24 August 2018

Kina Securities First Half 2018 Results

Kina Securities restores bank profits in accordance with strategic objectives

Financial Highlights

- Statutory net profit after tax of PGK 20.6m
- FX Income restored to PGK 14m in the period
- Net interest margin 8.1%
- Net interest income growth of 24%
- Non-interest income growth of 130%
- Interim dividend of AUD 4.0 cents per share / PGK 10.0 toea per share
- Capital adequacy maintained at 29%

Kina Securities Limited (ASX:KSL) ("Kina") today announced a Half Year 2018 Net Profit after Tax of PGK 20.6m for the half year to 30 June 2018, showing a significant improvement with the same period in 2017. This result was achieved on the back of restoration of the FX business supported by growth in interest income through loan growth. The statutory profit has been calculated in accordance with International Financial Reporting Standards and also reflects a gain on sale of property of PGK 2.1 m. Directors have declared an interim dividend of AUD 4.0 cents per share / PGK 10.0 toea per share.

Importantly, Kina also delivered three significant strategic objectives during this period. In line with the banking licence conditions, the escrow shareholding was resolved when the founding and major shareholder announced it had sold its entire stake. Kina also entered into a Sales and Purchase Agreement (SPA) with ANZ PNG to acquire their retail, commercial and SME business portfolio including both loans and deposits, subject to regulatory approval. Kina further also strengthened its correspondent banking arrangement.

Kina continued to grow all of its businesses during the first half of 2018. Highlights included:

- Banking Loan book (excluding overdrafts) grew by 12.5%
- Deposit book growth of 8% focussed on low cost funds
- Low Impairment Expense at 0.54% of Gross Loan and Advances (GLA)
- Regained the Funds management contract with Comrade Trustee Services Limited (CTSL)
- The shareholding restructure prompted strong demand from both PNG and overseas shareholders with shares bought by a range of new and existing institutional and retail investors.
- The SPA with ANZ PNG will see Kina Bank's market position in retail, commercial/SME banking improve significantly. It will allow Kina Bank to build out its product capability sooner than expected and provides a strong liquidity position through deposits.

together it's possible

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Kina's Chief Executive Officer, Mr Greg Pawson, said "Kina has delivered a solid result that reflects the strength of the management team and the implementation of its digital strategy and strong organisational capacity building. In early 2018, Kina set a number of key strategic priorities for the year with an evolved vision and purpose to take advantage of new market opportunities as they arise. This refreshed and sharper approach was designed to deliver greater value to banking and wealth management customers and build a more agile business whilst still being resilient and sustainable. The redefined vision is to be the most dynamic, progressive and accessible financial services company in PNG".

Kina Bank

Portfolio growth has been achieved while at the same time improving Net Interest Margin (NIM). Net interest income grew by 24% compared with H1 2017, achieved on the back of growth in the loan book and also by reducing cost of funds by 23%. The focus of Kina Bank on ensuring funding growth through low cost funding has yielded results.

Non-interest income also grew by 130% compared with the same period last year. The result was mainly driven by FX income, given a full six months of uninterrupted FX trading. Managing relationships with key exporters enabled Kina Bank to be a key player in the FX market.

Bank fees income grew by 23% due mainly to more fees collected from commissions on FX trading, given the trading volume increased substantially compared with the same period last year. Fees collected on other banking products also experienced good growth.

Wealth Management

Wealth Management continued its strong relationships with the key superannuation funds in the country being Nambawan Super Limited (NSL), CTSL and the National Superannuation Fund of Papua New Guinea (NASFUND). The most recent partnership in funds administration with NASFUND was successfully transitioned from the previous provider, a transition that was significant in scope and scale. In line with Kina's digital strategic priority, development of the internet banking platform provides for a consolidated real-time view of a customer's complete financial relationship that will include superannuation. The division contributed PGK 2.3m compared with PGK 2.2m in H1 2017.

Capital position

The underlying capital of the business remains strong, with regulatory capital (T1+T2) at 29% of risk weighted assets (RWA), compared with a regulatory required minimum of 12%. This surplus capital is being utilised to acquire the ANZ retail commercial and SME businesses. It is estimated at the time of completion the regulatory capital will stabilise at 17%.

BPNG prudential standard 1/2003 Capital Adequacy prescribes ranges of overall capital adequacy ratios and leverage capital ratios to measure whether a bank is adequately capitalised. Kina exceeds the prevailing BPNG prudential capital adequacy requirements and qualifies as 'well capitalised' as at 30 June 2018, providing a strong base for further growth in lending.

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Asset quality

Overall asset quality remains sound, with a loan impairment and write-off expense of PGK 4.3m for the half year. This is equivalent to 0.54% of GLA. The low levels of impairment expense reflect the continued focus on strong credit quality of the loan book and continued discipline to our lending standards.

Kina continues to be prudent in its provisioning approach. In 2018 Kina implemented the IFRS 9 accounting standard and provided an additional PGK 4.2m as a consequence of moving to an expected loss methodology in line with the requirements of the standard. A coverage ratio of 116% was maintained on loans in arrears greater than 90 days.

Foreign Exchange

In H1 2018, Foreign Exchange income saw its first full six months of uninterrupted FX trading, resulting in a 163% increase in FX income compared to H2 2017. This resulted in income of PGK 14.0m.

Outlook

Despite tighter private sector lending and lower employment growth compared with recent years, the overall economic performance of PNG remains resilient. A recent survey by the Fraser Institute, a Canadian Public Policy think-tank, ranked Papua New Guinea ahead of several Australian states for attractiveness for mining investment. Additionally, recent oil and gas export prices have rebounded in the second quarter of 2018 with any sustained momentum acting to limit downside economic risk.

The finance sector has also continued its modest growth and looks poised to leverage improving economic conditions and a return of stronger market sentiment. The Asian Development Bank forecast growth in the PNG economy to run at 2.5% in 2017 and highlights a possible increase to 2.8% due to one-off activity relating to the Asia-Pacific Economic Cooperation leaders' summit.

Further information:

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