Kina Securities Limited
2018 Full Year Results

Incorporating the requirements of Appendix 4E

ASX Appendix 4E

For the Full Year to 31 December 2018

Results for announcement to the market

Comparisons of current year to 31 December 2018 are with the year to 31 December 2017

Preliminary Final Report for the year ended 31 December 2018

Revenue from ordinary activities (PGK Millions)	**161.7**	**Up 45%**
Net Profit After Tax for the period		
Attributable to equity holders (PGK Millions)	**48.1**	**Up 109%**

Dividends distributions (Final dividend)	
- unfranked (AUD cents per share)	**5.0 cents**
- unfranked (PGK toea per share)	**12.1 toea**
Full Year dividend	
- unfranked (AUD cents per share)	**9.0 cents**
- unfranked (PGK toea per share)	**22.1toea**

The Directors have declared a final dividend for December 2018 based on the Net Profit After Tax attributable to equity holders of PGK27.5m for the second half to 31 December 2018.

The final dividend is converted based on an exchange rate: 1 PGK = 0.4117 AUD

Record date for determining entitlements to the dividend - 5th March 2019

The financial information contained in this report, for the year ended 31 December 2018, is presently being audited. The comparative figures for the full year ended 31 December 2017 are audited numbers.

This report should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2018 in Section 2.

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

Directors

The Directors present this report together with the consolidated financial report for the year ended 31 December 2018.

Directors:

The Directors of the company during or since the end of the year are as below:

Isikeli Taureka, Chairman	
Gregory Pawson, CEO and Managing Director	Appointed MD - 2 January 2018
Andrew Carriline	Appointed - 16 August 2018
Paul Hutchinson	Appointed - 16 August 2018
Karen Smith-Pomeroy	
Jane Thomason	Appointed - 23 May 2018
Sydney Yates, Managing Director	Retired - 31 December 2017
David Foster	Retired - 23 May 2018
Jim Yap	Retired - 16 August 2018

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

Chetan Chopra

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1. Results Overview

Kina delivers strong 2018 full year results

Results Highlights

	Full Year Ended			Half Year Ended		
	Dec-18	Dec-17	(%)	Dec-18	Jun-18	(%)
Statutory NPAT from ordinary activities (PGK m)	48.1	23.0	109%	27.5	20.6	33%
Revenue (PGK m)	161.7	111.5	45%	83.6	78.1	7%
FX Revenue (PGK m)	34.2	7.2	373%	20.1	14.1	43%
Loan impairment expense (PGK m)	5.1	3.3	53%	0.8	4.3	(83%)
Cost to income ratio (%)*	54.1	60.6	(11%)	50.2	58.2	(14%)
Net interest margin (%)	7.6	7.6	0%	7.6	8.1	(6%)
Return on Equity (%)	18.3	8.9	106%	18.3	16.1	14%
Earnings per Share (PNG Toea)	29.3	14.0	109%	16.7	12.6	33%
Dividend (PGK Toea per share)	22.1	15.0	50%	12.1	10.0	25%
Dividend (AUD Cents per share)	9.0	6.0	50%	5.0	4.0	25%
Deposit Growth (PGK m)	1,316.0	1,019.0	29%	1,316.0	1,098.0	20%
Net loans and advances (PGK m)	851.7	732.3	16%	851.7	785.9	(8%)
Capital adequacy (T1+T2) (%)	28.9	28.0	3%	28.9	29.0	(0%)

**Cost to income ratio for 2017 does not include the one-off lease termination payment expense and impairment expense*

Operating performance and earnings

Kina Securities Limited (KSL, Kina, or the Company) has reported statutory Net Profit After Tax of PGK48.1m for the December 2018 full year. The full year results show a substantial uplift compared to the same period in 2017.

The statutory profit has been calculated in accordance with International Financial Reporting Standards.

Directors have declared a final dividend of AUD 5.0cents per share / PGK12.1toea per share. This takes the full year dividend to AUD 9.0cents per share/ PGK22.1toea per share compared to AUD 6.0 cents per share/PGK15.0 toea per share in the prior corresponding year.

The financial results were driven strongly by a full year of uninterrupted foreign exchange (FX) trading supported by a strong USD correspondent banking relationship. The second half performance also reflects excellent growth in customer volumes whilst achieving a reduction in funding costs as a percentage of the portfolio.

The results were achieved despite the domestic PNG economy experiencing a challenging year due to the tight supply of foreign exchange and decreased levels of consumption.

In 2018, Kina set itself up for transformation by announcing the major acquisition of ANZ PNG's retail, commercial and SME businesses including the transfer of all retail branches, ATMs and EFTPOS terminals. During the year, Kina also enabled the resolution of an escrow shareholding with the founding and major shareholder selling its stake in Kina Securities Ltd. This resulted in a significant broadening of the investor base and has provided greater market liquidity for Kina shares.

The Group's cost to income ratio became an increasing focus during the year and the ratio has reduced to 54% reflecting an 11% reduction. Management continues to focus on this important ratio.

Key features of the result

Kina delivered growth across all of its businesses. Key highlights of the FY 2018 financial results include:

- FX income grew by 373% over the year to K34.2m compared to K7.2m in the corresponding prior year. Kina Bank restored its position in the FX market by enhancing correspondent banking arrangements and was able to increase market share to 10% for the full year.
- Net Interest income grew by 21%.
- Non-interest income grew by 90% with FX a strong contributor.
- Kina Funds Management revenue of PGK8.8m for the full year with total funds under management of PGK7.5 billion, up from PGK6.9 billion on 2017.
- Kina Funds Administration revenue increased by 37% to PGK16.2m following the NASFUND transition. Member numbers increased to 749,816 over the year to December 2018.
- The cost to income ratio improved to 54.1% through strong management of costs.
- Lending portfolio (excluding overdrafts) grew by 20% in 2018, well in excess of system growth which was forecast at 6%.
- Deposit book grew by 29% with focus on acquiring low cost funds through the launch of an innovative digital cash management account. Growth in customer deposits was achieved with a reduction in interest expense as a percentage of portfolio. Net Interest Margin (NIM) remained steady at 7.6%
- Customer numbers grew by 25% to 20,625 boosted by the launch of a new online account opening capability during the 2H 2018.
- Continued focus on appropriate credit risk appetite settings resulted in Total Provisions as a % of GLA at 2.1%. Loan Impairment expense remained low at 0.58% of Gross Loans and Advances (GLA) and Total Arrears was 2.2%. The Bank has also successfully implemented the new International Financial Reporting Standard (IFRS) No. 9 including a new provisioning model.

There were several important strategic and business initiatives also delivered over FY 2018:

- Divestment of FU-SHAN holdings as the largest shareholder improving diversification of the shareholder base and liquidity of stock.
- ICT Digital enhancements including online customer on-boarding and loan origination, and a single view online portal for banking and superannuation.
- Strengthened correspondent banking arrangements, and successfully implemented the final stage of the ICBA core banking platform upgrade (which included the Treasury Module Implementation and SWIFT 7.2 Upgrade).
- Established a differentiated product and service offer for key target customer growth segments of Affluent Retail, SME and Commercial.
- Kina Bank won the most innovative financial services company award for 2018 awarded by the PNG Institute of Company Directors.
- Kina Funds Management regained the investment management contract for Comrade Trustee Services Funds Under Management (FUM) of PGK 570m. Kina's investment management team now manage 60% of the FUM for the superannuation sector in PNG.
- Kina Funds Administration also has now completed the transition of member administration for NASFUND, the second largest provident fund in PNG, to the new Acurity system. Productivity improved 300% from an overall staff to member ratio of 1:4,000 to 1:12,000. Kina now have a 90% market share of the FUA for the superannuation sector in PNG.
- Rebranding of Kina Bank was very successful culminating in heightened market visibility and confidence evidenced through the attraction and growth of corporate deposits and commercial businesses.
- Continued to evolve Total Societal Impact (TSI) strategy which incorporates the Environmental Social and Governance Global Framework. The TSI is concentrated on a Financial Inclusion Partnership; Fostering Entrepreneurship and Innovation through the development of a SME capital fund, and a Youth Development and Employment Program.
- Developed and launched a comprehensive People and Culture Plan to reflect a simpler more integrated corporate structure. The key themes are culture and leadership development; workforce planning; talent management; capacity building and governance.

- Significant progress toward the acquisition and integration of ANZ PNG's Retail, SME and Commercial businesses.

Asset Quality

Overall asset quality remains sound, with a loan impairment and write-off expense of PGK 5.1m for the full year. This is equivalent to 0.58% of Gross Loans and Advances. The low levels of impairment expense reflect the continued focus on maintaining strong credit quality across the loan book and a continued disciplined approach to Kina's lending standards.

Kina continues to be prudent in its provisioning approach. In the current year, the Group applied IFRS 9 Financial Instruments (as revised) and the related consequential amendments to other Accounting Standards for the first time and applied the transition provisions set out in the standard. The Kina Board reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Kina has also implemented an 'Expected Credit Loss' (ECL) model. The Expected Credit Loss model requires the Group to account for ECLs and changes in those ECLs at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. As part of this approach, management has adopted an internal risk grading model that takes into account quantitative as well as qualitative factors in risk grading the individual exposures, with each grade having an associated loss given default.

In January 2018, Kina provided an additional PGK4.2m as a consequence of moving to an expected loss methodology in line with the requirements of the IFRS 9 standard. Based on the estimated market risk and applying the ECL methodology, Kina applied an IFRS Adoption Adjustment of PGK1.6m, a Model Risk Allocation of 10% at PGK1.3m and an Economic Risk Allocation Adjustment of PGK1.3m. The IFRS adjustments were monitored during the year and as at 31 December 2018 this adjustment has increased to PGK4.9m.

The Loan provision balance as at 2018 was PGK18.4m. A coverage ratio of 132% was maintained on loans in arrears greater than 90 days.

Operating Expenses

Operating expenses grew to PGK87.4m, representing an increase of 29% from the previous period in 2017. This compares with a growth in Operating Income of 45%. The increase in operating expenses is in line with Kina's build-out growth strategy, internal transformation program, and in preparation for the delivery of key integration projects required to complete the acquisition of ANZ PNG's Retail, SME and Commercial businesses. The Cost to Income ratio reduced to 54% as a consequence of both increased income and managed costs.

Staff costs remain the significant component of operating expenses at PGK44.8m which represents 51% of total costs. The company has significantly invested in its ICT and Risk Management capability over the period. A more integrated corporate structure was also implemented providing greater emphasis and investment in customer facing distribution channels, and gaining synergies from the consolidation of middle and back office functions across the Group. Licencing fees, communications (including internet and network charges), marketing and brand, integration expenses and additional depreciation on completed capital projects form the main administration costs.

Underlying Capital

The underlying capital of the banking business remains strong, with regulatory capital (T1+T2) at 29% of risk weighted assets (RWA), compared with a regulatory minimum of 12%. The surplus capital will be utilised to acquire the ANZ retail and SME business. At settlement of the transaction regulatory capital is expected to stabilise at around 17%.

Economic Outlook

The domestic economy experienced a challenging year in 2018 as it continued to face the tight supply of foreign exchange and decreased levels of consumption. This was further impacted by a devastating earthquake that struck the Highlands region in February 2018. Resource businesses suffered extensive damage to their facilities, resulting in several major shut downs and a loss in productivity. However, losses were recovered and initial fears of economic growth dropping to recessionary levels dissipated. PNG successfully hosted APEC 2018. Port Moresby saw major improvements in infrastructure to host the summit, with new roads, an upgraded international airport, and the construction of the iconic APEC Haus and several new conference facilities. The cost of hosting the event was estimated at K1.0 billion (USD$300 million) and the summit resulted in the announcement of several major billion dollar partnerships including:-

- A trilateral partnership between Australia, USA and Japan for infrastructure development across the Indo-Pacific Region.
- Signed an MOU for the US$5bn (PGK16.7bn) Wafi Golpu copper-gold mine project with an initial capital investment of US$2.8bn (PGK9bn)
- Signed USD$1.7bn Electrification Partnership with Australia, USA, Japan and New Zealand to bring power to 70% of the population by 2030.
- Signed MOU with TOTAL that aimed to finalise a gas agreement in early 2019 for the Papua LNG Project, estimated to cost USD$13bn.
- A PNG-USA-Australia joint agreement for the development of the Manus Island Naval Base.

PNG was successful in issuing its first sovereign bond issue raising US$500 million at a relatively attractive interest rate of 8.375%. Proceeds have gone to domestic debt repayment and has helped to relieve some of the foreign exchange pressures that have built over recent times.

Interest rates eased towards the end of the year as the government's borrowing program lessened, resulting in a general reduction in the supply of short term paper. Interest rates on one year treasury bills eased to 7.9% by the end of the year after peaking at around 8.1%. The PGK Kina experienced mixed fortunes. It demonstrated strength against the AUD appreciating by 6.1%. However it depreciated against the USD falling by 4% over the year.

Looking ahead to 2019 growth is expected to be solid with the World Bank forecasting a growth rate of 5.1%. However, Kina has assumed a more moderate level of 3%. Foreign exchange flows and reserves are anticipated to continue to increase. Major new resource projects are expected to make positive progress to Final Investment Decisions with construction likely starting in 2020. An international submarine fibre optic cable and a domestic cable will increase bandwidth to PNG significantly and lead to falling broadband prices. There are also other projects of economic significance such as a major upgrade of the Highlands highway; port redevelopment in Lae; development of health facilities; and further road projects. We expect this type of expenditure to provide a base level of economic activity which will grow over time.

The generally positive outlook is not without risks, which in Kina's view are mainly internationally based and depend on whether the synchronised slowdown in growth overseas is deep enough to lead to further falls in commodity prices. To some degree PNG remains protected from this outcome as a low cost country for the extractive industry.

Shareholding Reorganisation

Fu Shan Investments (Hong Kong) Ltd ceased to be a substantial shareholder (34.94%) in June 2018. This enabled Kina to comply with the last remaining condition applied to its banking license, namely the requirement for its largest shareholder to reduce its shareholding in line with the Banks and Financial Institutions Act 2000. The sell down, managed by Morgans Financial Ltd, prompted strong demand from both PNG and overseas shareholders. Shares were bought by a diverse group of new and existing institutional and retail investors in Papua New Guinea and Australia.

Inorganic Growth

In June 2018, Kina Bank announced a transformative acquisition of ANZ PNG's retail and commercial/SME banking businesses. The acquisition gives Kina Bank a national footprint, improves its market share, increases the product offering and scale, and provides significant additional low cost liquidity.

The proposed acquisition includes the transfer of all of ANZ PNG's retail branches, ATMs and EFTPOS terminals expanding Kina Bank's distribution network significantly. The acquisition is expected to increase Kina's earnings and profitability, to improve returns for its shareholders and enhance Kina's liquidity to support future lending growth. The transaction settlement date is scheduled to occur on or before 30 September 2019. Timing is largely due to the intent to migrate ANZ customers to the Kina Bank platform and the respective product capability build associated with the migration program.

1.1 Disclosure and context

Financial reporting

The statutory result for the twelve months to December 2018 was a consolidated Net Profit After Tax of PGK48.1m. This included results from the combined operations of Kina Securities Limited and its subsidiaries.

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

Future performance. Forward looking statements

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

Rounding

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

1.2 Profit results for the Year ended to December 2018

1.2.1 Statutory results

	Full Year Ended			Half Year Ended		
	31-Dec-18	31-Dec-17	%	31-Dec-18	30-Jun-18	%
Continuing Operations						
Interest income on investments	22,281	19,813	12%	13,049	9,232	41%
Interest income on loans	90,527	79,535	14%	47,226	43,301	9%
Interest expense	(25,232)	(26,839)	(6%)	(14,331)	(10,901)	31%
Net interest income	**87,576**	**72,509**	**21%**	**45,944**	**41,632**	**10%**
Fee and commission income	36,401	30,485	19%	18,186	18,215	(0%)
Fee and commission expense	(50)	(52)	(4%)	(33)	(17)	94%
Net fee and commission income	36,351	30,433	19%	18,153	18,198	(0%)
Foreign exchange income	34,201	7,224	373%	20,134	14,067	43%
Dividend income	327	357	(8%)	221	106	108%
Net (losses)/gain from financial assets through profit and loss	106	(5)	(2220%)	95	11	764%
Other operating income	3,089	993	211%	(962)	4,051	(124%)
Non-interest income	**74,074**	**39,002**	**90%**	**37,641**	**36,433**	**3%**
Operating income before impairment losses and operating expenses	**161,650**	**111,511**	**45%**	**83,585**	**78,065**	**7%**
Impairment losses	(5,070)	(3,317)	53%	(734)	(4,336)	(83%)
Lease termination payment expense	-	(7,000)	(100%)	-	-	-
Other operating expenses	(87,377)	(67,555)	29%	(41,965)	(45,412)	(8%)
Profit before tax	**69,203**	**33,639**	**106%**	**40,886**	**28,317**	**44%**
Income tax expense	(21,110)	(10,628)	99%	(13,434)	(7,676)	75%
Net Profit for the half year attributable to the equity holder of the Company	**48,093**	**23,011**	**109%**	**27,451**	**20,642**	**33%**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the half year attributable to the equity holder of the Company	**48,093**	**23,011**	**109%**	**27,451**	**20,642**	**33%**

The above information has been extracted from the consolidated financial statements of Kina Securities Limited for the Full Year ended 31 December 2018 or calculated by reference to the audited 31 December 2017 annual financial statements and the 30 June 2018 half year reviewed financial statements.

1.2.2 Dividends

	Dec-18	Jun-18	Dec-17	Jun-17	Dec-16	Jun-16
Earnings per share (PNG Toea)	16.7	12.6	12.2	1.8	12.5	12.5
Earnings per share (A cents)	6.7	4.6	4.6	0.7	5.4	5.1
Dividend per share (PGK toea)	12.1	10.0	10.0	5.0	10.0	10.0
Dividends per share (A cents)	5.0	4.0	4.0	2.0	4.0	4.1

**Calculation of EPS based on statutory profit as shown in table above.*

1.2.3 Lending

PGK Millions	Full Year Ended			Half Year Ended		
	Dec-18	Dec-17	Change (%)	Dec-18	Jun-18	Change (%)
Overdraft	61	73	(16%)	61	44	39%
Term Loans	588	484	21%	588	557	6%
Investment Property Loan	42	21	100%	42	28	50%
Asset Financing	22	17	29%	22	21	5%
Housing Loan	119	117	2%	119	118	1%
Esi loan	38	33	15%	38	37	3%
Gross	870	745	17%	870	805	8%
Provision	(18)	(13)	38%	(18)	(19)	(5%)
Total	**852**	**732**	**16%**	**852**	**786**	**8%**

Net loan book grew by 16% in 2018. Term Loans grew by 21% to PGK588m during the year. Use of overdrafts was reduced in line with lower economic activity in the second half of 2018. The branded unsecured Esiloans business also grew by 15% on the back of continued demand for personal loans.

Kina Bank's service proposition remains key to driving continuous growth. The Bank currently has a diverse range of lending products suitable to the PNG market. During the year, the Bank has reviewed its service proposition across selected product types and this has resulted in growth in volumes. Further investment has been made with the appointment of key frontline staff to improve sales capability. Strong credit management has been a focus area to ensure good credit quality.

Kina continues to leverage its relationships with key customers, including clients in the wealth business to facilitate cross-selling opportunities. These relationships have been mutually beneficial and will continue to provide growth prospects for Kina in the near future.

Despite considerable competition in the market, the Bank has grown its loan market position to 6.4% in 2018 from 5.8% in 2017. Competition remains strong in the home loan and investment property loan space.

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

	Dec-18		Dec-17	
	PGK million	% of total loans	PGK million	% of total loans
Agriculture, Forestry & Fishing	11.8	1.4%	21.0	2.8%
Mining	4.1	0.4%	-	-
Manufacturing	3.8	0.4%	3.0	0.4%
Electrical, Gas & Water	0.7	0.1%	-	-
Building and Construction	72.7	8.4%	50.0	6.7%
Wholesale & Retail	154.8	17.8%	147.0	19.7%
Hotel & Restaurants	84.0	9.6%	81.0	10.9%
Transport & Storage	5.0	0.6%	6.0	0.8%
Financial Intermediation	14.7	1.7%	6.0	0.8%
Real Estate/Renting/Business Services	248.6	28.6%	182.0	24.4%
Equipment Hire	1.4	0.2%	2.0	0.3%
Other Business	21.8	2.5%	40.0	5.4%
Personal Banking	246.7	28.3%	207.6	27.8%
Total	**870.1**	**100.0%**	**745.6**	**100.0%**

Real Estate business lending (which includes housing loans and investment property loans) is the single largest sector at 29% with a similar level for personal banking loans.

The Bank continues to have low exposure to the Oil and Gas sectors and other extractive industries as well as very low direct exposure to Government entities.

1.2.4 Funding

PGK Millions	Full Year Ended Dec-18	Dec-17	Change (%)	Half Year Ended Dec-18	Jun-18	Change (%)
On Call	759	417	82%	759	437	74%
1 month	99	109	(9%)	99	111	(11%)
2 months	95	97	(2%)	95	76	25%
3 months	64	46	39%	64	89	(28%)
6 months	200	226	(12%)	200	282	(29%)
12 months	95	92	3%	95	94	1%
24 months	4	32	(88%)	4	9	(56%)
Total	**1,316**	**1,019**	**29%**	**1,316**	**1,098**	**20%**

Deposits grew by 29% in 2018 compared to 6% growth in 2017. This growth was mainly driven by increased volumes of Cash Management Accounts and fixed term deposits. Most of these funds were from major importers who also became foreign currency customers. The growth was also driven by a deposit campaign which resulted in raising an additional PGK 100m from 'new to bank' customers.

Since the commencement of 2018, Kina Bank's strategy has focused on strengthening a low cost funding base. This is reflected in a higher proportion of lower interest bearing on demand volumes.

PGK Millions	Full Year Ended Dec-18	Dec-17	Change (%)	Half Year Ended Dec-18	Jun-18	Change (%)
Fixed Term	650	602	8%	650	661	(2%)
Cash Management Accounts	251	304	(17%)	251	316	(21%)
Current Accounts	396	93	326%	396	17	2180%
Savings Accounts	19	20	(5%)	19	103	(82%)
Total	**1,316**	**1,019**	**29%**	**1,316**	**1,098**	**20%**

The loan to deposit ratio of 65% is within the internal target range set by the Board.

1.2.5 Net interest margin

PGK Million	Full Year Ended Dec-18	Dec-17	Change %	Half Year Ended Dec-18	Jun-18	Change %
Net interest income	87.6	72.5	20.8	46.0	41.6	10.5
Average interest earning assets	1,158.4	955.4	21.2	1,158.4	1,029.4	12.5
Average yield on interest earning assets (%)	9.8	10.4	(5.8)	9.8	10.2	(3.9)
Average interest bearing liabilities	1,148.0	962.6	19.3	1,148.0	1,045.5	9.8
Average cost on interest bearing liabilities (%)	2.2	2.8	(21.4)	2.2	2.1	4.8
Interest spread (%)	7.6	7.6	-	7.6	8.1	(6.2)
Net interest margin	7.6	7.6	-	7.6	8.1	(6.2)

Net interest margin (NIM) remained steady at 7.6% compared to the same period last year. This is within the guidance range set at the beginning of the year of between 6 - 8%. The results reflect a drop in the average yield on interest earning assets and a favourable drop in cost of funds.

Average interest earning assets grew by 21% to PGK1.2 billion. While this reflects a significant growth on the asset base, the yield spread on product type between loans and investments averages out to 9.8% from 10.4% in the corresponding prior period reflecting a mix of repricing of the loan book and maturity profile of investments.

The growth in average interest bearing deposits is a result of the banks funding strategy which represents an increase in lower cost funding base as depicted in section 1.2.4.

1.2.6 Non-interest income

PGK Millions	Full Year Ended			Half Year Ended		
	31-Dec-18	31-Dec-17	Change	31-Dec-18	30-Jun-18	Change
Banking						
Foreign exchange income	34.5	7.1	386%	20.1	14.4	40%
Fees and commissions	8.4	8.3	1%	3.7	4.7	(21%)
Other*	(1.0)	0.3	(433%)	(1.1)	0.1	(1200%)
Total	41.9	15.7	167%	22.7	19.2	18%
Wealth Management						
Fund Administration	16.2	11.8	37%	8.2	8.0	2%
Investment Management	8.8	9.3	(5%)	4.7	4.1	15%
Shares	0.9	0.4	125%	0.5	0.4	25%
Other	2.7	1.2	125%	0.7	2.0	(65%)
Total	28.6	22.7	26%	14.1	14.5	(3%)
Other						
Other	3.6	0.6	500%	1.1	2.5	(67%)
Total	3.6	0.6	500%	1.1	2.5	(67%)
Total	74.1	39.0	90%	37.7	36.4	4%

Non-interest income in the banking business was driven by a full year of uninterrupted FX trading. Kina has continued to focus on engaging with key exporter customers. New to bank exporter customers have also been acquired reflecting Kina's improved capability in this market. Bank Fees and Commissions Income experienced moderate growth, with the result impacted due to changes in accounting methodology to align with accounting standards.

Total fees from Wealth management grew by 26%. This growth was mainly driven by a full year impact of the Nasfund fund administration contract. The Wealth Management business continues to be the leader in the region.

During the year, Kina Properties sold its property housing the bank premises in Waigani, Port Moresby. The sale resulted in a capital gain of PGK1.2m which is reflected in other income.

1.2.7 Operating expenses

Total operating costs for H2 2018 were PGK42.0m, a reduction of 7% compared to H1 2018. The cost base shows an expected 29% growth in line with planned business expenses.

The cost to income ratio for the full year 2018 was 54% compared with 61% last year. The favourable drop reflects a strong income performance against last year and a concerted effort by the business on cost management.

The operating costs increase compared to the prior year was mainly attributed to staff and administration costs associated with planned business growth in 2018. There were increases in staff costs associated with the new Nasfund FUA contract, as well as resourcing and bridging capability in the banking operations. Continued planned spend on IT and software costs in relation to licenses and maintenance of software critical to business continuity contributed to increases in administration costs. Furthermore, associated non- capitalised acquisition expenses in the current year impacted operating costs by PGK2.9m. The details are as below:

Figures in PGK Million	Full Year Ended 31-Dec-18	Full Year Ended 31-Dec-17	Full Year Ended Change	Half Year Ended 31-Dec-18	Half Year Ended 30-Jun-18	Half Year Ended Change
Administration	19.9	17.4	14%	7.0	12.9	(46%)
Staff	44.8	35.4	27%	21.3	23.5	(9%)
Occupancy	13.8	9.8	41%	7.2	6.6	9%
Other Operating expenses	3.8	3.1	23%	2.5	1.3	92%
Board cost	1.7	1.4	21%	0.9	0.8	13%
Acquisition/Integration	2.9	-	0%	2.9	-	0%
Investor Relationship	0.5	0.5	0%	0.2	0.3	(33%)
	87.4	**67.6**	**29%**	**42.0**	**45.4**	**(7%)**

1.2.8 Asset quality and loan impairment

Figures in PGK Million	Full Year Dec18	Full Year % of GLA	Full Year Dec17	Full Year % of GLA	Half Year Dec18	Half Year % of GLA	Half Year Jun18	Half Year % of GLA
Loan impairment expense	5.1	0.58%	3.3	0.44%	0.8	0.00%	4.3	0.54%
Non-performing loans and loans in arrears	19.0	2.18%	24.7	3.32%	19.0	2.18%	16.8	2.08%
- 60 day arrears	1.3	0.15%	13.1	1.76%	1.3	0.15%	2.0	0.25%
- 90 day arrears	5.5	0.63%	10.1	1.35%	5.5	0.63%	8.1	1.01%
- Gross non-performing loans (> 180 days)	12.2	1.40%	1.5	0.21%	12.2	1.40%	6.7	0.83%
Total provision	18.4	2.13%	13.3	1.79%	18.4	2.13%	19.3	2.39%

Loan impairment expense was relatively low at PGK5.1m or 0.58% of GLA. The increase as a percentage of GLA to the prior corresponding period is due to the adjustment of impairment expenses as required by the adoption of IFRS9 in the first half. The second half of 2018 experienced significantly lower impairment actions. This is a consequence of continued application of disciplined lending standards across the Bank's portfolios.

Total non-performing loans decreased by PGK5.7m representing a 30% reduction on last year. The shift in days in arrears shows an increase in the 180 days category. This was a consequence of the new measurement and classification requirements of IFRS 9 in FY 2018.

In the current year, the Group has adopted IFRS 9 Financial Instruments for the first time and applied the transition provisions set out in the standard. Kina has implemented an 'expected credit loss' (ECL) model as required by the standard. The expected credit loss model requires the Group to account for ECLs and changes in those ECLs at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. As part of this approach, management has adopted an internal risk grading model which takes into account quantitative as well qualitative factors in risk grading the individual exposures, with each grade having an associated loss grade.

Breakup of the loan portfolio and provision based on risk grade is set out below:

Loans and advances to customers at amortised cost	Year Ended 2018				
	Stage 1 12-month ECL PGK'm	Stage 2 Lifetime ECL PGK'm	Stage 3 Lifetime ECL PGK'm	Total PGK'm	Total PGK'm
Grade A-D: Low to fair risk	806.9	8.8	0.8	816.5	720.8
Grade E: Monitoring	27.8	9.9	-	37.7	13.1
Grade F: Substandard	1.1	7.6	0.5	9.2	10.1
Grade G: Doubtful	0.1	3.0	1.4	4.5	1.5
Grade H: Impaired	0.1	0.6	1.5	2.2	-
Total Gross Carrying Amount	**836.0**	**29.9**	**4.2**	**870.1**	**745.5**
Loss allowance	(12.4)	(4.9)	(1.1)	(18.4)	(13.3)
Carrying amount	**823.6**	**25.0**	**3.1**	**851.7**	**732.2**

1.2.9 Capital adequacy

BPNG prudential standard 1/2003 Capital Adequacy prescribes ranges of overall capital adequacy ratios and leverage capital ratios to measure whether a bank is adequately capitalised. Kina exceeds the existing BPNG prudential capital adequacy requirements and qualifies as 'well capitalised' as at 31 December 2018, providing a strong base for further growth in lending.

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

Regulatory Capital Ratios	31-Dec-18	30-Jun-18	31-Dec-17	30-Jun-17
PGK'million				
RWA	**980**	**883**	**816**	**766**
Capital: T1	234	232	198	198
Capital: T2	49	26	32	17
Capital: T1 + T2	283	258	230	215
Capital adequacy Ratio: T1	24%	26%	24%	26%
Capital adequacy: T2	5%	3%	4%	2%
Capital adequacy: T1 + T2	29%	29%	28%	28%
Leverage Ratio	14%	16%	16%	16%*

**Capital ratio has been restated for the period ended 30th June 2017*

Capital ratios at the end of December 2018 remained strong, with combined T1 and T2 capital equal to 29% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. The bank also has a strong leverage ratio of 14%. Reduction in this period is due to an increase in core capital and total assets. The minimum capital requirements applied are 8% for Tier 1 capital, 12% for Tier 1 plus Tier 2 capital and a 6% leverage ratio.

The objective of Kina's Capital Management Plan is to maintain a strong, profitable financial risk profile and capacity to meet financial commitments. Capital adequacy and liquidity ratios are monitored against internal targets and triggers that are set over and above minimum capital requirements set by the Board. These are reviewed on a monthly basis by the Asset and Liability Committee.

The Kina Board has ensured Capital Adequacy is maintained at levels that would enable Kina to act early on any strong relevant growth opportunities arising in PNG. In line with this, in June 2018 Kina announced the acquisition of the retail and commercial/SME business of ANZ. The acquisition is expected to be completed in September 2019 at which time the Capital Adequacy is expected to stabilise at 17.3%. This is still in excess of the BPNG Prudential requirements of 12% for a well-capitalised bank.

Given strong ongoing growth opportunities and further investment into new technology initiatives aligned to the acquisition of ANZ, it is the Boards intention to maintain its conservative capital position.

2. Consolidated Financial Statements

2.1 Statement of Comprehensive Income – consolidated

	Full Year Ended			Half Year Ended		
	31-Dec-18	31-Dec-17	%	31-Dec-18	30-Jun-18	%
Continuing Operations						
Interest income on investments	22,281	19,813	12%	13,049	9,232	41%
Interest income on loans	90,527	79,535	14%	47,226	43,301	9%
Interest expense	(25,232)	(26,839)	(6%)	(14,331)	(10,901)	31%
Net interest income	**87,576**	**72,509**	**21%**	**45,944**	**41,632**	**10%**
Fee and commission income	36,401	30,485	19%	18,186	18,215	(0%)
Fee and commission expense	(50)	(52)	(4%)	(33)	(17)	94%
Net fee and commission income	36,351	30,433	19%	18,153	18,198	(0%)
Foreign exchange income	34,201	7,224	373%	20,134	14,067	43%
Dividend income	327	357	(8%)	221	106	108%
Net (losses)/gain from financial assets through profit and loss	106	(5)	(2220%)	95	11	764%
Other operating income	3,089	993	211%	(962)	4,051	(124%)
Non-interest income	**74,074**	**39,002**	**90%**	**37,641**	**36,433**	**3%**
Operating income before impairment losses and operating expenses	**161,650**	**111,511**	**45%**	**83,585**	**78,065**	**7%**
Impairment losses	(5,070)	(3,317)	53%	(734)	(4,336)	(83%)
Lease termination payment expense	-	(7,000)	(100%)	-	-	-
Other operating expenses	(87,377)	(67,555)	29%	(41,965)	(45,412)	(8%)
Profit before tax	**69,203**	**33,639**	**106%**	**40,886**	**28,317**	**44%**
Income tax expense	(21,110)	(10,628)	99%	(13,434)	(7,676)	75%
Net Profit for the half year attributable to the equity holder of the Company	**48,093**	**23,011**	**109%**	**27,451**	**20,642**	**33%**
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the half year attributable to the equity holder of the Company	**48,093**	**23,011**	**109%**	**27,451**	**20,642**	**33%**

The above information has been extracted from the full year consolidated financial statements of Kina Securities Limited for the full year ended 31 December 2018. The above information is in the process of being audited at the time of this report.

2.2 Statement of financial position – consolidated

	31-Dec-18 PGK'000	31-Dec-17 PGK'000	Change %
Assets			
Cash and due from banks	85,638	47,514	80%
Central bank bills	396,154	190,869	108%
Regulatory deposits	137,494	106,823	29%
Financial assets at fair value through profit and loss	4,907	4,637	6%
Loans and advances to customers	851,663	732,265	16%
Investments in government inscribed stocks	34,195	79,878	(57%)
Deferred tax assets	7,193	4,526	59%
Property, plant and equipment	28,121	27,830	2%
Goodwill	92,786	92,786	0%
Intangible assets	10,419	13,187	(23%)
Other assets	13,424	14,833	(7%)
Total Assets	**1,661,994**	**1,315,148**	**26%**
Liabilities			
Due to other banks	(25,065)	(638)	3829%
Due to customers	(1,315,460)	(1,019,325)	29%
Current income tax liabilities	(8,154)	(635)	1184%
Employee provisions	(6,251)	(4,353)	44%
Other liabilities	(37,795)	(33,495)	13%
Total Liabilities	**(1,392,725)**	**(1,058,446)**	**32%**
Net Assets	**269,269**	**256,702**	**5%**
Share capital and reserves			
Issued and fully paid ordinary shares	(142,213)	(142,213)	0%
Capital reserve	-	(49)	(100%)
Share-based payment reserve	(2,651)	(1,558)	70%
Retained earnings	(124,405)	(112,882)	10%
Total capital and reserves	**(269,269)**	**(256,702)**	**5%**

The above information has been extracted from the full year consolidated financial statements of Kina Securities Limited for the full year ended 31 December 2018. The above information is in the process of being audited at the time of this report.

2.3 Statement of changes in equity – consolidated

	Share Capital	Capital Reserve	Share based payment Reserve	Retained Earnings	Total
	PGK'000	PGK'000	PGK'000	PGK'000	PGK'000
Balance as at 31 December 2016	**142,005**	**-**	**1,356**	**114,509**	**257,870**
Profit for the period	-	-	-	3,026	3,026
Other comprehensive income	-	-	-	-	-
Employee share scheme	-	-	-	-	-
Dividend paid	-	-	-	(16,389)	(16,389)
Balance as at 30 June 2017	**142,005**	**-**	**1,356**	**101,146**	**244,507**
Profit for the period	-	-	-	19,985	19,985
Other comprehensive income	-	-	-	-	-
Employee share scheme	208	-	202	-	410
Dividend paid	-	-	-	(8,200)	(8,200)
Balance as at 31 December 2017	**142,213**	**-**	**1,558**	**112,931**	**256,702**
Profit for the period	-	-	-	20,641	20,641
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme	-	-	154	-	154
Dividend paid	-	-	-	(16,384)	(16,384)
IFRS9 adoption	-	-	-	(3,820)	(3,820)
Balance as at 30 June 2018	**142,213**	**-**	**1,712**	**113,368**	**257,293**
Profit for the period	-	-	-	27,452	27,452
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme - vested rights	-	-	(578)	-	(578)
Employee share scheme - value of employee services	-	-	1,517	-	1,517
Dividend paid	-	-	-	(16,415)	(16,415)
Balance as at 31 December 2018	**142,213**	**-**	**2,651**	**124,405**	**269,269**

The above information has been extracted from the full year consolidated financial statements of Kina Securities Limited for the full year ended 31 December 2018. The above information is in the process of being audited at the time of this report.

2.4 Statement of Cashflow – consolidated

	31-Dec-18 PGK'000	31-Dec-17 PGK'000
Cash flows from operating activities		
Interest received	112,691	98,799
Interest paid	(23,525)	(26,822)
Foreign exchange gain	34,201	7,224
Dividend received	327	357
Fee, commission and other income received	33,973	27,842
Fee and commission expense paid	(50)	(52)
Net trading and other operating income received	(7,335)	988
Recoveries on loans previously written-off	1,725	2,016
Cash payments to employees and suppliers	(83,682)	(64,320)
Lease termination payment	-	(7,000)
Effect of change in accounting policy (IFRS 9)	(3,820)	-
Income tax paid	(13,561)	(7,694)
Cash flows from operating profits before changes in operating assets	**50,944**	**31,338**
Changes in operating assets and liabilities:		
- net increase in regulatory deposits	(30,671)	(10,810)
- net increase in loans and advances to customers	(118,580)	(126,422)
- net increase in other assets	763	(6,602)
- net increase/ (decrease) in due to customers	293,027	46,765
- net decrease in due to other banks	21,145	3,408
- net increase/ (decrease) in other liabilities	2,593	(272)
Net cash flows from operating activities	**219,221**	**(62,595)**
Cash flows from investing activities		
Purchase of property, equipment and software	(14,999)	(15,702)
Proceeds from sale of property and equipment	19,912	-
Purchase of investment securities	(139,602)	26,676
Net cash flows from investing activities	**(134,689)**	**10,974**
Cash flows from financing activities		
Dividend payment	(32,799)	(24,589)
Net cash flow from financing activities	**(32,799)**	**(24,589)**
Net increase/ (decrease) in cash and cash equivalents	**51,733**	**(76,210)**
Effect of changes in the foreign exchange rates on cash and cash equivalents	6,391	704
Cash and cash equivalents at beginning of period	**102,514**	**178,020**
Cash and cash equivalents at the end of the period	**160,638**	**102,514**

The above information has been extracted from the full year consolidated financial statements of Kina Securities Limited for the full year ended 31 December 2018. The above information is in the process of being audited at the time of this report.

2.5 Basis of preparation

The accounting policies, estimation methods and measurement basis used in the preparation of the consolidated financial statements for the year ended 31 December 2018 are consistent with those used in preparing the 31 December 2018 financial statements of the Group.

2.6 Non-cash financing and investing activities

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

2.7 Reconciliation of cash and cash equivalents

	31 Dec 2018 PGK'000	31 Dec 2017 PGK'000
Cash and due from other banks	85,638	47,514
Central bank bills (maturity less than 3 months)	75,000	55,000
Total cash at the end of the period	**160,638**	**102,514**

2.8 Ratios

	31-Dec-18	30-Jun-18	31-Dec-17	30-Jun-17	31-Dec-16
Profit before tax / Operating Income					
Consolidated profit from ordinary activities before tax as a percentage of revenue	48.9%	36.3%	41. 9%	15. 3%	52.8%
Profit after tax / equity interests					
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	10.2%	8.0%	7.8%	1.2%	7.9%

**Ratios presented above are for the respective 6 months*

2.9 Earnings Per Share

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

	31-Dec-18	30-Jun-18	31-Dec-17	30-Jun-17	31-Dec-16
Calculation of the following in accordance with IAS33					
(a) Basic EPS	16.7	12.6	12.2	1.8	12.5
(b) Diluted EPS	16.5	12.5	12.2	1.8	12.5
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	163,993,253	163,993,253	163,993,253	163,893,253	163,893,253

** The EPS in the above Table is for the respective 6 months*

2.10 NTA backing

	31-Dec-18 PGK	30-Jun-18 PGK	31-Dec-17 PGK	30-Jun-17 PGK	31-Dec-16 PGK
Net tangible asset backing per ordinary share	1.08	1.00	0.92	0.89	0.97

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

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

2.12 Issued Shares

The total number of shares at 31 December 2018 was 163,993,253 (31 December 2017: 163,993,253)

	Total Number Ordinary shares	Number Quoted Ordinary shares
Changes during the year ended 31 December 2017		
Opening Balance of number of shares	163,993,253	163,993,253
Increase through issue of shares 2018	-	-
Total	**163,993,253**	**163,993,253**

2.13 Segment Reporting

31-Dec-18	Banking PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
Total external income	129,374	28,606	3,670	161,650
Total external expenses	(46,143)	(13,485)	(32,819)	(92,447)
Profit before inter-segment revenue and expenses	**83,231**	**15,121**	**(29,149)**	**69,203**
Inter-segment income	3,281	548	36,168	39,997
Inter-segment expenses	(32,174)	(6,304)	(1,519)	(39,997)
Profit before tax	**54,338**	**9,365**	**5,500**	**69,203**
Income tax expense	(16,833)	(2,692)	(1,585)	(21,110)
Profit after tax	**37,505**	**6,673**	**3,915**	**48,093**
Segment Assets	1,667,333	80,282	(85,621)	1,661,994
Segment Liabilities	(1,390,711)	(36,097)	34,083	(1,392,725)
Net assets	**276,622**	**44,185**	**(51,538)**	**269,269**
Capital expenditure	10,911	-	4,088	14,999
Depreciation	(3,449)	-	(3,308)	(6,757)

31-Dec-17	Banking PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
Total external income	88,495	23,119	193	111,807
Total external expenses	(31,728)	(11,334)	(35,106)	(78,168)
Profit before inter-segment revenue and expenses	56,768	11,784	(34,913)	33,639
Inter-segment income	3,208	643	29,369	33,221
Inter-segment expenses	(28,442)	(4,032)	(747)	(33,221)
Profit before tax	**31,533**	**8,396**	**(6,290)**	**33,639**
Income tax expense	(9,324)	(1,899)	596	(10,628)
Profit after tax	22,209	6,497	(5,695)	23,011
Segment assets	1,162,780	16,676	135,691	1,315,147
Segment liabilities	(1,045,264)	(4,642)	(8,539)	(1,058,446)
Net assets	**117,517**	**12,034**	**127,151**	**256,702**
Capital expenditure	7,750	-	7,952	15,702
Depreciation	(2,505)	-	(1,401)	(3,906)

2.14 Comparison of profits

	31-Dec-18 PGK'000	31-Dec-17 PGK'000	31-Dec-16 PGK'000
First Half Year			
Consolidated profit from continuing operations after tax attributable to members reported for the first half year	20,642	3,027	20,499
Second Half Year			
Consolidated profit from continuing operations after tax attributable to members reported for the second half year	27,452	19,984	20,476

2.15 Contingent liabilities

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

The Group guarantees the performance of customers by issuing stand-by letters of credit and guarantees to third parties. At 31 December 2018 these totalled PGK 45.9m (31 December 2017: PGK 36.8m).

3. Compliance Statement

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

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

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

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

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

	The accounts have been audited
	The accounts have been subject to review
X	**The accounts are in the process of being audited or reviewed**
	The accounts have not yet been audited or reviewed

5. The entity has a formally constituted audit committee.