

18 May 2016

## 2016 AGM – MD Presentation from Syd Yates

Thank you Sir Rabbie, and good morning everyone.

Thank you all for coming today to help us celebrate our first Annual General Meeting as a listed company. There is a real cause for celebration today, because we achieved some remarkable things during the past year. I'll talk about those achievements in more detail in a moment, but the important thing to acknowledge is that Kina is now well positioned to grow as a serious competitor in PNG's rapidly growing financial services sector and is equipped to play a central role in facilitating the development of PNG. We have a lot more to do, but we are now out of the starting blocks, we're picking up pace and rapidly gathering momentum.

The exciting position we have established for the Company has been achieved through the efforts of a number of people, but in particular, it is you, the shareholders, who have provided the capital, demonstrated the foresight and recognized the enormous potential in Kina and the broader PNG economy. So I thank you for the faith you have shown in the company, our board of directors, our management and all our employees and I welcome you today as the owners of this company.

### HIGHLIGHTS OF 2015

Sir Rabbie has already identified the two standout achievements of 2015 - the acquisition of the Maybank business in PNG and the public float of the company. Those two events were watersheds in the history of Kina Securities. Together with a host of other initiatives implemented during the year they have elevated the company to a new level in terms of size and capability, creating immense opportunities for us to grow and generate positive results for our shareholders and other stakeholders including customers, staff, business partners and the broader PNG community.

### MAYBANK ACQUISITION

The acquisition of the Maybank PNG business, which was announced in May and settled in September for a total cost of PGK349 million, has firmly established Kina as the new force in PNG's banking and financial services sector.

Following the acquisition, Kina operates the fourth largest bank in PNG, with more than 11,000 clients, seven branches and an expanding electronic network; the largest wealth management business in PNG, with K5.5 billion in funds under management; one of the largest fund administrators in PNG, with more than 160,000 clients; and the leading stockbroking company in PNG.

As I outlined in the annual report, the acquisition was vitally important for this organisation, creating a solid platform for the future.

It provided us with a banking licence, which enables us to source funds from depositors and investors at lower cost than previously, when we operated as a finance company.

It dramatically increased the scale of our business, with loans and deposits roughly doubled in size.

It introduced a broader customer base to the organisation and generated the ability to offer new products to the expanded customer base.

It generated additional revenues and will reduce our costs as a result of the restructuring of the businesses, improved efficiencies and elimination of duplication.

Importantly, it created the critical mass for Kina to be a stronger competitor just as PNG's financial services sector is maturing and as consumers increasingly are demanding better products and improved services to cater for their expanding aspirations.

### **SHAREMARKET LISTING**

The other transformational event was the public listing of the company. The move from the realms of private ownership to public company status marks a dramatic change in the culture of the organisation, our public profile, our capacity to access capital, and our general organisational maturity. As a public company, we have moved from the bleachers and on to the centre stage, where we are subject to a raft of new disciplines and obligations, while also enjoying new freedoms due to the greater financial capability that public ownership has delivered.

The listing involved the sale of 97 million shares at a price of \$1.00 per share, and was fully underwritten by Morgans Stockbroking, who provided an excellent support service and facilitated the whole process with great professionalism. The proceeds of the offer were used to partially fund the acquisition of Maybank, but also enabled the sell down by the major shareholder, the Fu Shan group, in order to meet Bank of PNG requirements. Fu Shan now holds approximately 35% of the Company, compared with 89.5% previously.

Some 35 institutions invested in the stock, along with approximately 1500 other small investors, including the company's 250 staff.

The combination of the Maybank acquisition and the public listing have involved immense change for the organisation and have greatly inspired our staff, who have grabbed the opportunity to be part of this exciting transition.

### **FINANCIAL PERFORMANCE**

This allowed Kina to deliver its first profit result as a listed entity in February, and the company was able to exceed the profit forecasts included in the prospectus lodged for the IPO. We achieved a pro-forma net profit of PGK47.5 million for the full year to 31 December 2015. This was 4.9% higher than the prospectus forecast of PGK45.3 million, and confirmed that the benefits of the Maybank acquisition were beginning to emerge.

Directors declared a maiden dividend of AUD\$0.034 per share for the year, which again exceeded the prospectus forecast of AUD\$0.032 per share, and is equivalent to an annualised dividend yield of 11.3%, at a share price of 90 cents.

The features of the result were:

- the strong net interest margin of 9.6%
- the low cost to income ratio of 45%
- very healthy credit quality and low bad debt expense

- strong capital adequacy

So we were pleased with our first results, as they were slightly better than the forecasts we had previously released.

## **FOCUS FOR 2016**

For 2016, our focus has been the completion of the Maybank integration, as we continue to implement changes to our investment portfolios, deposits and lending book to maximise returns. We are well advanced in that process.

Systems integration and technology enhancements are being implemented to improve our services and product offerings, and enhance our risk management processes.

We also have made greatly strengthened our management team over recent months, bringing in a number of new executives with great experience in the banking industry, and with the technical capabilities to manage change and growth in a rapidly expanding financial services market place.

Our new appointments have included a new Chief Financial Officer, EGM Banking EGM Wealth and Chief Risk Officer, to ensure we have the management muscle to take advantage of the opportunities we see in the market.

## **OUTLOOK**

Turning then to the outlook, in the annual report I said that Kina had commenced the current year solidly, with growing momentum increasing after the completion of the Maybank acquisition and as integration of operations and systems gathers pace. That continues to be the case.

Despite the slowdown in the PNG economy, we see healthy demand for new lending, although settlements have been a little slower than we would like due to processing issues that we expect to see resolved in the next few weeks.

Work continues on delivery and developing initiatives on capturing the synergies from the Maybank acquisition

We remain on track within the guidance provided at our year-end results in February.

We will maintain our conservative settings for provisioning and strong capital position. We do expect to provide an update though on our capital management strategy at our half-year result announcement.

In closing, I would like to pay tribute to Sir Rabbie for his excellent stewardship of the Board and publicly recognize the contributions of all our directors, and particularly those three who are stepping down today who have played an enormous part in the ongoing development of the company. I also express my sincere appreciation to the efforts of all our staff, which has maintained their enthusiasm and dedication through all of the change that has occurred during the past 18 months, and similarly, I say thanks to all our customers who have helped us to grow our business. Finally, I again thank all our shareholders for your on-going support.