

Monday 25 June 2018

KINA BANK MAKES TRANSFORMATIVE ACQUISITION ACQUIRING ANZ'S RETAIL AND COMMERCIAL/SME BANKING BUSINESS IN PNG

- **Kina to acquire ANZ's retail and commercial/SME banking business in PNG**
- **ANZ is the 2nd largest Bank in PNG and this acquisition significantly increases Kina Bank's lending market share to 8.8% from 5.8% and Kina Bank's deposit market share to 9.9% from 4.8%**
- **Attractive financial metrics with the transaction expected to be more than 30% accretive to EPS on a FY17 proforma normalised basis, before amortisation**
- **The integration of Kina and ANZ PNG is expected to deliver material synergies. Initiatives to deliver the synergies are expected to be principally completed and implemented within the 2019 financial year**
- **Strong strategic fit and alignment with Kina strategy to deliver greater value to customers and expand its product and service offering**
- **Acquisition of ANZ's 15 retail branch premises, 72 ANZ ATMs and over 1,800 ANZ EFTPOS terminals across PNG, substantially increasing Kina's retail banking footprint to 21 branches, 82 ATM's and over 1,800 EFTPOS terminals**
- **Purchase price of PGK24.2m (AUD10m)¹ equating to the goodwill attributed to ANZ PNG business. The acquisition will be fully funded from existing cash and capital reserves**

Kina Bank Limited (**Kina Bank**), a wholly-owned subsidiary of Kina Securities Limited (ASX:KSL POMSoX:KSL) (**Kina Group**), has entered into a binding Sale and Purchase Agreement to acquire the retail and commercial/SME banking business carried on by Australia and New Zealand Banking Group (PNG) Limited (**ANZ PNG**) in Papua New Guinea (**PNG**) (the **Business**).

The key terms of the transaction, include:

- Kina Bank will acquire the Business, comprising:
 - 1) Retail customer deposits and loans (including credit cards);
 - 2) Commercial/SME customer loans and deposits;
 - 3) ANZ PNG's retail branch premises;
 - 4) Relevant employees; and
 - 5) ATMs and EFTPOS terminals (both in branch and standalone) used by ANZ PNG.

¹ AUDPGK of 2.4229

Strategic rationale

The acquisition of the Business supports Kina's strategic objectives to deliver greater value to customers and to develop a more resilient and sustainable group. In particular, the acquisition will:

- Improve Kina Bank's market position in retail and commercial/SME banking and allow it to emerge as a leading participant in these sectors;
- Provide the scale to invest in new banking capabilities to improve the value of Kina Bank's product offering to new and existing customers;
- Expand Kina's distribution network through acquiring ANZ PNG's 15 retail branches, 72 ATMs and over 1,800 EFTPOS machines;
- Enhance Kina's liquidity to support funding future lending growth; and
- Be strongly accretive to Kina's earnings.

Expected financial benefits

The acquisition is expected to increase Kina's earnings and profitability to improve returns for its shareholders as highlighted by the following financial metrics:

Metric (PGK millions – unless otherwise indicated)	Kina Group (as at 31 December 2017)	Acquired Business¹	Kina Group Proforma²	% change
Net loans	732.7	370.7	1,103.4	50.6%
Deposits	1,019.3	1,106.2	2,125.5	108.5%
FY17 NPAT	23.0	12.9	35.9	56.0%
Normalised FY17 NPAT ³	41.4	12.9	54.3	31.1%
Normalised earnings per share (toea)	25.3	n/a	33.1	31.1%
Normalised return on equity (%) ³	16.1%	n/a	21.1%	
Total capital ratio (%)	28.2%	n/a	17.2%	

¹ No separate audited information is available for the Business as it comprises part of ANZ PNG. The balance sheet representation is as at 31 May 2018. Completion of the transaction is expected to occur during the third quarter of FY19 and the acquired balance sheet may be materially different to the current position.

² The pro-forma position above has not been audited and has been prepared for illustrative purposes only, to demonstrate the effect of the acquisition as if it had occurred on 31 December 2017. The pro-forma position is not intended to be a statement of Kina's current financial position.

³ Kina's 2017 earnings were impacted by a non-recurring reduction in foreign exchange income and a one-off lease termination payment.

Acquisition Price:

- The purchase price for the Business is the aggregate of goodwill of PGK24.2m (AUD10m)¹ and Net Tangible Assets (NTA) at completion. Given total deposits are expected to materially exceed total loans at completion, this will result in ANZ PNG paying Kina Bank an amount approximating the value of excess deposits less the value of goodwill.
- Kina Bank paid a deposit on the purchase price of PGK4.8m (AUD2m)¹ on execution of the Sale and Purchase Agreement.
- Completion of the transaction is conditional on both ANZ PNG and Kina Bank securing regulatory approval. The process to secure the approvals is underway.

Integration and Migration

- Following completion of the due diligence program, Kina has developed a clear integration and migration strategy which Kina is ready to implement immediately.
- The migration of customers and the transfer of operations will occur soon after Kina Bank becomes operationally ready to conduct the Business on its own systems and premises (including the acquired branches). Completion of the acquisition will not occur until Kina Bank achieves operational readiness of the Business.

Capital Expenditure

- The transformative nature of the transaction will require Kina Bank to build, test and establish a credit card product and a new mobile banking platform to service ANZ PNG's GoMoney customers.
- Kina anticipates the total capital expenditure required to be approximately PGK26.9m (AUD11.1m) over the next 12 months, which will be fully funded through existing cash and capital reserves.

Kina CEO Greg Pawson said the acquisition is a great development for the group and for Kina Bank.

"Completing this acquisition represents a key component of our refreshed five-year strategic plan. The strength and capabilities that the acquisition will enable will allow us to better deliver on our purpose of empowering our customers and communities to have financial independence and security. Further, the acquisition reflects Kina's aspirations to be a dynamic, progressive and accessible PNG financial services group."

"The customers of ANZ PNG's Business will benefit from this transaction. On day one there will be no change to their offering. Over the near future, their offering is expected to be enhanced as Kina continues to execute on its digital strategy. They will also experience Kina's differentiated value for money proposition."

The acquisition is expected to be completed during the third quarter of 2019. Updates on the progress made by Kina to achieve operational readiness of the Business will be provided with future result announcements.

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