

Lesieli Taviri
2021 Business Outlook

Thank you Nuni. A very warm welcome to our Prime Minister, Ministers of Parliament, VIPs and distinguished guests.

We are delighted to sponsor this important event for the fourth year running and mark the beginning of the 2021 business calendar. We see the Prime Minister's Back to Business breakfast as a crucial event for nation building – bringing the leaders of government and business together to discuss a shared vision for the sustainable growth and success of our country.

My name is Lesieli Taviri and I'm the Executive General Manager for Banking at Kina Bank. I recently joined the business to lead our "customer first" strategy across our nationwide branch network, our contact centre, and their support teams.

I am here presenting to you today as a delegate for our CEO Greg Pawson who sends his apologies. He's rightfully doing his duty in quarantine at the moment! And he sends his warm regards.

Firstly, I'd like to take you through a brief Economic Outlook which has been prepared by Deepak and the team at Kina Funds Management, and then as you would expect of the sponsor I'd like to tell you a little bit about what we have been doing at Kina Bank. 2020 was a challenging year for PNG as the Covid-19 pandemic took a significant toll on all sectors of the economy. The Prime Minister stated in September that PNG's economy had declined by K10.7 billion in nominal terms by the third quarter, which is significant relative to estimated gross domestic product (GDP) of K81.6 billion.

The cancellation of Papua LNG and P'nyang LNG before the Covid-19 outbreak put a dampener on investments in resource-adjacent sectors and tilted risks in the broader economy towards the downside. The pandemic aggravated these risks and caused a number of private and commercial investments to be either delayed or cancelled outright. As a result, Discretionary spending was impacted negatively and furthermore the closure of Porgera Mine in April amidst the pandemic added to concerns - with significant impact on GDP, expected taxation revenue, and foreign currency inflows.

The original deficit of K4.6 billion anticipated revenues of K14.1 billion, with total expenditure of K18.7 billion. However, in the midst of the pandemic, revenue saw a 19.4% reduction and the deficit needed to increase further to K6.6 billion, even with reduced expenditures. To allow for the additional borrowing, the government amended the debt-to-GDP ceiling prescribed in the Fiscal Responsibility Act from 45% to 60%. This was a necessary

amendment in our view - as a reduction in fiscal stimulus in the immediate short-term would disadvantage the economy and slow down recovery timeframes.

PNG's monetary response to the pandemic was also urgent and unprecedented. The Bank of PNG undertook several targeted measures to increase money and FX supply and lower interest rates, which had the added effect of supporting the Government's fiscal operations during the pandemic. Financial institutions also provided support with banks lowering interest rates and providing for temporary loan repayment deferrals to support borrowers.

We are now a year after the initial global lockdowns, and by God's grace the country was not as severely affected as its neighbours in the region. Businesses have reopened, with masks and social distancing mandates in place. So what will happen in the medium term?

The resource projects continue to be the main economic drivers in the medium term. Investors and economic stakeholders continue to hope for a speedy resolution to key resource project negotiations to drive confidence and economic growth. These are in addition to the planned Government spending over the medium-term to improve infrastructure, providing confidence that the economy will have some support until the global pandemic subsides. The resource projects currently in the pipeline for PNG represent an estimated K110 billion in foreign direct investment and domestic production over their respective lives.

The 2021 National Budget projects over K40 billion in Capital Expenditure from 2021 to 2025. This fiscal support, especially after the sharp downturn witnessed globally, gives some measure of reassurance to economic stakeholders and has the potential to set a solid foundation for future growth for PNG.

At Kina Bank we have a commitment to being 'Always First', and despite the challenges of the Pandemic, 2020 was a big year for us. As a truly effective competitor we have actively disrupted the PNG banking sector with a series of market firsts:

- We introduced PNG's first ever fixed rate home loan with a historically low rate.
- We also took a market leading position by lowering fees and charges for POS and our digital banking channels,
- And we made our first step towards fee free banking for our Visa card customers with a Home Loan.

- We piloted a concierge service and digital kiosks in our branches so customers can bank digitally but in the context of a branch - and designed for those of our customers who have no, or limited access to the internet.
- We're the first in the Pacific to introduce extra security measures for cards, and self-service for Visa card controls online so you can block your card through internet banking if you think it's lost or stolen. And this is only the beginning of a compelling self-service proposition.
- We launched a world class internet payment gateway and initially developed this e-commerce platform in collaboration with Niupay, the Department of Lands and the Immigration and Citizenship Authority. We see this as important step toward transforming the way payments are made across the Public Sector in PNG, both for efficiency and transparency.
- We lent over K550 million to support the SME and Commercial sectors in what has been a very challenging year for businesses.
- And through our partnership with MiBank, we have together enabled over 50,000 Papua New Guineans to access the banking sector and open a bank account.

And finally, in December we made another major announcement: the proposed acquisition of Westpac's Pacific Businesses in PNG and Fiji. While this is subject to the regulatory authority's approval and support, we thought it was important to provide an overview of why this acquisition will be a boost for local investment and a great outcome for PNG.

Our bold ambition is to create the bank of the future for PNG. We see this as an exciting opportunity to create something really special for banking and financial services in PNG and the broader Pacific. Importantly, it provides a scale financial services organisation, more investment, and a firm strategic commitment to banking in the region - something that we think that has been sadly missing. It also reaffirms PNG's position as the largest economy in the Pacific region.

There has been some considerable misinformation about our ownership and shareholders. So to be clear – we are a publicly listed company on both the ASX and PNG-X stock exchanges. As such our governance is of the highest standards and at a level that you would expect of a cross jurisdictional listed entity. Our major shareholders include the triple-A investment grade rated Asian Development Bank and numerous well-known global fund managers across Australia, New Zealand, the USA, UK and Singapore. They have shown

great faith and support for PNG and the broader Pacific region, and most importantly for this acquisition. You will be aware that we completed a successful capital raising during 2020.

Our founding shareholder, Fu Shan Investments, sold their remaining minority shareholding in Kina in 2018. This paved the way for many local PNG investors such as Comrade Trustees and MRDC to invest in our business and for the Asian Development Bank and other highly regarded local and international organisations to take a leading position.

We have an exceptionally capable independent Board of Directors. We recently appointed Dr Ila Temu to the Board, under the continued strong chairmanship of Isikeli Taureki.

There's been some talk that this acquisition would affect market concentration and create a duopoly - or create another financial services business that's too dominant. This simply isn't true. After the proposed acquisition, the market share of the combined businesses of Kina Bank and Westpac PNG would be less than 20%.

Our proposal is another first for PNG: To take a multi-brand approach that will improve competition; improve customer choice; and continue to disrupt the banking sector in this country in a positive way.

Our intention is to create a completely new brand for the acquired business and to maintain the independent commercial banking licence of Westpac PNG. It is worth noting that there are four commercial banking licenses in PNG, and numerous micro banks and savings and loan societies operating in this country. Furthermore, the Bank of PNG can at any time grant additional commercial banking licenses to either domestic or international institutions.

The newly branded bank will be independent and separate from the existing Kina Bank brand, and it will compete directly and vigorously with BSP, ANZ and Kina Bank in both PNG and Fiji.

Its mandate will be a specific focus on the MSME and SME and Commercial sectors of both Pacific markets and we will reinvigorate Westpac's financial inclusion program that has been dormant for some time. Financial inclusion remains one of the biggest structural issues for the PNG economy and we aim to address this head on.

The new brand will be governed by an independent PNG based Board of Directors. And there will be significant opportunities for anyone in PNG to invest and participate in the ownership of it through Kina Securities Limited.

A multi-brand strategy means there would be no branch closures. No reduction in the in-store network. And no job losses. In fact, we will be bringing more jobs back to PNG. And we will have greater capability to expand the branch and in-store network even further, providing more access for harder to reach communities. It also means there will be no disruption to customers in both countries. No changes to systems or processes or the way customers go about doing their business. Literally nothing changes except for the name above the door.

This is will be a great outcome for customers in both markets from a service and product perspective.

And creating a new brand, means there would be no lessening of competition; and no prospect of a duopoly or market dominance. And a significant change to the Westpac business is that ALL decisions and operations will be HERE in PNG, not made or performed somewhere offshore.

This multi-brand approach has a well-established precedent. We see it in Australia with Westpac / St George; in the UK with Lloyds TSB; and in the USA with Wells Fargo and Bank of America. And we see it in many other countries across the world.

And lastly, with the additional scale, customers and footprint, Kina will be better able to drive innovation and introduce more choice for customers. The additional scale and regional expansion would give us the ability to take banking back to basics with better customer service and no unnecessary fee gouging. We think this is morally and ethically the right strategy.

- We plan to introduce completely 'fee free' banking on transaction accounts for customers across both brands.
- We are also planning to radically shift the way we price business lending.
- We will introduce new advisory services for the SME and MSME sector.
- We will invest in new platforms to support the superannuation sector.
- And, we will provide a whole new suite of world-class digital products and services.

We are really excited about the future of Kina and PNG.

More much-needed investment in PNG. More choice. More disruption. More competition. More Growth.

Thank you.

media release

Thursday 4 February 2021



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