



Banking for the future.

ANNUAL REPORT 2017



Through integration,
education and
innovation, we are
redefining banking
for the future.

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Performance Highlights

Launched new **digital banking services**

– retail and corporate mobile banking apps and corporate internet banking

Growth in FUM and FUA

⬆️ **10%**
to PGK6.9b and
⬆️ **60%**
to PGK11b

Net interest income of **PGK72.4m**,
⬆️ **11%**

Nasfund

Fund Administration progressing

Interest income on loans grew by **32%** or **PGK19.3m**

Gross loan book grew by **21%** to **PGK746m**



External Market Conditions

Restored
USD
correspondent
banking
arrangement

Deposit growth
of 6% to
PGK1,014m

Bank fees and
commissions
income grew
by 11%

The PNG economy has seen relatively flat growth over the past 12 months.

The World Bank recently projected an increase in Papua New Guinea's Real GDP growth to 2.5 per cent in 2018 from 2.1 per cent in 2017.

This compares with recent Bank of PNG (BPNG) projections that for 2018, real GDP would be around 2.7 percent, as indicated in the PNG Government's 2018 Budget.

BPNG believes growth is expected to be broad-based across almost all sectors, mainly driven by the agriculture, fishing and forestry, mineral, manufacturing, construction, commerce, and transport sectors.

The central bank believes a major factor that will impact growth in 2018 is the hosting of the Asia-Pacific Economic Cooperation (APEC) meetings and other related activities.

Despite these positive expectations, PNG is still experiencing the impacts of the drop in global commodity prices and has also recently been impacted by a devastating earthquake and aftershocks in February and March 2018.

A recent World Bank report provided a spotlight on some positive aspects for the PNG economy areas, such as agriculture commodities, especially palm oil and Vanilla, due to improved weather and growing conditions. The report highlighted the resources sector would be the main driver for the overall GDP growth in 2018.

The brighter outlook for non-extractive activity comes at a time when the Government is making efforts to broaden the revenue base and diversify the economy.

In the agriculture and agri-business sector, construction began on a PGK130 million dairy farm and processing facility, the Ilimo Dairy Farm, near Port Moresby in 2017.

The facility is being developed by local firm Innovative Agro Industry. It is expected to be operational in 2018 and producing 5m litres of milk per year, providing a considerable saving on the country's import bill.

The tourism industry also received a boost, with the provision of PGK64m in credit from the World Bank for tourism and sustainability projects.

The tourism sector has been building steadily over the past decade, with locations such as East New Britain and Milne Bay viewed as having strong potential to attract international tourists.

Despite these positives, domestic consumption remains weak and ongoing difficulty in accessing foreign currency continues to hamper the ability of PNG businesses to generate growth.

The recent increase in commodity prices and the potential increased LNG flows later in 2018 may provide relief over the medium term. With the potential for higher commodity prices, this should serve as a catalyst to make further progress on clearing the backlog on import currency orders.

Chairman's Letter

It is both an honour and a privilege to deliver this statement, my first as Chairman, having joined the Board as a Non-Executive Director in 2016 and becoming Chairman in May 2017.

Kina is one of the leading financial services companies in PNG and in 2017 we continued to invest in our Banking and Wealth Management franchises to ensure we continue to deliver the services our customers require when and where they need them.

Investing for the future

2017 was a year in which we invested in the company, transitioned to new senior management, reinforced our technology innovation, and developed new products and services. We plan to build on these solid foundations in the years to come.

Digital technology continued to transform industries, businesses and the way we lead our lives in 2017.

Given our customers are more mobile than ever before, Kina's Banking and Wealth Management businesses are clear demonstrations of how we are participating in this transformation in PNG. Kina aims to be at the forefront of technological innovation in order to provide the simplicity and convenience our customers desire and to offer them seamless banking and wealth management experiences of their choice anytime, anywhere and anyhow.

Our commitment to improving banking products and services for our customers continues to drive us in our goal of technology leadership in the delivery of financial services in PNG.

The PNG financial services sector is presently experiencing a phase which is both challenging and exciting. It is challenging because in PNG we have seen a period of low and relatively flat growth over the past 12 months, with the economy dampened by liquidity constraints and foreign exchange shortages.

At the same time, there are robust opportunities across the many segments of our business and in the continuing opportunities provided by technology innovation.

Strong results

Despite the economic challenges we faced, Kina reported a statutory profit of PGK23.0m and an underlying profit of PGK30.0m for the full year ended 31 December 2017.

Directors also declared a final dividend of PGK10.0 toea/AUD4.0 cents per share, taking the full year dividend to PGK15.00 toea/AUD6.0 cents per share.

During 2017, we successfully addressed the situation we faced with the loss of our correspondent banking partner. We also progressed our funds administration agreement with one of PNG's leading superannuation funds, Nasfund. Kina now has 90% of the PNG funds administration market.

Over recent years, Kina has substantially strengthened both its Bank and Wealth businesses. In Banking, this has been evidenced by our strengthening deposit funding profile, robust loan growth and sound overall asset quality.

The development and release of our personal and corporate banking mobile applications in 2017 are key examples of how we have innovated to enhance the customer experience.



Despite the economic conditions during 2017 and considerable competition in the marketplace, Kina grew its loan market share from 4.8% in 2016 to 5.8% at the end of 2017.

Kina remains unique in the financial services sector in PNG and its reach extends beyond banking into multiple financial services segments.

With the progress of Kina's agreement with Nasfund, we now have the opportunity to offer targeted wealth management and banking products to a customer base of more than 700,000 superannuation members.

This positive development adds to the group's financial strength and its platform to capitalise on the potential of PNG's growing middle class.

Our people – driving our success

We have recently welcomed our new Chief Executive Officer and Managing Director, Greg Pawson, following the retirement of Syd Yates, effective from January 2018.

I would like to take this opportunity to thank Syd for his immense contribution to Kina over more than 20 years.

Greg is no stranger to PNG and has deep and extensive banking and financial services experience in the Asia-Pacific region.

Following Syd's departure, Greg is continuing to provide the strong leadership we need to help us deliver on our goals for 2018 and beyond.

Greg has been working hard on redefining Kina's vision and purpose, and on sharpening our strategic priorities, so we are ready to meet the Group's future challenges and opportunities. Given the ongoing disruption that is occurring across the banking and financial services sectors in the new competitive digital environment, it is great to see Greg is embedding a strong challenger mentality throughout the business.

I would also like to thank my fellow Directors for their guidance and contribution during Kina's Board and management renewal in 2017. I wish to particularly acknowledge the outstanding contribution of Kina's outgoing Chairman Sir Rabbie Namaliu and Non-Executive Director Wayne Golding, who stepped down from the Board last year.

On behalf of the Board, I would like to thank our Kina employees for their ongoing dedication and energy. Without their efforts and expertise, we would not be in the position we are in today to expand our existing banking and wealth management products and services, and I look confidently to the future for new opportunities.

In closing, I would like to thank our customers, the PNG community and our shareholders for their continued support.

Yours faithfully

Isikeli Taureka
Chairman

Managing Director's Report

It is a great pleasure to present my first Annual Report to our stakeholders as Kina's Chief Executive Officer and Managing Director.

2017 was a year of significant investment for Kina. We launched new products and services for our customers and acquired the capabilities we needed for a sustainable future in PNG's dynamic financial services industry.

Underpinning our growth ambitions for the future is a clear focus on technology and innovation.

In early 2018, we evolved our vision, purpose and strategic priorities (which will guide our future direction), to ensure we take advantage of new market opportunities as they arise. This refreshed approach is designed to deliver greater value to our Banking and Wealth Management customers and build a more sustainable and resilient business.

During 2017, we overcame a key challenge when we reached agreement with a new USD correspondent banking partner, which is now restoring foreign exchange revenues.

In Banking, we also made a concerted effort to drive loan book and deposit growth, while striving to maintain a strong prudential and conservative capital adequacy position.

The Wealth Management division also continued to deliver growth in the funds management, stockbroking and trustee businesses.

As a result, we were able to deliver a solid underlying profit of PGK30.0m for the full year 2017 and a full year dividend of PGK15.00 toea per share.

When I commenced as CEO in December 2017, I made it my mission to meet as many of our people in the business as possible so I could formulate a clear understanding of the opportunities and challenges we faced.

Kina has achieved a great deal in a relatively short period of time since its acquisition of Maybank PNG in 2015 followed by its successful listing on the ASX and POMSx. During this time, Kina has made significant investment in areas such as technology and its people, and these initiatives have delivered significant value to our stakeholders and provided a strong platform for future growth.

Kina is now ready for its next exciting chapter and we have refined our strategy to ensure we deliver greater value to our customers and the services they need anytime, anywhere and anyhow.

In 2018, Kina's vision and purpose have evolved. Our redefined vision is to become the most dynamic, progressive and accessible financial services company in Papua New Guinea. As a purpose-driven organisation, we are also focused on ensuring our customers and communities are empowered to have financial independence and security.

As the only integrated financial services company in PNG, our strategy is based on differentiation, value for money, and targeted market segments.

Kina has identified five key strategic priority areas – Partnerships, Digital, Responsible, Brand and Knowledge – which are designed to ensure Kina's ongoing sustainability.

Our aspirations are underpinned by technology and innovation. In this way, we are overcoming PNG's unique geographic and demographic challenges by enabling customers to connect anytime, anywhere and anyhow.



Kina's digital strategy is comprehensive and we have and are continuing to invest in new products and services that will be distributed digitally.

The development and release of our personal and corporate banking mobile apps in 2017 are key examples of this focus on digital innovation. Kina's launch of a superannuation app which allows us to reach out to more than 700,000 members provides further evidence of our commitment to technology and innovation as a key differentiator.

One of Kina's comparative advantages in the area of digital innovation is that we are unencumbered by many of the legacy issues with systems and processes that are hampering others within our industry.

Kina has a long history of building strong relationships with its customers in order to meet their needs. Our latest digital and technology investment further strengthens our "Together It's Possible" commitment, and we are now in an even better position to meet their needs through access to product and service lines across our business.

Given Kina's unique position as PNG's only integrated financial services provider, we are keenly aware of the responsibility we have to the communities which we serve.

As such, we are developing a total societal impact strategy, as a formal policy statement, outlining how we go about doing business.

As part of this initiative, we are currently considering three key initiatives, the development of an SME capital fund; a Kumul Game Changers Youth Entrepreneurship program with a specific focus on FINTEC; and partnerships with key microfinance agencies for the provision of wholesale funding and personal banking services.

Outlook

Kina produced a strong underlying performance in 2017, despite the challenges of the prevailing economic conditions.

PNG's Real GDP growth has been projected to increase to 2.5 per cent in 2018 by the World Bank and around 2.7 percent, as shown in the 2018 Budget, by the Bank of PNG Governor Mr Loi Bakani.

PNG is still experiencing the impacts of the drop in global commodity prices as detailed in a recent World Bank report. The report reaffirmed there is a positive outlook for agriculture commodities, due to improved weather and growing conditions. The report also highlighted that the resources sector would be the main driver for overall GDP growth in 2018.

Despite these challenges, Kina remains positive about its opportunities, given the growth in its Bank and Wealth Management franchises. Kina is well-placed to achieve growth given its ability to leverage its unique position in the PNG financial services sector and the new opportunities available through technology innovation in the digital world. These important factors, in addition to Kina's highly engaged workforce, provide us with confidence about Kina's ability to perform solidly over the longer term.



Greg Pawson
**Chief Executive Officer and
Managing Director**

Strategic Direction

It has been more than two years since Kina launched its new brand under the brand slogan "Together It's Possible".

With the new leadership of CEO Greg Pawson, the time was right to refresh Kina's vision, purpose and strategic priorities.

Our strategy is focused on delivering future growth and meeting our customers' needs, as well as their changing financial services preferences in a more digital world as PNG continues to embrace new technologies. As the only integrated financial services company in PNG, our strategy is centred around service differentiation, value for money, and targeted market segments.

Our sharper and more aspirational vision is to be the most dynamic, progressive and accessible financial services company in Papua New Guinea.

Our mission and purpose is to ensure that our people, customers and communities are empowered to have financial independence and security.

Our five strategic priorities are:

Partnerships

Life-long customer relationships. Strong valued strategic partnerships. 'Together it's Possible'.

Digital

Clarity in offering that surpasses anything in the market today, best user interface, operational excellence. 'Connect Anytime, Anywhere, Anyhow'.

Responsible

Strong addition to the communities we serve. Positively contributing to a growing and vibrant economy.

Brand

Local pride in the Kina brand. Recognised as a viable, secure and differentiated financial services organisation. 'Local and Strong'.

Knowledge

Recognised as having the best people in the financial services sector. 'Empowered and capable people'.

Kina has significantly invested in the core systems and processes, and highly engaged and capable people to help us deliver on our strategic priorities. This will provide us with a solid foundation for future growth and deliver long-term value to our stakeholders.

Our aspirations are underpinned by digital technology and innovation.

We have a comprehensive digital strategy and we have and are continuing to invest in new products and services that will continue to be distributed digitally.

With this approach, we will overcome the unique geographic and demographic challenges PNG faces by enabling customers to connect with us anytime, anywhere and anyhow.

The development and release of our personal and corporate banking mobile apps are great examples of this, and our superannuation app allows us to reach out to more than 700,000 members.

Our purpose as an organisation is underpinned by our strong commitment to the communities we serve in PNG. We propose to bring this commitment to life through the ongoing development of social responsibility policies.

We are in the business of doing good and will drive future growth at the same time, ensuring the long-term resilience and sustainability of our operations.

The Board and the executive team (under Greg Pawson's new leadership) are committed to ensuring that we continue to deliver on our brand promise to stakeholders that "Together it's Possible".







Placing the customer at the centre of everything we do, **we have a true understanding of their needs.**

Partnerships

As a home-grown, diversified financial services company, Kina is focused on forging deeper and broader relationships with its customers under its banner “Together It’s Possible”.

Through this focus, Kina is confident it will build life-long relationships with its customers and strategic partnerships that deliver value to all Kina’s stakeholders.

By placing the customer at the centre of everything we do, we have a true understanding of their needs and can better offer them products and services to meet their needs.

Given Kina is in a unique position as PNG’s only diversified financial services company, we have a rare opportunity to break down the traditional silos which exist between banking and wealth management businesses. Through taking this more holistic view of our customers’ relationships with us, we will be able to cross-sell more products and services and provide greater value to our customers.

For example, Kina now provides Fund Administration services to 90% of the market and has the opportunity to offer targeted wealth management and banking products to a customer base of more than 700,000 superannuation members.

Kina is also partnering with third-party providers so that customers can access different services and products.

A recent example of this is the trade and finance agreement signed with the Asian Development Bank (ADB) and Kina Bank, enabling ADB’s Trade Finance Program (TFP) to provide a credit guarantee facility that can support up to \$4 million of trade annually in PNG.

With ADB’s backing, Kina will be able to grow its trade finance operations and increase financial support to local importing and exporting businesses, including small and medium-sized enterprises.

Kina is currently investigating a number of partnering opportunities including:

- Partnering with institutions to develop new investment products.
- Developing an SME capital fund.
- Partnerships with key microfinance agencies to provide wholesale funding and personal banking.

Our digital strategy is
designed to ensure

**our sustainability
in a financial
services
environment.**



Digital

At Kina, our aspirations are underpinned by a strong commitment to technology and innovation.

PNG continues to have a high unbanked rate owing to a number of geographical and demographic challenges faced by our country.

In response to these challenges, Kina has developed a comprehensive digital strategy.

This digital strategy is designed to ensure our sustainability in a financial services environment where products and services are becoming increasingly commoditised.

Harnessing new technology that increases access and lowers costs of financial services is also integral to achieving financial inclusion in PNG.

Through investment in technology and innovation, we are well-placed to take advantages of the opportunities provided in the new digital world we live in, ahead of our competitors.

In December 2017, Kina launched internet banking and mobile banking applications for both our personal and business customers. This has provided an unprecedented level of access for our customers and has radically changed the way they can now interact with the group. The new mobile applications allow our customers access to their money "Anytime, Anywhere, Anyhow".

This was made possible following the successful upgrade of our core banking system during the year.

Kina's superannuation application now allows us to reach out to more than 700,000 members following the continued progress of our funds administration services agreement with Nasfund.

This technology will also facilitate cross-selling of other products and Kina Wealth is developing new retail products targeting the middle income market. The growing PNG middle class is considering investment opportunities in domestic and international wealth funds.

In our funds administration business we are rapidly moving to Straight Through Processing (STP). When we achieve this, it will be ahead of our counterparts in Australia.

STP provides key advantages by allowing us to process high volumes of transactions with exceptional accuracy. This increases efficiency and reduces operational risk through the provision of a fully automated process.

However, Kina's focus on digital innovation is not an all or nothing strategy.

We also invested in a new Kina concept outlet at Vision City during the year. The branch, which was rebranded with Kina's distinctive new brand, was opened in May 2017. The location and the design of the branch has been a great success, enjoying good transactional and deposit growth since opening its doors.



Responsible

Sustainability is at the heart of Kina's redefined vision and purpose and at the core of our new strategic priorities.

With sustainability at our core, we place the health, safety and wellbeing of our people and the community we serve first. We are environmentally responsible, we respect human rights, and we support local communities.

High governance standards are critical to delivering our strategy. In this way, we are creating long-term value and preserving our social license to operate.

Our purpose as an organisation is underpinned by a Total Societal Impact (TSI) strategy, which is presently being developed by Kina.

TSI is the total benefit to society from a company's products, services, operations, activities and core capabilities.

There are a number of emerging trends that mean Kina must take a more proactive role in considering our TSI.

Today Kina's stakeholders, including the investment community, expect companies to play a more active role in addressing social and environmental issues. Employees and future employees, particularly millennials, increasingly want their employers to display a greater sense of purpose. Increasingly, our employees also want to play an active role in our societal impact efforts. Our customers are also increasingly interested in information related to the company's social and environmental impact. This information contributes to their buying decisions. Governments are also expecting more of companies and see them as having a part to play in helping to solve economic and social problems. They are looking to collaborate with local companies in such initiatives.

When a TSI strategy is well executed, there is mounting evidence that it enhances Total Shareholder Returns over the longer term. It achieves this by reducing the risk of negative events and opening up new corporate opportunities.

In business today, no matter where a company is operating around the world, it is no longer enough to pursue societal issues as an activity on the side. Companies must instead integrate these into their core business, using their scale advantages to deliver positive societal impact and business benefits.

Kina's focus will be on business opportunities that generate significant shareholder returns, as well as societal impact above the intrinsic benefits of the products or services we offer. This will require identifying ways to leverage our core business to address social and environmental goals. Examples may include leveraging our core capabilities of Kina's business, enhancements to existing products or services or the development of new ones.

PNG's unbanked rates are among the highest in the world due to challenges such as our geographically dispersed communities, low population density, low financial literacy, diverse language and cultures, and relatively underdeveloped telecommunication infrastructure.

Kina supports the financial inclusion targets of the Bank of Papua New Guinea. We are proposing the development of an education program around savings and budgeting in 2018. Our staff will deliver these training sessions at our four key locations during the year.

In 2017, Kina and its staff also supported a number of initiatives, including The Daffodil Corporate Cup Golf Challenge, which is an initiative of Cancer Foundation PNG in partnership with Oil Search Foundation, and Links of Hope, an organisation that supports homeless children with basic needs such as food, and water, giving them an opportunity to be educated.

In addition to a formal policy statement outlining how we go about doing business in our TSI strategy, there are three key initiatives that are under development which will form the foundation of our Corporate Social Responsibility Strategy. These include:

- Development of an SME capital fund
- Kumul Game Changers Youth Entrepreneurship program with a specific focus on FINTEC
- Partnerships with key microfinance agencies for the provision of wholesale funding and personal banking services.



Kina supports development of new satellite township

Kina's involvement in Edai Town is a demonstration of its commitment to assisting local business and helping to improve the lifestyles of all Papua New Guineans

Edai Town is an integrated private sector mixed development on alienated State land. This township is being developed by a Malaysian Group in a joint venture with PNG landowners.

Kina Bank has provided various types of business finance to the Edai Town developers and associated businesses.

These loan facilities have enabled Edai town to continue its construction and social development projects; in providing Papua New Guineans with the ability to purchase quality, affordable housing.

Kina is also providing home loans to homebuyers who are planning to call Edai Town their home.

The concept of Edai Town, which was launched in 2013, is to develop a privately planned township encapsulating a safe, affordable and conducive living environment for middle class Papua New Guineans.

This satellite township is 20 kilometres from the capital of Port Moresby along the new north-west corridor.

The township has modern services, which include reticulation of water, sewerage, electricity, and internet services.

This modern township is proposed to eventually be home to more than 10,000 people in a community which will include a police station, school, recreation, business and light industrial areas.

Edai Town has been approved as a staged mixed development with seven master titles, three for residential gated communities (totalling approx. 109 hectares), two light industrial parks (totalling approx. 30 hectares), and two master commercial titles (totalling approx. 7.50 hectares).

The Edai Town success has come from the collaborative agreement between the local land owners and the experienced management of Edai Town Development Company; in providing jobs and work skills to the local people.



Brand

Kina's brand sets us apart in the market.

Our distinctive brand, which was launched in 2015, is a reflection of Kina's local roots while positioning us to support the future prosperity of PNG and its people.

Kina is proud of its heritage as a home-grown PNG company that has contributed to the region's social fabric for three decades and is uniquely positioned to help Papua New Guineans build the lives they choose.

Kina provides an opportunity for customers to join a locally-grown bank and wealth management alternative providing progressive and accessible financial services.

The Kina logo draws inspiration from the traditional, woven bilum bag and the bold patterns of tapa bark cloth. The intertwined strands reflect the two-way partnership between Kina and its customers, representing a common goal of prosperity. Our brand slogan "Together It's Possible" makes a pledge to customers, reinforcing the strong relationship that forms the cornerstone of the Kina brand.

Through our commitment to our brand, we aim to engender local pride in the Kina Brand and ensure we are recognised as a viable, secure and differentiated financial services organisation in PNG.

Following our rebrand, our research has shown there is strong recognition of our brand in PNG. However, we must continue to educate our customers about our brand proposition and the full range of products and services we can offer them, particularly our banking products and services.

Key brand initiatives in 2017 included:

- Launching a new concept branch showcasing our brand at Vision City Mall
- Securing the naming rights to "The Tower", our headquarters and landmark Port Moresby CBD building to be renamed Kina Haus.

The launch of Kina's new Vision City bank branch became a destination for customers, where they could experience Kina Bank firsthand, and have solutions tailored to meet their financial needs.

In 2018, Kina is launching a new brand identity for Kina Bank as an extension of the existing brand to heighten awareness of Kina's banking offer.



We aim to engender
**local pride in
the Kina Brand.**



We support our people to
**grow, learn
and develop
their skills.**

Knowledge

We value our people and encourage the development of talented and highly engaged employees to support the continued performance and growth of our diverse operations. We strive to build a sense of purpose and achievement among all our people in the work we do.

In reflecting the communities we serve, we are keenly focused on achieving an equitable gender balance throughout our business. In doing so, we wish to harness the potential that a more inclusive and diverse workplace delivers to Kina. With this focus, we believe we will leave a positive legacy in PNG for generations to come. Our approach to gender balance is focused on ensuring Kina is an attractive place for a range of diverse people and also taking steps to ensure that our policies and processes do not encourage any bias.

Given Kina's focus on technology as a way of overcoming the unique geographic and demographic challenges PNG faces and delivering the services our customers need, we are expanding our technology capabilities and talent across the organisation.

We also support our people to grow, learn, and develop their skills, so they can achieve their full potential.

A key initiative launched in 2017 was an Online Learning Management System (LMS) which allowed for compliance and regulatory courses to be offered to our people. An extension of this platform is an extensive performance management system to be implemented in 2018. This system enables complete transparency for employees on their objectives and performance assessment, and ensures alignment to the company's strategic vision, 2018 business plan objectives and its core values.

Kina has also supported job enrichment opportunities for its people, and has supported a number of secondments across the business during 2017. These have resulted in a number of our staff gaining valuable experience and moving to other parts of the business.

The group also offers an internship program. As a result, a number of local interns gained employment in Kina's Human Resources and Information Technology departments in 2017.

Banking

Kina operates the fourth-largest bank in PNG with more than 16,000 customers from seven locations covering the major commercial and retail growth centres in PNG.

The Kina Bank network has been tailored to the specific requirements of the PNG retail and business banking markets and includes cashless branches, full service branches, automatic teller machines and an online banking platform with access to the EFTPOS and ATM network of all the licenced banks across PNG.

Kina Bank has three full service branches, with two in Port Moresby located at Waigani and the Vision City Mega Mall, and one located in Lae, Top Town. Lending centres are located in Port Moresby, Vision City, Kokopo, Lae and Mt Hagen.

Kina Bank provides all of the usual transactional and lending products available from a bank, as well as foreign exchange transactions, insurance premium funding, equipment finance and general insurance on an agency basis.

Kina Bank offers a wide variety of lending products to a broad cross-section of the personal and business markets within PNG. All business lending is relationship managed and provided on a fully secured basis against bricks and mortar security; a mixture of commercial and residential properties. Personal lending is your typical home and investment home loans, in addition to novated motor vehicle leasing and unsecured personal loans via Kina Bank's "EsiLoan" brand.

As at 31 December 2017, the total loan book value was PGK726 million with the business and personal portfolios. The majority of business customers are private family companies, active in the wholesale and retail trade, real estate/renting/business services; and hotels and restaurants.

2017 was a year of significant investment for Kina Bank with the focus on setting up the business for success. Key initiatives included:

- upgrading our new core banking system
- launching new digital banking technology
- launching our new concept branch at Vision City
- launching new banking products
- enhancing our risk and compliance capability to support FX transaction monitoring.

In December 2017, a key initiative for the bank was our launch of internet banking and mobile banking applications for both our personal and business customers, providing an unlimited level of access for our customers. This was made possible following the successful upgrade of our core banking system on time and budget during the year. The new mobile applications allows our customers access to their money "Anytime, Anywhere, Anyhow".

A revamp of our home loan and investment home loan products during the year led to a strong response from customers and good lending volumes. The Personal Lending portfolio saw growth in excess of 30% in 2017 and the pipeline indicates continued growth in 2018.

Kina continues
to lead the way in
**online and
digital banking.**





Kina provides fund
administration services
**to 90% of the
PNG market.**

Wealth

Kina operates the largest Wealth Management business in PNG. Together with Kina Bank, these businesses position the group as the only integrated financial services company in PNG.

Kina's Wealth Management business provides services including:

- Funds management and investment advisory
- Funds administration including registry and investment accounting
- Custodian and trustee services
- Financial planning
- Stockbroking and corporate advisory.

Kina's funds management business provides services to several major superannuation funds, landowner groups, corporate, and private investment clients.

Funds Under Management increased 10% to PGK6.9b during 2017, due to growth in member contributions, as well as positive investment returns.

The funds management division is a licensed investment manager with an in-depth understanding of the investment climate in PNG and the Asia-Pacific region.

This division provides investment management services across all major asset classes, both in PNG and internationally, to a diverse set of institutional clients. This includes portfolio management and financial advisory, primarily for clients including investment funds, corporations and financial institutions.

It manages assets including cash investments, fixed income investments (government and corporate debt), listed equities, private equities and property investment (real estate and property trusts). In providing investment management services Kina Wealth's funds management business also provides custodial and settlement services and comprehensive investment reporting.

Kina Wealth also acts as a fund administrator for a number leading superannuation funds and private investment clients. As such it provides fund administration services to 90% of the market. Services comprise member registry, contributions and payments processing, and investment accounting.

A key highlight for the funds administration division was agreement to provide services to PNG's largest superannuation fund, by members, Nasfund. As a result of this agreement, Funds Under Administration increased by 60% to PGK11b and member numbers increased to more than 700,000. The service was successfully transitioned by mid-year allowing NASFUND to completely separate from their previous administrator. Over the balance of 2017 many of the issues normally associated with a migration of the size and scale of Nasfund were managed proactively to ensure good progress to maximising the benefits of the administration technology platform used by Kina Wealth for the benefit of NASFUND and its members.

With a strong position in the funds administration market, Kina Wealth aims to deliver straight through processing in the medium term, putting the industry on par with best practice achieved in other jurisdictions. During 2018, Kina Wealth's funds administration division will develop and launch a data analytics capability as part of its commitment to providing greater value-added services to our superannuation fund clients. PNG-based superannuation funds are seeking increased member engagement through a more structured and tailored approach, which more closely meets the needs of individual members.

Kina Wealth is also focused on developing and launching retail investment products targeting the middle income market. This remains a key goal for 2018 and beyond in order to meet a need of PNG's growing middle class who are looking for investment options outside of traditional bank offering; and provides an opportunity for Kina Wealth to grow and enhance profit margins. Development and launch of our retail funds is subject to regulatory approvals. Kina sees PNG's introduction of new legislation, establishing a Securities Commission with new powers to approve retail issues of collective investment vehicles as a positive step for the industry. While the process of bedding in the new legislation and new Commission will necessarily take time, it demonstrates recognition from the PNG Government of the need for appropriate legislation to facilitate and accelerate the development of the retail savings and investment market.

Strategically, the link between Kina Wealth and Kina Bank provides the opportunity to provide bespoke financial services to superannuation funds and their members. Such preferred product and service arrangements are a key area of development for Kina Bank.

Board of Directors

Isikeli Taureka

Chairman
Non-Executive Director

Mr Isikeli Taureka was appointed as a Director of Kina in May 2016 and became Non-Executive Chairman in May 2017. He is an Executive Director at InterOil Corporation and was previously InterOil's Executive Vice President, Papua New Guinea, accountable for the company's daily operations across the country.

Isikeli previously held a number of roles with Chevron Corporation, including Head of Chevron Corporation's Geothermal and Power Operations; President of ChevronTexaco China Energy Company with responsibility for Chevron's oil and gas upstream activities in China; Managing Director of Chevron Asia South Business Unit responsible for exploration and production in Thailand, Bangladesh, Cambodia, Myanmar and Vietnam; and General Manager and Country Manager for Chevron New Guinea Limited with responsibility for oil operations in Papua New Guinea and Western Australia.

Before joining Chevron, Isikeli managed the PNG-owned Post and Telecommunication Corporation, worked at the Bank of South Pacific Limited in a senior management capacity and was Deputy Managing Director at Resources Investment Finance Limited.

He holds a Bachelor of Economics degree from the University of Papua New Guinea and is a Graduate of the Australian Institute of Company Directors.

Greg Pawson

Chief Executive Officer
Managing Director

Greg Pawson was appointed Managing Director and CEO of Kina in 2018. He joins the Group with an extensive knowledge of the financial services industry in Australia, New Zealand, South East Asia and the Pacific.

Mr Pawson has held senior management positions at Westpac, BT Financial Group, and Colonial.

Before his appointment to Kina, Mr Pawson was Regional Head of South Asia Pacific for the Westpac Group and held senior executive roles in retail banking, corporate financial services, financial planning and funds management.

Mr Pawson has also held a number of high-profile positions including three years as president of the Australia-PNG, Australia-Fiji and Australia-Pacific Islands business councils.

Jim Yap

Non-Executive Director

Mr Jim Yap has been a Director of Kina since 2012. Jim has significant experience in the banking industry in Australia, PNG and Taiwan.

Jim also currently serves as a director of Niule No.1 Ltd (appointed 2009) and Raintree Development Ltd (appointed 2012).

Jim's previous experience includes senior management roles at ANZ Banking Group (PNG) Ltd, including roles as Head of Commercial Banking and Head of Regional Sales and Origination. In addition, Jim has held a number of other roles within ANZ, spanning more than 37 years in retail banking, import and export, credit, corporate and institutional banking.

Jim holds a Bachelor of Science degree and Graduate Diploma in Education from Monash University, Melbourne, Australia, a Graduate Diploma in Management from the Royal Melbourne Institute of Technology, Melbourne, Australia, and is a member of the PNG Institute of Directors.

Karen Smith-Pomeroy

Non-Executive Director

Ms Karen Smith-Pomeroy was appointed as a Director on 12 September 2016. She is an experienced Non-Executive Director, with involvement across a number of industry sectors. Karen has more than 30 years of experience in the financial services sector, with senior roles in Queensland and South Australia, including a period of five years as Chief Risk Officer for Suncorp Bank.

Karen has specific expertise in risk and governance, deep expertise in credit risk and specialist knowledge of a number of industry sectors, including energy, property and agribusiness.

Karen is currently a Non-Executive Director of Queensland Treasury Corporation, Stanwell Corporation Limited, InFocus Wealth Management group and National Affordable Housing Consortium Limited. She is also a member of the Queensland Advisory Board for Australian Super, Australia's largest industry super fund.

Karen holds accounting qualifications and is a Fellow of the Institute of Public Accountants, Fellow of the Financial Services Institute of Australasia, a Member of the Association of Superannuation Funds of Australia, a Certificate Member of the Governance Institute of Australia and a Graduate of the Australian Institute of Company Directors.



- 1** Isikeli Taureka
- 2** Greg Pawson
- 3** Jim Yap
- 4** David Foster
- 5** Karen Smith-Pomeroy

David Foster

Non-Executive Director

Mr David Foster is an experienced Non-Executive Director with a diverse portfolio of directorships and advisory roles. David has 25 years of experience in financial services. David was appointed a Director of Kina in 2015.

David is currently an independent Non-Executive Director for a variety of ASX-listed companies across a range of industries. David is Chair of Motorcycles Holdings Ltd and Thorn Group Ltd, and a Non-Executive Director of G8 Education Ltd, Genworth Mortgage Insurance Australia Ltd, Thorn Group Ltd and the commercial arm of the Local Government Association of Queensland.

David's prior experience includes a number of senior executive roles within Suncorp Group Limited, most recently as CEO of Suncorp Bank, where David led it through a highly volatile period during the global financial crisis. This included the turnaround of its retail, small and medium enterprise and agricultural businesses and managing down AUD18b in problem and non-core assets to maximise shareholder capital outcomes. David was also the Group Executive, Strategy during the acquisition of Promina Limited, one of Australia's largest financial services transactions.

Prior to Suncorp, David had more than 14 years at Westpac Banking Corporation in a number of senior roles in Sydney and Queensland.

David has an MBA, a Bachelor of Applied Science and is a Senior Fellow with Financial Services Institute of Australasia and a Graduate of the Australian Institute of Company Directors.

Sir Rabbie Namaliu

Non-Executive Chairman (retired May 2017)

Wayne Golding

Non-Executive Director (retired May 2017)

Syd Yates

Managing Director
Chief Executive Officer (retired January 2018)

Executive Management Team

Greg Pawson

Chief Executive Officer
Managing Director

Greg Pawson was appointed Managing Director and CEO of Kina in 2018. He joins the Group with an extensive knowledge of the financial services industry in Australia, New Zealand, South East Asia and the Pacific.

Mr Pawson has held senior management positions at Westpac, BT Financial Group, and Colonial.

Before his appointment to Kina, Mr Pawson was Regional Head of South Asia Pacific for the Westpac Group and held senior executive roles in retail banking, corporate financial services, financial planning and funds management.

Mr Pawson has also held a number of high-profile positions including three years as president of the Australia-PNG, Australia-Fiji and Australia-Pacific Islands business councils.

Chetan Chopra

Chief Financial Officer

Mr. Chetan Chopra is the Chief Financial Officer and Company Secretary, reporting directly to the CEO. Chetan is a widely experienced finance executive and a chartered accountant by profession. He joined Kina in 2016 after spending two years as CFO of PNG's largest superannuation fund, Nambawan Super Limited.

Chetan has extensive working experience and knowledge of PNG and for eight years as Partner with KPMG managing the Momase and Highlands regions of PNG. Over a similar period he was CFO of Dun and Bradstreet, South Asia and Asia, covering 9 different geographies in the region. Chetan also has held a number of senior leadership roles in Australia in both the private sector and public sector, including the Australian Taxation Office.

Deepak Gupta

Executive General Manager – Kina Wealth

Mr Deepak Gupta has had a long and successful career in financial services spanning 32 years, having held a variety of senior executive roles in leading financial services institutions including Westpac, AMP and domestic New Zealand institutions.

These roles have involved all facets of institutional funds management, private equity investment, funds administration, financial planning, and corporate trusteeship. In addition, Deepak has strong governance experience having acted as a Non-Executive Director on the boards of NZX and ASX listed companies, and private businesses in a variety of industries. He has also been active with industry bodies and has represented New Zealand on international analyst bodies.

Deepak brings substantial experience and a track record of success and innovation across a number of areas in financial services. These include successful development of New Zealand's first institutional private equity fund for retail investors, and leading the commercial development and success of New Zealand's largest registry business for its workplace-based retirement savings scheme.

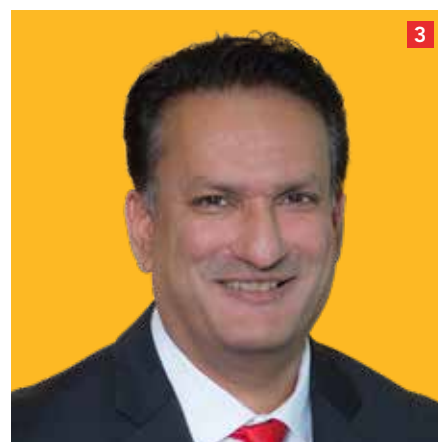
Danny Robinson

Executive General Manager – Kina Bank

Danny Robinson is Executive General Manager of Banking, responsible for the implementation of the Group's ambitious growth and profit targets as we establish ourselves as a new force in PNG retail and business banking sectors following the Maybank acquisition.

Danny has had a long and successful career in financial services, having held a variety of senior executive roles at Suncorp Metway, commencing in 1997. These roles included General Manager of Commercial Banking, Executive General Manager of Specialist Sales and Service and Head of Business Customers. Most recently, he worked in an executive capacity within Suncorp's risk management section. He brings a wealth of experience and a successful track record of establishing Suncorp's distribution networks in new markets and achieving outstanding growth targets while delivering enviable customer service standards.

Danny holds a Post Graduate Diploma in Banking Management from the Macquarie Graduate School of Management, Australia and is a Graduate of the Australian Institute of Company Directors and a Fellow of FINSIA.



- 1** Greg Pawson
- 2** Chetan Chopra
- 3** Deepak Gupta

- 4** Danny Robinson
- 5** Michael Van Dorssen
- 6** Tony De La Fossee

Michael Van Dorssen

Chief Risk Officer

Mr Michael Van Dorssen joined Kina in 2009 and is currently the Chief Risk Officer for the group. As part of the good governance of Kina and consistent with financial industry best practice, Kina has established the risk division to assist the group in its risk management and controls. Michael has extensive experience in the banking industry in both Australia and PNG, with a career spanning more than 30 years.

Prior to joining Kina, Michael worked for Suncorp Limited as the District Manager for the bank's agribusiness division (from 2004 to 2008) and Westpac Bank PNG Limited (from 1999 to 2002).

Tony De La Fossee

Executive General Manager – Shared Services

Tony is responsible for a range of corporate functions including Human Resources, Administration, Information Technology, Real Estate, Legal and Procurement, and Sourcing.

Tony graduated from the Royal Military College Duntroon in 1982. He holds an Arts Degree from the University of New South Wales together with a Graduate Diploma in Human Resources and an MBA.

Corporate Governance Statement

Introduction

The Kina Group places great emphasis on the continued development of a strong compliance culture. In an emerging market place, Kina seeks to be innovative as well as provide a safe and secure environment for its customers and clients, which in turn brings value to Shareholders.

The Board of Directors of Kina Securities Limited (**Board**) is responsible for the overall corporate governance of Kina Securities Limited and its related entities (**Kina**, or **Kina Group**, or **Group**, or the **Company**), including adopting appropriate policies and procedures designed to ensure that Kina is properly managed to protect and enhance Shareholder interests.

The Board monitors the operational and financial position and performance of Kina and oversees its business strategy, including approving the Company's strategic goals and considering and approving business plans, policy and budget.

The Board and management have designed a governance framework for the operation and management of Kina, which incorporates resilient internal controls, risk management processes and governance policies and practices. The Board monitors adherence to this framework which enables the Group to comply with relevant laws, regulations and standards set down by the Bank of Papua New Guinea (**BPNG**), the Australian Securities Exchange (**ASX**), the Port Moresby Stock Exchange (**POMSoX**), the PNG Companies Act 1997 (**PNG Act**), PNG Securities Act and the Australian Corporations Act 2011 (Cth) (**Corporations Act**).

This Corporate Governance Statement (**Statement**) sets out the core of Kina's corporate governance framework and practices by reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (**Recommendations**). The Statement was approved by the Board on 26 March 2018. The Board considers and applies the Recommendations, taking into account the circumstances of Kina. Where Kina's practices depart from a Recommendation, this Statement identifies the area of divergence and reasons for it, or any alternative practices adopted by Kina.

Governance framework

The core of Kina's corporate governance framework is the Company's Constitution and the documents listed below, which are referenced in this Statement. The charters and governance policies are reviewed regularly to ensure they comply with any updated laws or regulations, that they meet high governance standards and that they remain relevant to the Company and its operations.

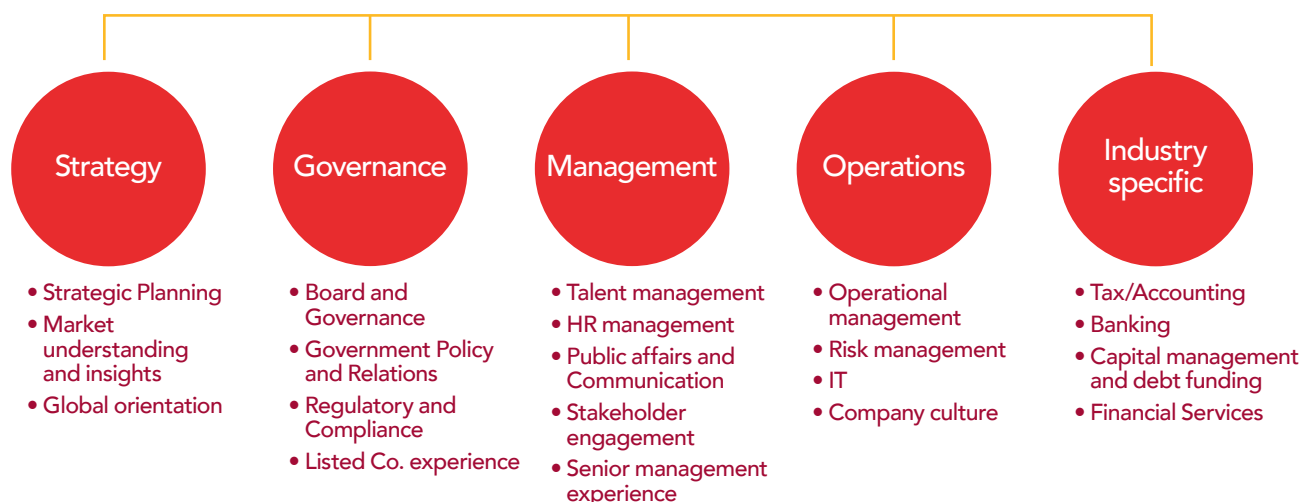
1. Kina Securities Limited Constitution (2015)
2. Board Charter (approved December 2017);
3. Audit and Risk Committee Charter (approved December 2017);
4. Remuneration and Nomination Committee Charter (approved December 2017);
5. Disclosure Committee Charter (approved December 2017);
6. Securities Trading Policy (approved February 2017);
7. Shareholder Communications Policy (approved October 2016);
8. Continuous Disclosure Policy (approved October 2017);
9. Diversity Policy (approved October 2017);
10. Code of Conduct for Directors (approved February 2017);
11. Code of Corporate Conduct (approved February 2017); and
12. Conflict of Interest Policy (approved February 2017)

Copies of the corporate governance documents are available on the Corporate Governance page under the Investors tab on Kina's website at: <http://investors.kina.com.pg/investors/?page=corporate-governance>.

Board of Directors

The Role of the Board

The Board is committed to maximising performance, generating shareholder value and financial returns, and sustaining the growth and success of Kina. In conducting Kina's business in accordance with these objectives, the Board seeks to ensure that Kina is properly managed to protect and enhance shareholder interests, and that Kina, its directors, officers and personnel operate in a well governed environment.



The Board has adopted a board charter (**Board Charter**). The Board Charter sets out, amongst other things, the

- roles and responsibilities of the Board, including those matters specifically reserved to the Board;
- role and responsibility of the Chief Executive Officer (CEO), which is primarily the day to day management of Kina;
- procedure for management of potential and actual conflicts of interest; and
- guidance on board performance evaluation, ethical standards and taking independent professional advice.

Director Appointment

As is required by the BPNG's Prudential Standards (**Standards**), Kina undertakes a 'Fit and Proper' testing for candidates for 'Responsible Person' positions, which includes directors and Executive Management. This rigorous testing, which, in accordance with the Standards, is carried out on an annual basis, includes thorough background checks. When directors are proposed for election, or re-election at general meetings, the notice of meeting provides material and relevant information to enable shareholders to make an informed decision as to whether or not to elect or re-elect the candidate.

Kina has entered into a written agreement with each director and senior management team member that sets out, amongst other items, the terms of their appointment and their roles and responsibilities.

Board Composition

Since listing, Kina has developed and applied a succession plan to ensure the appropriate mix of skills, knowledge and guidance has been available amongst its directors for the different stages of the Group's journey.

To assist in identifying areas of focus and maintaining an appropriate mix of skills and experience, the Board uses a self-assessment questionnaire to evaluate performance and measure skills and experience. The Board has identified 25 specific skills within six categories which directors measure themselves against. The questionnaire is crafted to ensure that those skills and experience required in order to achieve the current strategic objectives are present on the Board. Where they are not, the Board seeks to supplement any gaps through director training or recruitment. Where requirements are for a finite period, for example, during a specific project, the Board will seek to utilise expertise of existing personnel or engage consultants.

Kina's Board presents specific strengths in regard to strategy development and operational implementation of strategy. Along with comprehensive experience in financial services, the directors' knowledge and experience within risk management, regulatory compliance and governance are particularly relevant for the current stage of Kina's growth and development. Further, the directors recognise the need to ensure there is appropriate experience and knowledge of PNG and, currently, this is an area that the Board is seeking to further develop.

Due to the changeover of the Managing Director and CEO, which occurred at the end of 2017, only the non-executive directors took part in the year's performance and skills evaluation.

Corporate Governance Statement

Board skills matrix

The Board seeks to have an appropriate mix of skills, experience, expertise and diversity to enable it to discharge its responsibilities and add value to the Company.

As at 31 December 2017, the directors collectively contribute the following key skills and experience:

Desired skill	The extent to which the skill is collectively contributed by directors
Strategy	
Strategic Planning	90%
Market understanding and insights	70%
Global orientation and exposure	65%
Governance	
Corporate Governance	85%
Government Policy and relations	75%
Regulatory and compliance	85%
Management	
HR management	55%
Crisis management	75%
Diversity	85%
Company culture and management	85%
Public affairs and communication	65%
Previous senior management experience	100%
Operations	
Risk management	80%
Operational management	80%
Information Technology	50%
Insurance	50%
Industry specific	
Tax	30%
Banking	90%
Capital management and debt funding	65%
Financial services	85%
Formal accounting and finance qualifications	65%
Board experience	
Audit committee experience	70%
Remuneration and nomination committee experience	75%
Previous or other listed company experience	65%
Risk committee experience	80%

Independence

The Board considers an independent director to be a non-executive director who is not a member of Kina's management and who is free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the independent exercise of their judgement. The Board reviews the independence of each Director in light of interests disclosed to the Board regularly (and at least annually) and having regard to the relationships listed in Box 2.3 of the Recommendations.

The Board does not consider Jim Yap to be independent due to his association with a substantial shareholder of Kina.

The Board considers that each of the directors brings objective and independent judgement to Board deliberations and makes a valuable contribution to Kina through the skills they bring to the Board and their understanding of Kina's business.

Throughout the year, the Board had a majority of independent directors.

Director induction and education

Kina's induction program is designed to provide all new directors a comprehensive view of the business. As part of the induction, new directors are given a detailed overview of Kina's operations, copies of governance and internal policies and procedures and instruction on the roles and responsibilities of the Board, its committees and management. The electronic board portal provides directors access to relevant governance documents, educational information, board and committee papers and provides a secure means of communication between directors and management. There is a strong emphasis on continued education and directors, are expected to keep themselves updated on changes and trends within the business, in the financial sector, market environment and any changes and trends in the economic, political, social, global, environmental and legal climate generally.

As required by the BPNG, all directors should devote a minimum of 20 hours per year to their ongoing professional development. Directors are encouraged to attend recognised courses, seminars and conferences and internal education sessions are scheduled at Board meetings throughout the year.

Performance Evaluation

In accordance with the Standards, and as set out in the Board Charter, the performance of the Board, its members and its committees is assessed each year. The Board has undertaken a performance evaluation and skills analysis during the year. The findings are used to further refine the succession and renewal plan which is focussed on the next two to five years. The Board will continue to review individual, Committee and whole of Board performance and ensure that Board composition and the skills and experience of the directors is appropriate.

Directors' details

Name	Appointment date	Resignation Date	Current length of service (to 26 March 2018)	Non-executive?	Independent?
Sir Rabbie Namaliu	16 March 2009	16 May 2017	8 years	Yes	Yes
Syd Yates, OBE	24 June 1997	31 December 2017	20 years	No	N/A
Wayne Golding, OBE	25 May 1996	16 May 2017	21 years	Yes	No
Jim Yap	22 August 2012		5 years, 7 months	Yes	No
David Foster	15 June 2015		2 years, 9 months	Yes	Yes
Isikeli Taureka	19 April 2016		1 year, 11 months	Yes	Yes
Karen Smith-Pomeroy	12 September 2016		1 year, 6 months	Yes	Yes
Gregory Pawson ¹	1 January 2018		3 months	No	N/A

¹ Gregory Pawson appointed as MD/CEO of Kina on 1 January 2018.

Performance evaluations, overseen by the Chairman, in the case of the CEO, and the Remuneration and Nomination Committee in the case of senior management, are carried out on an annual basis and were completed in the year under review.

Chairman

In accordance with the Board Charter, the Chairman of the Board is an independent director. Sir Rabbie Namaliu was Chairman until his retirement following the AGM on 16 May 2017. Subsequently, the Board appointed Mr Isikeli Taureka as Chairman of the Board. The roles and responsibilities of the Chairman are contained within the Board Charter.

Company Secretary

Mr Chetan Chopra was appointed Company Secretary and Chief Financial Officer (CFO) on 21 June 2016. Chetan holds a Bachelor of Science from Mumbai University and an MBA from Melbourne Business School, University of Melbourne. Chetan is a member of Certified Practising Accountants Australia, PNG and India.

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

Board Committees

The Board has the power to establish and delegate powers to committees that are formed to facilitate effective decision making. The Board, however, accepts full accountability for matters delegated by it to those committees.

The Board has established an Audit and Risk Committee, a Remuneration and Nomination Committee and a Disclosure Committee. Each Committee has a separate charter which sets out, in detail, the membership and powers of the Committee, its roles and responsibilities. The charters are reviewed at least annually.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of Kina, relevant legislative and other requirements and the skills and experience of individual directors.

Remuneration

Kina is committed to fair and responsible remuneration throughout the Group. Members of senior management are remunerated in a way that aims to attract and retain an appropriate level of talent and reflects their performance in relation to the delivery of corporate strategy and operational performance. Remuneration for non-executive directors is set using advice from independent consultants and takes into account the level of fees paid to non-executive directors of similar corporations and the responsibilities and work requirements of the non-executive directors.

The Remuneration Report and further details about the remuneration policy of Kina are set out in the Directors' Report.

Acting ethically and responsibly

The Board is committed to ensuring that Kina maintains the highest standards of integrity, honesty and fairness in its dealings with all stakeholders, and that Kina complies with all legal and other obligations.

Kina has adopted a Code of Corporate Conduct that applies to all employees of Kina and its subsidiaries (including subcontractors and consultants) and a separate Code of Conduct for Directors (**Codes of Conduct**). The Codes of Conduct set out certain minimum standards of conduct that Kina expects of its employees and directors including integrity, diligence, impartiality, equality and fairness. The Codes of Conduct set out how employees and directors are to conduct themselves in order to meet these minimum standards.

Corporate Governance Statement

	Audit and Risk Committee	Remuneration and Nomination Committee	Disclosure Committee
Roles & Responsibilities	<ul style="list-style-type: none"> reviewing financial reports and overseeing the financial reporting process; overseeing statutory reporting requirements; receiving internal and external audit reports and ensuring management take corrective actions to address control weaknesses and non-compliance; recommend appointment or removal of External Auditor; review External Auditor's performance; monitor provision of non-audit services; oversee internal audit function, ensuring reporting line and unfettered access to Chair of Committee or Chair of the Board; review and recommend Group's risk management frameworks; monitor risk profile of the Group against agreed risk appetite and risk management frameworks; monitor adherence to risk policies; oversee operation of WhistleBlowing Policy; <p>The Committee met 9 times in 2017.</p>	<ul style="list-style-type: none"> recommend and review remuneration policy across group review and consider composition of Board make recommendations to Board in regard to succession planning for CEO and direct reports and appointments of directors administering aspects of Fit and Proper requirements of BPNG Prudential Standards review structure and level of director fees review remuneration framework (incl STIs, LTIs and non-cash elements) of CEO, senior management and Responsible Persons review terms and conditions of employment agreements review terms of superannuation and pension scheme arrangements assist in annual performance review of CEO oversee annual performance review of senior management review effectiveness of Diversity Policy and its objectives and strategies <p>The Committee met 7 times in 2017.</p>	<ul style="list-style-type: none"> assess whether information concerning the Company should be disclosed to the market; determine the substance of the market disclosure and when it must be made; where necessary, review market disclosures for accuracy and completeness and approve or recommend to the Board for approval; determine whether a trading halt or voluntary suspension of trading is required; respond to any request from the ASX or POMS0X to disclose market sensitive information to correct or prevent a false market; ensure that breaches of the BPNG Prudential Standards are communicated, where appropriate, to the BPNG or other regulator in compliance with the relevant listing rules and/or continuous disclosure requirements; and oversee the Disclosure Officer's administration of the Continuous Disclosure Policy. <p>The Committee met twice in 2017.</p>
Membership throughout the year	<p>Karen Smith-Pomeroy (Chair) (Independent)*</p> <p>Jim Yap (Non-independent)</p> <p>David Foster (Independent)</p> <p>* Ms Smith-Pomeroy replaced Mr Foster as Chair on 14 June 2017.</p>	<p>David Foster (Chair) (Independent)*</p> <p>Jim Yap (Non-independent)</p> <p>Keli Taureka (Independent)</p> <p>* Mr Foster replaced Mr Taureka as Chair on 14 June 2017.</p>	<p>Keli Taureka (Chair) (Independent)*</p> <p>Karen Smith-Pomeroy (Independent)*</p> <p>David Foster (Independent)</p> <p>Greg Pawson (Managing Director and CEO)*</p> <p>* Mr Taureka was appointed Chair and Ms Smith-Pomeroy was appointed to the Committee on 14 June 2017. Mr Yates resigned from the Committee on 2 January 2018 and Mr Pawson was appointed to the Committee on 16 February 2018.</p>

Membership of the Committees during the reporting period, the number of Committee meetings and the attendance at those meetings are set out below:

Director	Board meetings		Audit and Risk Committee Meetings		Remuneration and Nomination Committee Meetings		Disclosure Committee Meetings	
	A	B	A	B	A	B	A	B
Sir Rabbie Namaliu ¹	3	3	–	–	2	2	2	2
Sydney Yates	8	7	–	–	–	–	2	2
David Foster	8	8	9	9	6	6	2	2
Wayne Golding ¹	3	3	3	3	2	2	–	–
Jim Yap	8	8	9	8	6	6	–	–
Isikeli Taureka	8	7	–	–	6	6	–	–
Karen Smith-Pomeroy	8	8	9	9	–	–	–	–

A Meetings held that director was eligible to attend

B Meetings attended

¹ Sir Rabbie Namaliu and Wayne Golding resigned on 16 May 2017

Diversity

The Diversity Policy emphasises Kina's commitment to the maintenance and promotion of a workplace that ensures equity and fairness and is free from discrimination, harassment, bullying and victimisation. Kina recognises the importance of embracing diversity, specifically in valuing the unique qualities, attributes, skills and experiences each employee bring to the workplace.

The Company's vision for diversity incorporates a number of different factors, including but not limited to gender, ethnicity and cultural background, disability, age and educational experience. The Diversity Policy provides a framework to help Kina achieve its diversity goals, while creating a commitment to a diverse work environment where staff are treated fairly and with respect, and have equal access to workplace opportunities.

Kina is an inaugural member of the Business Coalition for Women (BCFW) and through the year has provided specialist training to female, team leaders to assist with their career development. Kina is a strong advocate for gender smart policies in the workplace and provides both maternity and paternity leave for its workers. Also, within the first 6 months' of a child's life, new parents are provided with paid leave to enable time out of the workplace to feed new babies. In 2017, Kina funded cervical cancer screening checks for all female employees. In September of this year, Kina ran a Health Week where seminars were given on health issues facing men and women in PNG and provided a range of pathology tests free of charge to both male and female employees. Kina continues to fund private health insurance for all employees.

The Group will continue to promote awareness and understanding of workplace diversity principles and develop policies to assist employees to balance work, family and cultural responsibilities whilst at the same time removing barriers to employment.

Senior Management are those individuals who report directly to the MD/CEO. Team Leaders are those individuals who have been appointed as Supervisors and Managers. Kina is not a relevant employer under the Workplace Gender Equality Act.

The Remuneration and Nomination Committee reviews and oversees the implementation of the Diversity Policy. The Committee has determined that the existing measurable objectives remain current and appropriate for 2018.

Written declarations

When the Board considers the statutory half-year and annual financial statements, the Board obtains a declaration equivalent to section 295A of the Corporations Act, from the CEO and CFO in regard to the integrity of the financial statements and assurance as to the effective operation of the risk management and internal compliance and control systems.

Corporate Governance Statement

Kina's measurable objectives are:

Objective	2017 Achievement
Maintain or improve Kina's level of female participation across all levels of business, with particular focus at the leadership levels.	Overall, the level of female participation across all levels of the business remained relatively stable.
Maintain or improve level of participation at leadership level for PNG citizens.	The Leadership Programme continued with the provision of additional training to selected staff.
Demonstrate improvement in creating an inclusive workplace environment.	KSL has continued to support gender smart policies, as outlined above.

The numbers and percentage of females within Kina's workforce, including the Board and senior management team is set out below:

	31 December 2017			31 December 2016		
	Females	Males	Total	Females	Males	Total
Board	1	3	4	1	5	6
Senior Management	1	8	9	1	6	7
Team Leader	30	38	68	32	21	53
Other employees	131	100	231	100	98	198

External Auditor

For 2017, Kina's external auditor was PricewaterhouseCoopers. A resolution will be put to the 2018 AGM to appoint Deloitte Touche Tohmatsu as Kina's external auditor for 2018. The Audit and Risk Committee is responsible for recommending the appointment or removal of the auditor as well as annually reviewing their effectiveness, performance and independence.

The external auditor is required to attend the Company's annual general meeting and is available to address questions relevant to the conduct of the audit and the preparation and content of the auditor's report.

Timely and balanced disclosure

Kina is committed to observing its disclosure obligations under the ASX Listing Rules, the PNG Act, the Corporations Act, the POMSx Listing Rules and the PNG Securities Act. The Board has adopted a continuous disclosure policy (**Continuous Disclosure Policy**) and a shareholder communication policy (**Shareholder Communications Policy**) that implement Kina's commitment to providing timely, complete and accurate disclosure of information.

The Continuous Disclosure Policy sets out the roles and responsibilities of officers and employees in complying with Kina's continuous disclosure obligations and nominates those individuals who are responsible for determining whether or not information is required to be disclosed.

Shareholder Communications

The Shareholder Communications Policy promotes effective communication with shareholders and seeks to ensure that shareholders have equal and timely access to material information concerning Kina. The Policy sets out the investor relations program, a key tenet of which is to encourage effective shareholder participation. Shareholders are encouraged to attend general meetings and shareholder information sessions and to submit written questions prior to those meetings.

Kina's website contains information regarding the Company, the Board and management team, corporate governance, media coverage, ASX announcements, investor presentations and reports.

Kina's investor relations program includes a number of scheduled and ad hoc interactions with institutional investors, private investors, sell-side and buy-side analysts and the financial media. At a minimum, so as to ensure that shareholders and other stakeholders have a full understanding of Kina's performance and strategies, Kina will convene analyst briefings twice a year on Kina's financial performance and objectives.

In accordance with the Shareholder Communications Policy, shareholders are encouraged to attend general meetings, or, if they are unable to attend, vote by proxy or other means included in the notice of meeting.

Shareholders may receive and send information electronically to and from both Kina and Kina's share registry. Other methods of communication are also available to shareholders and other stakeholders, including telephone, mail and facsimile. Kina may consider the use of other reliable technologies as they become widely available.

Risk Management and internal controls

Risk is managed structurally through clearly defined risk management policies specific to certain parts of the business. These are interlinked and feed into a Group risk management framework, which is overseen by the Audit and Risk Committee. The Committee is supported by a number of approved management risk management committees, including the Credit Committee, Asset and Liability Committee and Executive Committee. The operational risk division nurtures a strong and robust risk culture within the organisation through application of the three lines of defence model. Communication and education throughout the Group on the three lines of defence model emphasises each individual's role in the management of risk. During 2017, the Group's risk management framework, including underlying policies, was reviewed by the Audit and Risk Committee and, where relevant, by the Board.

A dedicated compliance department is in place to ensure that Kina personnel are aware of the Group's prudential and legislative obligations and that these are maintained at all times. Operational risk within the Group is monitored and an Occupational Health and Safety regime has been expanded to maintain the safety of Kina's employees and customers. The Group's risk management activities comply with all relevant regulation including that of the Standards, relevant legislation and the Investment Promotion Authority (IPA).

Kina has also employed skilled credit managers who have an understanding of the Papua New Guinea (PNG) economic environment to ensure that the growing loan portfolio is maintained within an acceptable level of risk and within Kina's agreed risk appetite.

Kina's risk management framework and internal control functions incorporate an internal audit function which report directly to the Audit and Risk Committee. The internal audit function continues to be co-sourced with external providers which brings the benefit of enhancing Kina personnel's existing knowledge and expertise. This is acceptable under the Standards, but not a position Kina will continue in the long term. The internal audit function provides independent and objective assurance to the Board, via the Audit and Risk Committee. The internal annual audit plan is formulated using a risk based approach. Progress against the internal annual audit plan is reported to the Committee on a quarterly basis.

All lending proposals are considered based on credit policy and within the risk appetite of the Group. Debt servicing assessment criteria is maintained to ensure Kina understands its level of credit risk whilst managing its impairment exposure.

Kina Bank Limited (KBL), a wholly owned subsidiary of Kina, is exposed to the economic conditions of PNG through its normal course of business in lending monies to commercial businesses operating in PNG. KBL does not have any material exposure to environmental or social sustainability risks.

Dealings in Company securities

The Board has adopted a Securities Trading Policy that applies to the Kina's equity-based remuneration scheme and explains the conduct that is prohibited under the PNG Securities Act and the Corporations Act.

The Securities Trading Policy:

- provides for certain Trading Windows when 'Relevant Persons' may trade provided the appropriate process has been adhered to;
- prohibits any Relevant Person from entering into a hedge transaction involving unvested equity held pursuant to an employee, executive or director equity plan operated by Kina;
- sets out the prohibitions against insider trading and prescribes certain requirements for dealing in Kina securities; and
- prohibits Relevant Persons from trading in Kina securities while in possession of material non-public information, which is information a reasonable person would expect to have a material effect on the price or value of Kina securities.

Remuneration report

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1 Introduction & Overview to Shareholders

The remuneration report is focused on providing information that the Board considers important for shareholders to understand the remuneration framework of Kina. This is designed to deliver good operating results.

During the year Kina reviewed its incentive plans to ensure they were aligned with market best practice and that they continue to attract, motivate and retain high calibre management and employees.

2 Kina's Key Management Personnel (KMP)

Kina's KMP comprise the Directors, CEO and the direct reports to the CEO, called the Senior Executive Team of Kina. The Senior Executive Team refers to the CEO and those direct reports with authority and responsibility for planning, directing and controlling the activities of Kina Group, directly or indirectly. The KMP disclosed in this Remuneration Report are:

Name	Position held during the financial year ended 31 December 2017
------	--

Non-Executive Directors (section 4 of this Remuneration Report)

Sir Rabbie Namaliu ¹	Non-Executive Chairman
Isikeli Taureka ²	Non-Executive Chairman
David Foster	Non-Executive Director
Wayne Golding ³	Non-Executive Director
Jim Yap	Non-Executive Director
Karen Smith-Pomeroy	Non-Executive Director

Executive Directors and Senior Executive Team (direct reports)

Syd Yates ⁴	MD and CEO
Greg Pawson ⁵	CEO
Chetan Chopra	Chief Financial Officer and Company Secretary
Danny Robinson	Executive General Manager, Banking
Deepak Gupta	Executive General Manager, Wealth
Michael Van Dorssen	Chief Risk Officer
Tony de la Fosse	Executive General Manager, Shared Services

1. Resigned as Director and Chairman 16 May 2017
2. Appointed as Chairman 16 May 2017
3. Resigned as Director 16 May 2017
4. Resigned as CEO on 2nd January 2018
5. Appointed as CEO 04 December 2017

2.1 Remuneration and Nomination Committee

The Remuneration and Nomination Committee assists the Board in the performance of its statutory and regulatory duties by:

- formulating advice to the Board on the remuneration of the Chief Executive Officer, senior management team and employees holding Responsible Person positions;
- providing an objective, non-executive review of the effectiveness of Kina's remuneration setting policies and practices;
- recommending to the Board for approval by shareholders the amount and structure of directors' fees;
- administering aspects of the "Fit and Proper" requirements of BPNG Prudential Standard BPS310; and
- identifying the mix of skills and individuals required to allow the Board to contribute to the successful oversight and stewardship of the Company.

Refer to Kina's Corporate Governance Statement (available on Kina's website under the Corporate Governance Link and pages 28 – 35 of this Annual Report for more information regarding the Remuneration and Nomination Committee.

The Remuneration and Nomination Committee regularly reviews the following to align remuneration, performance and strategy:

- Kina's remuneration policy;
- the structure and quantum of the remuneration of the CEO, members of the senior management team, staff holding Responsible Person positions and selected risk and compliance staff; and
- the structure and level of non-executive directors' board fees and committee fees,

3 Executive remuneration

3.1 Remuneration policy and governance framework

The Remuneration and Nomination Committee reviews and determines our remuneration policy and structure annually to ensure it remains aligned to business needs, and meets our remuneration principles. From time to time, the committee also engages external remuneration consultants to assist with this review. In particular, the Board aims to ensure that remuneration practices are:

- Competitive and reasonable, enabling the company to attract and retain key talent;
- Aligned to the company's strategic and business objectives and the creation of shareholder value;
- Transparent; and
- Acceptable to shareholders.

Kina Securities Limited

Remuneration report

KMP are prohibited from entering into any hedging arrangements that limit the economic risk of holding Kina securities under Kina equity plans. This helps align executives' and shareholders' interests.

The Board has determined that to align the interests of Kina's Senior Executive Team and the goals of Kina and to assist in the attraction, motivation and retention of management and employees of Kina, the remuneration packages of the CEO and the other Senior Executives of Kina should comprise the following components:

Fixed remuneration	Total fixed remuneration comprises base salary, other non-cash benefits and includes superannuation.
STI Plan	<p>The STI plan provides participants with an opportunity to earn an incentive calculated as a percentage of their salary each year, conditional upon achievement of individual KPIs which may consist of financial and, if applicable non-financial performance measures.</p> <p>The incentive earned will be paid:</p> <ul style="list-style-type: none"> • 65% in cash • 35% in an offer of performance rights. <p>The cash portion of the incentive will be paid in the next pay cycle following confirmation of the performance outcomes being achieved. The Performance Rights portion will be issued in one tranche, and will remain payable even following resignation. The Board has the right to vary the Award.</p>
LTI Plan	<p>A long term incentive plan that provides an opportunity for employees to receive an equity interest in Kina through the granting of LTI Performance Rights</p> <p>Under the LTI Plan, LTI Participants may be offered LTI Performance Rights that are subject to vesting conditions set by the Board.</p>
Retention Plan	<p>A one-off equity based performance rights plan to assist in the retention and reward of key eligible employees.</p> <p>The Kina Board has discretion as to whether the Retention Plan will continue and apply to other KMP.</p>

3.2 Fixed Remuneration (FR)

Executives may receive their fixed remuneration as cash, or cash with non-monetary benefits such as insurance, allowances and tax advisory services. FR is reviewed annually, or on promotion. It is benchmarked against market data for comparable roles in companies in a similar industry and with similar market capitalisation. The committee aims to position executives at or near the median, with flexibility to take into account capability, experience, and value to the organisation and performance of the individual.

3.3 Short-term incentive plan (STI)

(a) Structure of STI

Features	Description												
Eligibility	The CEO and Senior Executive Team are eligible to participate in the STI Plan (STI Participants).												
STI components	<p>Cash bonus: 65% of the STI Participant's award under the STI Plan.</p> <p>STI Performance Rights: 35% of the STI Participant's award under the STI Plan.</p>												
Performance measures	<p>Individual KPIs specific to each Participant are agreed during the performance appraisal process each year. These KPIs consist of both financial and non-financial performance measures and are agreed with the CEO and KMP at the start of each year.</p> <p>No STI is payable unless a minimum Group NPAT is achieved. The Board however has the right to vary this requirement.</p> <p>The Board allocates an annual pool to the STI each year. There are levels of targeted performance for allocation of the pool for 2017 :</p> <ul style="list-style-type: none"> • Minimum (85% of budget) • Threshold (85% - 100% budget): 50% • Target (Budget 100%) 90% • Stretch (100+ to 110%+) 100% • Stretch (120%+) up to 120% <p>The pool is then allocated in accordance with the maximum and target STI for each KMP (which is detailed later) as a percentage of Gross pay. The Board has the right to vary the award.</p>												
Calculation of STI Performance Rights	The number of STI Performance Rights granted is determined by dividing the award value by the 10 day volume weighted average price per share prior to 31 December of the year of award.												
Vesting of STI Performance Rights	<p>STI Performance Rights are restricted from exercise until the second anniversary after the grant date and will vest on the second anniversary. These are not subject to any further measurement after award and allotment.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Period</th> <th style="text-align: left;">Date Granted</th> <th style="text-align: left;">Vesting date</th> </tr> </thead> <tbody> <tr> <td>FY ended 31 December 2015</td> <td>25 March 2016</td> <td>25 March 2018</td> </tr> <tr> <td>FY ended 31 December 2016</td> <td>17 February 2017</td> <td>17 February 2019</td> </tr> <tr> <td>FY ended 31 December 2017*</td> <td>16 February 2018</td> <td>1 April 2020</td> </tr> </tbody> </table> <p>* Partial STI for period ended 31 December 2017 was granted by the Board on the basis that the Group achieved its mid-year guidance on revised NPAT for FY 2017.</p>	Period	Date Granted	Vesting date	FY ended 31 December 2015	25 March 2016	25 March 2018	FY ended 31 December 2016	17 February 2017	17 February 2019	FY ended 31 December 2017*	16 February 2018	1 April 2020
Period	Date Granted	Vesting date											
FY ended 31 December 2015	25 March 2016	25 March 2018											
FY ended 31 December 2016	17 February 2017	17 February 2019											
FY ended 31 December 2017*	16 February 2018	1 April 2020											
Forfeiture of STI Performance Rights	STI Performance Rights are subject to Kina's clawback policy. Under the clawback policy, unvested STI Performance Rights may be forfeited if the Board determines that adverse events or outcomes arise that should impact on the grant of STI Performance Rights to a STI Participant.												
Payments and grants	Payments under the STI Plan will now be made in April of each year after the release of full year financial results to ASX and POMSx.												
Target STI and maximum STI that can be awarded	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: left;">Target</th> <th style="text-align: left;">Maximum</th> </tr> </thead> <tbody> <tr> <td>CEO</td> <td>50% of base salary</td> <td>75% of base salary</td> </tr> <tr> <td>CFO</td> <td>40% of base salary</td> <td>50% of base salary</td> </tr> <tr> <td>Other Senior Executives</td> <td>30% of base salary</td> <td>45% of base salary</td> </tr> </tbody> </table>		Target	Maximum	CEO	50% of base salary	75% of base salary	CFO	40% of base salary	50% of base salary	Other Senior Executives	30% of base salary	45% of base salary
	Target	Maximum											
CEO	50% of base salary	75% of base salary											
CFO	40% of base salary	50% of base salary											
Other Senior Executives	30% of base salary	45% of base salary											

Remuneration report

3.4 Long term incentive plan

Executives participate, at the Board's discretion in the LTI plan comprising annual grants of Performance Rights. Further details are shown in the table below:

(a) Structure of LTI

Features	Description																				
Eligibility	Participants must be a permanent full-time or part-time employee or Executive Director of Kina or any of its subsidiaries (LTI Participants).																				
LTI components	The LTI Plan will be delivered as Performance Rights with each right conferring on its owner the right to be issued or transferred one (1) fully paid ordinary share in the Company.																				
Performance measures	<p>In respect of the FY16 onwards, the Performance Rights will only vest subject to Board assessed satisfaction of the following conditions:</p> <ul style="list-style-type: none"> Meeting the required Total Shareholder Return (TSR) performance level based on peer group – 50% weighting <p>Over a three year period</p> <table border="1"> <thead> <tr> <th>Peer group relative TSR performance</th> <th>Vesting outcome</th> </tr> </thead> <tbody> <tr> <td>Below 50th percentile of peer group</td> <td>Nil</td> </tr> <tr> <td>At 50th percentile</td> <td>50% vesting</td> </tr> <tr> <td>Between 50th – 75% percentile</td> <td>Pro rata between 50% to 100%</td> </tr> <tr> <td>75% and above</td> <td>100% vesting</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Meeting Earnings per Share (EPS) target level based on Peer group – 50% weighting <p>Compound Annual Growth rate over a three year period</p> <table border="1"> <thead> <tr> <th>EPS performance</th> <th>Vesting Outcome</th> </tr> </thead> <tbody> <tr> <td>< 5% compound annual growth</td> <td>Nil</td> </tr> <tr> <td>5%</td> <td>50% vesting</td> </tr> <tr> <td>>5% and < 10%</td> <td>Pro rata between 50% – 100%</td> </tr> <tr> <td>10%</td> <td>100% vesting</td> </tr> </tbody> </table>	Peer group relative TSR performance	Vesting outcome	Below 50th percentile of peer group	Nil	At 50th percentile	50% vesting	Between 50th – 75% percentile	Pro rata between 50% to 100%	75% and above	100% vesting	EPS performance	Vesting Outcome	< 5% compound annual growth	Nil	5%	50% vesting	>5% and < 10%	Pro rata between 50% – 100%	10%	100% vesting
Peer group relative TSR performance	Vesting outcome																				
Below 50th percentile of peer group	Nil																				
At 50th percentile	50% vesting																				
Between 50th – 75% percentile	Pro rata between 50% to 100%																				
75% and above	100% vesting																				
EPS performance	Vesting Outcome																				
< 5% compound annual growth	Nil																				
5%	50% vesting																				
>5% and < 10%	Pro rata between 50% – 100%																				
10%	100% vesting																				
Calculation of LTI Performance Rights	<p>The Board worked with an independent advisor to identify comparator group companies and the advisor calculates the vesting schedule.</p> <p>The measurement period for 2016 LTIs is from 1 April 2017 to 31 March 2020. The vesting will be effectively on 1 April 2020. This corrects the reporting in the prior year Annual Report.</p> <p>Grants are approved annually. The number of LTI Performance Rights for each year will be determined by dividing the LTI Awards by the 10 day volume weighted average price per share prior to 31 December in the year of grant.</p>																				

Features	Description																				
Vesting and exercise of LTI Performance Rights	<p>While the grants are approved annually, they will vest no earlier than the third anniversary of the commencement of the performance period and subject to satisfaction of the vesting conditions and performance measures.</p> <p>The performance periods for the outstanding awards are as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Financial Year</th> <th style="text-align: left;">Date Granted</th> <th style="text-align: left;">Performance period</th> <th style="text-align: left;">Measures</th> <th style="text-align: left;">Vesting date (subject to performance testing)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>25 March 2016</td> <td>2015 Year performance</td> <td>Achieving profit of K5.7 m IPO Listing</td> <td>25 March 2019</td> </tr> <tr> <td>2016</td> <td>17 February 2017</td> <td>1 April 2017 to 31 March 2020</td> <td> EPS assessment compound till FY 2019 – 50% Relative TSR assessment compounded to FY 2019 – 50% </td> <td>1 April 2020</td> </tr> <tr> <td>2017</td> <td>16 February 2018</td> <td>1 April 2018 to 31 March 2021</td> <td> EPS assessment compound till FY 2020 – 50% Relative TSR assessment compounded to FY 2020 – 50% </td> <td>1 April 2021</td> </tr> </tbody> </table>	Financial Year	Date Granted	Performance period	Measures	Vesting date (subject to performance testing)	2015	25 March 2016	2015 Year performance	Achieving profit of K5.7 m IPO Listing	25 March 2019	2016	17 February 2017	1 April 2017 to 31 March 2020	EPS assessment compound till FY 2019 – 50% Relative TSR assessment compounded to FY 2019 – 50%	1 April 2020	2017	16 February 2018	1 April 2018 to 31 March 2021	EPS assessment compound till FY 2020 – 50% Relative TSR assessment compounded to FY 2020 – 50%	1 April 2021
Financial Year	Date Granted	Performance period	Measures	Vesting date (subject to performance testing)																	
2015	25 March 2016	2015 Year performance	Achieving profit of K5.7 m IPO Listing	25 March 2019																	
2016	17 February 2017	1 April 2017 to 31 March 2020	EPS assessment compound till FY 2019 – 50% Relative TSR assessment compounded to FY 2019 – 50%	1 April 2020																	
2017	16 February 2018	1 April 2018 to 31 March 2021	EPS assessment compound till FY 2020 – 50% Relative TSR assessment compounded to FY 2020 – 50%	1 April 2021																	
Forfeiture of LTI Performance Rights	<p>Unvested LTI Performance Rights may be forfeited:</p> <ul style="list-style-type: none"> • if the Board determines that any vesting condition applicable to the LTI Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • in certain circumstances if the LTI Participant’s employment is terminated; or • in other circumstances specified in the LTI Plan (for example, if the Board determines that the LTI Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina). 																				
Lapse of LTI Performance Rights	<p>Unless otherwise specified in the vesting conditions or otherwise determined by the Board, a LTI Performance Right lapses on the earliest of:</p> <ul style="list-style-type: none"> • if the Board determines that any vesting condition applicable to the LTI Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • the expiry of the exercise period (if any); • in circumstances of cessation of employment; • in other circumstances specified in the LTI Plan (for example, if the Board determines that the LTI Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina); or • if the participant purports to deal in the LTI Performance Right in breach of any disposal or hedging restrictions in respect of the Performance Right. 																				
Target LTI and maximum LTI that can be awarded	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Target</th> <th style="text-align: center;">Maximum</th> </tr> </thead> <tbody> <tr> <td>CEO</td> <td style="text-align: center;">50%</td> <td style="text-align: center;">50%</td> </tr> <tr> <td>CFO</td> <td style="text-align: center;">40%</td> <td style="text-align: center;">40%</td> </tr> <tr> <td>Other Senior Executives</td> <td style="text-align: center;">30%</td> <td style="text-align: center;">30%</td> </tr> </tbody> </table>		Target	Maximum	CEO	50%	50%	CFO	40%	40%	Other Senior Executives	30%	30%								
	Target	Maximum																			
CEO	50%	50%																			
CFO	40%	40%																			
Other Senior Executives	30%	30%																			

Remuneration report

Features	Description
Calculation of Fair Value of LTI Performance Rights	Fair value of the LTI performance rights subject to TSR and EPS vesting conditions for financial reporting purposes is generally estimated based on market share price at grant date and using a simulation pricing model applying assumptions price volatility, risk free interest rates and dividend yields. Due to Kina's relatively short period since listing, historic share price volatility data is not available. Therefore the Fair Value is calculated with reference to a discount rate based on comparative market analysis of similar sized Australian banks and other companies with similar incentive schemes using the weighted average fair value at grant date as the basis for calculation. This is a change from measurement methodology adopted in the FY 16 Remuneration report. For future years, Kina intend to commission a fair value calculation done by an independent expert.

3.5 Retention Plan

Features	Description
Eligibility	The Board to determine the Participants eligible for participation in the Retention Plan.
Retention Plan	The Retention Plan is a once off award of Performance Rights to assist in the retention and reward of key eligible participants.
Vesting conditions	In respect of the FY15 Retention Plan grant, the Performance Rights for the CEO are subject to a service condition as follows: <ul style="list-style-type: none"> • 50% of the Performance Rights granted to vest on the first anniversary of grant date; and • 50% of the Performance Rights granted to vest on the second anniversary of grant date.
Calculation of Performance Rights	The Board determined that under the Retention Grant, Syd Yates received a once off grant of \$200,000 worth of Performance Rights, which will result in 200,000 Performance Rights being granted. These performance rights have vested in FY16 and FY17 respectively in line with vesting conditions above
Forfeiture of Retention Plan Performance Rights	Unvested Retention Plan Performance Rights may be forfeited: <ul style="list-style-type: none"> • If the Board determines that any vesting condition applicable to the Retention Plan Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • In certain circumstances if the Retention Plan Participant's employment is terminated; or • In other circumstances specified in the Retention Plan (for example, if the Board determines that the Retention Plan Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina).
Lapse of Retention Plan Performance Rights	Unless otherwise specified in the vesting conditions or otherwise determined by the Board, a Retention Plan Performance Right lapses on the earliest of: <ul style="list-style-type: none"> • If the Board determines that any vesting condition applicable to the Retention Plan Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • The expiry of the exercise period (if any); • In circumstances of cessation of employment; • In other circumstances specified in the Retention Plan (for example, if the Board determines that the Retention Plan Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina); or • If the participant purports to deal in the Retention Plan Performance Right in breach of any disposal or hedging restrictions in respect of the Performance Rights.
Timing of grants	It is intended that there will be no future grants under the Retention Plan as it was a once off grant.

3.6 Performance based and non-performance based components

All elements of the remuneration of The Senior Executive Team are performance based.

For FY 2017 Participant	Cash salary (AUD)	Non-monetary benefits (AUD)	Total (AUD)
Syd Yates	400,000	181,044	581,044
Chetan Chopra	305,000	182,119	487,119
Danny Robinson	320,000	145,355	465,355
Deepak Gupta	305,000	138,320	443,320
Michael van Dorssen	359,609	122,071	481,680
Tony De La Fosse	240,000	12,251	252,251
Other senior executives	1,356,480	639,195	1,995,675

3.7 External Advisor Services

The Kina share based incentive plan is administered independently by Link Market Services Pty Ltd. Orient Capital Pty Limited is engaged to provide the assessment of EPS Growth and Relative TSR Performance in relation to the LTI Awards and valuation of the VWAP.

3.8 Performance Rights holdings

The table below sets out the current holdings of Performance Rights by the Senior Executive Team:

Name	Plan Name	Year	Grant Date	Vesting Date	Value of PR Granted (AUD)	VWAP period	VWAP \$ applied	PR As at 31 Dec 2017
Syd Yates	LTIP and PR	2016	6/06/2017	1/06/2020	200,000.00	2*	\$1.0651	45,498*
	STIP	2016	6/06/2017	6/06/2019	28,000.00	2*	\$1.0651	28,875
	LTIP IPO PR	2015	30/07/2015	30/07/2018				167,395*
Chetan Chopra	STIP	2015	25/03/2016	25/03/2018	94,500.00	1*	\$0.8910	98,661*
	LTIP and PR	2017	16/02/2018	1/04/2021	122,000.00	3*	\$0.6980	174,785
	STIP	2017	16/02/2018	1/04/2020	7,700.00	3*	\$0.6980	11,032
	LTIP and PR	2016	17/02/2017	1/04/2020	122,000.00	2*	\$1.0651	114,543
Danny Robinson	STIP	2016	17/02/2017	1/04/2019	14,945.00	2*	\$1.0651	14,031
	LTIP and PR	2017	16/02/2018	1/04/2021	96,000.00	3*	\$0.6980	137,536
	STIP	2017	16/02/2018	1/04/2020	8,400.00	3*	\$0.6980	12,034
	LTIP and PR	2016	17/02/2017	1/04/2020	96,000.00	2*	\$1.0651	90,132
Deepak Gupta	STIP	2016	17/02/2017	1/04/2019	16,800.00	2*	\$1.0651	15,773
	LTIP and PR	2017	16/02/2018	1/04/2021	91,500.00	3*	\$0.6980	131,089
	STIP	2017	16/02/2018	1/04/2020	7,000.00	3*	\$0.6980	10,029
	LTIP and PR	2016	17/02/2017	1/04/2020	91,500.00	2*	\$1.0651	85,907
	STIP	2016	17/02/2017	1/04/2019	6,405.00	2*	\$1.0651	6,013

Remuneration report

Name	Plan Name	Year	Grant Date	Vesting Date	Value of PR Granted (AUD)	VWAP period	VWAP \$ applied	PR As at 31 Dec 2017
Michael Van Dorssen	LTIP and PR	2017	16/02/2018	1/04/2021	107,883.00	3*	\$0.6980	154,560
	STIP	2017	16/02/2018	1/04/2020	7,700.00	3*	\$0.6980	11,032
	LTIP and PR	2016	17/02/2017	1/04/2020	92,010.00	2*	\$1.0651	86,386
	STIP	2016	17/02/2017	1/04/2019	9,661.00	2*	\$1.0651	9,070
	LTIP and PR	2015	25/03/2016	25/03/2019	92,010.00	N/A	N/A	92,010
	STIP	2015	25/03/2016	25/03/2018	33,814.00	1*	\$0.8910	37,950
Tony Del La Fosse	LTIP and PR	2017	16/02/2018	1/04/2021	72,000.00	3*	\$0.6980	103,152
	STIP	2017	16/02/2018	1/04/2020	7,000.00	3*	\$0.6980	10,029
Adam Fenech	LTIP and PR	2017	16/02/2018	1/04/2021	82,500.00	3*	\$0.6980	118,195
	STIP	2017	16/02/2018	1/04/2020	5,600.00	3*	\$0.6980	8,023
	LTIP and PR	2016	17/02/2017	1/04/2020	72,900.00	2*	\$1.0651	68,444
	STIP	2016	17/02/2017	1/04/2019	7,655.00	2*	\$1.0651	7,186
	LTIP and PR	2015	25/03/2016	25/03/2019				72,900
	STIP	2015	25/03/2016	25/03/2018	17,223.00	1*	\$0.8910	19,330
Terry Hall	LTIP and PR	2017	16/02/2018	1/04/2021	54,000.00	3*	\$0.6980	77,364
	STIP	2017	16/02/2018	1/04/2020	3,500.00	3*	\$0.6980	5,014
	LTIP and PR	2016	17/02/2017	1/04/2020	54,191.00	2*	\$1.0651	50,877
	STIP	2016	17/02/2017	1/04/2019	8,535.00	2*	\$1.0651	8,013
Greg Brent	RRP	N/A	3/10/2016	3/10/2019	N/A	N/A	N/A	75,000
	STIP	2017	16/02/2018	1/04/2020	4,900.00	3*	\$0.6980	7,020
	STIP	2016	17/02/2017	1/04/2019	11,813.00	2*	\$1.0651	11,090
Nathan Wingti	RRP	N/A	1/02/2016	1/04/2019				25,789
	STIP	2017	16/02/2018	1/04/2020	4,900.00	3*	\$0.6980	7,020
	STIP	2016	17/02/2017	1/04/2019	5,479.00	2*	\$1.0651	5,144
Lynda Kahari 4*	LTIP and PR	2017	16/02/2018	1/04/2021	29,327.20	3*	\$0.6980	42,016
	STIP	2017	16/02/2018	1/04/2020	3,500.00	3*	\$0.6980	5,014
Saima Kalis	LTIP and PR	2017	16/02/2018	1/04/2021	25,186.00	3*	\$0.6980	36,083
	STIP	2017	16/02/2018	1/04/2020	2,100.00	3*	\$0.6980	3,009
	LTIP and PR	2016	17/02/2017	1/04/2020	29,170.00	2*	\$1.0651	27,387
	LTIP and PR	2015	25/03/2016	25/03/2019				27,457
	STIP	2015	25/03/2016	25/03/2018	3,603.68	1*	\$0.8910	4,045
Donald Hallam 4*	STIP	2016	17/02/2017	1/04/2019	11,340.00	2*	\$1.0651	8,872

Name	Plan Name	Year	Grant Date	Vesting Date	Value of PR Granted (AUD)	VWAP period	VWAP \$ applied	PR As at 31 Dec 2017
Aaron Bird	LTIP and PR	2016	17/02/2017	1/04/2020	60,600.00	2*	\$1.0651	18,965
	STIP	2016	17/02/2017	1/04/2019	3,606.00	2*	\$1.0651	3,385
	LTIP and PR	2015	25/03/2016	25/03/2019				24,764
	STIP	2015	25/03/2016	25/03/2018	18,565.00	1*	\$0.8910	20,836
Kong Wong	STIP	2015	25/03/2016	25/03/2018	21,263.00	1*	\$0.8910	23,864

*Subsequent to the year-ended 31 December 2017, these rights were recalculated based on pro-rata from date of resignation resulting in total outstanding rights of 340,429 performance rights for Syd Yates as shown in the table above. The adjusted PR was effective from date of resignation being 2 January 2018.

1* 10 day vwap from 11 – 24 February 2015

2* 10 day vwap up to and including 31 December 2017

3* 10 day vwap from 14 – 29th December 2017

4* Employees whose PRs will vest subject to pro-rata terms given they have either started or exited during the year

STIP: Short Term Incentive Plan

LTIP: Long Term Incentive Plan

RRP: Retention Rights Plan

PR: Performance Rights

5* No liability is recognised in the financial statements of the Group in relation to the LTI performance rights for 2017 issued in February 2018. In accordance with the Fair Value Note 3.4 above, these will be calculated and accounted in FY 2018.

3.9 Employment agreements

KMP Contracts

All Senior Executive Team Employment contracts are over a period of 3 years with a notice period of 3 months

CEO employment agreement

The CEO's contract is for term of 5 years with a notice period of 6 months. Kina may terminate the CEO's employment without notice or payment in lieu of notice in circumstances where the CEO:

- is bankrupt or has made any arrangement or composition with his creditors or taken advantage of any legislation for relief of an insolvent debtor; or
- is convicted of any criminal offence, other than an offence which in the reasonable opinion of the Board does not affect his position as CEO of Kina.

On termination of the CEO's employment agreement, the CEO will be subject to a restraint of trade period of 12 months. The enforceability of the restraint clause is subject to all usual legal requirements.

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

4 Non-executive director arrangements

4.1 Remuneration policy

Non-executive directors receive a board fee and fees for chairing or participating on board committees, see table below. They do not receive performance-based pay or retirement allowances. The fees are inclusive of superannuation.

Fees are reviewed annually by the Board, taking into account comparable roles and market data provided by the Board's independent remuneration advisor. The current base fees were reviewed in 2016 and 2017 and no increases were applied.

4.2 Remuneration components

Kina's Board and Committee fee structure during the financial year ending 31 December 2017 was:

Board fees	Chairman	Non-executive Director/committee member
Board		
Board	\$135,000 (plus any superannuation entitlements)	\$75,000 (plus any superannuation entitlements)
Committee fees		
Audit and Risk Committee	Fees between \$5,000 and \$15,000 per annum will be paid to Directors who participate in any Committee	Fees between \$5,000 and \$15,000 per annum will be paid to Directors who participate in any Committee
Remuneration and Nomination Committee	Fees between \$5,000 and \$15,000 per annum will be paid to Directors who participate in any Committee	Fees between \$5,000 and \$15,000 per annum will be paid to Directors who participate in any Committee
Disclosure Committee	No additional fees are paid	No additional fees are paid

(a) Fee pool

Under the Constitution, the Board decides the total amount paid to each Non-Executive Director as remuneration for their services as a Director of the Company. However, the total amount of fees (including statutory superannuation entitlements, if any) paid to the Directors for their services (excluding, for these purposes, the remuneration of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. For the financial year ending 31 December 2017, this has been fixed at \$1.28 million per annum. Any increase in the total amount payable by the Company to the Non-Executive Directors as remuneration for services must be approved by the Company in general meeting.

The aggregate sum includes any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board.

(b) Committee fees

The committee chairman fees are not duplicated for those Directors who are appointed to chair meetings of more than one committee or the Board.

4.3 Variable Remuneration

Special remuneration

Directors may be paid such special or additional remuneration as the Board determines for performing extra services or making any special exertions for the benefit of Kina which, in the Board's opinion, are outside of the scope of ordinary duties of a Director.

Reimbursement for out of pocket expenses

Directors may be reimbursed for travel and other expenses incurred in attending and returning from any Board, Board committee or general meeting of Kina, or otherwise in connection with the business or affairs of Kina Group.

Retirement benefits

There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

Participation in incentive schemes

The Non-Executive Directors are not entitled to participate in any Kina Group employee incentive scheme.

Kina Securities Limited

Remuneration report

5 Related party transactions

Please refer to Note 29 to the financial statements, for further comments on Related Party transactions.

6 Directors' interests in shares

Directors are not required under the Constitution to hold any shares in the Company.

As at the date of this Remuneration Report, the Directors have the following interests in the shares in Kina (either directly or through beneficial interests or entities associated with the Director).

Director	Number of Shares	Shareholding as at the date of this remuneration report (%)
Sir Rabbie Namaliu	100,000 ^[1]	0.06
Syd Yates	4,780,297 ^[2]	2.91
David Foster	40,000 ^[3]	0.02
Wayne Golding	5,116,706 ^[4]	3.12
Jim Yap	126,569	0.08
Isikeli Taureka	Nil	–
Karen Smith-Pomeroy	Nil	–

[1] 50,000 Shares held directly and 50,000 Shares held by Tobit Investments Ltd – Sir Rabbie is a Shareholder and Chairman of Tobit Investments Ltd. Resigned as Director from Kina 16 May 2017.

[2] 274,200 Shares held directly. 4,068,574 Shares held by Columbus Investments Ltd (Syd Yates is sole shareholder). 198,466 held through The Trust Company (Superannuation) Ltd and 239,057 held through the same company in Barbara Yates' name (a related party). 615,000 Shares held by Kina Asset Management No. 1 Ltd (Columbus Inv. Ltd holds approx. 7% of ISC in KAML of which KAML No.1 Ltd is a wholly-owned sub and Syd Yates is exec director of KAML).

Prior to Listing, Syd Yates entered into a voluntary escrow in respect of 4,406,097 Shares (Escrowed Shares). Under the terms of the voluntary escrow arrangement, Syd Yates is restricted from dealing in the Escrowed Shares until a date which is two Business Days after the date on which Kina's half-year financial results for the period ending 30 June 2016 are released to ASX and POMSoX by Kina.

[3] Shares held by Foster Coastal Investments Pty Ltd as trustee for Foster Coastal Superannuation Fund. Mr Foster is Director of Foster Coastal Investments Pty Ltd and a beneficiary of Foster Coastal Superannuation Fund)

[4] 5,116,706 held by Matching Investment Company, of which Mr Golding owns 100%. Resigned as Director from Kina 16 May 2017. Prior to listing, he entered into a voluntary escrow in respect of 4,846,706 Shares (Escrowed Shares). Under the terms of the voluntary escrow arrangement, Wayne Golding is restricted from dealing in the Escrowed Shares until a date which is two Business Days after the date on which Kina's half-year financial results for the period ending 30 June 2016 are released to ASX and POMSoX by Kina.

7 Auditor's report

Kina is not required to have this report audited. This report is prepared as a voluntary disclosure. The expected level of disclosure has been provided through this report.

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)

Solicitors

Allens at Level 6, Mogoru Moto Building, Champion Parade, Port Moresby, Papua New Guinea.

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.

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



Mr. Isikeli Taureka
Director
Port Moresby, 26 March 2018



Mr. Greg Pawson
Director
Port Moresby, 26 March 2018

Independent auditor's report



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

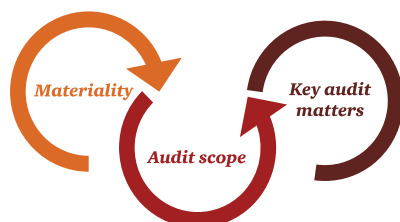
An audit is designed to provide reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions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

Independent auditor's report



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><i>Loan loss provisioning amounting to K13.3 million - Refer note 17</i></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.

Independent auditor's report



Key audit matter	How our audit addressed the key matter
<p data-bbox="194 488 713 517">Information Technology General Controls</p> <p data-bbox="194 539 713 824">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="194 853 713 1032">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="194 1061 713 1218">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="194 1247 713 1473">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="729 488 1244 539">The procedures we performed to support our audit conclusions, included:</p> <ul data-bbox="729 568 1244 1227" style="list-style-type: none"> <li data-bbox="729 568 1244 703">• 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="729 732 1244 965">• 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="729 994 1244 1128">• 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="729 1158 1244 1227">• 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.

Independent auditor's report



- 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, appearing to read 'PricewaterhouseCoopers', is written over a light blue horizontal line.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'S.C. Beach', is written over a light blue horizontal line.

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

Statements of Comprehensive Income

For the year ended 31 December 2017

	Notes	CONSOLIDATED		PARENT	
		2017 K '000	2016 K '000	2017 K '000	2016 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 61 to 97 are an integral part of these consolidated financial statements.

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
<i>Contribution by and distribution to owners</i>				
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
<i>Contribution by and distribution to owners</i>				
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	
Balance as at 31 December 2015*	141,797	460	132,076	274,333
Profit for the year	–	–	3,253	3,253
<i>Contribution by and distribution to owners</i>				
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)
<i>Contribution by and distribution to owners</i>				
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 61 to 97 are an integral part of these consolidated financial statements.

Statements of Financial Position

As at 31 December 2017

	Notes	CONSOLIDATED		PARENT	
		2017 K '000	2016 K '000	2017 K '000	2016 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 61 to 97 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

Statements of Cash Flows

For the year ended 31 December 2017

	Notes	CONSOLIDATED		PARENT	
		2017 K '000	2016 K '000	2017 K '000	2016 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 61 to 97 are an integral part of these consolidated financial statements.

Notes to the financial statements

For the year ended 31 December 2017

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.

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 (1) over the following twelve months, or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. ELC should reflect an unbiased, probability-weighting 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.

Notes to the financial statements

For the year ended 31 December 2017

1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

- **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.

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).

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.

Notes to the financial statements

For the year ended 31 December 2017

1. Summary of significant accounting policies (continued)

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.

(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 tax 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.

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 acquiree 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.

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.

Notes to the financial statements

For the year ended 31 December 2017

1. Summary of significant accounting policies (continued)

k) Investments and other financial assets (continued)

(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.

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 vehicle	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.

(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.

Notes to the financial statements

For the year ended 31 December 2017

1. Summary of significant accounting policies (continued)

p) Share capital and other equity accounts (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.

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	12,350	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.

Notes to the financial statements

For the year ended 31 December 2017

3. Financial risk management (continued)

a) Market risk (continued)

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.

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

	2017 % p.a.	2016* % 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 financials 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.

CONSOLIDATED

	Neither past due nor impaired Km	Past due but not impaired Km	Impaired Km	Total Km	Provision Km	Net carrying value 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 Km	Past due but not impaired Km	Impaired Km	Total Km	Provision Km	Net carrying value 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	364.1	–	7.5	371.6	(7.5)	364.1
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

Notes to the financial statements

For the year ended 31 December 2017

3. Financial risk management (continued)

b) Credit risk (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%

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 value Km
31 December 2016							
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	–	1,029.4	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

Notes to the financial statements

For the year ended 31 December 2017

3. Financial risk management (continued)

c) Liquidity risk (continued)

	CONSOLIDATED					Total contract value Km	Total value Km
	Up to 1 month Km	1 to 3 months Km	4 to 12 months Km	1 to 5 years Km	Over 5 years 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					Total contract value	Total carrying value
	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years		
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

	PARENT					Total contract value Km	Total carrying value Km
	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years		
	Km	Km	Km	Km			
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

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

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For the year ended 31 December 2017

4. Capital adequacy (continued)

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.

5. Net interest income/(expense)

	CONSOLIDATED		PARENT	
	2017 K '000	2016 K '000	2017 K '000	2016 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 K '000	2016 K '000	2017 K '000	2016 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 K '000	2016 K '000	2017 K '000	2016 K '000
Dividend income from investments	357	111	11	17
	357	111	11	17

8. Other operating income

	CONSOLIDATED		PARENT	
	2017 K '000	2016 K '000	2017 K '000	2016 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

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 K '000	2016 K '000	2017 K '000	2016 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

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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.

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% (2016: 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 K'000	2016 K'000	2017 K'000	2016 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)

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

	CONSOLIDATED		PARENT	
	2017 K'000	2016 K'000	2017 K'000	2016 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 K'000	2016 K'000	2017 K'000	2016 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)

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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.

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 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 '000	K '000	K '000	K '000
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

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For the year ended 31 December 2017

17. Loans and advances to customers (continued)

Movements in allowance for losses are as follows:

	CONSOLIDATED		PARENT	
	2017 K '000	2016 K '000	2017 K '000	2016 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 K '000	2016 K '000	2017 K '000	2016 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 K '000	2016 K '000	2017 K '000	2016 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.

19. Investments in subsidiaries

	2017 %	SHAREHOLDINGS**		
		2016 %	2017 Amount (K)	2016 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

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For the year ended 31 December 2017

20. Property, plant and equipment (continued)

PARENT	Furniture & Fittings K'000	Building improvements K'000	Motor Vehicles K'000	Office Equipment K'000	Land & Building K'000	Work in Progress K'000	Total 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

21. Intangible asset

CONSOLIDATED	Software K'000	Customer deposits relationship K'000	Total K'000
Cost			
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 K	Customer deposits relationship K	Total K
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.

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22. Other assets

	CONSOLIDATED		PARENT	
	2017 K '000	2016 Restated K '000	2017 K '000	2016 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:

	CONSOLIDATED		PARENT	
	2017 K '000	2016 K '000	2017 K '000	2016 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 K '000	2016 K '000	2017 K '000	2016 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 K '000	2016 K '000	2017 K '000	2016 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:

	CONSOLIDATED		PARENT	
	2017 K '000	2016 K '000	2017 K '000	2016 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 K'000	2016 K'000	2017 K'000	2016 K'000
Balance at beginning of year	3,277	5,408	1,545	2,200
Charged to profit and loss	4,495	(2,131)	2,599	(655)
Utilized during the year	(3,419)	–	(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

26. Other liabilities

	CONSOLIDATED		PARENT	
	2017 K'000	2016 K'000	2017 K'000	2016 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).

Notes to the financial statements

For the year ended 31 December 2017

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.

The following STI were approved by the Board.

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	AUD 382,269	AUD 583,193
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.

Notes to the financial statements

For the year ended 31 December 2017

27. Issued and paid ordinary shares (continued)

c) Share-based payment reserve (continued)

Movement in outstanding share rights

	CONSOLIDATED	
	2017	2016
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*	1,665,721	856,992

* 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.

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
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. Statement 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		
	2017	2016	Movement
	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 K'000	2016 K'000	2017 K'000	2016 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

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)

Notes to the financial statements

For the year ended 31 December 2017

29. Related party transactions (continued)

a) Directors and management transactions (continued)

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
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	S. Yates	Total 2017	Total 2016
	K'000	Investments	K'000	K'000	K'000
		K'000			
Deposit:					
Balance at beginning of year	–	1,486	74	1,560	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.

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	EXPENSES	INCOME	EXPENSES	DUE FROM		DUE TO	
	2017	2017	2016	2016	2017	2016	2017	2016
	K '000	K '000	K '000	K '000	K '000	K '000	K '000	K '000
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	–	–
	33,220	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. Investment 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

Notes to the financial statements

For the year ended 31 December 2017

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 PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total 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.

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 PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total 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.

Notes to the financial statements

For the year ended 31 December 2017

33. Contingent liabilities (continued)

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.

	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

36. Auditors' remuneration

	2017	2016
Consolidated entity	K'000	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 statement 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.

Shareholder information

Kina Securities Limited

ARBN: 606 168 594

The distribution of ordinary shares ranked according to size as at 27 March 2018 was:

Size of holding	Number of holders	Number of shares	% of issued capital
1-1,000	298	124,403	0.08
1,001-5,000	275	866,844	0.53
5,001-10,000	266	2,280,339	1.39
10,001-100,000	592	17,831,747	10.87
100,001-over	68	142,889,920	87.13

The 20 largest shareholders representing 81.26% of the ordinary shares as at 27 March 2018 were as follows:

Shareholder	Number of Shares	% of issued capital
FU SHAN INVESTMENT LIMITED	57,295,900	34.94
HSBC CUSTODY NOMINEES	33,871,696	20.65
NATIONAL SUPERANNUATION FUND	8,000,000	4.88
UBS NOMINEES PTY LTD	7,055,802	4.30
MATCHING INVESTMENT COMPANY	5,116,706	3.12
COLUMBUS INVESTMENTS LIMITED	4,068,574	2.48
COMRADE TRUSTEE SERVICES	3,500,885	2.13
NATIONAL NOMINEES LIMITED	2,932,949	1.79
J P MORGAN NOMINEES AUSTRALIA	2,294,046	1.40
PACIFIC NOMINEES LIMITED	1,322,871	0.81
BNP PARIBAS NOMINEES PTY LTD	1,295,137	0.79
HITSUMA SDN BHD	1,000,000	0.61
PERPETUAL SHIPPING LIMITED	1,000,000	0.61
NEW IRELAND DEVELOPMENT	800,000	0.49
GEAT INCORPORATED	700,000	0.43
P & B CHEUNG LTD	552,228	0.34
IDAMENEO (NO 79) NOMINEES	538,320	0.33
KINA ASSET MANAGEMENT NO 1	515,000	0.31
CAPITAL GENERAL INSURANCE	500,000	0.30
TRICO LIMITED	450,000	0.27
KINGSTON PROPERTIES PTY	446,221	0.27
Total	133,256,335	81.26
Grand total	163,993,253	100%

32,758,650 shares held by Fu Shan Investment limited are held in escrow until 27 April 2018

Issued capital as at 27 March 2018 was:

163,993,253 ordinary fully paid shares

32,758,650 shares are held in escrow until 29 April 2018

The following interests were registered on the Company's register of Substantial Shareholders as at 27 March 2018:

Shareholder	Number of Shares	% of Issued Capital
HSBC CUSTODY NOMINEES	33,871,696	20.65%
FU SHAN INVESTMENT LIMITED	57,295,900	34.94%

The Company's ordinary fully paid shares are listed on the Australian Securities Exchange and the Port Moresby Stock Exchange.

At 27 March 2018, there were no holders of unmarketable parcels of ordinary shares in the Company

VOTING RIGHTS ATTACHED TO ORDINARY SHARES

Each ordinary shareholder present at a general meeting (whether in person, by proxy or by representative) is entitled to one vote on a show of hands, or on a poll, for each fully paid ordinary share held.

Corporate directory

Directors

Isikeli Taureka (Chairman)
Greg Pawson (CEO –
appointed 2 January 2018)
David Foster
Karen Smith-Pomeroy
Jim Yap
Sir Rabbie Namaliu (ceased 16 May 2017)
Wayne Golding (ceased 16 May 2017)
Sydney Yates (CEO – ceased
2 January 2018)

Company secretary

Chetan Chopra

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Port Moresby

Papua New Guinea

STOCK EXCHANGE LISTING

ASX Code: KSL

POMSoX Code: KSL

WEBSITE

www.kina.com.pg

