



CREDIT CORPORATION (PNG) LTD / POMSOX ANNOUNCEMENT

7th MARCH, 2018

2017 FULL YEAR FINANCIAL RESULTS REVEAL A CORE OPERATING PROFIT OF K75.4 MILLION (+14.4%) DESPITE CONTINUING PROBLEMATIC ECONOMIC CONDITIONS PREVAILING IN PNG

Sir Wilson Kamit CBE, Chairman of the Board of Credit Corporation (PNG) Limited (Credit Corporation) today announced financial results for the full year 2017 for the company.

Financial highlights for 2017 included:

- Statutory Net Profit after Tax of K73.6 million;
- Core Operating Profit (before tax and before revaluations) of K75.4 million;
- Net Finance Receivables of K480.9 million;
- Investment Properties valued at K301.8 million;
- Investments in associates and other equity investments of K376.9 million;
- Net Assets Per Share of K2.63 per share; and

Credit Corporation (PNG) Limited (CCP) reported statutory Net Profit after Tax (NPAT) of K73.6 million, compared to K98.9 million in 2016.

The statutory NPAT was lower than 2016, due mainly to a fall in revaluation gains from equity investment. Fair value gain of listed shares owned by CCP was K18.6 million, compared to K56.9 million in 2016. Fair value loss on investment properties was K19.8 million, compared to a loss of K22.1 million in 2016. Tax expense was K0.6 million, compared to K1.8 million in 2016.

Core Operating Profit (before tax and revaluations) was K75.4 million, compared to K65.9 million in 2016. Net finance income was K55.6 million, compared to K51.6 million in 2016. Impairment losses on finance receivables was K6.7 million, compared to (abnormally high) K13.5 million in 2016. Rental income from property was K22.7 million, compared to K23.1 million in 2016. Dividend income plus share of profit from associates was K40.9 million, compared to K36.8 million in 2016. Operating expenses were K49.0 million, compared to K42.9 million in 2016. Increase due to adverse foreign currency movements and K5.4m (0.72k in 2016) in operating and interest expense associated with Era Matana property loan fully drawn. Overall, expenses were well held during 2017.

Comments

Credit Corporation Finance

CCP net finance receivables increased to K480.9 million from K395.4 million. This reflected growth in receivables across all regions, including another strong performance from Fiji, where Fiji finance receivables now represent 40% of total net receivables. Impairment expense fell 47% to K7.2 million in 2017, compared to abnormally high expense of K13.5 million in 2016. Gross Loans Advanced (GLA) increased to K605.4million from K498.0 million in 2016. Impairment provisions were K28.4 million in 2017, compared to K27.1 million in 2016. Impairment provisions represented 4.7% of GLA, compared to 5.4% in 2016, and the Board target of less than 5%.

K millions	2017	2016	% Increase/(Decrease)
Gross Loans Advanced	605.4	498.0	22%
Provisions	(28.4)	(27.1)	5%
Unearned charges	(84.3)	(68.0)	24%
Interest in suspense	(7.7)	(5.7)	35%
Net finance receivables	480.9	395.4	22%
Impairment expense	(7.2)	(13.5)	(47%)

Deposits and borrowings increased to K454.4 million, compared to K361.4 million in 2016. Extra liquidity held to cover a large loan expected to be drawn down early 2018. Loan to deposit ratio was 1.06 compared to 1.09 in the previous corresponding period (pcp).

K millions	2017	2016	%
Deposits and borrowings	454.4	361.4	25.7%
Net Loans to deposit ratio	1.06	1.09	

Loan quality was addressed in 2017, after an abnormally high provisioning expense in the previous year. Provision expense fell to K6.7 million in 2017 compared to K13.5 million in 2016. Overdue loans at end of 2017 were K182.1 million, compared to K162.4 million in 2016.

K millions	2017	2016	%
Net loans advanced (Km)	480.9	395.4	22%
Overdue loans (Km)	182.1	162.4	12%
Overdue as % of NLA (%)	37.8%	41.1%	

Credit Corporation Properties

Credit Corporation properties include two residential properties in Port Moresby (Era Dorina, and Era Matana), plus one commercial office building in CBD of Port Moresby (Credit House).

Subdued economic conditions and foreign exchange shortages in our key market of PNG (and Port Moresby in particular) reduced demand for high-end residential accommodation, and this was reflected in the loss on fair value of Era Dorina. At Era Dorina, we have taken the opportunity to upgrade some of the older accommodation blocks, and that work will continue in 2018. Era Matana take up has been slow being pitched at the higher end of the market, not achieving the occupancy levels forecast during 2017, and rents have been adjusted to reflect the current supply of new, high quality residential accommodation. This move has achieved

early success in 2018 and we have forecast to continue to increase occupancy in this new residential building. Credit House similarly faces competition in down town Port Moresby from new high-quality office blocks. Given vacancies we have taken the opportunity to accelerate refurbishment of tenant areas, and this is now almost complete. New tenants have been secured in early 2018, increasing occupancy in Credit House from 59% to 83%, and the Board is targeting 90% occupancy by year-end.

CCP values all properties externally periodically, and in between conducts internal reviews to ensure the book value reflects market values. CCP charged a fair value loss to statutory profits in 2017 of K19.8 million, compared to a loss of K22.1 million in 2016. This continues the fair value losses of previous years, since the extraordinary boom valuations in 2012.

Occupancy %	Current	2017	2016
Era Dorina	61%	57%	62%
Era Matana	57%	40%	11%
Credit House	83%	59%	59%

Credit Corporation Investments

CCP has held a key equity stake in Bank of South Pacific Limited and other equity investments which collectively in 2017 delivered strong cash and valuation gains. Included in 2017 statutory profits is a fair value gain on equity investments of K18.6 million, compared to a fair value gain of K56.9 million 2016.

CCP shareholders have benefitted from the diversified activities of the Group, when in 2017 CCP investment fair value gains offset CCP property fair value losses.

CCP intends to exit small, non-strategic equity investments as and when possible, and instead to focus on value-adding activities that complement the Group's existing businesses and geographic spread.

After the end of this reporting period, CCP announced the agreement to acquire 100% of the shares in Pacwealth Capital Limited, a PNG company offering investment management services.

Equity investment returns	2017	2016	%
Associates – share of profits	(1.8)	1.9	(195%)
BSP & other shares - dividends	42.7	34.9	22%
Total income	40.9	36.8	11%
BSP & other shares – FV gain	18.6	56.9	(67%)
Value of Investments			
Investment in Associates	15.4	17.5	(12%)
BSP & Other Investments	354.2	350.4	1%

Strategic Plan 2017 - 2022

During 2017 CCP Board of Directors conducted a review of Strategic Plan for the medium term. This included a review of current activities, geographic representation, liquidity in CCP shares on Port Moresby Stock Exchange and organisational structure.

Having considered a range of scenarios and economic outlook in our key markets of PNG and the wider Pacific, the Board expresses strong belief that the current slowdown in non-mining and non-government activity in PNG is temporary in nature and not permanent. In particular,

construction of new infrastructure as well as residential and commercial buildings that has transformed the look of PNG's capital city will in the medium term become income-producing and assist longer term business prospects. However, we do expect similar conditions to the previous two years to prevail in 2018 in PNG

This has particular impact on Credit Corporation Finance activities in PNG, and the Board has resolved to concentrate especially on judiciously growing the finance business in PNG. Credit Corporation Finance market share has reduced in PNG in recent years, while in contrast our Fiji operation has increased market share and receivables outstanding.

This outlook also has particular impact on Credit Corporation properties in Port Moresby. While new supply always presents challenges in terms of occupancy and rents, the Board believes that Credit Corporation's reputation as a landlord offering secure, well-maintained properties at reasonable rents presents a strong base to improve occupancy and returns on CCP properties. The recent focus on this has already seen occupancy rates increase in key assets of Era Matana and Credit House.

The Board resolved to pursue not only organic growth of existing businesses, but to add complimentary services and products. The agreement to acquire Pacwealth Capital Limited is a case in point, enabling CCP to widen financial services offerings in PNG and also to leverage Credit Corporations' existing representation in the wider Pacific.

CCP will devote more attention to investment in complimentary business in general, and where possible utilize the investment skills of Pacwealth Capital Limited to help assess opportunities.

This Strategic Plan will require more skills in managing the various lines of business, and in early 2018 announced the appointment of Mr Peter Aitsi as the new Chief Executive Officer (CEO). Mr Aitsi is very well known in PNG, having held senior positions across a range of industries over his career. Most Recently, Mr Aitsi was Country Head for Newcrest Mining in PNG, and he will bring a unique set of management and leadership skills to CCP Group.

Late in 2017, Mr Andy Roberts joined Credit Corporation Finance as PNG Business Development Manager. Mr Roberts has worked hard with the Acting CEO, Mr Peter Dixon, to set a renewed urgency in the PNG business in order to meet the more aggressive plans for the next few years.

The Organisational Structure has been and continues to be reviewed to meet the needs of the Strategic Plan 2017 – 2022, including better-resourcing for shareholder relations to enable the company to better inform our shareholders of matters concerning the company. The intention being to be able to present to shareholders at the AGM and half yearly thereafter a more detailed insight into the company and its outlook.



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SIR WILSON KAMIT, CBE

Chairman

6/03/2018