

**KINA SECURITIES LIMITED AND ITS  
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013**

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
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**FOR THE YEAR ENDED 31 DECEMBER 2013**

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## **KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**

### **DIRECTORS' REPORT**

#### **FOR THE YEAR ENDED 31 DECEMBER 2013**

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 2013. 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.

#### **Country of Incorporation**

The Company is incorporated in Papua New Guinea and has its principal place in Papua New Guinea.

#### **Registered Office**

Its registered office is Level 9, Deloitte Tower, Douglas Street, Port Moresby, National Capital District.

#### **Directors and Secretary**

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

H. Wong	T. K. Lee (ceased directorship on 30/12/13)
S. G. Yates (also Company Secretary)	J. Yap
R. Namaliu (Chairman)	D. Manoa
W. Golding	P. Ng

#### **Dividends**

Dividends declared and paid during the year amounting to K10,000,000; (2012: K10,000,000).

#### **Results**

The operating profit attributable to equity holders for the year for the Group was K22,536,621; (2012: K19,486,589) and net profit for the Company was K13,912,823 (2012: K1,688,702)

#### **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

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

**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:

	2013	2012
K700,000 – K800,000	1	2
K500,000 – K700,000	1	-
K400,000 – K500,000	-	1
K300,000 – K400,000	2	2
K200,000 – K300,000	1	1
K100,000 – K200,000	2	1

**Directors remuneration**

During the year the Directors remuneration was as follows:

	2013	2012
	K	K
<b>Director's Fee</b>		
W. Golding	60,000	33,729
T. K. Lee	40,000	31,800
H. Wong	40,000	31,555
R. Namaliu	50,000	30,000
D. Manoa	45,000	34,500
J. Yap	70,000	8,700
	<b>305,000</b>	<b>170,284</b>
<b>Salaries and other benefits</b>		
S. G. Yates		
-Salaries	750,244	795,995
-Other benefits	412,200	412,200
	<b>1,162,444</b>	<b>1,208,195</b>
	<b>1,467,444</b>	<b>1,378,479</b>

**Donations**

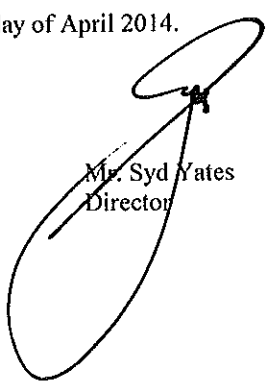
During the year the Group made donations totaling K5,889; (2012: K15,500)

**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 3<sup>rd</sup> day of April 2014.

  
Mr. Wayne Golding  
Director

  
Mr. Syd Yates  
Director



## ***Independent Auditor's Report*** to the shareholders of Kina Securities Limited

### ***Report on the financial statements***

We have audited the accompanying financial statements of Kina Securities Limited (the Company), which comprise the statements of financial position as at 31 December 2013, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2013 or from time to time during the financial year.

### ***Directors' responsibility for the financial statements***

The Directors are responsible for the preparation of these financial statements such that they give a true and fair view in accordance with generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal controls as the Directors determine are 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, 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 Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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 accompanying financial statements:

1. comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
2. give a true and fair view of the financial position of the Company and the Group as at 31 December 2013, and their financial performance and cash flows for the year then ended.



## ***Independent Auditor's Report***

Kina Securities Limited

### ***Report on other legal and regulatory requirements***

The Companies Act 1997 requires in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2013:

1. we have obtained all the information and explanations that we have required;
2. in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records; and
3. we have no relationship with, or interests in, the Company or any of its subsidiaries other than in our capacities as auditor and tax advisors. These services have not impaired our independence as auditor of the Company and the Group.

### ***Restriction on distribution or use***

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1997. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Grant Burns  
Engagement Leader

Stephen Beach  
Partner  
Registered under the Accountants Registration Act  
1996

Port Moresby  
3 April 2014

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**DIRECTORS DECLARATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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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, 3 April 2014

\_\_\_\_\_  
Director  
Port Moresby, 3 April 2014

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013	Consolidated 2012	Parent Company 2013	Parent Company 2012
		K	K	K	K
Interest income	3	41,030,365	38,070,995	31,680	18,922
Interest expense	3	(6,314,576)	(5,889,082)	(555,810)	(181,581)
Net interest income/(expense)		34,715,789	32,181,913	(524,130)	(162,659)
Fee and commission income	4	22,980,773	24,532,693	1,293,195	1,440,361
Fee and commission expense	4	(108,036)	(57,801)	(108,036)	(57,801)
Net fee and commission income		22,872,737	24,474,892	1,185,159	1,382,560
Dividend income	5	854,405	729,622	11,126,265	2,984
Net trading income	6	906,105	760,833	829,127	809,686
Net gains/(losses) from financial assets through profit and loss	16	4,831,086	1,423,774	330,730	2,402
Other operating income	7	180,751	1,776,263	15,478,832	14,223,143
Operating income		64,360,873	61,347,297	28,425,983	16,258,116
Impairment losses on loans and advances to customers	8	(2,587,765)	(3,438,585)	(4,125)	(22,698)
Other operating expenses	9	(30,927,442)	(30,902,948)	(13,435,674)	(13,793,133)
Profit before tax		30,845,666	27,005,764	14,986,184	2,442,285
Income tax benefit/(expense)	11	(8,309,045)	(7,519,175)	(1,073,361)	(753,583)
Net profit for the year		22,536,621	19,486,589	13,912,823	1,688,702
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>22,536,621</b>	<b>19,486,589</b>	<b>13,912,823</b>	<b>1,688,702</b>

*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 2013**

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 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
Profit for the year	-	-	22,536,621	22,536,621
Dividend Paid	-	-	(10,000,000)	(10,000,000)
Balance as at 31 December 2013	2,000,000	49,050	93,175,851	95,224,901

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 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
Profit for the year	-	-	13,912,823	13,912,823
Dividend Paid	-	-	(10,000,000)	(10,000,000)
Balance as at 31 December 2013	2,000,000	49,050	5,826,047	7,875,097

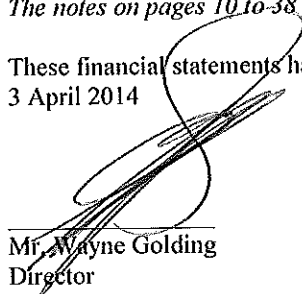
*The notes on pages 10 to 38 are an integral part of these consolidated financial statements.*

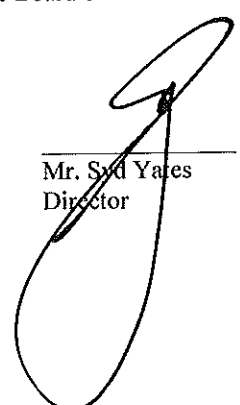
**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 31 DECEMBER 2013**

	Notes	<u>Consolidated</u>		<u>Parent Company</u>	
		2013	2012	2013	2012
		K	K	K	K
<b>Assets</b>					
Cash and due from other banks	13	48,346,875	33,313,883	103,673	947,557
Central bank bills	14	63,945,361	76,003,973	-	-
Loans and advances to customers	15	195,701,198	181,312,889	60,353	5,688
Current income tax receivable	24	-	1,475,342	-	766,567
Deferred income tax assets	12(a)	2,904,082	3,647,451	446,423	598,437
Due from subsidiaries	28 (ii)	-	-	536,094	336,012
Financial assets at fair value through profit and loss	16	15,649,770	14,049,224	77,863	466,224
Investment securities held-to-maturity	17	23,286,810	7,445,551	-	-
Investment in subsidiaries	18	-	-	10,000,010	9,500,010
Investment in associate company	19	396,000	396,000	396,000	396,000
Property and equipment	20	5,938,726	6,890,644	5,938,726	6,890,644
Other assets	21	3,465,651	3,545,795	1,735,823	2,271,661
		<b>359,634,473</b>	<b>328,080,752</b>	<b>19,294,965</b>	<b>22,178,800</b>
<b>Liabilities</b>					
Due to customers	22	251,741,384	232,018,067	-	-
Lease payable	28 (ii)	-	-	-	-
Employee provisions	23	2,476,702	3,332,040	1,235,983	1,816,699
Due to subsidiaries	28 (ii)	-	-	7,575,154	13,091,388
Current income tax payable	24	1,061,203	-	172,995	-
Deferred income tax liabilities	12(b)	697,289	685,245	605,684	610,520
Other liabilities	25	8,432,994	9,357,120	1,830,052	2,697,919
		<b>264,409,572</b>	<b>245,392,472</b>	<b>11,419,868</b>	<b>18,216,526</b>
<b>Net assets</b>		<b>95,224,901</b>	<b>82,688,280</b>	<b>7,875,097</b>	<b>3,962,274</b>
<b>Shareholders' equity</b>					
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		93,175,851	80,639,230	5,826,047	1,913,224
		<b>95,224,901</b>	<b>82,688,280</b>	<b>7,875,097</b>	<b>3,962,274</b>

*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:  
 3 April 2014

  
 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 2013**

	Notes	<u>Consolidated</u>		<u>Parent Company</u>	
		2013	2012	2013	2012
		K	K	K	K
<b>Cash flows from operating activities</b>					
Interest received		39,807,858	39,351,108	31,680	18,922
Interest paid		(7,246,181)	(5,023,834)	(555,810)	(181,581)
Dividend received	5	854,405	729,622	11,126,265	2,984
Fee and commission received		22,458,135	25,740,621	1,234,406	1,447,614
Fee and commission paid		(145,972)	(66,417)	(108,036)	(57,801)
Net trading and other operating income received		1,813,483	2,693,457	2,422,847	4,259,768
Recoveries on loans previously written-off	15	987,824	2,148,843	-	-
Support fees to subsidiaries	7	-	-	13,882,058	10,770,806
Cash payments to employees and suppliers		(29,774,376)	(27,856,982)	(17,564,385)	(2,818,379)
Income tax paid	24	(5,031,106)	(11,547,883)	(642)	(794,864)
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>		<b>23,724,070</b>	<b>26,168,535</b>	<b>10,468,383</b>	<b>12,647,469</b>
<b>Changes in operating assets and liabilities:</b>					
-net increase in loans and advances to Customers		(17,430,047)	(43,187,249)	-	-
-net decrease/(increase) in other assets		506,628	367,064	510,304	(1,077,607)
-net increase in due to customers		19,723,318	16,363,325	-	-
-net increase in other liabilities		(710,956)	683,389	(987,753)	195,029
<b>Net cash inflow from operating activities</b>	<b>27</b>	<b>25,813,013</b>	<b>395,064</b>	<b>9,990,934</b>	<b>11,764,891</b>
<b>Cash flows from investing activities</b>					
Purchase of property and equipment	20	(1,067,509)	(1,843,654)	(1,067,509)	(1,843,654)
Proceeds from sale of property and equipment		13,600	322,110	13,600	322,110
Investment in associate company		-	-	(500,000)	-
Purchase of available-for-sale financial assets		-	(2,407,373)	-	(2,886)
Proceeds from sale of available-for-sale financial assets	16	3,230,541	8,151,052	719,091	353,292
<b>Net cash outflow from investing activities</b>		<b>2,176,632</b>	<b>4,222,135</b>	<b>(834,818)</b>	<b>(1,171,138)</b>
<b>Cash flows from financing activities</b>					
Dividend payment		(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
Lease repayments to subsidiary	28 (ii)	-	-	-	(38,932)
Increase in capital		-	-	-	-
Purchase of debt securities		(15,015,265)	-	-	-
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(25,015,265)</b>	<b>(10,000,000)</b>	<b>(10,000,000)</b>	<b>(10,038,932)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,974,380</b>	<b>5,382,801</b>	<b>(843,884)</b>	<b>554,821</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>109,317,856</b>	<b>114,700,657</b>	<b>947,557</b>	<b>392,736</b>
<b>Cash and cash equivalents at end of year</b>	<b>27</b>	<b>112,292,236</b>	<b>109,317,856</b>	<b>103,673</b>	<b>947,557</b>

*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 2013**

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**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) Changes in accounting policies and disclosures

- (i) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2013

The following new standards, amendments and interpretations are mandatory for the first time for the financial year beginning 1 January 2013, but did not have a significant impact on the entity:

- Amendment to IAS 1: Financial statements presentation – other comprehensive income
- Amendment to IAS 19: Employee benefits
- IFRS 12: Disclosures of interests in other entities
- IFRS 13 : Fair value measurement
- Amendments to IFRS 7: Financial instruments: Disclosures – offsetting financial assets and financial liabilities
- Annual improvements to IFRS (2011)

- (ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2013 and not early adopted

- IFRS 9: Financial Instruments - classification and measurement
- Limited scope amendment to IAS 36: Impairment of assets
- Amendments to IFRS 32: Financial instruments: Presentation – offsetting financial assets and financial liabilities

The Company has conducted investigations and does not consider that there are any measurement or recognition issues arising from the release of these new pronouncements that will have a significant impact on the reported financial position or financial performance of the entity.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2013**

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1. Significant accounting policies (continued)

d) 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 recognize 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 recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized 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 2013**

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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 1<sup>st</sup> 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.

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**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**  
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**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**  
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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 2013.

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.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
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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 2013, the Group has taken up an allowance for losses of K6,794,774; (2012: K8,577,506)

**3. Net interest income/ (expense)**

	Consolidated		Parent Company	
	2013	2012	2013	2012
	K	K	K	K
<b>Interest income</b>				
Cash and short-term funds	1,735,050	2,933,676	31,680	14,954
Investment securities held-to-maturity	1,155,047	533,287	-	-
Loans and advances to customers	38,140,268	34,604,032	-	-
Due from subsidiary (note 28 (ii))	-	-	-	3,968
	<b>41,030,365</b>	<b>38,070,995</b>	<b>31,680</b>	<b>18,922</b>
<b>Interest expense</b>				
Banks and Customers	(6,314,576)	(5,889,082)	-	-
Lease (note 28 (ii))	-	-	-	(290)
Due to subsidiaries (note 28 (ii))	-	-	(555,810)	(181,291)
	<b>(6,314,576)</b>	<b>(5,889,082)</b>	<b>(555,810)</b>	<b>(181,581)</b>
<b>Net interest income/(expense)</b>	<b>34,715,789</b>	<b>32,181,913</b>	<b>(524,130)</b>	<b>(162,659)</b>

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**4. Net fee and commission income**

	Consolidated		Parent Company	
	2012	2012	2013	2012
	K	K	K	K
<b>Fee and commission income</b>				
Credit related fees and commission	2,988,124	3,479,275	-	-
Investment and portfolio management	11,626,407	12,929,724	-	-
Fund administration	6,751,388	6,311,973	-	-
Shares brokerage	734,598	1,165,116	734,598	1,165,115
Corporate services fee	558,597	275,246	558,597	275,246
Other fees	321,659	371,359	-	-
	<b>22,980,773</b>	<b>24,532,693</b>	<b>1,293,195</b>	<b>1,440,361</b>
<b>Fee and commission expense</b>				
Other fees paid	(108,036)	(57,801)	(108,036)	(57,801)
<b>Net fee and commission income</b>	<b>22,872,737</b>	<b>24,474,892</b>	<b>1,185,159</b>	<b>1,382,560</b>

**5. Dividend income**

Financial assets at fair value through profit and loss	854,405	729,622	11,126,265	2,984
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**6. Net trading income**

Foreign exchange gains	906,105	760,833	829,127	809,686
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**7. Other operating income**

Support fees to subsidiaries (note 28(ii))	-	-	13,882,058	10,770,806
Rental-subsiidiaries (note 28 (ii))	-	-	1,392,682	1,672,796
Profits from disposal of property and equipment (note 27)	3,055	2,255	3,055	2,255
Dividend withholding taxes utilised	-	1,700,000	-	1,700,000
Other	177,696	74,008	201,037	77,286
	<b>180,751</b>	<b>1,776,263</b>	<b>15,478,832</b>	<b>14,223,143</b>

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
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**8. Impairment losses on loans and advances to customers**

	Consolidated		Parent Company	
	2013	2012	2013	2012
	K	K	K	K
Individually assessed (note 15)	1,202,406	3,616,180	4,125	7,247
Reversal of prior year provision	-	(193,047)	-	-
Collective allowance (note 15)	1,385,359	15,452	-	15,452
<b>Note 27</b>	<b>2,587,765</b>	<b>3,438,585</b>	<b>4,125</b>	<b>22,698</b>

**9. Other operating expenses**

Staff costs (note 10)	15,591,624	16,824,396	6,053,515	7,338,868
Administrative expenses	6,420,081	5,298,436	2,852,878	2,072,675
Auditor's remuneration Assurance Services (Statutory Audit)	190,001	187,100	31,667	21,900
Depreciation (notes 20 and 27)	2,008,882	1,791,976	2,008,882	1,791,976
Impairment losses on other assets (note 27)	-	9,607	-	-
Support charges by subsidiary (note 28(ii))	-	-	15,000	60,000
Software maintenance and support charges	1,367,004	1,595,524	160,675	207,160
Operating lease	4,270,053	3,642,596	1,780,212	1,526,043
Withholding taxes	-	-	-	-
Other	1,079,797	1,553,313	532,845	744,511
	<b>30,927,442</b>	<b>30,902,948</b>	<b>13,435,674</b>	<b>13,793,133</b>

**10. Staff costs**

Wages and salaries	10,263,885	11,858,197	3,628,477	5,222,614
Superannuation contribution	450,957	592,221	72,766	210,310
Staff accommodation	2,921,897	2,815,184	1,265,132	1,261,782
Traveling cost	365,596	398,404	179,456	186,235
Other	1,589,289	1,160,390	907,684	457,927
<b>Note 9</b>	<b>15,591,624</b>	<b>16,824,396</b>	<b>6,053,515</b>	<b>7,338,868</b>

As at 31 December 2013 the Group had 186 (2012: 185) employees and nil (2012: nil) consultant, and Company had 71 (2012:78) employees.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
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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	
	2013	2012	2013	2012
	K	K	K	K
Profit/(loss) before tax	30,845,666	27,005,764	14,986,184	2,442,285
Prima facie tax at 30% (2012: 30%)	9,253,700	8,101,729	4,495,856	732,686
Tax effect of permanent differences				
-Gains less losses from financial assets through profit and loss	(731,701)	(427,132)	(99,219)	(721)
-Other	(212,954)	(155,422)	(3,323,276)	21,618
Prior year tax under provision	-	-	-	-
Income tax expense	8,309,045	7,519,175	1,073,361	753,583
Represented by:				
Current tax	7,553,631	7,370,941	926,184	811,644
Deferred tax (note 12(c))	755,414	148,234	147,177	(58,061)
Prior year dividend withholding tax adjustment	-	-	-	-
Income tax expense	8,309,045	7,519,175	1,073,361	753,583

**12. Deferred taxes**

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

Allowance for losses				
-Loans and advances to customers	2,031,096	2,569,280	19,032	17,795
-Other assets	34,098	35,888	22,761	27,914
Employee provisions	743,011	999,613	370,796	545,011
Accrual of audit fees	57,798	27,355	8,002	3,418
Difference of depreciation per accounts and taxation		-		-
Unrealized exchange loss on revaluation of foreign currency bank account	25,832	4,299	25,832	4,299
Tax losses carried forward	12,246	11,016	-	-
-Note 12(c)	2,904,082	3,647,451	446,423	598,437

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

Difference of depreciation per accounting and taxation	549,033	549,033	549,033	549,033
Prepayments-insurance	118,608	106,564	30,562	35,398
Prior year audit adjustment	29,648	29,648	26,089	26,089
Note 12(c)	697,289	685,245	605,684	610,520

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
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**12. Deferred taxes (continued)**

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

	Consolidated		Parent Company	
	2013	2012	2013	2012
	K	K	K	K
Balance at beginning of year	2,962,206	3,110,441	(12,083)	(70,145)
Income statement credit/(charge) (note 11 and 27)	(755,413)	(148,235)	(147,177)	58,062
Balance at end of year	2,206,793	2,962,206	(159,261)	(12,083)
Represented by:				
Deferred tax assets (note 12(a))	2,904,082	3,647,451	446,423	598,437
Deferred tax liabilities (note 12(b))	(697,289)	(685,245)	(605,684)	(610,520)
	2,206,793	2,962,206	(159,261)	(12,083)

**13. Cash and due from other banks**

Cash in hand	4,600	4,901	2,800	2,800
Placement with other banks	6,006,908	9,296,230	-	-
Loans and advances to other banks	42,335,367	24,012,753	100,873	944,757
Loans and advances to finance companies	-	-	-	-
Included in cash and cash equivalents (note 27)	48,346,875	33,313,884	103,673	947,557

**14. Central bank bills**

Central bank bills (included in cash and cash equivalents) (note 27)	63,945,361	76,003,973	-	-
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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.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
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**15. Loans and advances to customers**

	2013	Consolidated 2012	Parent Company 2013	2012
	K	K	K	K
Loan originated by the Group				
- Loan to individuals	76,469,105	59,591,966	-	-
Loan to corporate entities				
- Direct commercial loan	122,377,358	127,030,517	-	-
	198,846,463	186,622,483	-	-
Advances to corporate entities	4,159,870	3,636,070	123,793	65,003
Gross loans and advances	203,006,333	190,258,553	123,793	65,003
Less: Suspended interest	(510,362)	(368,158)	-	-
Allowances for losses:				
-Individually assessed	(3,726,272)	(6,239,856)	(63,440)	(57,514)
-Collective allowance	(3,068,501)	(2,337,650)	-	(1,801)
	195,701,198	181,312,889	60,353	5,688

Movements in allowance for losses are as follows:

	Consolidated 2013	2012	Parent Company 2013	2012
<i>Individually assessed</i>				
Balance at beginning of year	6,239,856	7,801,793	57,514	64,106
Impairment losses during the year (note 8)	1,202,406	3,616,180	4,125	7,247
Loans written off during the year as uncollectible	(4,705,533)	(7,120,074)	-	-
Reversals	(82)	(193,047)	-	(13,839)
Transfer of provision from other assets	-	(13,839)	-	-
Transfer from collective allowance	1,801	-	1,801	-
Recoveries	987,824	2,148,843	-	-
Balance at end of year	3,726,272	6,239,856	63,440	57,514
<i>Collective allowance</i>				
Balance at beginning of year	2,337,650	2,337,650	1,801	1,801
Impairment losses during the year (note 8)	1,385,359	-	-	-
Loans written off during the year as uncollectible	(652,707)	-	-	-
Transfer to individually assessed	(1,801)	-	(1,801)	-
Balance at end of year	3,068,501	2,337,650	-	1,801

Loans with variable rates are K177,094,363 (2012: K165,320,658) and fixed rates are K21,743,903 (2012 K21,301,826).

**16. Financial assets at fair value through profit and loss**

Equity securities - at fair value				
-Listed	15,588,183	13,567,626	77,863	466,224
-Unlisted	61,587	481,598	-	-
	15,649,770	14,049,224	77,863	466,224

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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	
	2013	2012	2013	2012
	K	K	K	K
Balance at beginning of year	14,049,224	18,369,129	466,224	814,227
Gains/(losses) from changes in fair value (note 27)	2,094,393	457,169	(13,882)	(291,421)
Additions	-	2,407,372	-	2,887
Disposal proceeds	(3,230,541)	(8,151,052)	(719,091)	(353,292)
Gains/(losses) on disposal (note 27)	2,736,694	966,606	344,612	293,823
Balance at end of year	15,649,770	14,049,224	77,863	466,224

**17. Investment securities held-to-maturity**

Principal	22,015,266	7,000,000	-	-
Unamortized premium	1,271,544	445,551	-	-
	23,286,810	7,445,551	-	-

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

Balance at beginning of year	7,445,551	7,629,336	-	-
Additions	15,015,265	-	-	-
Amortized premium (note 27)	825,994	(183,785)	-	-
	23,286,810	7,445,551	-	-

**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")	500,002	100
Kina Morgan Corporate Limited ("KMC")	2	100
	10,000,010	

During 2013, additional capital of K500,000 was paid to Kina Nominees Limited.

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.



**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
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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 2013	Un-Audited 2012
	K	K
Assets	708,314	594,644
Liabilities	290,546	614,642
Net assets	417,768	(19,998)
Revenue	2,783,359	1,359,263
Net income/(loss)	1,000,100	(781,857)
<b>% of interest:</b>		
Ordinary	35.5%	35.97%
Preference	-	38.35%
Total	35.5%	37.31%

Investment in POMSoX may be summarised as follows:

	458,000	458,000
Cost	458,000	458,000
Specific allowance for losses	(62,000)	(62,000)
	<b>396,000</b>	<b>396,000</b>

**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
<b>Cost</b>							
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
Additions	54,110	43,863	350,084	518,469	100,983	-	1,067,509
Disposal	-	-	(270,762)	-	-	-	(270,762)
Balance 31 December 2013	482,403	696,220	1,909,301	2,547,511	4,495,811	2,129,010	12,260,257
<b>Accumulated depreciation</b>							
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)
Charged in year (notes 9 and 27)	(66,300)	(90,063)	(348,836)	(393,222)	(1,110,461)	-	(2,008,882)
Disposal	-	-	260,216	-	-	-	260,216
Balance 31 December 2013	(204,910)	(368,165)	(1,325,057)	(1,610,791)	(2,812,609)	-	(6,321,532)
<b>Book value 31 December 2013</b>	<b>277,493</b>	<b>328,055</b>	<b>584,244</b>	<b>936,720</b>	<b>1,683,202</b>	<b>2,129,010</b>	<b>5,938,724</b>
Book value 31 December 2012	289,683	374,255	593,542	811,473	2,692,680	2,129,010	6,890,642

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**21. Other assets**

	Consolidated		Parent Company	
	2013	2012	2013	2012
	K	K	K	K
Prepayments	913,108	895,553	391,490	417,024
Bonds	345,413	334,009	184,991	191,924
Accrued interest				
-central bank bills	237,373	302,296	-	-
-due from other banks	20,716	28,925	-	-
-investment securities held-to-maturity	651,033	181,389	-	-
Other debtors	1,387,219	1,910,014	1,235,208	1,755,759
	3,554,862	3,652,186	1,811,689	2,364,707
Less specific allowance for losses	(89,211)	(106,391)	(75,866)	(93,046)
	3,465,651	3,545,795	1,735,823	2,271,661

Movements of specific allowance for losses are as follows:

Balances at beginning of year	106,391	129,239	93,046	113,737
Impairment losses during the year	-	25,059	-	15,452
Reversal	(3,067)	(49,982)	(3,067)	(49,982)
Transfer of provision to loans and advances to customers	-	13,839	-	13,839
Written-off during the year as uncollectible	(14,113)	(11,764)	(14,113)	-
Balance at end of year	89,211	106,391	75,866	93,046

**22. Due to customers**

Corporate customers				
-Current/settlement accounts	13,198,419	809,461	-	-
-Term deposits	217,851,307	207,086,383	-	-
Retail customers				
-Current/settlement accounts	1,162,481	3,510,185	-	-
-Term deposits	19,529,177	20,612,038	-	-
	251,741,384	232,018,067	-	-

**23. Employee provisions**

Balance at beginning of year	3,332,040	2,438,131	1,816,699	1,371,347
Charged to profit and loss	43,744	1,559,787	(264,014)	623,997
Reversal of prior year over provision	-	(99,300)	-	-
Utilized during the year	(899,082)	(566,578)	(316,702)	(178,645)
Balance at end of year	2,476,702	3,332,040	1,235,983	1,816,699
Represented by:				
Short term provisions	1,514,274	2,334,947	773,258	1,161,200
Long term provisions	962,428	997,093	462,725	655,499
	2,476,702	3,332,040	1,235,983	1,816,699

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**24. Current income tax payable/ (receivable)**

	Consolidated		Parent Company	
	2013	2012	2013	2012
	K	K	K	K
Balance at beginning of year	(1,475,342)	2,701,602	(766,567)	(783,347)
Paid during the year	(5,031,106)	(11,547,883)	(642)	(794,864)
Current provision	7,553,632	7,370,939	926,185	811,644
Prior year adjustment	14,019	-	14,019	-
<b>Balance at end of year</b>	<b>1,061,203</b>	<b>(1,475,342)</b>	<b>172,995</b>	<b>(766,567)</b>

**25. Other liabilities**

Creditors	1,117,624	827,840	653,636	472,501
Accrued interest	2,712,689	3,644,294	-	-
Accruals	2,486,595	1,868,077	1,056,373	1,000,376
Other	2,116,086	3,016,909	120,043	1,225,043
	<b>8,432,994</b>	<b>9,357,120</b>	<b>1,830,052</b>	<b>2,697,919</b>

**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 2013 and their respective percentage holdings:

	Shareholdings	
	2013	2012
	%	%
Wayne Kenneth Golding	5.5	5.5
Columbus Investment Limited	5	5
Fu Shan Investment Limited	89.5	89.5
	<b>100</b>	<b>100</b>

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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	
	2013	2012	2013	2012
	K	K	K	K
Cash and due from other banks (note 13)	48,346,875	33,313,883	103,673	947,557
Central bank bills (note 14)	63,945,361	76,003,973	-	-
	<b>112,292,236</b>	<b>109,317,856</b>	<b>103,673</b>	<b>947,557</b>

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

Comprehensive income/(loss) for the year	22,536,621	19,486,589	13,912,823	1,688,702
Profit from disposal of property and equipment (note 7)	(3,055)	(2,255)	(3,055)	(2,255)
Depreciation (note 20)	2,008,882	1,791,976	2,008,882	1,791,976
Impairment losses:				
Loan and advances to customers (note 8)	2,587,765	3,438,585	4,125	22,698
Other assets (note 9)	-	9,607	-	-
Amortization of investment held-to-maturity:				
On premium (note 17)	(825,994)	183,785	-	-
Net losses/(gains) from changes in fair values of financial assets (note 16)	(2,094,393)	(457,169)	13,882	291,421
Losses/(gains) on sales of financial assets (note 16)	(2,736,694)	(966,606)	(344,612)	(293,823)
Increase/(decrease) in current income tax payable	2,536,544	(4,176,943)	939,561	16,780
Increase/(decrease) in deferred income tax (note 12(c))	755,413	148,235	147,177	(58,061)
Changes in net assets and liabilities:				
Decrease/(increase) in assets:				
Current assets	12,533,006	(39,009,010)	270,033	(1,419,825)
Non-current assets	(20,062,159)	(11,789,330)	6,933	(8,667)
Increase/(decrease) in liabilities:				
Current liabilities	42,302,433	65,089,504	(6,772,042)	9,609,448
Non-current liabilities	(33,725,358)	(33,351,904)	(192,773)	126,497
<b>Net cash inflow from operating activities</b>	<b>25,813,013</b>	<b>395,064</b>	<b>9,990,934</b>	<b>11,764,891</b>

- 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:
- Registered fixed and floating charge over the whole of the company assets and undertakings of KSL including called and unpaid and uncalled capital;
  - 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 2013, and related expenses and income for the year ended are as follows:

i) As at 31 December 2013, 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 2013 and related income and expenses for the year ended are as follows:

	2013	2012
	K	K
Deposit:		
Balance at the beginning of year	7,005	6,933
Received during the year	371	71
Balance at end of year	<u>7,376</u>	<u>7,005</u>
Interest expense on deposit	437	84
Average interest rate per annum	4.00%	6.25%

- 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 2013 and related income and expenses for the year ended are as follows:

Loan:		
Balance at beginning of year	676,231	702,461
Issued during the year	-	89,270
Repayments during the year	(676,231)	(115,500)
Balance at end of year	<u>-</u>	<u>676,231</u>
Interest income earned	25,863	74,925
Average interest rate per annum	11.95%	11.95%
Deposit:		
Balance at beginning of year	56,104	55,134
Received during the year	987	970
Balance at end of year	<u>57,091</u>	<u>56,104</u>
Interest expense on deposits	987	970
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 2013 and related expenses for the year ended are as follows:

	2013	2012
	K	K
Balance at beginning of year	11,040,707	-
Issued during the year	252,783	11,040,707
Repayments during the year	(10,157,431)	-
Balance at end of year	1,136,059	11,040,707
Interest income earned	297,391	47,890
Average interest rate per annum	2.75%	4.31%

- 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 2013 and relating expense for the year are as follows:

	KAML	POMSoX	S. Yates	Total	
	K	K	K	2013	2012
Balance at beginning of year	-	508,742	45,936	554,678	1,374,535
Received during the year	-	4,089	7,448	11,357	156,729
Repaid during the year	-	-	-	-	(976,586)
Balance at end of year	-	512,831	53,384	566,215	554,667
Interest expense on deposits	-	4,810	180	4,990	9,042
Average interest rate per annum	-	1.05%	0.35%	0.70%	0.63%

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 2013, the total remunerations of the directors was K1,467,444 (2012: K1,378,479).

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	
2013	2,236			116				1,543	3,895
2012	2,253	-	-	62	-	-	-	1,522	3,837

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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>Due from</u> 2013	<u>Balance outstanding</u>		
	<u>Income</u> 2013	<u>Expenses</u> 2013		2012	<u>Due to</u>	
	K	K		K	2013	2012
KFL	7,716,233	204,579	-	-	(47,564)	(1,418,917)
PNGHF	-	-	46,576	-	-	-
KFM	4,841,346	341,489	-	-	(7,496,181)	(10,329,236)
KISS	2,716,213	24,742	456,053	-	-	(1,343,235)
KMC	-	-	-	36,304	(31,409)	-
KNL	948	-	33,465	299,708	-	-
	<b>15,274,740</b>	<b>570,810</b>	<b>536,094</b>	<b>336,012</b>	<b>(7,575,154)</b>	<b>(13,091,388)</b>

	<u>KFL</u> K	<u>KFM</u> K	<u>KISS</u> K	<u>KMC</u> K	<u>KNL</u>	<u>Total</u> K
<b>2013</b>						
<b>Income</b>						
-Interest (note 3)	-	-	-	-	-	-
-Support fee (note 7)	7,298,593	4,542,146	2,041,319	-	-	13,882,058
-Rental of property and equipment (note 7)	417,640	299,200	674,894	-	948	1,392,682
	<b>7,716,233</b>	<b>4,841,346</b>	<b>2,716,213</b>	<b>-</b>	<b>948</b>	<b>15,274,740</b>
<b>Expenses</b>						
-Interest (note 3)	204,579	341,489	9,742	-	-	555,810
-Support charges (note 9)	-	-	15,000	-	-	15,000
	<b>204,579</b>	<b>341,489</b>	<b>24,742</b>	<b>-</b>	<b>-</b>	<b>570,810</b>
<b>2012</b>						
<b>Income</b>						
-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
	<b>5,850,686</b>	<b>4,207,166</b>	<b>2,293,003</b>	<b>-</b>	<b>96,694</b>	<b>12,447,569</b>
<b>Expenses</b>						
-Interest (note 3)	57,830	123,750	-	-	-	181,580
-Support charges (note 9)	-	-	60,000	-	-	60,000
	<b>57,830</b>	<b>123,750</b>	<b>60,000</b>	<b>-</b>	<b>-</b>	<b>241,580</b>

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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 2013 and expenses for the year ended are as follows:

	2013	2012
	K	K
Balance at beginning of year	-	38,932
Issued during the year	-	-
Repayments during the year	-	(38,932)
Balance at end of year	-	-
Interest expense (note 3)	-	5,284
Average interest rate per annum	-	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	
	2013	2012	2013	2012
	K	K	K	K
Due from other banks	-	6,647,471	-	-
Shares clients funds	4,442,539	1,063,191	4,442,539	1,063,191
Investment securities				
-Listed	-	-	-	-
-Unlisted	-	-	-	-
	4,442,539	7,710,662	4,442,539	1,063,191

**30. Contingent liabilities**

There were a number of legal proceedings outstanding against the Company at 31 December 2013. Aside from the accrual noted in Note 2, no additional provisions or accruals have been made as professional legal advice indicates that it is 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	
	2013	2012	2013	2012
	K	K	K	K
Not later than 1 year	3,592,373	2,607,202	1,151,688	913,426
Later than 1 year and not later than 5 years	2,986,119	3,514,941	316,714	992,482
	<b>6,578,492</b>	<b>6,122,143</b>	<b>1,468,402</b>	<b>1,905,908</b>

**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 2013, 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.

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**32. Capital adequacy (continued)**

The capital adequacy level is as follows:

	Balance sheet amount		Risk-weighted amount ("RWA")	
	Group	Subsidiary KFL	Group	Subsidiary KFL
	K	K	K	K
<b>31 December 2013</b>				
Cash and due from other banks	48,346,875	37,869,856	9,668,455	7,573,611
Central bank bills	63,945,361	62,005,901	-	-
Loans and advances to customers	195,701,198	191,741,779	155,013,989	151,054,571
Current income tax receivable	-	-	-	-
Deferred income tax assets	2,904,082	2,230,424	-	-
Due from parent company	-	47,564	-	47,564
Due from related companies	-	56,018	-	56,018
Financial assets at fair value through profit and loss	15,649,770	33,300	5,203,555	33,300
Investment securities held- to- maturity	23,286,810	23,286,810	-	-
Investment in associate company	396,000	-	396,000	-
Property and equipment	5,938,726	-	5,938,726	-
Other assets	3,465,651	1,289,885	3,465,651	1,289,885
	<b>359,634,473</b>	<b>318,561,537</b>	<b>179,686,375</b>	<b>160,054,949</b>

	Group		Subsidiary KFL	
	2013	2012	2013	2012
	K	K	K	K
<b>Capital components</b>				
<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	80,639,230	71,152,641	37,237,621	26,186,656
Deferred income tax assets	(2,904,082)	(3,647,451)	(2,230,424)	(2,777,601)
	<b>79,784,198</b>	<b>69,554,240</b>	<b>44,507,199</b>	<b>32,909,057</b>
<b>Tier 2 (supplementary) capital</b>				
Net profit for the year	22,536,621	19,486,589	11,507,574	11,050,965
Subordinated loan	-	-	-	5,000,000
General provision (not more than 1.25% RWA)	2,246,080	2,030,254	2,000,687	1,793,575
	<b>24,782,701</b>	<b>21,516,843</b>	<b>13,508,261</b>	<b>17,844,540</b>
Total capital base	104,566,899	91,071,083	58,015,460	50,753,597
Less investment in other financial institutions				
-Credit Corporation	(10,446,215)	(9,192,669)	-	-
Net capital base	<b>94,120,684</b>	<b>81,878,414</b>	<b>58,015,460</b>	<b>50,753,597</b>

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**32. Capital adequacy (continued)**

	Group 2013	2012	Subsidiary KFL 2013	2012
Capital adequacy ratios				
Tier 1 capital (tier 1 capital/total RWA)	44.40%	42.82%	27.81%	22.94%
Total capital ratio (total capital/total RWA)	52.38%	50.41%	36.25%	35.37%
Leverage capital ratio (tier 1 capital/total assets less deferred income tax assets)	22.37%	21.44%	14.07%	11.28%

**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.

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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 2013 details of LCE as follows:

	Group		Subsidiary KFL	
	2013	2012	2013	2012
	K	K	K	K
LCE	-	-	19,292,694	32,469,946
Percentage of LCE to total loans	-	-	10.1%	18.3%
Percentage of LCE to net capital base	-	-	33.2%	64%

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 2013.

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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 2013 would have been affected by K0.78 million; (2012: K0.70million) and
- other equity reserves would not be affected and the company treat 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 2013.

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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
<b>31 December 2013</b>							
<b>Assets</b>							
Cash and due from other banks	48,332,275	-	-	-	-	14,600	48,346,875
Central bank bills	60,522,026	1,483,875	1,939,460	-	-	-	63,945,361
Loans and advances to customers	252,366	3,111,546	25,662,947	77,769,087	84,945,833	3,959,419	195,701,198
Deferred income tax assets	-	-	-	-	-	2,904,082	2,904,082
Financial assets at fair value through profit and loss	-	-	-	-	-	15,649,770	15,649,770
Investment securities held-to- maturity	5,286,810	-	-	-	18,000,000	-	23,286,810
Investment in associate company	-	-	-	-	-	396,000	396,000
Other assets	-	-	-	-	-	3,465,651	3,465,651
	<b>114,393,477</b>	<b>4,595,421</b>	<b>27,602,407</b>	<b>77,769,087</b>	<b>102,945,833</b>	<b>26,389,522</b>	<b>353,695,746</b>
<b>Liabilities</b>							
Due to customers	57,847,315	134,322,418	42,457,177	17,114,474	-	-	251,741,384
Employee provisions	-	-	-	-	-	2,476,702	2,476,702
Current income tax payable	-	-	-	-	-	1,061,203	1,061,203
Deferred income tax liabilities	-	-	-	-	-	697,289	697,289
Other liabilities	-	-	-	-	-	8,432,994	8,432,994
	<b>57,847,315</b>	<b>134,322,418</b>	<b>42,457,177</b>	<b>17,114,474</b>	<b>-</b>	<b>12,668,188</b>	<b>264,409,572</b>
<b>Interest sensitivity gap</b>	<b>56,546,162</b>	<b>(129,726,997)</b>	<b>(14,854,770)</b>	<b>60,654,613</b>	<b>102,945,833</b>	<b>13,721,334</b>	<b>89,286,174</b>

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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
<b>31 December 2012</b>							
<b>Assets</b>							
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
	<b>109,789,327</b>	<b>1,916,020</b>	<b>18,187,280</b>	<b>91,869,366</b>	<b>72,884,636</b>	<b>26,543,479</b>	<b>321,190,108</b>
<b>Liabilities</b>							
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
Current income tax payable	-	-	-	-	-	-	-
Deferred income tax liabilities	-	-	-	-	-	685,245	685,245
Other liabilities	-	-	-	-	-	9,357,120	9,357,120
	<b>85,334,175</b>	<b>71,285,513</b>	<b>70,062,477</b>	<b>5,335,902</b>	<b>-</b>	<b>13,374,405</b>	<b>245,392,472</b>
<b>Interest sensitivity gap</b>	<b>24,455,152</b>	<b>(69,369,493)</b>	<b>(51,875,197)</b>	<b>86,533,464</b>	<b>72,884,636</b>	<b>13,169,074</b>	<b>75,797,636</b>

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

	2013	2012
	K	K
<b>Assets</b>		
Due from other banks	0.91	8.91
Central bank bills	2.16	2.12
Loans and advances to customers	23.45	21.87
Investment securities held-to-maturity	9.41	7.07
<b>Liability</b>		
Due to customers	2.36	2.82

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.

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**34. Financial risk management (continued)**

The maturity profile of consolidated assets and liabilities as at 31 December 2013 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
<b>31 December 2013</b>						
<b>Assets</b>						
Cash and due from other banks	48,346,875	-	-	-	-	48,346,875
Central bank bills	60,522,026	1,483,875	1,939,460	-	-	63,945,361
Loans and advances to customers	3,433,140	3,806,755	25,746,383	77,769,087	84,945,833	195,701,198
Current income tax receivable	-	-	-	-	-	-
Deferred income tax assets	37,055	212,169	1,079,831	1,575,027	-	2,904,082
Financial assets at fair value through profit and loss	-	-	15,649,770	-	-	15,649,770
Investment securities held-to-maturity	5,286,810	-	-	-	18,000,000	23,286,810
Investment in associate company	-	-	-	-	396,000	396,000
Other assets	699,235	140,099	2,280,903	345,413	-	3,465,651
	<b>118,325,142</b>	<b>5,642,898</b>	<b>46,696,346</b>	<b>79,689,527</b>	<b>103,341,833</b>	<b>353,695,747</b>
<b>Liabilities</b>						
Due to customers	57,847,315	134,322,418	42,457,177	17,114,474	-	251,741,384
Employee provisions	49,151	120,361	1,344,760	962,430	-	2,476,702
Current income tax payable	-	-	1,061,203	-	-	1,061,203
Deferred income tax liabilities	56,354	21,237	70,665	549,033	-	697,289
Other liabilities	5,217,219	950,327	1,731,052	534,396	-	8,432,994
	<b>63,170,039</b>	<b>135,414,343</b>	<b>46,664,857</b>	<b>19,160,333</b>	<b>-</b>	<b>264,409,572</b>
<b>Net liquidity gap</b>	<b>55,155,103</b>	<b>(129,771,444)</b>	<b>31,489</b>	<b>60,529,194</b>	<b>103,341,833</b>	<b>89,286,175</b>
<b>31 December 2012</b>						
<b>Assets</b>						
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
	<b>112,079,122</b>	<b>4,175,978</b>	<b>37,572,281</b>	<b>94,082,091</b>	<b>73,280,636</b>	<b>321,190,108</b>
<b>Liabilities</b>						
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
	<b>90,792,738</b>	<b>72,552,498</b>	<b>74,945,761</b>	<b>7,101,475</b>	<b>-</b>	<b>245,392,472</b>
<b>Net liquidity gap</b>	<b>21,286,384</b>	<b>(68,376,520)</b>	<b>(37,373,480)</b>	<b>86,980,616</b>	<b>73,280,636</b>	<b>75,797,636</b>

The disparity of maturity assets and liabilities indicates an apparent negative net current asset position for the periods two 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.