

Kina announces acquisition of Westpac Pacific Businesses in alignment with strategy to become a larger scale regional bank

7 December 2020

PORT MORESBY (ASX: KSL | PNGX: KSL)

Kina Securities Limited (“Kina” or “Kina Bank” or the “Company”) is pleased to announce that it has today entered into sale and purchase agreements (“Definitive Agreements”) to acquire 89.91% of the banking operations in Papua New Guinea (“PNG”) and 100% of Fiji (together, the “Pacific Businesses”) of Westpac Banking Corporation (“Westpac”) (the “Acquisition”).

Acquisition Highlights:

- Strong strategic fit and alignment with Kina’s 2025 strategy to become a leading full service regional bank in the Pacific with a market leading digital platform.
- Based on pro forma 30 June 2020 consolidated financials, the Acquisition is expected to be accretive on completion and will restore earnings per share (“EPS”) to levels above those prior to the recent capital raising in October 2020.
- This accretion is estimated without any consideration of synergies.
- The integration of Kina and Westpac’s Pacific Businesses is expected to deliver material synergies to be realised in the year ending December 2022.
- Completion of the Acquisition is subject to regulatory (including competition) approval in both PNG and Fiji and is expected to complete by 30 September 2021.
- Purchase price of up to A\$420 million / K1,036 million¹ including A\$315 million payable on completion and A\$60 million payable in A\$20 million six monthly instalments after completion and up to A\$45 million of future earn-outs to be paid annually over the 24 months following completion, subject to business performance hurdles based on actual performance of the Fiji business.
- The Acquisition will be funded through a combination of existing cash reserves, cashflow from ordinary operations, retained earnings in the PNG business being paid to Westpac, tier two subordinated debt instruments and potential equity investment from a number of strategic investors.
- It is not proposed that there will be any changes to the board or senior management as part of, or in connection with, the Acquisition.

The Acquisition

Kina has entered into the Definitive Agreements to acquire:

- Westpac’s 89.91% interest in Westpac Bank PNG Limited; and
- Westpac’s branch operations and employees in Fiji (Westpac’s Fiji operations are a branch of Westpac Banking Corporation).

¹ Exchange rate of 1 PGK / 0.4055 AUD

Kina will consider making an offer for the acquisition of the shares held by the remaining shareholders in Westpac Bank PNG Limited post the completion. This will be subject to normal business considerations and due diligence.

In addition, the Company will seek shareholder approval of the Acquisition in accordance with section 110 of the PNG Companies Act 1997, at a general meeting to be called in Q1 2021.

Summary information of the Combined Group Post completion

	Kina Group	Westpac PNG ²	Westpac Fiji ²	Kina Group Proforma	% change
Customers	165,000	367,255	318,968	851,223	415.9%
Net Loans (PGK)	1.42 bn	1.45 bn	2.47 bn (FJD 1.53 bn ³)	5.34 bn	275.6%
Deposits (PGK)	2.52 bn	2.57 bn	2.94. bn (FJD 1.82 bn ³)	8.03 bn	218%
Employees	700	469	584	1,753	150.5%
Branches	17	15	16	48	182.3%
ATMs	80	65	76	221	176.3%
EFTPOS terminals	2,500	3,400	2,800	8,700	71.3%

Acquisition Price:

Kina has entered into Definitive Agreements to acquire Westpac's interest in the Pacific Businesses for up to A\$420 million / K1,036 million⁴, including A\$60 million payable in three A\$20 million six monthly instalments after completion, and up to A\$45 million of future earn-outs to be paid annually over the 24 months following completion, subject to business performance hurdles based on actual performance of the Fiji business ("Purchase Price"). Kina has paid a deposit of A\$42 million / K110 million⁵ upon execution of the Definitive Agreements.

The Purchase Price equates to 0.79 times book value of the Pacific Businesses of Westpac as at 30 June 2020.

The Purchase Price comprises:

- a) A\$315 million in cash being:
 - i) A\$42 million deposit paid, plus;
 - ii) A\$273 million on completion.
- b) A\$60 million of retained earnings in the PNG business being paid to Westpac in A\$20 million six monthly instalments after completion; and
- c) up to A\$45 million earn-out from the Fijian business in two annual instalments over the 24 months following completion, subject to business performance hurdles based on actual performance of the Fiji business between 30 June 2020 and 30 June 2021, and between 30 June 2021 and 30 June 2022.

² As at 30 June 2020

³ PGK:FJD of 1:1615

⁴ Exchange rate of 1 PGK / 0.4055 AUD

⁵ Exchange rate of 1 PGK / 0.3800 AUD

It is anticipated that the balance of the Purchase Price (A\$273 million) payable on completion, will be funded by a combination of:

- existing cash reserves (approx. A\$58 million being A\$100 million as at 7 December 2020 less the deposit paid);
- cashflow from ordinary operations; and
- investment from strategic investors including multilateral development banks via tier two subordinated debt facilities and placement of equity.

To facilitate an anticipated placement of equity, it is the Company's current intention to seek shareholder approval at a Meeting to be held by 30 June 2021:

- a) pursuant to ASX Listing Rule 7.1 and PNGX Listing Rule 7.1, for the placement of 23,671,857 fully paid ordinary shares at an issue price of A\$0.80 / PGK1.97 per share, under the (a) placement to institutional investors and the institutional component of the 1 for 2 accelerated pro-rata non-renounceable entitlement offer, as announced on 14 September 2020; and (b) the offer to eligible PNG shareholders, as announced on 11 November 2020 ("**Placement**");
- b) pursuant to ASX Listing Rule 7.1A and PNGX Listing Rule 7.1A to issue equity securities equivalent to an additional 10% of the number of ordinary securities on issue over a 12-month period after the AGM ("**10% Placement Facility**"); and
- c) for the issue of the balance (if any) of equity securities required to be issued to fund the balance of the cash component of the Purchase Price.

If approved by shareholders, it is anticipated that the placement of equity will be made by 30 September 2021, prior to completion.

Completion

Completion of the Acquisition, which is expected by 30 September 2021, is conditional on securing regulatory approval in both PNG and Fiji. The process to secure the approvals in PNG and Fiji has commenced.

Strategic Rationale

The Acquisition of the Pacific Businesses supports Kina's strategic objectives to deliver greater value to customers and shareholders by developing a more resilient and sustainable group.

In particular, the Acquisition will:

- **Scale and growth:** transform Kina Bank from a leading digital bank in PNG to an "at scale regional bank". The existing Westpac technology hub in Fiji will assist Kina to remain at the forefront of digital banking in PNG (and now, the region) and to leverage the subsequent scale to reduce the cost to income ratio of the group.
- **Expand the capital base:** In addition to the recent capital raising undertaken by Kina, the acquisition will position Kina Bank for strong growth in the future as a competitor and market disruptor.
- **Infrastructure and capability uplift enabling growth and efficiency:** Kina Bank will leverage the existing infrastructure and technology in Westpac's Pacific Businesses to improve efficiency and create a digital hub for the expanded group, providing Kina Bank with enhanced information and communication technology ("**ICT**") capabilities. This will support the acceleration of the existing digital innovation strategy that reaches out to 2025.
- **Group portfolio diversification:** further diversify the existing business both geographically and demographically, supporting Kina Bank's strategic objectives around risk, growth and financial inclusion.

- **Strategic optionality for future expansion:** with an expanded footprint, enhanced ICT and digital optionality, provide for a more efficient operating model and act as a platform to support future growth within the broader region.

Synergies

On a conservative basis, no synergies have been assumed in the below financials. As is, the acquisition is EPS accretive. The integration of Kina and the Pacific Businesses is expected to enable synergies in the future. Initiatives to deliver on future synergies are expected to be implemented in the first year following completion.

Integration

Kina and Westpac are developing a comprehensive separation plan timed around the prerequisite regulatory approvals. There will be no complex migration of customer information across platforms as the core banking infrastructure and associated ICT is being acquired. One of the key features of the Acquisition is that it is essentially 'turn-key' and Kina will assume ownership and operation of the Pacific Businesses effective from the completion date with no required transitional services agreements.

Pro-forma Financials

Metric (PGK Millions - unless otherwise indicated)	Kina Group	Westpac PNG	Westpac Fiji	Kina Group Normalised Pro-forma	% change
Net loans	1,421	1,446	2,468	5,335	275.6%
Deposits	2,525	2,569	2,937	8,031	218.0%
LTM20 NPAT	67	58	37	162	143.7%
Normalised LTM20 NPAT	67	75	37	179	169.4%
Normalised LTM20 EPS (toea)	0.38	n/a	n/a	0.43	11.7%
Normalised return on equity (%)	22.1%	8.0%	7.7%	9.1%	(58.7%)
Total capital ratio (%)	21.9%	54.5%	18.3%	37.9%	73.3%

Footnotes

- Based on Unaudited accounts as provided by Westpac;
- Kina Group financial information (as at 30 June 2020) is based on Kina's reported financial information for the half-year ended 30 June 2020 and the year-ended 31 December 2019;
- Westpac PNG and Westpac Fiji financial information (as at 30 June 2020) is based on unaudited financial information provided by Westpac Group;
- "LTM" means "last twelve months" and "LTM20" reflects the last twelve month period ending 30 June 2020;
- FJD/PGK: Westpac Fiji balances/results converted to PGK based on a rate of 1:1.615;
- Kina Group Normalised Pro-forma comprises the combined financial results of Kina Group, Westpac PNG and Westpac Fiji, adjusted for PGK17.1m of Westpac Group allocated costs which will not continue post-acquisition and includes the effective tax rate;
- Normalised LTM20 EPS (toea), Return on Equity (%) and Total Capital Ratio (%) are calculated for Kina Group (as at 30 June 2020) exclusive of shares issued following the Oct-20 capital raising and exclusive of the proposed capital raise relating to the Acquisition;
- Normalised LYM20 EPS (toea), Return on Equity (%) and Total Capital Ratio (%) are calculated before the preparation of business combination accounting adjustments to recognise any goodwill and other intangible assets arising from the Acquisition. Any intangible assets recognised may have an applicable impairment charge which could reduce future earnings; and
- Kina Group Normalised Pro-Forma Return on Equity (%) reflects the excess capital currently within the Westpac PNG and Westpac Fiji businesses.

Commenting on the Acquisition, Kina CEO and Managing Director, Greg Pawson said:

“Kina has a proven track record of strong organic growth and successfully completing acquisitions. The acquisition of Westpac’s Pacific Businesses enables our organisation to achieve scale and enhances our regional footprint, at the same time leveraging the benefits and optionality that come from being a larger group. The Westpac Pacific Businesses are well known to the Kina Board and Management team and this will assist a seamless customer and employee experience. We are very excited about this opportunity and creating a stronger and more effective banking competitor for PNG and Fiji. The acquisition is perfectly aligned with our current strategy to be a dynamic and innovative full service regional bank with a market leading digital platform.”

Commenting on the Acquisition, Westpac Group Chief Executive, Specialist Businesses, Jason Yetton said:

“Westpac Group has made the strategic decision to focus on consumer, business and institutional banking in Australia and New Zealand. The sale is another step in the Group becoming a simpler, stronger bank while ensuring a high standard of banking services is maintained for our Pacific customers. Choosing the right purchaser for our businesses is important to us, our people and the communities we have proudly served for more than 100 years. Kina is a strong brand in the region and is well positioned with deep local knowledge to continue to help our consumer and business customers succeed.”

Morgans Corporate Limited acted as Financial Adviser and Dentons is engaged as legal advisor to Kina on the Acquisition.

Investor Conference call

The Company will be conducting an investor conference call at 4.30pm Sydney time / 3.30pm Port Moresby time today 7 December 2020 in regards to this acquisition.

The attached online link is available for those interested in participating in the investor conference call: <https://s1.c-conf.com/diamondpass/10011327-2islzks.html>

For more information, please contact:

Greg Pawson
Chief Executive Officer and Managing Director
greg.pawson@kinabank.com.pg

Chetan Chopra
Chief Financial Officer and Company Secretary
chetan.chopra@kinabank.com.pg

This announcement was authorised for release by Kina’s Board of Directors.