

# ASX/PNGX announcement



30 March 2020

ASX Markets Announcement Office  
Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

## BY ELECTRONIC LODGEMENT

### Audited Consolidated Financial Statements Year ended 31 December 2019

Please find attached for release to the market, Kina Securities Limited's *Audited Consolidated Financial Statements for the year ended 31 December 2019*.

-ENDS-

These Financial Statements were authorised for release by Kina Securities Limited's Board of Directors

*For further information:*

**Greg Pawson**  
Chief Executive Officer and Managing Director  
Email: [greg.pawson@kinabank.com.pg](mailto:greg.pawson@kinabank.com.pg)

**Chetan Chopra**  
Chief Financial Officer and Company Secretary  
Email: [Chetan.chopra@kinabank.com.pg](mailto:Chetan.chopra@kinabank.com.pg)



# CONSOLIDATED FINANCIAL STATEMENTS 2019

December 2019

---

## 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 2019.

### 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 K60.9 million compared with K48.1 million in 2018.

The profit includes the following items:

- Net interest income of K114.6 million, compared with K87.6 million in the prior year to 31 December 2018.
- Net fee and commission income of K47.8 million compared with K36.4 million in the prior year.
- Operating income before impairment losses and other operating income of K205.6 million, up from K161.7 million in the prior year.
- Expected credit losses on financial instruments at amortised cost of K5.6 million, compared with K5.1 million in the prior year.
- Other operating expenses of K117.2 million, compared with K87.4 million in the prior period.

### Dividends

The Company paid dividend of AUD 5.0 cents (PGK 12.1 toea) per share (K19.9m) in April 2019 in relation to the profit for the half year ended 31 December 2018. In September 2019 the Company also paid dividend of AUD 4.0 cents (PGK 10.0 toea) per share (K16.4m) in relation to the profit for the half year ended 30 June 2019.

### After balance sheet date events

Subsequent to balance sheet date, the directors declared a final dividend of AUD 6.4 cents (PGK 15.5 toea) per share (K27.0m) on net profit declared for the second half of financial year 2019.

See also note 38 for other subsequent events.

### Donations

During the year the Group made donations totalling K26,336 (2018: K12,520)

### Auditor's fees

Fees paid to the auditor during the year for professional services are shown in note 36 to the accounts. The external auditor is Deloitte Touche Tohmatsu Ltd.

# Remuneration report

## Remuneration of employees

During the year, the number of employees or former employees (not being directors of the Company), receiving remuneration in excess of K100,000 per annum from the Group stated in bands of K10,000 was as follows:

In PGK	2019	2018
1,460,000 - 1,470,000	-	1
1,440,000 - 1,450,000	1*	-
980,000 - 990,000	-	1
970,000 - 980,000	2	-
890,000 - 900,000	-	1
860,000 - 870,000	-	2
850,000 - 860,000	2	-
750,000 - 760,000	-	1
680,000 - 690,000	-	1
640,000 - 650,000	1	-
610,000 - 620,000	-	1
570,000 - 580,000	1	-
560,000 - 570,000	1	-
550,000 - 560,000	1	-
500,000 - 510,000	2	-
490,000 - 500,000	-	3
480,000 - 490,000	4	-
450,000 - 460,000	1	-
440,000 - 450,000	-	2
430,000 - 440,000	3	2
420,000 - 430,000	1	1
390,000 - 400,000	-	1
380,000 - 390,000	2	1
370,000 - 380,000	1	2
360,000 - 370,000	2	1
350,000 - 360,000	1	1
330,000 - 340,000	1	-
320,000 - 330,000	1	2
310,000 - 320,000	2	-
300,000 - 310,000	4	2
290,000 - 300,000	-	3
280,000 - 290,000	2	2
260,000 - 270,000	-	1
250,000 - 260,000	1	-
240,000 - 250,000	-	2
210,000 - 220,000	2	-
200,000 - 210,000	3	-
190,000 - 200,000	2	3
180,000 - 190,000	4	5
170,000 - 180,000	4	1
160,000 - 170,000	3	2
150,000 - 160,000	6	2
140,000 - 150,000	7	6
130,000 - 140,000	9	9
120,000 - 130,000	4	2
110,000 - 120,000	4	5
100,000 - 110,000	8	9

\*Impact of foreign exchange conversion.

# Remuneration report

## Directors remuneration

Directors fees paid during the year was as follows:

	2019	2018
	K'000	K'000
<b>Directors</b>		
I. Taureka	362	577*
K. Smith- Pomeroy	240	230
J. Thomason (appointed 23 May 2018)	238	129
P. Hutchinson (appointed 16 August 2018)	195	76
A. Carriline (appointed 16 August 2018)	207	78
D. Foster (resigned 23 May 2018)	-	103
J. Yap (resigned 16 August 2018)	-	146
	<b>1,242</b>	<b>1,339</b>
<b>Managing Director</b>		
G. Pawson (appointed 2 January 2018)		
-Salaries	1,444**	1,495
-Other benefits including leave entitlements	454	443
	<b>1,898</b>	<b>1,938</b>
	<b>3,140</b>	<b>3,277</b>

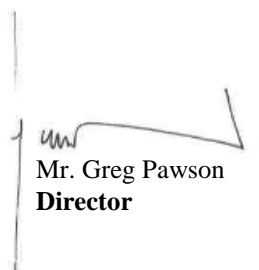
\* A total of K187,717 was paid as a result of previous years' director fee underpayment.

\*\*Impact of foreign exchange conversion.

Signed at Port Moresby on behalf of the board on 30 March 2020.



Mr. Isikeli Taureka  
Director



Mr. Greg Pawson  
Director

---

## Directors' declaration

The directors declare that:

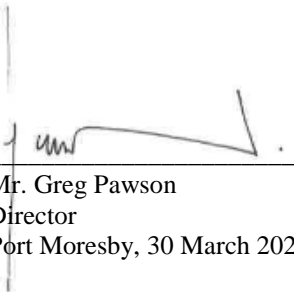
- in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable
- in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including 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 2019

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Mr. Isikeli Taureka  
Director  
Port Moresby, 30 March 2020



Mr. Greg Pawson  
Director  
Port Moresby, 30 March 2020

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

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the accompanying consolidated financial statements of Kina Securities Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information and directors' declaration.

In our opinion, the accompanying consolidated financial statements, give a true and fair view of the Group's and the Company's consolidated financial position as at 31 December 2019 and of their consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the *Companies Act 1997 (amended 2014)*.

#### *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 Consolidated Financial Statements* 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)* that are relevant to our audit of the financial statements. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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 consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Business combination</b></p> <p>As disclosed in note 31 to the consolidated financial statements, during the year ended 31 December 2019, the Group entered into Sale and Purchase Agreement (the "Agreement") with Australia and New Zealand Banking Group (PNG) Limited (the "acquiree") to acquire the retail and commercial banking business of the acquiree based in Papua New Guinea.</p> <p>Under the terms of the Agreement, the Group acquired assets and liabilities related to the acquired business including loans and advances, customer deposits, fixed assets, cash at branches and other assets and liabilities for a total purchase consideration of K24.2m.</p> <p>The transaction has been accounted for in accordance with IFRS 3 <i>Business Combination</i> using acquisition method of accounting whereby acquired assets and liabilities including other identifiable intangible assets have been recognised at fair value.</p> <p>Significant judgement is required by management due to the completeness and valuation of separately identifiable intangible assets recognised upon acquisition and the key assumptions underpinning the fair valuation of acquired assets and liabilities.</p>	<p>In conjunction with our valuation and financial reporting specialists our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>- Obtaining an understanding of the Agreement and reviewing Group's assessment of the application of IFRS 3 to the transaction;</li> <li>- Assessing management's methodology in determining the identifiable assets acquired and liabilities assumed, the fair value of the consideration transferred, and fair valuation of assets and liabilities acquired; and</li> <li>- Engaging valuation specialists to assist in assessing key valuation assumptions; and</li> </ul> <p>We also assessed the appropriateness of the disclosures in note 31 to the consolidated financial statements.</p>
<p><b>Impairment of loans and advances</b></p> <p>As at 31 December 2019 the Group has recognised provisions amounting to K20.5m for impairment losses on loans and advances held at amortised cost in accordance with the Expected Credit Loss (ECL) model as disclosed in Note 3.</p> <p>Loans and advances subject to provisioning using the ECL model include the residential lending portfolio, personal loan portfolio and loan commitments.</p> <p>Significant judgement was involved in determining the provision for credit impairment (including the timing of recognition and the amount of the provision).</p> <p>Key areas of the judgement include:</p> <ul style="list-style-type: none"> <li>- The application of the requirements to determine impairment under IFRS 9</li> </ul>	<p>Our procedures in conjunction with our credit specialists included, but were not limited to:</p> <p><b>Control design, observation and operation:</b></p> <p>We tested the design and operation of manual and automated controls over the impairment provision including:</p> <ul style="list-style-type: none"> <li>- The accuracy of data input into the system used for credit grading and the approval of credit facilities; and</li> <li>- 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.</li> </ul> <p><b>Assessing model adequacy:</b></p> <p>We assessed the appropriateness of management's internally developed model in determining the impairment loss provision by:</p>



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><i>Financial Instruments</i>, which is reflected in the Company's and the Group's expected credit loss model;</p> <ul style="list-style-type: none"> <li>- Identification of exposures with a significant movement in credit quality to determine whether 12-month or lifetime expected credit loss should be recognised;</li> <li>- 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</li> <li>- Incorporation of forward-looking information to reflect current or future external factors.</li> </ul>	<ul style="list-style-type: none"> <li>- Assessing whether the model adequately addresses the requirements of IFRS 9;</li> <li>- 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;</li> <li>- Assessing reasonableness of the loss rates applicable to risk grade and aging buckets; and</li> <li>- Assessing adequacy of management overlays to the modelled collective provision by recalculating the coverage provided by the collective impairment provision (including overlays) to loan book, taking into account recent history, performance and de-risking of the relevant portfolios</li> </ul> <p>We also assessed appropriateness of the disclosures in Note 3 to the consolidated financial statements.</p>
<p><b>Impairment of non current assets</b></p> <p>As at 31 December 2019 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 37.</p> <p>In accordance with IAS 36 <i>Impairment of Assets</i> Cash Generating Units (CGUs) including goodwill must be tested for impairment at least annually.</p> <p>The impairment test requires significant judgement due to assumptions required in preparing a discounted cash flow model ('value in use'), including:</p> <ul style="list-style-type: none"> <li>- Identification of appropriate CGUs to which goodwill is allocated for the purpose of impairment testing;</li> <li>- Future cash flows for the Cash Generating Unit ('CGU');</li> <li>- Discount rates; and</li> <li>- Terminal value growth rates.</li> </ul>	<p>In conjunction with our valuation specialists, our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>- 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;</li> <li>- 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;</li> <li>- 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;</li> <li>- Evaluating the value in use estimate determined by management against the Company's market capitalisation; and</li> <li>- Testing the mathematical accuracy of the impairment model.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Note 37 to the consolidated financial statements.</p>

*Other Information*

The directors are responsible for the other information. The other information comprises the Directors' Report (but does not include the consolidated 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 consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

---

# Deloitte.

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

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

#### *Responsibilities of the Directors for the Consolidated Financial Statements*

The directors of the Company are responsible for the preparation of the consolidated financial statements that gives a true and fair view in accordance with International Financial Reporting Standards and the *Companies Act 1997 (amended 2014)* and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

#### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

# Deloitte.

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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements 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 consolidated financial statements. 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 are independent of the Group in accordance with the auditor independence requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the consolidated financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 consolidated financial statements 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

In accordance with section 200 of the *Companies Act 1997 (amended 2014)*, in our opinion:

- (i) We obtained all information and explanations that were required; and
- (ii) Proper accounting records have been kept by the Group for the year ended 31 December 2019.

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


The engagement partners on the audit resulting in this independent auditor's report are Benjamin Lee and David Rodgers.

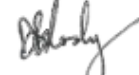
  
DELOITTE TOUCHE TOHMATSU



Benjamin Lee  
Partner  
Chartered Accountants  
Registered under Accountants Act 1996

Port Moresby, 30 March 2020

  
DELOITTE TOUCHE TOHMATSU



David Rodgers  
Partner  
Chartered Accountants  
Registered Company Auditor in Australia

Brisbane, 30 March 2020

# KINA SECURITIES LIMITED

## Statements of Comprehensive Income For the year ended 31 December 2019

		Consolidated		Parent	
		2019	2018	2019	2018
		K '000	K '000	K '000	K '000
Interest income	5	146,482	112,808	31	42
Interest expense	5	(31,901)	(25,232)	(3,492)	(3,829)
Net interest income/(expense)		114,581	87,576	(3,461)	(3,787)
Fee and commission income	6	47,878	36,401	879	865
Fee and commission expense	6	(93)	(50)	(82)	(35)
Net fee and commission income		47,785	36,351	797	830
Foreign exchange income/(expense)		41,956	34,201	(88)	(283)
Dividend income	7	357	327	40,004	12
Net gains /(losses) from financial assets at fair value through profit and loss	15	153	106	(8)	25
Other income	8	734	3,089	49,919	40,397
<b>Operating income before impairment losses and other operating expenses</b>		<b>205,566</b>	161,650	<b>87,163</b>	37,194
Expected credit losses on financial instruments at amortised cost	3	(5,646)	(5,070)	-	-
Other operating expenses	9	(117,227)	(87,377)	(45,675)	(33,240)
<b>Profit before tax</b>		<b>82,693</b>	69,203	<b>41,488</b>	3,954
Income tax expense	10	(21,822)	(21,110)	945	(1,051)
<b>Net profit for the year attributable to the equity holders of the Company</b>		<b>60,871</b>	48,093	<b>42,433</b>	2,903
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the year attributable to the equity holders of the Company</b>		<b>60,871</b>	48,093	<b>42,433</b>	2,903
		<b>2019</b>	2018		
Earnings per share – basic (toea)	27 b	35.94	29.33		
Earnings per share – diluted (toea)	27 b	35.74	28.87		

*The notes on pages 15 to 73 are an integral part of these consolidated financial statements.*

# KINA SECURITIES LIMITED

## Statements of Financial Position

As at 31 December 2019

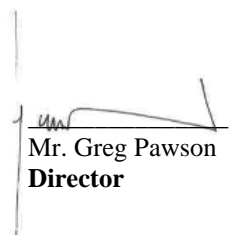
		Consolidated		Parent	
		2019	2018	2019	2018
		K '000	K '000	K '000	K '000
<b>Assets</b>					
Cash and due from banks	12	269,702	85,638	43,837	12,885
Central bank bills	13	722,090	396,154	-	-
Regulatory deposits	14	249,713	137,494	-	-
Financial assets at fair value through profit or loss	15	7,635	4,907	339	347
Loans and advances to customers	16	1,401,433	851,663	-	7
Investments in government inscribed stocks	17	34,003	34,195	-	-
Due from subsidiaries	29	-	-	351,096	351,096
Current income tax assets	23	810	-	317	-
Deferred tax assets	11	10,491	7,193	3,226	787
Investments in subsidiaries	18	-	-	248	248
Property, plant and equipment	19	96,922	12,108	16,644	6,929
Goodwill	37	92,786	92,786	-	-
Intangible assets	20	49,247	26,432	6,532	5,794
Other assets	21	62,703	13,424	1,216	1,544
		<b>2,997,535</b>	<b>1,661,994</b>	<b>423,455</b>	<b>379,637</b>
<b>Liabilities</b>					
Due to other banks		22	25,065	-	-
Due to customers	22	2,460,967	1,315,460	-	-
Current income tax liabilities	23	4,506	8,154	-	1,011
Due to subsidiaries	29	-	-	167,212	174,364
Employee provisions	24	9,068	6,251	4,420	2,642
Lease Liabilities	25	54,958	-	9,397	-
Other liabilities	26	140,738	37,795	11,364	10,438
		<b>2,670,259</b>	<b>1,392,725</b>	<b>192,393</b>	<b>188,455</b>
<b>Net assets</b>		<b>327,276</b>	<b>269,269</b>	<b>231,062</b>	<b>191,182</b>
<b>Shareholders' equity</b>					
Issued and fully paid ordinary shares	27 a	176,970	142,213	176,970	142,213
Share-based payment reserve	27 c	2,063	2,651	2,063	2,651
Retained earnings		148,243	124,405	52,029	46,318
<b>Total equity</b>		<b>327,276</b>	<b>269,269</b>	<b>231,062</b>	<b>191,182</b>

The notes on pages 15 to 73 are an integral part of these consolidated financial statements.

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



Mr. Isikeli Taureka  
Director



Mr. Greg Pawson  
Director

# KINA SECURITIES LIMITED

## Statements of Changes in Equity For the year ended 31 December 2019

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
<b>Balance as at 31 December 2017</b>	<b>142,213</b>	<b>1,558</b>	<b>112,931</b>	<b>256,702</b>
Transition effect IFRS 9	-	-	(3,820)	(3,820)
<b>Balance as at 01 January 2018</b>	<b>142,213</b>	<b>1,558</b>	<b>109,111</b>	<b>252,882</b>
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)
<b>Balance as at 31 December 2018</b>	<b>142,213</b>	<b>2,651</b>	<b>124,405</b>	<b>269,269</b>
Transition effect IFRS 16	-	-	(725)	(725)
<b>Balance as at 01 January 2019</b>	<b>142,213</b>	<b>2,651</b>	<b>123,680</b>	<b>268,544</b>
Profit for the year	-	-	60,871	60,871
Other comprehensive income	-	-	-	-
Additional shares issued	34,757	-	-	34,757
Employee share scheme – vested rights	-	(1,430)	-	(1,430)
Employee share scheme – value of employee services	-	842	-	842
Dividend paid	-	-	(36,308)	(36,308)
<b>Balance as at 31 December 2019</b>	<b>176,970</b>	<b>2,063</b>	<b>148,243</b>	<b>327,276</b>

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
<b>Balance as at 31 December 2017</b>	<b>142,213</b>	<b>1,558</b>	<b>76,214</b>	<b>219,985</b>
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)
<b>Balance as at 31 December 2018</b>	<b>142,213</b>	<b>2,651</b>	<b>46,318</b>	<b>191,182</b>
Transition effect IFRS 16	-	-	(414)	(414)
<b>Balance as at 01 January 2019</b>	<b>142,213</b>	<b>2,651</b>	<b>45,904</b>	<b>190,768</b>
Profit for the year	-	-	42,433	42,433
Additional shares issued	34,757	-	-	34,757
Other comprehensive income	-	-	-	-
Employee share scheme – vested rights	-	(1,430)	-	(1,430)
Employee share scheme – value of employee services	-	842	-	842
Dividend paid	-	-	(36,308)	(36,308)
<b>Balance as at 31 December 2019</b>	<b>176,970</b>	<b>2,063</b>	<b>52,029</b>	<b>231,062</b>

The notes on pages 15 to 73 are an integral part of these consolidated financial statements.

# KINA SECURITIES LIMITED

## Statements of Cash Flows For the year ended 31 December 2019

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
<b>Cash flows from operating activities</b>				
Interest received	146,984	112,691	31	42
Interest paid	(32,835)	(23,525)	(3,492)	(3,829)
Foreign exchange gain/ (loss)	41,956	34,201	(88)	(282)
Dividend received	357	327	40,004	12
Fee and commission income received	50,531	33,973	887	858
Fee and commission expense paid	(93)	(50)	(82)	(35)
Net trading and other operating income	887	3,195	11,051	9,172
Recoveries on loans previously written-off	2,076	1,725	-	-
Support fees charged from subsidiaries	-	-	38,860	31,250
Cash payments to employees and suppliers	(110,059)	(98,032)	(50,117)	(6,599)
Income tax paid	(30,628)	(13,561)	(1,179)	(337)
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>	<b>69,176</b>	<b>50,944</b>	<b>35,875</b>	<b>30,252</b>
<b>Changes in operating assets and liabilities:</b>				
- (increase) in regulatory deposits	(112,218)	(30,671)	-	-
- (increase) in loans and advances to customers	(225,415)	(118,580)	-	-
- net decrease/(increase) in other assets	(41,844)	763	313	7,691
- net increase in due to customers	96,872	293,027	-	-
- (decrease)/increase due to other banks	(27,558)	21,145	(504)	(525)
- net increase/(decrease) in other liabilities	103,677	2,593	928	(1,167)
<b>Net cash inflow/(outflow) generated from/(used in) operating activities</b>	<b>28c (137,310)</b>	<b>219,221</b>	<b>36,612</b>	<b>36,251</b>
<b>Cash flows from investing activities</b>				
Purchase of property, equipment and software	(39,005)	(14,999)	(4,638)	(3,920)
Net cash acquired in business combination, net of consideration paid	31 687,718	-	-	-
Proceeds from sale of property and equipment	16	19,912	16	-
Net movement in investment securities	28b (403,319)	(139,602)	8	-
<b>Net cash inflow/(outflow) generated from/(used in) investing activities</b>	<b>245,410</b>	<b>(134,689)</b>	<b>(4,614)</b>	<b>(3,920)</b>
<b>Cash flows from financing activities</b>				
Dividend paid	(36,308)	(32,799)	(36,308)	(32,799)
Proceeds on issuance of shares	34,757	-	34,757	-
<b>Net cash inflow/(outflow) generated from/(used) in financing activities</b>	<b>(1,551)</b>	<b>(32,799)</b>	<b>(1,551)</b>	<b>(32,799)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>106,549</b>	<b>51,733</b>	<b>30,447</b>	<b>(468)</b>
<b>Effect of exchange rate movements on cash and cash equivalents</b>	<b>2,515</b>	<b>6,391</b>	<b>504</b>	<b>525</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>160,638</b>	<b>102,514</b>	<b>12,886</b>	<b>12,828</b>
<b>Cash and cash equivalents at end of year</b>	<b>28a 269,702</b>	<b>160,638</b>	<b>43,837</b>	<b>12,885</b>

The notes on pages 15 to 73 are an integral part of these consolidated financial statements.

# KINA SECURITIES LIMITED

For the year ended 31 December 2019

Notes to the Financial Statements (From pages 15 - 73)

## 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 2019 were authorized for issue by the Board of Directors on 30 March 2020.

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 16 *Leases*.

#### IFRS 16 *Leases*

The Group applied IFRS 16 with a date of initial application of 1 January 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application of K 725,323 is recognised in retained earnings at 1 January 2019. The details of the changes in accounting policies are disclosed below.

#### Definition of a lease

Previously, the Group determined, at contract inception, whether an arrangement is or contains a lease under International Financial Reporting Interpretations Committee (“IFRIC”) 4: Determining Whether an Arrangement Contains a Lease. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases and applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019 (note 1.10 *Leases*).

The Group primarily leases commercial properties for use as office premises and branches as well as acts as a lessee in residential properties provided to eligible employees. As a lessee, the Group previously classified leases as operating leases. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.



# KINA SECURITIES LIMITED

## 1. Summary of significant accounting policies (continued)

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

The Group decided to apply recognition exemptions to short-term leases in respect of lease of residential apartments for employees. For these leases, the Group recognises the lease payments in the statement of comprehensive income on a straight-line basis over the lease term.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

#### *Impact on financial statements*

On transition to IFRS 16, the Group recognised an additional K21.232m of right-of-use assets and K21.957m of lease liabilities, recognising the difference of K0.725m in retained earnings.

The Parent recognised an additional K8.590m of right of use assets and K9.004m of lease liabilities recognising the difference of K0.414m in retained earnings.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8%. A change in the IBR rate of 10% to 8% was effected to reflect the average lending rate of banks in Papua New Guinea.

	<b>Consolidated 1 January 2019 K'000</b>	<b>Parent 1 January 2019 K'000</b>
Operating lease commitments at 31 December 2018 as disclosed in the Group's consolidated financial statements	40,698	19,625
Discounted using the incremental borrowing rate at 1 January 2019	(7,477)	(2,684)
Recognition exemptions for:	-	-
- Short-term leases	(11,264)	(7,937)
- Lease of low value assets	-	-
Extensions and termination options reasonably certain to be exercised	-	-
Variable lease payments based on an index or rate	-	-
Residual value guarantees	-	-
<b>Lease liabilities recognised on 1 January 2019</b>	<b>21,957</b>	<b>9,004</b>

# KINA SECURITIES LIMITED

---

## 1. Summary of significant accounting policies (continued)

### 1.4 New and revised IFRS standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following revised IFRS standards that have been issued but are not yet effective:

IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 1 and IAS 8	<i>Definition of material</i>
<i>Conceptual Framework</i>	Amendments to References to the Conceptual Framework in IFRS Standards

The directors do not expect that the adoption of the Standards listed above will have material impact on the financial statements of the Group in the future period.

### 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 returns 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 even if this results in the NCI having a deficit balance.

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

## 1. Summary of significant accounting policies (continued)

### 1.6 Segment reporting

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

### 1.7 Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Kina, which is the Company's and the Group's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

### 1.8 Interest income and interest expense

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

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

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

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

### 1.9 Fee and commission income

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

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

## 1. Summary of significant accounting policies (continued)

### 1.9 Fee and commission income (continued)

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

### 1.10 Leases

#### *Policy applicable before 01 January 2019*

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.

#### *Policy applicable from 01 January 2019*

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. 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. A right-of-use asset and a corresponding lease liability is recognised with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - o the Group has the right to operate the asset; or
  - o the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

## 1. Summary of significant accounting policies (continued)

### 1.10 Leases (continued)

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, at the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments, less any lease incentive receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- the amount expected to be payable under a residual value guarantee, if any; and
- the exercise price, if any, under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets.

The Group has elected not to recognise right-of-use assets and lease liabilities for all short-term leases that have a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an 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.

## 1. Summary of significant accounting policies (continued)

### 1.11 Taxation (continued)

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

## 1. Summary of significant accounting policies (continued)

### 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 statement of financial position 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 fair value through profit and loss (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 de-recognised 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 fair value through other comprehensive income (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.

## 1. Summary of significant accounting policies (continued)

### 1.14 Financial instruments (continued)

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 de-recognition 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.



## 1. Summary of significant accounting policies (continued)

### 1.14 Financial instruments (continued)

#### 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;
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses; or
- the facility is overdue by more than specified number of days.

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

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

#### Definition of default

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

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

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

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. For some loan arrangements, the Group has determined based on reasonable and supportable information that 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.

## 1. Summary of significant accounting policies (continued)

### 1.14 Financial instruments (continued)

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 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 de-recognition 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.

## 1. Summary of significant accounting policies (continued)

### 1.14 Financial instruments (continued)

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.

#### Derecognition of financial liabilities

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

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

#### Financial guarantee contracts

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

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

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

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

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

### 1.15 Property, plant and equipment

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

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

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

## 1. Summary of significant accounting policies (continued)

### 1.16 Intangible assets and other non-financial assets

#### Goodwill

Goodwill is measured as described in note 37. Goodwill having an indefinite useful life 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.

#### Other non-financial assets

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.

#### Customer deposits relationship / intangible

A customer deposit relationship asset was recognized with the acquisition of Maybank (PNG) Limited in 2015. Also, the acquisition of Australian and New Zealand (ANZ) Bank's retail, commercial and SME banking businesses in PNG on 23 September 2019 gives rise to the recognition of core customer deposit intangible (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 three years on the Maybank and ANZ acquisition respectively, 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.

#### 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. Summary of significant accounting policies (continued)

### 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 27(b)).

## 1. Summary of significant accounting policies (continued)

### 1.20 Earnings per share (continued)

#### 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 30.

## 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 37
- Estimated useful life of intangible asset – note 20
- Estimation of fair values of assets acquired and liabilities assumed in a business combination – note 31
- Estimation of the fair value of performance right grants and the number of grants expected to vest – note 27(c).

## 3. Financial risk management

By its nature the Group's activities are principally related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above-average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due. The Group raises its interest margins by obtaining above-average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing.

The Group also enters into transactions denominated in foreign currencies. This activity generally requires the Group to take foreign currency positions in order to exploit short-term movements in foreign currency market. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Risk in the Group is managed by a system of delegated limits. These limits set the maximum level of risks that can be assumed by each operational unit and the Group as a whole. The limits are delegated from the Board of Directors to executive management and then to the respective operational managers.

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### a) Market risk

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.

#### Exposure

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

K'000	USD	AUD	SGD	GBP	EUR	NZD	JPY	PHP	MYR	INR	FJD
<b>31 December 2019</b>											
Cash balance	707	473	61	44	239	583	214	67	-	-	20
Due from other banks	98,789	(962)	(200)	508	1,907	292	221	288	83	19	587
	<b>99,496</b>	<b>(489)</b>	<b>(139)</b>	<b>552</b>	<b>2,146</b>	<b>875</b>	<b>435</b>	<b>355</b>	<b>83</b>	<b>19</b>	<b>607</b>
<b>31 December 2018</b>											
Cash balance	48	2	3	-	-	-	-	-	-	-	-
Due from other banks	57,598	1,240	-	396	(58)	685	3	(64)	3	-	-
	<b>57,646</b>	<b>1,242</b>	<b>3</b>	<b>396</b>	<b>(58)</b>	<b>685</b>	<b>3</b>	<b>(64)</b>	<b>3</b>	<b>-</b>	<b>-</b>

There was no material liabilities denominated in foreign currency.

#### Sensitivity

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

	Impact on statement of comprehensive income in	
	K'000	K'000
	2019	2018
USD/PGK – exchange rate – increase 10% (2018:10%)	(8,981)	(5,236)
USD/PGK – exchange rate – decrease 10% (2018: 10%)	10,977	6,400

#### (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.

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### a) Market risk (continued)

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:

<b>Year ended 31 December 2019</b>		
	<b>Carrying amount</b>	<b>Average Interest rate</b>
		<b>(% p.a.)</b>
<b>Assets</b>	<b>K '000</b>	
Cash and due from banks	269,702	0.19%
Central bank bills	722,090	5.74%
Loans and advances to customers	1,401,433	9.64%
Investments in government inscribed stocks	34,003	7.51%
<b>Liability</b>		
Due to customers	2,460,967	1.25%
<b>Year ended 31 December 2018</b>		
	<b>Carrying amount</b>	<b>Average Interest rate</b>
		<b>(% p.a.)</b>
<b>Assets</b>	<b>K '000</b>	
Cash and due from banks	85,638	0.23%
Central bank bills	396,154	4.91%
Loans and advances to customers	851,663	11.32%
Investments in government inscribed stocks	34,195	11.94%
<b>Liability</b>		
Due to customers	1,315,460	2.19%

#### *Sensitivity*

Given the profile of assets and liabilities at 31 December 2019 and prevailing interest rates, a 100 basis points increase/decrease in market rates in relation to lending will result in a maximum possibility of K14,014,354 (2018: K8,516,636) decrease/increase in net interest income at a Group level.

### (ii) *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 (PNGX) 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 2019 and net assets as of balance date would have been affected by K381,777 (2018: K237,128). The Group's sensitivity to equity prices has changed relative to asset balance from the prior year.



### 3. Financial risk management (continued)

#### a) Market risk (continued)

	Impact on statement of comprehensive income in K '000	
	2019	2018
Equity prices – increase 5% (2018:5%)	382	237
Equity prices – decrease 5% (2018: 5%)	(382)	(237)

#### 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.

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

#### 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.

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

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.

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

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

The Group defines stage of default as follows:

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

#### Groupings based on shared risks characteristics

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

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

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 33
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.

	Consolidated	
	31 December 2019	31 December 2018
<b>Cash and due from banks at amortised cost</b>	<b>K'000</b>	<b>K'000</b>
<b>Concentration by sector</b>		
Cash on hand	82,413	4,993
With central bank (exchange settlement account)	58,314	5,820
With other banks	128,975	74,825
<b>Total</b>	<b>269,702</b>	<b>85,638</b>
<b>Concentration by region</b>		
Papua New Guinea	167,363	23,628
Offshore*	102,339	62,010
<b>Total</b>	<b>269,702</b>	<b>85,638</b>

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

	Consolidated	
	31 December 2019	31 December 2018
<b>Treasury and central bank bills at amortised cost</b>	<b>K'000</b>	<b>K'000</b>
<b>Concentration by sector</b>		
With central banks	722,090	396,154
<b>Total</b>	<b>722,090</b>	<b>396,154</b>
<b>Concentration by region</b>		
Papua New Guinea	722,090	396,154
<b>Total</b>	<b>722,090</b>	<b>396,154</b>

## KINA SECURITIES LIMITED

### 3. Financial risk management (continued)

#### b) Credit risk (Continued)

	Consolidated	
	31 December 2019	31 December 2018
	K'000	K'000
<b>Regulatory deposits at amortised cost</b>		
<b>Concentration by sector</b>		
With central banks	249,713	137,494
<b>Total</b>	<b>249,713</b>	<b>137,494</b>
<b>Concentration by region</b>		
Papua New Guinea	249,713	137,494
<b>Total</b>	<b>249,713</b>	<b>137,494</b>

	Consolidated	
	31 December 2019	31 December 2018
	K'000	K'000
<b>Loans and advances to customers at amortised cost</b>		
<b>Concentration by sector</b>		
Individuals:		
Mortgages	507,593	160,761
Unsecured lending	114,288	47,726
Corporate entities:		
Agriculture, Forestry & Fishing	7,085	11,810
Mining	19,078	4,090
Manufacturing	14,878	3,825
Electrical, Gas & Water	1,160	690
Building and Construction	86,664	72,699
Wholesale & Retail	198,747	154,781
Hotel & Restaurants	91,905	84,033
Transport & Storage	8,897	5,035
Financial Intermediation	592	14,704
Real Estate/Renting/Business Services	271,028	248,630
Equipment Hire	10,811	1,425
Other Business	30,602	21,759
Personal Banking	58,630	38,146
<b>Total</b>	<b>1,421,958</b>	<b>870,114</b>
<b>Concentration by region</b>		
Papua New Guinea	1,421,958	870,114
<b>Total</b>	<b>1,421,958</b>	<b>870,114</b>

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

	Consolidated	
	31 December 2019	31 December 2018
	K'000	K'000
<b>Investments in government inscribed stocks at amortised cost</b>		
<b>Concentration by sector</b>		
Sovereign	34,492	34,995
<b>Total</b>	<b>34,492</b>	<b>34,995</b>
<b>Concentration by region</b>		
Papua New Guinea	34,492	34,995
<b>Total</b>	<b>34,492</b>	<b>34,995</b>

	Consolidated	
	31 December 2019	31 December 2018
	K'000	K'000
<b>Bank guarantees</b>		
<b>Concentration by sector</b>		
Corporate entities:		
Agriculture, Forestry & Fishing	25,306	24,775
Mining	400	-
Wholesale & Retail	9,402	14,098
Hotels and Restaurants	400	-
Building and Construction	2,059	2,926
Transport & Storage	7,987	2,193
Electrical, Gas & Water	1,170	190
Manufacturing	-	100
Other Business	23,651	1,651
<b>Total</b>	<b>70,375</b>	<b>45,933</b>
<b>Concentration by region</b>		
Papua New Guinea	70,375	45,933
<b>Total</b>	<b>70,375</b>	<b>45,933</b>

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.

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

	Consolidated			
	31 December 2019			
	Stage 1	Stage 2	Stage 3	
Cash and due from banks at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	269,702	-	-	269,702
<b>Total gross carrying amount</b>	<b>269,702</b>	<b>-</b>	<b>-</b>	<b>269,702</b>
Loss allowance	-	-	-	-
<b>Net carrying amount</b>	<b>269,702</b>	<b>-</b>	<b>-</b>	<b>269,702</b>

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

	Consolidated			
	31 December 2019			
	Stage 1	Stage 2	Stage 3	
Treasury and central bank bills at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	722,090	-	-	722,090
<b>Total gross carrying amount</b>	<b>722,090</b>	<b>-</b>	<b>-</b>	<b>722,090</b>
Loss allowance	-	-	-	-
<b>Net carrying amount</b>	<b>722,090</b>	<b>-</b>	<b>-</b>	<b>722,090</b>

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

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

Consolidated 31 December 2019				
	Stage 1	Stage 2	Stage 3	Total
Regulatory deposits at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL	
	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	249,713	-	-	249,713
<b>Total gross carrying amount</b>	<b>249,713</b>	<b>-</b>	<b>-</b>	<b>249,713</b>
Loss allowance	-	-	-	-
<b>Net carrying amount</b>	<b>249,713</b>	<b>-</b>	<b>-</b>	<b>249,713</b>

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



## KINA SECURITIES LIMITED

### 3. Financial risk management (continued)

#### b) Credit risk (Continued)

Loans and advances to customers at amortised cost	Consolidated				
	31 December 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
K'000	K'000	K'000	K'000	K'000	
Grade C-D: Moderate and acceptable risk	1,293,933	47,121	57	-	1,341,111
Grade E: Watchlist/ special mention	23,580	7,220	-	-	30,800
Grades F: Substandard	5,854	17,098	857	-	23,809
Grade G: Doubtful	1,371	2,379	569	-	4,319
Grade H: Loss	-	-	6,411	15,508	21,919
Not graded	-	-	-	-	-
<b>Total gross carrying amount</b>	<b>1,324,738</b>	<b>73,818</b>	<b>7,894</b>	<b>15,508</b>	<b>1,421,958</b>
Loss allowance	(12,102)	(6,699)	(1,724)	-	(20,525)
<b>Carrying amount</b>	<b>1,312,636</b>	<b>67,119</b>	<b>6,170</b>	<b>15,508</b>	<b>1,401,433</b>

There is no loss allowance on POCI assets as this is balance acquired from ANZ which has been fair valued accordingly.

Loans and advances to customers at amortised cost	Consolidated				
	31 December 2018				
	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
K'000	K'000	K'000	K'000	K'000	
Grade C-D: Moderate and acceptable risk	801,515	5,143	-	-	806,658
Grade E: Watchlist/ special mention	27,804	9,919	-	-	37,723
Grades F: Substandard	1,099	7,574	545	-	9,218
Grade G: Doubtful	92	2,993	1,410	-	4,495
Grade H: Loss	106	577	1,451	-	2,134
Not graded	5,432	2,207	2,247	-	9,886
<b>Total gross carrying amount</b>	<b>836,048</b>	<b>28,413</b>	<b>5,653</b>	<b>-</b>	<b>870,114</b>
Loss allowance	(11,010)	(6,053)	(1,388)	-	(18,451)
<b>Carrying amount</b>	<b>825,038</b>	<b>22,360</b>	<b>4,265</b>	<b>-</b>	<b>851,663</b>

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

	Consolidated			Total
	31 December 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Investments in government inscribed stocks at amortised cost</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Grades A-B: Low to fair risk	34,492	-	-	34,492
<b>Total gross carrying amount</b>	<b>34,492</b>	<b>-</b>	<b>-</b>	<b>34,492</b>
Loss allowance	(489)	-	-	(489)
<b>Net carrying amount</b>	<b>34,003</b>	<b>-</b>	<b>-</b>	<b>34,003</b>

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

	Consolidated			Total
	31 December 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Bank guarantees</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Grades A-B: Low to fair risk	70,375	-	-	70,375
<b>Maximum exposure to credit risk</b>	<b>70,375</b>	<b>-</b>	<b>-</b>	<b>70,375</b>
Loss allowance	-	-	-	-
<b>Net amount</b>	<b>70,375</b>	<b>-</b>	<b>-</b>	<b>70,375</b>

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

	Consolidated			
	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Bank guarantees	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	45,933	-	-	45,933
<b>Maximum exposure to credit risk</b>	<b>45,933</b>	<b>-</b>	<b>-</b>	<b>45,933</b>
Loss allowance	-	-	-	-
<b>Net amount</b>	<b>45,933</b>	<b>-</b>	<b>-</b>	<b>45,933</b>

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

	Consolidated	
	31 December 2019	31 December 2018
Loss allowance by classes	K'000	K'000
Loans and advances to customers at amortised cost	20,525	18,451
Investments in government inscribed stocks at amortised cost	489	800
Other financial assets	4,038	4,038
<b>Total</b>	<b>25,052</b>	<b>23,289</b>

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:

	Consolidated				
	Balance at 01 January 2019	Additional ECL recognised	Write-offs	Bad debt Recoveries	Balance at 31 December 2019
Loss allowance by classes	K'000	K'000	K'000	K'000	K'000
Loans and advances to customers at amortised cost	18,451	5,957	(5,959)	2,076	20,525
Investments in government inscribed stocks at amortised cost	800	(311)	-	-	489
Other financial assets	4,038	-	-	-	4,038
<b>Total</b>	<b>23,289</b>	<b>5,646</b>	<b>(5,959)</b>	<b>2,076</b>	<b>25,052</b>

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

	Consolidated				
	Balance at 01 January 2018	Additional ECL recognised	Write-offs	Bad debt Recoveries	Balance at 31 December 2018
<b>Loss allowance by classes</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Loans and advances to customers at amortised cost	17,529	5,514	(6,318)	1,726	18,451
Investments in government inscribed stocks at amortised cost	1,257	(457)	-	-	800
Other financial assets	4,052	13	(27)	-	4,038
<b>Total</b>	<b>22,838</b>	<b>5,070</b>	<b>(6,345)</b>	<b>1,726</b>	<b>23,289</b>

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

Loss allowance – Loans and advances to customers at amortised cost	Consolidated				
	31 December 2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	K'000	K'000	K'000	K'000	K'000
<b>Loss allowance as at 01 January</b>	11,010	6,053	1,388	-	18,451
Changes in the loss allowance					
- Transfer to stage 1	86	(86)	-	-	-
- Transfer to stage 2	(477)	477	-	-	-
- Transfer to stage 3	(5)	(106)	111	-	-
- Write-offs	-	(2,599)	(1,282)	-	(3,881)
New financial assets originated or purchased	6,363	5,115	6,582	-	18,060
Financial assets that have been derecognised	(4,875)	(2,156)	(5,074)	-	(12,105)
<b>Loss allowance as at 31 December</b>	<b>12,102</b>	<b>6,698</b>	<b>1,725</b>	<b>-</b>	<b>20,525</b>

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

Loss allowance – Loans and advances to customers at amortised cost	31 December 2018				
	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	K'000	K'000	K'000	K'000	K'000
<b>Loss allowance as at 01 January</b>	9,361	4,393	3,775	-	17,529
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)
New financial assets originated or purchased	5,303	4,233	3,866	-	13,402
Financial assets that have been derecognised	(1,567)	(4,818)	(1,502)	-	(7,887)
<b>Loss allowance as at 31 December</b>	<b>11,010</b>	<b>6,053</b>	<b>1,388</b>	<b>-</b>	<b>18,451</b>

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:

Loans and advances to customers at amortised cost	Consolidated				
	31 December 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
12-month ECL	Lifetime ECL	Lifetime ECL			
	K'000	K'000	K'000	K'000	K'000
<b>Gross carrying amount as at 01 January</b>	836,048	28,413	5,653	-	870,114
Changes in the gross carrying amount					
- Transfer to stage 1	6,654	(6,654)	-	-	-
- Transfer to stage 2	(35,188)	35,188	-	-	-
- Transfer to stage 3	(1,014)	(944)	1,958	-	-
New financial assets originated or purchased	799,200	30,677	6,220	15,508	851,605
Financial assets that have been derecognised	(280,962)	(10,263)	(4,653)	-	(295,878)
Write-offs	-	(2,599)	(1,284)	-	(3,883)
<b>Gross carrying amount as at 31 December</b>	<b>1,324,738</b>	<b>73,818</b>	<b>7,894</b>	<b>15,508</b>	<b>1,421,958</b>

## KINA SECURITIES LIMITED

### 3. Financial risk management (continued)

#### b) Credit risk (Continued)

Loans and advances to customers at amortised cost	31 December 2018			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
	K'000	K'000	K'000	K'000
<b>Gross carrying amount as at 01 January</b>	684,700	44,979	15,915	745,594
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
Financial assets that have been derecognized	(312,450)	(7,607)	(3,556)	(323,613)
Write-offs	-	(3,734)	(858)	(4,592)
<b>Gross carrying amount as at 31 December</b>	<b>836,048</b>	<b>28,413</b>	<b>5,653</b>	<b>870,114</b>

#### 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**.

Loans and advances to customers	Consolidated			
	Year ended 2019		Year ended 2018	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
	K'000	K'000	K'000	K'000
0-29 days	1,307,764	14,378	841,772	12,933
30-59 days	22,082	330	8,939	438
60-89 days	8,763	28	1,285	12
90-180 days	47,012	4,582	6,416	1,209
More than 181 days	36,337	1,207	11,702	3,859
<b>Total</b>	<b>1,421,958</b>	<b>20,525</b>	<b>870,114</b>	<b>18,451</b>

#### 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.

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### b) Credit risk (Continued)

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

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

#### *Mortgage lending*

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

	Consolidated	
	Year ended 2019	Year ended 2018
	Gross carrying amount	Gross carrying Amount
	K'000	K'000
<b>Mortgage lending</b>		
<b>LTDV ratio</b>		
Less than 50%	51,636	10,126
51-75%	40,964	6,400
75-90%	14,186	7,316
90-100%	114,106	92,087
More than 100%	99,350	2,221
Fully cash covered	416	391
<b>Total</b>	<b>320,658</b>	<b>118,541</b>

## KINA SECURITIES LIMITED

### 3. Financial risk management (continued)

#### b) Credit risk (Continued)

	Consolidated	
	Year ended 2019	Year ended 2018
	Gross carrying amount	Gross carrying amount
	K'000	K'000
<b>Credit impaired – Mortgage lending</b>		
<b>LTDV ratio</b>		
Less than 50%	1,515	1,550
51-75%	1,129	1,594
75-90%	-	107
90-100%	1,410	465
More than 100%	5,667	403
<b>Total</b>	<b>9,721</b>	<b>4,119</b>

#### *Personal lending*

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

	Consolidated	
	Year ended 2019	Year ended 2018
	K'000	K'000
Secured	564,905	165,288
Unsecured	56,976	43,199
<b>Total</b>	<b>621,881</b>	<b>208,487</b>

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 2019, 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



## 3. Financial risk management (continued)

### b) Credit risk (Continued)

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 K34,003,163 (2018: K34,195,126) which are collateralized by sovereign guarantee.

#### *Lease receivables*

The Group has lease receivables at a carrying amount of Knil (2018: K12,720,823) 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 K351m (31 December 2018: K351m). Details of the intercompany lending are disclosed in note 29 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.

#### *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.

# KINA SECURITIES LIMITED

## 3. Financial risk management (continued)

### c) Liquidity risk (Continued)

	Consolidated					Total contract value K'000	Total carrying value K'000
	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		
<b>31 December 2019</b>							
Cash and due from banks	269,702	-	-	-	-	269,702	269,702
Central bank bills	-	5,000	750,000	-	-	755,000	722,090
Regulatory deposits	249,713	-	-	-	-	249,713	249,713
<b>Total financial assets</b>	<b>519,415</b>	<b>5,000</b>	<b>750,000</b>	<b>-</b>	<b>-</b>	<b>1,274,415</b>	<b>1,241,505</b>
Due to other banks	22	-	-	-	-	22	22
Due to customers	2,072,939	173,791	170,667	72,891	-	2,490,288	2,460,967
Other liabilities	126,735	-	-	-	-	126,735	126,735
<b>Total financial liabilities</b>	<b>2,199,696</b>	<b>173,791</b>	<b>170,667</b>	<b>72,891</b>	<b>-</b>	<b>2,617,045</b>	<b>2,587,724</b>
Issued financial guarantee contracts	1,502	2,498	35,710	30,665	-	70,375	N/A
Issued loan commitments	31,417	100,384	-	-	-	131,801	N/A
<b>Total</b>	<b>32,919</b>	<b>102,882</b>	<b>35,710</b>	<b>30,665</b>	<b>-</b>	<b>202,176</b>	<b>N/A</b>
<b>31 December 2018</b>							
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
<b>Total financial assets</b>	<b>303,132</b>	<b>38,000</b>	<b>295,000</b>	<b>-</b>	<b>-</b>	<b>636,132</b>	<b>619,286</b>
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
<b>Total financial liabilities</b>	<b>807,541</b>	<b>262,715</b>	<b>302,080</b>	<b>4,721</b>	<b>-</b>	<b>1,377,058</b>	<b>1,362,497</b>
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
<b>Total</b>	<b>48,923</b>	<b>24,349</b>	<b>28,202</b>	<b>7,713</b>	<b>1,699</b>	<b>110,885</b>	<b>N/A</b>

## KINA SECURITIES LIMITED

### 3. Financial risk management (continued)

#### c) Liquidity risk (Continued)

	Parent						Total contract value	Total carrying value
	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years			
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	
<b>31 December 2019</b>								
Cash and due from banks	43,837	-	-	-	-	43,837	43,837	
Due from subsidiaries	351,096	-	-	-	-	351,096	351,096	
<b>Total financial assets</b>	<b>394,933</b>	-	-	-	-	<b>394,933</b>	<b>394,933</b>	
Other liabilities	9,038	-	-	-	-	9,038	9,038	
Due to subsidiaries	167,212	-	-	-	-	167,212	167,212	
<b>Total financial liabilities</b>	<b>176,250</b>	-	-	-	-	<b>176,250</b>	<b>176,250</b>	
<b>31 December 2018</b>								
Cash and due from banks	12,885	-	-	-	-	12,885	12,885	
Due from subsidiaries	358,583	-	-	-	-	358,583	358,583	
<b>Total financial assets</b>	<b>371,468</b>	-	-	-	-	<b>371,468</b>	<b>371,468</b>	
Other liabilities	8,964	-	-	-	-	8,964	8,964	
Due to subsidiaries	174,364	-	-	-	-	174,364	174,364	
<b>Total financial liabilities</b>	<b>183,328</b>	-	-	-	-	<b>183,328</b>	<b>183,328</b>	

The liquidity gap in 'up to 1-month bucket' is due to assumption that current and saving deposits amounting to K1,919m (31 December 2018: 662m) 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%.

# KINA SECURITIES LIMITED

## 4. Capital adequacy (continued)

As at 31 December 2019 and 2018, KBL's capital ratios were in compliance with the BPNG Minimum capital adequacy requirements as follows:

	2019 K '000	2018 K '000
<b>Risk weighted assets</b>	<b>1,598,159</b>	979,611
Capital : tier 1	<b>252,596</b>	233,390
Capital : tier 2	<b>70,932</b>	49,750
<b>Capital : tier 1 and tier 2</b>	<b>323,528</b>	283,140
<b>Capital adequacy ratios</b>		
Tier 1 capital	<b>15.8%</b>	23.8%
Total capital ratio	<b>20.1%</b>	28.9%
Leverage capital ratio	<b>8.5%</b>	13.9%

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

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

## 5. Net interest income/ (expense)

	Consolidated		Parent	
	2019 K '000	2018 K '000	2019 K '000	2018 K '000
<b>Interest income</b>				
Cash and short-term funds	<b>33,570</b>	15,041	<b>31</b>	42
Investment in government inscribed stocks	<b>2,560</b>	7,240	-	-
Loans and advances to customers	<b>110,352</b>	90,527	-	-
	<b>146,482</b>	112,808	<b>31</b>	42
<b>Interest expense</b>				
Banks and customers	<b>(29,318)</b>	(25,232)	-	-
Lease Liability	<b>(2,583)</b>	-	<b>(803)</b>	-
Due to subsidiaries (note 29)	-	-	<b>(2,689)</b>	(3,829)
	<b>(31,901)</b>	(25,232)	<b>(3,492)</b>	(3,829)
<b>Net interest income/(expense)</b>	<b>114,581</b>	87,576	<b>(3,461)</b>	(3,787)

# KINA SECURITIES LIMITED

## 6. Net fee and commission income

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
<b>Fees and commission income</b>				
Investment and portfolio management	10,121	8,827	-	-
Fund administration	18,261	16,180	-	-
Shares brokerage	879	865	879	865
Loans fees and bank commissions	13,591	8,412	-	-
Other fees (net of expense)	5,026	2,117	-	-
	<b>47,878</b>	36,401	<b>879</b>	865
Fee and commission expenses	(93)	(50)	(82)	(35)
<b>Net fee and commission income</b>	<b>47,785</b>	36,351	<b>797</b>	830

## 7. Dividend income

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
<i>Dividend income from investments</i>				
Financial assets at fair value through profit or loss	357	327	4	12
Investment in subsidiaries	-	-	40,000	-
	<b>357</b>	327	<b>40,004</b>	12

## 8. Other income

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Profits from disposal of property and equipment	53	1,218	56	-
Realised gains/losses	178	472	178	472
Support fees from subsidiaries (note 29)	-	-	38,860	31,250
Office space recharge (note 29)	-	-	2,895	2,498
Management fees (note 29)	-	-	7,772	6,162
Other	503	1,399	158	15
	<b>734</b>	3,089	<b>49,919</b>	40,397

# KINA SECURITIES LIMITED

## 9. Other operating expenses

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Staff costs	<b>58,443</b>	44,821	<b>27,729</b>	19,402
Acquisition costs relating to business combination	<b>191</b>	345	<b>16</b>	-
Administrative expenses	<b>25,446</b>	18,152	<b>6,323</b>	4,633
Depreciation and amortization	<b>17,034</b>	6,758	<b>5,825</b>	2,498
Operating lease	<b>2,444</b>	5,785	<b>49</b>	2,263
Software maintenance and support charges	<b>1,687</b>	2,028	<b>285</b>	222
Auditor's remuneration (note 36)	<b>1,017</b>	765	<b>377</b>	221
Other	<b>10,965</b>	8,723	<b>5,071</b>	4,001
	<b>117,227</b>	87,377	<b>45,675</b>	33,240

Break-up of staff costs:

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Salaries, wages and other benefits	<b>52,795</b>	41,473	<b>23,517</b>	16,854
Superannuation costs	<b>2,765</b>	1,368	<b>1,329</b>	568
Cost of employee share based incentive plan	<b>2,883</b>	1,980	<b>2,883</b>	1,980
Total staff costs	<b>58,443</b>	44,821	<b>27,729</b>	19,402

As at 31 December 2019 the Group had 740 (2018: 366) employees and 5 (2018: 4) consultants. The Company had 228 (2018:125) employees and 2 (2018: 2) consultants.

## 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	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Profit before tax	<b>82,693</b>	69,203	<b>41,488</b>	3,954
Prima facie tax at 30% (2018: 30%)	<b>24,808</b>	20,761	<b>12,446</b>	1,186
Tax effect of:				
Permanent differences	<b>63</b>	61	<b>(12,044)</b>	13
Prior year adjustment	<b>(3,049)</b>	288	<b>(1,347)</b>	(148)
Income tax expense	<b>21,822</b>	21,110	<b>(945)</b>	1,051
Represented by:				
Current tax	<b>25,120</b>	18,443	<b>1,298</b>	784
Deferred taxes	<b>(3,298)</b>	2,667	<b>(2,243)</b>	267
Income tax expense	<b>21,822</b>	21,110	<b>(945)</b>	1,051

# KINA SECURITIES LIMITED

## 11. Deferred taxes

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

	Consolidated		Parent	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Allowance for losses	12,127	5,862	30	60
Employee benefit provision	2,720	1,707	1,327	625
Lease liability	16,488	-	2,819	-
	<b>31,335</b>	7,569	<b>4,176</b>	685
Depreciation and amortisation	(20,302)	(579)	(1,192)	82
Others	(542)	203	242	20
	<b>(20,844)</b>	(376)	<b>(950)</b>	102
Net deferred tax asset	<b>10,491</b>	7,193	<b>3,226</b>	787

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

	Consolidated		Parent	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Balance at beginning of year	7,193	4,526	787	520
Statement of comprehensive income credit/(charge)	3,298	2,667	2,439	267
Balance at end of year	<b>10,491</b>	7,193	<b>3,226</b>	787
Represented by:				
Deferred tax assets (note 11(a))	31,335	7,569	4,176	685
Deferred tax liabilities (note 11(a))	(20,844)	(376)	(950)	102
	<b>10,491</b>	7,193	<b>3,226</b>	787

## 12. Cash and due from banks

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Cash on hand	82,413	4,993	3	3
Exchange settlement accounts	58,314	5,820	-	-
Due from other banks	128,975	74,825	43,834	12,882
	<b>269,702</b>	85,638	<b>43,837</b>	12,885

## 13. Central bank bills

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Central bank and treasury bills				
Less than 90 days	-	75,000	-	-
Over 90 days	755,000	338,000	-	-
Unearned discount	(32,910)	(16,846)	-	-
	<b>722,090</b>	396,154	-	-

Central bank bills are debt securities issued by the Bank of Papua New Guinea (BPNG). Central bank bills amounting to K nil (2018: K75,000,000) with a maturity term of one to three months from the date of purchase are classified as cash and cash equivalents (note 28). Central bank bills are measured at amortized cost.

# KINA SECURITIES LIMITED

## 14. Regulatory deposits

Regulatory deposit of the Group as at 31 December 2019 amounted to K249,712,700 (2018: K137,494,400). This represents mandatory balance required to be maintained in a non-interest bearing account with the Central Bank - Bank of Papua New Guinea. Regulatory deposits are measured at amortized cost. Regulatory deposit of the parent as at 31 December 2019 amounted to K nil (2018: K nil).

## 15. Financial assets at fair value through profit or loss

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Equity securities				
- Listed	4,834	4,681	174	182
- Unlisted	2,636	61	-	-
Convertible notes	165	165	165	165
	<b>7,635</b>	<b>4,907</b>	<b>339</b>	<b>347</b>

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

	Consolidated		Parent	
	2019	2018	2019	2018
	K'000	K '000	K '000	K '000
Balance at beginning of year	4,907	4,636	347	157
Gains/(losses) from changes in fair value	153	106	(8)	25
Additions	2,575	165	-	165
Disposals	-	-	-	-
Gains on disposal	-	-	-	-
Balance at end of year	<b>7,635</b>	<b>4,907</b>	<b>339</b>	<b>347</b>

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	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Loans to individuals	621,881	208,487	-	-
Loans to corporate entities	800,077	661,627	-	7
Gross loans and advances to customers	1,421,958	870,114	-	7
Expected credit losses	(20,525)	(18,451)	-	-
	<b>1,401,433</b>	<b>851,663</b>	<b>-</b>	<b>7</b>

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

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Overdrafts	68,273	60,719	-	-
Property mortgage	320,658	118,541	-	-
Asset financing	20,056	22,475	-	-
Insurance premium funding	2,289	2,515	-	-
Business and other loans	1,010,682	665,864	-	7
	<b>1,421,958</b>	<b>870,114</b>	<b>-</b>	<b>7</b>



# KINA SECURITIES LIMITED

## 16. Loans and advances to customers (Continued)

Movements in expected credit losses are as follows:

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Balance at beginning of year	18,451	13,329	-	-
IFRS 9 transition impact on the opening balance	-	4,200	-	-
Impairment losses during the year	5,957	5,514	-	-
Loans written off	(5,959)	(6,318)	-	-
Bad debt recoveries	2,076	1,726	-	-
Balance at end of year	20,525	18,451	-	-

## 17. Investments in government inscribed stocks

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Government inscribed stocks principal balance	33,000	33,000	-	-
Unamortised premium	437	573	-	-
Unamortised discount	(8)	(74)	-	-
Accrued interest	1,063	1,496	-	-
Gross investments in government inscribed stocks	34,492	34,995	-	-
Expected credit losses	(489)	(800)	-	-
	34,003	34,195	-	-

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

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Balance at beginning of year	34,195	79,878	-	-
Additions / (maturities)	-	(45,000)	-	-
Accrued interest	(433)	(91)	-	-
Amortized discount/(premium)	(70)	208	-	-
IFRS 9 transition impact on the opening balance	-	(1,257)	-	-
Write back / (addition) of expected credit losses	311	457	-	-
	34,003	34,195	-	-

Investments in government inscribed stocks are measured at amortized cost. Included within the balance is an amount of K nil (31 December 2018: K25,000,000) which has been pledged with a third party against repurchase agreement transaction.

## KINA SECURITIES LIMITED

### 18. Investments in subsidiaries

	Shareholdings**			
	2019	2018	2019	2018
	%	%	Amount (K)	Amount (K)
Kina Funds Management Limited (KFM)	100	100	2	2
Kina Investment and Superannuation Services Limited (KISS)	100	100	2	2
Kina Ventures Limited (KVL)*	100	100	2	2
Kina Wealth Management Limited (KWML)	100	100	2	2
Kina Nominees Limited (KNL)***	100	100	500,002	500,002
<b>Total Investment at cost</b>			<b>500,010</b>	<b>500,010</b>
Provision for impairment			(251,677)	(251,677)
<b>Balance as at 31 December</b>			<b>248,333</b>	<b>248,333</b>
*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 2019 (2018: nil).

# KINA SECURITIES LIMITED

## 19. Property, plant and equipment

Consolidated	Furniture & Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Right-of-use assets	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
<b>Cost</b>								
Balance 31 December 2017	1,123	9,854	3,515	15,721	11,746	1,070	-	43,029
Additions	115	191	819	868	-	1,360	-	3,353
Transfer in (out)	-	-	-	110	-	(110)	-	-
Disposals	-	(2,711)	(160)	-	(9,617)	-	-	(12,488)
<b>Balance 31 December 2018</b>	<b>1,238</b>	<b>7,334</b>	<b>4,174</b>	<b>16,699</b>	<b>2,129</b>	<b>2,320</b>	<b>-</b>	<b>33,894</b>
IFRS 16 transition impact on the opening balance								
	-	-	-	-	-	-	24,381	24,381
Additions	3,620	10,524	1,949	21,420	-	-	38,418	75,931
Transfer in (out)	-	2,246	-	74	-	(2,320)	-	-
Disposals	(48)	(2,419)	(338)	(214)	-	-	-	(3,019)
<b>Balance 31 December 2019</b>	<b>4,810</b>	<b>17,685</b>	<b>5,785</b>	<b>37,979</b>	<b>2,129</b>	<b>-</b>	<b>62,799</b>	<b>131,187</b>
<b>Accumulated depreciation</b>								
Balance 31 December 2017	(876)	(4,552)	(2,822)	(11,451)	(218)	-	-	(19,919)
Charge for the year	(137)	(934)	(508)	(2,004)	(54)	-	-	(3,637)
Disposals	-	1,338	160	-	272	-	-	1,770
<b>Balance 31 December 2018</b>	<b>(1,013)</b>	<b>(4,148)</b>	<b>(3,170)</b>	<b>(13,455)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21,786)</b>
IFRS 16 transition impact on the opening balance								
	-	-	-	-	-	-	(3,149)	(3,149)
Charge during the year	(437)	(832)	(882)	(2,641)	-	-	(6,705)	(11,497)
Disposals	48	1,582	338	199	-	-	-	2,167
<b>Balance 31 December 2019</b>	<b>(1,402)</b>	<b>(3,398)</b>	<b>(3,714)</b>	<b>(15,897)</b>	<b>-</b>	<b>-</b>	<b>(9,854)</b>	<b>(34,265)</b>
<b>Book value</b>								
<b>Balance 31 December 2019</b>	<b>3,408</b>	<b>14,287</b>	<b>2,071</b>	<b>22,082</b>	<b>2,129</b>	<b>-</b>	<b>52,945</b>	<b>96,922</b>
Balance 31 December 2018	225	3,186	1,004	3,244	2,129	2,320	-	12,108

# KINA SECURITIES LIMITED

## 19. Property, plant and equipment (continued)

Parent	Furniture & Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Right-of-use assets	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
<b>Cost</b>								
Balance 31 December 2017	582	878	2100	10,683	2,128	110	-	16,481
Additions	104	-	299	501	-	2,246	-	3,150
Transfer in (out)	-	-	-	110	-	(110)	-	-
Disposals	-	-	-	-	-	-	-	-
<b>Balance 31 December 2018</b>	<b>686</b>	<b>878</b>	<b>2,399</b>	<b>11,294</b>	<b>2,128</b>	<b>2,246</b>	<b>-</b>	<b>19,631</b>
IFRS 16 transition impact on the opening balance								
	-	-	-	-	-	-	11,057	11,057
Additions	2	547	1,494	616	-	-	3,051	5,710
Transfer in (out)	-	2,246	-	-	-	(2,246)	-	-
Disposals	-	-	(239)	-	-	-	-	(239)
<b>Balance 31 December 2019</b>	<b>688</b>	<b>3,671</b>	<b>3,654</b>	<b>11,909</b>	<b>2,128</b>	<b>-</b>	<b>14,108</b>	<b>36,159</b>
<b>Accumulated depreciation</b>								
Balance 31 December 2017	(460)	(681)	(1,853)	(8,422)	-	-	-	(11,416)
Charge during the year	(70)	(37)	(180)	(999)	-	-	-	(1,286)
Disposals	-	-	-	-	-	-	-	-
<b>Balance 31 December 2018</b>	<b>(530)</b>	<b>(718)</b>	<b>(2,033)</b>	<b>(9,421)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,702)</b>
IFRS 16 transition impact on the opening balance								
	-	-	-	-	-	-	(2,467)	(2,467)
Charge during the year	(36)	(35)	(516)	(1,069)	-	-	(2,929)	(4,585)
Disposals	-	-	239	-	-	-	-	239
<b>Balance 31 December 2019</b>	<b>(566)</b>	<b>(753)</b>	<b>(2,310)</b>	<b>(10,490)</b>	<b>-</b>	<b>-</b>	<b>(5,396)</b>	<b>(19,515)</b>
<b>Book value</b>								
<b>Balance 31 December 2019</b>	<b>123</b>	<b>2,918</b>	<b>1,344</b>	<b>1,419</b>	<b>2,128</b>	<b>-</b>	<b>8,712</b>	<b>16,644</b>
Balance 31 December 2018	156	160	366	1,872	2,128	2,246	-	6,929

# KINA SECURITIES LIMITED

## 20. Intangible assets

Consolidated	Software	Customer deposit relationship / intangible	Work in Progress	Total
Cost	K'000	K'000	K'000	K'000
Balance 31 December 2017	12,992	3,780	4,721	21,493
Additions	-	-	11,646	11,646
Transfer in (out)	353	-	(353)	-
<b>Balance 31 December 2018</b>	<b>13,345</b>	<b>3,780</b>	<b>16,014</b>	<b>33,139</b>
Additions	7,700	18,688	322	26,710
Transfer in (out)	16,476	-	(14,834)	1,642
<b>Balance 31 December 2019</b>	<b>37,521</b>	<b>22,468</b>	<b>1,502</b>	<b>61,491</b>
Accumulated depreciation				
<b>Balance 31 December 2017</b>	(1,885)	(1,701)	-	(3,586)
Charge for the year	(2,365)	(756)	-	(3,121)
<b>Balance 31 December 2018</b>	<b>(4,250)</b>	<b>(2,457)</b>	-	<b>(6,707)</b>
Charge during the year	(3,110)	(2,427)	-	(5,537)
<b>Balance 31 December 2019</b>	<b>(7,360)</b>	<b>(4,884)</b>	-	<b>(12,244)</b>
Book value				
<b>Balance 31 December 2019</b>	<b>30,161</b>	<b>17,584</b>	<b>1,502</b>	<b>49,247</b>
Balance 31 December 2018	9,095	1,323	16,014	26,432
<b>Parent</b>	<b>Software</b>	<b>Customer deposit relationship</b>	<b>Work in Progress</b>	<b>Total</b>
Cost				
Balance 31 December 2017	6,058	-	603	6,661
Additions	-	-	769	769
Disposals	-	-	-	-
<b>Balance 31 December 2018*</b>	<b>6,058</b>	-	<b>1,372</b>	<b>7,430</b>
Additions	1,979	-	360	2,339
Transfer in (out)	316	-	(676)	(360)
<b>Balance 31 December 2019</b>	<b>8,353</b>	-	<b>1,056</b>	<b>9,409</b>
Accumulated depreciation				
<b>Balance 31 December 2017</b>	(424)	-	-	(424)
Charge during the year	(1,212)	-	-	(1,212)
Disposals	-	-	-	-
<b>Balance 31 December 2018</b>	<b>(1,636)</b>	-	-	<b>(1,636)</b>
Charge during the year	(1,241)	-	-	(1,241)
Disposals	-	-	-	-
<b>Balance 31 December 2019</b>	<b>(2,877)</b>	-	-	<b>(2,877)</b>
Book value				
<b>Balance 31 December 2019</b>	<b>5,476</b>	-	<b>1,056</b>	<b>6,532</b>
Balance 31 December 2018	4,422	-	1,372	5,794

# KINA SECURITIES LIMITED

## 20. Intangible assets (continued)

The Group recognised customer deposit relationship upon acquisition of Maybank (PNG) Limited on 30 September 2015. Also, the acquisition of Australian and New Zealand (ANZ) Bank's retail, commercial and SME banking businesses in PNG on 23 September 2019 gives rise to the recognition of core customer deposit intangible.

The intangible assets were estimated to have a useful life of five years and three years based on the license term of software and expected length of customer deposit relationship and core deposit intangible. Customer deposit relationship and core deposit intangible has a remaining useful life of two years respectively.

## 21. Other assets

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Prepayments	6,241	5,495	572	256
Security deposits and bonds	5,292	962	498	397
Other debtors	55,208	11,005	247	992
	66,741	17,462	1,317	1,645
Less: expected credit losses	(4,038)	(4,038)	(101)	(101)
	62,703	13,424	1,216	1,544

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

	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Balances at beginning of year	4,038	4,052	101	101
Reversal during the year	-	(14)	-	-
Reclassification	-	-	-	-
Balance at end of year	4,038	4,038	101	101

## 22. Due to customers

	Consolidated		Parent	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Corporate customers	1,624,450	1,045,850	-	-
Retail customers	836,517	269,610	-	-
	2,460,967	1,315,460	-	-

## 23. Current income tax (assets) liabilities

	Consolidated		Parent	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Balance at beginning of year	8,154	635	1,011	355
Paid during the year	(30,628)	(13,561)	(1,179)	(337)
Current provision	25,120	18,443	1,298	784
Prior year under provision	1,050	2,637	(1,447)	209
Balance at end of year	3,696	8,154	(317)	1,011

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

	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Current income tax asset	(810)	-	(317)	-
Current income tax liability	4,506	8,154	-	1,011
	3,696	8,154	(317)	1,011

# KINA SECURITIES LIMITED

## 24. Employee provisions

Consolidated	2019			
	Opening balance K'000	Additions K'000	Payments K'000	Closing balance K'000
Provision for Annual Leave	2,109	2,343	(1,296)	3,156
Provision for Long Service Leave	1,285	904	(124)	2,065
Provision for Salaries	59	39,028	(39,020)	67
Provision for Bonus	2,798	2,308	(1,326)	3,780
<b>Total</b>	<b>6,251</b>	<b>44,583</b>	<b>(41,766)</b>	<b>9,068</b>

Parent	2019			
	Opening balance K'000	Additions K'000	Payments K'000	Closing balance K'000
Provision for Annual Leave	1,068	1,380	(841)	1,607
Provision for Long Service Leave	412	303	(80)	635
Provision for Salaries	62	17,361	(17,352)	71
Provision for Bonus	1,100	1,311	(304)	2,107
<b>Total</b>	<b>2,642</b>	<b>20,355</b>	<b>(18,577)</b>	<b>4,420</b>

2019

	Consolidated	Parent
Represented by:		
Short term provisions	7,003	3,785
Long term provisions	2,065	635
<b>Total employee provision</b>	<b>9,068</b>	<b>4,420</b>

Consolidated	2018			
	Opening balance K'000	Additions K'000	Payments K'000	Closing balance 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
<b>Total</b>	<b>4,353</b>	<b>36,887</b>	<b>(34,989)</b>	<b>6,251</b>

Parent	2018			
	Opening balance K'000	Additions K'000	Payments K'000	Closing balance 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)	62
Provision for Bonus	515	1,054	(469)	1,100
<b>Total</b>	<b>2,351</b>	<b>13,820</b>	<b>(13,529)</b>	<b>2,642</b>

2018

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

# KINA SECURITIES LIMITED

## 25. Lease Liabilities

Details of associated lease liabilities recognised in respect of the right of use assets are presented below:

<b>Consolidated</b>	<b>31 December 2019 K'000</b>
<b>Maturity analysis – contractual undiscounted cash flows</b>	
Less than one year	13,163
One to five years	35,603
More than five years	22,544
<b>Total undiscounted lease liabilities at 31 December 2019</b>	<b>71,310</b>
<b>Lease liabilities included in statement of financial position at 31 December 2019</b>	
Current	9,319
Non-current	45,639
	<b>54,958</b>
<b>Amounts recognised in statement of comprehensive income</b>	
Interest on lease liabilities	2,583
Expense relating to short-term leases	5,746
	<b>8,329</b>
<b>Amounts recognised in statement of cash flows</b>	
Total cash outflow for leases	<b>7,796</b>

Total cashflows for leases is recorded under Cash payments to employees and suppliers in the statement of cash flows

<b>Parent</b>	<b>31 December 2019 K'000</b>
<b>Maturity analysis – contractual undiscounted cash flows</b>	
Less than one year	3,572
One to five years	6,546
More than five years	528
<b>Total undiscounted lease liabilities at 31 December 2019</b>	<b>10,646</b>
<b>Lease liabilities included in statement of financial position at 31 December 2019</b>	
Current	2,971
Non-current	6,426
	<b>9,397</b>
<b>Amounts recognised in statement of comprehensive income</b>	
Interest on lease liabilities	803
Expense relating to short-term leases	985
	<b>1,788</b>
<b>Amounts recognised in statement of cash flows</b>	
Total cash outflow for leases	<b>3,461</b>

Total cashflows for leases is recorded under Cash payments to employees and suppliers in the statement of cash flows



# KINA SECURITIES LIMITED

## 26. Other liabilities

	Consolidated		Parent	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Accruals	12,694	13,472	2,326	1,474
Unclaimed money and stale cheques	8,166	3,770	36	36
Bank cheques	46,716	4,484	-	-
Accounts payable	4,996	4,018	2,002	2,675
Unearned commission income	1,309	2,352	-	-
Other liabilities	66,857	9,699	7,000	6,253
Balance at end of year	140,738	37,795	11,364	10,438

## 27. Issued and paid ordinary shares

### a. Movement

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

	Number of shares	Share capital
	'000	K'000
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
Share issued during the year	10,752	34,757
<b>Balance as at 31 December 2019</b>	<b>174,745</b>	<b>176,970</b>

### 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	
	2019	2018
Net profit attributable to shareholders – K'000	60,871	48,093
Weighted average number of ordinary shares basic earnings	169,369	163,993
Weighted average number of ordinary shares diluted earnings	170,308	166,563
Basic earnings per share (in toea)	35.94	29.33
Diluted earnings per share (in toea)	35.74	28.87

### c. Share-based payment reserve

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

#### *Short term incentive plan (STI Plan)*

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

# KINA SECURITIES LIMITED

## 27. Issued and paid ordinary shares (continued)

The following STI plan arrangements were in place during the year ended 31 December 2019

Date of grant	1 April 2019	16 February 2018
Number of share rights granted	440,776	89,256
Market value at grant date	AUD 485,864	AUD 62,301
Vesting date	1 April 2021	1 April 2020
Vesting conditions	Continued service	Continued service

### *Long term incentive plan (LTI plan)*

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

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

The following LTI plan arrangements were in place during the year ended 31 December 2019

Date of grant	1 April 2019	16 February 2018	17 February 2017
Number of share rights granted	970,523	974,780	854,420
Market value at grant date	AUD 1,069,800	AUD 690,394	AUD 897,141
Fair value at grant date	AUD 543,493	AUD 419,155	AUD 583,193
Vesting date	1 April 2022	1 April 2021	1 April 2020
Vesting conditions	Continued service 50% target TSR 50% target EPS growth	Continued service 50% target TSR 50% target EPS growth	Continued service 50% target TSR 50% target EPS growth

The estimated fair value of share rights issued on 1 April 2019 under the LTI plan was AUD 0.54, compared to the grant date market value per share of AUD 1.135. 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. No retention rights were granted during the year.

### *Movement in outstanding share rights*

	Consolidated	
	2019 Number	2018 Number
Outstanding rights at beginning of year	2,573,006	1,665,721
New rights granted	1,555,663	1,466,721
Rights vested and shares issued/purchased	(542,500)	(372,081)
Rights forfeited or lapsed	-	(187,355)
Outstanding rights at end of year	<b>3,586,169</b>	<b>2,573,006</b>

# KINA SECURITIES LIMITED

## 27. Issued and paid ordinary shares (continued)

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

	Consolidated	
	2019	2018
	K'000	K'000
Brought forward from previous year	2,651	1,558
Expense arising from share incentive plans	842	1,862
Rights vested	(1,430)	(769)
Rights forfeited or lapsed	-	-
<b>Total</b>	<b>2,063</b>	<b>2,651</b>

## 28. Statements of cash flows

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

	Consolidated		Parent	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Cash and due from banks (note 12)	269,702	85,638	43,837	12,885
Central bank bills (note 13)	-	75,000	-	-
<b>Total</b>	<b>269,702</b>	<b>160,638</b>	<b>43,837</b>	<b>12,885</b>

b) Movement in investment securities is as follows:

	Consolidated		Movement
	2019	2018	
	K'000	K'000	K'000
Central bank bills (note 13)	722,090	396,154	325,936
Central bank bills & other eligible bills (less than 3 months)	-	(75,000)	75,000
Government inscribed stocks (note 17)	34,003	34,195	(192)
Financial assets at FVTPL	7,636	5,061	2,575
<b>Total</b>	<b>763,729</b>	<b>360,410</b>	<b>403,319</b>

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

	Consolidated		Parent	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Net profit after tax	60,871	48,093	42,433	2,903
Profit from disposal of property and equipment	2	(1,218)	-	-
Depreciation and amortization (note 19 and 20)	17,033	6,758	5,825	2,498
(Premium)/discount amortization (note 17)	(70)	208	-	-
Share-based payment expense	(588)	1,980	(588)	1,980
Net (losses)/gains from changes in fair values of financial assets (note 15)	153	106	(8)	25
Increase/(decrease) in income tax payable	(4,141)	7,519	(1,328)	656
(Increase)/decrease in deferred income tax (note 11b)	(3,298)	(2,667)	(2,439)	(267)
Changes in net assets and liabilities:				
Decrease/(increase) in assets:	(371,349)	(154,539)	325	7,660
Increase/(decrease) in liabilities:	164,802	316,802	(7,194)	20,796
Effect of change in accounting policy as disclosed in note 1.3	(725)	(3,820)	(414)	-
<b>Net cash inflow/(outflow) from operating</b>	<b>(137,310)</b>	<b>219,221</b>	<b>36,612</b>	<b>36,251</b>

# KINA SECURITIES LIMITED

## 29. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Kina Securities Limited (“KSL”) incorporated in Papua New Guinea, which owns 100% of the ordinary shares of its subsidiaries, unless otherwise stated.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. These transactions were carried out on normal commercial terms and at normal market rates. The volumes of related party transactions, outstanding balances at 31 December 2018, and related expenses and income for the year ended are as follows:

### a) Directors and management transactions

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 2019, the total remuneration of the Directors was K3,140,026 (2018: K3,277,474).

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
<b>2019</b>	<b>13</b>	<b>8,388</b>	<b>1,985</b>	-	<b>1,013</b>	<b>2,314</b>	<b>13,700</b>
<b>2018</b>	<b>15</b>	<b>8,008</b>	<b>464</b>	-	<b>1,093</b>	<b>2,674</b>	<b>12,239</b>

### 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 (2018: 12.50) basis points, unsecured and with no fixed term of repayment. Details as follows:

	Transactions				Balance outstanding			
	Income 2019	Expenses 2019	Income 2018	Expenses 2018	Due from 2019	2018	2019	Due to 2018
	K ‘000	K ‘000	K ‘000	K ‘000	K ‘000	K ‘000	K ‘000	K ‘000
KFM	2,827	670	2,260	672	-	-	(7,386)	(31,846)
KISS	4,491	670	4,044	438	-	-	(28,812)	(24,252)
KWM	-	-	-	-	-	-	(285)	(221)
KBL	42,209	1,349	33,606	2,720	-	-	(130,704)	(118,045)
KVL	-	-	-	-	351,096	351,096	-	-
KPL	-	-	-	-	-	-	(25)	-
KNL	-	-	-	-	-	-	-	-
	<b>49,527</b>	<b>2,689</b>	<b>39,910</b>	<b>3,829</b>	<b>351,096</b>	<b>351,096</b>	<b>(167,212)</b>	<b>(174,364)</b>

# KINA SECURITIES LIMITED

## 30. Investments under trust

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

	Consolidated		Parent	
	2019	2018	2019	2018
	K'000	K'000	K'000	K'000
Clients funds held for shares trading	4,869	2,650	4,869	2,650
	4,869	2,650	4,869	2,650

## 31. Business Combinations

*Acquisition of ANZ Bank's retail, commercial and SME banking businesses in PNG*

On 23 September 2019, the Group through Kina Bank Limited, a 100% owned subsidiary of Kina Securities Limited, acquired ANZ Bank's retail, commercial and SME banking businesses in PNG. ANZ is an Australian multinational banking and financial services company. The acquisition will enhance Kina Bank's products and services that will complement its vision to become fastest growing, dynamic and leading digital bank in the country.

The fair value of the financial assets and liabilities recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	<b>Fair value of the assets and liabilities recognised on acquisition K '000</b>
<b>Assets</b>	
Cash and cash equivalents	711,947
Loans and Advances	329,586
Fixed Assets	8,172
Right of use asset	32,916
Intangible asset	18,688
Deferred tax asset, net	666
Other Assets	6,088
<b>Liabilities</b>	
Customers' Deposit	1,048,837
Lease Liabilities	32,916
Other Liabilities	2,081
<b>Total identifiable net assets at fair value</b>	<b>24,229</b>
<b>Total consideration</b>	<b>24,229</b>
Purchased price allocation	
Intangible asset	18,486
Fair value adjustments on loan	4,875
Deferred tax asset, net	666
Others	<u>202</u>
Total consideration transferred	24,229

# KINA SECURITIES LIMITED

## 31. Business Combinations (continued)

The fair value of the acquired receivables is K329,586m and a gross contractual value of K350,293m, with a loss allowance of K20,707m recognised on acquisition.

## 32. Segment reporting

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 31 December 2019 is as follows:

	Banking & Finance	Wealth Management	Corporate	Total
	PGK'000	PGK'000	PGK'000	PGK'000
Interest income	146,445	6	31	146,482
Interest expense	(31,098)	-	(803)	(31,901)
Foreign exchange income	42,048	(4)	(88)	41,956
Fee and commission income	18,845	28,143	797	47,785
Other revenue	268	588	388	1,244
<b>Total external income</b>	<b>176,508</b>	<b>28,733</b>	<b>325</b>	<b>205,566</b>
Other operating expenses	(51,324)	(11,033)	(37,836)	(100,193)
Provision for impairment	(5,906)	260	-	(5,646)
Depreciation and amortisation	(10,453)	-	(6,581)	(17,034)
<b>Total external expenses</b>	<b>(67,683)</b>	<b>(10,773)</b>	<b>(44,417)</b>	<b>(122,873)</b>
<b>Profit before inter-segment revenue and expenses</b>	<b>108,825</b>	<b>17,960</b>	<b>(44,092)</b>	<b>82,693</b>
Inter-segment income	1,779	910	46,838	49,527
Inter-segment expenses	(40,194)	(7,318)	(2,015)	(49,527)
<b>Profit before tax</b>	<b>70,410</b>	<b>11,552</b>	<b>731</b>	<b>82,693</b>
Income tax expense	(19,453)	(3,314)	945	(21,822)
<b>Profit after tax</b>	<b>50,957</b>	<b>8,238</b>	<b>1,676</b>	<b>60,871</b>
<b>Total assets</b>	<b>2,813,044</b>	<b>17,221</b>	<b>167,270</b>	<b>2,997,535</b>
Total assets include:				
<b>Additions to non-current assets</b>	<b>(34,367)</b>	<b>-</b>	<b>(4,638)</b>	<b>(39,005)</b>
<b>Total liabilities</b>	<b>(2,642,276)</b>	<b>(2,673)</b>	<b>(25,310)</b>	<b>(2,670,259)</b>

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

## KINA SECURITIES LIMITED

### 32. Segment reporting (continued)

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

	<b>Banking &amp; Finance</b>	<b>Wealth Management</b>	<b>Corporate</b>	<b>Total</b>
	<b>PGK'000</b>	<b>PGK'000</b>	<b>PGK'000</b>	<b>PGK'000</b>
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
<b>Total external income</b>	<b>129,374</b>	<b>28,608</b>	<b>3,668</b>	<b>161,650</b>
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)
<b>Total external expenses</b>	<b>(46,143)</b>	<b>(13,485)</b>	<b>(32,819)</b>	<b>(92,447)</b>
<b>Profit before inter-segment revenue and expenses</b>	<b>83,231</b>	<b>15,123</b>	<b>(29,151)</b>	<b>69,203</b>
Inter-segment income	3,281	548	36,080	39,909
Inter-segment expenses	(32,174)	(6,304)	(1,431)	(39,909)
<b>Profit before tax</b>	<b>54,338</b>	<b>9,367</b>	<b>5,498</b>	<b>69,203</b>
Income tax expense	(16,833)	(2,692)	(1,585)	(21,110)
<b>Profit after tax</b>	<b>37,505</b>	<b>6,675</b>	<b>3,913</b>	<b>48,093</b>
<b>Total assets</b>	<b>1,516,929</b>	<b>21,902</b>	<b>123,163</b>	<b>1,661,994</b>
Total assets include:				
<b>Additions to non-current assets</b>	<b>10,911</b>	<b>-</b>	<b>4,088</b>	<b>14,999</b>
<b>Total liabilities</b>	<b>(1,390,711)</b>	<b>(2,362)</b>	<b>348</b>	<b>(1,392,725)</b>

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

### 33. Contingent liabilities

#### *Litigations and claims*

Contingent liabilities exist in respect of actual and potential claims and proceedings that have not been determined. An assessment of the Group's likely loss has been made on a case by case basis for the purposes of the financial statements and specific provisions are made where appropriate. As at 31 December 2019, 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 contingent liabilities*

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

# KINA SECURITIES LIMITED

## 33. Contingent liabilities (continued)

<b>Consolidated</b>	<b>2019</b>	<b>2018</b>
	<b>K'000</b>	<b>K'000</b>
Bank guarantee	<b>70,375</b>	45,933
	<b>70,375</b>	45,933

The Company had no contingent liabilities as at 31 December 2019 and 2018

## 34. Commitments

### Capital commitments

There was a total of K4,802,205 relating to commitments under contracts for capital expenditure at balance sheet date (31 December 2018: K7,287,296).

### Loan commitments

There was a total of K131,801k relating loan commitment at balance sheet date (31 December 2018: K64,952k).

## 35. Fair value of financial assets and liabilities

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

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

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

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 2019.

	<b>Consolidated</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Investment securities measured at FVTPL				
- Investment in shares – Listed	4,834	-	-	4,834
- Investment in shares – Unlisted	-	-	2,636	2,636
- Investment in convertible notes – Unlisted	-	-	165	165
<b>Total assets</b>	<b>4,834</b>	<b>-</b>	<b>2,801</b>	<b>7,635</b>



# KINA SECURITIES LIMITED

## 35. Fair value of financial assets and liabilities (continued)

	Parent			Total K'000
	Level 1 K'000	Level 2 K'000	Level 3 K'000	
Investment securities measured at FVTPL				
- Investment in shares – Listed	174	-	-	174
- Investment in convertible notes – Unlisted	-	-	165	165
<b>Total assets</b>	<b>174</b>	<b>-</b>	<b>165</b>	<b>339</b>

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

Assets	Consolidated			Total K'000
	Level 1 K'000	Level 2 K'000	Level 3 K'000	
Investment securities measured at FVTPL				
- Investment in shares – Listed	4,681	-	-	4,681
- Investment in shares – Unlisted	-	-	61	61
- Investment in convertible notes – Unlisted	-	-	165	165
<b>Total assets</b>	<b>4,681</b>	<b>-</b>	<b>226</b>	<b>4,907</b>

Assets	Parent			Total K'000
	Level 1 K'000	Level 2 K'000	Level 3 K'000	
Investment securities measured at FVTPL				
- Investment in shares – Listed	182	-	-	182
- Investment in shares – Unlisted	-	-	165	165
<b>Total assets</b>	<b>182</b>	<b>-</b>	<b>165</b>	<b>347</b>

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

The group holds investment in unlisted securities amounting to K2,801,607 (31 December 2018: K226,587) 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.

The parent holds investment in unlisted securities amounting to K165,000 (31 December 2018: K165,000) 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 as at 31 December 2019 and 2018, there is no material difference between the fair value and carrying value of the Group's and the Parent's financial assets and liabilities.

## 36. Auditors' remuneration

Consolidated entity	2019	2018
	K'000	K'000
Audit and audit related	942	586
Tax services	-	135
Other services	75	44
	<b>1,017</b>	<b>765</b>

**36. Auditors' remuneration (continued)**

<b>Parent</b>	<b>2019</b>	<b>2018</b>
	<b>K'000</b>	<b>K'000</b>
Audit and audit related	<b>329</b>	162
Tax services	-	45
Other services	<b>48</b>	14
	<b>377</b>	221

**37. Goodwill**

On September 2015, the Group, through Kina Ventures Limited, a 100% owned subsidiary of Kina Securities Limited, acquired all of the shares in Maybank (PNG) Limited and Maybank Property (PNG). Maybank (PNG) and Maybank Property (PNG) are the PNG subsidiaries of Malaysia's largest bank. The acquisition strengthened Kina Bank's investment in PNG as it is an excellent fit for its expansion program.

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 2019 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 3.0% (31 December 2018: 3.0%). The estimated cash flows are discounted using a discount rate of 6.5% (31 December 2018: 12.6%). The fair value calculation includes future maintainable earnings of K74.8m (31 December 2018: K72.4m) and earnings multiple of 8 times.

**38. Events after the statements of financial reporting date**

Subsequent to the financial reporting date, the directors declared a final dividend of AUD 6.4 cents / PGK 15.5 toea per share (K27.0m).

The spread of Novel Coronavirus (COVID-19) subsequent to year end is currently impacting businesses globally and constitutes a "Non-Adjusting Subsequent Event" as defined in IAS 10 'Events after the Reporting Period'. The extent of impact varies by industry mainly resulting in supply chain disruption, reduced availability of human resource, increased cost of alternative working arrangements, reduced tourism, stock market volatility and consequent increase in provisioning requirements and reduction in revenue streams from industries impacted.

The Group is in the process of assessing possible financial impacts of the situation on its business, however, given it is still evolving, the exact financial impact cannot be quantified at this stage. Furthermore, the carrying amount of significant assets and liabilities recognised in these financial statements are not materially sensitive to market factors or forward-looking assumptions other than loan recoverability should conditions materially deteriorate. Based on a preliminary assessment of impacts and the fact Papua New Guinea is not significantly and directly affected by the situation at this stage, the directors and the management of the Group believe that direct financial impact is unlikely to be material at this stage. Further, there is no evidence to suggest at this stage that the situation will affect the Group's ability to continue as going concern.

There has been no other transactions or events of a material and unusual nature between the end of the reporting period and the date of the report likely, in the opinion of the Directors of the Group, to affect significantly the operations of the Group, the results of those operations, or state of affairs of the Group in future years.