

## Kina records pro-forma net profit of PGK47.5 million for year to December 31. Exceeds prospectus forecasts

### Results Highlights

	Year to Dec 31 2015	Prospectus forecast	Variance %
Pro-forma net profit (PGKm)	47.5	45.3	4.9
Pro-forma net interest margin	9.6%	10.6%	(9.4)
Bad debt expense (PGKm)	2.6	3.9	(33.3)
Cost to income ratio	45%	45%*	-
Capital adequacy (T1 +T2)	37%	28%	32.1
Dividend (cents per share)	3.4	3.2	6.3

\* Cost to income ratio restated from original prospectus forecast of 50.1% by excluding impairment expense from operating costs

In its maiden profit result as a listed entity, PNG banking and wealth management company Kina Securities Ltd has exceeded the profit forecasts included in the prospectus lodged for its stock exchange listing in July, 2015.

The company achieved a pro-forma net profit of PGK47.5 million for the full year to 31 December, 2015, which was 4.9% higher than the prospectus forecast of PGK45.3 million.

Directors have declared a maiden dividend of AUD\$0.034 per share for the year, which again exceeds the prospectus forecast of AUD\$0.032 per share, and equates to an annualised dividend yield of 11.3%, unfranked, based on a share price of AUD\$0.90.

The result reflected the success of Kina's transformational PGK349 million acquisition of the Maybank PNG business in September 2015, which created a new financial services powerhouse and provided a solid platform for the merged group to pursue its ambitious growth targets in the rapidly maturing PNG market.

The strong profit result confirms that the benefits of the merger were beginning to be realised in the three months to December, with Kina becoming firmly established as PNG's fourth largest bank with lending assets of PGK374 million and deposits of more than PGK680 million. This large low cost funding base provides Kina with a solid platform to grow lending in its key target markets and drive greater penetration of its expanded customer base of 11,000 financial services consumers. Loan growth was below prospectus forecasts due to reduced activity in the lead up to the completion of the Maybank business, and during the initial integration period, however lending has accelerated into the current year.

The bank recorded a pro-forma net interest margin of 9.6% for the 12 months to December, which compares with average net interest margins for the major banks in Australia of approximately 2%. Pro-forma bad debt expense was just PGK2.6 million, equal to 0.7% of gross loans and advances, and gross non-performing loans totalled PGK2.7 million, equal to 0.7% of gross loans and advances.

The figures demonstrate the underlying strength and quality of the banking business, with the result also featuring foreign exchange commissions of PGK27.7 million and other non-interest income of PGK26.1 million, mainly comprised of banking fees and commissions as well as income from the Wealth Management business. Total operating income, at PGK125.2 million, was therefore slightly in excess of the prospectus forecast of PGK124.6 million.

Pro-forma operating expenses for the year totalled PGK55.8 million, in line with the prospectus forecasts of PGK55.5 million, leaving the cost to income ratio at a competitive 45%.

The underlying security of the business is exceptionally strong, with regulatory capital (T1+T2) at 37% of RWA (33% post 2105 final dividend), compared with required minimum 12%. Return on Equity was healthy at 19%.

## Outlook

Kina has commenced the current year strongly, with momentum increasing after the completion of the Maybank acquisition and as integration of operations and systems gathers pace.

New business lending has accelerated in the current year, deposit volumes continue to rise, funding costs are being reduced as expected, and non-interest income is increasing steadily. While the PNG economy has experienced some slowing in activity due to reduced commodity prices, Kina's target markets of small business and retail consumers remain relatively resilient. Kina can continue to take advantage of its competitive position as a homegrown PNG business with a market share of approximately 4% and ample opportunity to grow.

The focus for the current year will be to extract the maximum benefits from the Maybank merger through seizing opportunities for sales to new and existing customers, increasing investment portfolio returns and reducing funding costs. Systems integration and technology enhancements are also being implemented to provide greater service and access to a broader customer base, and strengthened risk management systems are being introduced to maintain credit quality.

The Bank remains well placed to deliver steady growth in operating results in 2016, including:

- Net interest margin of 8-10%;
- Cost to income ratio of less than 45% due to ongoing effective cost management;
- Profitable and quality lending growth, with strong momentum building in the period since the completion of the Maybank merger in September, 2015;
- Continued growth of the low cost deposit base

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