Kina Securities Limited

27 August 2025

ASX/PNGX – Announcement

BY ELECTRONIC LODGEMENT

Half Year Result, June 2025

Strong non-interest income and loan book growth drive NPAT and Dividend for the first half.

- **Statutory NPAT +37%** vs 1H24 (PCP) to PGK 57.7m, supported by solid growth in total revenue (+10%) and lower income tax rate.
- **Loan Book +16%** vs PCP, & Net Interest Margin +30bpts (+5%) at 5.9%.
- **Non-Interest Income +19%** vs PCP, representing 55% of KSL's total revenues. Key drivers: FX income +37% vs PCP; digital channel revenues +15% vs PCP; funds management (including retail wealth management) +24% and fund administration +11% vs PCP.
- **Operating Costs** +1% vs PCP on a statutory basis.
- **Strong balance sheet**: capital adequacy 17.3%, providing capacity for growth. The quality of the loan book remains healthy.
- **Interim dividend** AUD 4.5 cents (+ 13%) / PGK 12.6 toea (+19%)[i] , reflects a payout ratio of 63%.

CEO, Ivan Vidovich remarked that: "*We have achieved robust underlying growth while simultaneously investing in leadership and technical capabilities. This approach effectively balances a risk-aligned strategy for growth in 2025, as we prepare for our next strategic cycle extending to 2030. Additionally, we have initiated a program within key functions in the bank to enhance both customer experience and operational efficiency. These efforts are essential for the continued maturity of our business, underpinning sustainable growth, and responding to the evolving dynamics of Papua New Guinea's banking market. Consistent with prior market communications, alongside sustainable revenue and market share growth, we anticipate improvements in our cost-to-income ratio over the medium to long term.*

Operating performance

Net Interest Income +1% vs PCP (45% of total revenues).
Growth in loan book of +16%, offset by increase in the cost of funds and the ongoing active portfolio management.

The increase in cost of funds was largely offset by a 30 bps increase in Net Interest Margin to 5.9% reflects stronger asset yields, including from treasury bills.
Momentum in business and home lending grew over the period. Gross loans reached PGK3.1 billion at the end of the half.

Non-Interest Income +19% vs PCP (55% of total revenues).

FX income rose +37% vs PCP, driven by a combination of increased foreign currency inflows, primarily from higher commodity prices in key resource sectors and market interventions from BPNG.

Going forward, FX revenue growth may moderate as BPNG evolves its intervention policy in favor of interbank market dynamics.

Revenue from digital channels grew +15% vs PCP, reflecting increased transactional activity across both merchant acquiring services and card usage. The expansion of KSL's digital footprint has led to higher volumes of electronic payments and fee-generating transactions.

Fees from Funds under Management (FuM) including retail wealth management +24% and Funds under Administration (FuA) +11% continued to perform strongly, as the business experienced increased volume in membership and funds. The growth reflects both organic growth and improved client retention.

Operating Expenses +0.8% vs PCP.

KSL reported total operating costs of PGK148.6 million for 1H25, reflecting a modest 1% increase vs PCP on a statutory basis.

On an underlying basis, the increase is 11% when removing the one-off fraud loss provision of K13.5m from the 1H24 costs.

The statutory Cost-to-Income Ratio of 59.2%, is down from 64.8% in 1H24. On an underlying basis cost-to-income increased marginally from 58.9% in 1H24.

Variances from prior year:

- **Foreign Exchange Impact:** The 7% depreciation of the PGK against the USD over the year increased the local currency cost of USD-denominated expenses, particularly in technology and consulting services.
- **Domestic Inflationary Pressure:** The weakening PGK also contributed to general price increases in locally sourced supplies and services, adding pressure to baseline operating costs.
- **Strategic Investment in Expertise:** KSL is making targeted investments in external advisory and technical expertise to support strategy capability, planned enhancements in technology infrastructure and operational risk frameworks—critical enablers of long-term efficiency, resilience and growth.

- **Leadership Transition Costs:** Temporary overlaps in senior executive roles, including the CEO transition impacted 1H25 costs with further investment in talent and strategic capabilities in the 2H25.

Loan Provisions: KSL recorded a slight increase of 3% in loan loss expense compared to the PCP. This reflects a deliberate and proactive approach to credit risk management and organic growth in loan book. Importantly, the underlying loan portfolio continues to demonstrate strong quality, supported by prudent lending standards and robust risk assessment frameworks.

Tax rate decline: The tax rate has declined from 45% for 2024 to 40% for 2025 and will decline to 35% for 2026. This decline applies to bank pre-tax annual profits up to K300m, which is the relevant band for KSL. For bank profits above K300m, the tax rate declines at 1% per year from 2025, until it reaches 35%. The decline in the tax rate results in a decline in net deferred tax assets, which results in a counterintuitive one-off, non-cash increase in tax expenses at the end of each financial year. This charge is not related to underlying business profitability.

Balance sheet: KSL's total assets grew by 4% PCP, to PGK5.4b in 1H25. This growth was primarily driven by a 16% increase in lending assets, to PGK3.1b representing 57% of the overall asset base.

Tier 1 (T1) and tier 2 (T2) capital represent 17.3% of risk-weighted assets, exceeding the regulatory minimum of 12.0% and classified as *Well Capitalized*. The leverage ratio remains strong at 8.3%, above BPNG's minimum requirement of 6.0%.

Strategic plan

Work is currently underway to finalise Kina's 2026-2030 growth strategy. Key to this development are the 4 core pillars

- Fostering organic growth
- Expanding wealth management service offerings
- Inorganic growth initiatives
- Optimised capital planning

Outlook

Growth in pre-tax earnings is expected to continue in 2H25 driven by increased revenues from both lending and non-lending operations, with appropriate cost controls.

Additionally, as noted above, the changing dynamics in the foreign exchange market, namely the reduction of BPNG intervention flows in favour of interbank market activity, particularly in the short term, may temper growth rates in the FX business.

In the medium-term, primary business sentiment remains dependent on the commencement of major LNG projects, particularly the Total-led Papua LNG project with a possible Final Investment Decision by the end of 2026.

Mr. Vidovich stated that there are clear opportunities ahead. *"As we scale, we will continue to refine our operations, enhance our risk management practices, and advance our digitisation initiatives to deliver better outcomes for customers and achieve greater operational efficiency.*

I would like to recognise the dedication of our team members, the leadership and support of my executive team and the board. To our customers and shareholders, thank you for your continued trust in Kina Securities Limited."

Investor Briefing: The KSL Investor Briefing is scheduled for today (27th August 2025) at 11:00am (AEST) via Event Registration

For further information

Johnson Kalo
Chief Financial Officer
Email: Investor.Relations@kinabank.com.pg
Phone: +675 308 3800

[i] **AUD:PGK cross rate as at 30 June 2025 of 0.3562 which has depreciated from 0.3761 since 1H2024 results*