



CONSOLIDATED FINANCIAL STATEMENTS 2017

December 2017

Directors' report

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 2017.

Principal activities

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

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.

Operating results and review of operations

The Group's operations for the year are reviewed in the front section of the Annual Report.

The net profit attributable to equity holders for the year for the Group was K23.0million compared with K41.0 million in 2016.

The profit includes the following items:

- Net interest income of K72.5 million, compared with K65.1 million in the prior year to December 2016.
- Net fee and commission income of K30.4 million compared with K28.8 million in the prior year.
- Operating income before impairment losses and other operating income of K111.5, down from K117.0 million in the prior year, primarily due to lower foreign exchange income
- Impairment losses on loans and advances to K3.3 million, compared with K2.8 million in the prior year.
- Other operating expenses of K67.6 million, compared with K55.6 million in the prior period. Current year operating expense excludes the one-off lease termination payment of K7 million.

Dividends

The Company paid dividend of 3.95 cents (10.0 toea) per share (K16.4m) in April 2017 in relation to the profit for the half year ended 31 December 2016. In September 2017, the Company also paid dividend of 2.0 cents (5.0 toea) per share (K8.2m) in relation to the profit for the half year ended 30 June 2017.

After balance sheet date events

Subsequent to balance date, the directors declared a final dividend of 4.00 cents per share (K16.4m). There are no other events after the balance sheet date that require adjustment to or disclosure in the financial statements.

Donations

During the year the Group made donations totalling K34,241 (2016: K9,197)

Auditor's fees

Fees paid to the auditor during the year for professional services are shown in note 36 to the accounts. The external auditor PricewaterhouseCoopers is also engaged in providing other services to the Group as required and as permitted by Prudential Standards. The provision of other services included taxation services and HR benefit advice.

Remuneration report

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 Group stated in bands of K10,000 was as follows:

In PGK	2017	2016
1,270,000 - 1,280,000	1	-
1,260,000 - 1,270,000	1	-
1,240,000 - 1,250,000	-	1
1,200,000 - 1,210,000	1	1
1,180,000 - 1,190,000	1	-
1,160,000 - 1,170,000	-	1
1,150,000 - 1,160,000	-	1
1,050,000 - 1,060,000	1	-
1,020,000 - 1,030,000	-	1
1,000,000 - 1,010,000	-	1
960,000 - 970,000	1	-
950,000 - 960,000	-	1
860,000 - 870,000	-	1
820,000 - 830,000	-	1
770,000 - 780,000	1	-
750,000 - 760,000	1	1
740,000 - 750,000	1	-
720,000 - 730,000	1	-
650,000 - 660,000	1	-
630,000 - 640,000	-	1
620,000 - 630,000	-	1
600,000 - 610,000	1	-
570,000 - 580,000	-	1
560,000 - 570,000	-	1
520,000 - 530,000	1	-
500,000 - 510,000	3	1
460,000 - 470,000	-	1
380,000 - 390,000	1	-
360,000 - 370,000	1	-
340,000 - 350,000	-	1
330,000 - 340,000	2	-
320,000 - 330,000	1	-
310,000 - 320,000	-	2
270,000 - 280,000	1	-
260,000 - 270,000	1	-
250,000 - 260,000	1	-
240,000 - 250,000	-	2
220,000 - 230,000	2	-
210,000 - 220,000	-	1
190,000 - 200,000	-	1
160,000 - 170,000	4	1
150,000 - 160,000	2	1
140,000 - 150,000	2	-
130,000 - 140,000	3	5
120,000 - 130,000	5	2
110,000 - 120,000	1	5
100,000 - 110,000	3	2

Remuneration report

Directors remuneration

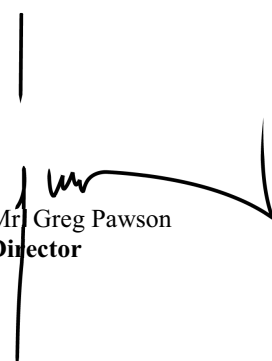
Directors fees paid during the year was as follows:

	2017	2016*
	K'000	K'000
Directors		
W. Golding (resigned 16 May 2017)	81	205
R. Namaliu (resigned 16 May 2017)	125	319
D. Foster	392	354
J. Yap	261	319
I. Taureka (appointed Chairman 16 May 2017)	230	120
K. Smith- Pomeroy	349	74
P. Ng	-	110
H. Wong	-	87
D. Manoa	-	74
	1,438	1,662
Managing Director		
S. Yates (resigned 2 January 2018)		
-Salaries	1,012	976
-Other benefits including leave entitlements	1,246	768
	2,258	1,744
	3,696	3,406

*Restated to report gross remuneration.

Signed at Port Moresby on behalf of the board on 26 March 2018.


Mr. Isikeli Taureka
Director


Mr. Greg Pawson
Director

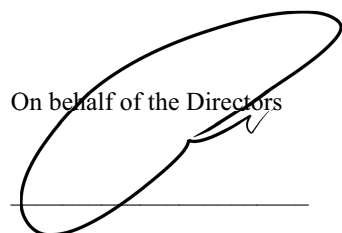
Directors' declaration

The directors declare that:

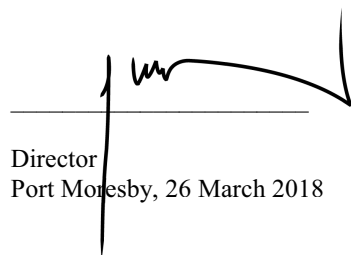
- in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable
- in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with International Financial Reporting Standards (IFRS) and giving a true and fair view of the financial position and performance of the Group as at and for the year ended 31 December 2017

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Director
Port Moresby, 26 March 2018



Director
Port Moresby, 26 March 2018



Independent auditor's report

To the shareholders of Kina Securities Limited

Report on the audit of the financial statements of the Company and the Group

Our opinion

We have audited the financial statements of Kina Securities Limited (the Company), which comprise the statements of financial position as at 31 December 2017, and 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 which 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 2017 or from time to time during the financial year.

In our opinion, the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and their financial performance and cash flows for the year then ended.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of tax compliance, tax advice and other advisory services. The provision of these other services has not impaired our independence as auditor of the Company and the Group.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Company and the Group, their accounting processes and controls and the industries in which they operate.

PricewaterhouseCoopers

PwC Haus, Level 6, Harbour City, Konedobu. PO Box 484, PORT MORESBY, PAPUA NEW GUINEA
T: (675) 321 1500 / (675) 305 3100, F: (675) 321 1428, www.pwc.com.pg



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit of the Group we used overall group materiality of K2.0 million which represents 5% of the Group’s profit before tax after adding back the one-off lease termination expense. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole. We chose Group profit before tax because, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark. We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable related thresholds. 	<ul style="list-style-type: none"> We (PwC Papua New Guinea) conducted audit work over all the subsidiaries which comprise the Group consolidation. All subsidiaries of the Group are incorporated and operating in Papua New Guinea and audited by PwC Papua New Guinea. Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> Loan loss provisioning Goodwill impairment assessment Information Technology General Controls These matters are further described in the <i>Key audit matters</i> section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key matters to be communicated in our report.

Further, commentary on the outcomes of the particular audit procedures is made in that context.

Key audit matter	How our audit addressed the key matter
<p>Loan loss provisioning amounting to K13.3 million - Refer note 17</p> <p>Our audit focused on this area as loans and advances are significant to the financial statements. In addition, the prevailing economic environment in Papua New Guinea, the</p>	<p>The procedures we performed to support our audit conclusions, included:</p> <ul style="list-style-type: none"> Assessing the design and testing the operating effectiveness of the controls over loan origination, approval and processing of transactions during the year and performing



Key audit matter	How our audit addressed the key matter
<p>subjectivity and management judgements involved in determining whether loans within the portfolio are impaired and the amount of impairment loss that should be recognised in the current period made it important to focus on this area.</p> <p>In making an assessment of loans that are impaired and determining the impairment provision required, the Group takes a portfolio approach, except in the case where a specific provision is required based on an assessment of individual exposures. The application of the Group's policy is inherently judgmental.</p> <p>Provision for impairment charges on loans that warrants specific considerations are individually assessed. All other loans are collectively assessed on a portfolio basis. For this assessment, impairment models are used which take into account the type of loan, history of repayment including arrears and consideration of securities.</p>	<p>a combination of confirmation and loan files review procedures in relation to the outstanding loan balances on which the loan loss provision is determined.</p> <ul style="list-style-type: none"> • Examining the provisioning methodology for consistency with the previous years and compliance with International Financial Reporting Standards (IFRS), evaluating the provisioning rates applied in the model, testing the accuracy of data and re-performance of model calculations. • Performing a comparison of the provision balances determined based on the Group's methodology against the minimum provision required for regulatory reporting purposes. • Performing procedures to check the disclosures relating to the loan loss provision in accordance with the applicable IFRS.
<p>Goodwill impairment assessment – Refer note 31</p> <p>The Group carries K92.7m of goodwill and is required to annually test the goodwill for impairment. The Group's assessment process has some complexity and involves judgement and is based on a number of assumptions, including future profitability, future cash flows, and growth relating to the cash generating unit to which the goodwill has been allocated. These considerations are affected by the expected future market and economic conditions in Papua New Guinea and the discount rate applied.</p> <p>The process is subjective and the balance is significant. As such our audit has focused on this area.</p>	<p>The procedures we performed to support our audit conclusions included:</p> <ul style="list-style-type: none"> • Assessing the Group's assumptions used in the goodwill impairment model including future profitability, cash flows and growth by understanding the basis and reasonability of those assumptions and comparing to market information where applicable. • Performing an analysis of the sensitivity of the outcome of the impairment model for those assumptions that have the most significant effect on the determination of the recoverable amount of goodwill and the related cash generating unit and performing procedures in relation to the adequacy of the Group's disclosures about such assumptions. • Comparing the discount rate used in the impairment model with our expectations. • Re-performing model calculations. • Comparing the assumptions and basis used in the model for consistency with previous years and the requirements under IFRS. • Together with our valuation specialist we reviewed the methodology adopted in the impairment model.



Key audit matter	How our audit addressed the key matter
<p data-bbox="204 338 804 371">Information Technology General Controls</p> <p data-bbox="204 398 788 730">We focused on this area because the Group’s banking operations are heavily dependent on IT systems for the processing of significant volumes of transactions and automated calculations for financial accounting and reporting purposes. These systems are also critical to capturing various data that are used to produce reports which management use to make decisions, monitor and control the business and for financial reporting purposes. This information is also used in our audit.</p> <p data-bbox="204 763 796 972">The Group uses three different IT systems, including a main general ledger and two subsidiary systems that are critical and relevant to its financial reporting. The configurations including the interfaces between these systems require frequent monitoring and reconciliation to ensure the consistency of the information.</p> <p data-bbox="204 1005 751 1182">Our audit approach relies on reports that are generated from these critical IT systems. Accordingly, the operating effectiveness of automated controls and IT dependent manual controls are important to enable us to place reliance on these controls.</p> <p data-bbox="204 1216 783 1485">Our audit focused on access rights, because they aim to ensure that changes to applications are authorised and made appropriately. We also assess internal controls to ensure that staff have appropriate access to IT systems and the monitoring of that access. In addition, key controls in mitigating the potential for fraud and error as a result of a change to an application or underlying data are considered critical.</p>	<p data-bbox="826 338 1362 398">The procedures we performed to support our audit conclusions, included:</p> <ul data-bbox="826 432 1422 1193" style="list-style-type: none"> <li data-bbox="826 432 1422 584">• Assessing and testing the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting and upon which we relied for the purpose of our audit. <li data-bbox="826 618 1422 887">• Examining the framework of governance over the Group’s IT organisation, the controls over program changes and development, access to programs and data and IT operations, including compensating controls where required. We also carried out procedures over certain aspects of security of the Group’s IT systems including access management and segregation of duties. <li data-bbox="826 920 1422 1072">• Assessing the controls over system development, to ensure new and upgraded systems are appropriately tested before implementation and that data is converted and transferred completely and accurately. <li data-bbox="826 1106 1422 1193">• Performing testing of the reconciliations of the balances between the different IT systems.

Information other than the financial statements and auditor’s report

The directors are responsible for the other information. The other information comprises the directors report (but does not include the financial statements and the auditors’ report thereon), which we obtained prior to the date of this auditor’s report, and the annual report, which is expected to be made available after that date. Our opinion on the financial statements does not cover the other information and we do not, and will not, express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

The directors are responsible, on behalf of the company for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 2017:

- We have obtained all the information and explanations that we have required;
- In our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Who we report to

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 that reads 'S.C. Beach'.

S.C. Beach
Partner
Registered under the Accountants Act 1996
Port Moresby
26 March 2018

KINA SECURITIES LIMITED

Statements of Comprehensive Income For the year ended 31 December 2017

		Consolidation		Parent	
		2017	2016	2017	2016
		K '000	K '000	K '000	K '000
Interest income	5	99,348	77,268	52	88
Interest expense	5	(26,839)	(12,140)	(3,851)	(2,270)
Net interest income/(expense)		72,509	65,128	(3,799)	(2,182)
Fee and commission income	6	30,485	28,833	409	3,272
Fee and commission expense	6	(52)	(69)	(44)	(59)
Net fee and commission income		30,433	28,764	365	3,213
Foreign exchange income		7,224	20,579	(46)	-
Dividend income	7	357	111	11	17
Net gains /(losses) from financial assets through profit and loss		(5)	587	14	(3)
Other operating income	8	993	1,805	33,555	24,552
Operating income before impairment losses and other operating expenses		111,511	116,974	30,100	25,597
Impairment losses	9	(3,317)	(2,787)	44	(246)
Lease termination payment expense		(7,000)	-	(7,000)	-
Other operating expenses	10	(67,555)	(55,616)	(29,158)	(20,712)
Profit before tax		33,639	58,571	(6,014)	4,639
Income tax expense	11	(10,628)	(17,595)	163	(1,386)
Net profit for the year attributable to the equity holders of the Company		23,011	40,976	(5,851)	3,253
Other comprehensive income		-	-	-	-
Total comprehensive income for the year attributable to the equity holders of the Company		23,011	40,976	(5,851)	3,253

		2017	2016
Earnings per share - basic (toea)	27 b	14.03	25.00
Earnings per share – diluted (toea)	27 b	13.90	25.00

The notes on pages 16 to 51 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED

Statements of Changes in Equity For the year ended 31 December 2017

Consolidated	Attributable to the equity holders of the Group			
	Share Capital	Share Based Payment Reserve	Retained Earnings	Total
	K '000	K '000	K '000	K '000
Balance as at 31 December 2015*	141,797	460	102,208	244,465
Profit for the year	-	-	40,976	40,976
Contribution by and distribution to owners				
Other comprehensive income	-	-	-	-
Employee share scheme - vested rights	208	(208)	-	-
Employee share scheme – value of employee services	-	1,104	-	1,104
Dividend paid	-	-	(28,675)	(28,675)
Balance as at 31 December 2016	142,005	1,356	114,509	257,870
Profit for the year	-	-	23,011	23,011
Contribution by and distribution to owners				
Other comprehensive income	-	-	-	-
Employee share scheme - vested rights	208	(208)	-	-
Employee share scheme – value of employee services	-	410	-	410
Dividend paid	-	-	(24,589)	(24,589)
Balance as at 31 December 2017	142,213	1,558	112,931	256,702

Parent	Attributable to the equity holders of the Parent			
	Share Capital	Share based payment Reserve	Retained Earnings	Total
	K '000	K '000	K '000	K '000
Balance as at 31 December 2015*	141,797	460	132,076	274,333
Profit for the year	-	-	3,253	3,253
Contribution by and distribution to owners				
Other comprehensive income	-	-	-	-
Employee share scheme - vested rights	208	(208)	-	-
Employee share scheme – value of employee services	-	1,104	-	1,104
Dividend paid	-	-	(28,675)	(28,675)
Balance as at 31 December 2016	142,005	1,356	106,654	250,015
Profit for the year	-	-	(5,851)	(5,851)
Contribution by and distribution to owners				
Other comprehensive income	-	-	-	-
Employee share scheme - vested rights	208	(208)	-	-
Employee share scheme – value of employee services	-	410	-	410
Dividend paid	-	-	(24,589)	(24,589)
Balance as at 31 December 2017	142,213	1,558	76,214	219,985

*capital reserve of K49,000 is reclassified as part of the retained earnings.

The notes on pages 16 to 51 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED

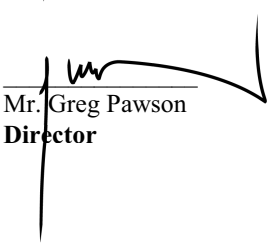
Statements of Financial Position As at 31 December 2017

		Consolidation		Parent	
		2017	2016	2017	2016
		K '000	K '000	K '000	K '000
Assets					
Cash and due from banks	13	47,514	148,020	12,828	15,541
Central bank bills	14	190,869	208,095	-	-
Regulatory deposits	15	106,823	96,013	-	-
Financial assets at fair value through profit or loss	16	4,637	4,642	157	142
Loans and advances to customers	17	732,707	605,112	-	-
Investments in government inscribed stocks	18	79,878	64,328	-	-
Due from subsidiaries	29	-	-	351,123	351,123
Current income tax assets	24	-	2,452	-	-
Deferred tax assets	12	4,526	6,291	520	-
Investments in subsidiaries	19	-	-	248	248
Property, plant and equipment	20	27,830	24,019	5,667	4,737
Goodwill	31	92,786	92,786	-	-
Intangible assets	21	13,187	5,959	5,635	445
Other assets	22	14,391	8,030	9,426	1,109
		1,315,148	1,265,747	385,604	373,345
Liabilities					
Due to other banks		638	143	-	-
Due to customers	23	1,019,325	968,940	-	-
Current income tax liabilities	24	635	1,457	355	169
Deferred income tax liabilities	12	-	310	-	229
Due to subsidiaries	29	-	-	151,310	118,437
Employee provisions	25	4,353	3,277	2,351	1,545
Other liabilities	26	33,495	33,750	11,603	2,950
		1,058,446	1,007,877	165,619	123,330
Net assets		256,702	257,870	219,985	250,015
Shareholders' equity					
Issued and fully paid ordinary shares	27 a	142,213	142,005	142,213	142,005
Share-based payment reserve	27 c	1,558	1,356	1,558	1,356
Retained earnings		112,931	114,509	76,214	106,654
Total equity		256,702	257,870	219,985	250,015

The notes on pages 16 to 51 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:


Mr. Isikeli Taureka
Director


Mr. Greg Pawson
Director

KINA SECURITIES LIMITED

Statements of Cash Flows

For the year ended 31 December 2017

	Consolidation		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Cash flows from operating activities				
Interest received	98,799	77,317	52	97
Interest paid	(26,822)	(8,864)	(3,851)	(2,270)
Foreign exchange gain	7,224	21,072	(46)	352
Dividend received	357	111	11	17
Fee and commission income received	27,842	25,570	409	3,272
Fee and commission expense paid	(52)	(69)	(44)	(59)
Net trading and other operating income received	988	2,017	6,879	6,429
Recoveries on loans previously written-off	2,016	1,036	-	-
Support fees charged from subsidiaries	-	-	26,690	18,656
Cash payments to employees and suppliers	(64,320)	(56,793)	6,401	(36,388)
Lease termination payment	(7,000)	-	(7,000)	-
Income tax paid	(7,694)	(20,727)	(535)	(1,634)
Cash flows from operating profits before changes in operating assets and liabilities	31,338	40,670	28,966	(11,528)
Changes in operating assets and liabilities:				
- (increase)/ in regulatory deposits	(10,810)	(50,523)	-	-
- (increase)/decrease in loans and advances to customers	(126,422)	(229,594)	-	17
- net decrease/(increase) in other assets	(6,602)	1,216	(8,329)	2,763
- net decrease in due to customers	46,765	275,796	-	-
- decrease due to other banks	3,408	(1,586)	-	-
- net increase in other liabilities	(272)	(3,364)	8,654	18,568
Net cash inflow/(outflow) generated from/(used in) operating activities	28c (62,595)	32,615	29,291	9,820
Cash flows from investing activities				
Purchase of property, equipment and software	(15,702)	(6,775)	(7,415)	(694)
Proceeds from sale of property and equipment	-	93	-	88
Net movement in investment securities	28b 26,676	(54,275)	-	-
Net cash inflow/(outflow) generated from/(used in) investing activities	10,974	(60,957)	(7,415)	(606)
Cash flows from financing activities				
Dividend payment	(24,589)	(28,675)	(24,589)	(28,675)
Net cash inflow/(outflow) generated from/(used in) financing activities	(24,589)	(28,675)	(24,589)	(28,675)
Net increase/(decrease) in cash and cash equivalents	(76,210)	(57,017)	(2,713)	(19,461)
Effect of exchange rate movements on cash and cash equivalents	704	(214)	-	-
Cash and cash equivalents at beginning of year	178,020	235,251	15,541	35,002
Cash and cash equivalents at end of year	28a 102,514	178,020	12,828	15,541

The notes on pages 16 to 51 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED

For the year ended 31 December 2017

Notes to the Financial Statements (From pages 16 – 51)

1. Summary of significant accounting policies

The company and its subsidiaries are incorporated in Papua New Guinea. The groups business activities include provision of banking services, personal and commercial loans, money market operations, provision of share brokerage, fund administration, investment management services, asset financing, and corporate advice.

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Kina Securities Limited and its subsidiaries.

a) Basis of preparation

(i) Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Papua New Guinea Companies Act 1997.

The consolidated financial statements as at and for the year ended 31 December 2017 were authorized for issue by the Board of Directors on 26 March 2018.

(ii) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments at fair value. 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.

(iii) New and amended standards

Standards, amendment and interpretations effective in the year ended 31 December 2017

A number of amended standards became mandatory for the first time for the financial year beginning 1 January 2017. These standards generally did not have any significant impact on the financial statements of the group for the year ended 31 December 2017.

Standards, amendments, and interpretations issued but not effective for the year 31 December 2017 and not yet adopted early

In addition, there are new standards, amendments and interpretations issued but not effective for the financial year ended 31 December 2017. The group has not early adopted these standards.

IFRS 9, 'Financial Instruments' replaces IAS 39 Financial Instruments Recognition and Measurement. The Standard has a mandatory effective date for annual periods beginning on or after 1 January 2018, with earlier application permitted. Kina Bank ("Bank") started the process of implementing the requirements of IFRS 9 in early 2017. The process was project managed and the Bank was ready for implementation of IFRS 9 as at 1 January 2018.

The adoption of IFRS 9 is a significant initiative for the Bank, involving substantial finance, risk management and technology resources. The implementation of IFRS 9 involved a rigorous governance process wherein teams from risk management, finance and technology business units were involved together with an external expert consultant. Adoption of IFRS 9 in 2018 will result in revisions to accounting policies and procedures, changes and amendments to internal control documents, credit policy, development of new risk models and associated methodologies and new processes within risk management. The management and Board were informed of periodic progress of implementations and also were made aware of the estimated impact of implementing IFRS 9 using the year ended 31 December 2017 loan portfolio.

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

The following is a summary of some of the more significant items that are likely to be important in understanding the impact of the implementation of IFRS 9:

Impairment

The adoption of IFRS 9 will have a significant impact on the Bank's impairment methodology. The expected credit loss (ECL) model is forward looking compared to the incurred based model that is currently being used. Expected credit losses reflect the present value of all cash flow related to default events either (i) over the following twelve months, or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. ECL should reflect an unbiased, probability-weighted outcome as opposed to the blanket arrears provisioning under current approach. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable forward looking information. IFRS 9 ECL model uses a three stage approach based on the extent of credit deterioration since origination:

Financial instruments, upon initial recognition (e.g. loan originated) begin at Stage 1.

- **Stage 1** financial instruments recognise a collective provision using 12 month expected loss rates. Financial instruments are placed into stage 2 which there has been a significant increase in the credit risk of the instrument since initial recognition. Note, it is also possible for loans to move out at stage 2 back to stage 1 (which will result in a reduction of the required provision).
- **Stage 2** financial instruments recognise a collective provision using life-time expected loss rates.
- **Stage 3** financial instruments are for default and credit-impaired facilities where a specific provision is recognised against the individual instrument. A specific provision is the equivalent of the life time expected loss for an individual financial instrument.

Credit Risk Assessment

As part of the Bank's Credit Policy, the bank has developed a "Risk Grade Standard" policy which sets out how a risk grade is determined. Under the policy, the risk grades are determined based on an assessment of Financial Risk factors and Business Risk factors which include both quantitative measures and qualitative measures. The Bank's credit risk grading system reflects the Bank's assessment of the probability of default. Thus a downward change in credit grade from the original assigned grade is a good indicator of a significant increase in credit risk.

The Bank's grading system has only just been implemented and as a result there is no ability (without undue cost or effort) to identify changes in loan grades since the loans were established.

Thus the Bank has developed alternative approaches to identify significant increases in credit risk since initial recognition which has allowed the loan portfolio to be segmented into the 3 required stages. A summary of the proposed approach is:

- Current credit grades of G & H, being loans defined as "doubtful" and "Loss" under the credit risk grade policy, have been classified as stage 3 loans;
- Current arrears data has been used to split the portfolio into stage 1, stage 2 or stage 3 loans.

Expected loss rates have then been derived using a combination of bank's historical information, market data and management experience and applied to these portfolios to estimate the provision levels. IFRS 9 considers the calculation of expected credit loss (ECL) by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD)

Recognition, classification and measurement of financial instruments and hedging

The new provision in IFRS 9 in respect to the recognition, classification and measurement of financial instruments and hedging activities are not expected to have a significant impact on the Group.

Transition to IFRS 9 on 1 January 2018:

Under the transitional guidance, any difference between the previous carrying amount of provisions under IFRS 39 at 31 December 2017 and the carrying amount at the beginning of the annual reporting period (1 January 2018), will be recognised as an adjustment in the opening retained earnings (or other component of equity, as appropriate) as at 1 January 2018. As a result the initial adoption of IFRS 9 and any required increase in provisions upon initial adoption does not have a profit and loss impact in the 2018 reporting period, and no restatement of comparatives is required. The Group will continue to revise, refine and validate the impairment model and related process and controls as experience develops.

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

IFRS 15 ‘Revenue from contracts with customers’ (effective 1 January 2018) is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The entity will have to adopt a new 5-step process for the recognition of revenue:

- identify contracts with customers
- identify the separate performance obligations
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

The group has completed an assessment of its existing revenue streams and contracts, and does not expect the implementation of IFRS 15 to have any significant impact on existing revenue recognition and measurement.

IFRS 16, ‘Leases’ (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed. IFRS 16 now requires a lessee to recognise a lease liability representing future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The entity expects that certain leases of property and equipment that are currently accounted for as operating leases will, from January 2019, be required to be recognised as right-of-use assets and depreciated, with a corresponding lease liability. This will increase reported debt levels in the statement of financial position and will increase the reporting charges for depreciation and interest expense. The details of the impact on the entities financial statements are currently being assessed by management.

In addition to the above there are other standards amendments and interpretation that have been issued and are not expected to have any impact on the financial statements of the Group.

b) Principles of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Segment reporting

Operating segments are presented on a basis that is consistent with information provided internally to the Group’s key decision makers. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer. The Group has three reportable segments, which are the Company’s two business divisions – Kina Bank and Kina Wealth Management – and the Corporate segment (or unallocated costs).

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

d) 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 recognised in the income statement.

e) Revenue recognition

(i) *Interest income*

Interest income for all interest earning financial assets including those at fair value is recognised in the income statement using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees and other amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest relating to impaired loans is recognised using the loan's original effective interest rate based on the net carrying value of the impaired loan after giving effect to impairment charges. This rate is also used to discount the future cash flows for the purpose of measuring impairment charges. For loans that have been impaired this method results in cash receipts being apportioned between interest and principal.

(ii) *Fee and commission income*

Fees and commissions are generally recognised 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 recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognized notably over the period the service is provided.

(iii) *Foreign exchange income*

Realized gains or losses, and unrealized gains or losses arising from changes in the fair value of the trading assets and liabilities are recognised as trading income in the income statement in the period in which they arise.

(iv) *Dividend income*

Dividends on quoted shares are recognised on the ex-dividend date. Dividends on unquoted shares are recognized when the Company's right to receive payment is established.

f) Expense recognition

(i) *Interest expense*

Interest expense, including premiums or discounts and associated expenses incurred on the issue of financial liabilities, is recognised in the income statement using the effective interest method.

(ii) *Impairment on loans and receivables carried at cost*

The charge against profits for bad and doubtful debts reflects new specific provisions, reversals of specific provisions no longer required and movements in the general provision.

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

(iii) Leasing

Operating lease payments are recognised in the income statement as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit received. Incentives received on entering into operating leases are recorded as liabilities and amortized as a reduction of rental expense on a straight – line basis over the lease term.

g) Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authority.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rate (and law) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

h) Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

The excess of the following is considered as goodwill

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired if those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in profit or loss.

i) Impairment of assets

Goodwill having an indefinite useful life is not subject to amortization and is tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets cash-generating units (CGU). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

j) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less from date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

k) Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

(ii) Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for financial assets at fair value through profit or loss – in profit or loss within other income or other expenses
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the statement of profit or loss as part of revenue from continuing operations. Details on how the fair value of financial instruments is determined are disclosed in note 35.

(v) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

Assets carried at amortized cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of loans and advances to customers is described in note 3(b).

l) Property, plant and equipment

Property, plant 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%
Building improvements	10%
Motor vehicles	30%
Office equipment	15% to 30%

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

m) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 1(h). Goodwill is not amortized but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(ii) Customer deposits relationship

A customer deposit relationship asset was recognized with the acquisition of Maybank (PNG) Limited in 2015 (note 21), representing the value, or avoided cost, of having a deposit base from consumer and business transaction accounts, savings accounts, term deposits and other money market accounts that provide a cheaper source of funding than alternative sources of funding. Customer deposit relationship is amortized using the straight-line method over a period of five years and is stated at cost less accumulated amortization and impairment. Customer deposit relationship is also assessed for any indication of impairment at each reporting date and whenever there is an indicator that these maybe impaired.

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

(iii) Software

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 programs 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 five years.

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

(i) Short-term obligations

Provision is made for benefits accruing to employees in respect of annual leave and other short term obligations 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 twelve 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 twelve 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.

(ii) Share-based payments

Senior executive employees are entitled to participate in a share ownership incentive scheme. The fair value of share rights provided to senior executive employees as share-based payments is recognized as an expense with a corresponding increase in equity. The fair value is measured at grant date and is recognized over the period the services are received being the expected vesting period at the end of which the senior executive employees would become entitled to exercise their share rights. The fair value of the share based payments is based on the market price of the shares at grant date and market vesting conditions upon which the rights were granted. Non-market vesting conditions are taken into account by adjusting the number of rights which will eventually vest.

(iii) Cash bonus

The Group recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

p) Share capital and other equity accounts

(i) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Dividends

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

(iii) Reserves

Capital reserve comprises accumulated gains on historic asset revaluation. Share-based payment reserve comprises the fair value of unvested performance rights during the vesting period.

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

(iv) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year (note 27b).

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

q) Fiduciary activities

The Group provides custodian, 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 consolidated financial statements. Details of such investments held under trust may be found in note 30.

r) Changes in accounting policies and comparatives

Comparative information has been rearranged to conform to changes in presentation in the current year wherever necessary. The comparative information were restated in relation to the Segment Reporting in Note 32. There were no changes in the accounting policies in 2017.

2. Critical accounting estimates and judgments

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgment or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgments is included in the notes to the financial statements together with information about the basis of calculation for each affected line item in the financial statements.

The areas involving significant estimates or judgments are:

- Recognition of deferred tax asset for carried forward tax losses – note 12 (a)
- Estimated allowance for loans and advances to customers – note 17 and 3(b)
- Estimated goodwill impairment – note 1(i) and note 31
- Estimated useful life of intangible asset – note 21
- Estimation of fair values of assets acquired and liabilities assumed in a business combination – note 31
- Estimation of the fair value of performance right grants and the number of grants expected to vest – note 27(c).

3. Financial risk management

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 raises 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 then to the respective operational managers.

KINA SECURITIES LIMITED

3. Financial risk management (continued)

a) Market risk

(i) 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.

Exposure

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in PGK, was as follows:

	USD	AUD	SGD	GBP	EUR	NZD	JPY	PHP	MYR
	in K'000								
31 December 2017									
Cash balance	-	-	-	-	-	-	-	-	-
Due from other banks	20,304	3,026	354	-	-	234	12	91	43
	20,304	3,026	354	-	-	234	12	91	43
31 December 2016									
Cash balance	3	-	7	-	-	-	-	-	-
Due from other banks	28,646	-	609	-	-	1,233	-	-	-
	28,649	12,350	616	-	-	1,233	-	-	-

There was no material liability denominated in foreign currency.

Sensitivity

As shown in the table above, the Group is primarily exposed to changes in US/PGK exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US dollar denominated financial instruments.

	Impact on income statement in K '000	
	2017	2016
USD/PGK – exchange rate – increase 10% (2016:10%)	(2,188)	(1,508)
USD/PGK – exchange rate – decrease 10% (2016: 10%)	2,674	1,508

(ii) Interest rate risk

Interest rate risk in the statements of financial position arises from the potential for a change in interest rate to have an adverse effect on the revenue earnings in the current reporting period and future years. As interest rates and yield curves change over time the Group may be exposed to a loss in earnings due to the effects of interest rates on the structure of the statements of financial position. Sensitivity to interest rates arises from mismatches in re-pricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. These mismatches are actively managed by the Assets and Liabilities Committee (ALCO), which meets regularly to review the effects of fluctuations in the prevailing levels of market interest rates of the financial position and cash flows of the Group.

The objective of interest rate risk control is to minimize these fluctuations in value and net interest income over time, providing secure and stable sustainable net interest earnings in the long term. Interest rate on intercompany transactions was 2.73% and 3.16% for the years ended 31 December 2017 and 2016, respectively.

Sensitivity

Given the profile of assets and liabilities at 31 December 2017 and prevailing interest rates, a 100 basis points increase/decrease in market rates in relation to lending will result in a K377,732 (2016: K1,065,000) increase/decrease in net interest income at a Group level.

KINA SECURITIES LIMITED

3. Financial risk management (continued)

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

	2017	2016*
	% p.a.	% p.a.
Assets		
Cash and due from banks	1.0	1.0
Central bank bills	6.2	4.9
Loans and advances to customers	11.8	12.1
Investments in government inscribed stocks	9.6	9.9
Liability		
Due to customers	2.7	3.2

*updated to conform to the current year presentation

(iii) 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 or loss. To manage its price risks arising from financial assets at fair value through profit or loss, the Group diversifies its portfolio. Diversification of portfolio is done in accordance with the limits set by the Group. The Group's financial assets at fair value through profit or loss are publicly traded on the Port Moresby Stock Exchange (POMSoX) and the Australian Stock Exchange (ASX).

Sensitivity

The sensitivity analysis below has 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 2017 and net assets as of balance date would have been affected by K232,000 (2016: K232,000). The Group's sensitivity to equity prices has not changed significantly from the prior year.

b) Credit risk

(i) Risk management

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 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.

The tables below segregate the financial assets of the Group between financial assets that are neither past due nor impaired, past due but not impaired and impaired. An asset is considered to be past due when any payment under the contractual terms has been missed. The amount included as past due is the entire contractual balance, rather than the overdue portion. The net carrying value in the table represents the maximum exposure to credit risk, without taking any collateral into account. The collaterals include the securities acquired in the process of normal lending activities of the bank.

KINA SECURITIES LIMITED

3. Financial risk management (continued)

Consolidated						
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Provision	Net carrying value
	Km	Km	Km	Km	Km	Km
31 December 2017						
Cash and due from banks	47.5	-	-	47.5	-	47.5
Central bank bills	190.9	-	-	190.9	-	190.9
Regulatory deposits	106.8	-	-	106.8	-	106.8
Financial assets at fair value through profit or loss	4.6	-	-	4.6	-	4.6
Loans and advances to customers	732.0	13.3	0.7	746.0	(13.3)	732.7
Investments in government inscribed stocks	79.9	-	-	79.9	-	79.9
Total	1,161.70	13.3	0.7	1,175.7	(13.3)	1,162.4
31 December 2016						
Cash and due from banks	148.0	-	-	148.0	-	148.0
Central bank bills	208.1	-	-	208.1	-	208.1
Regulatory deposits	96.0	-	-	96.0	-	96.0
Financial assets at fair value through profit or loss	4.6	-	-	4.6	-	4.6
Loans and advances to customers	612.0	4.8	0.3	617.1	(12.0)	605.1
Investments in government inscribed stocks	64.3	-	-	64.3	-	64.3
Total	1,133.00	4.8	0.3	1,138.1	(12.0)	1,126.1
Company						
	Neither past due nor impaired	Past due but not impaired	Impaired	Total	Provision	Net carrying value
	Km	Km	Km	Km	Km	Km
31 December 2017						
Cash and due from banks	13.0	-	-	13.0	-	13.0
Financial assets at fair value through profit or loss	-	-	-	-	-	-
Due from subsidiaries	351.1	-	7.5	358.6	(7.5)	351.1
Total	363.8	-	7.5	371.3	(7.5)	363.8
31 December 2016						
Cash and due from banks	15.5	-	-	15.5	-	15.5
Financial assets at fair value through profit or loss	0.1	-	-	0.1	-	0.1
Due from subsidiaries	351.1	-	7.5	358.6	(7.5)	351.1
Total	366.7	-	7.5	374.2	(7.5)	366.7

KINA SECURITIES LIMITED

3. Financial risk management (continued)

(ii) Impaired loans

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that impairment has been incurred but not yet identified. For these receivables the estimated impairment losses are recognized in a separate provision for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganization, and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash. Subsequent recoveries of amounts previously written off are credited against impairment loss on loans and advances to customers. See note 1k (v) for information about how impairment losses are calculated.

Individually assessed impaired loans amounted to K 2.8 million (2016: K4.0 million) (Note 17).

(iii) Past due but not impaired

As at 31 December 2017, loans and advances to customers of K13.3 million (2016: K4.8 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

(iv) Neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. These relate to customers for whom payment is made on a timely basis. Cash and due from banks are maintained at Central Bank of Papua New Guinea and other banks with good credit standing.

(v) Credit risk concentration

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The risk concentrations within the customer loan portfolio by nature of the customers' business activities are as follows:

	Consolidated			
	2017		2016	
	PGK million	% of total loans	PGK million	% of total loans
Agriculture, Forestry & Fishing	20.7	2.8%	15.9	2.6%
Mining	-	0.0%	-	0.0%
Manufacturing	3.1	0.4%	14.5	2.3%
Electrical, Gas & Water	0.3	0.1%	0.4	0.1%
Building and Construction	50.2	6.7%	30.7	5.0%
Wholesale & Retail	146.8	19.7%	154.5	25.0%
Hotel & Restaurants	80.8	10.8%	4.3	0.7%
Transport & Storage	5.5	0.7%	26.7	4.3%
Post and Telecommunications	-	0.0%	-	0.0%
Financial Intermediation	5.6	0.8%	-	0.0%
Real Estate/Renting/Business Services	181.5	24.3%	133.1	21.6%
Equipment Hire	1.7	0.2%	-	0.0%
Other Business	42.0	5.6%	36.6	5.9%
Personal Banking	207.8	27.9%	200.4	32.5%
Total	746.0	100.0%	617.1	100.0%

KINA SECURITIES LIMITED

3. Financial risk management (continued)

c) Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. 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 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,
- intense monitoring of detail daily reports to alert management and directors of abnormalities, and
- arranging back up facilities to protect against adverse funding conditions and to support day-to-day operations.

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

- 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, and
- assigned responsibilities for internal and external written communications.

Maturities of financial assets and liabilities

The table below analyzes the Group's financial assets and liabilities into relevant maturity groupings based on their contractual maturities on undiscounted basis.

	Consolidated							
	Up to 1 month Km	1 to 3 months Km	4 to 12 months Km	1 to 5 years Km	Over 5 years Km	Total contract value Km	Total carrying value Km	
31 December 2017								
Cash and due from banks	47.5	-	-	-	-	47.5	47.5	
Central bank bills	60.0	55.0	82.0	-	-	197.0	190.9	
Regulatory deposits	106.8	-	-	-	-	106.8	106.8	
Loans and advances to customers	90.5	1.8	16.8	113.9	540.3	763.3	732.7	
Financial assets at fair value through profit or loss	-	-	-	-	4.6	4.6	4.6	
Total financial assets	304.8	56.8	98.8	113.9	544.9	1,119.2	1,082.5	
Due to other banks	0.6	-	-	-	-	0.6	0.6	
Due to customers	452.0	213.9	326.4	37.1	-	1029.4	1,019.3	
Other liabilities	33.5	-	-	-	-	33.5	33.5	
Total financial liabilities	486.1	213.9	326.4	37.1	-	1,063.5	1,053.4	

KINA SECURITIES LIMITED

3. Financial risk management (continued)

c) Liquidity risk (continued)

	Consolidated						
	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years	Total contract value	Total carrying value
	Km	Km	Km	Km	Km	Km	Km
31 December 2016							
Cash and due from banks	148.0	-	-	-	-	148.0	148.0
Central bank bills	32.0	70.0	114.0	-	-	216.0	208.0
Regulatory deposits	96.0	-	-	-	-	96.0	96.0
Loans and advances to customers	66.8	1.3	20.3	101.0	437.7	627.1	605.1
Financial assets at fair value through profit or loss	0.0	-	-	4.6	-	4.6	4.6
Total financial assets	342.8	71.3	134.3	105.6	437.7	1,091.7	1,061.7
Due to other banks	-	-	0.1	-	-	0.1	0.1
Due to customers	439.7	179.7	361.4	6.2	-	987.0	977.3
Other liabilities	25.6	3.6	7.3	7.6	-	44.1	44.1
Total financial liabilities	465.3	183.3	368.8	13.8	-	1,031.2	1,021.5

The Parent's financial liabilities as at 31 December 2017 and 2016 are all classified from 1 to 12 months; hence, contractual value is equal to its carrying value.

	Parent						
	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years	Total contract value	Total carrying value
	31 December 2017						
Cash and due from banks	13.0	-	-	-	-	13.0	13.0
Financial assets at fair value through profit or loss	0.1	-	-	-	-	0.1	0.1
Due from subsidiaries	-	-	358.6	-	-	358.6	351.1
Total financial assets	13.1	-	358.6	-	-	371.7	364.2
Other liabilities	11.6	-	-	-	-	11.6	11.6
Due to subsidiaries	151.3	-	-	-	-	151.3	151.3
Total financial liabilities	162.9	-	-	-	-	162.9	162.9
31 December 2016							
Cash and due from banks	15.5	-	-	-	-	15.5	15.5
Financial assets at fair value through profit or loss	0.1	-	-	-	-	0.1	0.1
Due from subsidiaries	-	-	358.6	-	-	358.6	351.1
Total financial assets	15.6	-	358.6	-	-	374.2	366.7
Other liabilities	2.9	-	-	-	-	2.9	2.9
Due to subsidiaries	-	-	118.4	-	-	118.4	118.4
Total financial liabilities	2.9	-	118.4	-	-	121.3	121.3

KINA SECURITIES LIMITED

4. Capital adequacy

Kina Securities Limited (“KSL”) as the parent of Kina Bank Limited (“KBL”) is required to comply with prudential standard PS1/2003 ‘Capital Adequacy’ issued by the Bank of Papua New Guinea (“BPNG”). BPNG is the Government authority responsible for the prudential supervision of Banks and financial institution in Papua New Guinea. The prudential guidelines issued by BPNG follow the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord (Basel 1).

KSL calculates and reports its capital adequacy in respect of the bank (KBL).

Prudential Standard PS1/2003 ‘Capital Adequacy’ is intended to ensure KBL maintains a level of capital which:

- 1) Is adequate to protect the interest of depositors and creditors,
- 2) Is commensurate with risk profile and activities of KBL, and
- 3) Provide public confidence in KBL as a financial institution and the overall banking system

PS1/2003 ‘Capital Adequacy’ prescribes ranges of capital ratios to measure whether KBL is under, adequately, or well capitalised and also prescribes a leverage ratio. The minimum capital adequacy ratios prescribed under PS1/2003 ‘Capital Adequacy’ are:

- 1) Tier 1 risk based ratio of 8%,
- 2) Total risk-based capital of 12%,and
- 3) Leverage capital of 6%.

As at 31 December 2017, KBL’s capital ratios were in compliance with the BPNG Minimum capital adequacy requirements as follows:

	2017 K ‘000	2016 K ‘000
Risk weighted assets	815,680	678,994
Capital : tier 1	197,984	166,996
Capital : tier 2	32,203	39,958
Capital : tier 1 and tier 2	230,187	206,954
Capital adequacy ratios		
Tier 1 capital	24.3%	24.6%
Total capital ratio	28.2%	30.5%
Leverage capital ratio	16.0%	14.0%*

*Prior year leverage capital ratio has been restated to align with BPNG calculation guidance

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 statements of financial position and is made up 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 intangible assets including deferred tax assets from equity capital and audited retained earnings (or accumulated losses). 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 (less inter-group loans) divided by Total Assets. Risk-weighted assets are derived from on-statements of financial positions assets. On-statements of financial position 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.

KINA SECURITIES LIMITED

5. Net interest income/ (expense)

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Interest income				
Cash and short-term funds	12,923	11,103	52	88
Investment in government inscribed stocks	6,890	5,952	-	-
Loans and advances to customers	79,535	60,213	-	-
	99,348	77,268	52	88
Interest expense				
Banks and customers	(26,839)	(12,140)	-	-
Due to subsidiaries (note 29)	-	-	(3,851)	(2,270)
	(26,839)	(12,140)	(3,851)	(2,270)
Net interest income/(expense)	72,509	65,128	(3,799)	(2,182)

6. Net fee and commission income

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Fee and commission income				
Investment and portfolio management	9,308	8,560	-	-
Fund administration	11,789	8,681	-	-
Shares brokerage	409	472	409	472
Loans fees and bank commissions	8,330	10,311	-	-
Other fees	649	809	-	2,800
	30,485	28,833	409	3,272
Fee and commission expense	(52)	(69)	(44)	(59)
Net fee and commission income	30,433	28,764	365	3,213

7. Dividend income

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Dividend income from investments	357	111	11	17
	357	111	11	17

8. Other operating income

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Realised gains/losses	523	279	320	352
Profits from disposal of property and equipment	(1)	93	(1)	88
Support fees from subsidiaries (note 29)	-	-	26,690	18,397
Rental from subsidiaries (note 29)	-	-	1,292	802
Management fees (note 29)	-	-	5,238	3,680
Other	471	1,433	16	1,233
	993	1,805	33,555	24,552

KINA SECURITIES LIMITED

9. Impairment losses

The Group assess provisions for loan impairment expense using either a collective approach or individual approach.

Individually assessed

Individually assessed loans attract 25 to 100 percent provisioning rate per customer loan. Key judgments include the business prospects for the customer, the realisable value of collateral, the KSL Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of recovering the loan. Judgments can change with time as new information becomes available or as loan recovery strategies evolve, which may result in revisions to the impairment provision.

Collective assessed

Collectively assessed loans attract 1 to 24.99 percent provisioning rate. Key judgments are based on estimated loss rates applied on days in arrears. Actual credit losses may differ materially from reported loan impairment provisions due to uncertainties including interest rates and their effect on consumer spending, unemployment levels, payment behavior and bankruptcy rates.

The Group assesses impairment as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Individually assessed (note 17, 22 and 29)	2,460	3,799	(44)	246
Collective allowance (note 17)	857	(1,012)	-	-
Reversal of prior year provision	-	-	-	-
	3,317	2,787	(44)	246

10. Other operating expenses

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Staff costs	35,440	28,412	15,632	11,481
Administrative expenses	13,541	10,758	7,974	4,108
Operating lease	4,814	3,418	1,276	416
Depreciation and amortization	4,661	4,556	1,292	1,606
Software maintenance and support charges	3,143	2,689	306	805
Auditor's remuneration (note 36)	1,180	663*	182	194
Other	4,776	5,120	2,496	2,102
	67,555	55,616	29,158	20,712

*reclassified to conform to the current year presentation,

Break-up of staff costs:

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Salaries, wages and other benefits	34,045	26,668	14,818	10,062
Superannuation costs	985	641	404	315
Cost of employee share based incentive plan	410	1,104	410	1,104
Total staff costs	35,440	28,412	15,632	11,481

As at 31 December 2017 the Group had 308 (2016: 264) employees and 2 (2016: 3) consultants. The Company had 93 (2016:82) employees and 1 (2016: 1) consultant.

KINA SECURITIES LIMITED

11. Income taxes

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	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Profit before tax	33,639	58,571	(6,014)	4,639
Prima facie tax at 30% (2015: 30%)	10,092	17,571	(1,804)	1,392
Tax effect of:				
Net gains/(losses) from financial assets through profit and loss	(156)	245	(100)	(4)
Non-deductible expenses/non-assessable income	2,516	(221)	2,591	(2)
Prior year under/(over) provision	(1,824)		(850)	-
Income tax expense	10,628	17,595	(163)	1,386
Represented by:				
Current tax	9,173	18,165	586	1,242
Deferred taxes	1,455	(570)	(749)	144
Income tax expense	10,628	17,595	(163)	1,386

12. Deferred taxes

a) Net deferred tax assets where there is a right to offset:

	Consolidated		Parent	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Allowance for losses				
-Loans and advances to customers	3,999	3,597	-	14
-Other assets	-	1,185	30	30
Employee provisions and others	1,306	983	705	464
Other temporary differences	308	817	35	29
Tax losses carried forward	-	104	-	-
	5,613	6,686	770	537
Depreciation and amortization	(871)	(305)	(171)	(700)
Prepayments and others	(216)	(90)	(79)	(66)
	(1,087)	(395)	(250)	(766)
Net deferred tax asset/(liabilities)	4,526	6,291	520	(229)

KINA SECURITIES LIMITED

12. Deferred taxes (continued)

b) Net deferred tax liabilities where there is a right to offset:

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Allowance for losses				
-Loans and advances to customers	-	(14)	-	-
-Other assets	-	45	-	-
Prepayments and others	-	65	-	-
Accrual of employees entitlement	-	(463)	-	-
Accruals	-	(29)	-	-
	-	(396)	-	-
Depreciation and amortization	-	674	-	-
Prior year adjustment	-	32	-	-
	-	706	-	-
Net deferred tax liabilities	-	310	-	-

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

	Consolidated		Parent	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Balance at beginning of year	5,981	5,411	(229)	(85)
Income statement credit/(charge)	(1,455)	570	749	(144)
Balance at end of year	4,526	5,981	520	(229)
Represented by:				
Deferred tax assets (note 12(a))	5,613	6,291	770	537
Deferred tax liabilities (note 12 (a) and (b))	(1,087)	(310)	(250)	(766)
	4,526	5,981	520	(229)

13. Cash and due from banks

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Cash in hand	5,370	2,228	3	320
Exchange settlement accounts	17,903	69,852	-	-
Due from other banks	24,241	75,940	12,825	15,221
	47,514	148,020	12,828	15,541

14. Central bank bills

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Central bank and treasury bills				
Less than 90 days	55,000	30,000	-	-
Over 90 days	142,000	186,000	-	-
Unearned discount	(6,131)	(7,905)	-	-
	190,869	208,095	-	-

Central bank bills are debt securities issued by the Bank of Papua New Guinea (BPNG). Central bank bills amounting to K55,000,000 (2016: K30,000,000) with a maturity term of one to three months from the date of purchase are classified as cash and cash equivalents (note 28). Central bank bills are measured at amortized cost.

KINA SECURITIES LIMITED

15. Regulatory deposits

Regulatory deposit of the Group as at 31 December 2017 amounted to K106,823,000 (2016: K96,013,000). This represents mandatory balance required to be maintained in a non-interest bearing account with the Central Bank - Bank of Papua New Guinea.

16. Financial assets at fair value through profit or loss

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Equity securities				
- Listed	4,575	4,580	157	142
- Unlisted	62	62	-	-
	4,637	4,642	157	142

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

	Consolidated		Parent	
	2017	2016	2017	2016
	K	K	K	K
Balance at beginning of year	4,642	4,055	142	145
Gains/(losses) from changes in fair value	(5)	587	15	(3)
Additions	-	-	-	-
Disposals	-	-	-	-
Gains on disposal	-	-	-	-
Balance at end of year	4,637	4,642	157	142

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. Loans and advances to customers

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Loans to individuals	179,554	134,388	-	-
Loans to corporate entities	566,482	482,714	-	44
Gross loans and advances to customers	746,036	617,102	-	44
Allowances for losses	(13,329)	(11,990)	-	(44)
	732,707	605,112	-	-

Details of gross loans and advances to customers are as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Overdrafts	73,162	60,899	-	-
Property mortgage	117,370	104,111	-	-
Asset financing	17,534	13,119	-	-
Insurance premium funding	1,671	614	-	-
Business and other loans	536,299	438,359	-	44
	746,036	617,102	-	44

KINA SECURITIES LIMITED

17. Loans and advances to customers (continued)

Movements in allowances for losses are as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
<i>Collectively assessed</i>				
Balance at beginning of year	7,955	5,296	-	-
Impairment losses/ (reversals) during the year (note 9)	857	(1,012)	-	-
Loans written off, net of other adjustments	(3)	(552)	-	-
Transfers (from/to) collective	1,719	3,185	-	-
Recoveries	-	1,038	-	-
Balance at end of year	10,528	7,955	-	-
<i>Individually assessed</i>				
Balance at beginning of year	4,034	3,437	44	64
Impairment losses during the year (note 9)	2,460	3,799	-	246
Loans written off	(3,990)	(17)	(44)	(17)
Recoveries	2,016	-	-	(249)
Transfers (from/to) individual	(1,719)	(3,185)	-	-
Balance at end of year	2,801	4,034	-	44
Total	13,329	11,990	-	44

The collective assessment relates to loans and advances fall in the 0-30 days category. Individual assessment relates to all loans and advances with arrears over 30 days.

18. Investments in government inscribed stocks

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Government inscribed stocks principal balance	78,000	63,000	-	-
Unamortised premium	709	845	-	-
Unamortised discount	(418)	(596)	-	-
Accrued interest	1,587	1,079	-	-
	79,878	64,328	-	-

The movement in investments in government inscribed stocks is as follows:

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Balance at beginning of year	64,328	64,134	-	-
Additions	15,000	-	-	-
Accrued interest	42	183	-	-
Amortized discount/(premium)	508	11	-	-
	79,878	64,328	-	-

Investments in government inscribed stocks are measured at amortized cost.

KINA SECURITIES LIMITED

19. Investments in subsidiaries

	Shareholdings**			
	2017	2016	2017	2016
	%	%	Amount (K)	Amount (K)
Kina Funds Management Limited (KFM)	100	100	2	2
Kina Investment and Superannuation Services Limited (KISS)	100	100	2	2
Kina Ventures Limited (KVL)*	100	100	2	2
Kina Wealth Management Limited (KWML)	100	100	2	2
Kina Nominees Limited (KNL)***	100	100	500,000	500,000
Total Investment at cost			500,008	500,008
Provision for impairment			(251,677)	(251,677)
Balance as at 31 December 2017			248,331	248,331
*Kina Ventures Limited (KVL) shareholding structure				
Kina Bank Limited (KBL)	100	100	5,000,000	5,000,000
Kina Properties Limited (KPL)	100	100	2,125,000	2,125,000

**All the subsidiaries are incorporated in Papua New Guinea. The results of the operations of above subsidiaries have been consolidated in the Group's financial statements.

*** Impairment loss on investment in subsidiary amounted to nil for the year ended 31 December 2017 (2016:K251,677).

20. Property, plant and equipment

Consolidated	Furniture & Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Cost							
Balance 31 December 2015	1,061	7,450	3,137	12,047	11,746	-	35,441
Additions	15	239	646	858	-	4,384	6,142
Balance 31 December 2016	1,076	7,689	3,783	12,905	11,746	4,384	41,583
Additions	47	2,165	337	2,820	-	1,407	6,776
Disposals	-	-	-	(4)	-	-	(4)
Balance 31 December 2017	1,123	9,854	4,120	15,721	11,746	5,791	48,355
Accumulated depreciation							
Balance 31 December 2015	(621)	(2,962)	(2,370)	(8,593)	-	-	(14,546)
Charge for the year	(126)	(682)	(645)	(1,456)	(109)	-	(3,018)
Balance 31 December 2016	(747)	(3,644)	(3,015)	(10,049)	(109)	-	(17,564)
Charge during the year	(129)	(908)	(413)	(1,403)	(109)	-	(2,962)
Disposals	-	-	-	1	-	-	1
Balance 31 December 2017	(876)	(4,552)	(3,428)	(11,451)	(218)	-	(20,525)
Balance 31 December 2017	247	5,302	692	4,270	11,528	5,791	27,830
Book value 31 December 2016	329	4,045	768	2,856	11,637	4,384	24,019

KINA SECURITIES LIMITED

20. Property, plant and equipment (continued)

Parent	Furniture & Fittings	Building improve- ments	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Cost							
Balance 31 December 2015	535	878	2,304	9,029	2,128	-	14,874
Additions	-	-	100	130	-	428	658
Disposal	-	-	(438)	-	-	-	(438)
Balance 31 December 2016	535	878	1,966	9,159	2,128	428	15,094
Additions	47	-	134	1,527	-	285	1,993
Disposals	-	-	-	(4)	-	-	(4)
Balance 31 December 2017	582	878	2,100	10,682	2,128	713	17,083
Accumulated depreciation							
Balance 31 December 2015	(338)	(537)	(1,685)	(6,753)	-	-	(9,313)
Charge during the year	(59)	(86)	(392)	(944)	-	-	(1,481)
Disposals	-	-	437	-	-	-	437
Balance 31 December 2016	(397)	(623)	(1,640)	(7,697)	-	-	(10,357)
Charge during the year	(63)	(58)	(213)	(726)	-	-	(1,060)
Disposals	-	-	-	1	-	-	1
Balance 31 December 2017	(460)	(681)	(1,853)	(8,422)	-	-	(11,416)
Balance 31 December 2017	122	197	247	2,260	2,128	713	5,667
Book value 31 December 2016	138	255	326	1,462	2,128	428	4,737

KINA SECURITIES LIMITED

21. Intangible assets

Consolidated	Software	Customer deposit relationship	Total
Cost	K'000	K'000	K'000
Balance 31 December 2015	3,432	3,780	7,212
Additions	632	-	632
Balance 31 December 2016	4,064	3,780	7,844
Additions	8,929	-	8,929
Balance 31 December 2017	12,993	3,780	16,773
Accumulated depreciation			
Balance 31 December 2015	(159)	(189)	(348)
Charge for the year	(781)	(756)	(1,537)
Balance 31 December 2016	(940)	(945)	(1,885)
Charge during the year	(945)	(756)	(1,701)
Balance 31 December 2017	(1,885)	(1,701)	(3,586)
Balance 31 December 2017	11,108	2,079	13,187
Book value 31 December 2016	3,124	2,835	5,959
Parent	Software	Customer deposit relationship	Total
Cost			
Balance 31 December 2015	601	-	601
Additions	37	-	37
Disposals	-	-	-
Balance 31 December 2016	638	-	638
Additions	5,421	-	5,421
Disposals	-	-	-
Balance 31 December 2017	6,059	-	6,059
Accumulated depreciation			
Balance 31 December 2015	(68)	-	(68)
Charge during the year	(125)	-	(125)
Disposals	-	-	-
Balance 31 December 2016	(193)	-	(193)
Charge during the year	(231)	-	(231)
Disposals	-	-	-
Balance 31 December 2017	(424)	-	(424)
Balance 31 December 2017	5,635	-	5,635
Book value 31 December 2016	445	-	445

Customer deposits relationship was recognized when Maybank (PNG) Limited was acquired on 30 September 2015. The intangible assets were estimated to have a useful life of five years based on the license term of software and expected length of the customer deposit relationship. Customer deposit relationship has a remaining useful life of 3 years.

KINA SECURITIES LIMITED

22. Other assets

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Prepayments	2,306	2,115	876	701
Security deposits and bonds	665	814	218	363
Lease incentive receivable	7,700	-	7,700	-
Other debtors	7,772	9,153	733	146
	18,443	12,082	9,527	1,210
Less: allowance for losses on other assets	(4,052)	(4,052)	(101)	(101)
	14,391	8,030	9,426	1,109

Movement of allowance for losses on other assets is as follows:

	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Balances at beginning of year	4,052	116	101	103
Impairment losses during the year	-	-	-	-
Reclassification	-	3,936	-	(2)
Balance at end of year	4,052	4,052	101	101

23. Due to customers

	Consolidated		Parent	
	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Corporate customers	905,834	934,958	-	-
Retail customers	113,491	33,982	-	-
	1,019,325	968,940	-	-

24. Current income tax (assets) liabilities

	Consolidated		Parent	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Balance at beginning of year	(995)	1,567	169	560
Paid during the year	(7,694)	(20,727)	(535)	(1,634)
Current provision	9,173	18,165	(16)	1,243
Prior year under provision	151	-	737	-
Balance at end of year	635	(995)	355	169

Net current income tax (assets) liabilities is represented by:

	2017	2016	2017	2016
	K '000	K '000	K '000	K '000
Current income tax asset	-	(2,452)	-	-
Current income tax liability	635	1,457	355	169
	635	(995)	355	169

25. Employee provisions

	Consolidated		Parent	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Balance at beginning of year	3,276	5,408	1,545	2,200
Charged to profit and loss	4,495	(2,131)	2,599	(655)
Utilized during the year	(3,418)	-	(1,793)	-
Balance at end of year	4,353	3,277	2,351	1,545
Represented by:				
Short term provisions	3,267	2,459	1,260	1,231
Long term provisions	1,086	818	1,091	314
	4,353	3,277	2,351	1,545

KINA SECURITIES LIMITED

26. Other liabilities

	Consolidated		Parent	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Accruals	12,939	13,073	2,031	2,222
Deposits against guarantee*	-	-	-	-
Unclaimed money and stale cheques	3,965	7,596	36	-
Bank cheques	2,382	5,304	-	-
Accounts payable	4,532	2,691	2,461	648
Unearned commission income	1,092	1,045	-	-
Other liabilities	8,585	4,041	7,075	80
Balance at end of year	33,495	33,750	11,603	2,950

*Deposit against guarantee of K10.3million at 31 December 2016 was reclassified under due to customers in 2017 (Note 23).

27. Issued and paid ordinary shares

a. Movement

The Company does not have authorized capital and ordinary shares have no par value. The table below provides movement in share capital.

	Number of shares	Share capital K'000
Balance as at 31 December 2015	163,793	141,797
Share issued during the year – retention incentive	100	208
Balance as at 31 December 2016	163,893	142,005
Share issued during the year – retention incentive	100	208
Balance as at 31 December 2017	163,993	142,213

b. Earnings per share

Basic earnings per ordinary share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares on issue during the year. The group has no significant dilutive potential ordinary shares. Consequently, basic earnings per ordinary share equals diluted earnings per share.

	Consolidated	
	2017	2016
Net profit attributable to shareholders – K'000	23,011	40,976
Weighted average number of ordinary shares		
basic earnings	163,943	163,893
Weighted average number of ordinary shares		
diluted earnings	165,554	163,893
Basic earnings per share (in toea)	14.03	25.00
Diluted earnings per share (in toea)	13.90	25.00

c. Share-based payment reserve

Kina operates both a Short Term Incentive (STI) and Long Term Incentive (LTI) plan. The purpose of these Plans is to assist in the reward, retention and motivation of key management personnel and align the interests of management and shareholders. The plans are commensurate with those adopted by major banks in Australia and the Pacific and is managed by an independent Plan manager. The operation of both the STI and LTI plans are explained below:

Short term incentive plan (STI Plan)

The STI plan provides participants with an opportunity to earn an incentive calculated as a percentage of their salary each year, conditional upon them achieving specified performance targets. Under the plan 65% of any award granted is paid as a cash bonus, with the remaining 35% awarded as a grant of performance rights to shares. The granted performance rights are restricted from exercise and subject to the Company's clawback policy and subject to the rules of the Plan.

KINA SECURITIES LIMITED

27. Issued and paid ordinary shares (continued) c. Share-based payment reserve (continued)

The following STI plan arrangements were in place during the year ended 31 December 2017

Date of grant	25 March 2016	17 February 2017
Number of share rights granted	212,086	119,226
Market value at grant date	AUD 192,998	AUD 125,187
Vesting date	25 March 2018	1 April 2019
Vesting conditions	Continued service	Continued service

Long term incentive plan (LTI plan)

The LTI plan provides participants with an opportunity to receive an equity interest in Kina through the granting of performance rights. LTI plan participants may be offered performance rights that may be subject to vesting conditions as set out by the Board. The selection of participants is at the discretion of the Board.

A performance right is a contractual right to receive one ordinary share in Kina, subject to performance and vesting conditions being met. Each vested performance right represents a right to one ordinary share. If the participant leaves Kina any unvested Performance Rights will be forfeited (unless the Board determines otherwise).

The following LTI plan arrangements were in place during the year ended 31 December 2017

Date of grant	25 March 2016	17 February 2017
Number of share rights granted	325,117	854,420
Market value at grant date	AUD 295,856	AUD 897,141
Fair value at grant date	AUD382,269	AUD583,193
Vesting date	25 March 2019	1 April 2020
Vesting conditions	Continued service Achieve IPO Target NPAT	Continued service 50% target TSR 50% target EPS growth

The estimated fair value of share rights issued on 17 February 2017 under the LTI plan was AUD 0.68, compared to the grant date market value per share of AUD1.05. Fair value is generally estimated using a Monte Carlo simulation model taking into account the share price at grant date, the vesting period, share price volatility, risk-free interest rate and market performance conditions. Due to Kina's relatively short period since listing and lack of reliable historic share price volatility data, for the LTI rights granted on 17 February 2017 the fair value has been estimated by reference to a discount from the grant date share price based on a comparative market analysis of Australian banks with similar incentive schemes and vesting conditions.

Retention incentive

There was a one-off retention grant issued to the CEO in 2015 of 200,000 rights with a market value at grant date of AUD 200,000, of which 50% vested in 2016 and 50% vested in 2017. By the end of December 2017, there were no unvested performance rights under the retention scheme.

125,000 retention rights were granted to two senior executives during the year ended 31 December 2016. No retention rights were granted in 2017.

Movement in outstanding share rights

	Consolidated	
	2017	2016
	Number	Number
Outstanding rights at beginning of year	856,992	400,000
New rights granted	973,646	637,992
Rights vested and shares issued	(100,000)	(100,000)
Rights forfeited or lapsed	(64,917)	(81,000)
Outstanding rights at end of year*	<u>1,665,721</u>	<u>856,992</u>

*the outstanding performance at the end of the year was 1,665,721. This subsequently reduced by 200,756 rights due to the resignation of the previous CEO on 2 January 2018.

KINA SECURITIES LIMITED

27. Issued and paid ordinary shares (continued)

c. Share-based payment reserve (continued)

The fair value at grant date of share rights awarded under the incentive schemes is recognized as an expense over the expected vesting period with a corresponding increase in the share based payments reserve in equity. The movement in the Share Based Premium Reserve is as below:

	Consolidated	
	2017	2016
	K'000	K'000
Brought forward from previous year	1,356	460
Expense arising from STI plan	62	318
Expense arising from LTI and retention plans	348	786
Rights vested and shares issued	(208)	(208)
Total	1,558	1,356

28. Statements of cash flows

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

	Consolidated		Parent	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Cash and due from banks (note 13)	47,514	148,020	12,828	15,541
Central bank bills (note 14)	55,000	30,000	-	-
	102,514	178,020	12,828	15,541

b) Movement in investment securities is as follows:

	Consolidated		Movement
	2017	2016	
	K'000	K'000	K'000
Central bank bills (note 14)	190,869	208,095	17,226
Central bank bills & other eligible bills (less than 3 months)	(55,000)	(30,000)	25,000
Government inscribed stocks (note 18)	79,878	64,328	(15,550)
	215,747	242,423	26,676

c) Reconciliation of net profit after tax for the year to net cash flows from operating activities is presented below.

	Consolidated		Parent	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Net profit after tax	23,011	40,976	(5,851)	3,253
Profit from disposal of property and equipment	-	(93)	-	(88)
Depreciation and amortization (note 20 and 21)	4,661	4,556	1,292	1,606
Premium/discount amortization (note 18)	(508)	(11)	-	-
Share-based payment expense	410	1,104	410	1,104
Net losses/(gains) from changes in fair values of financial assets (note 16)	5	(587)	15	3
Increase/(decrease) in income tax payable	1,630	(2,563)	187	(392)
Increase/(decrease) in deferred income tax (note 12c)	1,455	(574)	(749)	144
Changes in net assets and liabilities:				
Decrease/(increase) in assets:	(143,356)	(264,837)	(8,536)	4,036
Increase/(decrease) in liabilities:	50,097	254,644	42,523	154
Net cash inflow/outflow from operating	(62,595)	32,615	29,291	9,820

KINA SECURITIES LIMITED

29. 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 Kina Securities Limited (“KSL”) incorporated in Papua New Guinea, which owns 100% of the ordinary shares of its subsidiaries, unless otherwise stated.

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 2017, and related expenses and income for the year ended are as follows:

a) Directors and management transactions

In the prior year (2016), Niule No 1 Ltd trading as Raintree Consultancy provided consultancy services to KSL. Fees paid during the year up to May 2016 was K100,000. No consultancy service was provided post May 2016 and full year 2017. J. Yap, a director of KSL, is a director and shareholder of Niule No 1 Ltd.

H. Wong (ceased 18 May 2016) maintained interest-bearing deposits at normal market rates of interest with Kina Bank Limited (“KBL”). The balance due as at 31 December 2017 is Knil (2016: K8,236)

W. Golding (ceased 16 May 2017) was a Director and Shareholder of KSL and also a Director and Shareholder of The Manufacturers Council of PNG (MCP). MCP maintained interest-bearing deposits at normal market rates of interest. The balances due as at 31 December 2017 and 2016 and related income and expenses for the year ended are as follows.

	2017	2016
	K'000	K'000
Deposit:		
Balance at beginning of year	60	59
Received during the year	1	1
Balance at end of year	61	60
Interest expense on deposits	0.6	0.5
Average interest rate per annum	1.00%	1.25%

Kina Nominees Limited (“KNL”) acted as a trustee for 2G Development Limited, a company of which W. Golding (ceased 16 May 2017) is a Director. The 2G Development Limited housing estate clients’ equity funds are held in trust by KNL, processing receipts and deposits from 2G Development clients and payment made to 2G Development building and civil works contractors. During the year ended 31 December 2017, KNL have billed and received from 2G Development Limited a total of K7,327 (2016: K34,594) representing Trustee service fee.

S. Yates, the Managing Director and Chief Executive Officer of KSL during the year is also a Director of Port Moresby Stock Exchange POMSoX) and shareholder of Columbus Investment Limited. During the year, POMSoX, Columbus Investment Limited and S. Yates maintained interest-bearing deposits at normal market rates of interest. S. Yates resigned from the Board of Directors on 2 January 2018. The balances due as at 31 December 2017 and related expense for the year are as follows:

	POMSoX	Columbus Investments	S. Yates	Total 2017	Total 2016
	K'000	K'000	K'000	K'000	K'000
Deposit:					
Balance at beginning of year	-	1,486	74	1560	1,847
Received during the year	-	7	149	156	29
Repaid during the year	-	(1,493)	(199)	(1,692)	(316)
Balance at end of year	-	-	24	24	1,560
Average interest rate per annum	-	1.25%	1.00%	1.13%	0.80%
Interest expense on deposits	-	7	.3	7	24

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

KINA SECURITIES LIMITED

29. Related party transactions (continued)

A listing of the members of the Board of Directors is shown in the Annual Report. In 2017, the total remuneration of the Directors was K3,696,907 (2016: K3,405,404).

Key management personnel (KMP) of the group includes directors and the executive general managers (EGMs) during the year.

The table below shows the Group specified EGM remuneration in aggregate (in K'000).

	No of KMP	Salary	Bonus	Super	Equity Options	Other benefits	Total
2017	12	6,321	-	65	408	1,912	8,706
2016	15	4,676	347	29	1180	1,330	7,562*

*2016 comparative is updated to include directors' remuneration

b) Subsidiary transactions and balances

The Company maintains an intercompany account with subsidiary undertakings, which are interest bearing at the rate of KBL cost of funds plus 12.50 (2016:12.50) basis points, unsecured and with no fixed term of repayment. Details as follows:

	Transactions				Balance outstanding			
	Income 2017	Expenses 2017	Income 2016	Expenses 2016	Due from		Due to	
	K '000	K '000	K '000	K '000	2017	2016	2017	2016
KFM	1,494	625	880	360	-	-	(26,607)	(16,324)
KISS	2,170	308	1,632	-	-	-	(15,102)	(7,302)
KWM	-	-	-	-	-	-	(6)	(6)
KBL	29,556	2,918	20,367	1,910	-	-	(109,594)	(94,805)
KVL	-	-	-	-	351,106*	351,106*	-	-
KNL	-	-	-	-	17	17	-	-
	32,220	3,851	22,879	2,270	351,123	351,123	(151,310)	(118,437)

* net of allowance for impairment losses of K7,487,273 which is interest free and payable on demand.

30. Investments under trust

The Group acts as trustee holding or placing of assets on behalf of superannuation funds and individuals. As the Group acts in a fiduciary capacity, these assets are not assets of the Group and, therefore, are not included in its statements of financial position. The Group is also engaged in investing client monies. A corresponding liability in respect of these monies is also excluded from the statements of financial position. Investments under trust at year end are:

	Consolidated		Parent	
	2017	2016	2017	2016
	K'000	K'000	K'000	K'000
Clients funds held for shares trading	2,109	925	2,109	925
	2,109	925	2,109	925

KINA SECURITIES LIMITED

31. Goodwill

Kina Group, through Kina Ventures Limited, a 100% owned subsidiary of Kina Securities, acquired all of the shares in Maybank (PNG) Limited and Maybank Property (PNG) Limited in September 2015. The goodwill arising on this acquisition was recorded at K92,786,000. The goodwill was attributable to Maybank (PNG) Limited's strong position and synergies expected to arise after the Group's acquisition of the new subsidiary. None of the goodwill is expected to be deductible for tax purposes.

Goodwill was tested for impairment as at 31 December 2017 and no impairment loss arose on this assessment. The goodwill is allocated and tested at the Kina Bank level. The recoverable amount has been determined using both the fair value and value in use at each reporting date. Value in use refers to expected future cash flows over the next five years on a discounted cash flow basis. The fair value is determined based on the multiples of future maintainable earnings.

The calculations of value in use includes cash flow projections covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 3%. The estimated cash flows are discounted using a discount rate of 11.7%. The fair value calculation includes future maintainable earnings of K59.8m and earnings multiple of 8 times.

32. Segment reporting

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 31 December 2017 is as follows:

	Banking & Finance	Wealth Management	Corporate	Total
	PGK'000	PGK'000	PGK'000	PGK'000
Interest income	99,272	74	2	99,348
Interest expense	(26,839)	-	-	(26,839)
Foreign exchange income	7,069	211	(56)	7,224
Fee and commission income	8,330	21,738	365	30,433
Other revenue	662	495	187	1,344
Total external income	88,494	22,518	498	111,510
Other operating expenses	(26,809)	(10,036)	(33,047)	(69,892)
Provision for impairment	(2,413)	(949)	44	(3,318)
Depreciation and amortisation	(2,505)	-	(2,156)	(4,661)
Total external expenses	(31,727)	(10,985)	(35,159)	(77,871)
Profit before inter-segment revenue and expenses	56,767	11,533	(34,661)	33,639
Inter-segment income	3,208	643	29,370	33,221
Inter-segment expenses	(28,442)	(4,032)	(747)	(33,221)
Profit before tax	31,533	8,144	(6,038)	33,639
Income tax expense	(8,983)	(1,982)	337	(10,628)
Profit after tax	22,550	6,162	(5,701)	23,011
Total assets	1,161,356	4,952	148,840	1,315,148
Total assets include:				
Additions to non-current assets	7,750	-	7,952	15,702
Total liabilities	(1,043,839)	(154)	(14,453)	(1,058,446)

Banking and finance segments includes the operations of the Kina Bank while Wealth Management includes fund management and fund administration business. Corporate includes the operation of the holding company and Kina properties.

KINA SECURITIES LIMITED

32. Segment reporting (continued)

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 31 December 2016 is as follows:

	Banking & Finance	Wealth Management	Corporate	Total
	PGK'000	PGK'000	PGK'000	PGK'000
Interest income	77,124	142	2	77,268
Interest expense	(12,140)	-	-	(12,140)
Foreign exchange income	20,579	332	(53)	20,858
Fee and commission income	7,511	17,713	2,800	28,024
Other revenue	110	2,824	359	3,293
Total external income	93,184	21,011	3,108	117,303
Other operating expenses	(25,328)	(7,407)	(19,410)	(52,145)
Provision for impairment	(2,684)	(109)	6	(2,787)
Depreciation and amortisation	(2,086)	-	(1,714)	(3,800)
Total external expenses	(30,098)	(7,516)	(21,118)	(58,732)
Profit before inter-segment revenue and expenses	63,086	13,495	(18,010)	58,571
Inter-segment income	1,830	440	21,672	23,942
Inter-segment expenses	(19,952)	(3,186)	(804)	(23,942)
Profit before tax	44,964	10,749	2,858	58,571
Income tax expense	(13,512)	(4,134)	51	(17,595)
Profit after tax	31,452	6,615	2,909	40,976
Total assets	1,145,979	16,162	103,605	1,265,746
Total assets include:				
Additions to non-current assets	5,155	-	1,619	6,774
Total liabilities	(1,003,753)	(4,097)	(27)	(1,007,877)

There is only one segment for the Parent entity and the information is the same as the primary statements.

33. Contingent liabilities

Litigations and claims

Contingent liabilities exist in respect of actual and potential claims and proceedings that have not been determined. An assessment of the Group's likely loss has been made on a case by case basis for the purposes of the financial statements and specific provisions are made where appropriate. As at 31 December 2017, the Group is a party to some litigation before the courts, however, management does not believe these will result in any material loss to the Group. There was no litigation matter of a material nature that is not already provided for in the financial statements.

Other liabilities

The Bank guarantees the performance of customers by issuing stand-by letters of credit and guarantees to third parties. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subject to the same credit origination, portfolio maintenance and collateral requirements applied to customers applying for loans. As the facilities may expire without being drawn upon, the notional amount does not necessarily reflect future cash requirements. The credit risk of these facilities may be less than the notional amount but as it cannot be accurately determined, the credit risk has been taken as the contract notional amount.

KINA SECURITIES LIMITED

33. Contingent liabilities (continued)

	2017	2016
Group	K'000	K'000
Documentary letters of credit	-	1,865
Bank guarantee	36,793	34,938
Other contingent liabilities	-	3,075
	36,793	39,878

The Company had no contingent liabilities.

34. Commitments

Capital commitments

There was a total of K347,703 relating to commitments under contracts for capital expenditure at balance date.

Operating lease commitments

Total of future minimum lease payments under operating lease commitments are as follows:

	2017	2016
	K '000	K '000
Within one year	5,170	4,879
Between one and five years	20,681	18,819
	25,851	23,698

35. Fair value estimation

There is no material difference between the fair value and carrying value of the Group and the Company's financial assets and liabilities.

The table below analyzes 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).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

Assets	Level 1	Level 2	Level 3	Total
	K'000	K'000	K'000	K'000
Financial assets at fair value through profit or loss				
Investment in shares – Listed	4,575	-	-	4,575
Investment in shares – Unlisted	-	-	62	62
Total assets	4,575	-	62	4,637

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

Assets	Level 1	Level 2	Level 3	Total
	K'000	K'000	K'000	K'000
Financial assets at fair value through profit or loss				
Investment in shares – Listed	4,580	-	-	4,580
Investment in shares – Unlisted	-	-	62	62
Total assets	4,580	-	62	4,642

KINA SECURITIES LIMITED

36. Auditors' remuneration

Consolidated entity	2017 K'000	2016 K'000
Audit and audit related	765	553
Tax services	314	110
Other services*	101	-
	1,180	663

*Fee for other services include K86,792 paid to PricewaterhouseCoopers- Australia. All other fees are paid to PricewaterhouseCoopers-Papua New Guinea.

37. Events after the statements of financial reporting date

Subsequent to the financial reporting date, the directors declared a dividend of AUD 4.0 cents / PGK 10.0 toea per share (K16.4m). There are no other events after the financial reporting date that require adjustment to or disclosure in the financial statements.