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ASX/PNGX – Announcement

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BY ELECTRONIC LODGEMENT

Full Year Result 2024

Solid performance in loan book, strong growth in non-lending revenues, cost volatility being managed.

- **Underlying NPAT** – +7% yoy to PGK111.9m, pre-income tax adjustment for the decrease in the corporate tax from 45% to 40% in 2025 then 35% in 2026.
- **Statutory NPAT** (post the one-off tax adjustment) is PGK102.5m, (2%) yoy and in line with guidance given with the half year result.
- **Loan growth and interest income** – loan book was +13% yoy underpinning strong growth in net interest income of 15%, which represents 45% of KSL's total revenues
- **Non-Interest Income** – +33% yoy and is now 55% of KSL's total revenues. This was driven by strong growth in FX income, digital channel revenues, funds administration and funds management fees.
- **Operating Costs** – costs slowed NPAT growth, with the cost to income ratio at 53.3% for the second half (64.8% in first half) and 58.6% for the year.
- **Balance sheet strength** – capital adequacy, 18.4%, is being maintained in KSL's target range, providing capacity for growth and supporting risk weighted assets of PGK2.8b and total assets of PGK5.2b. The quality of the loan book remains healthy.
- **Final dividend** - AUD 6.0 cents/PGK 15.5 toea, brings the full year dividend to AUD 10.0 cents/PGK 26.1 toea. This reflects a payout ratio of 74%, within KSL's dividend policy.

Incoming CEO, Ivan Vidovich acknowledged the positive aspects of the FY24 result, stating: *"Revenue growth was solid in FY24 across Kina's diversified portfolio – namely loan growth, healthy loan margins, resurgent FX income, and ongoing improvements in digital channels performance. Costs relative to income can be reduced as the business matures, processes become more efficient and revenue growth is sustained. As in prior years, Kina continued to perform strongly as PNG's challenger bank. Revenue streams are building a strong base to drive the business forward. However, there is still work to be done, particularly in refining business processes, managing risks and controlling costs. As the digitally oriented strategy gathers momentum, I am confident we will continue to deliver NPAT growth and shareholder value."*

Kina Securities Limited FY24 results were driven by growth in interest income, underpinned by loan book growth and strong growth in non-lending operations, especially the digital and FX income streams. Funds administration and funds management fees also increased. Cost/Income and one-off impact of the payments fraud incident impacted NPAT growth.

The Board declared an unfranked final dividend for 2H24 of AUD 6.0 cents per share/PGK 15.5 toea per share bringing the total dividend for the year to 10.0 cents.

Operating performance

Net Interest Income – 45% of revenues: Overall, loan interest revenue has increased 15% over prior year, and 9% from half to half. Loan volumes have grown by 13% over 2024, whilst margins have remained relatively stable over the period.

The loan book grew across business and personal customers and products. This has been enabled by strong relationship-driven sales in the main business centres as well as in regional locations.

NIM increased marginally, due to the business having to allocate liquidity to loan growth and having to compete with large wholesale investors for government securities on offer.

Non-Interest Income – 55% of revenues: Fee revenues continued to perform strongly, led by FX income growth of 68%, following increased market intervention by the central bank. Digital channel revenues grew by 27% with healthy growth in merchant payments and visa fees. Funds administration and funds management fees grew by 15% over the prior year.

Operating Expenses: Total operating cost for the 2024 year was PGK286.6m, +31% yoy. Administrative, staff and occupancy costs contributed 39%, 36% and 15% respectively to total operating costs for the year.

Costs were a drag on NPAT, and the cost to income ratio has not continued its improvement from prior reporting periods, at 53.3% for the second half and 58.6% for the year. As reported in the first half, the exceptional payments fraud loss has had an adverse impact of K13.0m. On a normalized basis, some material variances from plan and prior year are due to:

- The effect on PGK value of USD denominated costs, with the exchange rate's gradual 7% decline over the year.
- Necessary investment in external expertise for planned improvements to technology and operational risk processes.
- Overlaps in senior position transitions, including CRO.
- General increases in the level of local prices of supplies, induced largely by PGK depreciation.

Loan Provision: The increase in loans has been accompanied by a corresponding increase in loan provisions, reflected in the net charge for loan provisioning during the year. Conditions in the consumer and property segments have been difficult for some borrowers, however the overall portfolio quality has remained solid. Non-performing loans ratio has increased to 8% from 6%, and remains within operating ranges, but the provisions to loans ratio remains stable at 2.3%.

Tax rate: The tax rate will decline from 45% for 2024 to 40% for 2025 and 35% for 2026. This decline applies to bank pre-tax annual profits up to K300.0m, which is the relevant band for KSL. For bank profits above PGK300.0m, the tax rate declines at 1% per year from 2025, until it reaches

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35%. The decline in the tax rate results in a decline in net deferred tax assets, which results in a counterintuitive one-off, non-cash increase in tax expense for 2024. This charge is not related to underlying business profitability.

Balance sheet: Total assets have grown to PGK5.2b, led by good quality lending assets, +13% to PGK2.9b making up 55% of the total. A further 37% is invested in liquid and financial assets, 2% in intangibles and 1% in infrastructure assets.

Delivering on strategic plan

Kina Bank has achieved solid results on our 2020 - 2025 strategic plan. Now embedded as the primary challenger brand, our core banking market share and digital footprint continue to grow, including in the regional areas. We have productive partnerships with leading fintechs in the payments and lending domains. KSL continues to invest incrementally to upgrade technology infrastructure and capabilities.

Departing CEO, Greg Pawson said: "*This is my last result as CEO/MD. I thank the staff, customers and board of KSL for having coordinated the delivery of strong balance sheet and NPAT growth, and indeed a strong business in my time here at KSL. The bank is in the hands of a very well qualified board, an experienced and determined management team to be led by incoming CEO Ivan Vidovich, and capable, passionate staff, and will continue to perform well in the coming years.*"

Outlook

The company expects further earnings growth in 2025. This is underpinned by expected growth in the PNG economy combined with Kina Banks financial capacity and management capability to execute Kina Bank's strategic plan.

The key outlook areas in the next few years for which there is some reasonable level of resolution, include the lowering of the Corporate Tax rate for banks to 35%, some US$30.1b worth of natural resource mega projects to commence between 2026 and 2030, and gradual downward crawl of the PGK/USD exchange rate.

The outlook for revenue growth remains positive. There are strong opportunities for deposit and lending market share growth in PNG, despite increasing competition in the banking sector. Returns on loans are expected to remain stable, whilst Treasury Bill margins settle somewhere between the 3% lows of a year ago and the peak of 7% in the second half of 2024. FX income growth may also moderate from the strong growth of 2024 but should still command a reasonable portion of non-interest revenue. Digital income is expected to continue its growth path.

Cost control will receive close attention in the coming years, with budgetary control being the main tool this year, and as our strategic projects mature, this will be complemented by more efficient and risk-aligned business processes in the next 2-3 years.

Incoming CEO, Ivan Vidovich, stated: "*KSL will continue to build on organic revenue growth opportunities in PNG, - both net interest and non-interest - as well as efficiency and customer experience improvements enabled by a combination of short-term process improvements and digitisation in the medium term. Whilst we see opportunities for continued, sustainable growth, we recognise the country's macro challenges, and there is also growing competition in the banking sector.*

Success in the market will continue to be marked, to a large extent, by a focus on delivering the right products to meet customer needs, building the right partnerships and programs with people, technology and other resources, and ensuring all are deployed efficiently".

Investor Briefing: The KSL Investor Briefing is scheduled for Friday 28th February at 2:00pm (Port Moresby), 3:00pm (Sydney) via the following link Event Registration

For further information:

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