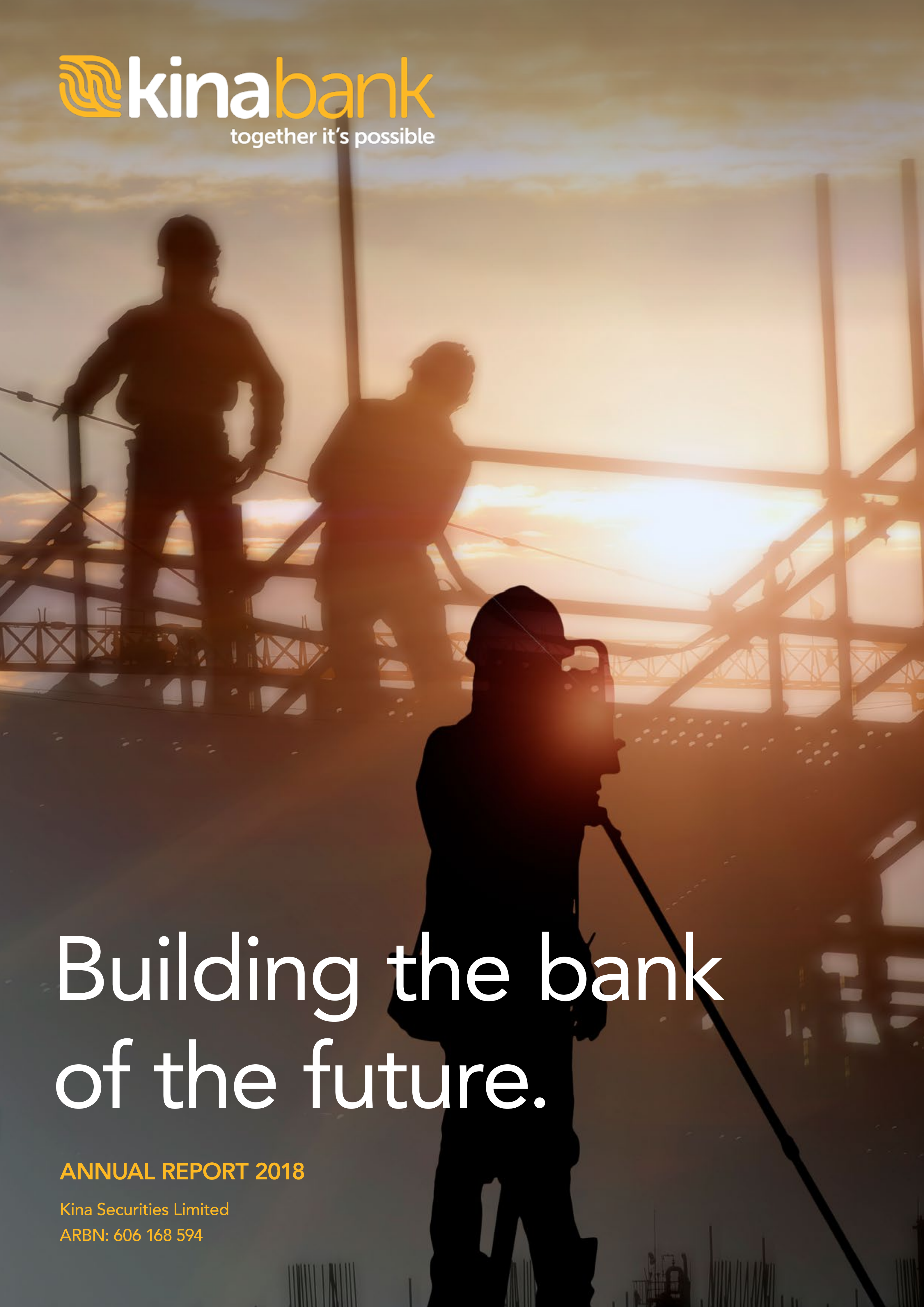


kinabank

together it's possible

Building the bank of the future.

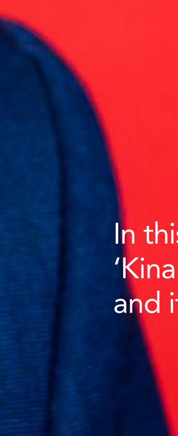
ANNUAL REPORT 2018

Kina Securities Limited

ARBN: 606 168 594

Contents

By investing in technology and focussing on customer experience, we are **building the bank of the future.**



In this Annual Report, a reference to 'Kina Group', 'Group', 'the Group', 'Kina', ' the Company', 'Kina Bank', 'the Bank' 'we', 'us' and 'our' is to Kina Securities Limited ARBN: 606 168 594 and its subsidiaries unless it clearly means just Kina Securities Limited

Performance Highlights

Net Interest Income
grew by 21%

Customer numbers up by
25% to
20,625

Revenue
PGK162m,
up **45%** from 2017

FUM grew by
PGK600M to
PGK7.5b

FUA grew to
PGK11.7b

FX income restored and grew
373% to
PGK34.2m

Successful
onboarding of Nasfund fund administration total members
750,000

Strengthened
correspondent banking arrangements

Resolution
of escrow shareholding – Fu Shan Investments Ltd ceased to be a substantial shareholder

Winner:
PNG's Most Innovative Business 2018

GDP growth is expected to be solid with **the IMF forecasting a growth rate of 3.2%** for 2019.

External Market Conditions

The domestic economy experienced a challenging year in 2018 as it continued to face the tight supply of foreign exchange and lower economic activity. This was further impacted by a devastating earthquake that struck the Highlands region in February 2018.

Resource businesses suffered extensive damage and there were several major shut downs. However, losses were recovered and initial fears of economic growth dropping to recessionary levels dissipated.

PNG successfully hosted APEC 2018 which brought with it major improvements in infrastructure: new roads, an upgraded international airport, the construction of the iconic APEC Haus and several new conference facilities. The cost of hosting the event was estimated at K1.0 billion (USD$300 million) and the summit resulted in the announcement of several major billion dollar partnerships:

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

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

Looking ahead, growth is expected to be solid with the IMF forecasting a growth rate of 3.2% for 2019. Foreign exchange flows and reserves are anticipated to continue to increase. Major new resource projects are progressing to Final Investment Decisions with construction likely to start in 2020. An international submarine fibre optic cable and a domestic cable will increase bandwidth to PNG significantly and should lead to falling broadband prices.

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

Chairman's Message

Despite the continued difficult economic environment I am pleased to deliver this statement showing the Bank's solid financial performance. It has resulted in a strong dividend for shareholders, with a final dividend of AUD 5.0 cents per share or PGK 12.1 toea. This takes the full year dividend to AUD 9.0 cents per share or PGK22.1 toea per share.

A transformational year

The Bank set itself up for transformation in 2018 by announcing the major acquisition of ANZ PNG's Retail, Commercial and SME businesses including the transfer of all retail branches, ATMs and EFTPOS terminals.

The acquisition is expected to increase Kina's earnings and profitability, improving returns for our shareholders and enhancing our liquidity to support future lending growth. It is progressing well and expected to complete in September 2019. The transaction settlement date is timed largely due to the intent to migrate ANZ customers to Kina Bank platforms and the respective product capability build associated with the migration program.

During the year Kina also resolved our escrow shareholding when the founding and major shareholder, FU Shan Investments (Hong Kong) Ltd, sold its stake of 34.94% in June 2018. This resulted in a significant broadening of the investor base and has provided greater market liquidity for Kina shares, bought by a diverse group of new and existing institutional and retail investors in Papua New Guinea and Australia.

Business Growth

We also strengthened our USD correspondent banking relationship. With a full year of uninterrupted foreign exchange (FX) we restored our position in the FX market. Our FX income grew by 373% and we were able to increase market share to 10% for the full year.

Kina reported a Net Profit After Tax of PGK 48.1 million for the December 2018 full year showing a substantial uplift compared to the same period in 2017. The results were strongly driven by FX trading supported by the strong USD correspondent banking relationship. The second half performance also reflects excellent growth in customer volumes whilst achieving a reduction in funding costs as a percentage of the portfolio.

With the appointment of Greg Pawson, our new Chief Executive Officer, in January 2018 we have seen the strong leadership needed to deliver on our goals for the year and beyond. Greg has provided clear direction and committed us to delivering for our stakeholders. His blueprint for strengthening the organisation has already shown significant success and he has embedded a challenger mentality throughout the business.

I would also like to thank my fellow Directors for their contribution, their rigour and executive level governance, particularly with regards to operational and compliance risks. The appointments of industry experts Andrew Carriline and Paul Hutchinson in August reflect the Bank's growing strength as an emerging force in PNG's rapidly developing financial services sector. They have brought key risk and commercial expertise to complement the broad range of experience already present with Karen Smith-Pomeroy and Jane Thomason.

On behalf of the board I would like to thank our staff for their commitment and dedication to the business. Their energy and genuine pride in our brand has enabled us to deliver solid results and set a strong foundation for future success.

Finally, I would like to thank our customers, community and shareholders for your continued support.

Yours faithfully

Isikeli Taureka
Chairman

Managing Director's Report

We have had a great year and our performance is back on track.

Our customer numbers grew by 25% to almost 21,000; our deposits grew by 29% to PGK 1.3bn; our loans and advances grew by 20% to PGK 851.7m.

We also put considerable effort into strengthening our correspondent banking arrangements. This resulted in FX income growing 373% to PGK 34.2m.

This was one of three strategic milestones we delivered during the year, including: the acquisition of ANZ PNG's Retail, SME and Commercial businesses; and the resolution of our escrow shareholding.

The acquisition is very much in line with our target and strategy to bank the emerging mass affluent segment in retail banking, and commercial and SME customers. Our objective is to achieve a seamless staff and customer experience during the transition and we have partnered with the International Finance Corporation and the Asian Development Bank to provide specialist technical and project assistance.

The integration team are delivering an ambitious project that is on track for completion in September 2019, when more than 300 staff and 120,000 customers will transition to Kina Bank. We will become the second largest retail bank in PNG with a national footprint and the capability to meet the increasingly sophisticated needs of communities across the country.

The acquisition will strengthen PNG's financial services sector by providing two very strong domestic retail banks. With the improvement in competition, our customers will benefit from our appetite to grow and invest in them. The acquisition is also good news for the PNG job market. Roles that are currently performed off-shore in locations such as Fiji, Singapore and India, will be brought back to PNG.

Underpinning the success of our organic growth this year is our focus on the customer experience. Simplicity, convenience and ease of access are the key themes we are building into our offering. Our digital strategy means we have been working to make things simple by upgrading our online platforms, and introducing new digital services such as online loan origination.

We have also made a significant investment in technology behind the scenes by automating systems and processes to improve efficiency. On top of this, we have put in a substantial amount of work to implement a brand new e-switching capability. This will allow us to service scheme card issuing and acquiring; provide EFTPOS services; and manage an expanded ATM fleet.

These developments form the foundation on which we are building a better bank for the future and they are why we were voted the Most Innovative Business 2018.

As we become a more focused bank and prioritise our customer segments we have begun to strengthen our capabilities. Our people have real pride in our organisation and this has been crucial to our success.

We are creating the right culture for long term success, which centres on our commitment to all of our colleagues. We provide tailor made training courses for everyone to ensure that they stay on top of their game. In addition to this, we encourage continuous learning. In 2018, all of our funds administrators were accredited with international qualifications through the Association of Superannuation Funds of Australia.

Each of us at Kina Bank is dedicated to doing good and positively contributing to the communities we serve. This year we stepped up our community work with our people organising and engaging in major community initiatives: from fund raising for hospitals, refurbishing schools, to cleaning up the local environment. We also sponsored major sporting events, such as the Golf ProAm, showing not only our charity work but also encouraging healthy lifestyles too.

Greg Pawson
Chief Executive Officer and Managing Director

Strategic Report

Building a better bank

In a series of transformative announcements made throughout 2018, Kina Bank secured its position as the fastest growing bank in PNG with a strong and successful future.

In June we announced the transformative acquisition of ANZ PNG's Retail, Commercial and SME businesses. The news was quickly followed by the divestment of our founding and major shareholder. Alongside this, we strengthened our correspondent banking arrangements, allowing us to restore our strong position in the FX market with a full year of uninterrupted FX trading.

The shareholder restructure was a significant moment for Kina Bank. When Fu Shan sold their shares - representing 34.94% or 57.29 million shares – it not only reinforced their valued contribution to the growth story of Kina Bank, but also strengthened our shareholder base as the only dual listed financial services company in PNG.

The sell-down prompted strong demand from both PNG and overseas investors and was oversubscribed by AUD25.0m. It reinforced off-shore interest and confidence in PNG and the Kina Bank strategy. The sale also confirmed Kina Bank's compliance with the last remaining condition applied to its banking licence, in line with PNG Prudential guidelines.

The acquisition of ANZ PNG's Retail, Commercial and SME businesses includes the national retail branch network, and the ATM and EFTPOS fleet. It will make Kina Bank the second largest bank in Papua New Guinea.

With a significantly increased national footprint, the acquisition will strengthen PNG's financial services sector by providing two very strong domestic retail banks. Customers will benefit from greater choice and a genuine, better banking alternative.

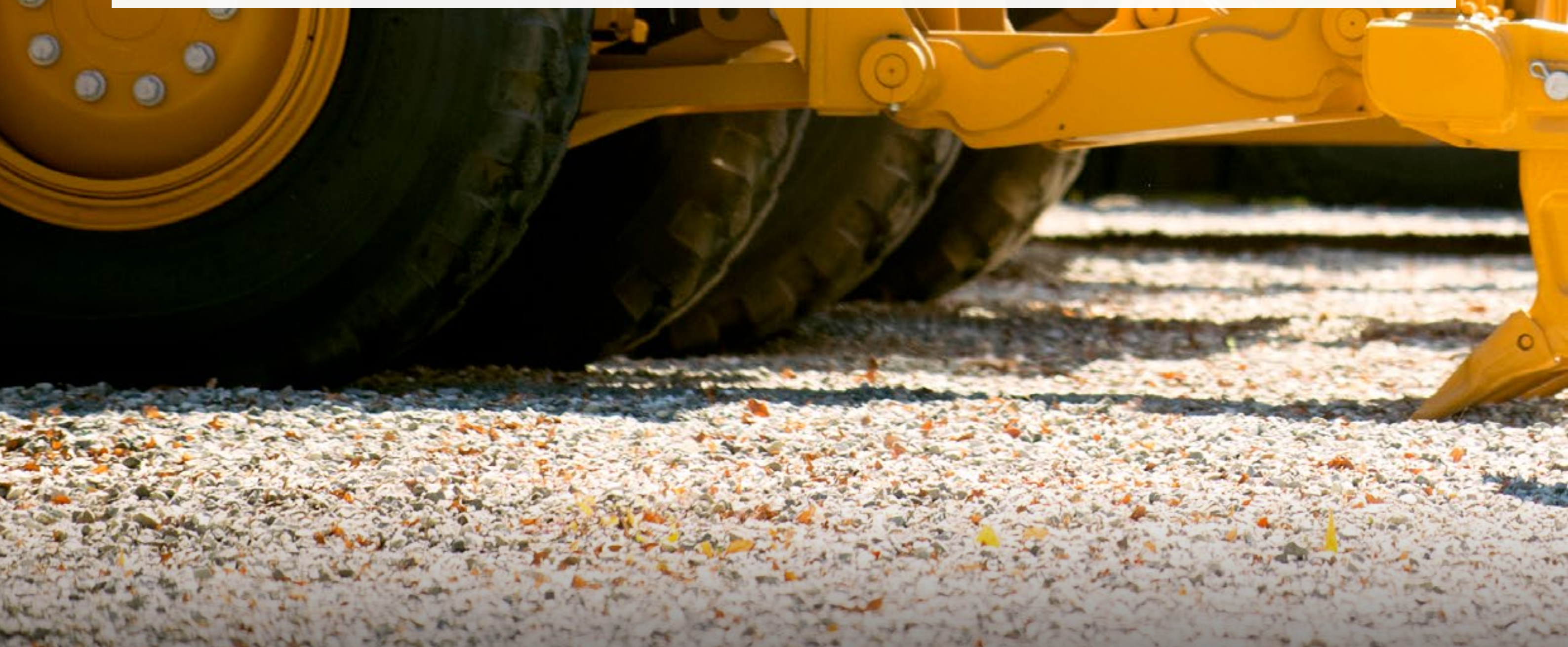
The acquisition of ANZ PNG's businesses is expected to complete in September 2019 and we have been working closely with ANZ to ensure there's a seamless transition for customers.

Simplicity, convenience and easy access

We want to create value for our stakeholders and ensure our long term ability to operate. With this in mind we undertook a major review of our products, services, systems and processes.

As a result, we brought to market a series of exciting new products and features including online customer onboarding and loan origination; and we've refreshed our Internet and mobile banking products. We're the only bank in PNG, for example, that offers a single view online portal for banking and superannuation.

Our achievements were recognised when we were ranked the most innovative business in Papua New Guinea for 2018. In 2019 we will launch more new products and services to disrupt the banking industry, including contactless payment options such as Google Pay. Simplicity, convenience and ease of access are the key themes we're building into our offering so that we can continue to offer customers best-in-class banking options.



Kina Bank secured its position as the fastest growing bank in PNG with a **strong and successful future.**

We are committed to providing our customers with the

best digital banking solutions in the market.

Banking

2018 was a watershed year for Kina's banking division with new products and initiatives implemented and strong results delivered.

We are a full service bank offering a range of retail and commercial banking products and services. As a young bank, we are committed to providing our customers with the best digital banking solutions in the market. This includes our modern, customer-friendly app, retail internet banking platform, and our corporate online platform for business customers. These channels complement our traditional 'bricks and mortar' branches in Port Moresby and Lae.

Consistent with our ambitions to be PNG's leading digital bank, we launched an online account opening capability for new customers. This underpinned growth in customer numbers of 25% to over 20,000 and contributed to our strong lift in non-interest income, which grew by 90%. This result was strongly driven by FX income with our FX trading restored for the full year. The majority of interactions our customers have with Kina Bank are through our digital channels, in particular our ATM network and online.

To support our balance sheet growth, we launched a market leading Cash Management Account. This 'at call' product offers a tiered interest rate and rewards personal and business customers with higher balances.

The introduction of this product and a strong focus from our relationship management teams saw Kina Bank's deposit book grow by 29% over the course of the year.

Our strong growth in deposits enabled us to fund further growth in our lending book. Our loan book of primarily business customers grew by 20% during the year, which is well above estimated system growth of 6%.

As our share in business lending increases, we also see great opportunity that the emerging middle-class in PNG presents. In late 2018, we initiated a full review of our home loan offering including product, processes, and distribution. We intend to focus heavily on helping customers achieve their dream of buying their own home during 2019.

Notwithstanding strong balance sheet growth, we continue to manage risk effectively, and are pleased that our loan impairments and provisioning as a percentage of the loan book both reduced over the course of the year.

We have delivered strong, organic growth. We are also working closely with the ANZ integration team to ensure we are ready to take advantage of the opportunities the acquisition presents, but are also determined to ensure we are not distracted from growing our existing business in the meantime.

Wealth

Wealth Management continued its strong relationships with the key superannuation funds: Nambawan Super Limited (NSL), Comrade Trustee Services Limited (CTSL) and the National Superannuation Fund of Papua New Guinea (NASFUND). The Wealth Management business provides a range of services spanning funds management and funds administration.

In the Wealth business, Kina Funds Management finished the year with funds under management of K7.5bn, up from PGK6.9bn in 2017. The growth reflects ongoing cash inflows to client funds. Return results moderated from prior years given market volatility towards the end of the year, but most clients still managed to generate positive returns. Growth also reflected Comrade Trustee Services returning to Kina Funds Management early in 2018.

Kina Funds Administration increased by 37% to K16.2m after the NASFUND transition. Member numbers increased to 749,816 over the year. Productivity improved 300% from an overall staff to member ratio of 1:4,000 to 1:12,000, mainly driven by ongoing system enhancements, end to end process improvement initiatives and streamlining administration work. Fund administration systems are key components in our business and we will focus on further enhancing and streamlining processes to drive efficiencies. Kina now has a 90% market share of the FUA for the superannuation sector in PNG.

Twenty nine fund administrators successfully completed the super foundation course and our senior manager successfully completed a Diploma of Superannuation with ASFA.

We have been actively growing our partnership with Super funds in a number of ways including with the introduction of preferential loan products and other banking services to a cohort of over 750,000 members. Towards the end of the year, we agreed to create a joint working group with super fund clients to identify and build tailored products and services.

We have been developing our internet banking platform to provide a consolidated real-time view of a customer's complete financial relationship. Kina Bank clients can now view their superfund balances alongside their bank accounts via our internet banking platform. We are the only bank in PNG that offers this service.

Kina now has a

90% market share

of the FUA for the superannuation sector in PNG.

Total Societal Impact

Our corporate social responsibility strategy is centred on the belief of doing good for the people we serve. We believe the Bank has an important part to play in the community and can help build a successful and positive future for Papua New Guinea. To underpin this purpose, we are developing a Total Societal Impact strategy that is aimed at addressing social and environmental challenges..

Youth development is a key focus for us because youth unemployment is a major social issue facing PNG. We have partnered with a local not-for-profit charity to offer school leavers face to face training sessions, and individual coaching and support, to help prepare them for the workforce. We have also established a work experience and internship program for students to learn the skills they need in a professional environment. We will be expanding this initiative throughout 2019 as part of our drive to help create the workforce of the future.

A second key initiative for us is developing our partnership with a major microfinance agency. The aim will be to provide wholesale funding to support future lending and personal banking services. With Kina Bank's significant technology upgrade, we also aim to offer support through the production of debit cards, the installation of POS devices with microfinance merchants, and through ATM interchange. Customers would then have access to additional products including mobile phone top-ups and insurance.

This strategic partnership will facilitate our efforts to expand financial inclusion and economic wellbeing by encouraging more people to participate in the formal financial sector, especially those under-served in rural areas or urban settlements.

We maintained our community support with sponsorships of sports events and corporate fun runs to promote health and wellbeing as well as fund raising for local schools and hospitals

Our continued commitment to acting ethically and responsibly is enshrined in our Corporate Governance Statement. It ensures Kina Bank maintains the highest standards of integrity, honesty and fairness with all stakeholders.

The corporate culture of Kina Bank emphasises the maintenance and promotion of equity and fairness. We understand the importance of embracing diversity, specifically in valuing the unique qualities that each member of staff brings to the workplace. We are a strong advocate for gender smart policies and foster an environment where the ratio of women to men is almost 60% female to 40% male. We are also an inaugural member of the Business Coalition for Women and through the year have provided specialist training to female leaders to assist with their career development.

We also launched the Employee Assistance Program, offering support, counselling, legal assistance and advice from independent professionals to help staff manage or negotiate difficult situations.

We believe the Bank has an important part to play in helping to build a

successful and positive future for Papua New Guinea.

A critical driver to our long term ability to create value for all our stakeholders is

our focus on leadership and culture.

Strategic Direction

To continue delivering on our vision to be the most dynamic, progressive and accessible financial services company in PNG, we have established a strong strategic direction for 2019.

The successful integration of ANZ PNG's retail, commercial and SME business is on target for September completion. The program is progressing well and central to its delivery is our Digital Strategy. This charts the transformation of our business and is key to providing customers with a leading customer experience.

We will continue to roll out new digital products and services as we build on our promise to customers that they can access their money 'anytime, anywhere, anyhow'. We plan to launch an online retail FX service, and contactless payments via GooglePay to increase our competitive advantage.

In line with this, we will continue to simplify our business through significant internal digital transformation, automating a number of systems and processes. We also plan to digitise our customer contact centre with the introduction of chat box and Skype.

To support this strategy we will strengthen critical capabilities in the area of data and analytics. Through integrating our product, marketing and analytics team we will be able to deliver a more targeted approach to our customer segments and achieve customer growth targets.

A critical driver to our long term ability to create value for all our stakeholders is our focus on leadership and culture. Real pride in our brand and our vision from staff has been a key factor in our success throughout the year and we recognise the importance of our team's ongoing commitment to the business.

To maintain an energised and accountable team we will institute an integrated cultural framework and continue to embed our cultural profile across the business. This will be especially valuable as we begin to transition in-scope ANZ PNG staff to Kina Bank.

As our business grows, we will continue to support our people build skills for the future. Our comprehensive learning and development program has so far seen 40 leaders complete the Franklin Covey Leadership program and we've introduced a talent program for high potential employees.

Board of Directors

Isikeli (Keli) Taureka

Non-Executive Chairman
Chairman, Disclosure Committee

Isikeli Taureka was appointed as a Director of Kina on 19 April 2016.

Isikeli previously held a number of roles in the oil & gas sector, including Executive Director InterOil Corporation; President Chevron Geothermal & Power - Indonesia and Philippines; President of ChevronTexaco China Energy Company; Managing Director of Chevron Asia South Business Unit responsible for exploration and production in Thailand, Bangladesh, Cambodia, Myanmar and Vietnam and; Country Manager for Chevron New Guinea Limited with responsibility for oil operations in Papua New Guinea and Western Australia.

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

Isikeli is currently the Executive Manager for Newcrest Mining Limited in Papua New Guinea.

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

Greg Pawson

Chief Executive Officer/ Managing Director

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

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

Andrew Carriline

Non-Executive Director
Member, Audit and Risk Committee, Disclosure Committee and Remuneration and Nomination Committee

Andrew was appointed as a Director of Kina on 16 August 2018.

Andrew is an experienced business executive, highly skilled at operating successfully in regulated environments. In addition to his position with Kina, Andrew is a Non-Executive Director of Bluestone Group, GRC Solutions Pty Limited and the Human Rights Law Centre. He is also the inaugural Ambassador for the International Centre for Democratic Partnerships, a private non-profit company expanding and strengthening leadership capability, and Australia's relationships, throughout the Pacific.

Andrew retired from a major Australian bank in July 2017. He spent the period from 2002 until his retirement in senior risk and executive roles. He was also Chairman of the bank's business in PNG until early 2018. Until 2002, Andrew practiced corporate law in the public, private and corporate sectors.

Andrew holds Bachelor degrees in Law and Commerce from UNSW, is a graduate of the Australian Institute of Company of Directors, and is an accredited coach and facilitator

Board of Directors (continued)

Paul Hutchinson

Non-Executive Director
Member, Audit and Risk Committee

Mr Paul Hutchinson was appointed as a Director of Kina on 16 August 2018.

Paul is currently employed by the University of Adelaide in the capacity of Executive Director for the Faculty of Professions responsible for the provision of strategic, technical and operational support to the schools of Business, Economics and Law. Previously, Paul was the Managing Director and Chief Executive Officer of Rural Bank (specialising in the provision of financial services to the agribusiness sector), Chief Operating Officer of New Zealand Post and a variety of senior appointments with Westpac Banking Corporation, National Australia Bank and Bank of New Zealand.

Paul has extensive background in strategy, finance, sales and distribution, commercial operations and risk management honed over 30 years in the financial services sector. He is well versed in corporate governance practices having previously been a member of the Rural Bank Board and other public companies in Australia and New Zealand.

Paul has attended the Bankers Course in conjunction with the New Zealand Bankers Association and the University of Victoria, is a graduate of the Harvard Business School General Management Program and is a member of the Australian Institute of Company Directors

Karen Smith-Pomeroy

Non-Executive Director
Chair, Audit and Risk Committee and Member, Disclosure Committee and Remuneration and Nomination Committee

Ms. Karen Smith-Pomeroy was appointed as a Director of Kina on 12 September 2016.

Karen is an experienced Non-Executive Director, with roles spanning a number of industry sectors. She has many years' experience as an executive in the financial services sector in Australia, working in a major Australian bank and a large regional bank. Karen spent 5 years as Chief Risk Officer for Suncorp Bank.

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

Karen is currently a Non-Executive Director of Infigen Energy Limited, Queensland Treasury Corporation, Stanwell Corporation Limited, InFocus Wealth Management group and National Affordable Housing Consortium Limited.

Karen holds accounting qualifications and is a Fellow of the Institute of Public Accountants, Fellow of the Financial Services Institute of Australasia, and a Graduate of the Australian Institute of Company Directors.

Jane Thomason

Non-Executive Director
Chair, Remuneration & Nomination Committee

Dr. Jane Thomason was appointed as a Director of Kina on 27 April 2018.

Jane is a successful business founder and values based leader with highly developed abilities in strategic planning, communication, facilitation and influencing.

Jane has demonstrated capacity to work in a multi-sector global environment, and experienced in engaging at the highest policy and political levels. 30 years leading major, complex programs in Asia and Pacific, including Indonesia, Mongolia, Philippines, Papua New Guinea, Solomon Islands, Fiji, Samoa, for a range of international organisations including AusAID, USAID, ADB, and World Bank.

Jane is an active role model for women, having educated mentored many young women, and was on the steering committee for "Gender equality in Australia's aid program - why and how", and delivered the keynote address at its launch at Parliament House.

Jane is also a thought leader in technological innovations and blockchain for social good. Top 10 Digital Frontier Women and Inaugural Quantum Impact Global Champion UN Decade of Women. Recognised in Forbes Magazine (2018) as Blockchain's Leading Social Development Evangelist.

Senior Executive Team

Greg Pawson

Chief Executive Officer/ Managing Director

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

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

Chetan Chopra

Chief Financial Officer

Chetan is Chief Financial Officer, reporting to the CEO. Chetan is a Chartered Accountant from India and a widely experienced finance executive. He joined Kina in 2018 after two years as CFO of PNG's largest superannuation fund, Nambawan Super.

An accountant by profession, Chetan previously worked for many years as a PNG partner for KPMG and as CFO for Dun and Bradstreet South Asia. He also has held a number of senior leadership roles in both private companies and public sector organisations, including the Australian Taxation Office.

Chetan holds a Bachelor of Science from Mumbai University and an MBA from Melbourne Business School, University of Melbourne. Chetan is also a member of Certified Practising Accountants Australia, PNG and India

Danny Robinson

Executive General Manager of Banking

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

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

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

Deepak Gupta

Executive General Manager Wealth

Deepak Gupta is Executive General Manager Wealth and has had a long and successful career in financial services, having held a variety of senior executive roles in leading financial services institutions including Westpac, AMP and domestic New Zealand institutions. These roles have spanned all facets of institutional funds management, private equity investment, funds administration, financial planning and corporate trusteeship.

In addition Deepak has strong governance experience having acted as a Non-Executive Director on the boards of NZX and ASX listed companies, and private businesses in a variety of industries. He has also been active with industry bodies and has represented New Zealand on international analyst bodies. He brings substantial experience and a track record of success and innovation across a number of areas in financial services including successful development of New Zealand's first institutional private equity fund for retail investors and leading the commercial development and success of New Zealand's largest registry business for its workplace based retirement savings scheme.

Deepak holds a Bachelor of Commerce and Administration from Victoria University, New Zealand, and an MBA from Massey University, New Zealand. He has a Certificate of Investment Analysis from the University of Otago, New Zealand and is a Fellow of the Institute of Finance Professionals New Zealand.

Senior Executive Team (continued)

Wayne Beckley

Executive General Manager Integration

Wayne joined Kina in March 2018, as Executive General Manager Shared Services after more than 20 years with Westpac Banking Corporation.

His current role at Kina Bank is Executive General Manager, Integration, where he manages the integration of ANZ PNG's retail, commercial and small to medium enterprise banking operations and assets with Kina Bank.

Wayne has vast senior executive experience across banking and finance in Australia, Papua New Guinea and throughout the South Pacific covering roles including retail banking, technology, large scale program delivery, payments and ATM / electronic channel management.

Before his appointment to Kina Bank, Wayne was Chief Operating Officer, Westpac Pacific overseeing operations, technology, program delivery and vendor management across Westpac's Pacific portfolio.

Wayne holds a Bachelor of Education and a Higher Diploma in Education from Witz University in South Africa, and a Diploma in General Management from Macquarie University in Australia.

Wayne is a graduate of the Australian Institute of Company Directors, and has held various board positions in Australia and the South Pacific.

Michael Van Dorssen

Chief Risk Officer

Michael joined Kina in 2009 and is currently the Chief Risk Officer .

Michael has extensive experience in the banking industry in both Australia and PNG, with a career spanning more than 30 years.

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

Nathanial Wingti

Treasurer and Head of Markets

Nathan joined Kina from ANZ, where he spent 15 years working in foreign exchange, money markets and balance sheet management for ANZ in PNG, Fiji and Australia.

Most recently, he held the role of Head of Global Markets PNG and Balance Sheet Manager for ANZ across the Pacific.

Nathan holds a Bachelor of Business, Banking and Finance from Queensland University of Technology, a Diploma in Financial Markets and FX Dealer Accreditation Program from the Australian Financial Markets Association and a Graduate Certificate of Commerce from Charles Sturt University, Australia.

Adam Fenech

Executive General Manager Shared Services

Adam joined Kina Bank in 2013 as General Manager Wealth to lead the Trustee Services, Funds Administration, Financial Advice and Stockbroking businesses. In July 2018 he was appointed Executive General Manager Shared Services.

Prior to joining Kina Adam held senior roles at Bankers Trust, Colonial First State Investments, the Commonwealth Bank of Australia, and most recently at PwC where he was Director of Advisory Services.

He holds a Bachelor of Commerce from the University of New England, an MBA and Master of Project Management from the University of Southern Queensland, and has attended executive education programs at Harvard Business School and the National University of Singapore. He is a graduate of both the Australian and PNG Institute of Company Directors and is a Non-Executive Director of PNG Registries.

Saima Sapias Kalis

Group Manager People & Culture

Mrs Saima Sapias Kalis joined Kina in 2014 and is the Group Manager, Human Capital. Saima has over 15 years of experience in human resources management from working with Shell Papua New Guinea Ltd for 10 years before joining ANZ Banking Group (PNG) Ltd, PNG for 6 years as a Senior Human Resources Business Partner.

Saima holds a Bachelor of Business Management, majoring in Human Resources Management, from Charles Sturt University, Australia

Corporate Governance Statement

Introduction

Kina Securities Limited and its related entities (**Kina**, or the **Kina Group**, or the **Group**, or the **Company**) places great emphasis on the continued development of a strong risk management and compliance culture. In an emerging market place, Kina seeks to be innovative as well as provide a safe and secure environment for its customers and clients, which in turn brings value to shareholders.

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

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

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

This Corporate Governance Statement (**Statement**) sets out the core of Kina's corporate governance framework and practices by reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (**Recommendations**). The Statement was approved by the Board on **28 March 2019**. The Board considers and applies the Recommendations, taking into account the circumstances of Kina. Where Kina's practices depart from a Recommendation, this Statement identifies the area of divergence and reasons for it, or any alternative practices adopted by Kina.

Governance framework

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

1. Constitution (approved 2015)[1]
2. Corporate Governance Statement and Appendix 4G[1]
3. Charters:

- Audit and Risk Committee (approved April 2018)[1]
- Board (approved April 2018)[1]
- Credit Committee (approved August 2018)
- Disclosure Committee (approved December 2017)[1]
- Executive Committee (approved April 2018)
- Internal Audit (approved February 2018)
- Remuneration and Nomination Committee (approved April 2018)[1]

4. Policies:

- Code of Corporate Conduct (approved February 2017)[1]
- Code of Conduct for Directors (approved April 2018)[1]
- Conflict of Interest Policy (approved February 2017)[1]
- Continuous Disclosure Policy (approved April 2018)[1]
- Credit Policy Framework (approved August 2018)
- Credit Risk Management Framework (approved August 2018)
- Kina Bank Asset and Liability Committee Charter (approved October 2018)
- Kina Bank Credit Policy (approved August 2018)
- Diversity Policy (approved October 2017)[1]
- Protected Disclosure (Whistleblower Policy) (approved April 2018)

Strategy
- Strategic Planning
- Market understanding and insights
- Global orientation

Governance
- Board and Governance
- Government Policy and Relations
- Regulatory and Compliance
- Listed Co. experience

Management
- Talent management
- HR management
- Public affairs and Communication
- Stakeholder engagement
- Senior management experience

Operations
- Operational management
- Risk management
- IT
- Company culture

Industry specific
- Tax/Accounting
- Banking
- Capital management and debt funding
- Financial Services

- Remuneration Policy (approved April 2018)
- Risk Appetite Statement – Kina Bank (approved October 2018)
- Securities Trading Policy (approved February 2017) [1]
- Shareholder Communications Policy (approved October 2016) [1]

[1] Copies of these Governance Documents are available on the Corporate Governance page under the Investors tab on Kina's website at http://investors.kina.com.pg/investors/?page=corporate-governance.

Board of Directors

The Role of the Board

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

The Board has adopted a *Board Charter*. The Board Charter sets out, amongst other things, the:

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

Director Appointment

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

Kina has entered into a written agreement with each Director and Senior Management Team member that sets out, amongst other items, the terms of their appointment and their roles and responsibilities.

Corporate Governance Statement

Board Composition

Kina has developed a succession plan that ensures the Board has the appropriate mix of skills, experience, and knowledge.

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

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

The Board has also focussed its attention to the Group's diversity and culture, particularly in light of the Company's acquisition of ANZ's Retail, SME and Commercial businesses in PNG (**ANZ Acquisition**) which is on target to complete by the end of September 2019.

Board skills matrix

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

As at 28 March 2019, the Directors collectively contribute the following key skills and experience:

Skills and experience	Explanation	The extent these are present amongst Directors
Banking and/or financial services experience	Experience outside Kina in significant components of the financial services industry, including banking and equity and debt capital markets. Strong knowledge of the regulatory environment. Includes advisory roles to the industry.	83%
Leadership and commercial acumen	Skills gained whilst performing at a senior executive level for a considerable length of time. Includes delivering superior results, running complex businesses, leading complex projects and issues, and leading workplace culture.	93%
Financial acumen	Good understanding of financial statements and drivers of financial performance for a business of significant size, including ability to assess the effectiveness of financial controls.	87%
Risk and compliance	An understanding of compliance and experience in anticipating and evaluating macro, strategic, operational, financial, social, technological (including digital disruption and cybersecurity) risks that could impact the business. Recognising and managing these risks by developing sound risk management frameworks and providing oversight. Includes experience in managing compliance risks and regulatory relationships.	73%
Strategy	Experience in developing, setting and executing strategic direction. Experience in driving growth and transformation, executing against a clear strategy.	87%
Governance	Publicly listed company experience, extensive experience in and commitment to the highest standards of governance, experience in the establishment and oversight of governance frameworks, policies and processes.	73%
Technology and digital	Experience in businesses of a significant size with major technology focus, including adaptation to digital change and innovation	67%
People, culture and conduct	Experience in people matters including building workforce capability, workplace cultures, Senior Management development, succession planning and setting a remuneration framework that attracts and retains a high calibre of executives, and promotion of diversity and inclusion.	87%
Stakeholder engagement	Demonstrated ability to build and maintain key relationships with industry, government or regulators	90%

Directors' details

Name	Appointment date	Resignation Date	Current length of service	Non-executive?	Independent?
Jim Yap	22 August 2012	16 August 2018	6 years	Yes	No
David Foster	15 June 2015	23 May 2018	2 years, 11 months	Yes	Yes
Isikeli Taureka	19 April 2016		2 years, 11 months	Yes	Yes
Karen Smith-Pomeroy	12 September 2016		2 years, 6 months	Yes	Yes
Gregory Pawson	1 January 2018		1 year, 3 months	No	No
Jane Thomason	27 April 2018		11 months	Yes	Yes
Andrew Carriline	16 August 2018		7 months	Yes	Yes
Paul Hutchinson	16 August 2018		7 months	Yes	Yes

Independence

The Board considers an Independent Director to be a Non-Executive Director who is not a member of Kina's Senior Management Team and who is free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the independent exercise of their judgement.

The Board reviews the independence of each Director in light of interests disclosed to the Board regularly (and at least annually) and considers the following examples of interests, positions, associations and relationships that might cause doubts about the independence of a director include if the director:

- is, or has been, employed in an executive capacity by the entity or any of its child entities and there has not been a period of at least three years between ceasing such employment and serving on the board;
- is, or has within the last three years been, a partner, director or senior employee of a provider of material professional services to the entity or any of its child entities;
- is, or has been within the last three years, in a material business relationship (eg as a supplier or customer) with the entity or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship;
- is a substantial security holder of the entity or an officer of, or otherwise associated with, a substantial security holder of the entity;
- has a material contractual relationship with the entity or its child entities other than as a director;
- has close family ties with any person who falls within any of the categories described above; or
- has been a director of the entity for such a period that his or her independence may have been compromised.

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

Throughout the year, the Board had a majority of Independent Directors.

Director induction and education

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

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

Corporate Governance Statement

	Audit and Risk Committee	Remuneration and Nomination Committee	Disclosure Committee
Roles & Responsibilities	• reviewing financial reports and overseeing the financial reporting process; • overseeing statutory reporting requirements; • receiving internal and external audit reports and ensuring management take corrective actions to address control weaknesses and non-compliance; • recommend appointment or removal of the External Auditor; • review the External Auditor's performance; • monitor provision of non-audit services; • oversee the Internal Audit function, ensuring reporting line and unfettered access to Chair of Committee or Chair of the Board; • review and recommend the Group's risk management frameworks; • monitor risk profile of the Group against agreed risk appetite and risk management frameworks; • monitor adherence to Risk Policies; and • oversee operation of the Whistleblower Policy. The Committee met 7 times in 2018.	• recommend and review remuneration policy across the Group; • review and consider composition of the Board; • make recommendations to the Board in regard to succession planning for the CEO and his direct reports and appointments of Directors; • administering aspects of Fit and Proper requirements of BPNG Prudential Standards; • review structure and level of Directors' fees; • review remuneration framework (including Short Term Incentives, Long Term Incentives and non-cash elements) of the CEO, Senior Management and Responsible Persons; • review terms and conditions of employment agreements; • review terms of superannuation and pension scheme arrangements; • assist in annual performance review of the CEO; • oversee annual performance review of Senior Management; and • review effectiveness of the Diversity Policy and its objectives and strategies. The Committee met 6 times in 2018.	• assess whether information concerning the Company should be disclosed to the market; • determine the substance of the market disclosure and when it must be made; • where necessary, review market disclosures for accuracy and completeness and approve or recommend to the Board for approval; • determine whether a trading halt or voluntary suspension of trading is required; • respond to any request from the ASX or POMSoX to disclose market sensitive information to correct or prevent a false market; • ensure that breaches of the BPNG Prudential Standards are communicated, where appropriate, to the BPNG or other regulators in compliance with the relevant listing rules and/or continuous disclosure requirements; and • oversee the Disclosure Officer's administration of the Continuous Disclosure Policy. The Committee met three times in 2018.
Membership throughout the year	Karen Smith-Pomeroy (Chair) (Independent) Jim Yap (Non-independent) – retired from the Committee on 16 August 2018 David Foster (Independent) – retired from the Committee on 23 May 2018 Andrew Carriline (Independent) – appointed to the Committee on 16 October 2018 Paul Hutchinson (Independent) – appointed to the Committee on 16 October 2018	David Foster (Chair) (Independent) – retired from the Committee on 23 May 2018 Jane Thomason (Chair) (Independent) – appointed to the Committee and Chair of the Committee on 20 June 2018 Jim Yap (Non-independent) – retired from the Committee on 16 August 2018 Andrew Carriline (Independent) – appointed to the Committee on 16 October 2018 Karen Smith-Pomeroy (Independent) – appointed to the Committee on 16 October 2018	Isikeli Taureka (Chair) (Independent) Karen Smith-Pomeroy (Independent) David Foster (Independent) – retired from the Committee on 23 May 2018 Greg Pawson (Managing Director and CEO) – appointed to the Committee on 16 February 2018 Andrew Carriline (Independent) – appointed to the Committee on 23 August 2018

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

Director	Board meetings		Audit and Risk Committee Meetings		Remuneration and Nomination Committee Meetings		Disclosure Committee Meetings	
	A	B	A	B	A	B	A	B
David Foster	5	5	2	2	2	2	1	1
Jim Yap	7	6	5	4	4	3	-	-
Isikeli Taureka	11	11	-	-	4	4	3	3
Karen Smith-Pomeroy	11	11	7	7	1	1	3	3
Greg Pawson	11	11	-	-	-	-	3	2
Jane Thomason	6	3	-	-	4	3	-	-
Andrew Carriline	3	3	2	2	2	2	1	1
Paul Hutchinson	3	3	2	2	-	-	-	-

A Meetings held that director was eligible to attend

B Meetings attended

Performance Evaluation

In accordance with the Standards, and as set out in the Board Charter, the performance of the Board, the Directors and its Committees is assessed each year. The Board has undertaken an internal performance evaluation and skills analysis during the year. The findings are used to further refine the ongoing succession and renewal plan. The Board will continue to review individual, Committee and whole of Board performance and ensure that Board composition and the skills and experience of the Directors is appropriate.

Performance evaluations, overseen by the Chairman in the case of the CEO, and the Remuneration and Nomination Committee in the case of Senior Management, are carried out on an annual basis and were completed in the year under review. An external independent review of the Board and directors is currently underway and is scheduled to be completed by the end of April 2019.

Chairman

In accordance with the Board Charter, the Chairman of the Board is an Independent Director. The roles and responsibilities of the Chairman are contained within the Board Charter.

Company Secretary

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

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

Board Committees

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

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

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

Remuneration

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

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

Corporate Governance Statement

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

	31 December 2018			31 December 2017		
	Females	**Males**	**Total**	**Females**	**Males**	**Total**
Board	2	3	5	1	3	4
Senior Management	2	8	10	1	11	12
Team Leader	39	48	87	28	34	62
Other employees	156	113	269	132	102	234

Acting ethically and responsibly

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

Kina's *Code of Corporate Conduct* applies to all employees of Kina and its subsidiaries (including subcontractors and consultants). There is a separate *Code of Conduct for Directors* (**Codes of Conduct**). The Codes of Conduct set out certain minimum standards of conduct that Kina expects of its Employees and Directors including integrity, diligence, impartiality, equality and fairness. The Codes of Conduct set out how Employees and Directors are to conduct themselves in order to meet these minimum standards. It is a requirement for all Directors and Officers to acknowledge this policy annually.

Diversity

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

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

Kina is an inaugural member of the Business Coalition for Women and through the year has provided specialist training to female team leaders to assist with their career development. Kina is a strong advocate for gender smart policies in the workplace and provides both maternity and paternity leave for its workers. Also, within the first six months' of a child's life, new parents are provided with paid leave to enable time out of the workplace to feed new babies.

The ratio of women to men at Kina is almost 60% female to 40% male. In 2018, Kina launched the Employee Assistance Program which offers support, counselling, legal assistance and advice from independent professionals to help manage or negotiate difficult situations. Designed to help deal with psychological, financial or workplace issues, the service is free of charge and available 24/7. Kina also re-launched its Staff Recognition Program to celebrate the success of Employees who demonstrate the Company's values and behaviours and who demonstrate outstanding community service. Kina continues to fund private health insurance for all staff.

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

Senior Management are those individuals who report directly to the MD/CEO. Team Leaders are those individuals who have been appointed as Supervisors and Managers.

The Remuneration and Nomination Committee reviews and oversees the implementation of the Diversity Policy. As part of the completion of the ANZ Acquisition, the Board's Remuneration and Nomination Committee is reassessing the Company's measurable objectives and will report on progress of this review in the FY2019 Statement.

Written declarations

When the Board considers the statutory half-year and annual financial statements, the Board obtains a declaration (equivalent to the declaration required by section 295A of the Corporations Act and the statements required by Recommendation 4.2 of the ASX Recommendations) from the CEO and CFO in regard to the integrity of the financial statements and assurance as to the effective operation of the risk management and internal compliance and control systems.

External Auditor

For 2018, Kina's external auditor was Deloitte Touche Tohmatsu who were appointed at the 2018 Annual General Meeting as Kina's new External Auditor. The Audit and Risk Committee is responsible for recommending the appointment or removal of the External Auditor as well as annually reviewing their effectiveness, performance and independence.

The External Auditor is required to attend the Company's Annual General Meeting and is available to address questions relevant to the conduct of the audit and the preparation and content of the Auditor's Report.

Timely and balanced disclosure

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

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

Shareholder Communications

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

Kina's website (**www.kina.com.pg**) contains information regarding the Company, the Board and Senior Management team, corporate governance, media coverage, ASX announcements, investor presentations and reports.

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

In accordance with the Shareholder Communications Policy, shareholders are encouraged to attend General Meetings of shareholders, or, if they are unable to attend, vote by proxy or other means included in the Notice of Meeting.

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

Corporate Governance Statement

Risk Management and Internal Controls

Risk is managed structurally through clearly defined risk management policies specific to certain parts of the business. These are interlinked and feed into a Group Risk Management Framework, which is overseen by the Audit and Risk Committee. The Board has approved and regularly reviews and updates the Group's Risk Appetite Statement and tolerance limits as part of the Group Risk Management Framework, to ensure that all major areas of risk and risk management systems are appropriately monitored and accurately documented. The Committee is supported by a number of approved risk management committees, including the Credit Committee, Asset and Liability Committee and Executive Committee. The Operational Risk division nurtures a strong and robust risk culture within the Group through the application of the three lines of defence model. Communication and education throughout the Group on the three lines of defence model emphasises each individual's role in the management of risk. During 2018, the Group's Risk Management Framework, including underlying policies, was reviewed by the Audit and Risk Committee and, where relevant, by the Board.

A dedicated Compliance department is in place to ensure that Kina personnel are aware of the Group's prudential and legislative obligations and that these are maintained at all times. Operational risk within the Group is monitored including an ongoing Workplace Health and Safety regime which is designed to maintain the safety of Kina's Employees and Customers. The Group's risk management activities comply with all relevant regulation including that of the BPNG Standards, relevant legislation and the Investment Promotion Authority (**IPA**).

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

Kina's risk management framework and internal control functions incorporate an Internal Audit function which reports directly to the Audit and Risk Committee. The Internal Audit function continues to be co-sourced with external providers which brings the benefit of enhancing Kina personnel's existing knowledge and expertise. The Internal Audit function provides independent and objective assurance to the Board, via the Audit and Risk Committee. The annual Internal Audit Plan is formulated using a risk based approach. Progress against the Internal Audit Plan is reported to the Committee on a quarterly basis.

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

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

Dealings in Company Securities

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

The Securities Trading Policy:

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

Kina Securities Limited

Remuneration report

Contents

1 Introduction & Overview to Shareholders

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

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

Remuneration report

2 Kina's Key Management Personnel (KMP)

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

Name	Position held during the financial year ended 31 December 2018
Non-Executive Directors (section 4 of this Remuneration Report)	
Isikeli Taureka	Non-Executive Chairman
Karen Smith-Pomeroy	Non-Executive Director
Jane Thomason[1]	Non-Executive Director
Paul Hutchinson[2]	Non-Executive Director
Andrew Carriline[3]	Non-Executive Director
David Foster[4]	Non-Executive Director
Jim Yap[5]	Non-Executive Director
Executive Directors and Senior Executive Team (direct reports)	
Greg Pawson	MD and CEO
Chetan Chopra	Chief Financial Officer and Company Secretary
Danny Robinson	Executive General Manager, Banking
Deepak Gupta	Executive General Manager, Wealth
Michael Van Dorssen	Chief Risk Officer
Tony de la Fosse[6]	Executive General Manager, Shared Services
Adam Fenech[7]	Acting Executive General Manager, Shared Services
Wayne Beckley[8]	Executive General Manager, Integration

1. Appointed as Director 27 April 2018
2. Appointed as Director 16 August 2018
3. Appointed as Director 16 August 2018
4. Resigned as Director 23 May 2018
5. Resigned as Director 16 August 2018
6. Resigned as EGM, Shared Services 10 April 2018
7. Appointed as Acting EGM, Shared Services 2 July 2018
8. Appointed as EGM, Integration 4 June 2018

2.1 Remuneration and Nomination Committee

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

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

Refer to Kina's Corporate Governance Statement (available on Kina's website under the Corporate Governance Link and pages 28 – 36 of this Annual Report for more information regarding the RNC.

The RNC regularly reviews the following to align remuneration, performance and strategy:

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

3 Executive remuneration

3.1 Remuneration policy and governance framework

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

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

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

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

Fixed remuneration	Total fixed remuneration comprises base salary, other non-cash benefits and includes superannuation.
STI Plan	The STI plan provides participants with an opportunity to earn an incentive calculated as a percentage of their salary each year, conditional upon achievement of individual KPIs which may consist of financial and, if applicable non-financial performance measures. The incentive earned will be paid: • 65% in cash • 35% in an offer of performance rights. The cash portion of the incentive will be paid in the next pay cycle following confirmation of the performance outcomes being achieved. The Performance Rights portion will be issued in one tranche and will remain payable even following resignation. The Board has the right to vary the Award.
LTI Plan	A long term incentive plan that provides an opportunity for employees to receive an equity interest in Kina through the granting of LTI Performance Rights. Under the LTI Plan, LTI Participants may be offered LTI Performance Rights that are subject to vesting conditions set by the Board.
Retention Plan	A one-off equity based performance rights plan to assist in the retention and reward of key eligible employees. The Kina Board has discretion as to whether the Retention Plan will continue and apply to other KMP.

3.2 Fixed Remuneration (FR)

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

3.3 Short-term incentive plan (STI)

Structure of STI

Features	Description
Eligibility	The CEO and Senior Executive Team are eligible to participate in the STI Plan (STI Participants).
STI components	**Cash bonus:** 65% of the STI Participant's award under the STI Plan. **STI Performance Rights:** 35% of the STI Participant's award under the STI Plan.
Performance measures	Individual KPIs specific to each Participant are agreed during the performance appraisal process each year. These KPIs consist of both financial and non-financial performance measures and are agreed with the CEO and KMP at the start of each year. No STI is payable unless a minimum Group NPAT is achieved. The Board has the right to vary this requirement. The Board allocates an annual pool to the STI each year. There are levels of targeted performance for allocation of the pool for 2018: • Minimum (85% of budget) • Threshold (85% - 100% budget) 50% • Target (Budget 100%) 90% • Stretch (100+ to 110%+) 100% • Stretch (120%+) up to 120% The pool is then allocated in accordance with the maximum and target STI for each KMP (which is detailed later) as a percentage of Gross pay. The Board has the right to vary the award.
	The number of STI Performance Rights granted is determined by dividing the award value by the 10 day volume weighted average price per share prior to 31 December of the year of award.
Vesting of STI Performance Rights	STI Performance Rights are restricted from exercise until the second anniversary after the grant date and will vest on the second anniversary. These are not subject to any further measurement after award and allotment.

Period	Date Granted	Vesting date
FY ended 31 December 2015	25 March 2016	25 March 2018
FY ended 31 December 2016	17 February 2017	17 February 2019
FY ended 31 December 2017	1 April 2018	1 April 2020
FY ended 31 December 2018	1 April 2019	1 April 2021

Features	Description
Forfeiture of STI Performance Rights	STI Performance Rights are subject to Kina's clawback policy. Under the clawback policy, unvested STI Performance Rights may be forfeited if the Board determines that adverse events or outcomes arise that should impact on the grant of STI Performance Rights to a STI Participant.
Payments and grants	Payments under the STI Plan will now be made in April of each year after the release of full year financial results to ASX and POMSoX.
Target STI and maximum STI that can be awarded	

	Target	Maximum
CEO	100% of base salary	150% of base salary
CFO	40% of base salary	50% of base salary
Other Senior Executives	30% of base salary	45% of base salary

3.4 Long term incentive plan

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

Structure of LTI

<table>
<tr><th>Features</th><th>Description</th></tr>
<tr><td>Eligibility</td><td>Participants must be a permanent full-time or part-time employee or Executive Director of Kina or any of its subsidiaries (LTI Participants).</td></tr>
<tr><td>LTI components</td><td>The LTI Plan will be delivered as Performance Rights with each right conferring on its owner the right to be issued or transferred one (1) fully paid ordinary share in the Company.</td></tr>
<tr><td>Performance measures</td><td>Since 2016, the Performance Rights will only vest subject to Board assessed satisfaction of the following conditions:
• Meeting the required TSR performance level based on peer group – 50% weighting.
Over a three year period:
<table>
<tr><th>Peer group relative TSR performance</th><th>Vesting outcome</th></tr>
<tr><td>Below 50th percentile of peer group</td><td>Nil</td></tr>
<tr><td>At 50th percentile</td><td>50% vesting</td></tr>
<tr><td>Between 50th – 75% percentile</td><td>Pro rata between 50% to 100%</td></tr>
<tr><td>75% and above</td><td>100% vesting</td></tr>
</table>
• Meeting EPS target level based on Peer group – 50% weighting.
Compound Annual Growth rate over a three year period:
<table>
<tr><th>EPS performance</th><th>Vesting Outcome</th></tr>
<tr><td>< 5% compound annual growth</td><td>Nil</td></tr>
<tr><td>5%</td><td>50% vesting</td></tr>
<tr><td>> 5% and < 10%</td><td>Pro rata between 50% – 100%</td></tr>
<tr><td>10%</td><td>100% vesting</td></tr>
</table>
The Board worked with an independent advisor to identify comparator group companies and the advisor calculates the vesting schedule.
The measurement period for 2016 LTIs is from 1 April 2017 to 31 March 2020.</td></tr>
<tr><td>Calculation of LTI Performance Rights</td><td>Grants are approved annually. The number of LTI Performance Rights for each year will be determined by dividing the LTI Awards by the 10 day volume weighted average price per share prior to 31 December in the year of grant.</td></tr>
</table>

<table>
<tr><th>Features</th><th>Description</th></tr>
<tr><td>Vesting and exercise of LTI Performance Rights</td><td>While the grants are approved annually, they will vest no earlier than the third anniversary of the commencement of the performance period and subject to satisfaction of the vesting conditions and performance measures.
The performance periods for the outstanding awards are as follows:
<table>
<tr><th>Financial Year</th><th>Date Granted</th><th>Performance Period</th><th>Measures</th><th>Vesting date (subject to performance testing)</th></tr>
<tr><td>2015</td><td>25 March 2016</td><td>2015 Year performance</td><td>Achieving profit of K 5.7 m
IPO Listing</td><td>25 March 2019</td></tr>
<tr><td>2016</td><td>17 February 2017</td><td>1 April 2017 to 31 March 2020</td><td>EPS assessment compound till FY 2019 – 50%
Relative TSR assessment compounded to FY 2019 – 50%</td><td>1 April 2020</td></tr>
<tr><td>2017</td><td>1 April 2018</td><td>1 April 2018 to 31 March 2021</td><td>EPS assessment compound till FY 2020 – 50%
Relative TSR assessment compounded to FY 2020 – 50%</td><td>1 April 2021</td></tr>
<tr><td>2018</td><td>1 April 2019</td><td>1 April 2019 to 31 March 2022</td><td>EPS assessment compound till FY 2021 – 50%
Relative TSR assessment compounded to FY 2021 – 50%</td><td>1 April 2022</td></tr>
</table></td></tr>
<tr><td>Forfeiture of LTI Performance Rights</td><td>Unvested LTI Performance Rights may be forfeited:

if the Board determines that any vesting condition applicable to the LTI Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied;
in certain circumstances if the LTI Participant’s employment is terminated; or
in other circumstances specified in the LTI Plan (for example, if the Board determines that the LTI Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina).
</td></tr>
<tr><td>Lapse of LTI Performance Rights</td><td>Unless otherwise specified in the vesting conditions or otherwise determined by the Board, a LTI Performance Right lapses on the earliest of:

if the Board determines that any vesting condition applicable to the LTI Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied;
the expiry of the exercise period (if any);
in circumstances of cessation of employment;
in other circumstances specified in the LTI Plan (for example, if the Board determines that the LTI Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina); or
if the participant purports to deal in the LTI Performance Right in breach of any disposal or hedging restrictions in respect of the Performance Right.
</td></tr>
</table>

Features	Description		
Target LTI and maximum LTI that can be awarded		**Target**	**Maximum**
	CEO	50%	50%
	CFO	40%	40%
	Other Senior Executives	30%	30%
Calculation of Fair Value of LTI Performance Rights	Fair value of the LTI performance rights subject to TSR and EPS vesting conditions for financial reporting purposes is generally estimated based on market share price at grant date and using a simulation pricing model applying assumptions price volatility, risk free interest rates and dividend yields. Kina engaged an independent valuation expert who performed fair value calculations on the grants based on the valuation methodologies referenced above and below. TSR: A Monte Carlo simulation approach is used to value the Awards subject to the relative TSR performance condition as it incorporates an appropriate amount of flexibility with respect to different features of the award. This approach is assumed to follow Geometric Brownian motion under a risk-neutral measure as follows; • Simulates correlations between Kina's proxy and other peer companies as well as correlations between other companies in the group • Rank simulated performances and the proportion of relative TSR award vested as calculated based on vesting schedule • Record present value of TSR-hurdle award vested. The above process is repeated multiple times and the estimated fair value is the average of the results. EPS: Fair value of awards subject to EPS is calculated using a risk-neutral assumption. The fair value is the difference between the share prices of the underlying asset, minus the expected present value of future dividends over the expected life if holders of the underlying asset are not entitled to receive future dividends. The fair value of the awards subject to EPS performance condition will be equal to the share price of the underlying asset if holders are entitled to receive future dividends.		

3.5 Retention Plan

Features	Description
Eligibility	The Board to determine the Participants eligible for participation in the Retention Plan.
Retention Plan	The Retention Plan is a once off award of Performance Rights to assist in the retention and reward of key eligible participants.
Vesting conditions	Vesting conditions of the Retention plan is subject to a service condition wherein performance rights only vest upon successful completion of service period as determined by the Board at the time of grant.
Calculation of Performance Rights	During 2018, $300,000 worth of performance rights equalling 402,685 performance rights were granted, vesting in equal instalments over 3 years as follows; • 134,229 will vest on 4 December 2018 • 134,229 will vest on 4 December 2019 • 134,227 will vest on 4 December 2020

Remuneration report

Features	Description
Forfeiture of Retention Plan Performance Rights	Unvested Retention Plan Performance Rights may be forfeited: • If the Board determines that any vesting condition applicable to the Retention Plan Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • In certain circumstances if the Retention Plan Participant's employment is terminated; or • In other circumstances specified in the Retention Plan (for example, if the Board determines that the Retention Plan Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina).
Lapse of Retention Plan Performance Rights	Unless otherwise specified in the vesting conditions or otherwise deter-mined by the Board, a Retention Plan Performance Right lapses on the earliest of: • If the Board determines that any vesting condition applicable to the Retention Plan Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • The expiry of the exercise period (if any); • In circumstances of cessation of employment; • In other circumstances specified in the Retention Plan (for example, if the Board determines that the Retention Plan Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina); or • If the participant purports to deal in the Retention Plan Performance Right in breach of any disposal or hedging restrictions in respect of the Performance Rights.
Timing of grants	Grants of retention rights only apply to new hires (as a one off).

3.6 Performance based and non-performance based components

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

For FY 2018 Participant	Cash salary/fees/short-term compensated absences (AUD)	Non-cash benefits (AUD)	Total (AUD)
Greg Pawson	591,000	175,074	766,074
Chetan Chopra	360,000	164,798	524,798
Danny Robinson	350,000	173,098	523,098
Deepak Gupta	305,000	162,822	467,822
Michael van Dorssen	398,549	142,667	541,216
Wayne Beckley	175,000	65,208	240,208
Adam Fenech[1]	275,000	107,890	382,890
Tony De La Fosse[2]	60,000	3,063	63,063
Other senior executives	798,407	445,390	1,243,798

1. Appointed 4 June 2018
2. Resigned 10 April 2018

3.7 External Advisor Services

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

3.8 Performance Rights holdings

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

Name	Plan Name	Year	Grant Date	Vesting Date	Value of PR Granted (AUD)	VWAP period	VWAP $ applied	PR As at 31 Dec 2018
Gregory Pawson	RRP	2018	3/07/2018	4/12/2020	300,000	29/12/2017	0.745	402,685
Chetan Chopra	STIP	2016	17/02/2017	1/04/2019	14,945	31/12/2017	1.065	14,031
		2017	16/02/2018	1/04/2020	7,700	29/12/2017	0.698	11,032
	LTIP and PR	2016	17/02/2017	1/04/2020	122,000	31/12/2017	1.065	114,543
		2017	16/02/2018	1/04/2021	122,000	29/12/2017	0.698	174,785
Danny Robinson	STIP	2016	17/02/2017	1/04/2019	16,800	31/12/2017	1.065	15,773
		2017	16/02/2018	1/04/2020	8,400	29/12/2017	0.698	12,034
	LTIP and PR	2016	17/02/2017	1/04/2020	96,000	31/12/2017	1.065	90,132
		2017	16/02/2018	1/04/2021	96,000	29/12/2017	0.698	137,536
Deepak Gupta	STIP	2016	17/02/2017	1/04/2019	6,405	31/12/2017	1.065	6,013
		2017	16/02/2018	1/04/2020	7,000	29/12/2017	0.698	10,029
	LTIP and PR	2016	17/02/2017	1/04/2020	91,500	31/12/2017	1.065	85,907
		2017	16/02/2018	1/04/2021	91,500	29/12/2017	0.698	131,089
Michael Van Dorssen	STIP	2016	17/02/2017	1/04/2019	9,661	31/12/2017	1.065	9,070
		2017	16/02/2018	1/04/2020	7,700	29/12/2017	0.698	11,032
	LTIP and PR	2015	25/03/2016	25/03/2019	83,729	25/03/2016	0.910	92,010
		2016	17/02/2017	1/04/2020	92,010	31/12/2017	1.065	86,386
		2017	16/02/2018	1/04/2021	107,883	29/12/2017	0.698	154,560
Tony Del La Fosse	STIP	2017	16/02/2018	1/04/2020	7,000	31/12/2017	0.698	10,029
	LTIP and PR	2017	16/02/2018	1/04/2021	72,000	31/12/2017	0.698	103,152
Adam Fenech	STIP	2016	17/02/2017	1/04/2019	7,655	31/12/2017	1.065	7,186
		2017	16/02/2018	1/04/2020	5,600	29/12/2017	0.698	8,023
	LTIP and PR	2015	25/03/2016	25/03/2019	66,339	25/03/2016	0.910	72,900
		2016	17/02/2017	1/04/2020	72,900	31/12/2017	1.065	68,444
		2017	16/02/2018	1/04/2021	82,500	29/12/2017	0.698	118,195
Nathan Wingti	STIP	2016	17/02/2017	1/04/2019	5,479	31/12/2017	1.065	5,144
		2017	16/02/2018	1/04/2020	4,900	29/12/2017	0.698	7,020
	RRP	2016	1/02/2016	1/04/2019	23,210	1/02/2016	0.910	25,789
Saima Kalis	STIP	2017	16/02/2018	1/04/2020	2,100	29/12/2017	0.698	3,009
	LTIP and PR	2015	25/03/2016	25/03/2019	24,986	25/03/2016	0.910	27,457
		2016	17/02/2017	1/04/2020	29,170	31/12/2017	1.065	27,387
		2017	16/02/2018	1/04/2021	25,186	29/12/2017	0.698	36,083
Greg Brent	STIP	2016	17/02/2017	1/04/2019	11,813	31/12/2017	1.065	11,090
		2017	16/02/2018	1/04/2020	4,900	29/12/2017	0.698	7,020
	RRP	2016	3/10/2016	3/10/2019	73,500	3/10/2016	0.980	75,000

Remuneration report

Name	Plan Name	Year	Grant Date	Vesting Date	Value of PR Granted (AUD)	VWAP period	VWAP $ applied	PR As at 31 Dec 2018
Lynda Kahari	STIP	2017	16/02/2018	1/04/2020	3,500	31/12/2017	0.698	5,014
	LTIP and PR	2017	16/02/2018	1/04/2021	29,327	31/12/2017	0.698	42,016
Aaron Bird	STIP	2016	17/02/2017	1/04/2019	3,606	31/12/2017	1.065	3,385
	LTIP and PR	2015	25/03/2016	25/03/2019	22,535	25/03/2016	0.910	24,764
		2016	17/02/2017	1/04/2020	60,600	31/12/2017	1.065	18,965[1]
Donald Hallam	STIP	2016	17/02/2017	1/04/2019	11,340	31/12/2017	1.065	10,646
Terry Hall	STIP	2016	17/02/2017	1/04/2019	8,535	31/12/2017	1.065	8,013
		2017	16/02/2018	1/04/2020	3,500	29/12/2017	0.698	5,014
	LTIP and PR	2016	17/02/2017	1/04/2020	54,191	31/12/2017	1.065	50,877
		2017	16/02/2018	1/04/2021	54,000	29/12/2017	0.698	77,364
Kong Wong	LTIP and PR	2015	25/03/2016	25/03/2018	73,710	25/03/2016	0.910	81,000
	STIP[2]	2016	6/06/2017	6/06/2019	28,000	31/12/2017	1.065	28,875
Syd Yates	LTIP[3] and PR[4]	2016	6/06/2017	1/06/2020	200,000	31/12/2017	1.065	45,498[5]

Subsequent to the year-ended 31 December 2018, the Board approved the following STI and LTI awards for eligible participants;

Name	Plan Name	Year	Grant Date	Vesting Date	Value of PR Granted (AUD)	VWAP period	VWAP $ applied	PR as at 31 Dec 2018
Gregory Pawson	STIP	2018	1/04/2019	1/04/2021	206,955	31/12/2018	0.9072	228,125
	LTIP	2018	1/04/2019	1/04/2022	295,650	31/12/2018	0.9072	325,893
Chetan Chopra	STIP	2018	1/04/2019	1/04/2021	40,250	31/12/2018	0.9072	44,367
	LTIP	2018	1/04/2019	1/04/2022	144,000	31/12/2018	0.9072	158,730
Michael Van Dorssen	STIP	2018	1/04/2019	1/04/2021	35,000	31/12/2018	0.9072	38,580
	LTIP	2018	1/04/2019	1/04/2022	107,883	31/12/2018	0.9072	118,918
Danny Robinson	STIP	2018	1/04/2019	1/04/2021	17,500	31/12/2018	0.9072	19,290
	LTIP	2018	1/04/2019	1/04/2022	96,000	31/12/2018	0.9072	105,820
Deepak Gupta	STIP	2018	1/04/2019	1/04/2021	21,000	31/12/2018	0.9072	23,148
	LTIP	2018	1/04/2019	1/04/2022	91,500	31/12/2018	0.9072	100,859
Adam Fenech	STIP	2018	1/04/2019	1/04/2021	21,000	31/12/2018	0.9072	23,148
	LTIP	2018	1/04/2019	1/04/2022	82,500	31/12/2018	0.9072	90,939
Wayne Beckley	STIP	2018	1/04/2019	1/04/2021	52,500	31/12/2018	0.9072	57,870
	LTIP	2018	1/04/2019	1/04/2022	105,000	31/12/2018	0.9072	115,740
Nathan Wingti	STIP	2018	1/04/2019	1/04/2021	26,250	31/12/2018	0.9072	28,935
	LTIP	2018	1/04/2019	1/04/2022	48,000	31/12/2018	0.9072	52,910

Name	Plan Name	Year	Grant Date	Vesting Date	Value of PR Granted (AUD)	VWAP period	VWAP $ applied	PR as at 31 Dec 2018
Saima Kalis	STIP	2018	1/04/2019	1/04/2021	7,000	31/12/2018	0.9072	7,716
	LTIP	2018	1/04/2019	1/04/2022		31/12/2018	0.9072	–
Lynda Kahari	STIP	2018	1/04/2019	1/04/2021	5,468	31/12/2018	0.9072	6,027
	LTIP	2018	1/04/2019	1/04/2022		31/12/2018	0.9072	–
Greg Brent	STIP	2018	1/04/2019	1/04/2021	7,861	31/12/2018	0.9072	8,665
	LTIP	2018	1/04/2019	1/04/2022		31/12/2018	0.9072	–

1. PR holding was adjusted based on exit date
2. STIP – Short term incentive plan
3. LTIP – Long term incentive plan
4. PR – Performance rights
5. PR holding was adjusted based on date of exit

3.9 Employment agreements

KMP Contracts

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

CEO employment agreement

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

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

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

Remuneration report

Remuneration of employees

During the year, the number of employees or former employees (not being directors of the Company), receiving remuneration in excess of PGK100,000 per annum from the Group stated in bands of PGK10,000 were 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

In PGK	2018	2017
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

4 Non-executive director arrangements

4.1 Remuneration policy

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

The fees are inclusive of superannuation.

Fees are reviewed annually by the Board, taking into account comparable roles and market data provided by the Board's independent remuneration advisor. The current base fees were reviewed in 2017 and 2018 and no increases were applied.

4.2 Remuneration components

Kina's Board and Committee fee structure during the financial year ending 31 December 2018 was:

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

(a) Fee pool

Under the Constitution, the Board decides the total amount paid to each Non-Executive Director as remuneration for their services as a Director of the Company. However, the total amount of fees (including statutory superannuation entitlements, if any) paid to the Directors for their services (excluding, for these purposes, the remuneration of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. For the financial year ending 31 December 2018, this has been fixed at $1.28 million per annum. Any increase in the total amount payable by the Company to the Non-Executive Directors as remuneration for services must be approved by the Company in general meeting.

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

(b) Committee fees

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

Remuneration report

4.3 Variable Remuneration

Special remuneration

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

Reimbursement for out of pocket expenses

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

Retirement benefits

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

Participation in incentive schemes

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

5 Related party transactions

Please refer to Note 30 to the financial statements, for further comments on Related Party transactions.

6 Directors' interests in shares

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

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

Director	Number of Shares	Shareholding as at the date of this remuneration report (%)
Isikeli Taureka	20,000[1]	0.01%
Greg Pawson	134,229[2]	0.08%
Andrew Carriline	56,000[3]	0.03%
Paul Hutchinson	25,000[4]	0.02%
Karen Smith-Pomeroy	28,000[5]	0.02%
Jane Thomason	20,000[6]	0.01%

1 20,000 shares held directly.

2 134,229 shares held directly. At the time of this remuneration report, Greg Pawson holds 268,456 performance rights due to vest in equal parts on the anniversary of his start date in 2019 and 2020 as part of his retention incentive. Subsequent to the year ended 31 December 2018, Greg Pawson was awarded a total of 228,125 STI performance rights due to vest on 1 April 2021 and 325,893 LTI performance rights due to vest on 1 April 2022. The STI and LTI performance rights relate to the financial year 2018 performance and are subject to vesting conditions as set by the Board.

3 56,000 shares held by Maajic Tees Pty Ltd ATF Maajic Super Fund. Andrew Carriline is a Director of Maajic Tees Pty Ltd.

4 25,000 shares held directly.

5 28,000 shares held by The Pomeroy Family Superannuation Fund. Karen Smith-Pomeroy is a beneficiary of the Pomeroy Family Superannuation Fund.

6 20,000 shares held by Jane Thomason Investments Pty Ltd. Jane Thomason is a director of Jane Thomason Investments Pty Ltd.

7 Auditor's report

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

Directors' report

The Directors of Kina Securities Limited and its Subsidiaries ("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.

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

Deloitte Touche Tohmatsu
Level 9, Deloitte Haus
MacGregor Street
Port Moresby
PO Box 1275 Port Moresby
National Capital District
Papua New Guinea

Tel: +675 308 7000
Fax: +675 308 7001
www.deloitte.com/pg

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Level 23, Riverside Centre
123 Eagle Street
Brisbane, QLD, 4000
Australia

Phone: +61 7 3308 7000
www.deloitte.com.au

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
Adoption of IFRS 9 – Financial Instruments The International Accounting Standards Board (IASB) issued IFRS 9 – *Financial Instruments* which replaces IAS 39 –	In respect of classification and measurement of the Group's financial instruments, our procedures included, but were not limited to: ▪ We read the Group's IFRS 9 based classification and measurement of financial

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<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>

Financial Instrument: Recognition and measurement. 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.

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.

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assets and liabilities policy and compared it with the requirements of IFRS 9; and

- 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.

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.

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<tr><td>

Impairment of loans and advances

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.

Loans and advances subject to provisioning using the ECL model include the residential, personal and corporate lending portfolio.

Significant judgement was involved to determine the provision for credit impairment (including the timing of recognition and the amount of the provision).

Key areas of the judgement include:

- 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.

</td><td>

Our audit procedures in conjunction with our IT specialists included, but were not limited to:

Control design and operating effectiveness:

We tested the design and operating effectiveness of manual and automated controls over the impairment provision including:

- 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.

Assessing model adequacy:
We assessed the appropriateness of management's internally developed model in determining the impairment loss provision. Our procedures included:

- 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.

We also assessed appropriateness of the disclosures in Note 3 to the financial statements.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Impairment of non-current assets 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. The impairment test requires significant judgement due to assumptions required in preparing a discounted cash flow model ('value in use'), including: - 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.	In conjunction with our valuation specialists, our audit procedures included, but were not limited to: - 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. We also assessed the appropriateness of the disclosures in Note 30 to the financial statements.

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 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.

Independent auditor's report

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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

DELOITTE TOUCHE TOHMATSU

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

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

Statements of Comprehensive Income

For the year ended 31 December 2018

	Notes	CONSOLIDATED 2018 K '000	CONSOLIDATED 2017 K '000	PARENT 2018 K '000	PARENT 2017 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)	26b	29.33	14.03
Earnings per share – diluted (toea)	26b	28.87	13.90

The notes on pages 62 – 113 are an integral part of these consolidated financial statements.

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 62 – 113 are an integral part of these consolidated financial statements.

Statements of Financial Position

As at 31 December 2018

	Notes	CONSOLIDATED 2018 K '000	CONSOLIDATED 2017 K '000	PARENT 2018 K '000	PARENT 2017 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	26a	142,213	142,213	142,213	142,213
Share-based payment reserve	26c	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 62 – 113 are an integral part of these consolidated financial statements.

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

Mr. Isikeli Taureka
Director

Mr. Greg Pawson
Director

Statements of Cash Flows

For the year ended 31 December 2018

	Notes	CONSOLIDATED 2018 K '000	CONSOLIDATED 2017 K '000	PARENT 2018 K '000	PARENT 2017 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 62 – 113 are an integral part of these consolidated financial statements.

Notes to the financial statements

For the year ended 31 December 2018

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 March2019.

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

Despite the aforegoing, 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.

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:

1. Summary of significant accounting policies (continued)

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

Impairment of financial assets (continued)

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

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 as-sets 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

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.

Notes to the financial statements

For the year ended 31 December 2018

1. Summary of significant accounting policies (continued)

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

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
Total effect on profit/(loss) for the year	(728)

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
Total effect on net assets	**(4,548)**
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)
Total effect on equity	**4,548**

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	-

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 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.

Notes to the financial statements

For the year ended 31 December 2018

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.
- *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.

1.12 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 acquire is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in profit or loss.

1. Summary of significant accounting policies (continued)

1.12 (numbering from original copy uses 1.12 twice - please confirm) 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.

1.14 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.

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 reassess 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:

- 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).

Notes to the financial statements

For the year ended 31 December 2018

1. Summary of significant accounting policies (continued)

1.14 Financial instruments (continued)

Definition of default (continued)

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.

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 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.

Derecogniton 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.

1.16 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 maybe impaired.

Notes to the financial statements

For the year ended 31 December 2018

1. Summary of significant accounting policies (continued)

1.16 Intangible assets (continued)

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.

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.

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

(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.

3. Financial risk management (continued)

a) Market risk (continued)

(i) Foreign exchange risk (continued)

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 liability denominated in foreign currency.

Sensitivity

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

	IMPACT ON STATEMENT OF COMPREHENSIVE INCOME IN	
	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.

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

	Year ended 31 December 2018 Fixed Rate	
	Carrying amount K '000	**Average Interest rate (% p.a.)**
Assets		
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 2018 Fixed Rate	
	Carrying amount K '000	**Average Interest rate (% p.a.)**
Assets		
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
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.

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.

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.

3. Financial risk management (continued)

b) Credit risk (continued)

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 draw downs 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

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.

Cash and due from banks at amortised cost	CONSOLIDATED 31 December 2018 K'000	31 December 2017 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.

Treasury and central bank bills at amortised cost	CONSOLIDATED 31 December 2018 K'000	31 December 2017 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

Regulatory deposits at amortised cost	CONSOLIDATED 31 December 2018 K'000	31 December 2017 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

Notes to the financial statements

For the year ended 31 December 2018

3. Financial risk management (continued)

b) Credit risk (continued)

	CONSOLIDATED	
	31 December 2018	31 December 2017
Loans and advances to customers at amortised cost	**K'000**	K'000
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
Investments in government inscribed stocks at amortised cost	**K'000**	K'000
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

	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 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Cash and due from banks at amortised cost	**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**

3. Financial risk management (continued)

b) Credit risk (continued)

	CONSOLIDATED				
	31 December 2018				31 December 2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Treasury and central bank bills at amortised cost	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
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 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Regulatory deposits at amortised cost	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
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 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans and advances to customers at amortised cost	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
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**

Investments in government inscribed stocks at amortised cost	CONSOLIDATED 31 December 2018 Stage 1 12-month ECL K'000	Stage 2 Lifetime ECL K'000	Stage 3 Lifetime ECL K'000	Total K'000	31 December 2017 Total 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 Stage 1 12-month ECL K'000	Stage 2 Lifetime ECL K'000	Stage 3 Lifetime ECL K'000	Total K'000	31 December 2017 Total 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.

Loss allowance by classes	CONSOLIDATED 31 December 2018 K'000	31 December 2017 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.

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

Loss allowance by classes	CONSOLIDATED Balance at 01 January 2018 K'000	Additional ECL recognised K'000	Write-offs K'000	Balance at 31 December 2018 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

3. Financial risk management (continued)

b) Credit risk (continued)

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:

	CONSOLIDATED				
	31 December 2018				31 December 2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loss allowance – Loans and advances to customers at amortised cost	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:

	CONSOLIDATED				
	31 December 2018				31 December 2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Loans and advances to customers at amortised cost	K'000	K'000	K'000	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.

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.

3. Financial risk management (continued)

b) Credit risk (continued)

	CONSOLIDATED	
	Year ended 2018	Year ended 2017
	Gross carrying amount	Gross carrying amount
Mortgage lending	K'000	K'000
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

	CONSOLIDATED	
	Year ended 2018	Year ended 2017
	Gross carrying amount	Gross carrying amount
Credit impaired – Mortgage lending	K'000	K'000
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.

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.

Notes to the financial statements

For the year ended 31 December 2018

3. Financial risk management (continued)

b) Credit 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**

	PARENT						
	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	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%.

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 the on statements of financial position and is made up of tier 1 (core) and tier 2 (supplementary) capital, after deducting the value of investments in other banks and financial institutions. Tier 1 capital is obtained by deducting intangible assets including deferred tax assets from equity capital and audited retained earnings (or accumulated losses). Tier 2 capital cannot exceed the amount of tier 1 capital, and can include subordinated loan capital, specified assets revaluation reserves, un-audited profits (or losses) and a small percentage of general loan provisions.

The Leverage Capital is calculated as Tier 1 Capital (less inter-group loans) divided by Total Assets. Risk-weighted assets are derived from on-statements of financial positions assets. On-statements of financial position assets are weighted for credit risk by applying weightings (0, 20, 50 and 100 percent) according to risk classification criteria set by the BPNG, for example cash and money market instruments have a zero risk weighting which means that no capital is required to support the holding of these assets.

5. Net interest income/ (expense)

	CONSOLIDATED		**PARENT**	
	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)

6. Net fee and commission income

	CONSOLIDATED		PARENT	
	2018 K'000	2017 K'000	**2018 K'000**	2017 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 K'000	2017 K'000	**2018 K'000**	2017 K'000
Dividend income from investments	**327**	357	**12**	11
	327	357	**12**	11

8. Other income

	CONSOLIDATED		PARENT	
	2018 K'000	2017 K'000	**2018 K'000**	2017 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 K'000	2017 K'000	**2018 K'000**	2017 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

Break-up of staff costs:

	CONSOLIDATED		PARENT	
	2018 K'000	2017 K'000	**2018 K'000**	2017 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 K'000	2017 K'000	**2018 K'000**	2017 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 K'000	2017 K'000	**2018 K'000**	2017 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

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

	CONSOLIDATED		PARENT	
	2018 K'000	2017 K'000	**2018 K'000**	2017 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 K'000	2017 K'000	**2018 K'000**	2017 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 K'000	2017 K'000	**2018 K'000**	2017 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	**-**	-

13. Central bank bills (continued)

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.

15. Financial assets at fair value through profit or loss

	CONSOLIDATED		PARENT	
	2018 K'000	2017 K'000	**2018 K'000**	2017 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 K'000	2017 K'000	**2018 K'000**	2017 K'000
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 K'000	2017 K'000	**2018 K'000**	2017 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 K'000	2017 K'000	**2018 K'000**	2017 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 K'000	2017 K'000	**2018 K'000**	2017 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	-	-

17. Investments in government inscribed stocks

	CONSOLIDATED		PARENT	
	2018 K'000	2017 K'000	**2018 K'000**	2017 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 K'000	2017 K'000	**2018 K'000**	2017 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.

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For the year ended 31 December 2018

18. Investments in subsidiaries

	SHAREHOLDINGS**			
	2018 %	2017 %	**2018 Amount (K)**	2017 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).

19. Property, plant and equipment

CONSOLIDATED	Furniture & Fittings K'000	Building improvements K'000	Motor Vehicles K'000	Office Equipment K'000	Land & Building K'000	Work in Progress K'000	Total K'000
Cost							
Balance 31 December 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

PARENT	Furniture & Fittings K'000	Building improvements K'000	Motor Vehicles K'000	Office Equipment K'000	Land & Building K'000	Work in Progress K'000	Total K'000
Cost							
Balance 31 December 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

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20. Intangible assets

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

PARENT	Software	Customer deposits 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:

	CONSOLIDATED		PARENT	
	2018	2017	**2018**	2017
	K '000	K '000	**K '000**	K '000
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

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

23. Current income tax (assets) liabilities (continued)

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

	CONSOLIDATED		PARENT	
	2018	2017	**2018**	2017
	K '000	K '000	**K '000**	K '000
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

Represented by:

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

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**

Represented by:

	Consolidated	Parent
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 K'000	Share capital 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.

	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

c) Share-based payment reserve (continued)

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	AUD583,193	AUD 419,155
Vesting date	27 March 2019	1 April 2020	1 April 2020
Vesting conditions	Continued service	Continued service	Continued service
	Achieved IPO	50% target TSR	50% target TSR
	Target NPAT	50% target EPS growth	50% target EPS growth

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

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	2017
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	**2,651**	1,558

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For the year ended 31 December 2018

27. Statement of cash flows

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

	CONSOLIDATED		PARENT	
	2018	2017	**2018**	2017
	K'000	K'000	**K'000**	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	-	-
	160,638	102,514	**12,885**	12,828

b) Movement in investment securities is as follows:

	CONSOLIDATED		
	2018	2017	**Movement**
	K'000	K'000	**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)	**34,195**	79,878	**(45,683)**
	355,349	215,747	**139,602**

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)	**6,758**	4,663	**2,498**	1,291
Premium/discount amortization (note 17)	**208**	(508)	-	-
Share-based payment expense	**1,980**	410	**1,980**	410
Net losses/(gains) from changes in fair values of financial assets (note 15)	**105**	5	**25**	15
Increase/(decrease) in income tax payable	**7,519**	1,630	**656**	187
Increase/(decrease) in deferred income tax (note 11b)	**(2,667)**	1,455	**(267)**	(749)
Changes in net assets and liabilities:				
Decrease/(increase) in assets:	**(154,539)**	(143,358)	**7,660**	(8,535)
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)	**36,251**	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 K'000	2017 K'000
Deposit:	K'000	K'000
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.

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 K'000	Total 2018 K'000	Total 2017 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).

28. Related party transactions (continued)

a) Directors and management transactions (continued)

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	EXPENSES	INCOME	EXPENSES	DUE FROM		DUE TO	
	2018	2018	2017	2017	2018	2017	2018	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)

29. Investment under trust

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

	CONSOLIDATED		PARENT	
	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.

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

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

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.

Group	2018 K'000	2017 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 K'000	2017 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 estimation

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.

Notes to the financial statements

For the year ended 31 December 2018

34. Fair value estimation (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	**Level 1**	**Level 2**	**Level 3**	**Total**
	K'000	**K'000**	**K'000**	**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	**Level 1**	**Level 2**	**Level 3**	**Total**
	K'000	**K'000**	**K'000**	**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	**Level 1**	**Level 2**	**Level 3**	**Total**
	K'000	**K'000**	**K'000**	**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	**Level 1**	**Level 2**	**Level 3**	**Total**
	K'000	**K'000**	**K'000**	**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.

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 statement 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.

Shareholder information

Kina Securities Limited

ARBN: 606 168 594

The distribution of ordinary shares ranked according to size as at 12 April 2019 was:

Size of holding	Number of holders	Number of shares	% of issued capital
1-1,000	368	169,107	0.14
1,001-5,000	471	1,462,017	0.18
5,001-10,000	453	3,836,717	0.17
10,001-100,000	1,191	37,445,274	0.46
100,001-over	135	121,080,138	0.05

The 20 largest shareholders representing 57.59% of the ordinary shares as at 12 April 2019 were as follows:

Shareholder	Number of Shares	% of issued capital
HSBC CUSTODY NOMINEES	46,460,409	28.33
J P MORGAN NOMINEES AUSTRALIA	7,895,706	4.81
BNP PARIBAS NOMINEES PTY LTD	5,132,163	3.13
MATCHING INVESTMENT COMPANY	5,116,706	3.12
COLUMBUS INVESTMENTS LIMITED	4,078,574	2.49
COMRADE TRUSTEE SERVICES	3,500,885	2.13
MINERAL RESOURCES CMCA	3,208,556	1.96
NATIONAL NOMINEES LIMITED	2,996,137	1.83
AIRWOLF LIMITED	2,885,390	1.76
GAS RESOURCES PNGLNG PLANT	2,139,037	1.30
HEDURU MONI LTD	1,946,507	1.19
BNP PARIBAS NOMS PTY LTD	1,423,585	0.87
GEAT INCORPORATED	1,047,000	0.64
UBS NOMINEES PTY LTD	1,043,770	0.64
CITICORP NOMINEES PTY LIMITED	1,021,711	0.62
HITSUMA SDN BHD	1,000,000	0.61
NORFOLK ENCHANTS PTY LTD	1,000,000	0.61
PERPETUAL SHIPPING LIMITED	1,000,000	0.61
NEW IRELAND DEVELOPMENT	800,000	0.49
P & B CHEUNG LTD	748,336	0.46
Total	94,444,472	57.59
Grand total	**163,993,253**	**100**

Issued capital as at 12 April 2019 was:

163,993,253 ordinary fully paid shares

The following interests were registered on the Company's register of Substantial Shareholders as at 12 April 2019:

Shareholder	Number of Shares	% of Issued Capital
HSBC CUSTODY NOMINEES	46,460,409	28.33%
J P MORGAN NOMINEES AUSTRALIA	7,895,706	4.81%

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

At 12 April 2019, there were no holders of unmarketable parcels of ordinary shares in the Company

VOTING RIGHTS ATTACHED TO ORDINARY SHARES

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

Corporate directory

Directors

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

Company secretary

Chetan Chopra

Registered Office

HEAD OFFICE

9th Level, Kina Haus Douglas Street,
Port Moresby National Capital District
Papua New Guinea
Telephone: +675 308 3888
Facsimile: +675 308 3899

VISION CITY OFFICE

Ground Floor
Vision City Building
Sir John Guise Drive
P.O. Box 1141, Boroko
National Capital District
Papua New Guinea
Telephone: +675 323 0751
or +675 323 0750
Facsimile: +675 310 0020

LAE OFFICE

Ground Floor
Nambawan Super Haus
2nd Street, Top Town
P.O. Box 682, Lae Morobe Province
Papua New Guinea
Telephone: +675 472 7558
or +675 472 7188
Facsimile: +675 472 8176

MT HAGEN OFFICE

Level 1
Komkui Building Mt Hagen
Papua New Guinea
Telephone: +675 542 2306
Facsimile: +675 542 3680

KOKOPO OFFICE

ENB Savings and Loans
Society Building (Suite 3)
P.O. Box 1269, Kokopo
East New Britain Province
Papua New Guinea
Telephone: +675 982 5278
Facsimile: +675 982 5416

Branch offices

WAIGANI BRANCH

Cnr. Waigani and Islander Drive
Waigani NCD
Telephone: +675 325 7792
Facsimile: +675 325 6128

LAE BRANCH

Ground Floor
Nambawan Haus
2nd Street
Lae, MP
Telephone: +675 472 7188 /
+675 472 8175
Facsimile: +675 472 8176 /
+675 472 7166

VISION CITY

Ground Floor
Vision City Mega Mall
Waigani Drive
Waigani NCD
Telephone: +675 323 0750
Facsimile: +675 310 0020

KOKOPO BRANCH

Suite 3,
ENB Savings and Loan Society
Building Williams Road
Kokopo, ENBP
Telephone: +675 982 5278
Facsimile: +675 982 5416

MT HAGEN OFFICE

Office 5
Komkui Building
Mt Hagen, WHP
Telephone: +675 542 2306
Facsimile: +675 542 3680

Share registry

PAPUA NEW GUINEA

PNG Registries Limited
Level 2, Aon Haus
PO Box 1265
Port Moresby
Papua New Guinea
Telephone: (675) 321 6377
Facsimile: (675) 321 6379
Email: brenda@online.net.pg

AUSTRALIA

Link Market Services Ltd
Level 21, 10 Eagle Street
Brisbane QLD 4000
Telephone: 1300 554 474
(within Australia)
+61 1300 544 474
(outside Australia)

AUDITOR

Deloitte Touche Tohmatsu
Level 9, Deloitte Haus
MacGregor Street
Port Moresby
PO Box 1275 Port Moresby
National Capital District
Papua New Guinea
Telephone: +675 308 7000
Facsimile: +675 308 7001
www.deloitte.com/pg

STOCK EXCHANGE LISTING

ASX Code: KSL
POMSoX Code: KSL

WEBSITE

www.kina.com.pg

kinabank
together it's possible

www.kinabank.com.pg