



## PNGX Announcement/Media release

**14 September 2020**

**Credit Corporation PNG reports K24m profit after tax for the half-year ended 30 June 2020**

### **Group Financial snapshot (1H20 v 1H19)**

- Statutory net profit K23.865m, down by 69.6%
- Core operating profit K24.367m, down by 65.55%
- Impairment charge K38.209m, up by K32.024m including potential impacts of COVID-19
- Earnings per share 0.08 toea, down by 68.0%
- Net asset backing per share K2.95, up by 1.7%
- Net interest margin 12.15%, reduced by 18bps
- Return on equity 5.33%, down by 10.9%
- Tier 1 Risk Weighted Capital ratio 28%, well above regulatory requirements
- Finance segment loss after tax K4.220m, down by 123.3%
- Property segment core operating profit K6,648m, decreased by 28.2%
- Fair value of listed investments K440.646m, up by 8.3%.

### **Key points**

#### **Supporting our customers and our people**

- Loan relief support was extended to many of our customers across the group impacted in COVID-19 in the form of loan repayment deferrals or reduced payments up to three months.
- Continued to operate throughout state of emergencies and ongoing throughout COVID-19 situation to support our customers and build our business resilience and business continuity programs
- Protecting our employees through implementation of COVID-19 safety measures and the new way of working during a pandemic.

#### **Improving risk management**

- Updated and enhanced Governance, Risk and Compliance plan following the onboarding of the Chief Risk Officer and our dedicated 2<sup>nd</sup> line of defence.



### **Building for the future**

- Continued technology investment including the ongoing upgrade of IT platforms, and improving and automating key business processes
- Focused on implementing key initiatives including: viewing the investment portfolio
  - Preparing the Group for organic and inorganic growth opportunities
  - Diversifying the Group funding base in line with the Group Funding Strategy
  - Improvement in marketing Credit Corporation properties.

### **Results overview**

Credit Corporation CEO Peter Aitsi said the 1H20 result reflects one of the most challenging periods in Credit Corporation’s history. The result has been significantly impacted by impairment costs due to COVID-19.

“The Group has worked to strengthen its capital position in recent years which has enabled it to build a buffer to assist absorb the financial impacts of COVID and be better positioned to respond to future developments in the economy.

A critical focus area during this period for the Group has been to manage costs in the business and to ensure sufficient liquidity within our balance sheet. This is reflected in the Group’s cash position as at 30 June 2020, with the cash balance increasing by 67% since the end of FY19.

“Credit Corporation’s balance sheet remains strong. We are well capitalised and our liquidity and funding metrics are considerably above regulatory requirements.”

“We have prudently increased Credit Corporation provision for expected credit losses to K92.069m in 1H20, which includes K38.209m in impairment charges, predominantly driven by the economic impacts caused by COVID-19.

“The estimation of credit losses takes into account stresses on the economies where we operate and mitigating impacts of government actions. Individual customer circumstances and the various COVID-19 hardship relief options provided to our customers impacted by the pandemic were also taken into consideration.

“We will continue to monitor our lending portfolio and reassess our provisioning levels as the situation evolves.”

### **Supporting our customers and our people**

Mr Aitsi said much of our focus has been to maintain resilience in the current economic environment.

“We continue to provide support to our customers and three-month repayment deferrals were provided on K291m of lending to customers between April and June 2020

“Subsequent deferral requests are being tightly managed, with many customers resuming their normal monthly repayments and those unable to do so, committing to pay either a reduced amount of their monthly repayment or at a minimum, interest payments.

“As a Group, we remain proud of our employees and their efforts to support our customers despite the ongoing disruption to their working and family lives as a result of COVID-19.”



### **Ongoing focus on risk management**

Risk management remains one of the Group's highest priorities.

The newly formed risk team is focusing on strengthening the Group governance structures and enhancing the Risk Management Framework to fit the current market, strategy and business priorities.

### **Balance sheet and capital**

Credit Corporation remains well capitalised and provisioned, though the Board acknowledges that changes to operating conditions as a result of the current economic environment may occur in the coming six-month period.

Funding grew by 13% compared to 1H19, with the growth designed to ensure the Group has sufficient liquidity to strengthen its financial position due to uncertainties posed by COVID-19.

The Group worked within its funding plan in 1H20 and focused on diversification of its funding base, to bring greater certainty around its funding profile.

The Group is also committed to strengthening its treasury function with additional resources and expertise to assist with meeting funding requirements, and to manage funding risk in the future.

## **Divisional performance**

### **Finance segment**

The Group's finance companies have been significantly impacted due to the COVID-19 pandemic restrictions introduced across all jurisdictions. The subsequent border closures have seen revenue decline from tourism activities which impacted customers in all industries, particularly closely related industries such as transport.

The Finance segment overall recorded a loss after tax of K4.220m, compared to an NPAT of K18.144m for the same period in 2019. The main contributor to this result was the increase in loan provisions and decrease in interest income from reduced loan receivables.

Loan receivables reduced by K40.431m or 7% compared to FY19 due to restrictions being applied to new business lending in all jurisdictions. We are yet to see the longer-term impacts of the COVID-19 restrictions on respective local economies.

### **Property segment**

COVID-19 has had an impact on the Property segment during 1H20 with declining occupancies, downward pressure on rental rates and increased rental abatements.

Average occupancy levels for the property portfolio decreased to 78% during 1H20 compared to 82% in FY19. Occupancy levels at Credit House have been stable, while greater focus has been placed on ensuring building occupancy levels at the residential properties.

The Core Operating Profit of the Property segment reduced to K6.648m in 1H20 from K9.261m in 1H19.



For the purpose of 1H20 reporting, the Group performed a further valuation analysis on its properties in light of the current uncertainties posed by COVID-19. Accordingly, based on assessment performed by Savills, property values have decreased by K16.363m from FY19. The valuation position was attributed to market factors such as rental rates, property prices and yields, and average lease tenures in light of current uncertainties.

### **Investment segment**

The investment portfolio consists of listed equities, predominantly BSP shares. The valuation of shares in BSP increased by 8% compared to 1H19 and the dividend yield reduced by 122bps, mainly due to the appreciation of the BSP share price over the last 12 months.

### **Outlook**

Credit Corporation entered the COVID-19 crisis in a strong position financially, operationally, and culturally.

Throughout the crisis our focus has been on:

- Protecting our people, customers, tenants and shareholders;
- Resetting to meet the changing operating environment;
- Engaging proactively with all stakeholders including customers, tenants, employees, shareholders, banking partners and regulators;
- Building for the future.

It is presently difficult to predict the depth of the economic impact and the duration of recovery. We continue to focus on our clear strategic direction, a prudent approach to risk, and disciplined operational execution.

Our long-term strategy remains in place and we are in a strong position to manage through this crisis and well placed to take full advantage of any uplift as the global and domestic economic conditions improve.

### **ENDS**

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#### **About Credit Corporation (PNG) Ltd:**

Credit Corporation (PNG) Limited commenced business in 1978 as a general finance company. It has grown successfully to become recognised as one of Papua New Guinea's most progressive institutions. For more information about Credit Corporation PNG visit: [www.creditcorporation.com.pg](http://www.creditcorporation.com.pg)

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