

**KINA SECURITIES LIMITED AND ITS
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
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FOR THE YEAR ENDED 31 DECEMBER 2012

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KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2012

The Directors of Kina Securities Limited and its Subsidiaries submit herewith the annual financial report of the Company and its Subsidiaries for the year ended 31 December 2012. In order to comply with the provisions of the Companies Act 1997, the directors report as follows:

Principal Activities

The principal continuing activities of the Company and its Subsidiaries during the year was the provision of share brokerage, fund administration, investment management services, asset financing, and provision of personal and commercial loans, money market operations and corporate advice.

The Directors consider there are no unusual or other matters that warrant their comments and the Group's financial position and results from operations are properly reflected in these financial statements.

Accounting Policies

Details of changes in accounting policies are shown in note 1 (p) to the accounts.

Directors and Secretary

The names of the directors of the Company in office during the accounting period are:

H. Wong (Chairman)	T. K. Lee
S. G. Yates (also Company Secretary)	J. Yap (appointed on 26/10/12)
R. Namaliu	D. Manoa (appointed on 26/03/12)
W. Golding	

Dividends

Dividends declared and paid during the year amounting to K10,000,000; (2011: Nil).

Results

The operating profit attributable to equity holders for the year for the Group was K19,486,589; (2011: K8,343,466) and net profit for the Company was K1,688,702 (2011: K7,471,991)

Solicitors

The Company's legal advisers during the year are as follows:

- | | |
|--|--|
| 1. Blake Dawson Waldron
Level 4 Mogoru Moto Building Champion Parade
PO Box 850 Port Moresby NCD | 2. Allens Arthur Robinson
Level 5 Pacific Place Musgrave Street
PO Box 1178 Port Moresby |
|--|--|

Remuneration of employees

During the year, the number of employees or former employees (not being directors of the Company), receiving remuneration in excess of K100, 000 per annum from the Company stated in bands of K100, 000 was as follows:

	2012	2011
K700,000 – K800,000	2	-
K600,000 – K700,000	-	1
K400,000 – K500,000	1	2
K300,000 – K400,000	2	1
K200,000 – K300,000	1	1
K100,000 – K200,000	1	2

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2012

Directors remuneration

During the year the Directors remuneration was as follows:

	2012	2011
	K	K
Director's Fee		
W. Golding	33,729	20,000
T. K. Lee	31,800	20,000
H. Wong	31,555	25,000
R. Namaliu	30,000	25,000
D. Manoa	34,500	-
J. Yap	8,700	-
	170,284	90,000
Salaries and other benefits		
S. G. Yates		
-Salaries	795,995	763,692
-Other benefits	412,200	286,000
	1,208,195	1,049,692
	1,378,479	1,139,692


Donations


During the year the Group made donations totaling K15,500; (2011: K8,349)

Auditor's fees

During the year fees paid to the auditor for professional services are shown in note 9 to the accounts.

Signed at Port Moresby on behalf of the board on the 22 day of April 2013.


Mr. Wayne Golding
Director


Mr. Syd Yates
Director

Independent Auditor's Report to the members of Kina Securities Limited

We have audited the accompanying financial statements of Kina Securities Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Report

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and the Companies Act 1997, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kina Securities Limited as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

The financial report of Kina Securities Limited and its subsidiaries is in accordance with the Companies Act 1997 and proper accounting records have been kept by the Company. The Company is in compliance with the Financial Institutions Act 1990.

During the year ended 31 December 2012 we did not provide any other services to Kina Securities Limited.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Suzaan Theron
Registered under the Accountants Act 1996
Partner

Port Moresby, this *30th* day of April, 2013

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

DIRECTORS DECLARATION

FOR THE YEAR ENDED 31 DECEMBER 2012

The directors declare that:

- in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable
- in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Director
Port Moresby, 22 April 2013



Director
Port Moresby, 22 April 2013

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Consolidated		Parent Company	
		2012	2011	2012	2011
		K	K	K	K
Interest income	3	38,070,995	31,322,804	18,922	42,997
Interest expense	3	(5,889,082)	(7,188,748)	(181,581)	(55,982)
Net interest income/(expense)		32,181,913	24,134,056	(162,659)	(12,985)
Fee and commission income	4	24,532,693	20,025,568	1,440,361	891,457
Fee and commission expense	4	(57,801)	(52,041)	(57,801)	(52,041)
Net fee and commission income		24,474,892	19,973,527	1,382,560	839,416
Dividend income	5	729,622	707,264	2,984	10,045,372
Net trading income	6	760,833	373,322	809,686	565,250
Net gains/(losses) from financial assets through profit and loss	16	1,423,774	(391,128)	2,402	(309,956)
Other operating income	7	1,776,263	57,354	14,223,143	9,250,490
Operating income		61,347,297	44,854,395	16,258,116	20,377,587
Impairment losses on loans and advances to customers	8	(3,438,585)	(7,056,114)	(22,698)	(42,213)
Other operating expenses	9	(30,902,948)	(25,400,783)	(13,793,133)	(12,986,619)
Profit before tax		27,005,764	12,397,498	2,442,285	7,348,755
Income tax benefit/(expense)	11	(7,519,175)	(4,054,032)	(753,583)	123,236
Net profit for the year		19,486,589	8,343,466	1,688,702	7,471,991
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		19,486,589	8,343,466	1,688,702	7,471,991

The notes on pages 10 to 38 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

Consolidated	Attributable to the equity holders of the Group			
	Share Capital	Capital Reserve	Retained Earnings	Total
	K	K	K	K
Balance as at 31 December 2010	2,000,000	49,050	62,809,175	64,858,225
Profit for the year	-	-	8,343,466	18,343,466
Balance as at 31 December 2011	2,000,000	49,050	71,152,641	73,201,691
Profit for the year	-	-	19,486,589	19,486,589
Dividend Paid	-	-	(10,000,000)	(10,000,000)
Balance as at 31 December 2012	2,000,000	49,050	80,639,230	82,688,280

Parent Company	Attributable to the equity holders of the Company			
	Share Capital	Capital Reserve	Retained Earnings	Total
	K	K	K	K
Balance as at 31 December 2010	2,000,000	49,050	2,752,531	4,801,581
Profit for the year	-	-	7,471,991	7,471,991
Balance as at 31 December 2011	2,000,000	49,050	10,224,522	12,273,572
Profit for the year	-	-	1,688,702	1,688,702
Dividend Paid	-	-	(10,000,000)	(10,000,000)
Balance as at 31 December 2012	2,000,000	49,050	1,913,224	3,962,274

The notes on pages 10 to 38 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	<u>Consolidated</u>		<u>Parent Company</u>	
		2012	2011	2012	2011
		K	K	K	K
Assets					
Cash and due from other banks	13	33,313,883	19,202,442	947,557	392,736
Central bank bills	14	76,003,973	95,498,215	-	-
Loans and advances to customers	15	181,312,889	144,886,287	5,688	6,348
Current income tax receivable	24	1,475,342	-	766,567	783,347
Deferred income tax assets	12(a)	3,647,451	3,891,279	598,437	517,360
Due from subsidiaries	28 (ii)	-	-	336,012	86,768
Financial assets at fair value through profit and loss	16	14,049,224	18,369,129	466,224	814,227
Investment securities held-to-maturity	17	7,445,551	7,629,336	-	-
Investment in subsidiaries	18	-	-	9,500,010	9,500,010
Investment in associate company	19	396,000	396,000	396,000	396,000
Property and equipment	20	6,890,644	7,158,821	6,890,644	7,158,821
Other assets	21	3,545,795	4,951,188	2,271,661	1,114,454
		328,080,752	301,982,697	22,178,800	20,770,071
Liabilities					
Due to customers	22	232,018,067	215,654,742	-	-
Lease payable	28 (ii)	-	-	-	38,932
Employee provisions	23	3,332,040	2,438,131	1,816,699	1,371,347
Due to subsidiaries	28 (ii)	-	-	13,091,388	4,331,969
Current income tax payable	24	-	2,701,602	-	-
Deferred income tax liabilities	12(b)	685,245	780,838	610,520	587,505
Other liabilities	25	9,357,120	7,205,693	2,697,919	2,166,746
		245,392,472	228,781,006	18,216,526	8,496,499
Net assets		82,688,280	73,201,691	3,962,274	12,273,572
Shareholders' equity					
Issued and fully paid ordinary shares	26	2,000,000	2,000,000	2,000,000	2,000,000
Capital reserve		49,050	49,050	49,050	49,050
Retained earnings		80,639,230	71,152,641	1,913,224	10,224,522
		82,688,280	73,201,691	3,962,274	12,273,572

The notes on pages 10 to 38 are an integral part of these consolidated financial statements.

These financial statements have been approved for issue by the Board of Directors and signed on its behalf by:
 22 April, 2013

Mr. Wayne Golding
 Director

Mr. Syd Yates
 Director

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	<u>Consolidated</u>		<u>Parent Company</u>	
		2012	2011	2012	2011
		K	K	K	K
Cash flows from operating activities					
Interest received		39,351,108	29,728,011	18,922	42,997
Interest paid		(5,023,834)	(7,297,468)	(181,581)	(55,982)
Dividend received	5	729,622	707,264	2,984	10,045,372
Fee and commission received		25,740,621	19,182,416	1,447,614	926,179
Fee and commission paid		(66,417)	(55,779)	(57,801)	(52,041)
Net trading and other operating income received		2,693,457	433,485	4,259,768	1,657,428
Recoveries on loans previously written-off	15	2,148,843	710,536	-	-
Support fees to subsidiaries	7	-	-	10,770,806	8,157,660
Cash payments to employees and suppliers		(27,856,982)	(24,877,132)	(2,818,379)	(6,547,331)
Income tax paid	24	(11,547,883)	(4,398,225)	(794,864)	(123,300)
Cash flows from operating profits before changes in operating assets and liabilities		26,168,535	14,133,384	12,647,469	14,050,982
Changes in operating assets and liabilities:					
-net increase in loans and advances to Customers		(43,187,249)	(182,504)	-	-
-net decrease/(increase) in other assets		367,064	(1,378,179)	(1,077,607)	(200,373)
-net increase in due to customers		16,363,325	22,130,011	-	-
-net increase in other liabilities		683,389	(788,263)	195,029	(536,339)
Net cash inflow from operating activities	27	395,064	33,914,449	11,764,891	13,314,270
Cash flows from investing activities					
Purchase of property and equipment	20	(1,843,654)	(5,910,086)	(1,843,654)	(5,910,086)
Proceeds from sale of property and equipment		322,110	273,056	322,110	273,056
Investment in associate company		-	(8,000,000)	-	(8,000,000)
Purchase of available-for-sale financial assets		(2,407,373)	-	(2,886)	-
Proceeds from sale of available-for-sale financial assets	16	8,151,052	3,119,973	353,292	564,422
Net cash outflow from investing activities		4,222,135	(10,517,057)	(1,171,138)	(13,072,608)
Cash flows from financing activities					
Dividend payment		(10,000,000)	-	(10,000,000)	-
Lease repayments to subsidiary	28 (ii)	-	-	(38,932)	(136,292)
Increase in capital		-	8,000,000	-	-
Purchase of debt securities		-	(4,000,000)	-	-
Net cash inflow/(outflow) from financing activities		(10,000,000)	(4,000,000)	(10,038,932)	(136,292)
Net increase/(decrease) in cash and cash equivalents		(5,382,801)	27,397,392	554,821	105,370
Cash and cash equivalents at beginning of year		114,700,657	87,303,265	392,736	287,366
Cash and cash equivalents at end of year	27	109,317,856	114,700,657	947,557	392,736

The notes on pages 10 to 38 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant accounting Policies

a) Statement of compliance

The financial statements of Kina Securities Limited and its subsidiaries ("the Group") have been prepared in accordance with International Financial Reporting Standards as adopted by the Accounting Standards Board of Papua New Guinea and the requirements of the Papua New Guinea Companies Act 1997.

b) Basis of presentation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2.

c) Group accounts

1) Subsidiary undertakings

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used, to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured, as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of cost over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. All inter-company transactions, balances, and unrealized surpluses and deficits on transactions between group companies have been eliminated.

2) Associates

The Group's investment in its associates, an entity in which the Group has significant influence, is accounted for using the cost method.

After initial recognition, investment in associates is measured at cost less any accumulated impairment losses. The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant accounting Policies (continued)

d) Interest income and expenses

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection, such as when overdue by more than 30 days, or, when the borrower defaults, if earlier than 30 days. Such income is excluded from interest income until received.

Per prudential standard 2/2003 issued on 1st October 2003 on suspension of interest, a loan or advance is to be placed on non-accrual if:

- (i) It is maintained on a cash basis because of deterioration in the financial condition or paying ability of the borrower;
- (ii) Payment in full of principal or interest is not expected;
- (iii) It is non-performing (note 15) unless it is both well-secured and in the process of collection.

e) Fee and commission income

Fees and commissions are generally recognized, on an accrual basis where the service has been provided. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees related to investment funds are recognized notably over the period the service is provided.

f) Lease income recognition

Lease income is brought to account on the basis of the rule of 78 on lease rental receivable and on the straight-line basis for interest earned on lease residual amounts.

g) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognized as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilized.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant accounting Policies (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realized or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognized as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognized directly in equity.

h) Property and equipment and depreciation

Property and equipment is stated at historical cost less accumulated depreciation. Depreciation is calculated on the basis of straight line to write-off the cost of such assets to their residual values over their estimated lives as follows:

Furniture and fittings	11.25% to 15%
Renovation	10%
Motor vehicle	30%
Office equipment	15% to 30%
Software	33% to 100%

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate at each balance sheet date.

Profits and losses on disposal (being the difference between the carrying value at the time of sale or disposal and the proceeds received) are taken into account in determining operating profit for the year. Repairs and maintenance costs are charged to income statement, when the expenditure is incurred.

i) Computer software development costs

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group that will probably generate economic benefits exceeding costs beyond one year are recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenditure which enhances or extends the performance of computer software program beyond their original specifications is recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives, not exceeding a period of 3 years.

j) Financial assets

The Company classified its investment securities into the two categories: at fair value through profit and loss and held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant accounting Policies (continued)

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices are classified as financial assets at fair value through profit and loss.

Held-to-maturity investments are non derivatives financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold-to-maturity. Were the Fund to sell other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Investment securities are initially recognized at cost (which includes transaction costs) on the trade date (the date on which the Group commits to purchase or sell the asset).

Financial assets at fair value through profit and loss are subsequently re-measured at fair value based on quoted bid prices. Gains and losses arising from changes in the fair value are recognized in the income statement in the period in which they arise.

Held-to-maturity investments are carried at amortized cost using effective interest rate method. Interest calculated using the effective interest method is recognized in the income statement.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

All purchases and sales of investments are recognized at trade date, which is the date that the Group commits to purchase or sell the asset.

Dividends receivable are included separately in dividend income, when a dividend is received.

k) Loan and advances and impairment losses

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans originated by the Group by providing money directly to the borrower are categorized as loans originated by the Group and are carried at cost, which is defined as the fair value of cash consideration given to originate loans as is determinable by references to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

All loans and advances are recognized when cash is advanced to borrowers. A credit risk provision for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms and conditions. The amount of the provision is the difference between the carrying amount and the recoverable amount.

The loan loss provision also covers losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including, cash, treasury bills and amounts due from other banks.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

1. Significant accounting Policies (continued)

m) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligations can be made.

n) Employee benefits

Provision is made for benefits accruing to employees in respect of annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognized in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

The contributions of employees of the Group who contribute to defined contribution pension plans are charged to the income statement in the year to which they relate.

o) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Kina, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

p) Changes in accounting policies and comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation and accounting policies in the current year. There have been no changes to accounting policies in year 2012.

q) Dividends

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Company's shareholders.

r) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

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1. Significant accounting Policies (continued)

s) Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Details of such investments under trust may be found in note 29.

2. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimated allowances for losses

The Group uses the Prudential Standard 2/2003 issued by Bank of Papua New Guinea on 1 October 2003 Assets Classification, Provisioning and Suspension of Interest to calculate allowance for losses.

As at 31 December 2012, the Group has taken up an allowance for losses of K8,577,506; (2011: K10,139,443)

3. Net interest income/ (expense)

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Interest income				
Cash and short-term funds	2,933,676	3,834,541	14,954	23,760
Investment securities held-to-maturity	533,287	459,884	-	-
Loans and advances to customers	34,604,032	27,028,379	-	-
Due from subsidiary (note 28 (ii))	-	-	3,968	19,237
	38,070,995	31,322,804	18,922	42,997
Interest expense				
Banks and Customers	(5,889,082)	(7,188,748)	-	-
Lease (note 28 (ii))	-	-	(290)	(19,193)
Due to subsidiaries (note 28 (ii))	-	-	(181,291)	(36,789)
	(5,889,082)	(7,188,748)	(181,581)	(55,982)
Net interest income/(expense)	32,181,913	24,134,056	(162,659)	(12,985)

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4. Net fee and commission income

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Fee and commission income				
Credit related fees and commission	3,479,275	2,529,108	-	-
Investment and portfolio management	12,929,724	11,178,010	-	-
Fund administration	6,311,973	5,118,701	-	-
Shares brokerage	1,165,116	799,132	1,165,115	799,132
Corporate services fee	275,246	92,325	275,246	92,325
Other fees	371,359	308,292	-	-
	<u>24,532,693</u>	<u>20,025,568</u>	<u>1,440,361</u>	<u>891,457</u>
Fee and commission expense				
Other fees paid	(57,801)	(52,041)	(57,801)	(52,041)
Net fee and commission income	<u>24,474,892</u>	<u>19,973,527</u>	<u>1,382,560</u>	<u>839,416</u>

5. Dividend income

Financial assets at fair value through profit and loss	<u>729,622</u>	<u>707,264</u>	<u>2,984</u>	<u>10,045,372</u>
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6. Net trading income

Foreign exchange gains	<u>760,833</u>	<u>373,322</u>	<u>809,686</u>	<u>565,250</u>
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7. Other operating income

Support fees to subsidiaries (note 28(ii))	-	-	10,770,806	8,157,660
Rental-subsiidiaries (note 28 (ii))	-	-	1,672,796	1,031,311
Profits from disposal of property and equipment (note 27)	2,255	653	2,255	653
Dividend withholding taxes utilised	1,700,000	-	1,700,000	-
Other	74,008	56,701	77,286	60,866
	<u>1,776,263</u>	<u>57,354</u>	<u>14,223,143</u>	<u>9,250,490</u>

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8. Impairment losses on loans and advances to customers

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Individually assessed (note 15)	3,616,180	7,056,114	7,247	42,213
Reversal of prior year provision	(193,047)	-	-	-
Collective allowance	15,452	-	15,452	-
Note 27	3,438,585	7,056,114	22,698	42,213

9. Other operating expenses

Staff costs (note 10)	16,824,396	13,676,475	7,338,868	6,233,852
Administrative expenses	5,298,436	4,151,136	2,072,675	1,496,631
Auditor's remuneration Assurance Services (Statutory Audit)	187,100	158,306	21,900	21,900
Depreciation (notes 20 and 27)	1,791,976	1,120,095	1,791,976	1,120,095
Impairment losses on other assets (note 27)	9,607	40,156	-	37,447
Support charges by subsidiary (note 28(ii))	-	-	60,000	598,692
Software maintenance and support charges	1,595,524	877,043	207,160	82,065
Operating lease	3,642,596	2,178,885	1,526,043	862,540
Withholding taxes	-	1,700,000	-	1,700,000
Other	1,553,313	1,498,687	774,511	833,397
	30,902,948	25,400,784	13,793,133	12,986,619

10. Staff costs

Wages and salaries	11,858,197	9,364,799	5,222,614	4,320,101
Superannuation contribution	592,221	382,910	210,310	125,200
Staff accommodation	2,815,184	2,241,976	1,261,782	1,044,356
Traveling cost	398,404	286,223	186,235	144,990
Other	1,160,390	1,400,567	457,927	599,205
Note 9	16,824,396	13,676,475	7,338,868	6,233,852

As at 31 December 2012 the Group had 185 (2011: 150) employees and nil (2011: nil) consultant, and Company had 78 (2011:62) employees.

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11. Income tax expense

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Profit/(loss) before tax	27,005,764	12,397,498	2,442,287	7,348,755
Prima facie tax at 30% (2011: 30%)	8,101,729	3,719,249	732,686	2,204,627
Tax effect of permanent differences				
-Gains less losses from financial assets through profit and loss	(427,132)	129,256	(721)	92,987
-Other	(155,422)	172,314	21,618	(2,420,848)
Prior year tax under provision	-	33,213	-	-
Income tax expense	7,519,175	4,054,032	753,583	(123,236)
Represented by:				
Current tax	7,370,941	5,051,947	811,644	(524,971)
Deferred tax (note 12(c))	148,234	(997,915)	(58,061)	401,735
Prior year dividend withholding tax adjustment	-	-	-	-
Income tax expense	7,519,175	4,054,032	753,583	(123,236)

12. Deferred taxes

a) Deferred tax assets are attributable to the following items:

Allowance for losses				
-Loans and advances to customers	2,569,280	3,039,486	17,795	19,772
-Other assets	35,888	41,117	27,914	34,122
Employee provisions	999,613	731,441	545,011	411,405
Accrual of audit fees	27,355	23,429	3,418	1,940
Difference of depreciation per accounts and taxation				
Unrealized exchange loss on revaluation of foreign currency bank account	4,299	50,121	4,299	50,121
Tax losses carried forward	11,016	5,685	-	-
-Note 12(c)	3,647,451	3,891,279	598,437	517,360

b) Deferred tax liabilities are attributable to the following item:

Difference of depreciation per accounting and taxation	549,033	468,977	549,033	468,977
Prepayments-insurance	106,564	282,213	35,398	92,439
Prior year audit adjustment	29,648	29,648	26,089	26,089
Note 12(c))	685,245	780,838	610,520	587,505

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12. Deferred taxes (continued)

c) The movement on deferred income tax account is as follows:

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Balance at beginning of year	3,110,441	2,112,526	(70,145)	331,590
Income statement credit/(charge) (note 11 and 27)	(148,235)	997,915	50,062	(401,735)
Balance at end of year	2,962,206	3,110,441	(12,083)	(70,145)
Represented by:				
Deferred tax assets (note 12(a))	3,647,451	3,891,279	598,437	517,360
Deferred tax liabilities (note 12(b))	(685,245)	(780,838)	(610,520)	(587,505)
	2,962,206	3,110,441	(12,083)	(70,145)

13. Cash and due from other banks

Cash in hand	4,901	4,600	2,800	2,800
Placement with other banks	9,296,230	12,697,677	-	-
Loans and advances to other banks	24,012,753	5,659,967	944,757	389,936
Loans and advances to finance companies	-	840,198	-	-
Included in cash and cash equivalents (note 27)	33,313,884	19,202,442	944,557	392,736

14. Central bank bills

Central bank bills (included in cash and cash equivalents) (note 27)	76,003,973	95,498,215	-	-
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Central bank bills are debt securities issued by the Bank of Papua New Guinea ("BPNG") for a term of one month and two months. Bills are categorized as assets held to maturity where they have a fixed maturity and where management has both the intent and the ability to hold to maturity.

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15. Loans and advances to customers

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Loan originated by the Group				
- Loan to individuals	59,591,966	63,299,627	-	-
Loan to corporate entities				
- Direct commercial loan	127,030,517	88,206,271	-	-
	186,622,483	151,505,898	-	-
Advances to corporate entities	3,636,070	4,833,782	65,003	72,255
Gross loans and advances	190,258,553	156,339,680	65,003	72,255
Less: Suspended interest	(368,158)	(1,313,950)	-	-
Allowances for losses:				
-Individually assessed	(6,239,856)	(7,801,793)	(57,514)	(64,106)
-Collective allowance	(2,337,650)	(2,337,650)	(1,801)	(1,801)
	181,312,889	144,886,287	5,688	6,348

Movements in allowance for losses are as follows:

	Consolidated		Parent Company	
	2012	2011	2012	2011
<i>Individually assessed</i>				
Balance at beginning of year	7,801,793	2,873,205	64,106	22,746
Impairment losses during the year (note 8)	3,616,180	7,056,114	7,247	42,213
Loans written off during the year as uncollectible	(7,120,074)	(2,831,754)	-	-
Reversals	(193,047)	(3,851)	(13,839)	(853)
Transfer of provision from other assets	(13,839)	(1,050)	-	-
Transfer from collective allowance	-	(1,406)	-	-
Recoveries	2,148,843	710,535	-	-
Balance at end of year	6,239,856	7,801,793	57,514	64,106
<i>Collective allowance</i>				
Balance at beginning of year	2,337,650	2,336,244	1,801	1,801
Transfer to individually assessed	-	1,406	-	-
Balance at end of year	2,337,650	2,337,650	1,801	1,801

Loans with variable rates are K165,320,658 (2011: K132,319,686) and fixed rates are K21,301,826 (2011 K19,186,213).

16. Financial assets at fair value through profit and loss

Equity securities - at fair value				
-Listed	13,567,626	17,887,531	466,224	814,227
-Unlisted	481,598	481,598	-	-
	14,049,224	18,369,129	466,224	814,227

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16. Financial assets at fair value through profit and loss (continued)

The movement in financial assets at fair value through profit and loss is reconciled as follows:

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Balance at beginning of year	18,369,129	21,880,230	814,227	1,688,605
Gains/(losses) from changes in fair value (note 27)	457,169	(388,207)	(291,421)	(201,088)
Additions	2,407,372	-	2,887	-
Disposal	(8,151,052)	(3,119,973)	(353,292)	(564,422)
Gains/(losses) on disposal (note 27)	966,606	(2,921)	293,823	(108,868)
Balance at end of year	14,049,224	18,369,129	466,224	814,227

17. Investment securities held-to-maturity

Principal	7,000,000	7,000,000	-	-
Unamortized premium	445,551	629,336	-	-
	7,445,551	7,629,336	-	-

The movement in investment securities held-to-maturity as follows:

Balance at beginning of year	7,629,336	3,335,681	-	-
Additions	-	4,000,000	-	-
Amortized premium (note 27)	(183,785)	293,655	-	-
	7,445,551	7,629,336	-	-

18. Investment in subsidiaries

	Share Capital	Shareholdings
	K	%
Kina Finance Limited ("KFL")	9,500,002	100
Kina Funds Management Limited ("KFM")	2	100
Kina Investment and Superannuation Services Limited ("KISS")	2	100
Kina Nominees Limited ("KNL")	2	100
Kina Morgan Corporate Limited ("KMC")	2	100
	9,500,010	

No changes of shareholdings from 2011.

All the subsidiaries are incorporated in Papua New Guinea. The results of operation of above subsidiaries have been consolidated in the parent company financial statements.

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19. Investment in associate company

The principal associates, Port Moresby Stock Exchange Limited ("POMSoX"), incorporated in Papua New Guinea

	Un-Audited 2012	Un-Audited 2011
	K	K
Assets	594,644	1,677,927
Liabilities	614,642	2,253,910
Net assets	(19,998)	(575,983)
Revenue	1,359,263	1,154,424
Net loss	(781,857)	(1,060,107)
% of interest:		
Ordinary	35.97%	35.97%
Preference	38.35%	38.35%
Total	37.31%	37.31%

Investment in POMSoX may be summarised as follows:

Cost	458,000	458,000
Specific allowance for losses	(62,000)	(62,000)
	396,000	396,000

20. Property and equipment – Consolidated and Parent Company

	Furniture & Fittings K	Renovation K	Motor Vehicle K	Office Equipment K	Software K	Land K	Total K
Cost							
Balance 31 December 2010	139,238	363,909	1,162,865	1,248,113	1,548,872	-	4,463,097
Additions	28,258	15,000	645,464	482,214	2,644,640	2,094,510	5,910,086
Disposal	-	-	(214,798)	(6)	(198,050)	-	(412,854)
Balance 31 December 2011	167,496	378,909	1,593,531	1,730,321	3,995,562	2,094,510	9,960,329
Additions	260,797	273,448	270,812	299,521	704,576	34,500	1,843,654
Disposal	-	-	(34,364)	(800)	(305,309)	-	(340,473)
Balance 31 December 2012	428,293	652,357	1,829,979	2,029,042	4,394,828	2,129,010	11,463,510
Accumulated depreciation							
Balance 31 December 2010	(66,236)	(156,573)	(746,999)	(560,413)	(291,642)	-	(1,821,863)
Charged in year (notes 9 and 27)	(20,334)	(46,303)	(305,837)	(319,923)	(427,698)	-	(1,120,095)
Disposal	-	-	140,450	-	-	-	140,450
Balance 31 December 2011	(86,570)	(202,876)	(912,386)	(880,336)	(719,340)	-	(2,801,508)
Charged in year (notes 9 and 27)	(52,040)	(75,226)	(344,669)	(337,233)	(982,808)	-	(1,791,976)
Disposal	-	-	20,618	-	-	-	20,618
Balance 31 December 2012	(138,610)	(278,102)	(1,236,437)	(1,217,569)	(1,702,148)	-	(4,572,866)
Book value 31 December 2012	289,683	374,255	593,542	811,473	2,692,680	2,129,010	6,890,642
Book value 31 December 2011	80,926	176,033	681,145	849,985	3,276,221	2,094,510	7,158,821

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21. Other assets

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Prepayments	895,553	786,243	417,024	308,130
Bonds	334,009	312,866	191,924	183,257
Accrued interest				
-central bank bills	302,296	1,411,686	-	-
-due from other banks	28,925	58,923	-	-
-investment securities held-to-maturity	181,389	138,329	-	-
Other debtors	1,910,014	2,372,380	1,755,759	736,804
	3,652,186	5,080,427	2,364,707	1,228,191
Less specific allowance for losses	(106,391)	(129,239)	(93,046)	(113,737)
	3,545,795	4,951,188	2,271,661	1,114,454

Movements of specific allowance for losses are as follows:

Balances at beginning of year	129,239	106,054	113,737	92,330
Impairment losses during the year	25,059	40,354	15,452	37,447
Reversal	(49,982)	-	(49,982)	3,851
Transfer of provision to loans and advances to customers	13,839	853	13,839	853
Written-off during the year as uncollectible	(11,764)	(18,022)	-	(20,744)
Balance at end of year	106,391	129,239	93,046	113,737

22. Due to customers

Corporate customers				
-Current/settlement accounts	809,461	137,763	-	-
-Term deposits	207,086,383	191,797,741	-	-
Retail customers				
-Current/settlement accounts	3,510,185	960,245	-	-
-Term deposits	20,612,038	22,758,993	-	-
	232,018,067	215,654,742	-	-

23. Employee provisions

Balance at beginning of year	2,438,131	2,084,868	1,371,347	1,263,089
Charged to profit and loss	1,559,787	614,805	623,997	188,822
Reversal of prior year over provision	(99,300)	-	-	-
Utilized during the year	(566,578)	(261,542)	(178,645)	(80,564)
Balance at end of year	3,332,040	2,438,131	1,816,699	1,371,347
Represented by:				
Short term provisions	2,334,947	1,788,867	1,161,200	918,575
Long term provisions	997,093	649,264	655,499	452,772
	3,332,040	2,438,131	1,816,699	1,371,347

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24. Current income tax payable/ (receivable)

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Balance at beginning of year	2,701,602	2,072,805	(783,347)	(135,076)
Paid during the year	(11,547,883)	(4,228,225)	(794,864)	(123,300)
Current provision	7,370,939	4,881,947	811,644	(524,971)
Prior year adjustment	-	(24,925)	-	-
Balance at end of year	(1,475,342)	2,701,602	(766,567)	(783,347)

25. Other liabilities

Creditors	827,840	772,003	472,501	417,742
Accrued interest	3,644,294	2,779,046	-	-
Accruals	1,868,077	1,027,689	1,000,376	565,174
Other	3,016,909	2,626,955	1,225,043	1,183,830
	9,357,120	7,205,693	2,697,919	2,166,746

26. Ordinary shares

The issued capital of Kina Securities Limited ("KSL") comprises of 2,000,000 ordinary shares. Following is a summary of principal shareholders as at 31 December 2012 and their respective percentage holdings:

	Shareholdings	
	2012	2011
	%	%
Wayne Kenneth Golding	5.5	5.5
Columbus Investment Limited	5	5.0
Fu Shan Investment Limited	89.5	89.5
	100	100.0

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27. Cash and cash equivalents

a) For the purposes of the statement of cash flow, cash and cash equivalents comprises the following:

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Cash and due from other banks (note 13)	33,313,883	19,202,442	947,557	392,736
Central bank bills (note 14)	76,003,973	95,498,215	-	-
	109,317,856	114,700,657	947,557	392,736

b) Reconciliation of comprehensive income for the year to net cash flows from operating activities

Comprehensive income/(loss) for the year	19,486,589	8,343,466	1,688,702	7,471,991
Profit from disposal of property and equipment (note 7)	(2,255)	(653)	(2,255)	(653)
Depreciation (note 20)	1,791,976	1,120,095	1,791,976	1,120,095
Impairment losses:				
Loan and advances to customers (note 8)	3,438,585	7,056,114	22,698	42,213
Other assets (note 9)	9,607	40,354	-	37,447
Amortization of investment held-to-maturity:				
On premium (note 17)	183,785	(293,655)	-	-
Net losses/(gains) from changes in fair values of financial assets (note 16)	(457,169)	388,207	291,421	201,088
Losses/(gains) on sales of financial assets (note 16)	(966,606)	2,921	(293,823)	108,868
Increase/(decrease) in current income tax payable	(4,176,943)	1,047,797	16,780	(648,271)
Increase/(decrease) in deferred income tax (note 12(c))	148,235	(997,915)	(58,061)	401,734
Changes in net assets and liabilities:				
Decrease/(increase) in assets:				
Current assets	(39,009,010)	(32,011,920)	(1,419,825)	1,143,630
Non-current assets	(11,789,330)	25,950,194	(8,667)	(121,602)
Increase/(decrease) in liabilities:				
Current liabilities	65,089,504	(15,478,626)	9,609,448	3,452,982
Non-current liabilities	(33,351,904)	38,748,070	126,497	104,748
Net cash inflow from operating activities	395,064	43,914,449	11,764,891	13,314,270

c) KFL has a registered fixed and floating charge of K30,000,000 over the whole of the company assets and undertakings of KFL including called and unpaid capital. Deed of guarantee and indemnity for K10,000,000 from KSL and KFM supported by:

- a. Registered fixed and floating charge over the whole of the company assets and undertakings of KSL including called and unpaid and uncalled capital;
- b. Deed of charge over 4,241,086 Credit Corporation (PNG) Ltd shares.

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28. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by KSL (incorporated in Papua New Guinea), which owns 100% of the ordinary shares of its subsidiaries, unless otherwise stated. The ultimate parent entity is Flensburg Inc. Limited (incorporated in Liberia). There were no related party transactions between the ultimate parent company and KSL during the year.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on normal commercial terms and at normal market rates. The volumes of related party transactions, outstanding balances at 31 December 2012, and related expenses and income for the year ended are as follows:

i) As at 31 December 2012, Directors and management transactions were as follows:

- a) H. Wong, Chairman of KSL is also Director of Pentone Limited ("PL"). During the year H. Wong maintained interest-bearing deposits at normal market rates of interest. The balance due as at 31 December 2012 and related income and expenses for the year ended are as follows:

	2012	2011
	K	K
Deposit:		
Balance at the beginning of year	6,933	6,800
Received during the year	71	133
Balance at end of year	<u>7,005</u>	<u>6,933</u>
Interest expense on deposit	84	157
Average interest rate per annum	6.25%	1.75%

- b) W. Golding is a Director and Shareholder of KSL and also a Director and Shareholder of Manufacturers Council of PNG (MCP). During the year, W. Golding had loan transactions undertaken on discounted terms and conditions and MCP maintained interest-bearing deposits at normal market rates on interest. The balances due as at 31 December 2012 and related income and expenses for the year ended are as follows:

Loan:		
Balance at beginning of year	702,461	538,205
Issued during the year	89,270	733,200
Repayments during the year	(115,500)	(568,944)
Balance at end of year	<u>676,231</u>	<u>702,461</u>
Interest income earned	74,925	68,774
Average interest rate per annum	11.95%	11.95%
Deposit:		
Balance at beginning of year	55,134	54,180
Received during the year	970	954
Balance at end of year	<u>56,104</u>	<u>55,134</u>
Interest expense on deposits	970	954
Average interest rate per annum	1.75%	1.75%

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28. Related party transactions (continued)

- c) T. K Lee is a representative Director of KSL and is also a Director of Bandon Limited. During the year, Bandon Limited had loan transactions undertaken on commercial terms and conditions. The balances due as at 31 December 2012 and related expenses for the year ended are as follows:

	2012	2011
	K	K
Balance at beginning of year	-	342
Issued during the year	11,040,707	1,000,026
Repayments during the year	-	(1,000,368)
Balance at end of year	11,040,707	-
Interest income earned	47,890	41,871
Average interest rate per annum	4.31%	11.95%

- d) S. Yates, Managing Director and Chief Executive Officer of KSL is also Director of Kina Assets Management Limited ("KAML") and Port Moresby Stock Exchange (POMSoX) an associate company of KSL. During the year, KAML, POMSoX, and S. Yates maintained interest-bearing deposits at normal market rates of interest. The balances due as at 31 December 2012 and relating expense for the year are as follows:

	KAML	POMSoX	S. Yates	Total	2011
	K	K	K	K	K
Balance at beginning of year	744,860	500,726	128,949	1,374,535	2,505,567
Received during the year	2,314	8,016	146,399	156,729	1,271,928
Repaid during the year	(747,174)	-	(229,412)	(976,586)	(2,402,960)
Balance at end of year	-	508,742	45,936	554,678	1,374,535
Interest expense on deposits	1,310	7,270	462	9,042	38,040
Average interest rate per annum	1.00%	1.15%	0.35%	0.63%	1.78%

From time to time during the year, Directors and Senior Management of the parent company and subsidiaries had deposits in the Company on normal terms and conditions. Brokerage rates for buying and selling shares of stocks for the Senior Management and staff are discounted.

A listing of the members of the Board of Directors is shown on page 1 to 2 of the annual report. In 2012, the total remunerations of the directors was K1,378,479 (2011: K1,139,692).

The Group specified executives during the year were:

Syd Yates
 Michael Van Dorssen
 Dominic Beange
 Sean Young

Group specified executives remuneration in aggregate (K'000)

	Primary				Post employment		Other		Total
	Salary	Bonus	Non-monetary	Super	Prescribed benefits	Other	Equity Options	Other benefits	
2012	2,253			62				1,522	3,837
2011	2,056	-	-	65	-	-	-	1,092	3,213

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28. Related party transactions (continued)

- ii) The Company maintains an inter-company account with subsidiary undertakings, which are interest bearing at the rate of KFL cost of funds plus 12.50 (2010:12.50) basis points, unsecured and with no fixed term of repayment. Details as follows:

	<u>Transactions</u>			<u>Balance outstanding</u>		
	Income 2012	Expenses 2012	Due from 2012	2011	Due to 2012	2011
	K	K	K	K	K	K
KFL	5,850,686	57,830	-	-	(1,418,917)	(1,981,497)
KFM	4,207,166	123,750	-	-	(10,329,236)	(1,955,349)
KISS	2,293,003	60,000	-	-	(1,343,235)	(395,123)
KMC	-	-	36,304	16,933	-	-
KNL	96,694	-	299,708	69,835	-	-
	12,447,569	241,580	336,012	86,768	(13,091,388)	(4,331,969)

	KFL	KFM	KISS	KMC	KNL	Total
	K	K	K	K		K
2012						
Income						
-Interest (note 3)	-	-	3,968	-	-	3,968
-Support fee (note 7)	5,253,129	3,807,403	1,613,579	-	96,694	10,770,805
-Rental of property and equipment (note 7)	597,557	399,763	675,456	-	-	1,672,796
	5,850,686	4,207,166	2,293,003	-	96,694	12,447,569
Expenses						
-Interest (note 3)	57,830	123,750	-	-	-	181,580
-Support charges (note 9)	-	-	60,000	-	-	60,000
	57,830	123,750	60,000	-	-	241,580
2011						
Income						
-Interest (note 3)	-	-	18,909	328	-	19,237
-Support fee (note 7)	4,308,828	2,677,380	1,139,940	-	31,512	8,157,660
-Rental of property and equipment (note 7)	713,112	236,148	51,211	-	30,840	1,031,311
	5,021,940	2,913,528	1,210,060	328	62,352	9,208,208
Expenses						
-Interest (note 3)	19,193	36,789	-	-	-	55,982
-Support charges (note 9)	-	-	598,692	-	-	598,692
	19,193	36,789	598,692	-	-	654,674

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28. Related party transactions (continued)

During the year, KSL had loan transactions with KFL undertaken on discounted terms and conditions. The balance due as at 31 December 2012 and expenses for the year ended are as follows:

	2012	2011
	K	K
Balance at beginning of year	38,932	175,224
Issued during the year	-	-
Repayments during the year	(38,932)	(136,292)
Balance at end of year	-	38,932
Interest expense (note 3)	5,284	19,193
Average interest rate per annum	7.00%	7.00%

29. Investments under trust

The Group acts as trustee that result in the holding or placing of assets on behalf of superannuation funds and individuals. As the relationship is legally supported, these assets are not assets of the Group and, therefore, are not included in its balance sheet. The Group is also engaged in investing client monies. A corresponding liability in respect of these monies is also excluded from the balance sheet. Investments under trust at balance sheet are:

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Due from other banks	6,647,471	9,443,763	-	-
Shares clients funds	1,063,191	1,115,687	1,063,191	1,115,687
Investment securities				
-Listed	-	12,035,249	-	-
-Unlisted	-	152,951	-	-
	7,710,662	22,747,650	1,063,191	1,115,687

During 2012, Nambawan Super Limited(NSL) announced with approval from Bank of Papua New Guinea(BPNG) that PEASF would be wound up. Nambawan Super Limited has realized all the non-cash assets of PEASF in 2012.

30. Contingent liabilities

There were a number of legal proceedings outstanding against the Company at 31 December 2012. Aside from the accrual noted in Note 2, no additional provisions or accruals have been made as professional legal advice indicates that is it unlikely that any significant loss will arise

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31. Commitments for expenditure

The Group is the lessee and its future minimum lease payments under non-cancelable operating leases are as follows:

	Consolidated		Parent Company	
	2012	2011	2012	2011
	K	K	K	K
Not later than 1 year	2,607,202	2,683,850	913,426	1,159,506
Later than 1 year and not later than 5 years	3,514,941	5,618,065	992,482	2,500,670
	<u>6,122,143</u>	<u>8,301,916</u>	<u>1,905,908</u>	<u>3,660,177</u>

32. Capital adequacy

To monitor the adequacy of its capital the Group and KFL uses ratios established by BPNG. KFL is required to comply with various prudential standards issued by BPNG, the official authority for the prudential supervision of banks and similar institutions in Papua New Guinea. One of the most critical standards is the capital adequacy requirement. Capital adequacy, that prescribed ranges of overall capital ratios to measure whether a bank or finance company is under, adequately, or well capitalized. All banks and finance companies are required to maintain at least the minimum measure of capital to risk-weighted assets to absorb potential losses. The BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of Basel Accord.

The minimum ratio of base capital to risk-weighted assets set by the BPNG for tier 1 capital ratio is 8%, total capital ratio is 12% and leverage capital ratio is 6%.

As at 31 December 2012, the Group and KFL tier 1 capital ratio and total capital ratio are satisfied the criteria for well-capitalized and the leverage capital ratio satisfied the criteria for adequately capitalized.

The measure of capital used for the purpose of prudential supervision is referred to as base capital. Total base capital varies from the capital shown on balance sheet and is made of tier 1 (core) and tier 2 (supplementary), after deducting the value of investments in other banks and financial institutions. Tier 1 capital is obtained by deducting from equity capital and audited retained earnings (or accumulated losses), intangible assets including deferred tax assets. Tier 2 capital cannot exceed the amount of tier 1 capital, and can include subordinated loan capital, specified assets revaluation reserves, un-audited profits (or losses) and a small percentage of general loan provisions. The Leverage Capital is calculated as Tier 1 Capital divided by Total Assets. Risk-weighted assets are derived from on-balance sheets assets. On-balance sheet assets are weighted for credit risk by applying weighting (0, 20, 50 and 100 percent) according to risk classification criteria set by the BPNG, for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
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32. Capital adequacy (continued)

The capital adequacy level is as follows:

	Balance sheet amount		Risk-weighted amount ("RWA")	
	Group	Subsidiary	Group	Subsidiary
		KFL		KFL
	K	K	K	K
31 December 2011				
Cash and due from other banks	33,313,883	30,023,467	6,661,797	6,004,334
Central bank bills	76,003,973	74,045,853	-	-
Loans and advances to customers	181,312,889	177,890,565	138,594,219	135,171,895
Current income tax receivable	1,475,342	-	1,475,342	-
Deferred income tax assets	3,647,451	2,777,601	-	-
Due from parent company	-	1,415,782	-	1,415,782
Due from related companies	-	11,764	-	11,764
Financial assets at fair value through profit and loss	14,049,224	33,300	4,856,555	33,300
Investment securities held- to- maturity	7,445,551	7,445,551	-	-
Investment in associate company	396,000	-	396,000	-
Property and equipment	6,890,644	-	6,890,644	-
Other assets	3,545,795	848,890	3,545,795	848,890
	328,080,752	294,492,773	162,420,352	143,485,965

	Group		Subsidiary KFL	
	2012	2011	2012	2011
		K		K
Capital components				
<i>Tier 1 (core) capital</i>				
Issued and fully paid ordinary shares	2,000,000	2,000,000	9,500,002	9,500,002
Reserves	49,050	49,050	-	-
Prior years retained earnings	71,152,641	62,809,181	26,186,656	21,378,686
Deferred income tax assets	(3,647,451)	(3,891,279)	(2,777,601)	(3,165,221)
	69,554,240	60,966,952	32,909,057	27,713,467
<i>Tier 2 (supplementary) capital</i>				
Net profit for the year	19,486,589	18,343,466	11,050,965	5,388,970
Subordinated loan	-	-	5,000,000	5,000,000
General provision (not more than 1.25% RWA)	2,030,254	1,556,210	1,793,575	1,321,572
	21,516,843	19,899,676	17,844,540	11,710,542
Total capital base	91,071,083	80,866,628	50,753,597	39,424,009
Less investment in other financial institutions				
-Credit Corporation	(9,192,669)	(8,273,402)	-	-
Net capital base	81,878,414	72,593,226	50,753,597	39,424,009

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
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32. Capital adequacy (continued)

Capital adequacy ratios

Tier 1 capital (tier 1 capital/total RWA)	42.82%	48.97%	22.94%	26.21%
Total capital ratio (total capital/total RWA)	50.41%	58.31%	35.37%	37.29%
Leverage capital ratio (tier 1 capital/total assets less deferred income tax assets)	21.44%	20.45%	11.28%	10.40%

33. Events after the balance sheet date

There were no events after the balance sheet date noted which require adjustment or disclosure in the financial statements at balance sheet date.

34. Financial risk management

a) Group strategy in using financial instruments

By its nature the Group's activities are principally related to the use of financial instruments.

The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above-average interest margins by investing these funds in high quality assets. The Group sets to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above-average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing.

The Group also enters into transactions denominated in foreign currencies. This activity generally requires the Group to take foreign currency positions in order to exploit short-term movements in foreign currency market. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Risk in the Group is managed by a system of delegated limits. These limits set the maximum level of risks that can be assumed by each operational unit and the Group as a whole. The limits are delegated from the Board of Directors to executive management and thence to the respective operational managers.

b) Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Management therefore carefully manages its exposures to credit risks.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
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34. Financial risk management (continued)

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual review or more frequent review.

Comprehensive credit standards and approval limits have been formulated, approved by the Credit Committee and implemented. The Credit Committee (which reports to the Board) is responsible for the development and implementation of credit policy and loan portfolio review methodology.

Exposure to credit risk is managed through daily review of the ability of the borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. This is the responsibility of the Manager Credit. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

Large credit exposures ("LCE") are also monitored as part of credit risk management. These are the large loan relationships or loan balances, which exceed 10% of the capital base. As at 31 December 2012 details of LCE as follows:

	Group		Subsidiary KFL	
	2012	2011	2012	2011
	K	K	K	K
LCE	-	-	32,469,946	4,278,881
Percentage of LCE to total loans	-	-	183%	3%
Percentage of LCE to net capital base	-	-	64%	11%

As per prudential standard 3/2003 (Single Borrower and Large Exposures Limits) the total of all LCE shall not be exceeded 800% of capital base at any time

c) Foreign exchange risk

The Group undertakes transactions denominated in foreign currencies from time to time and resulting from these activities, exposures in foreign currencies arise. Though there are no specific hedging activities to mitigate any currency risk, this exposure is monitored by management on an ongoing basis.

The Group's foreign currency risks is limited to due from other banks, financial assets at fair value through profit and loss, receipts of dividend and management salaries are denominated in Australian dollars.

A general increase or decrease of ten percentage points in the value of Kina against Australian dollar would not directly have any significant impact on the company's profit.

d) Fair values of financial assets and liabilities

The estimated fair value of the Group's monetary assets and liabilities are equivalent to their carrying values as at 31 December 2012.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
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34. Financial risk management (continued)

e) Price risk

The Group is exposed to equity securities price risk because of investment held by the company and classified on the balance sheet as financial assets at fair value through profit and loss. To manage its price risks arising from financial assets at fair value through profit and loss, the Group diversifies its portfolio. Diversification of portfolio is done in accordance with the limits set by the Group.

The company's financial assets at fair value through profit and loss are publicly traded in Port Moresby Stock Exchange (POMSoX) and Australian Stock Exchange (ASX).

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower:

- net profit for the year ended 31 December 2012 would have been affected by K0.70 million; (2011: K0.92million) and
- other equity reserves would not be affected and the company treats its investments as financial assets at fair value through profit and loss.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

f) Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Sensitivity to interest rates arises from mismatches in the re-pricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. These mismatches are actively managed as part of the overall interest rate risk management governed by the Assets and Liabilities Committee (ALCO), which meets regularly to review the effects of fluctuations in the prevailing levels of market interest rates on the financial positions and cash flow of the Group that may be undertaken.

Shown in the following tables are the balance sheet structure and contractual maturity profile of assets and liabilities as at 31 December 2012.

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34. Financial risk management (continued)

Interest sensitivity of consolidated assets and liabilities - re-pricing analysis:

	Up to 1 month	1 - 3 months	4 - 12 months	1 - 5 years	Over 5 years	Non interest bearing	Total
	K	K	K	K	K	K	K
31 December 2012							
Assets							
Cash and due from other banks	33,308,983	-	-	-	-	4,900	33,313,883
Central bank bills	76,003,973	-	-	-	-	-	76,003,973
Loans and advances to customers	476,371	1,916,020	18,187,280	87,697,718	69,610,733	3,424,767	181,312,889
Current income tax receivable	-	-	-	-	-	1,475,342	1,475,342
Deferred income tax assets	-	-	-	-	-	3,647,451	3,647,451
Financial assets at fair value through profit and loss	-	-	-	-	-	14,049,224	14,049,224
Investment securities held-to- maturity	-	-	-	4,171,648	3,273,903	-	7,445,551
Investment in associate company	-	-	-	-	-	396,000	396,000
Other assets	-	-	-	-	-	3,545,795	3,545,795
	109,789,327	1,916,020	18,187,280	91,869,366	72,884,636	26,543,479	321,190,108
Liabilities							
Due to customers	85,334,175	71,285,513	70,062,477	5,335,902	-	-	232,018,067
Employee provisions	-	-	-	-	-	3,332,040	3,332,040
Deferred income tax liabilities	-	-	-	-	-	685,245	685,245
Other liabilities	-	-	-	-	-	9,357,120	9,357,120
	85,334,175	71,285,513	70,062,477	5,335,902	-	13,374,405	245,392,472
Interest sensitivity gap	24,455,152	(69,369,493)	(51,875,197)	86,533,464	72,884,636	13,169,074	75,797,636

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34. Financial risk management (continued)

	Up to 1 month	1 - 3 months	4 - 12 months	1 - 5 years	Over 5 years	Non interest bearing	Total
	K	K	K	K	K	K	K
31 December 2011							
Assets							
Cash and due from other banks	16,657,361	-	2,540,481	-	-	4,600	19,202,442
Central bank bills	65,300,440	15,276,810	14,920,965	-	-	-	95,498,215
Loans and advances to customers	658,774	576,170	16,173,669	36,432,722	86,601,822	4,443,130	144,886,287
Deferred income tax assets	-	-	-	-	-	3,891,280	3,891,280
Financial assets at fair value through profit and loss	-	-	-	-	-	18,369,129	18,369,129
Investment securities held-to-maturity	-	-	-	4,293,655	3,335,681	-	7,629,336
Investment in associate company	-	-	-	-	-	396,000	396,000
Other assets	-	-	-	-	-	4,951,188	4,951,188
	82,616,575	15,852,980	33,635,115	40,726,377	89,937,503	32,055,327	294,823,877
Liabilities							
Due to customers	53,286,280	58,686,787	64,800,233	38,881,442	-	-	215,654,742
Employee provisions	-	-	-	-	-	2,438,131	2,438,131
Current income tax payable	-	-	-	-	-	2,701,602	2,701,602
Deferred income tax liabilities	-	-	-	-	-	780,838	780,838
Other liabilities	-	-	-	-	-	7,205,693	7,205,693
	53,286,280	58,686,787	64,800,233	38,881,442	-	13,126,264	228,781,006
Interest sensitivity gap	29,330,295	(42,833,807)	(31,165,118)	1,844,935	89,937,503	18,929,064	66,042,871

Table below summarises the consolidated effective annual interest rate for monetary financial instruments:

	2012 K	2011 K
Assets		
Due from other banks	8.91	2.07
Central bank bills	2.12	4.03
Loans and advances to customers	21.87	20.70
Investment securities held-to-maturity	7.07	10.29
Liability		
Due to customers	2.82	3.26

g) Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due as a result of third party dislocation and market disruption.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
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34. Financial risk management (continued)

The maturity profile of consolidated assets and liabilities as at 31 December 2012 is shown in the following schedule:

	Up to 1 month	2 – 3 months	4 – 12 months	1 – 5 years	Over 5 years	Total
	K	K	K	K	K	K
31 December 2012						
Assets						
Cash and due from other banks	33,313,883	-	-	-	-	33,313,883
Central bank bills	76,003,973	-	-	-	-	76,003,973
Loans and advances to customers	1,992,099	3,759,802	18,252,537	87,697,718	69,610,733	181,312,889
Current income tax receivable	-	-	1,475,342	-	-	1,475,342
Deferred income tax assets	32,792	283,818	1,452,125	1,878,716	-	3,647,451
Financial assets at fair value through profit and loss	-	-	14,049,224	-	-	14,049,224
Investment securities held-to-maturity	-	-	-	4,171,648	3,273,903	7,445,551
Investment in associate company	-	-	-	-	396,000	396,000
Other assets	736,375	132,358	2,343,053	334,009	-	3,545,795
	112,079,122	4,175,978	37,572,281	94,082,091	73,280,636	321,190,108
Liabilities						
Due to customers	85,334,175	71,285,513	70,062,477	5,335,902	-	232,018,067
Employee provisions	119,046	163,399	2,052,502	997,093	-	3,332,040
Current income tax payable	-	-	-	-	-	-
Deferred income tax liabilities	42,134	21,638	72,439	549,034	-	685,245
Other liabilities	5,297,383	1,081,948	2,758,343	219,446	-	9,357,120
	90,792,738	72,552,498	74,945,761	7,101,475	-	245,392,472
Net liquidity gap	21,286,384	(68,376,520)	(37,373,480)	86,980,616	73,280,636	75,797,636
31 December 2011						
Assets						
Cash and due from other banks	16,661,961	-	2,540,481	-	-	19,202,442
Central bank bills	65,300,440	15,276,810	14,920,965	-	-	95,498,215
Loans and advances to customers	2,648,642	3,029,432	16,173,669	36,432,722	86,601,822	144,886,287
Deferred income tax assets	72,619	296,597	1,434,470	2,087,594	-	3,891,280
Financial assets at fair value through profit and loss	-	-	18,369,129	-	-	18,369,129
Investment securities held-to-maturity	-	-	-	4,293,655	3,335,681	7,629,336
Investment in associate company	-	-	-	-	396,000	396,000
Other assets	2,019,055	247,318	2,371,951	312,864	-	4,951,188
	86,702,717	18,850,157	55,810,665	43,126,835	90,333,503	294,823,877
Liabilities						
Due to customers	53,286,280	58,686,787	64,800,233	38,881,442	-	215,654,742
Employee provisions	78,926	126,213	1,583,728	649,264	-	2,438,131
Current income tax payable	-	-	2,701,602	-	-	2,701,602
Deferred income tax liabilities	88,361	52,406	171,094	468,977	-	780,838
Other liabilities	3,725,142	510,172	2,740,933	229,446	-	7,205,693
	57,178,709	59,375,578	71,997,590	40,229,129	-	228,781,006
Net liquidity gap	29,524,008	(40,525,421)	(16,186,925)	2,897,706	90,333,503	66,042,871

The disparity of maturity assets and liabilities indicates an apparent negative net current asset position for the periods zero to three months with an effective positive position thereafter. This negative position reflects the Group's exploitation of the opportunities arising from the normal yield curve environment. Accordingly, the disparity of maturity position is considered manageable by the Group and does not impair the ability of the Group to meet financial obligations as they fall due.

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34. Financial risk management (continued)

The Group's liquidity and funding risks are governed by a policy framework which is approved by the Board of Directors. Liquidity and funding positions and associated risks are overseen by the Assets and Liabilities Committee (ALCO).

The following outlines the Group's approach to liquidity and funding risk management focusing on conditions brought on by the current global economic environment:

- Ensuring the liquidity management framework is compatible with local regulatory requirements.
- Daily liquidity reporting and scenario analysis to quantify the Group's positions.
- Targeting commercial and corporate customers' liability compositions.
- Arranging back up facilities to protect against adverse funding conditions and to support day-to-day operations.
- Intense monitoring of detail daily reports to alert management and directors of abnormalities.

The Group also models a number of other stress tests and liquidity scenarios over a variety of time horizons. During the year the Group experienced tightening of liquidity ratio resulting in increase in funding costs. To assess these risks, the Group has introduced new models and increased level of monitoring focusing on earnings and product mix in the Group's credit margin.

The Group actively uses the balance sheet disciplines to prudently manage funding requirements.

The Group is monitoring its liquidity contingency plans, lending requirements and guidelines which includes:

- The monitoring of issue severity/stress levels with high level diligence.
- Develop a higher level sophistication of early warning signals indicative of an approaching issue and mechanism to monitor and report these signals.
- Imposed action plans and courses of action to account for early warning signals as noted above.
- Clearer line of management reporting at a higher level.
- The maintenance of contractual obligations in regards to deposits.
- Assigned responsibilities for internal and external written communications.