bank's technology upgrade including the core banking system.

Implementing a world's best practice, Fund Administration system for the 3 major superannuation funds.

Continuing to provide increased value and convenience for our customers by pursuing options to launch new products and services and branches in strategic locations within PNG.

Adopting and implementing advanced compliance processes and systems including AML/CFT compliance to meet world's best standards.



Strategic priorities 2018

PRIORITIES

partnerships

"together it possible"

digital

Connect anytime, anywhere, anyhow.

responsible

Value the communities we live in and build a better future.

brand

Local and strong.

knowledge

Empowered and capable people.

RESULTS

Life Long customer relationships.
Strong valued strategic partnerships.

Clarity in offering that surpasses anything in the market today, with the best user interface and operational excellence.

Strong addition to the communities we serve.
Positively contributing to a growing and vibrant economy.

Local pride in the Kina brand.
Recognised as a viable, secure and differentiated financial services organisation.

Recognised as having the best people in the financial services sector.

Digital

Overcoming PNG's unique geographic and demographic challenges; enabling customers to connect anytime, anywhere and anyhow.

Significant upgrade to the core banking system implemented in October 2017.

Investing in new digital products and services.

Released personal and corporate banking mobile apps in 2017.

Superannuation app allows us to reach out to over 700,000 members.

Funds administration - moving to STP quickly – putting us ahead of Australia.

Knowledge

KEY INITIATIVES:

- **Implemented** new Online Learning Management System (LMS) with 12 Compliance & Regulatory courses produced in 2017.

- **Achieved** 100% completion rate for all courses (e.g AML & KYC, Cyber Security, Whistle-blower, Social Media, Workplace Harassment & Bullying, Code of Conduct, Workplace Health & Safety).

- **Implementing** extensive performance management system in the first quarter of 2018.

- **Job enrichment** programs supported a number of secondments across the business in 2017.

- **Internship** Program saw a number of local interns formally employed with Kina.

Responsible

KEY INITIATIVES:

- **Supported and promoted** Crocodile Prize Competition for aspiring writers and PNG illustrators.
- **Supported** the Daffodil Corporate Cup Golf Challenge - an initiative of Cancer Foundation PNG in partnership with Oil Search Foundation.
- **Staff raised funds** for Links of Hope, an organisation that supports homeless children.
- **Reviewing** CSR agenda for the next three years and developing a Total Societal Impact Statement and Strategy.
- **Potential future initiatives** include: a SME capital fund, Youth education and entrepreneurship (specifically FINTECH), a broader financial literacy program backing PNG's key microfinance agencies.

Brand

KEY INITIATIVES:

- **Our brand** sets us apart in the market.

- In 2015, **launched new distinctive Kina brand** reflecting our proud local roots and positioning us to support the future prosperity of PNG and its people.

- **Launched new concept branch** showcasing our brand at Vision City Mall in 2017.

- **Secured the naming rights** to “The Tower” our headquarters and landmark Port Moresby CBD building to be renamed Kina Haus.

- **Launching new Kina Bank brand** as an extension of the existing brand in 2018.



Partnerships

KEY INITIATIVES:

- **Our brand slogan** - “**together it’s possible**” - reinforces that strong relationships are the cornerstone of the Kina brand.
- **Signed successful agreement** to become PNG's first bank to sign a trade **finance** agreement with the **Asian Development Bank (ADB)**. This will assist local importing and exporting business customers.
- **Developed relationships** with three of PNG's leading superannuation funds and provided Fund Administration services to 90% of the market.
- **Investigating opportunities** to partner with institutions to assisting in developing new investment products.
- **Consideration of developing** SME capital fund.
- **Consideration of partnerships** with key microfinance agencies to provide wholesale funding and personal banking.



Kina's comparative advantage

STRONG STRATEGIC POSITION

- Seeking to provide a differentiated alternative
-

- No 1 in wealth management
-

- Banking and wealth portfolio provide unique cross selling opportunities and broad customer base
-

- Nimble organisation able to quickly embrace new market opportunities
-

- Leading online and mobile capability through embracing digital technologies.
-

STRONG BALANCE SHEET

Asset quality

- Sound quality balance sheet
- Low impaired assets

Capital

- Well capitalised (exceeds BPNG capital adequacy requirements)
 - Capital adequacy (T1 + T2) 28%
-

Liquidity

- Strong liquidity profile - Coverage ratio stands at 105%
 - Stable funding sources.
-

EFFICIENCY

- Strengthening USD correspondent banking relationship
 - Actively managing cost to income ratio to within guidance.
-

SUSTAINABILITY

- Largest diversified financial services provider in Papua New Guinea
-

- Established in 1985
-

- Only major PNG financial services company listed on ASX
-

- Total Societal Impact Statement under development with initiatives under consideration including:
 - Development of a SME capital fund
 - Kumul Game Changers Youth Entrepreneurship program with a specific focus on FINTEC
 - Partnerships with key microfinance agencies for the provision of wholesale funding and personal banking services.

Actively supporting PNG

**Backing
PNG
economy**

Providing loans for PNG people to own their homes, grow their business or enhance their lifestyle

**PGK125m
new lending**

**PNG
prosperity
builder**

Supporting working and retired PNG people through direct Kina share ownership or their super funds

**PGK24.6m
in dividends**

**PNG
tax payer**

**Resident PNG
taxpayer payer**

**Income tax
expense
PGK10.6m**

**Our
workforce**

**Our workforce:
>300 people**

**PGK35m
payments to
employees**

**Papua
New
Guinea**

**Contributing to
the community**