

**KINA SECURITIES LIMITED AND ITS  
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

---

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**CONTENTS OF CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

<b>DIRECTORS' REPORT</b>	<b>1 – 2</b>
<b>INDEPENDENT AUDIT REPORT</b>	<b>3 – 4</b>
<b>DIRECTORS' DECLARATION</b>	<b>5</b>
<b>STATEMENTS OF COMPREHENSIVE INCOME</b>	<b>6</b>
<b>STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY</b>	<b>7</b>
<b>STATEMENTS OF FINANCIAL POSITION</b>	<b>8</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>9</b>
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	<b>10 – 40</b>

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

### **DIRECTORS' REPORT**

#### **FOR THE YEAR ENDED 31 DECEMBER 2014**

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 2014. 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 (q) to the accounts.

#### **Country of Incorporation**

The Company is incorporated in Papua New Guinea and has its principal place of business 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 December 2013)
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; (2013: K10,000,000).

#### **Results**

The operating profit attributable to equity holders for the year for the Group was K14,027,354 (2013: K22,536,621) and net profit for the Company was K21,468,419 (2013: K13,912,823)

#### **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 2014**

**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:

	2014	2013
K700,000 – K1,000,000	2	1
K500,000 – K700,000	-	1
K400,000 – K500,000	1	-
K300,000 – K400,000	1	2
K200,000 – K300,000	2	1
K100,000 – K200,000	1	2

**Directors remuneration**

During the year the Directors remuneration for the Company was as follows:

	2014	2013
	K	K
<b>Directors</b>		
W. Golding	92,000	60,000
P. Ng	40,000	-
T. K. Lee	10,000	40,000
H. Wong	77,250	40,000
R. Namaliu	60,000	50,000
D. Manoa	43,750	45,000
J. Yap	65,000	70,000
	<b>388,000</b>	<b>305,000</b>
<b>Salaries and other benefits</b>		
S. G. Yates		
-Salaries	750,244	750,244
-Other benefits	412,200	412,200
	<b>1,162,444</b>	<b>1,162,444</b>
	<b>1,550,444</b>	<b>1,467,444</b>

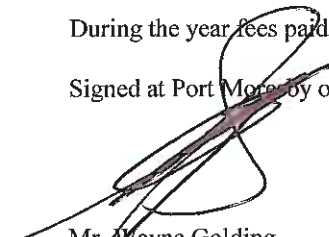
**Donations**

During the year the Group made donations totaling K20,750; (2013: K5,889)

**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 24<sup>th</sup> day of March 2015.

  
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 2014, the 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 2014 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 2014, 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 that 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 2014:

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 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.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Grant Burns'.

Grant Burns  
Engagement Leader

A handwritten signature in blue ink, appearing to be 'Stephen Beach'.

Stephen Beach  
Partner  
Registered under the Accountants Registration Act  
1996

Port Moresby  
31 March 2015

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**DIRECTORS' DECLARATION**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

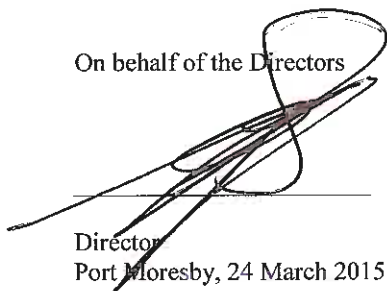
---

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, 24 March 2015



Director  
Port Moresby, 24 March 2015

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

	Notes	Consolidated		Parent Company	
		2014	2013	2014	2013
		K	K	K	K
Interest income	3	43,317,251	41,030,365	165,142	31,680
Interest expense	3	(7,100,161)	(6,314,576)	(203,045)	(555,810)
Net interest income/(expense)		36,217,090	34,715,789	(37,903)	(524,130)
Fee and commission income	4	20,601,804	22,980,773	839,978	1,293,195
Fee and commission expense	4	(124,448)	(108,036)	(124,448)	(108,036)
Net fee and commission income		20,477,356	22,872,737	715,530	1,185,159
Dividend income	5	350,938	854,405	20,113,824	11,126,265
Net trading income	6	137,655	906,105	241,455	829,127
Net gains/(losses) from financial assets through profit and loss	16	(126,668)	4,831,086	(2,850)	330,730
Other operating income	7	198,116	180,751	14,432,056	15,478,832
<b>Operating income</b>		<b>57,254,487</b>	<b>64,360,873</b>	<b>35,462,112</b>	<b>28,425,983</b>
Impairment losses on loans and advances to customers	8	(2,498,471)	(2,587,765)	(1,220)	(4,125)
Other operating expenses	9	(34,412,964)	(30,927,442)	(13,406,202)	(13,435,674)
<b>Profit before tax</b>		<b>20,343,052</b>	<b>30,845,666</b>	<b>22,054,690</b>	<b>14,986,184</b>
Income tax benefit/(expense)	11	(6,315,698)	(8,309,045)	(586,271)	(1,073,361)
<b>Net profit for the year</b>		<b>14,027,354</b>	<b>22,536,621</b>	<b>21,468,419</b>	<b>13,912,823</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>14,027,354</b>	<b>22,536,621</b>	<b>21,468,419</b>	<b>13,912,823</b>

*The notes on pages 10 to 40 are an integral part of these consolidated financial statements.*



**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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 2012	2,000,000	49,050	80,639,230	82,688,280
Profit for the year being total comprehensive income	-	-	22,536,621	22,536,621
Dividend Paid	-	-	(10,000,000)	(10,000,000)
<b>Balance as at 31 December 2013</b>	<b>2,000,000</b>	<b>49,050</b>	<b>93,175,851</b>	<b>95,224,901</b>
Profit for the year being total comprehensive income	-	-	14,027,354	14,027,354
Dividend Paid	-	-	(10,000,000)	(10,000,000)
<b>Balance as at 31 December 2014</b>	<b>2,000,000</b>	<b>49,050</b>	<b>97,203,205</b>	<b>99,252,255</b>

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 2012	2,000,000	49,050	1,913,224	3,962,274
Profit for the year being total comprehensive income	-	-	13,912,823	13,912,823
Dividend Paid	-	-	(10,000,000)	(10,000,000)
<b>Balance as at 31 December 2013</b>	<b>2,000,000</b>	<b>49,050</b>	<b>5,826,047</b>	<b>7,875,097</b>
Profit for the year being total comprehensive income	-	-	21,468,419	21,468,419
Dividend Paid	-	-	(10,000,000)	(10,000,000)
<b>Balance as at 31 December 2014</b>	<b>2,000,000</b>	<b>49,050</b>	<b>17,294,466</b>	<b>19,343,516</b>

*The notes on pages 10 to 40 are an integral part of these consolidated financial statements.*

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**

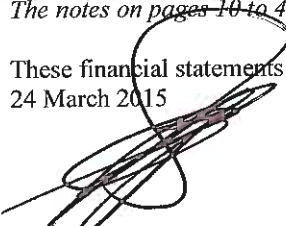
**STATEMENTS OF FINANCIAL POSITION**

**As at 31 DECEMBER 2014**

	Notes	Consolidated		Parent Company	
		2014	2013	2014	2013
		K	K	K	K
<b>Assets</b>					
Cash and due from banks	13	52,792,011	48,346,875	2,349,349	103,673
Central bank bills	14	39,364,105	63,945,361	-	-
Loans and advances to customers	15	202,191,521	195,701,198	27,427	60,353
Deferred income tax assets	12(a)	3,108,038	2,904,082	382,381	446,423
Due from subsidiaries	28 (ii)	-	-	12,308	536,094
Financial assets at fair value through profit and loss	16	4,695,223	15,649,770	75,013	77,863
Investment securities held-to-maturity	17	19,117,024	23,286,810	-	-
Investment in subsidiaries	18	-	-	10,000,010	10,000,010
Investment in associate company	19	396,000	396,000	396,000	396,000
Property and equipment	20	6,991,861	5,938,726	6,991,861	5,938,726
Other assets	21	12,404,438	3,465,651	9,744,542	1,735,823
		<b>341,060,221</b>	<b>359,634,473</b>	<b>29,978,891</b>	<b>19,294,965</b>
<b>Liabilities</b>					
Due to customers	22	225,452,157	251,741,384	-	-
Employee provisions	23	2,172,882	2,476,702	1,084,436	1,235,983
Due to subsidiaries	28 (ii)	-	-	5,414,405	7,575,154
Current income tax payable	24	521,298	1,061,203	670,592	172,995
Deferred income tax liabilities	12(b)	687,582	697,289	613,237	605,684
Other liabilities	25	12,974,047	8,432,994	2,852,705	1,830,052
		<b>241,807,966</b>	<b>264,409,572</b>	<b>10,635,375</b>	<b>11,419,868</b>
<b>Net assets</b>		<b>99,252,255</b>	<b>95,224,901</b>	<b>19,343,516</b>	<b>7,875,097</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		97,203,205	93,175,851	17,294,466	5,826,047
		<b>99,252,255</b>	<b>95,224,901</b>	<b>19,343,516</b>	<b>7,875,097</b>

*The notes on pages 10 to 40 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:  
24 March 2015

  
Mr. Wayne Golding  
Director

  
Mr. Syd Yates  
Director

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

	Notes	<u>Consolidated</u>		<u>Parent Company</u>	
		2014	2013	2014	2013
		K	K	K	K
<b>Cash flows from operating activities</b>					
Interest received		42,925,744	39,807,858	159,419	31,680
Interest paid		(6,505,455)	(7,246,181)	(203,045)	(555,810)
Dividend received	5	350,938	854,405	20,113,824	11,126,265
Fee and commission income received		22,499,876	22,458,135	871,683	1,234,406
Fee and commission expense paid		(2,327,438)	(145,972)	(124,448)	(108,036)
Net trading and other operating income received		3,568,134	1,813,483	3,615,428	2,422,847
Recoveries on loans previously written-off	15	3,154,521	987,824	-	-
Support fees to subsidiaries	7	-	-	11,015,247	13,882,058
Cash payments to employees and suppliers		(32,480,963)	(29,774,376)	(12,089,924)	(17,564,385)
Income tax paid	24	(7,239,266)	(5,031,106)	(17,079)	(642)
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>		<b>23,946,091</b>	<b>23,724,070</b>	<b>23,341,105</b>	<b>10,468,383</b>
<b>Changes in operating assets and liabilities:</b>					
-net increase in loans and advances to customers		(14,040,305)	(17,430,047)	-	-
-net decrease/(increase) in other assets		(1,704,389)	506,628	(1,461,607)	510,304
-net increase/(decrease) in due to customers		(26,289,227)	19,723,318	-	-
-net increase in other liabilities		2,574,069	(710,956)	(168,319)	(987,753)
<b>Net cash inflow from operating activities</b>	27	<b>(15,513,761)</b>	<b>25,813,013</b>	<b>21,711,179</b>	<b>9,990,934</b>
<b>Cash flows from investing activities</b>					
Purchase of property and equipment	20	(2,758,661)	(1,067,509)	(2,758,661)	(1,067,509)
Proceeds from sale of property and equipment		47,200	13,600	47,200	13,600
Investment in associate company		-	-	-	(500,000)
Acquisition of equity securities		(1,071,900)	-	-	-
Payment for work in progress - Project		(6,754,042)	-	(6,754,042)	-
Proceeds from sale of available-for-sale financial assets	16	11,899,778	3,230,541	-	719,091
<b>Net cash outflow from investing activities</b>		<b>1,362,375</b>	<b>2,176,632</b>	<b>(9,465,503)</b>	<b>(834,818)</b>
<b>Cash flows from financing activities</b>					
Dividend payment		(10,000,000)	(10,000,000)	(10,000,000)	(10,000,000)
Repayments from debt securities		4,015,266	-	-	-
Increase in capital		-	-	-	-
Purchase of debt securities		-	(15,015,265)	-	-
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(5,984,734)</b>	<b>(25,015,265)</b>	<b>(10,000,000)</b>	<b>(10,000,000)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(20,136,120)</b>	<b>2,974,380</b>	<b>2,245,676</b>	<b>(843,884)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>112,292,236</b>	<b>109,317,856</b>	<b>103,673</b>	<b>947,557</b>
<b>Cash and cash equivalents at end of year</b>	27	<b>92,156,116</b>	<b>112,292,236</b>	<b>2,349,349</b>	<b>103,673</b>

*The notes on pages 10 to 40 are an integral part of these consolidated financial statements.*

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

**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 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 2014

The following new standards, amendments and interpretations are mandatory for the first time for the financial year beginning 1 January 2014, but did not have a significant impact on the entity:

- Amendments to IFRS 10: Consolidated financial statements, IFRS 12 and IAS 27 for investment entities
- Limited scope amendment to IAS 36: Impairment of assets
- Amendments to IFRS 32: Financial Instruments: Presentation – offsetting financial assets and financial liabilities.
- Amendments to IAS 39, Financial Instruments: recognition and measurement in relation to novation and derivatives.
- IFRIC 21: Levies in relation to the clarification of obligating event.

- (ii) New standards, amendments and interpretations issued but not effective for the financial year ended 31 December 2014 and not early adopted

- Narrow scope amendment to IAS 19 regarding defined benefit plans
- Annual improvements 2012
- Annual improvements 2013
- Amendment to IFRS 11 Joint arrangement on acquisition of an interest in a joint operation
- Amendment to IAS 16 Property, plant and equipment and IAS 41 Agriculture, regarding bearer plants
- Amendment to IAS 16 and IAS 38 on depreciation and amortization based on revenue
- IFRS 14: Regulatory deferral accounts
- Amendment to IAS 27 Separate financial statements on the equity method
- Amendment to IFRS 10 Consolidated financial statements and IAS 28 Investment in associates and joint ventures
- Annual improvements 2014
- IFRS 15: Revenue from contracts with customers
- IFRS 9: Financial Instruments on the classification and measurement of financial assets and liabilities, hedge accounting and recognition of impairment losses

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

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014**

---

#### **1. Significant accounting policies (continued)**

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.

#### 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) Associate

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

After initial recognition, investment in associate 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 FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

**1. Significant accounting Policies (continued)**

e) 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.

f) Fee and commission income

Fees and commissions are generally recognized on an accrual basis when 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.

g) 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.

h) 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 FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

**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 assets and liabilities 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.

i) 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.

j) 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.

k) 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 FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

**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-derivative 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 Group to sell other than insignificant amounts 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.

l) 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.

m) 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 banks.



**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

**1. Significant accounting Policies (continued)**

n) 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.

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

p) 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.

q) 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 2014.~~

r) Dividends

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

s) 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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**1. Significant accounting Policies (continued)**

t) 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 held 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 2014, the Group has taken up an allowance for losses of K7,631,309; (2013: K6,794,774)

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

	Consolidated		Parent Company	
	2014	2013	2014	2013
	K	K	K	K
<b>Interest income</b>				
Cash and short-term funds	2,603,485	1,735,050	138,522	31,680
Investment securities held-to-maturity	1,633,497	1,155,047	-	-
Loans and advances to customers	39,080,269	38,140,268	-	-
Due from subsidiary (note 28 (ii))	-	-	26,620	-
	43,317,251	41,030,365	165,142	31,680
<b>Interest expense</b>				
Banks and Customers	(7,100,161)	(6,314,576)	-	-
Lease (note 28 (ii))	-	-	-	-
Due to subsidiaries (note 28 (ii))	-	-	(203,045)	(555,810)
	(7,100,161)	(6,314,576)	(203,045)	(555,810)
<b>Net interest income/(expense)</b>	<b>36,217,090</b>	<b>34,715,789</b>	<b>(37,903)</b>	<b>(524,130)</b>

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**4. Net fee and commission income**

	Consolidated		Parent Company	
	2014	2013	2014	2013
	K	K	K	K
<b>Fee and commission income</b>				
Credit related fees and commission	3,326,878	2,988,124	-	-
Investment and portfolio management	9,269,121	11,626,407	-	-
Fund administration	6,895,775	6,751,388	-	-
Shares brokerage	839,978	734,598	839,978	734,598
Corporate services fee	-	558,597	-	558,597
Other fees	270,052	321,659	-	-
	<b>20,601,804</b>	<b>22,980,773</b>	<b>839,978</b>	<b>1,293,195</b>
<b>Fee and commission expense</b>				
Other fees paid	(124,448)	(108,036)	(124,448)	(108,036)
<b>Net fee and commission income</b>	<b>20,477,356</b>	<b>22,872,737</b>	<b>715,530</b>	<b>1,185,159</b>

**5. Dividend income**

Financial assets at fair value through profit and loss	350,938	854,405	113,824	126,265
Subsidiary companies	-	-	20,000,000	11,000,000
	<b>350,938</b>	<b>854,405</b>	<b>20,113,824</b>	<b>11,126,265</b>

**6. Net trading income**

Foreign exchange gains	137,655	906,105	241,455	829,127
------------------------	---------	---------	---------	---------

**7. Other operating income**

Support fees from subsidiaries (note 28(ii))	-	-	11,015,247	13,882,058
Rental-subsiaries (note 28 (ii))	-	-	1,072,209	1,392,682
Profits from disposal of property and equipment (note 27)	42,836	3,055	42,836	3,055
Management Fees	-	-	2,202,990	-
Other	155,280	177,696	98,774	201,037
	<b>198,116</b>	<b>180,751</b>	<b>14,432,056</b>	<b>15,478,832</b>

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**8. Impairment losses on loans and advances to customers**

	Consolidated		Parent Company	
	2014	2013	2014	2013
	K	K	K	K
Individually assessed (note 15)	4,392,138	1,202,406	1,220	4,125
Reversal of prior year provision	(1,893,667)	-	-	-
Collective allowance (note 15)	-	1,385,359	-	-
Note 27	2,498,471	2,587,765	1,220	4,125

**9. Other operating expenses**

Staff costs (note 10)	19,111,828	15,591,624	6,939,175	6,053,515
Administrative expenses	6,381,096	6,420,081	2,518,489	2,852,878
Auditor's remuneration Assurance Services (Statutory Audit)	205,891	190,001	34,833	31,667
Depreciation (notes 20 and 27)	1,701,162	2,008,882	1,701,162	2,008,882
Impairment losses on other assets (note 27)	2,998	-	2,998	-
Support charges by subsidiary (note 28(ii))	-	-	-	15,000
Software maintenance and support charges	1,731,452	1,367,004	365,921	160,675
Operating lease	3,742,941	4,270,053	1,027,139	1,780,212
Withholding taxes	-	-	-	-
Other	1,535,596	1,079,797	816,485	532,845
	34,412,964	30,927,442	13,406,202	13,435,674

**10. Staff costs**

Wages and salaries	13,063,264	10,263,885	4,574,546	3,628,477
Superannuation contribution	619,177	450,957	240,778	72,766
Staff accommodation	3,497,278	2,921,897	1,397,190	1,265,132
Traveling cost	344,141	365,596	162,797	179,456
Other	1,587,968	1,589,289	563,864	907,684
Note 9	19,111,828	15,591,624	6,939,175	6,053,515

As at 31 December 2014 the Group had 212 (2013: 186) employees and nil (2013: nil) consultants. The Company had 77 (2013:71) employees.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**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	
	2014	2013	2014	2013
	K	K	K	K
Profit/(loss) before tax	20,343,052	30,845,666	22,054,690	14,986,184
Prima facie tax at 30% (2013: 30%)	6,102,916	9,253,700	6,616,407	4,495,856
Tax effect of				
-Gains less losses from financial assets through profit and loss	37,145	(731,701)	-	(99,219)
-Non-assessable dividends and other items	(73,363)	(212,954)	(6,030,136)	(3,323,276)
Prior year tax under provision	249,000	-	-	-
Income tax expense	6,315,698	8,309,045	586,271	1,073,361
Represented by:				
Current tax	6,529,361	7,553,632	514,676	926,184
Deferred tax (note 12(c))	(213,663)	755,413	71,595	147,177
Prior year dividend withholding tax adjustment	-	-	-	-
Income tax expense	6,315,698	8,309,045	586,271	1,073,361

**12. Deferred taxes**

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

Allowance for losses				
-Loans and advances to customers	2,261,292	2,031,096	19,398	19,032
-Other assets	35,464	34,098	24,067	22,761
Employee provisions	651,634	743,011	325,332	370,796
Accrual of audit fees	90,044	57,798	13,584	8,002
Unrealized exchange loss on revaluation of foreign currency bank account	45,618	25,832	-	25,832
Tax losses carried forward	23,986	12,246	-	-
-Note 12(c)	3,108,038	2,904,082	382,381	446,423

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

Depreciation	549,034	549,033	549,034	549,033
Prepayments-insurance	108,900	118,608	38,114	30,562
Prior year audit adjustment	29,648	29,648	26,089	26,089
Note 12(c)	687,582	697,289	613,237	605,684

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**12. Deferred taxes (continued)**

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

	Consolidated		Parent Company	
	2014	2013	2014	2013
	K	K	K	K
Balance at beginning of year	2,206,793	2,962,206	(159,261)	(12,083)
Income statement credit/(charge) (note 11 and 27)	213,663	(755,413)	(71,595)	(147,177)
Balance at end of year	2,420,456	2,206,793	(230,856)	(159,261)
Represented by:				
Deferred tax assets (note 12(a))	3,108,038	2,904,082	382,381	446,423
Deferred tax liabilities (note 12(b))	(687,582)	(697,289)	(613,237)	(605,684)
	2,420,456	2,206,793	(230,856)	(159,261)

**13. Cash and due from banks**

Cash in hand	4,600	4,600	2,800	2,800
Placement with banks	18,046,983	6,006,908	2,268,246	
Loans and advances to banks	34,740,428	42,335,367	78,303	100,873
Loans and advances to finance companies	-	-	-	-
Included in cash and cash equivalents (note 27)	52,792,011	48,346,875	2,349,349	103,673

**14. Central bank bills**

Central bank bills (included in cash and cash equivalents) (note 27a)	39,364,105	63,945,361	-	-
---	------------	------------	---	---

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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**15. Loans and advances to customers**

	Consolidated		Parent Company	
	2014	2013	2014	2013
	K	K	K	K
Loan originated by the Group				
- Loan to individuals	91,111,757	76,469,105	-	-
Loan to corporate entities				
- Direct commercial loan	117,477,398	122,377,358	-	-
	<b>208,589,155</b>	<b>198,846,463</b>	<b>-</b>	<b>-</b>
Advances to corporate entities	2,162,232	4,159,870	92,087	123,793
Gross loans and advances	210,751,387	203,006,333	92,087	123,793
Less: Suspended interest	(997,572)	(510,362)	-	-
Allowances for losses:				
-Individually assessed	(4,621,381)	(3,726,272)	(64,660)	(63,440)
-Collective allowance	(2,940,913)	(3,068,501)	-	-
	<b>202,191,521</b>	<b>195,701,198</b>	<b>27,427</b>	<b>60,353</b>

Movements in allowance for losses are as follows:

	Consolidated		Parent Company	
	2014	2013	2014	2013
<i>Individually assessed</i>				
Balance at beginning of year	3,726,272	6,239,856	63,440	57,514
Impairment losses during the year (note 8)	4,392,138	1,202,406	1,220	4,125
Loans written off during the year as uncollectible	(4,746,764)	(4,705,533)	-	-
Reversals	(1,318)	(82)	-	-
Transfer of provision from other assets	-	-	-	-
Transfer from collective allowance	(389,583)	1,801	-	1,801
Recoveries	1,640,636	987,824	-	-
Balance at end of year	<b>4,621,381</b>	<b>3,726,272</b>	<b>64,660</b>	<b>63,440</b>
<i>Collective allowance</i>				
Balance at beginning of year	3,068,501	2,337,650	-	1,801
Impairment losses during the year (note 8)	(1,893,667)	1,385,359	-	-
Loans written off during the year as uncollectible	(137,388)	(652,707)	-	-
Recoveries	1,513,884	-	-	-
Transfer to individually assessed	389,583	(1,801)	-	(1,801)
Balance at end of year	<b>2,940,913</b>	<b>3,068,501</b>	<b>-</b>	<b>-</b>

Loans with variable rates are K183,880,776 (2013: 177,094,363) and fixed rates are K24,708,378 (2013 K21,743,903). Per prudential standards, the entire outstanding balance of an asset is considered "non-performing" (note 1d) when:

- (i) A portion of principal or interest is due or unpaid for 90 days or more; or
- (ii) Interest payment for 90 days or more have been capitalized, re-financed, or rolled-over into a new loan.

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

Equity securities - at fair value				
-Listed	4,633,636	15,588,183	75,013	77,863
-Unlisted	61,587	61,587	-	-
	<b>4,695,223</b>	<b>15,649,770</b>	<b>75,013</b>	<b>77,863</b>

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**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	
	2014	2013	2014	2013
	K	K	K	K
Balance at beginning of year	15,649,770	14,049,224	77,863	466,224
Gains/(losses) from changes in fair value (note 27)	(470,323)	2,094,393	(2,850)	(13,882)
Additions	1,071,900	-	-	-
Disposal proceeds	(11,899,778)	(3,230,541)	-	(719,091)
Gains/(losses) on disposal (note 27)	343,654	2,736,694	-	344,612
Balance at end of year	4,695,223	15,649,770	75,013	77,863

The fair value of the listed equities is based on quoted market prices at the end of the reporting period. The quoted market price used is the current market prices. These financial instruments are categorized as level 1 within the fair value hierarchy. Unlisted equities are categorized within level 3 of the fair value hierarchy.

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

Principal	18,000,000	22,015,266	-	-
Unamortized premium	1,117,024	1,271,544	-	-
	19,117,024	23,286,810	-	-

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

Balance at beginning of year	23,286,810	7,445,551	-	-
Additions	-	15,015,265	-	-
Disposal on maturity	(4,015,266)	-	-	-
Amortized premium (note 27)	(154,520)	825,994	-	-
	19,117,024	23,286,810	-	-

**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 Wealth Management Limited ("KWML")	2	100
	10,000,010	

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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**19. Investment in associate company – Consolidated and Parent Company**

Port Moresby Stock Exchange Limited (“POMSoX”), incorporated in Papua New Guinea

	Un-Audited 2014	Audited 2013
	K	K
Assets	1,242,055	820,948
Liabilities	837,927	1,010,208
Net assets	142,562	(189,260)
Revenue	2,778,039	2,858,243
Net income/(loss)	333,814	379,049
<b>% of interest:</b>		
Ordinary	35.5%	35.5%
Preference	-	-
Total	35.5%	35.5%

Investment in POMSoX may be summarised as follows:

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 Vehicles K	Office Equipment K	Software K	Land K	Total K
<b>Cost</b>							
Balance 31 December 2012	428,293	652,357	1,831,475	2,029,042	4,394,827	2,129,010	11,465,004
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	1,910,797	2,547,511	4,495,810	2,129,010	12,261,751
Additions	28,675	173,900	739,145	156,241	1,660,700	-	2,758,661
Disposal	-	-	(112,718)	-	-	-	(112,718)
Balance 31 December 2014	511,078	870,120	2,537,224	2,703,752	6,156,510	2,129,010	14,907,694
<b>Accumulated depreciation</b>							
Balance 31 December 2012	(138,609)	(278,103)	(1,237,935)	(1,217,569)	(1,702,143)	-	(4,574,359)
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	(204,909)	(368,166)	(1,326,555)	(1,610,791)	(2,812,604)	-	(6,323,025)
Charged in year (notes 9 and 27)	(70,821)	(79,752)	(490,818)	(378,903)	(680,868)	-	(1,701,162)
Disposal	-	-	108,354	-	-	-	108,354
Balance 31 December 2014	(275,730)	(447,918)	(1,709,019)	(1,989,694)	(3,493,472)	-	(7,915,833)
<b>Book value 31 December 2014</b>	<b>235,348</b>	<b>422,202</b>	<b>828,205</b>	<b>714,058</b>	<b>2,663,038</b>	<b>2,129,010</b>	<b>6,991,861</b>
Book value 31 December 2013	277,494	328,054	584,242	936,720	1,683,206	2,129,010	5,938,726

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**21. Other assets**

	Consolidated		Parent Company	
	2014	2013	2014	2013
	K	K	K	K
Prepayments	6,598,966	913,108	5,881,835	391,490
Bonds	442,991	345,413	209,226	184,991
Accrued interest				
-central bank bills	823,146	237,373	-	-
-due from other banks	76,329	20,716	5,723	-
-investment securities held-to-maturity	555,675	651,033	-	-
Other debtors	2,946,855	-	2,673,937	-
Other assets	1,054,042	1,387,219	1,054,042	1,235,208
	<b>12,498,004</b>	<b>3,554,862</b>	<b>9,824,763</b>	<b>1,811,689</b>
Less specific allowance for losses	(93,566)	(89,211)	(80,221)	(75,866)
	<b>12,404,438</b>	<b>3,465,651</b>	<b>9,744,542</b>	<b>1,735,823</b>

Movements of specific allowance for losses are as follows:

Balances at beginning of year	89,211	106,391	75,866	93,046
Impairment losses during the year	2,998	-	2,998	-
Adjustment/(Reversal)	1,357	(3,067)	1,357	(3,067)
Transfer of provision to loans and advances to customers	-	-	-	-
Written-off during the year as uncollectible	-	(14,113)	-	(14,113)
Balance at end of year	<b>93,566</b>	<b>89,211</b>	<b>80,221</b>	<b>75,866</b>

**22. Due to customers**

Corporate customers				
-Current/settlement accounts	11,803,786	13,198,419	-	-
-Term deposits	168,654,973	217,851,307	-	-
Retail customers				
-Current/settlement accounts	498,041	1,162,481	-	-
-Term deposits	44,495,357	19,529,177	-	-
	<b>225,452,157</b>	<b>251,741,384</b>	<b>-</b>	<b>-</b>

**23. Employee provisions**

Balance at beginning of year	2,476,702	3,332,040	1,235,983	1,816,699
Charged to profit and loss	383,939	43,744	25,131	(264,014)
Reversal of prior year over provision	-	-	-	-
Utilized during the year	(687,759)	(899,082)	(176,678)	(316,702)
Balance at end of year	<b>2,172,882</b>	<b>2,476,702</b>	<b>1,084,436</b>	<b>1,235,983</b>
Represented by:				
Short term provisions	1,066,494	1,514,274	544,920	773,258
Long term provisions	1,106,388	962,428	539,516	462,725
	<b>2,172,882</b>	<b>2,476,702</b>	<b>1,084,436</b>	<b>1,235,983</b>

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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

	Consolidated		Parent Company	
	2014	2013	2014	2013
	K	K	K	K
Balance at beginning of year	1,061,203	(1,475,342)	172,995	(766,567)
Paid during the year	(7,239,266)	(5,031,106)	(17,079)	(642)
Current provision	6,699,361	7,553,632	514,676	926,185
Prior year adjustment	-	14,019	-	14,019
Balance at end of year	521,298	1,061,203	670,592	172,995

**25. Other liabilities**

Creditors	880,597	1,117,624	502,189	653,636
Accrued interest	3,307,395	2,712,689	-	-
Accruals	5,281,133	2,486,595	2,282,057	1,056,373
Other	3,504,922	2,116,086	68,459	120,043
	12,974,047	8,432,994	2,852,705	1,830,052

**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 2014 and their respective percentage holdings:

	Shareholdings	
	2014	2013
	%	%
Wayne Kenneth Golding	5.5	5.5
Columbus Investment Limited	5	5
Fu Shan Investment Limited	89.5	89.5
	100	100

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**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	
	2014	2013	2014	2013
	K	K	K	K
Cash and due from banks (note 13)	52,792,011	48,346,875	2,349,349	103,673
Central bank bills (note 14)	39,364,105	63,945,361	-	-
	<b>92,156,116</b>	<b>112,292,236</b>	<b>2,349,349</b>	<b>103,673</b>

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

Comprehensive income/(loss) for the year	14,027,354	22,536,621	21,468,419	13,912,823
Profit from disposal of property and equipment (note 7)	(42,836)	(3,055)	(42,836)	(3,055)
Depreciation (note 20)	1,701,162	2,008,882	1,701,162	2,008,882
Impairment losses:				
Loan and advances to customers (note 8)	2,498,471	2,587,765	1,220	4,125
Other assets (note 9)	2,998	-	2,998	-
Amortization of investment held-to-maturity:				
On premium (note 17)	154,520	(825,994)	-	-
Net losses/(gains) from changes in fair values of financial assets (note 16)	470,323	(2,094,393)	2,850	13,882
Losses/(gains) on sales of financial assets (note 16)	(343,654)	(2,736,694)	-	(344,612)
Increase/(decrease) in current income tax payable	(958,905)	2,536,544	497,597	939,561
Increase/(decrease) in deferred income tax (note 12(c))	(213,663)	755,413	71,595	147,177
Changes in net assets and liabilities:				
Decrease/(increase) in assets:				
Current assets	(444,485)	12,533,006	(684,882)	270,033
Non-current assets	(8,300,931)	(20,062,159)	(17,302)	6,933
Increase/(decrease) in liabilities:				
Current liabilities	(9,941,906)	42,302,433	(1,173,658)	(6,772,042)
Non-current liabilities	(14,122,209)	(33,725,358)	(115,984)	(192,773)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(15,513,761)</b>	<b>25,813,013</b>	<b>21,711,179</b>	<b>9,990,934</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. The Deed of guarantee and indemnity for K10,000,000 from KSL and KFM is 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;

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**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 2014, and related expenses and income for the year ended are as follows:

i) As at 31 December 2014, Directors and management transactions were as follows:

a) H. Wong, Director of KSL is also a 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 2014 and related income and expenses for the year ended are as follows:

	2014	2013
	K	K
Deposit:		
Balance at the beginning of year	7,376	7,005
Received during the year	250	371
Balance at end of year	<u>7,626</u>	<u>7,376</u>
Interest expense on deposit	294	437
Average interest rate per annum	5.25%	4.00%

b) W. Golding is a Director and Shareholder of KSL and also a Director and Shareholder of The Manufacturers Council of PNG (MCP). During the year, W. Golding had loan transactions undertaken on discounted terms and conditions. MCP maintained interest-bearing deposits at normal market rates of interest. The balances due as at 31 December 2014 and related income and expenses for the year ended are as follows:

Loan:		
Balance at beginning of year	-	676,231
Issued during the year	-	-
Repayments during the year	-	(676,231)
Balance at end of year	<u>-</u>	<u>-</u>
Interest income earned	-	25,863
Average interest rate per annum	-	11.95%
Deposit:		
Balance at beginning of year	57,091	56,104
Received during the year	999	987
Balance at end of year	<u>58,090</u>	<u>57,091</u>
Interest expense on deposits	999	987
Average interest rate per annum	1.75%	1.75%

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**28. Related party transactions (continued)**

- c) S. Yates, Managing Director and Chief Executive Officer of KSL is also a Director of Kina Asset 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 2014 and related expense for the year are as follows:

	KAML	POMSoX	S. Yates	Total 2014	2013
	K	K	K	K	K
Balance at beginning of year	-	512,831	53,384	566,215	554,678
Received during the year	-	7,836	15,541	23,377	11,357
Repaid during the year	-	-	-	-	-
Balance at end of year	-	520,667	68,925	589,592	566,215
Interest expense on deposits	-	9,219	209	9,428	4,990
Average interest rate per annum	-	1.17%	0.35%	0.76%	0.70%

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 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 2014, the total remuneration of the Directors was K1,550,444 (2013: K1,467,444).

The Group specified executives during the year were:

Syd Yates  
 Michael Van Dorssen  
 Adam Fenech  
 Victor Shubin  
 Kong Wong

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	
2014	2,997			116				1,714	4,827
2013	2,236			116				1,543	3,895

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**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 (2013:12.50) basis points, unsecured and with no fixed term of repayment. Details as follows:

	<u>Transactions</u>		<u>Balance outstanding</u>			
	<u>Income</u>	<u>Expenses</u>	<u>Due from</u>	<u>Due to</u>		
	<u>2014</u>	<u>2014</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	<u>K</u>	<u>K</u>	<u>K</u>	<u>K</u>	<u>K</u>	<u>K</u>
KFL	7,800,416	-	-	-	(4,082,715)	(47,564)
PNGHF	-	-	-	46,576	(350)	-
KFM	2,303,344	183,794	-	-	(1,118,038)	(7,496,181)
KISS	2,010,316	19,251	-	456,053	-	-
KMC	-	-	11,858	-	-	(31,409)
KNL	-	-	450	33,465	(213,302)	-
	<b>12,114,076</b>	<b>203,045</b>	<b>12,308</b>	<b>536,094</b>	<b>(5,414,405)</b>	<b>(7,575,154)</b>

	<u>KFL</u>	<u>KFM</u>	<u>KISS</u>	<u>KWML</u>	<u>KNL</u>	<u>Total</u>
	<u>K</u>	<u>K</u>	<u>K</u>	<u>K</u>		<u>K</u>
<b>2014</b>						
<b>Income</b>						
-Interest (note 3)	26,620	-	-	-	-	26,620
-Support fee (note 7)	7,436,725	2,165,185	1,413,337	-	-	11,015,247
-Rental of property and equipment (note 7)	337,071	138,159	596,979	-	-	1,072,209
	<b>7,800,416</b>	<b>2,303,344</b>	<b>2,010,316</b>	<b>-</b>	<b>-</b>	<b>12,114,076</b>
<b>Expenses</b>						
-Interest (note 3)	-	183,794	19,251	-	-	203,045
-Support charges (note 9)	-	-	-	-	-	-
	<b>-</b>	<b>183,794</b>	<b>19,251</b>	<b>-</b>	<b>-</b>	<b>203,045</b>
<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>

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

**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	
	2014	2013	2014	2013
	K	K	K	K
Due from banks	-	-	-	-
Shares clients funds	3,076,681	4,442,539	3,076,681	4,442,539
Investment securities				
-Listed	-	-	-	-
-Unlisted	-	-	-	-
	<b>3,076,681</b>	<b>4,442,539</b>	<b>3,076,681</b>	<b>4,442,539</b>

---

**30. Contingent liabilities**

There were a number of legal proceedings outstanding against the Company at 31 December 2014. 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.

**31. Commitments for capital expenditure**

Commitments under contracts for capital expenditure at balance sheet date to the extent to which provision has not been made in the financial statements amount to K nil.

**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, refers to the 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 the 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%.



**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**32. Capital adequacy (continued)**

As at 31 December 2014, 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) capital, 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 weightings (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.

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 2014</b>				
Cash and due from banks	52,792,011	48,168,249	10,557,482	9,633,250
Central bank bills	39,364,105	39,364,105	-	-
Loans and advances to customers	202,191,521	200,203,159	164,830,348	162,841,986
Current income tax receivable	-	-	-	-
Deferred income tax assets	3,108,038	2,446,633	-	-
Due from parent company	-	4,082,715	-	4,082,715
Due from related companies	-	752,779	-	752,779
Financial assets at fair value through profit and loss	4,695,223	33,300	4,695,223	33,300
Investment securities held- to- maturity	19,117,024	19,117,024	-	-
Investment in associate company	396,000	-	396,000	-
Property and equipment	6,991,861	-	6,991,861	-
Other assets	12,404,438	2,160,108	12,404,438	2,160,108
	<b>341,060,221</b>	<b>316,327,872</b>	<b>199,875,352</b>	<b>179,504,138</b>
<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>

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**32. Capital adequacy (continued)**

	Group		Subsidiary KFL	
	2014	2013	2014	2013
	K	K	K	K
<b>Capital components</b>				
<b>Tier 1 (core) capital</b>				
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	93,175,851	80,639,230	48,745,191	37,237,621
Deferred income tax assets	(3,108,038)	(2,904,082)	(2,446,633)	(2,230,424)
	<b>92,116,863</b>	<b>79,784,198</b>	<b>55,798,560</b>	<b>44,507,199</b>
<b>Tier 2 (supplementary) capital</b>				
Net profit for the year	14,027,354	22,536,621	9,008,895	11,507,574
Subordinated loan	-	-	-	-
General provision (not more than 1.25% RWA)	2,498,442	2,246,080	2,243,802	2,000,687
	<b>16,525,796</b>	<b>24,782,701</b>	<b>11,252,697</b>	<b>13,508,261</b>
Total capital base	<b>108,642,659</b>	<b>104,566,899</b>	<b>67,051,257</b>	<b>58,015,460</b>
Less investment in other financial institutions				
-Credit Corporation	-	(10,446,215)	-	-
Net capital base	<b>108,642,659</b>	<b>94,120,684</b>	<b>67,051,257</b>	<b>58,015,460</b>

	Group		Subsidiary KFL	
	2014	2013	2014	2013
<b>Capital adequacy ratios</b>				
Tier 1 capital (tier 1 capital/total RWA)	<b>46.09%</b>	44.40%	<b>31.08%</b>	27.81%
Total capital ratio (total capital/total RWA)	<b>54.36%</b>	52.38%	<b>37.35%</b>	36.25%
Leverage capital ratio (tier 1 capital/total assets less deferred income tax assets)	<b>27.26%</b>	22.37%	<b>17.78%</b>	14.07%

**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.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

**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 seeks 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.

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.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

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

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 2014 details of LCE as follows:

	Group		Subsidiary KFL	
	2014	2013	2014	2013
	K	K	K	K
LCE	-	-	26,534,903	19,292,694
Percentage of LCE to total loans	-	-	13.2%	10.1%
Percentage of LCE to net capital base	-	-	39.6%	33.2%

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 2014.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

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

e) Price risk

The Group is exposed to equity securities price risk because of investments held and classified as financial assets at fair value through profit and loss. To manage its price risks arising from financials 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 on the Port Moresby Stock Exchange (POMSoX) and the 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 2014 would have been affected by K0.22 million; (2013: K0.78million) and
- other equity reserves would not be affected as 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 structures and contractual maturity profiles of assets and liabilities as at 31 December 2014.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**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 2014</b>							
<b>Assets</b>							
Cash and due from banks	52,777,411	-	-	-	-	14,600	52,792,011
Central bank bills	5,907,560	8,550,101	24,906,444	-	-	-	39,364,105
Loans and advances to customers	728,048	2,583,939	26,057,475	46,105,651	124,728,046	1,988,362	202,191,521
Deferred income tax assets	-	-	-	-	-	3,108,038	3,108,038
Financial assets at fair value through profit and loss	-	-	-	-	-	4,695,223	4,695,223
Investment securities held-to- maturity	1,117,024	-	-	-	18,000,000	-	19,117,024
Investment in associate company	-	-	-	-	-	396,000	396,000
Other assets	-	-	-	-	-	12,404,438	12,404,438
	<b>60,530,043</b>	<b>11,134,040</b>	<b>50,963,919</b>	<b>46,105,651</b>	<b>142,728,046</b>	<b>22,606,661</b>	<b>334,068,360</b>
<b>Liabilities</b>							
Due to customers	53,129,806	101,836,371	68,135,980	2,350,000	-	-	225,452,157
Employee provisions	-	-	-	-	-	2,172,882	2,172,882
Current income tax payable	-	-	-	-	-	521,298	521,298
Deferred income tax liabilities	-	-	-	-	-	687,582	687,582
Other liabilities	-	-	-	-	-	12,974,047	12,974,047
	<b>53,129,806</b>	<b>101,836,371</b>	<b>68,135,980</b>	<b>2,350,000</b>	<b>-</b>	<b>16,355,809</b>	<b>241,807,966</b>
<b>Interest sensitivity gap</b>	<b>7,400,237</b>	<b>(90,702,331)</b>	<b>(17,172,061)</b>	<b>43,755,651</b>	<b>142,728,046</b>	<b>6,250,852</b>	<b>92,260,394</b>

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**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 2013</b>							
<b>Assets</b>							
Cash and due from 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
Current income tax receivable							
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
	114,393,477	4,595,421	27,602,407	77,769,087	102,945,833	26,389,522	353,695,746
<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
	57,847,315	134,322,418	42,457,177	17,114,474	-	12,668,188	264,409,572
<b>Interest sensitivity gap</b>	56,546,162	(129,726,997)	(14,854,770)	60,654,613	102,945,833	13,721,334	89,286,174

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

	2014	2013
	K	K
<b>Assets</b>		
Due from banks	1.0	0.91
Central bank bills	2.87	2.16
Loans and advances to customers	22.34	23.45
Investment securities held-to-maturity	9.50	9.41
<b>Liability</b>		
Due to customers	4.18	2.36

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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

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

The maturity profile of consolidated assets and liabilities as at 31 December 2014 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 2014</b>						
<b>Assets</b>						
Cash and due from banks	52,792,011	-	-	-	-	52,792,011
Central bank bills	5,907,560	8,550,101	24,906,444	-	-	39,364,105
Loans and advances to customers	2,404,330	2,812,583	26,140,911	46,105,651	124,728,046	202,191,521
Current income tax receivable	-	-	-	-	-	-
Deferred income tax assets	54,141	239,165	1,103,901	1,710,831	-	3,108,038
Financial assets at fair value through profit and loss	-	-	4,695,223	-	-	4,695,223
Investment securities held-to-maturity	1,117,024	-	-	-	18,000,000	19,117,024
Investment in associate company	-	-	-	-	396,000	396,000
Other assets	8,199,701	156,210	3,605,536	442,991	-	12,404,438
	<b>70,474,767</b>	<b>11,758,059</b>	<b>60,452,015</b>	<b>48,259,473</b>	<b>143,124,046</b>	<b>334,068,360</b>
<b>Liabilities</b>						
Due to customers	53,129,806	101,836,371	68,135,980	2,350,000	-	225,452,157
Employee provisions	15,844	79,218	971,432	1,106,388	-	2,172,882
Current income tax payable	-	-	521,298	-	-	521,298
Deferred income tax liabilities	33,954	24,200	80,394	549,034	-	687,582
Other liabilities	7,443,808	1,216,097	3,488,306	825,836	-	12,974,047
	<b>60,623,412</b>	<b>103,155,886</b>	<b>73,197,410</b>	<b>4,831,258</b>	<b>-</b>	<b>241,807,966</b>
<b>Net liquidity gap</b>	<b>9,851,355</b>	<b>(91,397,827)</b>	<b>(12,745,395)</b>	<b>43,428,215</b>	<b>143,124,046</b>	<b>92,260,394</b>
<b>31 December 2013</b>						
<b>Assets</b>						
Cash and due from 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>

The disparity in maturity of assets and liabilities indicates an apparent negative net current asset position for the periods up to twelve 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.



**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

---

**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 a tightening of the liquidity ratio resulting in an 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 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.
- Early warning signals indicative of an approaching issue and a mechanism to monitor and report these against signals.
- Action plans and courses of action to account for early warning signals as noted above.
- Management reporting at a higher level.
- Maintenance of contractual obligations in regards to deposits.
- Assigned responsibilities for internal and external written communications.

**35. Fair Value Estimation**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**

**35. Fair Value Estimation (continued)**

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2014. See note 16 for disclosures of assets held at fair value through profit and loss.

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
Financial assets at fair value through profit or loss				
Investment in shares - Listed	4,633,636	-	-	4,633,636
Investment in shares - Unlisted	-	-	61,587	61,587
<b>Total assets</b>	<b>4,633,636</b>	<b>-</b>	<b>61,587</b>	<b>4,695,223</b>

The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2013.

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
Financial assets at fair value through profit or loss				
Investment in shares - Listed	15,588,183	-	-	15,588,183
Investment in shares - Unlisted	-	-	61,587	61,587
<b>Total assets</b>	<b>15,588,183</b>	<b>-</b>	<b>61,587</b>	<b>15,649,770</b>