



Kina Securities Limited 2017 Full Year Results

Incorporating the requirements of Appendix 4E
Issue Date: 26th February 2018



ASX Appendix 4E

For the Full Year to 31 December 2017

Results for announcement to the market

Comparisons of current year to 31 December 2017 are with the year to 31 December 2016

Preliminary Final Report for the year ended 31 December 2017

Revenue from ordinary activities (K Millions)	111.5	Down 5%
Net Profit After Tax for the period attributable to equity holders (K Millions)	23.0	Down 44%
Underlying Net Profit After Tax for the period attributable to equity holders (K Millions)*	30.0	Down 27%

*Underlying net profit represents the statutory profit as adjusted in order to present a figure which reflects the Directors' assessment of the results of the ongoing business activities of the Group, in accordance with ASIC Regulatory Guide 230 and the AICD/Finsia principles for reporting underlying profit.

PGK million	FY Dec-17	FY Dec-16
Consolidated statutory net profit after tax attributable to equity holders	23.0	41.0
Lease termination payment expense	7.0	-
Tax effect of above adjustment	-	-
Underlying net profit after tax attributable to equity holders	30.0	41.0

Dividends (distributions) Final dividend

- Unfranked (AUD cents per share)	4.0
- Unfranked (PGK toea per share)	10.0

Full Year dividend

- Unfranked (AUD cents per share)	6.0
- Unfranked (PGK toea per share)	15.0

The Directors have declared a final dividend based on the underlying profit after tax of PGK20.0m for the second half.

The final dividend is converted based on an exchange rate: 1 PGK = 0.4000 AUD. This is consistent with the estimated rate used in the mid-year guidance.

Record date for determining entitlements to the dividend – 2 March 2018

The financial information contained in this report, for the year ended 31 December 2017 is presently being audited. Comparative figures for the year ended 31 December 2016 are audited numbers.

This report should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2017 in Section 2.

This report is provided to the ASX under Rule 4.3A.

Directors

The directors present this report together with the consolidated financial report for the year ended 31 December 2017.

Directors:

The directors of the company during or since the end of the year are:

Isikeli Taureka, Chairman

Syd Yates, Managing Director

Ceased – 2 January 2018

Greg Pawson, CEO *

Commenced – 4 December 2017

Jim Yap

David Foster

Karen Smith-Pomeroy

Sir Rabbie Namaliu

Ceased – 16 May 2017

Wayne Golding

Ceased - 16 May 2017

The Company Secretary during or since the end of the year is: Chetan Chopra

* Mr. Greg Pawson has assumed the Role of Managing Director and CEO as from 2 January 2018.

Table of contents

1. Results Overview.....	5
1.1 Disclosure and context.....	9
1.2 Profit results for the year ended to December 2017	10
1.2.1 Statutory results	10
1.2.2 Dividends.....	10
1.2.3 Lending.....	11
1.2.4 Funding	12
1.2.5 Net interest margin.....	13
1.2.6 Non-interest income.....	13
1.2.7 Operating expenses	14
1.2.8 Asset quality and loan impairment.....	15
1.2.9 Capital adequacy	16
2. Consolidated Financial Statements	17
2.1 Statement of Comprehensive Income – consolidated	17
2.2 Statement of financial position – consolidated	18
2.3 Statement of changes in equity – consolidated.....	19
2.4 Statement of Cashflows – consolidated.....	20
2.5 Basis of preparation.....	21
2.6 Non-cash financing and investing activities	21
2.7 Reconciliation of cash and cash equivalents.....	21
2.8 Ratios.....	21
2.9 Earnings Per Share	21
2.10 NTA backing.....	22
2.11 Dividends.....	22
2.12 Details of aggregate share of profits (losses) of associated entity	22
2.13 Issued Shares	22
2.14 Segment Reporting	22
2.15 Comparison of half year profits	23
2.16 Contingent liabilities.....	23
3. Compliance Statement	24

1. Results Overview

Kina Securities 2017 full year results meet expectations in line with mid-year guidance

Results Highlights

	Full Year Ended			Half Year Ended		
	Dec-17	Dec-16	Change (%)	Dec-17	Jun-17	Change %
Statutory NPAT* from ordinary activities (PGK m)	23.0	41.0	(44%)	20.0	3.0	567%
Underlying Net Profit After Tax (PGK m)	30.0	41.0	(27%)	20.0	10.0	100%
Net interest margin (%)	7.6	8.3	(8%)	7.6	7.3	4%
Cost to income ratio (%)**	60.6	47.5	28%	54.9	67.8	(19%)
Loan impairment expense (PGK m)	3.3	2.8	18%	2.0	1.3	54%
Capital adequacy (T1+T2) (%)	28	30	(7%)	28	28	0%
Net loans and advances (PGK m)	732.7	605.1	21%	732.7	685.4	7%
Return on Equity (%)	8.9	15.9	(44%)	8.9	8.0	11%
Dividend (PGK Toea per share)	15.0	20.0	(25%)	10.0	5.0	100%
Dividend (AUD Cents per share)	6.0	8.0	(25%)	4.0	2.0	100%

*NPAT: Net profit after tax

**Cost to income ratio does not include the one-off lease termination payment expense and impairment expense

Operating performance and earnings

Kina Securities Limited (KSL) has reported a statutory profit of PGK23.0m and an underlying profit of PGK30.0m for the full year ended 31 December 2017. This is in line with mid-year analyst expectations and Kina's market update. Statutory profit is PGK18.0m (44%) lower than last year largely impacted by lower FX income in the first half year due to the lack of a USD Correspondent Bank and the one-off lease termination payment expense. The second half performance reflects the restoration of the USD correspondent bank relationship. However, the results were impacted by the subdued business conditions in PNG arising from a foreign currency shortage.

The statutory profit has been calculated in accordance with International Financial Reporting Standards (IFRS) and reflects a lease termination expense of PGK7.0m.

The underlying net profit represents the statutory profit as adjusted in order to present a figure which reflects the Directors' assessment of the results of the ongoing business activities of the Group, in accordance with ASIC Regulatory Guide 230 and the AICD/Finsia principles for reporting underlying profit.

The reconciliation between the statutory net profit and the underlying net profit is presented below. This reconciliation has not been audited or reviewed by the Groups' auditor.

PGK Million	31-Dec-17	31-Dec-16
Statutory net profit from ordinary activities (PGK m)	23.0	41.0
Lease termination payment expense	7.0	-
Tax effect of above adjustment	-	-
Underlying net profit	30.0	41.0

Directors have declared a final dividend of AUD cents 4.0/PGK toea 10.0 per share.

The 2017 financial result compares with a profit of PGK41.0m in the corresponding period last year. The drop in earnings has largely been attributed to lower income from foreign currency trading as a result of the withdrawal of Kina's USD correspondent banking partner in the last quarter of FY 2016.

During the year and as reported at half year to June 2017, Kina incurred a one-off lease termination expense related to an agreement for the Group to re-locate to a new building. The arrangement was entered into prior to Kina's plans to list on the ASX. The Board took the decision to terminate the arrangement and for the Group to remain in its present location, The Tower, as a re-location no longer aligned with its future business direction or represented the best value for the company. The Board has followed the required treatment under accounting standards in recognising the lease termination expense during the financial year 2017. New terms of lease have been successfully negotiated with Kina's existing landlord including an upfront lease incentive to compensate for the termination expense which will be recognised over the term of the new lease.

Operational highlights

Kina continued to grow all of its businesses, excluding the impact of the decline in FX income. The following operational highlights contributed to the results for full year 2017:

Kina Bank

- Grew loan market share from 4.8% in December 2016 to 5.8% at the end of December 2017. The total market is PGK12.6billion.
- Achieved 21% growth in Net Loans of PGK125m for the full year compared with December 2016 including 13% growth in H1 2017 for Kina Bank
- Lending growth has been managed in 2017 to keep the Loan to Deposit Ratio (LDR) within a target range around 70%. As at 31 December 2017, the LDR was at 72%.
- Delivered a 16.8% increase in Business lending and a strong growth in Personal lending of 33.6%. Total loans now recorded at PGK746.0m before an allowance for losses of PGK3.3m for the Group
- Introduced two new well-performing products during the year. A Novated Leasing product has grown to PGK6.0m, representing a 215% increase. The new Investment Property Loan launched in May 2017 has grown to PGK21m.
- Increased the number of transactional accounts by 26%
- Realigned customer deposit base from high cost to low cost which was set as a priority in H1 2017. This was to ensure the cost of funds remains within 2-3% for the year. The cost of funds as at December 2017 has been managed at 2.79% for the Group
- Launched a new low cost Cash Management Account (CMA) with a maximum tiered interest rate of 1.5% in July 2017 which has grown to PGK93m as at December 2017.
- Launched a new Vision City branch in Port Moresby
- Maintained the Provision for Losses for the Banking business at PGK12.2m, which represents 1.65% of portfolio.
- Maintained sound credit quality of loans with Arrears at 4.75%. The write-offs are at PGK2.0m.
- Completed preparation for the implementation of IFRS9. All loans have been classified by Risk Grade and Security grading.

Wealth Management

- Delivered a revenue uplift as a result of the new Fund Administration contract with Nasfund. This contract has led to a revenue uplift of PGK3.5m in the second half of 2017.
- Funds Under Management grew to PGK6.9b (10%) during 2017.
- Funds Under Administration increased 60% to PGK11.0b and member numbers increased to more than 700,000 members

Corporate

- Restored Foreign Exchange revenues in H2 2017 with FX income of PGK5.4m compared to PGK1.9m in H1 2017. The USD correspondent banking arrangements with CIMB Bank, Singapore are now in place. Kina continues negotiations with other banks for additional arrangements.
- Upgraded the Core Banking system with new features including mobile banking applications for both corporate and retail customers.
- Successfully delivered the Bilateral Link Agreement which allows Kina Cards to be used in all ATMs and EFTPOS devices country wide with other banks.
- Became PNG's first bank to sign a trade finance agreement with the Asian Development Bank (ADB).

- Commenced a reorganisation of its property arrangements. The naming rights to “the Tower” have been secured and the building will be renamed to Kina Haus. The lease arrangement in Kina Haus has been extended for 10 years at market competitive rates providing a significant NPV benefit over the term of the lease

Kina Bank

Kina Bank recorded net interest income of PGK72.4m for the full year, up 11% from the previous corresponding period. This was achieved by driving loan book growth while ensuring careful management of cost of funds and yield on interest earning assets. The Net Interest margin was at 7.6% and within guidance of 7 – 9 %.

Interest income from investments grew by 17% or PGK2.8m. Interest income on loans grew by 32% or PGK19.3m.

In 2017, bank fees and commissions income grew by 11%, reflecting growth in lending and retail customer segments. This assisted in cushioning the impact of the drop in foreign exchange income.

Total non-interest income for the Bank was lower by PGK12.5m. As advised to the market in May 2017, the impact in H1 2017 is PGK10.7m in respect of loss of FX revenues. The acquisition of a new USD correspondent banking partner, CIMB in July 2017 has enabled a restoration of FX revenues to PGK 7.1m for the year. However, this is still lower than the prior year by PGK13.5 m.

Interest expense was higher by PGK14.7m reflecting the trailing dependency on a high-cost deposit base from the last quarter of 2016 which drove cost of funds to beyond 3.5%. A significant deposit rebalancing initiative was commenced in June to reduce this down to 2.7% by end of year.

The Bank has managed its expenses aggressively during the year. Staff expenses grew in line with inflation at 8%. Administrative and other operational costs were delivered as per budgeted increases of 10%.

Wealth Management

The Wealth Management division delivered growth in the funds management, stockbroking and trustee businesses. Funds Under Management grew to PGK6.9b (10%) during 2017. This resulted in an increase in funds management revenue to PGK10.2m for 2017.

A key highlight for the division was Kina’s Funds Administration’s success in signing the agreement to provide services to PNG’s largest superannuation fund Nasfund. This agreement went live in July 2017 and this contract has commenced earning revenue from July 2017. This agreement contributed PGK3.5m to revenue in 2017. The Funds Administration Service achieved revenues of PGK12.5m in 2017. Kina now provides Fund Administration services to 90% of the market.

Kina has the opportunity to offer targeted wealth management and banking products to a customer base of more than 700,000 superannuation members. Kina Wealth is developing new retail products targeting the middle income market. The growing PNG middle class is considering investment opportunities in domestic and international wealth funds.

Asset quality

Asset quality was well managed during the year. Customer portfolio reviews are being conducted on a cyclical basis to ensure a regular and systematic risk review.

The impairment expense was PGK3.3m in 2017, up from PGK2.8m in 2016. Loan Impairment expense as a proportion of Gross Loans and Advances (GLA) remained low at 0.4%. The write-offs during the year was K2.0m.

Gross non-performing loans or loans greater than 180 days were just PGK1.5m, equating to 0.2% of GLA. This was 45% lower than the half year balances. Arrears management has also been very robust with Arrears at 3.3%.

The Coverage ratio stands at 105% as at 31 December 2017 for Kina Bank and is marginally lower than the levels at December 2016. In 2017, Kina adopted the industry standard methodology of measuring loan loss provision cover against the balance of greater than 90 days impaired balances.

Operating Expenses

Operating expenses from ordinary activities for full year 2017, excluding the one-off lease termination payment expense, grew by 21% compared to 2016 reflecting the investment in new systems and infrastructure in supporting growth in core banking business and the funds administration business. Staffing costs grew to 53% of total cost up from 51%. Business operating costs including IT spend remain at 25% of total cost. A detailed analysis is provided in Section 1.2.7.

Cost to income ratio, excluding the one off lease termination expense, was 61%, up from 48% in 2016. The increase in the cost to income ratio was largely due to a drop in foreign exchange income. If the FX income had been at the level of the previous year, the ratio would potentially have been similar to that achieved 2016. Kina's key objective for 2018 is to manage the Cost to Income ratio back to within earlier guidance.

Capital

The capital of the business remains strong, with regulatory capital (T1+T2) at 28% of risk weighted assets (RWA), compared with a regulatory required minimum of 12%.

External Market Conditions

The PNG Budget announced in November 2017 estimated real GDP growth for 2017 will be around 2%. For 2018, the market however expects a flat to downward GDP growth profile, despite the Government's expansionary fiscal policy. Domestic consumption remains weak and ongoing difficulty in accessing foreign currency continues to hamper businesses ability to generate growth. The recent increase in commodity prices may provide relief over the medium term, however it is not evident these increases will be sustained and be ongoing. The PNG Kina is expected to remain under pressure against major trading currencies. That combined with the anticipated increase in import tariffs and excise rates in the 2018 Budget suggests that inflation will increase to more than 6.6% in the next 6 to 12 months.

PNG is still experiencing the impacts of the drop in global commodity prices as detailed in a recent World Bank report. It stated GDP was at 8.0% in 2015, 2.4% in 2016 and predicted to be 2.1% in 2017. However, the report reaffirmed that there is a positive outlook for agriculture commodities, especially Palm Oil and Vanilla due to improved weather and growing conditions. The report also highlighted that resources sector was the main driver for the overall GDP growth in 2018.

The World Bank has also reported that the medium term fiscal and revenue strategies outlined in the 2018 budget proves the government's efforts to maintain the fiscal framework to cut spending from resource revenues and the commitment to establish the sovereign wealth fund. They further stressed that tough actions must be taken to contain wage bill costs that are draining key public service funds.

Key strategic priorities

Kina's key strategic priorities for 2018 are set out as follows;

- Partnerships – accentuate Kina's brand slogan "Together it's possible", reinforcing that strong relationships are the cornerstone of the Kina brand by fostering life-long customer relationships and building strong valued strategic partnerships,
- Digital – being able to connect anytime, anywhere, anyhow by offering clarity that surpasses anything in the market today with the best user interface and operational excellence
- Responsible – continually value the communities that we live in by building a better future and contributing positively to a growing and vibrant economy
- Brand – the Kina brand is recognised as a viable, secure and differentiated financial services organisation that sets Kina apart in the market
- Knowledge – continue to empower capable people who contribute to the sustainable growth of Kina

1.1 Disclosure and context

Financial reporting

The statutory result for the twelve months to December 2017 was a consolidated net profit after tax of PGK23.0m. This included results from the combined operations of Kina Securities Limited and its subsidiaries.

The results presented in this report have been presented on a statutory basis.

Future performance. Forward looking statements

The information in this document is for general information only. To the extent that certain statements contained in this document may constitute “forward-looking statements” or statements about “future matters”, the information reflects Kina’s intent, belief or expectations at the date of this document. Subject to any continuing obligations under applicable law or any relevant listing rules of the Australian Securities Exchange or POMSoX, Kina disclaims any obligation or undertaking to disseminate any updates or revisions to this information over time. Any forward-looking statements, including projections, guidance on future revenues, earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Kina’s actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

Rounding

All amounts in this report have been rounded to the nearest million Kina (PNG currency) unless otherwise stated.

1.2 Profit results for the year ended to December 2017

1.2.1 Statutory results

Figures in PGK'000s	Full Year Ended			Half Year Ended		
	Dec-17	Dec-16	Change (%)	Dec-17	Jun-17	Change (%)
Continuing operations						
Interest income	99,348	77,268	29%	51,561	47,787	8%
Interest expense	(26,839)	(12,140)	121%	(12,632)	(14,207)	(11%)
Net interest income	72,509	65,128	11%	38,929	33,580	16%
Fee and commission income	30,485	28,833	6%	17,188	13,297	29%
Fee and commission expense	(52)	(69)	(25%)	(21)	(31)	(32%)
Net fee and commission income	30,433	28,764	6%	17,167	13,266	29%
Foreign exchange income	7,224	20,579	(65%)	5,344	1,880	184%
Dividend income	357	111	222%	265	92	188%
Net (losses)/gain from financial assets through profit and loss	(5)	587	(101%)	(41)	36	(214%)
Other operating income	993	1,805	(45%)	791	202	292%
Operating income before impairment losses and operating expenses	111,511	116,974	(5%)	62,455	49,056	27%
Impairment losses	(3,317)	(2,787)	19%	(1,989)	(1,328)	50%
Lease termination payment expense	(7,000)	-	-	-	(7,000)	(100%)
Other operating expenses	(67,555)	(55,617)	21%	(34,313)	(33,242)	3%
Profit before tax	33,639	58,570	(43%)	26,153	7,486	249%
Income tax expense	(10,628)	(17,595)	(40%)	(6,169)	(4,459)	38%
Net Profit for the half year attributable to the equity holder of the Company	23,011	40,975	(44%)	19,984	3,027	560%
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the half year attributable to the equity holder of the Company	23,011	40,975	(44%)	19,984	3,027	560%

The above information has been extracted from the consolidated financial statements of Kina Securities Limited for the Full Year Ended 31 December 2017 or calculated by reference to the audited 31 December 2016 annual financial statements and the 30 June 2017 half year financial statements.

1.2.2 Dividends

Half Year	Dec-17	Jun-17	Dec-16	Jun-16
Earnings per share (PNG Toea)*	12.2	1.8	12.5	12.5
Earnings per share (A cents)	4.6	0.7	5.4	5.1
Dividends per share (A cents)**	4.0	2.00	3.95	4.09

*Calculation of EPS based on statutory profit as shown in table above. Using underlying profit, EPS will equate to PGK 18.3 toea and AUD 7.0 cents.

** Dividends per share in the table above is based on underlying profit.

1.2.3 Lending

Figures in PGK million	Full Year Ended			Half Year Ended		
	Dec-17	Dec-16	Change (%)	Dec-17	Jun-17	Change (%)
Overdraft	73	61	20%	73	64	14%
Term Loans	484	411	18%	484	478	1%
Investment Property Loan	21	-	-	21	1	1989%
Asset Financing	17	13	33%	17	13	33%
Housing Loan	117	105	12%	117	113	4%
Esiloan	33	27	22%	33	28	18%
Gross	746	617	21%	746	697	7%
Provision	(13)	(12)	11%	(13)	(13)	3%
Net loans	733	605	21%	733	684	7%

Risk concentration within the customer loan portfolio by nature of the customers' business activities are as follows;

	Dec-17		Dec-16	
	PGK million	% of total loans	PGK million	% of total loans
Agriculture, Forestry & Fishing	21	2.8%	16	2.6%
Mining	-	-	-	-
Manufacturing	3	0.4%	15	2.4%
Electrical, Gas & Water	-	-	-	0.1%
Building and Construction	50	6.7%	31	5.0%
Wholesale & Retail	147	19.7%	154	25.1%
Hotel & Restaurants	81	10.8%	4	0.7%
Transport & Storage	6	0.7%	27	4.3%
Post and Telecommunications	-	-	-	-
Financial Intermediation	6	0.8%	-	-
Real Estate/Renting/Business Services	182	24.3%	133	21.6%
Equipment Hire	2	0.2%	-	-
Other Business	42	5.6%	36	5.8%
Personal Banking	208	27.9%	200	32.5%
Total	746	100.0%	617	100.0%

The Loan book grew by 21% in 2017 despite a slowing economy which has been dampened by liquidity constraints and FX shortages. The 2017 National General Elections and lower commodity prices were also relevant factors which impacted aggregate credit growth in 2017.

During the year, the Bank refocused on lending sales to home loans, investment property loans, insurance premium funding and novated leases. Each product line has seen double digit growth. The focus on New to Bank customers was also based on offering of new products and services. The customer preferred products were home loans, Investment property loans and Esiloans which also facilitated cross selling of other products. The new products were supported by market leading customer service with short turn-around times on customer applications.

The intentional focus on new products resulted in lower growth in the business lending segment. However Kina has maintained relationships allowing for strategic deferral of larger opportunities into 2018. The growth of the Loan portfolio is supported by the introduction of a new corporate internet banking solution and the appointment of three new relationship managers.

Despite considerable competition in the market, Kina grew its loan market share¹ from 4.8% in 2016 to 5.8% at the end of 2017. Competition in the market was strong for the home loans and investment property loan products.

1.2.4 Funding

Figures in PGK Million	Full Year Ended			Half Year Ended		
	Dec-17	Dec-16	Change (%)	Dec-17	Jun-17	Change (%)
On Call	412	397	4%	412	377	9%
1 month	109	89	23%	109	96	14%
2 months	97	105	(8%)	97	140	(31%)
3 months	46	72	(36%)	46	71	(35%)
6 months	226	289	(22%)	226	182	24%
12 months	92	2	4518%	92	93	(1%)
24 months	32	4	707%	32	6	438%
Total Deposits for Kina Bank	1,014	958	6%	1,014	965	5%

Figures in PGK Million	Full Year Ended			Half Year Ended		
	Dec-17	Dec-16	Change (%)	Dec-17	Jun-17	Change (%)
Funding by product						
Fixed term	602	562	7%	602	585	3%
Cash Management Accounts	93	-	-	93	60	54%
Current Accounts	298	372	(20%)	298	302	(1%)
Savings Accounts	21	24	(14%)	21	18	18%
Total for Kina Bank	1,014	958	6%	1,014	965	5%

Deposit growth of 6% in H2 2017 was more subdued when compared with 52% growth achieved in H2 2016. This was a consequence of a focused effort to reduce cost of funds and manage term of deposits to match assets and liability. Kina has reduced its dependency on high cost deposits. During H2 2016 growth was achieved through higher interest rates on the back of an aggressive loan growth campaign during that period.

The Loan to Deposit Ratio was 72% as at 31 December 2017.

The Assets and Liability Committee (ALCO) has commenced a number of initiatives to reduce the cost of funds through the introduction of new products while maintaining the bank's strong liquidity profile. A new cash management product with tiered interest to a maximum of 1.5% was introduced in 2017. Maturing term deposits were repriced at lower rates with shorter tenures. The analysis of the deposit book by product in the table above highlights the shift in offerings.

A key supporting factor has been the upgrade of banking systems and technology to enable flexible banking channels and facilities. A significant upgrade to the main core banking system was implemented in October 2017. This will enable Kina to provide customers with a range of flexible banking channels to make banking simpler, easier and in real time. The core banking system upgrade will give Kina an improved, up-to-date platform for transaction flow.

¹ Market data sourced from Bank of Papua New Guinea DMBD Aggregate for all commercial Banks as at 31 December 2017

1.2.5 Net interest margin

	Full Year Ended			Half Year Ended		
	Dec-17	Dec-16	Change (%)	Dec-17	Jun-17	Change (%)
Net interest income (PGK m)	72.5	65.1	11.4	38.9	33.6	15.8
Average interest earning assets (PGK m)	955.4	786.0	21.6	955.4	928.0	3.0
Average yield on interest earning assets (%)	10.4	9.8	6.1	10.4	10.3	1.0
Average interest bearing liabilities (PGK m)	962.6	794.0	21.2	962.6	941.0	2.3
Average cost on interest bearing liabilities (%)	2.8	1.5	86.7	2.8	3.0	(6.7)
Interest spread (%)	7.6	8.3	(8.4)	7.6	7.3	4.1
Net interest margin (%)	7.6	8.3	(8.4)	7.6	7.3	4.1

Net interest margin (“NIM”) as at December 2017 was marginally lower by 8% from December 2016. In 1H 2017 it was 140 bps lower, reflecting the higher cost of funds, coupled with the impact of competitive pricing on term loans. This position has now been rectified through a focused effort on rebalancing the deposit book.

Average interest earning assets grew by 22% to PGK955m. The average interest bearing liabilities grew relatively slower by 21%. However the average cost of interest bearing liabilities rose significantly from 1.5% to an average of 3%. This has now been brought down to 2.8%

Investments made in high yield government bonds contributed towards improving the yield curve. The yield on government bonds averaged between 7.0% and 11% in 2017. While these yields were attractive, Kina continued to prioritise funding for loan growth with any excess liquidity invested in government bonds.

In line with the focus on improving NIM, the Kina Indicator Lending Rate (ILR) was also increased by 45 bps in the second quarter of 2017.

1.2.6 Non-interest income

PGK Millions	Full Year Ended			Half Year Ended		
	31-Dec-17	31-Dec-16	Change	31-Dec-17	30-Jun-17	Change
Banking						
Foreign exchange income	7.1	20.6	(66%)	5.4	1.7	218%
Fees and commissions	8.3	7.5	11%	4.5	3.8	18%
Other*	0.3	0.1	200%	0.3	-	-
Total	15.7	28.2	(44%)	10.2	5.5	85%
Wealth Management						
Foreign exchange income	0.2	(0.1)	(300%)	0.1	0.1	-
Fund Administration	11.8	8.7	36%	7.8	4.0	95%
Investment Management	9.3	8.6	8%	4.7	4.6	2%
Shares	0.4	0.4	-	0.1	0.3	(67%)
Other**	1.0	1.6	(38%)	0.3	0.7	(57%)
Total	22.7	19.2	18%	13.0	9.7	34%

Non-interest income (continued) PGK Millions	Full Year Ended			Half Year Ended		
	31-Dec-17	31-Dec-16	Change	31-Dec-17	30-Jun-17	Change
Other						
Foreign exchange income	-	0.4	(100%)	(0.1)	0.1	(200%)
Fees and commissions****	-	2.8	(100%)	-	-	-
Other***	0.6	1.3	(54%)	0.4	0.2	100%
Total	0.6	4.5	(87%)	0.3	0.3	-
Total	39.0	51.9	(25%)	23.5	15.5	52%

* Includes other income on insurance

** Includes recharges on fund administration services, investment management services and unrealised foreign exchange gains and losses

*** Includes unrealised foreign exchange gains/losses

**** The PGK2.8m in the fees and commission under others sector in 2016 pertains to the commission incurred from the acquisition of the former May Bank. PGK2.4m was realised as at June 2016 and PGK0.4m in July 2016.

Overall non-interest income reduced by 25% to PGK39m from PGK52m during 2017.

As advised, foreign exchange income was significantly impacted by the delayed appointment of a new USD Correspondent bank, which has now been addressed. Foreign exchange income dropped by 66% compared to 2016. The agreement with CIMB to act as Kina's USD Correspondent Bank is now fully implemented and functional. The ability to provide FX services has allowed customers requiring this service to return to Kina Bank.

During the year, Kina has significantly enhanced its Risk and Compliance capability to support FX transaction monitoring. Kina has established a comprehensive process that monitors Anti-Money Laundering (AML) and Counter Financing of Terrorism (CFT) activities.

Fees and commissions income grew by 11% in 2017 compared with 2016. Performance in fees income was largely attributed to growth in lending and retail customer portfolios.

Wealth management income totalled PGK22.7m. This includes income of PGK11.8m from Funds Administration, PGK9.3m from Funds Management and PGK1.6m from share trading and other operations. Funds Under Management increased 10% over the year to PGK6.9b, due to growth in member contributions, as well as positive investment returns. Funds Under Administration increased by 60% to PGK11.0b and member numbers increased to more than 700,000 members. Efficiency was improved by streamlining administration work practices and increasing use of the technology platform supporting our funds administration business. Contracts to provide funds administration services to our two major clients were renewed for extended periods.

1.2.7 Operating expenses

Figures in PGK Million	Full Year Ended			Half Year Ended		
	31-Dec-17	31-Dec-16	Change	31-Dec-17	30-Jun-17	Change
Administration	17.4	14.8	17%	8.6	8.8	(3%)
Staff	35.4	28.4	25%	19.3	16.1	20%
Occupancy	9.8	8.2	20%	5.0	4.8	4%
Other Operating expenses	3.1	1.7	82%	1.7	1.3	30%
Board of Directors cost	1.4	1.7	(18%)	(0.1)	1.5	(107%)
Acquisition/Integration	-	0.2	(100%)	(0.3)	0.3	(200%)
Investor Relationship	0.5	0.6	(17%)	0.1	0.4	(75%)
	67.6	55.6	21%	34.3	33.2	3%

Total operating costs for 2017, excluding the one-off lease termination cost was PGK67.6m, which is 21% higher than 2016. The underlying costs increase was mainly attributed to staff and administration costs.

There were increases in staff costs associated with the new Nasfund FUA contract, as well as resourcing and bridging capability in the banking operations. During the year, the new Vision City bank branch commenced operations. This required increased front office capability.

Kina also significantly enhanced and improved its technology capability. This required appointment of a larger technology support team and also a dedicated project office headed by a Lead project manager.

Additional IT and software costs in relation to licences and maintenance of software critical to business continuity contributed to increases in administration costs. A disaster recovery system and process has been set up for the Banking and Wealth operations. A wide area network (WAN) optimisation project has commenced. The capital investment in this area will continue into 2018. Kina is well advanced in implementing a leading edge Cyber Security environment.

The implementation of the SWIFT Cyber Security Framework has been completed. In 2017, a significant investment was also made into a new hyper converged hardware environment. The system provides ease of management and scalability through storage networking and virtualisation.

Kina has also managed the use of external consultants to allow greater assumption of role responsibilities by staff and management. This is in line with a robust skills development program. As part of the Learning and Development Capability enhancement, Kina has developed a learning management system that will promote internal capabilities.

The above initiatives and the impact of lower FX revenues in 2017 have impacted the cost to income ratio for 2017 which is at 68% (including lease termination payment) against 48% in 2016. This is expected to decrease in 2018 as FX revenues and interest income revenues based on business growth will be earned in future periods.

1.2.8 Asset quality and loan impairment

Figures in PGK Million	Full Year				Half Year			
	Dec17	% of GLA	Dec16	% of GLA	Dec17	% of GLA	Jun17	% of GLA
Loan impairment expense	3.3	0.44%	2.8	0.45%	2.0	0.27%	1.3	0.19%
Non-performing loans and loans in arrears	24.7	3.32%	35.2	5.70%	24.7	3.32%	29.2	4.18%
- 60 day arrears	13.1	1.76%	30.2	4.89%	13.1	1.76%	18.7	2.68%
- 90 day arrears	10.1	1.35%	3.0	0.49%	10.1	1.35%	7.7	1.10%
- Gross non-performing loans (> 180 days)	1.5	0.21%	2.0	0.32%	1.5	0.21%	2.8	0.40%
Total provision	13.3	1.79%	12.0	1.94%	13.3	1.79%	12.6	1.81%

Overall asset quality remains sound, with a loan impairment expense of PGK3.3m for 2017 equivalent to 0.4% of gross loans and advances. The low level of impairments reflects the disciplined lending standards and sound quality of loans in the Kina book.

The 90 days arrears increased from PGK3.0m in December 2016 to PGK10.1m as at December 2017. This represents an increase of PGK7.1m, largely from three customers. All balances have been rectified subsequent to year end. The current system is based on an arrears methodology. Kina has ensured that there is no deterioration in the credit risk and risk grading of any of these loans.

Kina continues to be prudent in its levels of provisions. Total provisions are equivalent to 1.8% of gross loans and advances, which compares with the minimum statutory requirement (Bank of BPNG compliance requirements) of 1.47%, including specific provisioning.

Kina adopts the industry standard methodology of measuring loan loss provision cover against the balance of greater than 90 days impaired balances. Kina Bank' Coverage ratio stands at 105% as at 31 December 2017.

Kina has adopted the new accounting standard IFRS 9 “Financial instruments” effective from 1 January 2018. Whilst the Kina Group will not be required to report under the new standard until its 30 June 2018 interim report, Kina has completed the modelling and estimated the impact of the change in accounting standards. Based on this methodology the transition impact will record an adjustment upwards of the required provision for Kina Bank from K12.2m to between PGK15-16m. The Bank estimates that the IFRS9 transition amount inclusive of the model risk will reduce shareholder equity by approximately between PGK3.0–4.0m before tax.

1.2.9 Capital adequacy

BPNG prudential standard 1/2003 Capital Adequacy prescribes ranges of overall capital adequacy ratios and leverage capital ratios to measure whether a bank is adequately capitalised. Kina exceeds the prevailing BPNG prudential capital adequacy requirements and qualifies as ‘well capitalised’ as at 31 December 2017, providing a strong base for further growth in lending.

Each “Authorised Institution” within the Kina Group is required to comply with prudential standards issued under the PNG BFI Act by BPNG, the official authority for the prudential supervision of banks and relevant financial institutions in PNG. Kina Bank Limited is the Authorised Institution and reporting entity under the Kina Group and the reported ratios are in respect of Kina Bank.

Regulatory Capital Ratios	31-Dec-17	30-Jun-17	31-Dec-16
PGK'million			
RWA	816	766	679
Capital: T1	198	198	166
Capital: T2	32	17	40
Capital: T1 + T2	230	215	206
Capital adequacy Ratio: T1	24%	26%	24%
Capital adequacy: T2	4%	2%	6%
Capital adequacy: T1 + T2	28%	28%	30%
Leverage Ratio	16%	16%*	14%*

*Leverage ratio has been restated for period ended 30 June 2017 and 31 December 2016

Capital ratios at the end of December 2017 remained strong, with combined T1 and T2 capital equal to 28% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. As anticipated, capital adequacy ratios have reduced in order to fund growth over the year. The Bank also has a strong leverage ratio of 16%.

The minimum capital requirements applied are 8% for Tier 1 capital, 12% for Tier 1 plus Tier 2 capital and a 6% leverage ratio.

During the year, the Kina Board has approved a Capital Management Framework and a Capital Management Plan both for the Bank and for the Wealth business. The Framework has been reviewed and endorsed by the Bank of PNG. The objective of Kina’s Capital Management Framework is to maintain a strong, profitable financial risk profile and capacity to meet financial commitments. Capital Adequacy and liquidity ratios are monitored against internal targets and triggers that are set over and above minimum capital requirements set by the Board. These are reviewed on a monthly basis by the Asset and Liability Committee.

Given strong ongoing growth opportunities and further investment into new technology initiatives in 2018, it is the Board’s intention to maintain its conservative capital position.

2. Consolidated Financial Statements

2.1 Statement of Comprehensive Income – consolidated

Figures in PGK'000s	Full Year Ended			Half Year Ended		
	Dec-17	Dec-16	Change (%)	Dec-17	Jun-17	Change (%)
Continuing operations						
Interest income	99,348	77,268	29%	51,561	47,787	8%
Interest expense	(26,839)	(12,140)	121%	(12,632)	(14,207)	(11%)
Net interest income	72,509	65,128	11%	38,929	33,580	16%
Fee and commission income	30,485	28,833	6%	17,188	13,297	29%
Fee and commission expense	(52)	(69)	(25%)	(21)	(31)	(32%)
Net fee and commission income	30,433	28,764	6%	17,167	13,266	29%
Foreign exchange income	7,224	20,579	(65%)	5,344	1,880	184%
Dividend income	357	111	222%	265	92	188%
Net (losses)/gain from financial assets through profit and loss	(5)	587	(101%)	(41)	36	(214%)
Other operating income	993	1,805	(45%)	791	202	292%
Operating income before impairment losses and operating expenses	111,511	116,974	(5%)	62,455	49,056	27%
Impairment losses	(3,317)	(2,787)	19%	(1,989)	(1,328)	50%
Lease termination payment expense	(7,000)	-	-	-	(7,000)	(100%)
Other operating expenses	(67,555)	(55,617)	21%	(34,313)	(33,242)	3%
Profit before tax	33,639	58,570	(43%)	26,153	7,486	249%
Income tax expense	(10,628)	(17,595)	(40%)	(6,169)	(4,459)	38%
Net Profit for the half year attributable to the equity holder of the Company	23,011	40,975	(44%)	19,984	3,027	560%
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the half year attributable to the equity holder of the Company	23,011	40,975	(44%)	19,984	3,027	560%

The above information has been extracted from the full year consolidated financial statements of Kina Securities Limited for the year ended 31 December 2017. The above information is in the process of being audited at the time of this report.

2.2 Statement of financial position – consolidated

	31-Dec-17	31-Dec-16
	PGK'000	PGK'000
Assets		
Cash and due from banks	47,514	148,020
Central bank bills	190,869	208,095
Regulatory deposits	106,823	96,013
Financial assets at fair value through profit and loss	4,637	4,642
Loans and advances to customers	732,707	605,112
Investments in government inscribed stocks	79,878	64,328
Current income tax assets	-	2,452
Deferred tax assets	4,526	6,291
Property, plant and equipment	27,470	24,019
Goodwill	92,786	92,786
Intangible assets	13,546	5,959
Other assets	14,391	8,030
Total Assets	1,315,147	1,265,747
Liabilities		
Due to other banks	(638)	(143)
Due to customers	(1,019,325)	(958,609)
Current income tax liabilities	(635)	(1,457)
Deferred income tax liabilities	-	(310)
Employee provisions	(4,353)	(3,277)
Other liabilities	(33,495)	(44,081)
Total Liabilities	(1,058,446)	(1,007,877)
Net Assets	256,701	257,870
Share capital and reserves		
Issued and fully paid ordinary shares	(142,212)	(142,005)
Capital reserve	(49)	(49)
Share-based payment reserve	(1,558)	(1,356)
Retained earnings	(112,882)	(114,460)
Total capital and reserves	(256,701)	(257,870)

The above information has been extracted from the full year consolidated financial statements of Kina Securities Limited for the year ended 31 December 2017. The above information is in the process of being audited at the time of this report.

2.3 Statement of changes in equity – consolidated

	Share Capital	Capital Reserve	Share based payment Reserve	Retained Earnings	Total
	PGK'000	PGK'000	PGK'000	PGK'000	PGK'000
Balance as at 31 December 2015	141,797	49	461	102,159	244,466
Profit for the period	-	-	-	20,499	20,499
Other comprehensive income	-	-	-	-	-
Employee share scheme	-	-	430	-	430
Dividend paid	-	-	-	(12,657)	(12,657)
Balance as at 30 June 2016	141,797	49	891	110,001	252,738
Profit for the period	-	-	-	20,476	20,476
Other comprehensive income	-	-	-	-	-
Employee share scheme	208	-	465	-	673
Dividend paid	-	-	-	(16,017)	(16,017)
Balance as at 31 December 2016	142,005	49	1,356	114,460	257,870
Profit for the period	-	-	-	3,027	3,027
Other comprehensive income	-	-	-	-	-
<i>Contributions by and distributions to owners</i>	-	-	-	-	-
Employee share scheme	-	-	-	-	-
Dividend paid	-	-	-	(16,389)	(16,389)
Balance as at 30 June 2017	142,005	49	1,356	101,098	244,508
Profit for the period	-	-	-	19,984	19,984
Other comprehensive income	-	-	-	-	-
<i>Contributions by and distributions to owners</i>	-	-	-	-	-
Employee share scheme	207	-	202	-	409
Dividend paid	-	-	-	(8,200)	(8,200)
Balance as at 31 December 2017	142,212	49	1,558	112,882	256,701

The above information has been extracted from the full year consolidated financial statements of Kina Securities Limited for the full year ended 31 December 2017. The above information is in the process of being audited at the time of this report.

2.4 Statement of Cashflows – consolidated

	31-Dec-17	31-Dec-16
	PGK'000	PGK'000
Cash flows from operating activities		
Interest received	98,799	77,317
Interest paid	(26,822)	(8,864)
Foreign exchange gain	7,224	21,072
Dividend received	357	111
Fee, commission and other income received	27,842	25,570
Fee and commission expense paid	(52)	(69)
Net trading and other operating income received	7,518	2,017
Recoveries on loans previously written-off	2,016	1,036
Support fees charged from subsidiaries	-	-
Cash payments to employees and suppliers	(70,019)	(56,793)
Lease termination payment	(7,000)	-
Income tax paid	(8,525)	(20,727)
Cash flows from operating profits before changes in operating assets	31,338	40,670
Changes in operating assets and liabilities:		
- net increase in regulatory deposits	(10,810)	(50,523)
- net increase in loans and advances to customers	(126,972)	(229,594)
- net increase in other assets	(6,573)	1,216
- net increase/ (decrease) in due to customers	57,098	275,796
- net decrease in due to other banks	(26,592)	(1,586)
- net increase/ (decrease) in other liabilities	(10,604)	(3,364)
Net cash flows from operating activities	(93,115)	32,615
Cash flows from investing activities		
Purchase of property, equipment and software	(15,702)	(6,775)
Proceeds from sale of property and equipment	-	93
Net movement in investment securities	57,197	(54,275)
Net cash flows from investing activities	41,495	(60,957)
Cash flows from financing activities		
Dividend payment	(24,589)	(28,675)
Net cash flow from financing activities	(24,589)	(28,675)
Net increase/ (decrease) in cash and cash equivalents	(76,209)	(57,017)
Effect of changes in the foreign exchange rates on cash and cash equivalents	703	(214)
Cash and cash equivalents at beginning of period	178,020	235,251
Cash and cash equivalents at the end of the period	102,514	178,020

The above information has been extracted from the full year consolidated financial statements of Kina Securities Limited for the full year ended 31 December 2017. The above information is in the process of being audited at the time of this report.

The net decrease in cash and cash equivalents reflects the funding of growth of the loan book and the adherence to the dividend distribution policy. The Board and management regularly review the cash-flow statement to ensure adequate funding of both loan growth and capital investment into new and contemporary technologies.

2.5 Basis of preparation

The accounting policies, estimation methods and measurement basis used in the preparation of the consolidated financial statements for the year ended 31 December 2017 are consistent with those used in preparing the 31 December 2016 financial statements of the Group.

2.6 Non-cash financing and investing activities

There are no financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flow.

2.7 Reconciliation of cash and cash equivalents

	31 Dec 2017 PGK'000	31 Dec 2016 PGK'000
Cash and due from other banks	47,514	148,020
Central bank bills (maturity less than 3 months)	55,000	30,000
Total cash at the end of the period	102,514	178,020

2.8 Ratios

	31-Dec-17	31-Dec-16
Profit before tax / Operating Income		
Consolidated profit from ordinary activities before tax as a percentage of revenue	30.17%	50.07%
Profit after tax / equity interests		
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	8.96%	15.89%

2.9 Earnings Per Share

Details of basic and diluted EPS reported separately in accordance with *IAS33 Earnings Per Share* are as follows.

	31-Dec-17	30-Jun-17	31-Dec-16	30-Jun-16
Calculation of the following in accordance with IAS33				
(a) Basic EPS (toea per share)	14.0*	1.8	25.0	12.5
(b) Diluted EPS (toea per share)	14.0	1.8	25.0	12.5
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	163,943,252**	163,893,253	163,893,253	163,793,253

*EPS in table above based on statutory profit. Using underlying profit, EPS will equate to PGK 18.3 toea.

** Number of shares in this table reflects the weighted average number of ordinary shares. Total number of shares as at 31st December 2017 was 163,993,253 as shown in table in section 2.13.

The movement in issued capital is the issue in July 2017 of 100,000 shares that have vested under the performance rights agreements.

2.10 NTA backing

	31-Dec-17	31-Dec-16
	PGK	PGK
Net tangible asset backing per ordinary share	0.92	0.97

2.11 Dividends

Directors have declared a final dividend of AUD 4.0 cents/PGK10.0 toea per share taking the full year dividend to AUD6.0 cents/PGK15.00 toea per share paid for the full year to December 2017.

2.12 Details of aggregate share of profits (losses) of associated entity

The company has no significant investment in associates. There are also no material interests in entities that are not controlled entities.

2.13 Issued Shares

The total number of shares at 31 December 2017 was 163,993,253 (31 December 2016: 163,893,253)

	Total Number Ordinary shares	Number Quoted Ordinary shares
Changes during the year ended 31 December 2017		
Opening Balance of number of shares	163,893,253	163,893,253
Increase through issue of shares 2017	100,000	100,000
Total	163,993,253	163,993,253

2.14 Segment Reporting

	Banking & Finance PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
31 December 2017				
Total external income	88,495	23,119	193	111,807
Total external expenses	(31,728)	(11,334)	(35,106)	(78,168)
Profit before inter-segment revenue and expenses	56,768	11,784	(34,913)	33,639
Inter-segment income	3,208	643	29,369	33,221
Inter-segment expenses	(28,442)	(4,032)	(747)	(33,221)
Profit before tax	31,533	8,396	(6,290)	33,639
Income tax expense	(9,324)	(1,899)	596	(10,628)
Profit after tax	22,209	6,497	(5,695)	23,011
Segment assets	1,162,780	16,676	135,691	1,315,147
Segment liabilities	(1,045,264)	(4,642)	(8,539)	(1,058,446)
Net assets	117,517	12,034	127,151	256,702
Capital expenditure	7,750	-	7,952	15,702
Depreciation	(2,505)	-	(1,401)	(3,906)

	Banking & Finance PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
31 December 2016				
Total external income	93,183	21,013	3,107	117,303
Total external expenses	(30,098)	(7,594)	(21,041)	(58,733)
Profit before inter-segment revenue and expenses	63,085	13,420	(17,934)	58,570
Inter-segment income	1,830	440	21,938	24,208
Inter-segment expenses	(19,952)	(3,186)	(1,070)	(24,208)
Profit before tax	44,963	10,673	2,934	58,570
Income tax expense	(13,512)	(2,594)	(1,488)	(17,594)
Profit after tax	31,451	8,079	1,446	40,976
Segment assets	1,145,979	16,162	103,604	1,265,746
Segment liabilities	(1,003,753)	(4,097)	(27)	(1,007,877)
Net assets	142,226	12,065	103,578	257,870
Capital expenditure	5,155	-	1,619	6,774
Depreciation	(2,086)	-	(1,714)	(3,800)

2.15 Comparison of half year profits

	31-Dec-17 PGK'000	31-Dec-16 PGK'000
Consolidated profit from continuing operations after tax attributable to members reported for the first half year	3,027	20,499
Consolidated profit from continuing operations after tax attributable to members reported for the second half year	19,984	20,476

2.16 Contingent liabilities

The company is a party to a number of litigations. The consolidated financial statements include provision for any losses where there is reasonable expectation that the litigations will result in a loss to the company. Other ongoing litigations are not expected to result in a material loss to the Group.

The Group guarantees the performance of customers by issuing stand-by letters of credit and guarantees to third parties. At 31 December 2017 these totalled PGK 36.8m (31 December 2016: PGK 39.9m).

3. Compliance Statement

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX and to POMSoX.

Identify other standards used: **International Financial Reporting Standards**

2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies

3. This report gives a true and fair view of the matters disclosed (see note 2)

4. This report is based on accounts to which one of the following applies.

The accounts have been audited

The accounts have been subject to review

The accounts are in the process of being audited or reviewed

The accounts have not yet been audited or reviewed

5. The entity has a formally constituted audit committee.