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ASX/PNGX – Announcement

ASX Markets Announcement Office
Exchange Centre
20 Bridge Street
Sydney NSW 2000
Australia

PNGX Markets
Harbourside West Building
Unit 1B.02, Level 1, Stanley Esplanade
Down Town, Port Moresby 121
Papua New Guinea

BY ELECTRONIC LODGEMENT

Full Year Result 2022 - Kina Bank delivers strong growth and ROE

- Underlying NPAT increased by 10% to PGK 106.1m.
- Net Fees and Commissions increased by 30% to PGK 116.2m primarily by continued development and build out of Kina's channel network. Organic growth and digital expansion resulted in an increase of 78% in channel fees
- The Loan book grew by 11%.
- Kina grew its customer base by 19%, which delivered strong low-cost transactional deposit growth of 27.7%.
- Digital Channel growth of 89% year on year, due to expanded EFTPOS and terminal of choice strategy.
- Cost to income ratio remained flat at 58.7% with investment in a middleware API layer, and further investments in core technology and enabling infrastructure.
- Underlying ROE was 17.9% demonstrating Kina's ability to generate quality returns.
- Reduction in impairment cost to PGK 4.8m. The lower impairment in the current year is due to such factors as the continued application of the asset recovery program of work and security database improvements contributing to robust loan and asset quality measures.
- Kina Investment Superannuation Services recorded an increase of 10% in total revenue associated with an increase in total funds under administration to PGK 17.3b and an increase of 4% in total membership.
- FX customer volume increased by 19%, albeit the revenue reduction was significantly driven by transactions using lower margin USD currency.

Kina Securities Limited (ASX:KSL | PNGX:KSL) (Kina) has announced today an underlying NPAT of PGK 106.1m, an increase of 10.3% by comparison to prior corresponding period (PCP). Kina's FY22 results were underpinned by solid revenue growth in core banking products and digital services contributing towards the progress of the 2025 strategic plan. Kina's underlying ROE remains above 15%, at 17.9% and restores the rate of return immediately prior to the 2020 capital raising, while maintaining a robust balance sheet with regulatory capital at 22.5% well above the minimum requirement. The strong results demonstrate Kina's ability to execute a revenue diversification strategy, with 50% of income derived from non-interest products.

The Board declared an unfranked final dividend for 2H22 of AUD 6.5 cents per share/PGK 16.1 toea per share. This compares to AUD 7.0 cents/per share/PGK 18.5 toea in the PCP.

Kina's CEO and Managing Director, Greg Pawson said that the result was pleasing and demonstrates Kina's commitment to executing against our Strategic plan by delivering diversified income streams, increased revenues in digital channels and solid growth in our core business.

"In 2022 we reached the half way point of 2025 strategic plan. Executing sustainable growth on the core lending businesses through a targeted approach to segments has been constant over the past two years. This has enabled our market share to improve by 1% in both deposit and loans and customer growth of 19%. Our digital revenues trajectory remains positive. Merchant fees, online banking fees, EFTPOS usage and other digital led initiatives such as What's App Banking drive these results."

Operating performance

Banking – Lending

Overall lending was up 11% against PCP with the overall balance above PGK2.1bn. Growth in Commercial was up 9.6%, this includes a strong year on year SME growth of 25% and Home lending up 19%. Total system growth in PNG was lower in 2022 compared to 2021, at 5%. Further demonstrating Kina's strong performance with market shares gains of 1%, bringing total market share to 16%. Restored momentum in the back end of the year with over PGK 250m of lanes settled and an additional PGK 155mn of syndicated loans. Home loans grew by 19% due to a marketing leading cash back offer that resonated strongly with our targeted segments. Term loans increased by 7%, with Kina continuing to onboard corporate customers in Retail aligning with our credit expertise. Asset Finance, was up 137%, although off a lower balance, this segment continues to experience solid support due the expansion from the construction and building industry.

Funds Under Administration – Revenue Growth of 10%

Kina's Funds Administration business delivered key efficient programs of work that reduced processing time, improved data management and streamlined customer experience to enhance revenues. Kina Investment Superannuation Services recorded an increase of 10% in total revenue associated to an increase in total funds under administration to PGK 17.3b and an increase of 4% in total membership.

Operating Expenses – Investment in Capabilities

Total operating cost as at December 2022 was PGK 215.2m, an overall increase of 11%. Staff, administrative and occupancy costs contributed 41%, 31% and 22% respectively to total operating costs for the year.

Administrative expense increased by PGK 4.3m or 6.8%. The increase was primarily due to continued investment in technology capabilities combined with costs associated with increase in customer and transactional activity. Brand and marketing campaigns were launched to promote some new initiatives in WhatsApp banking, Xero Bank Feed, Home and School Fee loans.

Staff expenses increased by PGK 12.1m or 16%. This reflects the bank's focus in building capability in emerging areas of risk, cybersecurity and an increased distribution footprint.

PNG Operating Landscape – Corporate Tax implications

In December 2022, the PNG government announced the 2023 budget with an increase in Corporate Income Tax for commercial banks from 30% to 45%.

It was also indicated in the budget announcement that further consultations will continue with the banking industry in the first half of 2023 to consider whether other tax alternatives may be more appropriate for the industry.

For the FY2022 full year results, the impact of the budgeted corporate income tax increase is reflected in the deferred tax assets (DTA). This has resulted in a revaluation inline with IFRS in tax credit of PGK 10.4m increasing the statutory NPAT to PGK 116.5m.

Delivering on 2025

Strategic Plan – Driving our strategic pillars to deliver prosperity for our communities

Kina Bank is tracking well to deliver on our 2025 strategic plan. Having fully established ourselves as a challenger brand, our market share and digital footprint continue to grow. Our mission to deliver prosperity for the communities we serve remains at the heart of all we do, these initiatives for 2023 include:

- Auditing of all branch locations to ensure our service and product offerings are accessible and inclusive
- Revamping of flagship branch and key locations to provide a better experience for our customers
- Enhancing ICT infrastructure and capabilities
- Expanding our footprint beyond Papua New Guinea

Mr. Pawson said, “Momentum was sustained in 2022 across all key portfolios. This is obvious in our increased market share, delivery of customer led digital products such as WhatsApp banking, single view and our internet payment gateway and well capitalized bank that has a disciplined approach to capital allocation.”

Investor Briefing: The KSL Investor Briefing is scheduled for Tuesday 28th at 2.00pm (Port Moresby), 3.00pm (Sydney) via the following link <https://s1.c-conf.com/diamondpass/10029094-l105yv.html>

For further information:

Johnson Kalo

Acting Chief Financial Officer

Email: Johnson.Kalo@kinabank.com.pg

Phone: +675 7018 0047