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KINA SECURITIES CONTINUES STRONG PROFIT GROWTH AND MAINTAINS DIVIDEND

Kina Securities Limited (KSL) today announced a Full Year 2016 Net Profit of PGK41.0 million for the year to 31 December 2016, up from PGK4.9 million for the prior corresponding period. The result was at the top end of the guidance range of PGK39-41 million provided in December 2016.

Directors have declared a final dividend of PGK10 toea per share, taking the full year dividend to PGK20 toea per share compared with PGK9.9 toea per share paid for the full year to December 2015. This converts to a final dividend of AUD\$0.0395 per share, taking the full year dividend to AUD\$0.0804, compared with AUD\$0.034 per share paid for the full year to December 2015.

Following taxation amendments announced in Papua New Guinea's 2017 Budget, the dividend withholding tax rate has been reduced from 17% to 15%. This reduction will apply to the 2016 final dividend.

Key highlights

- Total operating income up 68% to PGK117.0 million
- Net interest income up 52% to PGK65.1 million
- Lending up 62% to PGK606 million, Deposits up 40% to PGK958 million
- Funds Under Management up 14% to PGK6.2 billion, Funds Under Administration up 16% to PGK5.6 billion
- Non-interest income increased to PGK51.9 million for the year, from PGK26.9 million
- Securing the fund administration mandate for PNG's largest superannuation fund, Nasfund, in a competitive process
- Expenses well managed, cost to income ratio of 47.5%, down from 62%.

Kina Securities Chief Executive Officer, Mr Syd Yates, said Kina had delivered a solid result despite challenging global markets.

"Despite the more challenging environment this has been a milestone year for Kina. We have maintained our momentum following our acquisition of Maybank PNG and we are building a stronger and more efficient business while delivering on our vision of helping our customers improve their circumstances," Mr Yates said.

"Kina has maintained its focus on putting customers at the centre of everything we do, living our values and driving a positive culture.

"Our strong performance during the year has been driven by improved customer service, leveraging the Kina brand, investing in people and strengthening management.

"We know customers want simpler and more convenient products and services and our focus on introducing new products and expanded services enabled the Group to increase customer acquisition."

Mr Yates said Kina's service-led strategy had resulted in the number of term deposits growing 46%, savings account numbers increasing 35% and cheque account numbers rising 11%.

He said Kina had significantly improved its banking systems in 2016, enabling it to provide upgraded mobile and online services to its customers.

"A key milestone has been our capacity to provide Kina customers with access to all ATMs in PNG, and a significant network of EFTPOS terminals."

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He said Kina's Wealth business had also invested in new technology platforms that will ensure greater superannuation customer access and service capabilities for the Funds.

Mr Yates said a key feature of the year for the division was its success in securing PNG's largest Superannuation Fund, Nasfund, as a client, in a competitive process. This success will lift funds under administration by PGK4 billion.

"Kina Funds Administration is now able to leverage relationships with all three major superannuation funds (Nasfund, Nambawan Super and Comrade Trustees Services Limited). This will provide greater cross-selling of banking and wealth management products and services to a large, affluent customer base in excess of 700,000 members."

Capital position

Kina's underlying capital position remained strong, with regulatory capital (T1+T2) at 30% of risk-weighted assets (RWA), compared with the regulatory required minimum of 12%.

Credit quality

Overall credit quality remained sound. The loan impairment expense decreased to PGK2.8 million, from PGK3 million in the prior year. This reflected more subdued general economic conditions in PNG. Impairment expense as a proportion of Gross Loans and Advances (GLA) remained low at just 0.5%. Gross non-performing loans were just PGK2 million, equal to 0.3% of GLA.

Foreign Exchange

Foreign Exchange income grew strongly to PGK20.6 million, up from PGK7.8 million. This is despite the withdrawal of the Company's former correspondent banking partner for USD in the last quarter of 2016. This comes at a time when a number of major banks have curtailed their business models in developing countries.

Outlook

The PNG economy grew by approximately 2% in 2016. According to the Supplementary Budget issued by the PNG Department of Treasury, the PNG economy is forecast to grow by 2.8% in the current year, during which a National election will be conducted. There are also some positives for the economy on the immediate horizon including the potential government approval of the Frieda River and Wafi-Golpu project in 2017. The Total-led Papua LNG Project, which is PNG's second LNG project, may also gain approval in 2018. The APEC Summit in 2018 is also likely to provide some short-term opportunities in domestic tourism and construction.

The market segments that are the focus of the Kina business remain resilient, and following the strengthening of the management team during 2016, various new business initiatives are being implemented to ensure that Kina maintains its strong growth trajectory.

In relation to foreign exchange transactions, Kina has identified a new potential partner for USD transactions and expects to have a solution in place by the second quarter of the calendar year. However, it is expected foreign exchange earnings will be affected. The estimated impact is expected to be similar to that experienced in the second half 2016.

Kina has set a number of key operational priorities for 2017. These include:

- Leveraging its relationship with key Funds to facilitate cross-selling opportunities. The ability to leverage PNG's three largest superannuation funds provides a significant database of large and affluent members which can be offered a suite of banking and wealth management products and services.
- Delivering the Nasfund transition to Kina fund administration services.
- Completing the bank's technology transformation. This includes expanding Kina's suite of personal and business banking products and services such as mobile applications and internet banking for retail and corporate customers.

Continued.

- Providing increased convenience for customers, including the launch of a new branch at Vision City Mega Mall in Port Moresby in May 2017.
- Finalising and expanding correspondent banking partnerships to reduce the costs and risks associated with interruptions to these services.

Kina expects to achieve the following targets in 2017:

- Net interest margin of 7-9%
- Cost to income ratio of 45-50%, balancing investment for growth and cost management
- Profitable, quality lending growth
- Continued growth of the low cost deposit base
- Strong prudential position and conservative capital adequacy.

Syd Yates, OBE

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