



CONSOLIDATED FINANCIAL STATEMENTS 2018

December 2018

Directors' report

The Directors of Kina Securities Limited and its Subsidiaries ("the Group") submit herewith the annual financial report of the Company and its Subsidiaries for the year ended 31 December 2018.

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 net profit attributable to equity holders for the year for the Group was K48.1 million compared with K23.0 million in 2017.

The profit includes the following items:

- Net interest income of K87.6 million, compared with K72.5 million in the prior year to 31 December 2017.
- Net fee and commission income of K36.4 million compared with K30.4 million in the prior year.
- Operating income before impairment losses and other operating income of K161.7, up from K111.5 million in the prior year, primarily due to higher foreign exchange income.
- Impairment losses on loans and advances of K5.1 million, compared with K3.3 million in the prior year.
- Other operating expenses of K87.4 million, compared with K67.6 million in the prior period. Prior year operating expenses excludes the one-off lease termination payment of K7 million.

Dividends

The Company paid dividend of 4.00 cents (10.0 toea) per share (K16.4m) in April 2018 in relation to the profit for the half year ended 31 December 2017. In September 2018 the Company also paid dividend of 4.0 cents (10.0 toea) per share (K16.4m) in relation to the profit for the half year ended 30 June 2018.

After balance sheet date events

Subsequent to balance sheet date, the directors declared a final dividend of 5.00 cents per share (K27.5m). Further, the acquisition of ANZ PNG's retail, commercial and SME banking businesses is expected to be completed in late 2019. It involves deposits and loans from retail customers (including credit cards), commercial and SME, 15 branches and offices, ATMs and EFTPOS terminals and relevant employees. 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 K12,520 (2017: K34,241)

Auditor's fees

Fees paid to the auditor during the year for professional services are shown in note 35 to the accounts. The external auditor is Deloitte Touche Tohmatsu Ltd.

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	2018	2017
1,460,000 - 1,470,000	1	-
1,270,000 - 1,280,000	-	1
1,260,000 - 1,270,000	-	1
1,200,000 - 1,210,000	-	1
1,180,000 - 1,190,000	-	1
1,050,000 - 1,060,000	-	1
980,000 - 990,000	1	-
960,000 - 970,000	-	1
890,000 - 900,000	1	-
860,000 - 870,000	2	-
770,000 - 780,000	-	1
750,000 - 760,000	1	1
740,000 - 750,000	-	1
720,000 - 730,000	-	1
680,000 - 690,000	1	-
650,000 - 660,000	-	1
610,000 - 620,000	1	-
600,000 - 610,000	-	1
520,000 - 530,000	-	1
500,000 - 510,000	-	3
490,000 - 500,000	3	-
440,000 - 450,000	2	-
430,000 - 440,000	2	-
420,000 - 430,000	1	-
390,000 - 400,000	1	-
380,000 - 390,000	1	1
370,000 - 380,000	2	-
360,000 - 370,000	1	1
350,000 - 360,000	1	-
330,000 - 340,000	-	2
320,000 - 330,000	2	1
300,000 - 310,000	2	-
290,000 - 300,000	3	-
280,000 - 290,000	2	-
270,000 - 280,000	-	1
260,000 - 270,000	1	1
250,000 - 260,000	-	1
240,000 - 250,000	2	-
220,000 - 230,000	-	2
190,000 - 200,000	3	-
180,000 - 190,000	5	-
170,000 - 180,000	1	-
160,000 - 170,000	2	4
150,000 - 160,000	2	2
140,000 - 150,000	6	2
130,000 - 140,000	9	3
120,000 - 130,000	2	5
110,000 - 120,000	5	1
100,000 - 110,000	9	3

Remuneration report

Directors remuneration

Directors fees paid during the year was as follows:

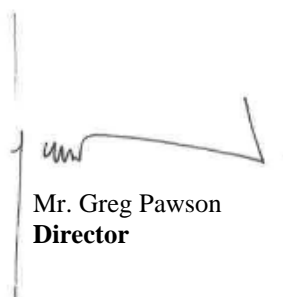
	2018	2017
	K'000	K'000
Directors		
W. Golding (resigned 16 May 2017)	-	81
R. Namaliu (resigned 16 May 2017)	-	125
D. Foster (resigned 23 May 2018)	103	392
J. Yap (resigned 16 August 2018)	146	261
I. Taureka (appointed Chairman 16 May 2017)	577*	230
K. Smith- Pomeroy	230	214
J. Thomason (appointed 23 May 2018)	129	-
P. Hutchinson (appointed 16 August 2018)	76	-
A. Carriline (appointed 16 August 2018)	78	-
	1,339	1,303
Managing Director		
S. Yates (resigned 31 December 2017)		
-Salaries	-	1,012
-Other benefits including leave entitlements	-	1,246
G. Pawson (appointed 2 January 2018)		
-Salaries	1,495	-
-Other benefits including leave entitlements	443	-
	1,938	2,258
	3,277	3,561

*A total of K187,717 was paid during the year as a result of prior year director's fee underpayment.

Signed at Port Moresby on behalf of the board on 29 March 2019.



Mr. Isikeli Taureka
Director



Mr. Greg Pawson
Director

Directors' declaration

The directors declare that:

- in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable
- in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with International Financial Reporting Standards (IFRS) and giving a true and fair view of the financial position and performance of the Group as at and for the year ended 31 December 2018

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Mr. Isikeli Taureka
Director
Port Moresby, 29 March 2019



Mr. Greg Pawson
Director
Port Moresby, 29 March 2019

Independent Auditor's Report to the shareholders of Kina Securities Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Kina Securities Limited (the "Company") and its subsidiaries (the "Group") which comprises the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and directors' declaration.

In our opinion, the accompanying financial report:

- (i) comply with International Financial Reporting Standards and other generally accepted accounting practices in Papua New Guinea; and
- (ii) give true and fair view of the financial position of the Company and the Group as at 31 December 2018, and their financial performance and cash flows for the year the ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (IASs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group 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.

We have no interest in the Group or the Company or any relationship other than that of the auditor of the Group and the Company.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Adoption of IFRS 9 – Financial Instruments</p> <p>The International Accounting Standards Board (IASB) issued IFRS 9 – <i>Financial Instruments</i> which replaces IAS 39 –</p>	<p>In respect of classification and measurement of the Group's financial instruments, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> ▪ We read the Group's IFRS 9 based classification and measurement of financial

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Financial Instrument: Recognition and measurement.</i> The Group has adopted the new standard with effect from 1 January 2018. As allowed under IFRS 9, the requirements have been applied retrospectively without restating the comparatives.</p> <p>Other than impact on the basis of recognition and measurement of impairment loss as discussed below, the key changes on the Group's financial statements arise from classification and measurement of the financial instruments as discussed in accounting policy in Note 1.15 and detailed in Note 1.3 to the consolidated financial statements.</p>	<p>assets and liabilities policy and compared it with the requirements of IFRS 9; and</p> <ul style="list-style-type: none"> ▪ We obtained an understanding and evaluated the Group's business model assessment and the test on contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' (SPPI) performed by the management; and We evaluated the opening balance adjustments recognised as a result of adoption of the new standard. <p>We also assessed the appropriateness of the financial statement disclosures arising due to adoption of IFRS 9 to determine if they were in accordance with the requirements of the Standard.</p>
<p>Impairment of loans and advances</p> <p>As at 31 December 2018 the Group has recognised provisions amounting to K18.4m for impairment losses on loans and advances held at amortised cost in accordance with the Expected Credit Loss (ECL) model as disclosed in Note 3.</p> <p>Loans and advances subject to provisioning using the ECL model include the residential, personal and corporate lending portfolio.</p> <p>Significant judgement was involved to determine the provision for credit impairment (including the timing of recognition and the amount of the provision).</p> <p>Key areas of the judgement include:</p> <ul style="list-style-type: none"> - The application of the requirements to determine impairment under application of IFRS 9, which is reflected in the Company's and the Group's expected credit loss model; - Identification of exposures with a significant movement in credit quality to determine whether 12-month or lifetime expected credit loss should be recognised; - Assumptions used in the expected credit loss model such as the financial condition of the counterparty, repayment capacity and forward looking macroeconomic factors as disclosed in Note 3; and - Incorporation of forward-looking information to reflect current or future external factors. 	<p>Our audit procedures in conjunction with our IT specialists included, but were not limited to:</p> <p>Control design and operating effectiveness:</p> <p>We tested the design and operating effectiveness of manual and automated controls over the impairment provision including:</p> <ul style="list-style-type: none"> - Controls over the accuracy of data input into the system used for credit grading and the approval of credit facilities; and - The ongoing monitoring and identification of loans displaying indicators of impairment and whether they are migrating on timely basis to appropriate risk grading buckets including generation of days past due reports. <p>Assessing model adequacy:</p> <p>We assessed the appropriateness of management's internally developed model in determining the impairment loss provision. Our procedures included:</p> <ul style="list-style-type: none"> - Assessing whether the model adequately addresses the requirements of IFRS 9; - Assessing on a sample basis the individual exposures to determine if they are classified into appropriate credit risk grades and aging buckets for the purpose of determining impairment loss provision; - Assessing reasonableness of the loss rates applicable to risk grade and aging buckets; and - Assessing the adequacy of management overlays to the modelled provision by recalculating the coverage provided by the impairment provision (including overlays) to loan book, taking into account recent history, performance, forward looking information and de-risking of the relevant portfolios. <p>We also assessed appropriateness of the disclosures in Note 3 to the financial statements.</p>

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Impairment of non-current assets</p> <p>As at 31 December 2018 the Group has recognised goodwill amounting to K92.7m, arising from the acquisitions of Maybank (PNG) Limited and Maybank Property (PNG) Limited as disclosed in Note 30. In accordance the relevant accounting standards the CGUs including goodwill must be tested for impairment at least annually.</p> <p>The impairment test requires significant judgement due to assumptions required in preparing a discounted cash flow model ('value in use'), including:</p> <ul style="list-style-type: none"> - Identification of appropriate Cash Generating Unit (CGU) to which goodwill is allocated for the purpose of impairment testing; - Future cash flows for the Cash Generating Unit ('CGU'); - Discount rates; and - Terminal value growth rates. 	<p>In conjunction with our valuation specialists, our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> - Evaluating the appropriateness of management's identification of the Group's CGUs and testing of key controls over the impairment assessment process, including the identification of indicators of impairment; - Assessing the reasonableness of cash flow projections and growth rates against external economic and financial data, the Group's own historical performance and historical forecasting reasonableness; - Assessing the key assumptions and methodology used by management in impairment model, in particular the weighted average cost of capital, the cost of debt and the terminal growth rate; - Evaluating the value in use estimate determined by management against the Company's market capitalisation; and - Testing the mathematical accuracy of the impairment model. <p>We also assessed the appropriateness of the disclosures in Note 30 to the financial statements.</p>

Other Information

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 report 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 report, 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 report 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.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, 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 has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 International Standards on Auditing 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 this financial report.

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 report, 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 report 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 report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report.

We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors 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 the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes 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 2018;

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



DELOITTE TOUCHE TOHMATSU



Benjamin Lee
Partner
Chartered Accountants
Registered under Accountants Act 1996
Port Moresby 29 March 2019



DELOITTE TOUCHE TOHMATSU



David Rodgers
Partner
Chartered Accountants
Registered Company Auditor in Australia
Brisbane 29 March 2019

KINA SECURITIES LIMITED

Statements of Comprehensive Income For the year ended 31 December 2018

		Consolidated		Parent	
		2018	2017	2018	2017
		K '000	K '000	K '000	K '000
Interest income	5	112,808	99,348	42	52
Interest expense	5	(25,232)	(26,839)	(3,829)	(3,851)
Net interest income/(expense)		87,576	72,509	(3,787)	(3,799)
Fee and commission income	6	36,401	30,485	865	409
Fee and commission expense	6	(50)	(52)	(35)	(44)
Net fee and commission income		36,351	30,433	830	365
Foreign exchange income		34,201	7,224	(283)	(46)
Dividend income	7	327	357	12	11
Net gains /(losses) from financial assets at fair value through profit and loss	15	106	(5)	25	14
Other income	8	3,089	993	40,397	33,555
Operating income before impairment losses and other operating expenses		161,650	111,511	37,194	30,100
Net impairment (loss)/gain on financial assets	3	(5,070)	(3,317)	-	44
Lease termination payment expense		-	(7,000)	-	(7,000)
Other operating expenses	9	(87,377)	(67,555)	(33,240)	(29,158)
Profit before tax		69,203	33,639	3,954	(6,014)
Income tax expense	10	(21,110)	(10,628)	(1,051)	163
Net profit for the year attributable to the equity holders of the Company		48,093	23,011	2,903	(5,851)
Other comprehensive income		-	-	-	-
Total comprehensive income for the year attributable to the equity holders of the Company		48,093	23,011	2,903	(5,851)
		2018	2017		
Earnings per share – basic (toea)	26 b	29.33	14.03		
Earnings per share – diluted (toea)	26 b	28.87	13.90		

The notes on pages 15 to 70 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED

Statements of Changes in Equity For the year ended 31 December 2018

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 2016	142,005	1,356	114,509	257,870
Profit for the year	-	-	23,011	23,011
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
Effect of change in accounting policy as disclosed in note 1.3	-	-	(3,820)	(3,820)
Balance as at 01 January 2018	142,213	1,558	109,111	252,882
Profit for the year	-	-	48,093	48,093
Other comprehensive income	-	-	-	-
Employee share scheme - vested rights	-	(769)	-	(769)
Employee share scheme – value of employee services	-	1,862	-	1,862
Dividend paid	-	-	(32,799)	(32,799)
Balance as at 31 December 2018	142,213	2,651	124,405	269,269

Parent	Attributable to the equity holders of the Parent			
	Share Capital	Share based payment Reserve	Retained Earnings	Total
	K '000	K '000	K '000	K '000
Balance as at 31 December 2016	142,005	1,356	106,654	250,015
Profit for the year	-	-	(5,851)	(5,851)
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
Profit for the year	-	-	2,903	2,903
Other comprehensive income	-	-	-	-
Employee share scheme - vested rights	-	(769)	-	(769)
Employee share scheme – value of employee services	-	1,862	-	1,862
Dividend paid	-	-	(32,799)	(32,799)
Balance as at 31 December 2018	142,213	2,651	46,318	191,182

The notes on pages 15 to 70 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED

Statements of Financial Position

As at 31 December 2018

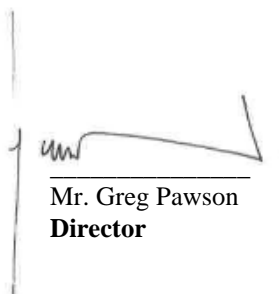
		Consolidated		Parent	
		2018	2017	2018	2017
		K '000	K '000	K '000	K '000
Assets					
Cash and due from banks	12	85,638	47,514	12,885	12,828
Central bank bills	13	396,154	190,869	-	-
Regulatory deposits	14	137,494	106,823	-	-
Financial assets at fair value through profit or loss	15	4,907	4,637	347	157
Loans and advances to customers	16	851,663	732,265	7	-
Investments in government inscribed stocks	17	34,195	79,878	-	-
Due from subsidiaries	28	-	-	351,096	351,123
Deferred tax assets	11	7,193	4,526	787	520
Investments in subsidiaries	18	-	-	248	248
Property, plant and equipment	19	12,108	23,110	6,929	5,065
Goodwill	30	92,786	92,786	-	-
Intangible assets	20	26,432	17,907	5,794	6,237
Other assets	21	13,424	14,833	1,544	9,426
		1,661,994	1,315,148	379,637	385,604
Liabilities					
Due to other banks		25,065	638	-	-
Due to customers	22	1,315,460	1,019,325	-	-
Current income tax liabilities	23	8,154	635	1,011	355
Due to subsidiaries	28	-	-	174,364	151,310
Employee provisions	24	6,251	4,353	2,642	2,351
Other liabilities	25	37,795	33,495	10,438	11,603
		1,392,725	1,058,446	188,455	165,619
Net assets		269,269	256,702	191,182	219,985
Shareholders' equity					
Issued and fully paid ordinary shares	26 a	142,213	142,213	142,213	142,213
Share-based payment reserve	26 c	2,651	1,558	2,651	1,558
Retained earnings		124,405	112,931	46,318	76,214
Total equity		269,269	256,702	191,182	219,985

The notes on pages 15 to 70 are an integral part of these consolidated financial statements.

These financial statements have been approved for issue by the Board of Directors and signed on its behalf by:



Mr. Isikeli Taureka
Director



Mr. Greg Pawson
Director

KINA SECURITIES LIMITED

Statements of Cash Flows

For the year ended 31 December 2018

	Consolidation		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Cash flows from operating activities				
Interest received	112,691	98,799	42	52
Interest paid	(23,525)	(26,822)	(3,829)	(3,851)
Foreign exchange gain	34,201	7,224	(282)	(46)
Dividend received	327	357	12	11
Fee and commission income received	33,973	27,842	858	409
Fee and commission expense paid	(50)	(52)	(35)	(44)
Net trading and other operating income	3,195	988	9,172	6,879
Recoveries on loans previously written-off	1,725	2,016	-	-
Support fees charged from subsidiaries	-	-	31,250	26,690
Cash payments to employees and suppliers	(98,032)	(64,320)	(6,599)	6,401
Lease termination payment	-	(7,000)	-	(7,000)
Income tax paid	(13,561)	(7,694)	(337)	(535)
Cash flows from operating profits before changes in operating assets and liabilities	50,944	31,338	30,252	28,966
Changes in operating assets and liabilities:				
- (increase) in regulatory deposits	(30,671)	(10,810)	-	-
- (increase) in loans and advances to customers	(118,580)	(126,422)	-	-
- net decrease/(increase) in other assets	763	(6,602)	7,691	(8,329)
- net decrease in due to customers	293,027	46,765	-	-
- decrease/(increase) due to other banks	21,145	3,408	(525)	-
- net increase/(decrease) in other liabilities	2,593	(272)	(1,167)	8,654
Net cash inflow/(outflow) generated from/(used in) operating activities	27c 219,221	(62,595)	36,251	29,291
Cash flows from investing activities				
Purchase of property, equipment and software	(14,999)	(15,702)	(3,920)	(7,415)
Proceeds from sale of property and equipment	19,912	-	-	-
Net movement in investment securities	27b (139,602)	26,676	-	-
Net cash inflow/(outflow) generated from/(used in) investing activities	(134,689)	10,974	(3,920)	(7,415)
Cash flows from financing activities				
Dividend paid	(32,799)	(24,589)	(32,799)	(24,589)
Net cash inflow/(outflow) generated from/(used) in financing activities	(32,799)	(24,589)	(32,799)	(24,589)
Net increase/(decrease) in cash and cash equivalents	51,733	(76,210)	(468)	(2,713)
Effect of exchange rate movements on cash and cash equivalents	6,391	704	525	-
Cash and cash equivalents at beginning of year	102,514	178,020	12,828	15,541
Cash and cash equivalents at end of year	27a 160,638	102,514	12,885	12,828

The notes on pages 15 to 70 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED

For the year ended 31 December 2018

Notes to the Financial Statements (From pages 15 – 70)

1. Summary of significant accounting policies

1.1 General information

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.

1.2 Basis of preparation

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 2018 were authorized for issue by the Board of Directors on 29 March 2019.

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.

1.3 Amendments to IFRSs that are mandatorily effective for the current reporting period

New and revised Standards and amendments thereof effective for the current financial year, and which have been applied in the preparation of these financial statements, that are relevant to the Group include:

- IFRS 9 *Financial Instruments* and related amending Standards
- IFRS 15 *Revenue from Contracts with Customers* and related amending Standards

The adoption of IFRS 9 and IFRS 15 have resulted in change of accounting policies of the Group.

IFRS 9 Financial Instruments and related amending Standards

In the current year, the Group has applied IFRS 9 *Financial Instruments* (as revised) and the related consequential amendments to other Accounting Standards for the first time. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in the standard, and has chosen not to restate the comparatives. Any adjustment arising as a result of the adoption of IFRS 9 is recognised in opening retained earnings.

Classification and measurement of financial assets

All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost
- Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income (FVTOCI)

1. Summary of significant accounting policies (continued)

1.3 Amendments to IFRSs that are mandatorily effective for the current reporting period (continued)

- All other debt investments and equity investments are subsequently measured at fair value through profit or loss (FVTPL).

Despite the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies in other comprehensive income
- The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

The directors of the Company reviewed and assessed the Group's existing financial assets as at 01 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- Loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding;
- Financial assets that were measured at FVTPL under IAS 39 continue to be measured as such under IFRS 9; and
- There are no financial instruments that should be classified or otherwise designed at FVTOCI.

None of the reclassifications of financial assets have had any impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income for either period.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an 'expected credit loss' (ECL) model as opposed to an 'incurred credit loss' model under IAS 39. 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. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for ECL on i) debt investments subsequently measured at amortised cost or at FVTOCI, ii) lease receivables, iii) contract assets and iv) loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired (POCI) financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

1.3 Amendments to IFRSs that are mandatorily effective for the current reporting period (continued)

As at 01 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised, and compared that to the credit risk as at 01 January 2018. The result of the assessment is as follows:

Items existing as at 01 January 2018 that are subject to the impairment provisions of IFRS 9	Credit risk attributes at 01 January 2018	Cumulative additional loss allowance recognised on 01 January 2018 K '000
Cash and due from banks	Management believes that cash and due from bank balances are subject to a very low credit risk at initial recognition with negligible default probability. As a result, the corresponding ECL on these financial assets is deemed to be immaterial.	-
Central bank bills	Management believes that treasury and central bank bills balances are subject to a very low credit risk at initial recognition with negligible default probability. As a result, the corresponding ECL on these financial assets is deemed to be immaterial.	-
Regulatory deposits	Management believes that regulatory deposits balances are subject to a very low credit risk at initial recognition with negligible default probability. As a result, the corresponding ECL on these financial assets is deemed to be immaterial.	-
Loans and advances to customers including issued loan commitments	Management has followed the 'staging' approach by identifying if there is a significant increase in credit risk since initial recognition and measured the ECLs either as 12 month or life time as the case may be.	4,200
Investment in government inscribed stocks	Management has followed the 'staging' approach by identifying if there is a significant increase in credit risk since initial recognition and measured the ECLs either as 12 month or life time as the case may be.	1,257
Other assets	Management believes that other assets are subject to a very low credit risk at initial recognition with negligible default probability. As a result, the corresponding ECL on these financial assets is deemed to be immaterial.	-
Documentary letters of credit	Management has followed the 'staging' approach by identifying if there is a significant increase in credit risk since initial recognition and measured the ECLs either as 12 month or life time as the case may be. No additional ECL has been recognised as they are fully collateralised by high quality liquid securities.	-
Bank guarantees	Management has followed the 'staging' approach by identifying if there is a significant increase in credit risk since initial recognition and measured the ECLs either as 12 month or life time as the case may be. No additional ECL has been recognised as they are fully collateralised by high quality liquid securities.	-
Total additional loss allowance recognised on 01 January 2018		5,457

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

1.3 Amendments to IFRSs that are mandatorily effective for the current reporting period (continued)

The additional credit loss allowance of K5,457,059 as at 01 January 2018 has been recognised against retained earnings, net of its related deferred tax impact of K1,637,118, resulting in a net decrease in retained earnings of K3,819,941 as at 01 January 2018. The application of the IFRS 9 impairment requirements has resulted in additional loss allowance of K1,039,423 to be recognised in the current period.

Classification and measurement of financial liabilities

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

Disclosures in relation to the initial application of IFRS 9

The Group has not restated prior periods, but recognised the difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings of the annual reporting period. The table below shows information relating to financial assets and liabilities that have been reclassified as a result of transition to IFRS 9.

Category	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 K'000	Additional loss allowance K'000	New carrying amount under IFRS 9 K'000
Cash and due from banks	Loans and receivables	Amortized cost	47,514	-	47,514
Treasury and central bank bills	Held to maturity	Amortized cost	190,869	-	190,869
Regulatory deposits	Loans and receivables	Amortized cost	106,823	-	106,823
Financial assets at fair value through profit and loss	Financial assets at FVTPL	Financial assets at FVTPL	4,637	N/A	4,637
Loans and advances to customers	Loans and receivables	Amortized cost	732,265	4,200	728,065
Investments in government inscribed stocks	Held to maturity	Amortized cost	79,878	1,257	78,621
Other assets	Loans and receivables	Amortized cost	12,527	-	12,527
Due to other banks	Financial liabilities at amortised cost	Financial liabilities at amortised cost	638	N/A	638
Due to customers	Financial liabilities at amortised cost	Financial liabilities at amortised cost	1,019,325	N/A	1,019,325
Other liabilities	Financial liabilities at amortised cost	Financial liabilities at amortised cost	13,117	N/A	13,117

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

1.3 Amendments to IFRSs that are mandatorily effective for the current reporting period (continued)

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to each financial asset. The change in classification category of the different financial assets has had no impact on their respective carrying amounts on initial application as such a reconciliation between the classification categories under IAS 39 and IFRS 9 has not been presented in these financial statements.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of IAS 39. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

Financial impact of initial application of IFRS 9

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 9 for the current year.

Impact on profit or loss, other comprehensive income and total comprehensive income	31 December 2018
	K'000
Increase in impairment losses	(1,039)
Decrease in income tax expenses	311
<i>Total effect on profit / (loss) for the year</i>	<u>(728)</u>
Impact on assets, liabilities and equity	31 December 2018
	K'000
Decrease in loans and receivables	(5,697)
Decrease in investments in government inscribed stocks	(800)
Increase in deferred tax asset	1,949
<i>Total effect on net assets</i>	<u>(4,548)</u>
Decrease in retained earnings	3,820
Decrease in profit for the year – loans and receivables	1,048
Increase in Profit for the year – investments in government inscribed stocks	(320)
<i>Total effect on equity</i>	<u>4,548</u>

The impact of the application of IFRS 9 on basic and diluted earnings per share is disclosed as below:

	K'000
Decrease in Profit for the year	(728)
Decrease in basic earnings per share	-
Decrease in diluted earnings per share	-

1. Summary of significant accounting policies (continued)

1.3 Amendments to IFRSs that are mandatorily effective for the current reporting period (continued)

IFRS 15 Revenue from Contracts with Customers and related amending Standards

The Group has applied IFRS 15 – *Revenue from Contracts with Customers* (as amended) for the first time in the current period. In accordance with the transition provisions set out in the standard, the Group has chosen to apply the modified retrospective method to qualifying financial instruments for the first-time adoption of IFRS 15.

IFRS 15 introduces 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Group’s consolidated financial statements are described below.

Apart from providing more extensive disclosures on the Group’s revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. Significant revenue streams of the Group falling within the scope of IFRS 15 are explained below.

(a) Investment and portfolio management

The Group manages investments for a number of superannuation funds and corporate clients. These services are provided by the Group on monthly basis and therefore billed accordingly. Revenue is recognised as and when the bill is raised i.e. when performance obligation is satisfied. There has been no adjustment to the current revenue recognition methodology of the Group as a result of adoption of IFRS 15.

(b) Fund administration

The Group earns a fee through administration of funds for its customers based on the fee rates agreed under the terms of the contract. The services are billed to customers on monthly basis at which point revenue is recognised, i.e. at the time when performance obligation is satisfied. There has been no adjustment to the current revenue recognition methodology of the Group as a result of adoption of IFRS 15.

(c) Share brokerage

The Group generates share brokerage from trading services for customers on Port Moresby Stock Exchange (“POMSOX”) and Australian Stock Exchange (“ASX”). Revenue is recognised upon settlement of the trade which is commensurate with when the performance obligation is satisfied. There has been no adjustment to the current revenue recognition methodology of the Group as a result of adoption of IFRS 15.

(d) Loan fee and bank commission

The Group charges various loan fees and commissions to its customers from time to time during tenure of the loan unrelated to the origination of the loans. Revenue is recognised when services promised under the contract are rendered and performance obligations are satisfied. There has been no adjustment to the current revenue recognition methodology of the Group as a result of adoption of IFRS 15.

1.4 New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the new and revised IFRS 16 Leases that has been issued but are not yet effective before 01 January 2019:

IFRS 16 ‘Leases’ (effective 01 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

1. Summary of significant accounting policies (continued)

1.4 New and revised IFRSs in issue but not yet effective (continued)

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 Group expects that certain leases of property and equipment that are currently accounted for as operating leases will, from 01 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 consolidated statement of financial position and will increase the reporting charges for depreciation and interest expense. The details of the impact on the Group's consolidated financial statements are currently being assessed by management.

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

1.5 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its controlled entities (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Group has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit or loss account from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of OCI (other comprehensive income) are attributed to the owners of the Group and to the non-controlling interests (NCI), if any. Total comprehensive income of the subsidiaries is attributed to the owners of the Group and to the NCI.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation, with the exception of foreign currency gains and losses on intragroup monetary items denominated in a foreign currency of at least one of the parties.

1. Summary of significant accounting policies (continued)

1.6 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).

1.7 Foreign currency translation

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 and the Group's functional and presentation currency.

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 statement of comprehensive income.

1.8 Interest income and interest expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised as 'Interest income' or 'Interest expense' in the profit or loss account using the effective interest method.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

1.9 Fee and commission income

The Group recognises fee and commission income from following major services it provides to customers;

- *Investment and portfolio management* - The Group manages investments for a number of superannuation funds and corporate clients. These services are provided by the Group on monthly basis and therefore billed accordingly. Revenue is recognised as and when the bill is raised i.e. when performance obligation is satisfied.
- *Fund administration* - The Group earns a fee through administration of funds for its customers based on the fee rates agreed under the terms of the contract. The services are billed to customers on monthly basis at which point revenue is recognised, i.e. at the time when performance obligation is satisfied.
- *Share brokerage* - The Group generates share brokerage from trading services for customers on Port Moresby Stock Exchange ("POMSOX") and Australian Stock Exchange ("ASX"). Revenue is recognised upon settlement of the trade which is commensurate with when the performance obligation is satisfied.

1. Summary of significant accounting policies (continued)

1.9 Fee and commission income (continued)

- *Loan fee and bank commission* - The Group charges various loan fee and commissions to its customers during the tenure of the loan unrelated to establishment of the loan facility. Revenue is recognised when services promised under the contract are rendered and performance obligations are satisfied.

1.10 Leasing

Operating lease payments are recognised in the statement of comprehensive income 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.

1.11 Taxation

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 and 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.

1. Summary of significant accounting policies (continued)

1.12 Business combinations

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 following:

- 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.

1.12 Impairment of non-financial 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.

1.13 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.

1. Summary of significant accounting policies (continued)

1.14 Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL.

Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset. The Group classifies and measures at amortised cost or at FVTOCI, assets where contractual terms give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

1. Summary of significant accounting policies (continued)

1.14 Financial instruments (continued)

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassesses its business models each reporting period to determine whether the business models have changed since the preceding period.

Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on re-measurement recognised in profit or loss.

Reclassification

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment

The Group measures and recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and advances;
- investment in government inscribed stocks;
- other financial assets;
- loan commitments issued; and
- financial guarantee contracts issued.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk and determination of ECL are provided in note 3.

Credit impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the recovery of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

1. Summary of significant accounting policies (continued)

1.14 Financial instruments (continued)

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses; or
- the facility is overdue by more than specified number of days.

The Group assesses whether debt instruments that are financial assets measured at amortised cost are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

Definition of default

The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk (see note 3).

The Group considers the following as constituting an event of default:

- the borrower is past due more than a specified number of days depending upon the type of loan arrangement on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. For some loan arrangements, the Group has determined based on reasonable and supportable information that the default event has not occurred even if the contractual payments are more than 90 days past due and has therefore rebutted the presumption provided in IFRS 9. This is in line with general payment behavior of the borrowers in the economy.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. More details are provided in note 3.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

1. Summary of significant accounting policies (continued)

1.14 Financial instruments (continued)

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring that was anticipated when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable. For some loan arrangements, the Group has determined based on reasonable and supportable information that that credit risk has not increased significantly even if the contractual payments are more than 30 days past due and has therefore rebutted the presumption provided in IFRS 9. This is in line with general payment behavior of the borrowers in the economy.

Write-off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group or a contract that will or may be settled in the Group's own equity instruments and is a non-derivative contract for which the Group is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Group's own equity instruments.

Financial liabilities are classified as 'other financial liabilities' as the Group does not have any financial liabilities that are classified or designated as at FVTPL.

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

1. Summary of significant accounting policies (continued)

1.14 Financial instruments (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVTPL.

1.15 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Depreciation is calculated on the basis of straight line to write-off the cost of such assets to their residual values over their estimated lives as follows:

Furniture and fittings	11.25% to 15%
Building improvements	10%
Motor vehicles	30%
Office equipment	15% to 30%

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate at each balance date. Gains and losses on disposal (being the difference between the carrying value at the time of sale or disposal and the proceeds received) are taken into account in determining operating profit for the year. Repairs and maintenance costs are charged to statement of comprehensive income, when the expenditure is incurred.

1. Summary of significant accounting policies (continued)

1.16 Intangible assets

Goodwill

Goodwill is measured as described in note 30. 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.

Customer deposits relationship

A customer deposit relationship asset was recognized with the acquisition of Maybank (PNG) Limited in 2015 (note 20), 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 may be impaired.

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.

1.17 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.

1.18 Employee benefits

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 statement of comprehensive income in the year to which they relate.

1. Summary of significant accounting policies (continued)

1.18 Employee benefits (continued)

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.

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.

1.19 Share capital and other equity accounts

Share capital

Ordinary shares are classified as equity. 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.

Dividends

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

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.

1.20 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 26b).

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.

1.21 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 29.

KINA SECURITIES LIMITED

1. Summary of significant accounting policies (continued)

1.22 Comparative financial information

Comparative financial information has been rearranged to conform to changes in presentation in the current year wherever necessary as noted below:

From	To	Amount (K'000)
Loans and advances to customer	Other assets	442
Property, plant and equipment	Intangible assets	4,720

2. Critical accounting estimates and judgments

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving significant estimates or judgments are:

- Significant increase in credit risk – note 3
- Recognition of deferred tax asset for carried forward tax losses – note 11 (a)
- Estimated allowance for loans and advances to customers – note 16 and 3(b)
- Estimated goodwill impairment – note 17 and note 30
- Estimated useful life of intangible asset – note 20
- Estimation of fair values of assets acquired and liabilities assumed in a business combination – note 30
- Estimation of the fair value of performance right grants and the number of grants expected to vest – note 26(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

Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads and equity prices, will reduce the Group's income or the value of its portfolios.

The group is exposed to the following type of market risks:

- (i) Foreign exchange risk;
- (ii) Interest rate risk; and
- (iii) Equity price risk

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3. Financial risk management (continued)

a) Market risk (continued)

(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 2018									
Cash balance	48	2	3	-	-	-	-	-	-
Due from other banks	57,598	1,240	-	396	(58)	685	3	(64)	3
	57,646	1,242	3	396	(58)	685	3	(64)	3
31 December 2017									
Cash balance	-	2	-	-	-	-	-	-	-
Due from other banks	20,304	3,026	354	-	-	234	12	91	43
	20,304	3,028	354	-	-	234	12	91	43

There was no material liabilities 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 statement of comprehensive income in K'000	
	2018	2017
USD/PGK – exchange rate – increase 10% (2017:10%)	(5,236)	(1,846)
USD/PGK – exchange rate – decrease 10% (2017: 10%)	6,400	2,256

(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 earnings in the current 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.

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3. Financial risk management (continued)

a) Market risk (continued)

The following table risks summarises the Group's exposure to interest rate risks:

Year ended 31 December 2018		
Fixed rate		
	Carrying amount	Average Interest rate (% p.a.)
Assets	K '000	
Cash and due from banks	85,638	1.00%
Central bank bills	396,154	4.91%
Investments in government inscribed stocks	34,195	9.56%
Liability		
Due to customers	1,315,460	2.19%

Year ended 31 December 2017		
Fixed rate		
	Carrying amount	Average Interest rate (% p.a.)
Assets	K '000	
Cash and due from banks	47,514	1.00%
Central bank bills	190,869	6.22%
Investments in government inscribed stocks	79,878	9.56%
Liability		
Due to customers	1,019,325	2.73%

Sensitivity

Given the profile of assets and liabilities at 31 December 2018 and prevailing interest rates, a 100 basis points increase/decrease in market rates in relation to lending will result in a K7,995,000 (2017: K7,001,000) decrease/increase in net interest income at a Group level.

(iii) Equity price risk

The Group is exposed to equity securities price risk due to the majority of the investments in listed equity securities 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 2018 and net assets as of balance date would have been affected by K237,128 (2017: K231,841). The Group's sensitivity to equity prices has not changed significantly from the prior year.

	Impact on statement of comprehensive income in	
	K '000	
	2018	2017
	K '000	K '000
Equity prices – increase 5% (2017:5%)	237	232
Equity prices – decrease 5% (2017: 5%)	(237)	(232)

3. Financial risk management (continued)

b) Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities) and investments in debt securities. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

(i) Credit risk management

The Group's credit committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

(ii) Significant increase in credit risk

As explained in note 1 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The determination of significant increase in credit risk is driven by internal risk ratings and days by which the contractual payments under terms of the financial instrument are overdue as explained below.

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises eight categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

3. Financial risk management (continued)

b) Credit risk (continued)

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, known events and conditions impacting the credit risk of the borrower, changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of whether there has been a significant increase in credit risk in addition to information on days past due. Following table provides how each credit grade is defined and its mapping to external credit rating:

Credit risk grades	S&P rating	Description
A	A's	Low risk. Minimum total assets of +K2,000 m and very strong repayment capacity.
B	B's	Low to fair risk Minimum total assets of +K1,000 m and strong repayment capacity.
C	B's	Moderate risk Minimum total assets of +K100 – K200 m and sound repayment capacity.
D	unrated	Acceptable risk. Sound financial history demonstrating surplus repayment capacity.
E	unrated	Watch list/special mention. Credit weaknesses are evident and repayment capacity is jeopardised.
F	unrated	Substandard
G	unrated	Doubtful
H	unrated	Loss

A review of the effectiveness of the risk grading process is undertaken annually at a minimum and considers evidence abnormal or material variations, loss rates and quality of the information utilised to assess the credit risk. The Group determines that credit risk is deemed to have increased significantly if:

- Credit rating of the borrower has deteriorated since initial recognition; or
- The facility is overdue to by a specific number of days depending upon the type of loan.

The Group has monitoring procedures in place to ensure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

Incorporation of forward-looking information

In determining the ECL, expected cash flows are appropriately probability weighted and include adjustments for forward looking information.

3. Financial risk management (continued)

b) Credit risk (continued)

Measurement of ECL

The key inputs used for measuring ECL are (1) Probability of default (PD), (2) Loss given default (LGD) and (3) Exposure at default (EAD).

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

The Group determines PD and LGD through an internal risk rating model which classifies each exposure based on the risk rating and stage of default (as noted below) with each risk rating having an associated loss rate. The loss rates reflect weighted average PDs and LGDs. In addition, model adjustments are included in determination of ECL when it is judged that existing inputs, assumptions and model techniques do not capture all relevant risk factors.

The Group defines stage of default as follows:

- Stage 1** These exposures are regarded as performing loans and lower loss rates are applied in determining the ECL representing ECL equivalent to 12 months expected losses.
- Stage 2** Exposures are classified as Stage 2 if credit rating has worsened since initial recognition or if facility is overdue by specified number of days.
- Stage 3** Stage 3 exposures are considered in default in accordance with the definition of default above.

Groupings based on shared risks characteristics

In determining the ECL, the financial instruments are grouped on the basis of shared risk characteristics, such as instrument type, credit risk grade, collateral type, the value of collateral relative to financial asset (loan-to-value (LTV) ratios) etc.:

Class of financial instrument	Financial statement line	Note
Cash and due from banks at amortised cost	Cash and due from banks	Note 12
Treasury and central bank bills at amortised cost	Central bank bills	Note 13
Regulatory deposits at amortised cost	Regulatory deposits	Note 14
Loans and advances to customers at amortised cost	Loans and advances to customers	Note 16
Investments in government inscribed stocks at amortised cost	Investments in government inscribed stocks	Note 17
Bank guarantees	Contingent liabilities	Note 32
Other financial assets	Other assets	Note 21

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3. Financial risk management (continued)

b) Credit risk (continued)

An analysis of the Group's **credit risk concentrations** per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For documentary letters of credit and bank guarantee, the amounts in the table represent the amounts committed or guaranteed, respectively.

	Consolidated	
	31 December 2018	31 December 2017
Cash and due from banks at amortised cost	K'000	K'000
Concentration by sector		
Cash on hand	4,993	5,370
With central bank (exchange settlement account)	5,820	17,903
With other banks	74,825	24,241
Total	85,638	47,514
Concentration by region		
Papua New Guinea	23,628	25,565
Offshore*	62,010	21,949
Total	85,638	47,514

*Bank accounts maintained in Australia, New Zealand, Great Britain, Singapore, Malaysia, Philippines, Japan, India and Turkey

	Consolidated	
	31 December 2018	31 December 2017
Treasury and central bank bills at amortised cost	K'000	K'000
Concentration by sector		
With central banks	396,154	190,869
Total	396,154	190,869
Concentration by region		
Papua New Guinea	396,154	190,869
Total	396,154	190,869

	Consolidated	
	31 December 2018	31 December 2017
Regulatory deposits at amortised cost	K'000	K'000
Concentration by sector		
With central banks	137,494	106,823
Total	137,494	106,823
Concentration by region		
Papua New Guinea	137,494	106,823
Total	137,494	106,823

KINA SECURITIES LIMITED

3. Financial risk management (continued)

b) Credit risk (continued)

	Consolidated	
	31 December 2018	31 December 2017
	K'000	K'000
Loans and advances to customers at amortised cost		
Concentration by sector		
Individuals:		
Mortgages	160,761	143,907
Unsecured lending	47,726	35,205
Corporate entities:		
Agriculture, Forestry & Fishing	11,810	20,701
Mining	4,090	-
Manufacturing	3,825	3,100
Electrical, Gas & Water	690	300
Building and Construction	72,699	50,202
Wholesale & Retail	154,781	146,807
Hotel & Restaurants	84,033	80,804
Transport & Storage	5,035	5,500
Financial Intermediation	14,704	5,600
Real Estate/Renting/Business Services	248,630	181,509
Equipment Hire	1,425	1,700
Other Business	21,759	41,560
Personal Banking	38,146	28,699
Total	870,114	745,594
Concentration by region		
Papua New Guinea	870,114	745,594
Total	870,114	745,594

	Consolidated	
	31 December 2018	31 December 2017
	K'000	K'000
Investments in government inscribed stocks at amortised cost		
Concentration by sector		
Sovereign	34,995	79,878
Total	34,995	79,878
Concentration by region		
Papua New Guinea	34,995	79,878
Total	34,995	79,878

KINA SECURITIES LIMITED

3. Financial risk management (continued)

c) Credit risk (continued)

	Consolidated	
	31 December 2018	31 December 2017
	K'000	K'000
Bank guarantees		
Concentration by sector		
Corporate entities:		
Agriculture, Forestry & Fishing	24,775	24,605
Wholesale & Retail	14,098	7,278
Building and Construction	2,926	696
Transport & Storage	2,193	2,193
Electrical, Gas & Water	190	1,105
Manufacturing	100	-
Other Business	1,651	916
Total	45,933	36,793
Concentration by region		
Papua New Guinea	45,933	36,793
Total	45,933	36,793

The amount of bank guarantees disclosed above represent notional amount guaranteed being the maximum exposure to credit risk

An analysis of the Group's **credit risk exposure per class of financial asset, internal rating and "stage"** without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	Consolidated				
	31 December 2018			31 December 2017	
	Stage 1	Stage 2	Stage 3	Total	Total
Cash and due from banks at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total	Total
	K'000	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	85,638	-	-	85,638	47,514
Total gross carrying amount	85,638	-	-	85,638	47,514
Loss allowance	-	-	-	-	-
Net carrying amount	85,638	-	-	85,638	47,514

KINA SECURITIES LIMITED

3. Financial risk management (continued)

b) Credit risk (continued)

	Consolidated				
	31 December 2018			31 December 2017	
	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
K'000	K'000	K'000	K'000	K'000	
Treasury and central bank bills at amortised cost					
Grades A-B: Low to fair risk	396,154	-	-	396,154	190,869
Total gross carrying amount	396,154	-	-	396,154	190,869
Loss allowance	-	-	-	-	-
Carrying amount	396,154	-	-	396,154	190,869

	Consolidated				
	31 December 2018			31 December 2017	
	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
K'000	K'000	K'000	K'000	K'000	
Regulatory deposits at amortised cost					
Grades A-B: Low to fair risk	137,494	-	-	137,494	106,823
Total gross carrying amount	137,494	-	-	137,494	106,823
Loss allowance	-	-	-	-	-
Carrying amount	137,494	-	-	137,494	106,823

	Consolidated				
	31 December 2018			31 December 2017	
	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
K'000	K'000	K'000	K'000	K'000	
Loans and advances to customers at amortised cost					
Grade C-D: Moderate and acceptable risk	801,516	5,143	-	806,659	712,811
Grade E: Watchlist/ special mention	27,804	9,919	-	37,723	13,112
Grades F: Substandard	1,099	7,574	545	9,218	10,091
Grade G: Doubtful	92	2,993	1,410	4,495	1,547
Grade H: Loss	106	577	1,451	2,134	-
Not graded	5,432	2,207	2,247	9,886	8,034
Total gross carrying amount	836,049	28,413	5,653	870,115	745,594
Loss allowance	(11,010)	(6,053)	(1,388)	(18,451)	(13,329)
Carrying amount	825,039	22,360	4,265	851,664	732,265

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3. Financial risk management (continued)

b) Credit risk (continued)

Investments in government inscribed stocks at amortised cost	Consolidated				
	31 December 2018			31 December 2017	
	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	K'000	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	34,995	-	-	34,995	79,878
Total gross carrying amount	34,995	-	-	34,995	79,878
Loss allowance	(800)	-	-	(800)	-
Carrying amount	34,195	-	-	34,195	79,878

Bank guarantees	Consolidated				
	31 December 2018			31 December 2017	
	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	K'000	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	45,933	-	-	45,933	36,793
Maximum exposure to credit risk	45,933	-	-	45,933	36,793
Loss allowance recognised	-	-	-	-	-

This table summarises the **loss allowance** as of the year end by class of exposure/asset.

	Consolidated	
	31 December 2018	31 December 2017
Loss allowance by classes	K'000	K'000
Loans and advances to customers at amortised cost	18,451	13,329
Investments in government inscribed stocks at amortised cost	800	-
Other financial assets	4,038	4,052
Total	23,289	17,381

Other financial assets comprise of miscellaneous receivables from individuals on which lifetime ECL has been recognised. No ECL has been recognised on other classes of financial assets either due to negligible probability of default or the assets being fully collateralized by high quality liquid assets.

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3. Financial risk management (continued)

b) Credit risk (continued)

Table below summarises the movement in ECL during the year by class of financial assets:

	Consolidated			
	Balance at 01 January 2018	Additional ECL recognised	Write-offs	Balance at 31 December 2018
Loss allowance by classes	K'000	K'000	K'000	K'000
Loans and advances to customers at amortised cost	17,529	5,514	(4,593)	18,450
Investments in government inscribed stocks at amortised cost	1,257	(457)	-	800
Other financial assets	4,052	13	(27)	4,038
Total	22,838	5,070	(4,620)	23,288

The table below analyses the movement of the loss allowance during the year per class of assets except for those where there have been no significant movement in the ECL since prior year or where no ECL is recognised:

Loss allowance – Loans and advances to customers at amortised cost	Consolidated				
	31 December 2018			31 December 2017	
	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	K'000	K'000	K'000	K'000	K'000
Loss allowance as at 01 January	9,361	4,393	3,775	17,529	11,990
Changes in the loss allowance					
- Transfer to stage 1	259	(179)	(80)	-	-
- Transfer to stage 2	(2,327)	3,037	(710)	-	-
- Transfer to stage 3	(19)	(613)	632	-	-
- Write-offs	-	-	(4,593)	(4,593)	(1,957)
New financial assets originated or purchased	5,303	4,233	131	9,667	5,463
Financial assets that have been derecognised	(1,565)	(1,085)	(1,502)	(4,152)	(2,167)
Loss allowance as at 31 December	11,012	9,786	2,347	18,451	13,329

In relation to investment in government inscribed stocks, there have been no significant movements in the ECL during the year except due to derecognition.

More information about the significant changes in the **gross carrying amount** of financial assets during the period that contributed to changes in the loss allowance, is provided at the table below:

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3. Financial risk management (continued)

b) Credit risk (continued)

	Consolidated				
	31 December 2018			31 December 2017	
	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances to customers at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL	K'000	K'000
Gross carrying amount as at 01 January	684,700	44,979	15,915	745,594	616,875
Changes in the gross carrying amount					
- Transfer to stage 1	29,294	(23,730)	(5,564)	-	-
- Transfer to stage 2	(8,568)	13,165	(4,597)	-	-
- Transfer to stage 3	(1,060)	(1,564)	2,624	-	-
New financial assets originated or purchased	444,132	6,904	1,689	452,725	167,101
Financial assets that have been derecognised	(314,437)	(5,620)	(3,555)	(323,612)	(36,425)
Write-offs	-	(3,734)	(859)	(4,593)	(1,957)
Gross carrying amount as at 31 December	834,061	30,400	5,653	870,114	745,594

Investments in government inscribed stock

In relation to investment in government inscribed stocks which continue to be classified as Stage 1, there have been no significant movements in the carrying amount during the year except due to derecognition.

The table below provides an analysis of the gross carrying amount of loans and advances to customers by **past due status**.

	Consolidated			
	Year ended 2018		Year ended 2017	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Loans and advances to customers	K'000	K'000	K'000	K'000
0-29 days	841,772	12,933	698,629	8,067
30-59 days	8,939	438	19,455	182
60-89 days	1,285	12	13,116	656
90-180 days	6,416	1,209	11,466	2,866
More than 181 days	11,702	3,858	2,929	1,558
Total	870,114	18,451	745,594	13,329

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral and the types of assets these are associated with are listed in the table below.

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3. Financial risk management (continued)

b) Credit risk (continued)

Exposure type	Type of collateral held
Mortgage lending	Mortgage over residential property
Personal lending	Mortgage over residential property / bill of sale
Corporate lending	Mortgage over commercial property
Investment securities	Sovereign guarantee
Lease receivables	Charge over property and equipment
Bank guarantee and documentary letters of credit	Charge over cash deposit

In addition to the collateral included in the table above, the Group holds other types of collateral and credit enhancements, such as second charges, floating charges and guarantees for which specific values are not generally available.

Mortgage lending

The Group holds mainly residential properties as collateral for the mortgage loans it grants to customers. In some cases it does hold cash as collateral. It monitors its exposure to retail mortgage lending using a Loan To Discounted Value (LTDV) ratio. At origination, the Group lends based on a discounted collateral value which is calculated at 80% of the market value at that time. This becomes the Value definition for the LTDV. The Group then lends up to 100% of this Value. The following table reflects the exposure by ranges based on this methodology. The Group believes that this methodology provides further risk reduction in case of changes in market value. For credit-impaired loans the value of collateral is based on the most recent valuations.

	Consolidated	
	Year ended 2018	Year ended 2017
	Gross carrying amount	Gross carrying Amount
	K'000	K'000
Mortgage lending		
LTDV ratio		
Less than 50%	10,126	5,156
51-75%	6,400	865
75-90%	7,316	425
90-100%	92,087	110,778
More than 100%	2,221	71
Fully cash covered	391	75
Total	118,541	117,370

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3. Financial risk management (continued)

b) Credit risk (continued)

	Consolidated	
	Year ended 2018	Year ended 2017
	Gross carrying amount K'000	Gross carrying amount K'000
Credit impaired – Mortgage lending		
LTDV ratio		
Less than 50%	1,550	-
51-75%	1,594	-
75-90%	107	-
90-100%	465	1,891
More than 100%	403	71
Total	4,119	1,962

Personal lending

The Group's personal lending portfolio consists of secured and unsecured loans as follows:

	Consolidated	
	Year ended 2018	Year ended 2017
	K'000	K'000
Secured	165,288	144,503
Unsecured	43,199	34,609
Total	208,487	179,112

For secured loans, the Group requires formal valuation of collateral to be performed prior to approval of the loan facility. The valuation is conducted by the external firm of valuers independent of the Group who are required to meet certain minimum standards as per the Group's policy. Collateral value determined by the valuer is further discounted by 20-30% before determining the facility limit. The discounted value of the collateral must exceed the facility limit by at least 12.5% to allow for sufficient buffer should there be any adverse movement in value due change in macroeconomic indicators.

The collateral value is updated when the facility is classified as stage 3 or at least every 2 years. The Group monitors the collateral value on an ongoing basis and in event of any indicator which may result in significant decline will require the fresh valuation to be performed. As at 31 December 2018, the portfolio of secured personal lending is entirely secured by eligible collateral.

For unsecured loans, the Group takes a higher level of return to reflect the credit risk. However credit risk standards are maintained to ensure a reasonable standard of debt servicing is proven.

3. Financial risk management (continued)

b) Credit risk (continued)

Corporate lending

The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. In addition, the Group also requires collaterals and guarantees to secure the corporate loans. Similar to personal lending, collaterals are required to be valued by independent firm of valuers before the facility is approved. Approved facility limit is equal to or less than the assessed value of the collateral discounted by 10-50% to allow for sufficient buffer should there be any adverse movement in the value due to change in macroeconomic indicators. Collateral values are updated at least every 2 years if there are any changes to the loan facilities or if the facility is classified as stage 3 loan. The Group monitors the collateral value on an ongoing basis and in event of any indicator which may result in significant decline will require the fresh valuation to be performed. As at 31 December 2018, the portfolio of the corporate lending is fully collateralized by eligible collateral.

Investment securities

The Group holds investment in government inscribed stocks measured at amortised cost with a carrying amount of K34,195,126 (2017: K79,877,699) which are collateralized by sovereign guarantee.

Lease receivables

The Group has lease receivables at a carrying amount of K12,720,823 (2017: K9,484,951) which are secured by the property and equipment leased to the lessee.

Bank guarantee and documentary letters of credit

Bank guarantees and documentary letters of credit are fully collateralized by charge over the cash deposits.

Credit risk disclosures in the financial statements of the parent

The credit risk disclosures included above relate only to the consolidated financial statements of the Group. Corresponding disclosures for the parent company have not been presented in these financial statements as the parent company does not have any material financial instruments other than intercompany lending amounting to K 351m (31 December 2017: K 351m). Details of the intercompany lending are disclosed in note 28 to the financial statements.

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.

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3. Financial risk management (continued)

c) Liquidity risk (continued)

Maturities of financial assets and liabilities

The table below presents a maturity analysis of Group's financial liabilities including issues financial guarantee contracts and corresponding analysis of financial assets held to manage the inherent liquidity risk using undiscounted contractual cash flows associated with those assets and liabilities.

	Consolidated						
	Up to 1 month K'000	1 to 3 months K'000	4 to 12 months K'000	1 to 5 years K'000	Over 5 years K'000	Total contract value K'000	Total carrying value K'000
31 December 2018							
Cash and due from banks	85,638	-	-	-	-	85,638	85,638
Central bank bills	80,000	38,000	295,000	-	-	413,000	396,154
Regulatory deposits	137,494	-	-	-	-	137,494	137,494
Total financial assets	303,132	38,000	295,000	-	-	636,132	619,286
Due to other banks	25,075	-	-	-	-	25,075	25,065
Due to customers	760,495	262,715	302,080	4,721	-	1,330,011	1,315,460
Other liabilities	21,972	-	-	-	-	21,972	21,972
Total financial liabilities	807,541	262,715	302,080	4,721	-	1,377,058	1,362,497
Issued financial guarantee contracts	3,032	5,288	28,202	7,713	1,699	45,933	N/A
Issued loan commitments	45,891	19,061	-	-	-	64,952	N/A
Total	48,923	24,349	28,202	7,713	1,699	110,885	N/A

	Consolidated						
	Up to 1 month K'000	1 to 3 months K'000	4 to 12 months K'000	1 to 5 years K'000	Over 5 years K'000	Total contract value K'000	Total carrying value K'000
31 December 2017							
Cash and due from banks	47,514	-	-	-	-	47,514	47,514
Central bank bills	60,000	40,000	97,000	-	-	197,000	197,000
Regulatory deposits	106,823	-	-	-	-	106,823	106,823
Total financial assets	214,337	40,000	97,000	-	-	351,337	351,337
Due to customers	452,027	213,928	326,425	37,111	-	1,029,491	1,019,325
Other liabilities	19,464	-	-	-	-	19,464	19,464
Total financial liabilities	471,491	213,928	326,425	37,111	-	1,048,955	1,038,789
Issued financial guarantee contracts	1,150	3,193	22,894	3,885	4,549	35,671	N/A
Issued loan commitments	51,907	5,188	-	-	-	57,095	N/A
Total	53,057	8,381	22,894	3,885	4,549	92,766	N/A

KINA SECURITIES LIMITED

3. Financial risk management (continued)

d) Liquidity risk (continued)

	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			
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	
31 December 2018								
Cash and due from banks	12,885	-	-	-	-	12,885	12,885	
Due from subsidiaries	358,583	-	-	-	-	358,583	358,583	
Total financial assets	371,468	-	-	-	-	371,468	371,468	
Other liabilities	8,964	-	-	-	-	8,964	8,964	
Due to subsidiaries	174,364	-	-	-	-	174,364	174,364	
Total financial liabilities	183,328	-	-	-	-	183,328	183,328	
31 December 2017								
Cash and due from banks	12,828	-	-	-	-	12,828	12,828	
Due from subsidiaries	358,610	-	-	-	-	358,610	358,610	
Total financial assets	371,438	-	-	-	-	371,438	371,438	
Other liabilities	9,572	-	-	-	-	9,572	9,572	
Due to subsidiaries	151,310	-	-	-	-	151,310	151,310	
Total financial liabilities	160,882	-	-	-	-	160,882	160,882	

The liquidity gap in 'up to 1 month bucket' is due to assumption that current and saving deposits amounting to K662m (31 December 2017: 442m) included within 'due to customers' mature within one month since these are on demand and do not have any fixed or determinable maturity.

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%.

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4. Capital adequacy (continued)

As at 31 December 2018, KBL's capital ratios were in compliance with the BPNG Minimum capital adequacy requirements as follows:

	2018 K '000	2017 K '000
Risk weighted assets	979,611	815,680
Capital : tier 1	233,390	197,984
Capital : tier 2	49,750	32,203
Capital : tier 1 and tier 2	283,140	230,187

Capital adequacy ratios

Tier 1 capital	23.8%	24.3%
Total capital ratio	28.9%	28.2%
Leverage capital ratio	13.9%	16.0%

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

The measure of capital used for the purpose of prudential supervision is referred to as base capital. Total base capital varies from the capital shown on the 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	
	2018 K '000	2017 K '000	2018 K '000	2017 K '000
Interest income				
Cash and short-term funds	15,041	12,923	42	52
Investment in government inscribed stocks	7,240	6,890	-	-
Loans and advances to customers	90,527	79,535	-	-
	112,808	99,348	42	52
Interest expense				
Banks and customers	(25,232)	(26,839)	-	-
Due to subsidiaries (note 28)	-	-	(3,829)	(3,851)
	(25,232)	(26,839)	(3,829)	(3,851)
Net interest income/(expense)	87,576	72,509	(3,787)	(3,799)

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6. Net fee and commission income

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Fees and commission income				
Investment and portfolio management	8,827	9,308	-	-
Fund administration	16,180	11,789	-	-
Shares brokerage	865	409	865	409
Loans fees and bank commissions	8,412	8,330	-	-
Other fees (net of expense)	2,117	649	-	-
	36,401	30,485	865	409
Fee and commission expenses	(50)	(52)	(35)	(44)
Net fee and commission income	36,351	30,433	830	365

7. Dividend income

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Dividend income from investments	327	357	12	11
	327	357	12	11

8. Other income

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Profits from disposal of property and equipment	1,218	(1)	-	(1)
Realised gains/losses	472	523	472	320
Support fees from subsidiaries (note 28)	-	-	31,250	26,690
Rental from subsidiaries (note 28)	-	-	2,498	1,292
Management fees (note 28)	-	-	6,162	5,238
Other	1,399	471	15	16
	3,089	993	40,397	33,555

9. Other operating expenses

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Staff costs	44,821	35,440	19,402	15,632
Acquisition costs relating to business combination (note 32)	345	-	-	-
Administrative expenses	18,152	13,541	4,633	7,974
Depreciation and amortization	6,757	4,661	2,498	1,292
Operating lease	5,785	4,814	2,263	1,276
Software maintenance and support charges	2,028	3,143	222	306
Auditor's remuneration (note 36)	765	1,180	221	182
Other	8,724	4,776	4,001	2,496
	87,377	67,555	33,240	29,158

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9. Other operating expenses (continued)

Break-up of staff costs:

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Salaries, wages and other benefits	41,473	34,045	16,854	14,818
Superannuation costs	1,368	985	568	404
Cost of employee share based incentive plan	1,980	410	1,980	410
Total staff costs	44,821	35,440	19,402	15,632

As at 31 December 2018 the Group had 366 (2017: 308) employees and 4 (2017: 2) consultants. The Company had 125 (2017:93) employees and 2 (2017: 1) consultant.

10. 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	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Profit before tax	69,203	33,639	3,954	(6,014)
Prima facie tax at 30% (2017: 30%)	20,761	10,092	1,186	(1,804)
Tax effect of:				
Net gains/(losses) from financial assets through profit and loss	(32)	(156)	(7)	(100)
Non-deductible expenses/non-assessable income	(38)	2,516	20	2,591
Prior year under/(over) provision	419	(1,824)	(148)	(850)
Income tax expense	21,110	10,628	1,051	(163)

Represented by:

Current tax	18,443	9,173	784	586
Deferred taxes	2,667	1,455	267	(749)
Income tax expense	21,110	10,628	1,051	(163)

11. Deferred taxes

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

	Consolidated		Parent	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Allowance for losses				
-Loans and advances to customers	5,369	3,999	-	-
-Other assets	-	-	-	30
Employee provisions and others	1,875	1,306	793	705
Other temporary differences	609	308	77	35
Tax losses carried forward	-	-	-	-
	7,853	5,613	870	770
Depreciation and amortization	(660)	(871)	(83)	(171)
Prepayments and others	-	(216)	-	(79)
	(660)	(1,087)	(83)	(250)
Net deferred tax asset/(liabilities)	7,193	4,526	787	520

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11. Deferred taxes (continued)

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

	Consolidated		Parent	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Balance at beginning of year	4,526	5,981	520	(229)
Statement of comprehensive income credit/(charge)	2,667	(1,455)	267	749
Balance at end of year	7,193	4,526	787	520
Represented by:				
Deferred tax assets (note 11(a))	7,854	5,613	870	770
Deferred tax liabilities (note 11(a))	(661)	(1,087)	(82)	(250)
	7,193	4,526	787	520

12. Cash and due from banks

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Cash on hand	4,993	5,370	3	3
Exchange settlement accounts	5,820	17,903	-	-
Due from other banks	74,825	24,241	12,882	12,825
	85,638	47,514	12,885	12,828

13. Central bank bills

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Central bank and treasury bills				
Less than 90 days	75,000	55,000	-	-
Over 90 days	338,000	142,000	-	-
Unearned discount	(16,846)	(6,131)	-	-
	396,154	190,869	-	-

Central bank bills are debt securities issued by the Bank of Papua New Guinea (BPNG). Central bank bills amounting to K75,000,000 (2017: K55,000,000) with a maturity term of one to three months from the date of purchase are classified as cash and cash equivalents (note 27). Central bank bills are measured at amortized cost.

14. Regulatory deposits

Regulatory deposit of the Group as at 31 December 2018 amounted to K137,494,400 (2017: K106,823,000). This represents mandatory balance required to be maintained in a non-interest bearing account with the Central Bank - Bank of Papua New Guinea.

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15. Financial assets at fair value through profit or loss

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Equity securities				
- Listed	4,681	4,575	182	157
- Unlisted	61	62	-	-
Convertible notes	165	-	165	-
	4,907	4,637	347	157

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

	Consolidated		Parent	
	2018	2017	2018	2017
	K	K	K	K
Balance at beginning of year	4,637	4,642	157	142
Gains/(losses) from changes in fair value	105	(5)	25	15
Additions	165	-	165	-
Disposals	-	-	-	-
Gains on disposal	-	-	-	-
Balance at end of year	4,907	4,637	347	157

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.

16. Loans and advances to customers

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Loans to individuals	208,487	179,112	-	-
Loans to corporate entities	661,627	566,482	7	-
Gross loans and advances to customers	870,114	745,594	7	-
Expected credit losses	(18,451)	(13,329)	-	-
	851,663	732,265	7	-

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

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Overdrafts	60,719	73,162	-	-
Property mortgage	118,541	117,370	-	-
Asset financing	22,475	17,534	-	-
Insurance premium funding	2,515	1,671	-	-
Business and other loans	665,864	535,857	7	-
	870,114	745,594	7	-

Movements in allowances for losses are as follows:

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Balance at beginning of year	13,329	11,989	-	44
IFRS 9 transition impact on the opening balance	4,200	-	-	-
Impairment losses (reversals) during the year	5,515	3,317	-	(44)
Loans written off	(4,593)	(1,977)	-	-
Balance at end of year	18,451	13,329	-	-

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17. Investments in government inscribed stocks

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Government inscribed stocks principal balance	33,000	78,000	-	-
Unamortised premium	573	709	-	-
Unamortised discount	(74)	(418)	-	-
Accrued interest	1,496	1,587	-	-
Gross investments in government inscribed stocks	34,995	79,878	-	-
Allowance for expected credit losses	(800)	-	-	-
	34,195	79,878	-	-

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

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Balance at beginning of year	79,878	64,328	-	-
Additions / (maturities)	(45,000)	15,000	-	-
Accrued interest	(91)	42	-	-
Expected credit losses	(800)	-	-	-
Amortized discount/(premium)	208	508	-	-
	34,195	79,878	-	-

Investments in government inscribed stocks are measured at amortized cost. Included within the balance is an amount of K25,000,000 (31 December 2017: nil) which has been pledged with a third party against repurchase agreement transaction.

18. Investments in subsidiaries

	Shareholdings**			
	2018	2017	2018	2017
	%	%	Amount (K)	Amount (K)
Kina Funds Management Limited (KFM)	100	100	2	2
Kina Investment and Superannuation Services Limited (KISS)	100	100	2	2
Kina Ventures Limited (KVL)*	100	100	2	2
Kina Wealth Management Limited (KWML)	100	100	2	2
Kina Nominees Limited (KNL)***	100	100	500,000	500,000
Total Investment at cost			500,008	500,008
Provision for impairment			(251,677)	(251,677)
Balance as at 31 December 2018			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 2018 (2017: nil).

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19. 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 2016*	1,076	7,689	3,783	12,905	11,746	1,467	38,666
Additions	47	1,666	337	2,813	-	110	4,973
Transfer in (out)	-	499	-	7	-	(506)	-
Disposals	-	-	-	(4)	-	-	(4)
Balance 31 December 2017	1,123	9,854	4,120	15,721	11,746	1,070	43,635
Additions	115	191	819	868	-	1,360	3,353
Transfer in (out)	-	-	-	110	-	(110)	-
Disposals	-	(2,711)	(160)	-	(9,617)	-	(12,488)
Balance 31 December 2018	1,238	7,334	4,779	16,699	2,129	2,320	34,500
Accumulated depreciation							
Balance 31 December 2016	(747)	(3,644)	(3,015)	(10,049)	(109)	-	(17,564)
Charge for 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)
Charge during the year	(137)	(934)	(508)	(2,004)	(54)	-	(3,637)
Disposals	-	1,338	160	-	272	-	1,770
Balance 31 December 2018	(1,013)	(4,148)	(3,776)	(13,455)	-	-	(22,392)
Book value							
Balance 31 December 2018	225	3,186	1,003	3,245	2,129	2,320	12,108
Balance 31 December 2017	247	5,302	692	4,271	11,528	1,070	23,110

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19. Property, plant and equipment (continued)

Parent	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 2016	535	878	1,966	9,159	2,128	-	14,666
Additions	47	-	134	1,527	-	110	1,819
Disposal	-	-	-	(4)	-	-	(4)
Balance 31 December 2017	582	878	2100	10,682	2,128	110	16,481
Additions	104	-	299	501	-	2,246	3,150
Transfer in (out)	-	-	-	110	-	(110)	-
Disposals	-	-	-	-	-	-	-
Balance 31 December 2018	686	878	2,399	11,293	2,128	2,246	19,631
Accumulated depreciation							
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)
Charge during the year	(70)	(37)	(180)	(999)	-	-	(1,286)
Disposals	-	-	-	-	-	-	-
Balance 31 December 2018	(530)	(718)	(2,033)	(9,421)	-	-	(12,702)
Book value							
Balance 31 December 2018	156	160	366	1,872	2,128	2,246	6,929
Balance 31 December 2017	122	197	247	2,260	2,128	110	5,065

20. Intangible assets

Consolidated	Software	Customer deposit relationship	Work in Progress	Total
	K'000	K'000	K'000	K'000
Cost				
Balance 31 December 2016	4,064	3,780	2,918	10,762
Additions	8,407	-	2,324	10,731
Transfer in (out)	521	-	(521)	-
Balance 31 December 2017	12,992	3,780	4,721	21,493
Additions	-	-	11,646	11,646
Transfer in (out)	353	-	(353)	-
Balance 31 December 2018	13,345	3,780	16,014	33,139
Accumulated depreciation				
Balance 31 December 2016	(940)	(945)	-	(1,885)
Charge for the year	(945)	(756)	-	(1,701)
Balance 31 December 2017	(1,885)	(1,701)	-	(3,586)
Charge during the year	(2,365)	(756)	-	(3,121)
Balance 31 December 2018	(4,250)	(2,457)	-	(6,707)
Book value				
Balance 31 December 2018	9,095	1,323	16,014	26,432
Balance 31 December 2017	11,107	2,079	4,721	17,907

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20. Intangible assets (continued)

Parent	Software	Customer deposit relationship	Work in Progress	Total
Cost				
Balance 31 December 2016	638	-	428	1,065
Additions	4,993	-	603	5,596
Transfer in (out)	428	-	(428)	-
Balance 31 December 2017*	6,059	-	603	6,661
Additions	-	-	769	769
Disposals	-	-	-	-
Balance 31 December 2018	6,059	-	1,372	7,430
Accumulated depreciation				
Balance 31 December 2016	(193)	-	-	(193)
Charge during the year	(231)	-	-	(231)
Disposals	-	-	-	-
Balance 31 December 2017	(424)	-	-	(424)
Charge during the year	(1,212)	-	-	(1,212)
Disposals	-	-	-	-
Balance 31 December 2018	(1,636)	-	-	(1,636)
Book value				
Balance 31 December 2018	4,423	-	1,372	5,794
Balance 31 December 2017	5,635	-	603	6,237

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 two years.

21. Other assets

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Prepayments	5,495	2,306	256	876
Security deposits and bonds	962	665	397	218
Lease incentive receivable	-	7,700	-	7,700
Other debtors	11,005	8,214	992	733
	17,462	18,885	1,645	9,527
Less: expected credit losses	(4,038)	(4,052)	(101)	(101)
	13,424	14,833	1,544	9,426

Movement of expected credit loss on other assets is as follows:

Balances at beginning of year	4,052	4,052	101	101
Reversal during the year	(14)	-	-	-
Reclassification	-	-	-	-
Balance at end of year	4,038	4,052	101	101

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22. Due to customers

	Consolidated		Parent	
	2018	2017	2018	2017
	K '000	K '000	K '000	K '000
Corporate customers	1,045,850	905,834	-	-
Retail customers	269,610	113,491	-	-
	1,315,460	1,019,325	-	-

23. Current income tax (assets) liabilities

	Consolidated		Parent	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Balance at beginning of year	635	(995)	355	169
Paid during the year	(13,561)	(7,694)	(337)	(535)
Current provision	18,443	9,173	784	(16)
Prior year under provision	2,637	151	209	737
Balance at end of year	8,154	635	1,011	355

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

Current income tax asset	-	-	-	-
Current income tax liability	8,154	635	1,011	355
	8,154	635	1,011	355

24. Employee provisions

Consolidated	2018			
	Opening balance	Additions	Payments	Closing balance
	K'000	K'000	K'000	K'000
Provision for Annual Leave	1,498	1,608	(997)	2,109
Provision for Long Service Leave	1,769	410	(894)	1,285
Provision for Salaries	255	31,852	(32,048)	59
Provision for Bonus	831	3,017	(1,050)	2,798
Total	4,353	36,887	(34,990)	6,251

Parent	2018			
	Opening balance	Additions	Payments	Closing balance
	K'000	K'000	K'000	K'000
Provision for Annual Leave	745	952	(629)	1,068
Provision for Long Service Leave	1,091	166	(845)	412
Provision for Salaries	-	11,648	(11,586)	63
Provision for Bonus	515	1,054	(469)	1,100
Total	2,351	13,820	(13,529)	2,643

	Consolidated	Parent
Represented by:		
Short term provisions	4,966	2,230
Long term provisions	1,285	412
Total employee provision	6,251	2,642

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24. Employee provisions (continued)

Consolidated	2017			
	Opening balance K'000	Additions K'000	Payments K'000	Closing balance K'000
Provision for Annual Leave	1,068	2,079	(1,648)	1,499
Provision for Long Service Leave	1,109	1,298	(639)	1,768
Provision for Salaries	83	21,737	(21,564)	256
Provision for Bonus	1,570	1,117	(1,857)	830
Total	3,830	26,231	(25,708)	4,353

Parent	2017			
	Opening balance K'000	Additions K'000	Payments K'000	Closing balance K'000
Provision for Annual Leave	562	931	(748)	745
Provision for Long Service Leave	314	1,010	(233)	1,091
Provision for Salaries	5	9,421	(9,426)	-
Provision for Bonus	664	658	(807)	515
Total	1,545	12,020	(11,214)	2,351

	Consolidated	Parent
Represented by:		
Short term provisions	2,584	1,260
Long term provisions	1,769	1,091
Total employee provision	4,353	2,351

25. Other liabilities

	Consolidated		Parent	
	2018 K'000	2017 K'000	2018 K'000	2017 K'000
Accruals	13,472	12,939	1,474	2,031
Unclaimed money and stale cheques	3,770	3,965	36	36
Bank cheques	4,484	2,382	-	-
Accounts payable	4,018	4,532	2,675	2,461
Unearned commission income	2,352	1,092	-	-
Other liabilities	9,699	8,585	6,253	7,075
Balance at end of year	37,795	33,495	10,438	11,603

26. 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
	'000	K'000
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
Share issued during the year – retention incentive	-	-
Balance as at 31 December 2018	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.

26. Issued and paid ordinary shares (continued)

b. Earnings per share (continued)

	Consolidated	
	2018	2017
Net profit attributable to shareholders – K'000	48,093	23,011
Weighted average number of ordinary shares basic earnings	163,993	163,943
Weighted average number of ordinary shares diluted earnings	166,563	165,554
Basic earnings per share (in toea)	29.33	14.03
Diluted earnings per share (in toea)	28.87	13.90

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 plan arrangements were in place during the year ended 31 December 2018

Date of grant	17 February 2017	16 February 2018
Number of share rights granted	119,226	89,256
Market value at grant date	AUD 125,187	AUD 62,301
Vesting date	1 April 2019	1 April 2020
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 2018

Date of grant	27 March 2016	17 February 2017	16 February 2018
Number of share rights granted	325,117	854,420	974,780
Market value at grant date	AUD 295,856	AUD 897,141	AUD 680,394
Fair value at grant date	AUD 382,269	AUD 583,193	AUD 419,155
Vesting date	27 March 2019	1 April 2020	1 April 2020
Vesting conditions	Continued service Achieved IPO Target NPAT	Continued service 50% target TSR 50% target EPS growth	Continued service 50% target TSR 50% target EPS growth

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26. Issued and paid ordinary shares (continued)

c. Share-based payment reserve (continued)

The estimated fair value of share rights issued on 16 February 2018 under the LTI plan was AUD 0.43, compared to the grant date market value per share of AUD 0.76980. 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.

Retention incentive

The retention plan is a once off award of performance rights to assist in the retention of key eligible participants. During the year, retention rights were granted to the CEO totalling 402,685 performance rights.

Movement in outstanding share rights

	Consolidated	
	2018 Number	2017 Number
Outstanding rights at beginning of year	1,665,721	856,992
New rights granted	1,466,721	973,646
Rights vested and shares issued/purchased	(372,081)	(100,000)
Rights forfeited or lapsed	(187,355)	(64,917)
Outstanding rights at end of year	<u>2,573,006</u>	<u>1,665,721</u>

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	
	2018 K'000	2017 K'000
Brought forward from previous year	1,558	1,356
Expense arising from share incentive plans	279	62
Rights vested	1,583	348
Rights forfeited or lapsed	(769)	(208)
Total	<u>2,651</u>	<u>1,558</u>

27. Statements of cash flows

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

	Consolidated		Parent	
	2018 K'000	2017 K'000	2018 K'000	2017 K'000
Cash and due from banks (note 12)	85,638	47,514	12,885	12,828
Central bank bills (note 13)	75,000	55,000	-	-
	<u>160,638</u>	<u>102,514</u>	<u>12,885</u>	<u>12,828</u>

b) Movement in investment securities is as follows:

	Consolidated		Movement K'000
	2018 K'000	2017 K'000	
Central bank bills (note 13)	396,154	190,869	205,285
Central bank bills & other eligible bills (less than 3 months)	(75,000)	(55,000)	(20,000)
Government inscribed stocks (note 17)	34,995	79,878	(44,883)
	<u>356,149</u>	<u>215,747</u>	<u>140,402</u>

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27. Statements of cash flows (continued)

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

	Consolidated		Parent	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Net profit after tax	48,093	23,011	2,903	(5,851)
Profit from disposal of property and equipment	(1,218)	-	-	-
Depreciation and amortization (note 19 and 20)	6,757	4,661	2,498	1,292
Premium/discount amortization (note 17)	91	(508)	-	-
Share-based payment expense	1,980	410	1,980	410
Net losses/(gains) from changes in fair values of financial assets (note 15)	5,071	5	-	15
Increase/(decrease) in income tax payable	7,519	1,630	655	187
Increase/(decrease) in deferred income tax (note 11b)	(2,667)	1,455	(265)	(749)
Changes in net assets and liabilities:				
Decrease/(increase) in assets:	(159,387)	(143,356)	7,685	(8,536)
Increase/(decrease) in liabilities:	316,802	50,097	20,796	42,523
Effect of change in accounting policy as disclosed in note 1.3	(3,820)	-	-	-
Net cash inflow/outflow) from operating	219,221	(62,595)	36,252	29,291

28. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by 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 2018, and related expenses and income for the year ended are as follows:

a) Directors and management transactions

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 2018 and 2017 and related income and expenses for the year ended are as follows.

	2018	2017
	K'000	K'000
Deposit:		
Balance at beginning of year	61	60
Received during the year	-	1
Repaid during the year	(61)	
Balance at end of year	-	61
Interest expense on deposits	-	0.6
Average interest rate per annum	-	1.00%

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 representing Trustee service fee.

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28. Related party transactions (continued)

a) Directors and management transactions

S. Yates, was the Managing Director and Chief Executive Officer of KSL. During the year 2017, 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 2018 and related expense for the year are as follows:

	S. Yates	Total	Total
	K'000	K'000	K'000
Deposit:			
Balance at beginning of year	24	24	1560
Received during the year	-	-	156
Repaid during the year	(24)	(24)	(1,692)
Balance at end of year	-	-	24
Average interest rate per annum	-	-	1.13%
Interest expense on deposits	-	-	7

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 2018, the total remuneration of the Directors was K3,277,474 (2017: K3,561,907).

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
2018	15	8,008	464	-	1,093	2,674	12,239
2017	12	6,333	-	65	408	1,912	8,718

*2017 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 (2017: 12.50) basis points, unsecured and with no fixed term of repayment. Details as follows:

	Transactions				Balance outstanding			
	Income 2018	Expenses 2018	Income 2017	Expenses 2017	Due from 2018	2017	2018	Due to 2017
	K '000	K '000	K '000	K '000	K '000	K '000	K '000	K '000
KFM	2,260	672	1,494	625	-	-	(31,846)	(26,607)
KISS	4,044	438	2,170	308	-	-	(24,252)	(15,102)
KWM	-	-	-	-	-	-	(221)	(8)
KBL	33,606	2,720	29,556	2,918	-	-	(118,045)	(109,593)
KVL	-	-	-	-	351,096	351,106	-	-
KNL	-	-	-	-	-	17	-	-
	39,910	3,830	32,220	3,851	351,096	351,123	(174,364)	(151,310)

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29. Investments under trust

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

	Consolidated		Parent	
	2018	2017	2018	2017
	K'000	K'000	K'000	K'000
Clients funds held for shares trading	2,650	2,109	2,650	2,109
	2,650	2,109	2,650	2,109

30. 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 2018 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% (31 December 2017: 3%). The estimated cash flows are discounted using a discount rate of 12.6% (31 December 2017: 12.5%). The fair value calculation includes future maintainable earnings of K72.4m and earnings multiple of 8 times.

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31. Segment reporting

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 31 December 2018 is as follows:

	Banking & Finance	Wealth Management	Corporate	Total
	PGK'000	PGK'000	PGK'000	PGK'000
Interest income	112,756	10	42	112,808
Interest expense	(25,232)	-	-	(25,232)
Foreign exchange income	34,496	(12)	(283)	34,201
Fee and commission income	8,412	27,109	830	36,351
Other revenue	(1,058)	1,501	3,079	3,522
Total external income	129,374	28,608	3,668	161,650
Other operating expenses	(37,049)	(14,060)	(29,510)	(80,619)
Provision for impairment	(5,645)	575	-	(5,070)
Depreciation and amortisation	(3,449)	-	(3,309)	(6,758)
Total external expenses	(46,143)	(13,485)	(32,819)	(92,447)
Profit before inter-segment revenue and expenses	83,231	15,123	(29,151)	69,203
Inter-segment income	3,281	548	36,080	39,909
Inter-segment expenses	(32,174)	(6,304)	(1,431)	(39,909)
Profit before tax	54,338	9,367	5,498	69,203
Income tax expense	(16,833)	(2,692)	(1,585)	(21,110)
Profit after tax	37,505	6,675	3,913	48,093
Total assets	1,516,929	21,902	123,163	1,661,994
Total assets include:				
Additions to non-current assets	10,911	-	4,088	14,999
Total liabilities	(1,390,711)	(2,362)	348	(1,392,725)

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.

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31. Segment reporting (continued)

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

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

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

32. 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 2018, the Group is a party to some litigation before the courts, however, management does not believe these will result in any material loss to the Group. There was no litigation matter of a material nature that is not already provided for in the financial statements.

Other liabilities

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

32. Contingent liabilities (continued)

	2018	2017
Group	K'000	K'000
Bank guarantee	45,933	36,793
	45,933	36,793

The Company had no contingent liabilities.

33. Commitments

Capital commitments

There was a total of K7,287,296 relating to commitments under contracts for capital expenditure at balance sheet date.

Operating lease commitments

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

	2018	2017
	K '000	K '000
Within one year	8,431	5,170
Between one and five years	21,357	20,681
Five years above	10,910	-
	40,698	25,851

Loan commitments

There was a total of K64,952k relating loan commitment at balance sheet date (31 December 2017: K57,095k).

34. Fair value of financial assets and liabilities

The Group measures fair values in accordance with IFRS 13, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group also uses a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value, which gives highest priority to quoted prices.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Assets and liabilities are classified as Level 1 if their value is observable in an active market.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. A Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability.
- Level 3 inputs are unobservable inputs. Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data.

Where possible, fair value is determined by reference to a quoted market price for the instrument valued. The group does not hold any material financial instruments for which quoted prices are not available other than investment in unlisted shares which are classified in Level 3 category.

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34. Fair value of financial assets and liabilities (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped by fair value hierarchy level.

Financial instruments measured at fair value

The following tables present the Group's and the parent's assets and liabilities that are measured at fair value at 31 December 2018.

	Consolidated			Total K'000
	Level 1 K'000	Level 2 K'000	Level 3 K'000	
Investment securities measured at FVTPL				
- Investment in shares – Listed	4,681	-	-	4,681
- Investment in shares – Unlisted	-	-	62	62
- Investment in convertible notes – Unlisted	-	-	165	165
Total assets	4,681	-	227	4,908

	Parent			Total K'000
	Level 1 K'000	Level 2 K'000	Level 3 K'000	
Investment securities measured at FVTPL				
- Investment in shares – Listed	182	-	-	182
- Investment in convertible notes – Unlisted	-	-	165	165
Total assets	182	-	165	347

The following tables present the Group's and the parent's assets and liabilities that are measured at fair value at 31 December 2017.

Assets	Consolidated			Total K'000
	Level 1 K'000	Level 2 K'000	Level 3 K'000	
Investment securities measured at FVTPL				
- Investment in shares – Listed	4,575	-	-	4,575
- Investment in shares – Unlisted	-	-	62	62
Total assets	4,575	-	62	4,637

Assets	Parent			Total K'000
	Level 1 K'000	Level 2 K'000	Level 3 K'000	
Investment securities measured at FVTPL				
- Investment in shares – Listed	157	-	-	157
- Investment in shares – Unlisted	-	-	-	-
Total assets	157	-	-	157

Reconciliation of level 3 fair value measurements of financial assets and financial liabilities

The group holds investment in unlisted securities amounting to K227,000 (31 December 2017: K62,000) in level 3 category for which carrying amount is considered as reasonable approximation of fair value. As such no reconciliation of level 3 financial instruments has been presented in these financial statements.

Financial instruments not measured at fair value

For the financial instruments not measured at fair value, there is no material difference between the fair value and carrying value of the Group's financial assets and liabilities.

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35. Auditors' remuneration

Consolidated entity	2018 K'000	2017 K'000
Audit and audit related	586	765
Tax services	135	314
Other services	44	101
	765	1,180

36. Events after the statements of financial reporting date

Subsequent to the financial reporting date, the directors declared a dividend of AUD 5.0 cents / PGK 12.1 toea per share (K27.5m). Further, the acquisition of ANZ PNG's retail, commercial and SME banking businesses is expected to be completed in late 2019. It involves deposits and loans from retail customers (including credit cards), commercial and SME, 15 branches and offices, ATMs and EFTPOS terminals and relevant employees. There are no other events after the balance sheet date that require adjustment to or disclosure in the financial statements.