

27 August 2020

Kina Securities Limited delivers continued solid growth in NPAT

The Board of Kina Securities Limited (**ASX:KSL | PNGX:KSL**) (**KSL, Kina, Kina Group, the Bank, the Business or the Company**) is pleased to report a continued strong performance for the half-year to 30 June 2020.

Financial Highlights

- Statutory Net Profit After Tax (**NPAT**) of PGK 29.3m up 24%
- Foreign exchange (**FX**) income up 52% to PGK 28.5m
- Net interest income up 76% to PGK 80.4m
- Revenue up 78% to PGK 149.2m
- Interim dividend of AUD 4.0 cents per share or PGK 10.0 toea
- Funds Administration grew 29% to PGK 3.5m

Kina achieved an unaudited statutory net profit after tax of PGK 29.3m for the half-year ended 30 June 2020 (**1H 2020**). This represents growth of 24% compared to the prior corresponding period. The Board has declared an unfranked interim dividend of AUD 4.0 cents per share or PGK 10.0 toea per share for 1H 2020, compared with dividend per share of AUD 4.0 cents per share or PGK 10.0 toea per share for the prior corresponding period.

The performance was driven by solid growth in interest income, additional revenue from new digital channels and steady organic growth. The uplift in interest income comes from investing customer deposits from the ANZ PNG Acquisition (**ANZ Acquisition**) in high yielding government securities. This was supported by organic business growth with interest realisation in 1H 2020.

Kina deployed a number of new digital channels after the ANZ Acquisition including cards, point of sale (**POS**), Unstructured Supplementary Service Data (**USSD**) and enhanced Internet Banking. Revenue for these channels were critical expected gains that have been successfully delivered.

Kina also made significant progress on a number of strategic projects for growth and enhanced business capability. Cost to income increased against the prior corresponding period as a result of this progress.

Key features of the result

Kina delivered planned business growth across the Group, particularly achieving the integration benefits critical to the ANZ Acquisition, and the key features of the 1H 2020 result included:

- Net Interest Income increased by 76% to PGK 80.4m. This was achieved on the back of growth in the existing loan book, the ANZ Acquisition, and lower interest expense compared to the prior corresponding period.
- FX growth increased by 52% to PGK 28.5m compared to 1H 2019. This was underpinned by an increase in overall market share, an increase in new customers and USD remittance sources from the export sector.

- Fees and Commissions increased by more than 400% to PGK 22.3m on the back of the ANZ acquisition against the prior corresponding period.
- Kina maintained a disciplined approach to credit risk management with Total Provisions as a % of Gross Loans and Advances (**GLA**) at 1.7% compared to 2.1% in the prior corresponding period.
- Funds Administration recorded growth in profit by 29% to PGK 3.5m from increased funds under administration and increased member numbers compared to the prior year.
- Kina also completed a series of milestones in 1H 2020 showing that a significant amount of work has been achieved on its digitally-driven strategy.
- The Company divested the Esiloans portfolio to Nationwide Microbank Limited (**MiBank**) for PGK 32.5m. The transaction and partnership provides greater financial inclusion and improved micro-finance to customers.
- In addition, Kina completed the technology build to provide MiBank with POS services and ATM interchange, central bank clearance, and debit card production as part of our strategic partnership.
- Kina piloted a new approach to customer experience in our flagship branch at Harbour City, Port Moresby that will significantly modernise banking in PNG. The 'Wantok Experience' will provide a digital concierge, digital kiosks and online on boarding throughout the branch network, further driving our strategy to be PNG's leading digital bank.
- Kina also announced a major community partnership with local charity the Kokoda Track Foundation to co-fund a new Flexible Open Distance Education (**FODE**) centre, giving students a second chance for education.

Managing Director and Chief Executive Officer Greg Pawson said: "Despite the challenges presented by COVID-19, we have maintained a disciplined approach to business that has delivered compelling growth. We have leveraged the ANZ Acquisition for a significant uplift in net interest income, and our new digital channels saw higher than expected revenue growth - with merchant POS revenue a particular stand-out. We have also made substantial progress on our transformational journey to enhance our core business."

"Our staff are at the heart of this. During the 1H 2020, we rolled-out an engagement survey for the integrated Kina Bank and ANZ team with a 94% response rate. The results clearly show a high degree of staff satisfaction and that they are connected to the broader goals of the business. There was also a strong response to health and wellbeing in light of our commitment to staff welfare during COVID-19 and the support package we introduced."

Economic outlook

The domestic environment sees new macroeconomic challenges, the most prominent of which, is COVID-19. The government announced a PGK 5.6 billion COVID-19 support package that added to fiscal pressure and also secured USD 363.6m assistance from the International Monetary Fund's COVID-19 relief fund. The Country also saw the delay of a number of major resource projects such as Papua LNG, the P'Nyang gas field, and the Wafi-Golpu copper-gold project. These reportedly represent up to USD 31 billion investments in PNG. As a result, capital investment in mining-adjacent sectors and support services slowed down and GDP is expected to contract by -1.5% in real terms.

ASX/PNGX announcement

Refer to Kina's Appendix 4D Half-Year Report for further details.

Authorised for lodgement: by Greg Pawson, Chief Executive Officer.

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