Quarterly Report.

June 2022

kinabank

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Quarter Highlights.

2021 FBO:
Revenue vs Expenditure

Total revenue was PGK13.8b. This is PGK1.7b (or +14.5%) higher than the 2020 outcome. This was mainly supported by a +3.3% increase in donor grants from foreign governments. On the other side of the ledger, total expenditure increased by +3.7% (PGK0.7b) to PGK20.1b.

2.55%
1-Year Treasury Yields

Yield on the Government's 1-year T-bill touched 2.5% during the period. This is the first time that 1-year bill has been this level since December 2012.

-6.70%
Budget Deficit

The Government achieved a Budget Deficit of PGK6.3b, or 6.7% of GDP. Compared to the previous year, the deficit balance improved by 2.2%.

+1.5%
Kina Securities Index (KSi)

The KSi moved up by +1.5% from the first quarter to end out the first half of the year, supported by a rise in the share price of BSP Financial Group Limited.

PGK5.945 BILLION
IRC Collected

Strategic intervention and strong energy prices helped increase the country's tax revenue to PGK5.9b, which is about +21% higher than the 2022 projections.

+29.96%
Bank Debit Card Usage

Retail activity continued its growth trajectory, as indicated by the Bank of Papua New Guinea's latest statistics on PNG banks' Retail Electronics Payments System (REPS). The REPS recorded 1.5 million transactions in June, and was up by +29.9% on a Year-on-Year (YoY) growth for Bank Debit Card transactions – ATM withdrawals and EFTPOS purchases.

Market Commentary.

Elevated inflationary pressures continued to take a toll on the global market during the second quarter. The tight labor market along with high energy prices and a broader increase in food and service prices caused stagflation, a result of the lingering effects of the global pandemic, the on-going Russia-Ukraine war, and further exacerbated by the Covid-19 lockdowns in China the world's largest exporter of goods – producing over 220 types of industrial products, including vehicles. Policymakers in some developed economies have been forced to increase their benchmark interest rates in an attempt to bring down inflation to meet policy targets after witnessing a 40-year high.

The global market was overwhelmed with central banks' policy actions, particularly in Q2. Following the June meeting of the U.S Federal Open Market Committee (FOMC), Chairman Jerome Powell announced in a press conference that the committee had agreed and raised the funds rate by 75 basis points (bps) - the largest hike since November 1994. Mr. Powell also stated that the U.S Federal Reserve (Fed) will continue to significantly reduce its balance sheet. Also in June, the Reserve Bank of Australia (RBA) increased its cash rate by 50 bps, the second time in Q2 that the RBA lifted its rate. The RBA Governor, Philip Lowe, stated in a media release that "Inflation in Australia has increased significantly. While inflation is lower than in most other advanced economies, it is higher than earlier expected". Meanwhile the European Central Bank, based on the careful assessment of its Governing Council, has declared to hike its key interest rate by 25 bps in July. Investors cautiously navigated the volatile market landscape in Q2.

In PNG, the Internal Revenue Commision (IRC) released an update on its mid-year performance for 2022. IRC reported a higher-than-expected total tax revenue of PGK5.9billion, which is +21% higher than the 2022 projections and +38% higher than the 2021 collections. The successful first-half was supported by positive

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Market Commentary Continued

strategic interventions and backed by strong energy prices globally. The Group has surpassed its first-half collection target by PGK76million and is on track to reach the 2022 National Budget target of PGK10.5billion. IRC Commissioner-General, Sam Koim, showed optimism about beating this year's target when interviewed by The National Newspaper. IRC has also been assisting the government to address inflationary concerns with tax reliefs. On the consumer front, indicative retail prices in the Nation's Capital for petrol fell -3.9% to PGK4.32 a litre, whilst diesel and kerosene increased to PGK4.40 (+7.6%) and PGK4.32 (+16.2%) respectively. Fuel prices in other centres have also changed based on their domestic freight prices and retail margins.

Kina Bank Outlook.

Global markets had a difficult first-half in 2022 with continued rivalry between central banks and stubborn inflation, leaving no guarantee that the global market conditions will be any different to the last six months. The Russia-Ukraine war seems far from over, leaving OPEC+ member countries scrambling to keep up with their output quotas. As a result, energy prices will continue to provide support for inflation to remain at elevated levels.

Meanwhile the world's second largest economy – China – raised global expectations with the possibility of easing lockdowns/restrictions, which would provide much needed relief. However, reports of a new Covid-19 outbreak heading into Q3 is striking fears of more lockdowns / restrictions that will add more inflationary pressure. On the flip side, policymakers have already hinted a series of large rate hikes going into the next six months. The key focus is to bring down inflation to reasonable levels before it becomes entrenched. On the other hand, investors are worried that this approach will trigger the global economy into recession.

With global inflationary pressures, prices of goods and services are expected to rise in the coming months. Net import economies, such as PNG, will be hard hit since imports of goods and services outweigh exports. For PNG, the next six months of this year will be a tussle to balance the impacts of inflationary pressures versus fears of a global recession, which will prove whether or not the Government's tax relief package of PGK611 million is effective enough to buffer the effects on citizens. One could consider the following scenarios;

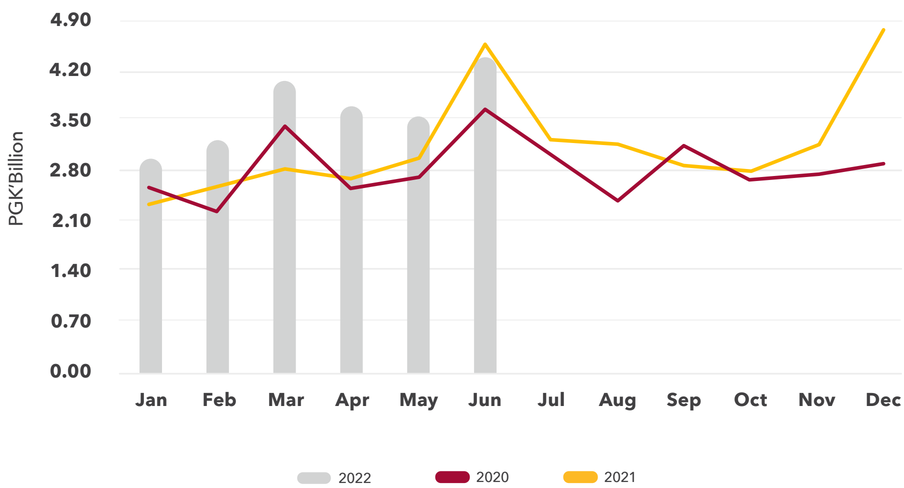
a) How far can the government go to sacrifice more of its tax revenue to support businesses and households if inflation continues to surge?

b) What alternative does the Government have if oil prices plunge due to recession fears?

PNG FX Market.

The Kina exchange rate remained steady versus the U.S dollar at 0.2840 for the quarter. However, the domestic currency has appreciated against other curorecies (AUD, JPY, GBP, and NZD) on the back of a stronger U.S dollar. The Greenback has been rising with the help of the Fed's more aggressive monetary policy stance and recession concerns. The Greenback is globally regarded as a safe-haven currency.

Over the last three months, the total FX market tunrnover have totalled up to PGK11.8 billion, which includes a total BPNG intervention[1] of PGK844.70 million. In relative terms, FX activity was up +13.28% from the prior quarter, while fell -4.88% on a Year-on-Year basis.



[1] *As the regulator, BPNG normally intervenes with the FX market*

PNG Equities.

The Board of a locally listed company, Credit Corporation PNG (CCP), declared a final dividend of PGK0.13 per share for the second-half performance of 2021, which brings the total dividend for the year to PGK0.18 – this includes an interim dividend of PGK0.05 per share. The final dividend will be paid on 28th July 2022. Also in Q2, the Group Chair, Richard Sinamoi, told the company's Annual General Meeting in June that CCP is eyeing to be listed on the Australian Stock Market (ASX). This plan is part of the company's latest revised strategy. Listing on the ASX will help the company source new capital funding for future strategic opportunities and provide more liquidity to the shareholders.

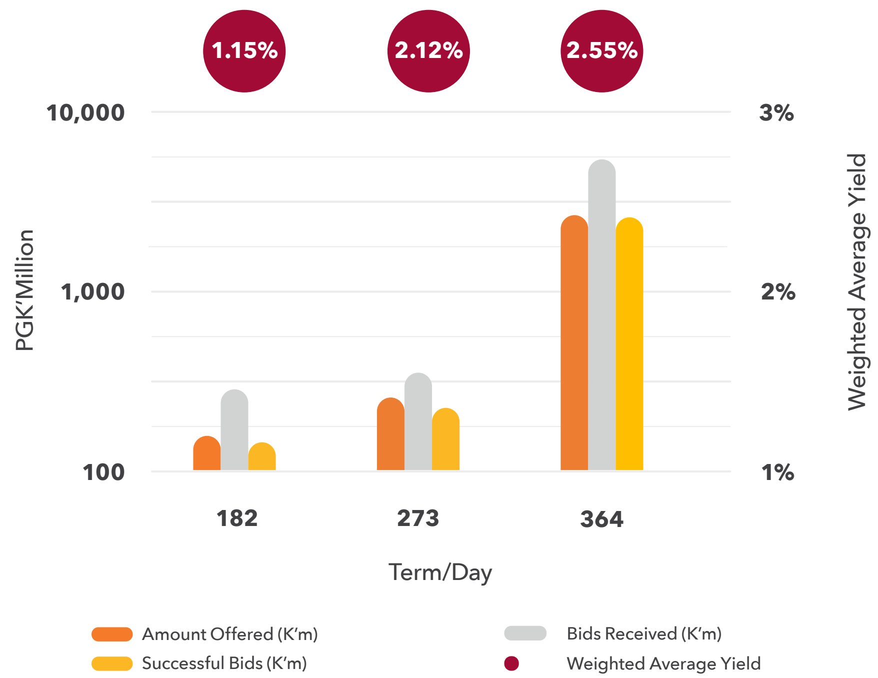
	PRICE*		Q2		YTD
PNG Stock Exchange (PNGX)					
Kina Securities Ltd *(KSL)*	3.00	-	0.0%	↑	1.7%
Credit Corporation PNG *(CCP)*	1.85	↑	15.6%	↑	10.1%
BSP Financial Group Ltd *(BSP)*	12.40	↑	2.9%	↑	1.2%
Australian Securities Exchange (ASX)					
Kina Securities Ltd *(KSL)*	0.81	↓	-5.9%	↓	-5.8%
BSP Financial Group Ltd *(BFL)*	4.95	↑	3.1%	↑	15.9%
Newcrest Mining Ltd *(NCM)*	20.89	↓	-21.9%	↓	-14.7%
Santos Limited *(STO)*	7.42	↓	-4.1%	↑	17.6%
PNG Market Indices					
Ksi	6,263.94	↑	1.5%	↑	6.9%
KSHi	15,356.56	↑	10.1%	↑	6.7%

**PNGX prices in PGK; ASX prices in AUD.*

The Kina Securities index (KSi), which measures all 12 publicly listed companies in PNG, rallied from the previous quarter to recoup more points than that lost in Q1. The KSi rose +1.5%, mostly supported by the country's largest commercial bank, BSP Financial Group Limited. The key index gained about +6.9% on a year-to-date basis. At the same time, the Kina Securities Home index (KSHi) jumped more than +10% as the share price of Credit Corporation PNG rose to PGK1.85, up by +15.6%. The KSHi is a subset of the KSi, which includes 4 locally listed stocks.

PNG Cash & Fixed Income.

The Government's short-dated Treasury Bills marked losses in back-to-back quarters, with excess liquidity and stronger demand continued to put downward pressure on yields. Yield on the 1-year Treasury bill fell to its lowest peak since December 2012 at 2.55%, down by 250 basis points (bps) from the prior quarter. However, with the Government's Treasury bond (commonly refered to as Government Inscribed Stocks or GIS for short) offerings during the quarter helped reduce some pressure off from the 1-year yield. About PGK4.7 billion was raised for the Government by BPNG through GIS and Treasury Bill auctions.



International Equities.

The global share market stumbled again in Q2. This was after policymakers backed their more aggressive monetary policy rhetorics with large rate hikes, leading to sharp sell-offs during the quarter. Investors exited the share markets on recession fears as they priced in further rate hikes in the future. All benchmarks across the globe closed largely with negative returns. The three major benchmarks in the U.S plunged more than -11% over the last three months. The Dow Jones dropped -11.3%, the S&P 500 shed -16.5%, and the tech-heavy Nasdaq Composite noted the biggest drop of -22.4%. In Europe, benchmarks in the Euro Area fell more than -11% (DAX: -11.3% and CAC40: -11.1%) and the U.K's FTSE 100 declined by -4.6%. Share markets in Asia-Pacific shared similar sentiments with U.S and Europe markets, each falling at a range of -5% returns. India's Sensex shed -9.5%, while Japan's Nikkei shed -5.1%, and Australia's S&P/ASX 200 dipped -12.4%.

	Price (USD)		Q2		YTD
North America					
Dow Jones IA	30,775.43	↓	-11.3%	↓	-15.3%
S&P 500	3,785.38	↓	-16.5%	↓	-20.6%
NASDAQ	11,028.74	↓	-22.4%	↓	-29.5%
Toronto S&P/TSX	18,861.36	↓	-13.8%	↓	-11.1%
Europe					
FTSE	7,169.28	↓	-4.6%	↓	-2.9%
DAX	12,783.77	↓	-11.3%	↓	-19.5%
CAC40	5,922.86	↓	-11.1%	↓	-17.2%
Asia					
Nikkei	26,393.04	↓	-5.1%	↓	-8.3%
Hang Seng Index	21,859.79	↓	-0.6%	↓	-6.6%
Shanghai Composite	3,398.62	↑	4.5%	↓	-6.6%
Sensex	53,018.94	↓	-9.5%	↓	-9.0%
S&P/ASX 200	6,568.06	↓	-12.4%	↓	-11.8%

International Cash & Fixed Income.

Yields on Government bonds continued to rise while the bond prices fell, intensified by a sharp sell-off during the quarter as investors increased their expectations about the global economic recession. Investors fear that a more aggressive policy could hamper economic growth.

The U.S 10-year Treasury yields rose +0.67% to 3.01%. In Europe, the U.K 10-year tenor added +0.62% to 2.23% and the French 10-year paper climbed to 1.92%, up +0.94%. Bond yields in the Asia-Pacific ended strongly with Aussie yields up +0.82% to 3.66%, the Kiwi climbed to 3.86% (+0.64%), and the Japanese bonds added +0.01% to 0.23%.

10 Year Government Bond Yields

COUNTRY	YIELD		Q2		YTD
United States	3.01%	↑	0.67%	↑	1.50%
United Kingdom	2.23%	↑	0.62%	↑	1.26%
Australia	3.66%	↑	0.82%	↑	1.99%
New Zealand	3.86%	↑	0.64%	↑	1.47%
France	1.92%	↑	0.94%	↑	1.72%
Japan	0.23%	↑	0.01%	↑	0.16%

Commodities.

The markets shifted focus from a supply crisis to the possibility of a recession, as prices of key commodities eased on fears that demand would pare. Nevertheless, energy prices maintained their dominance on the commodity front. Oil prices finished higher as traders shrugged off recession worries after tight supply was aggravated by a drop in Libya's exports, coupled with other OPEC+ producers' struggle to meet production quotas. Following that, Liquified Natural Gas (LNG) prices surged supported by an increase in energy usage as heat waves swept across the Northern Hemisphere. On the other hand, precious metals, base metals and agricultural products had a difficult 3-months, closing below Q1 peaks.

	PRICE (USD)		Q2		YTD
Agriculture					
Coffee *(US cents/lb)*	234.00	↑	3.2%	↑	3.3%
Cocoa *(US$/mt)*	2,291.00	↓	-13.6%	↓	-9.1%
Palm Oil *(RM/tn)*	5,088.00	↓	-20.4%	↓	-1.4%
Energy					
Brent Crude *(US$/bbl)*	114.81	↑	6.4%	↑	46.9%
LNG (*US$/mmBtu)*	38.66	↑	9.1%	↑	26.8%
Light Crude WTI Futures *(US$/bbl)*	105.76	↑	5.5%	↑	39.8%
Precious Metals					
Gold *(US$/oz)*	1,807.30	↓	-7.5%	↓	-1.3%
Silver (US$/oz)	20.35	↓	-19.0%	↓	-13.1%
Base Metals					
Copper (US$/lb)	3.71	↓	-21.9%	↓	-17.0%
Iron Ore (US$/mt)	116.67	↓	-16.6%	↑	3.6%

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