ASX/PNGX announcement

17 April 2020

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

BY ELECTRONIC LODGEMENT

Annual Report 2019

Please find attached for release to the market, Kina Securities Limited's *Annual Report for the year ended 31 December 2019.*

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The Annual Report 2019 was authorised for release by Kina Securities Limited's Board of Directors.

For further information:

Greg Pawson
Chief Executive Officer and Managing Director
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Chief Financial Officer and Company Secretary
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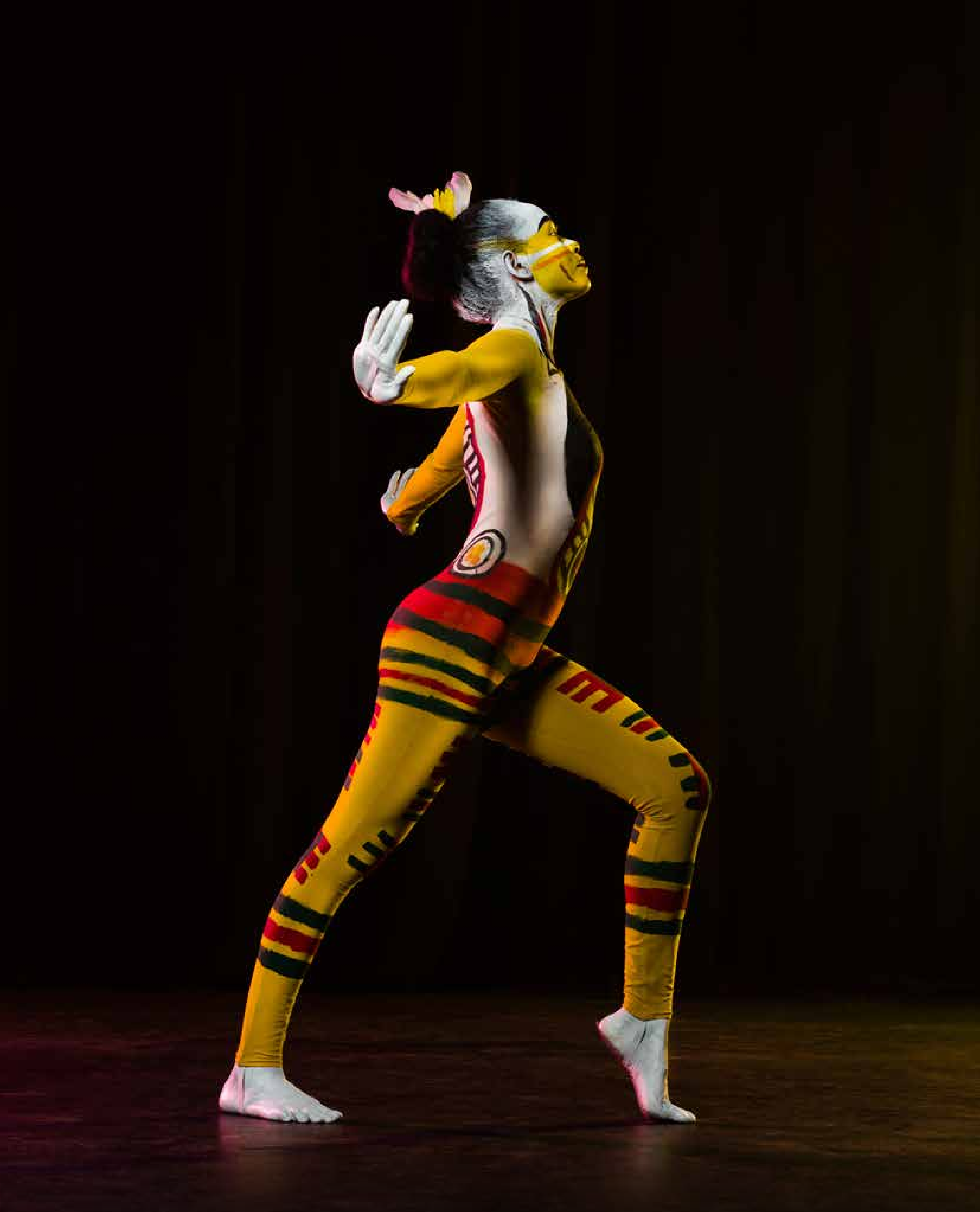
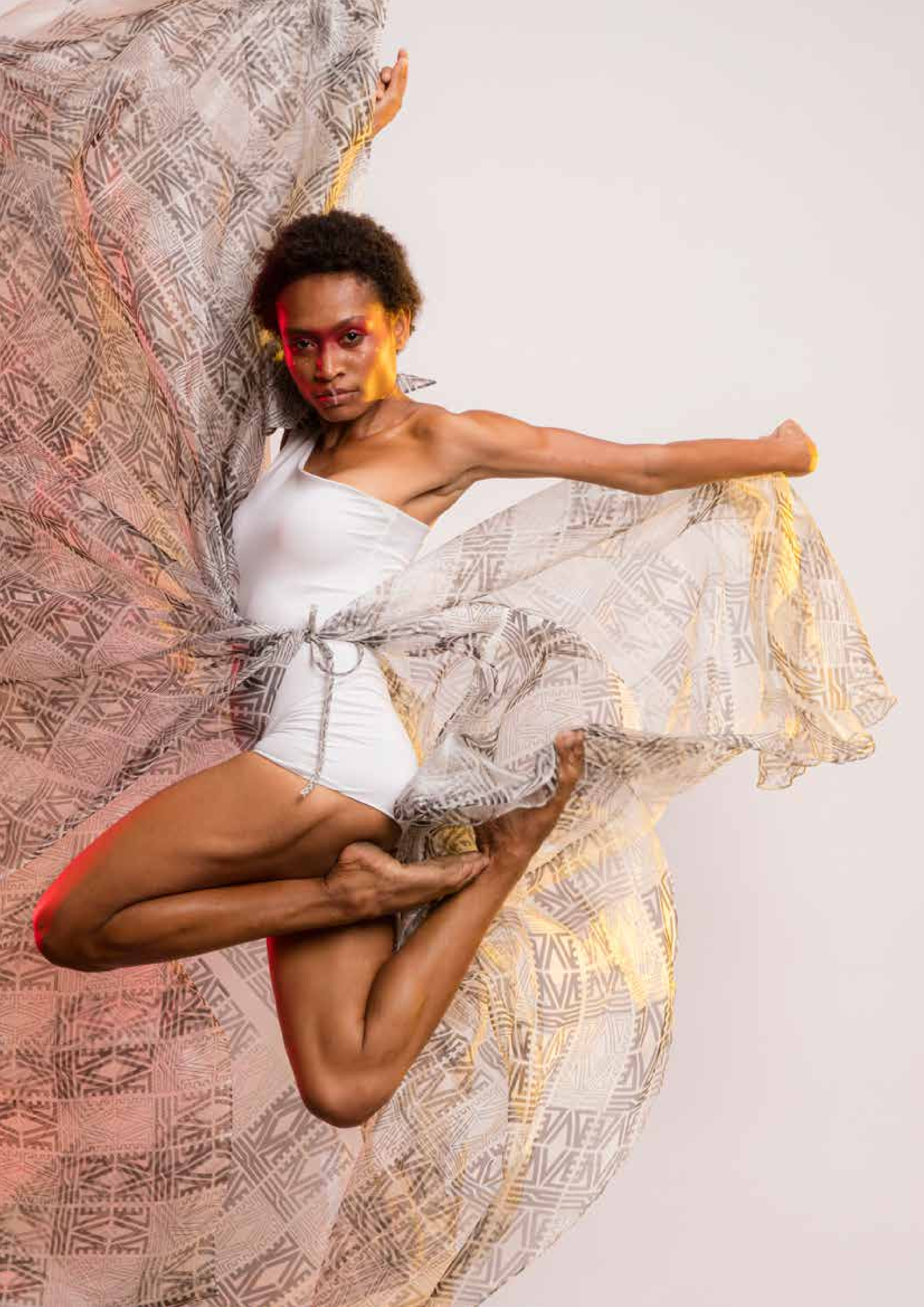


kinabank
together it's possible

ANNUAL REPORT 2019

Kina Securities Limited

ARBN: 606 168 594



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In this Annual Report, a reference to 'Kina Group', 'Group', 'the Group', 'Kina', ' the Company', 'Kina Bank', 'the Bank' 'we', 'us' and 'our' is to Kina Securities Limited ARBN: 606 168 594 and its subsidiaries unless it clearly means just Kina Securities Limited. Kina's Corporate Governance Statement is available on the company's website: http://investors.kinabank.com.pg/investors/?page=corporate-governance

Performance Highlights

ANNOUNCED
US$10m investment by Asian Development Bank

ACQUIRED
15% stake in Nationwide Microfinance Bank

ACHIEVED
ANZ PNG acquisition on time and under budget

Total deposits grew **by 87%** to PGK2.46b

Funds Mgt grew **by 7%** to PGK8b

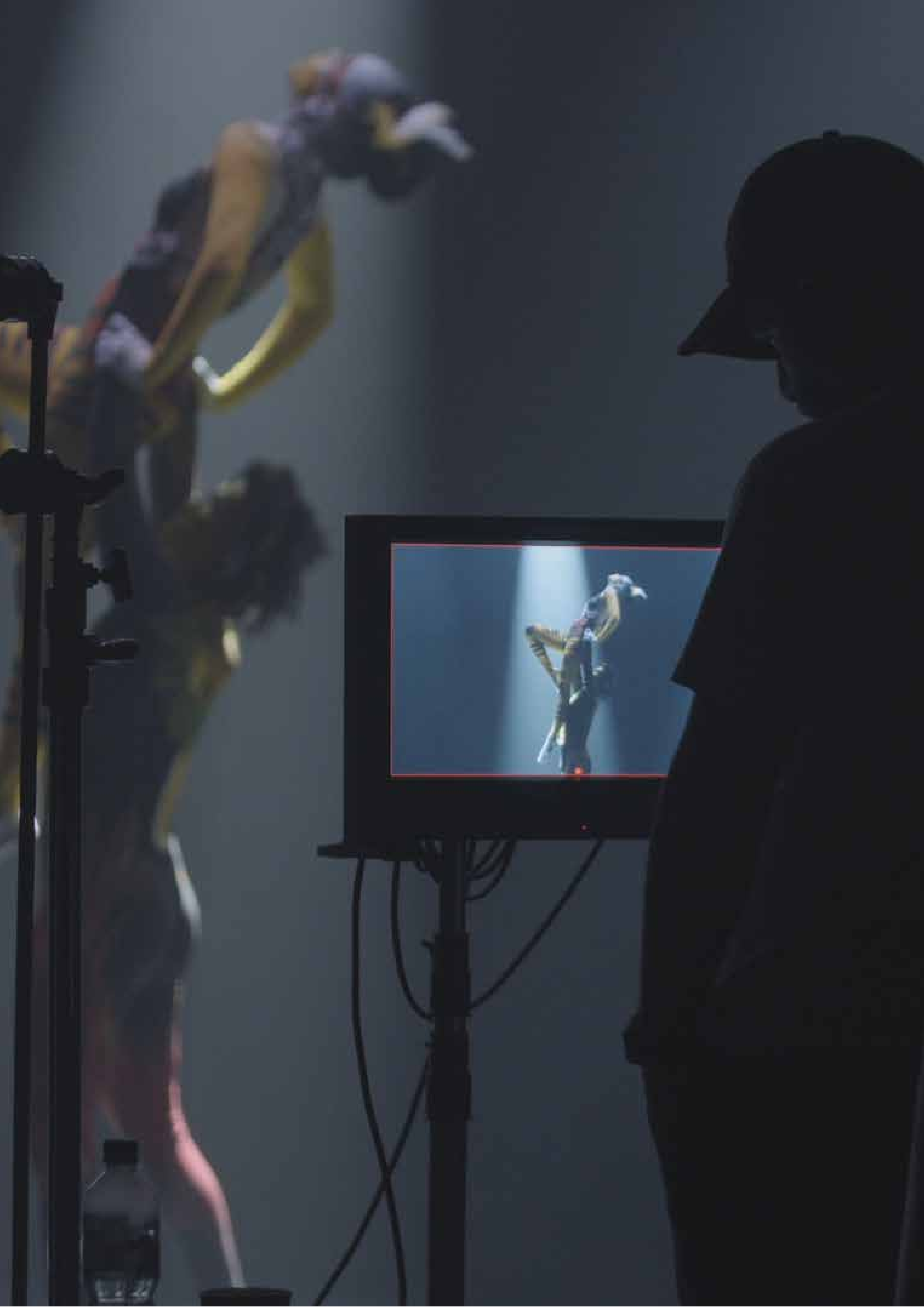
Total loans grew **by 65%** to PGK1.40b

Funds Adm grew to **PGK12.5b**

Net interest income up **31%** to grew PGK114.6m

FX income **23%** to PGK42.0m

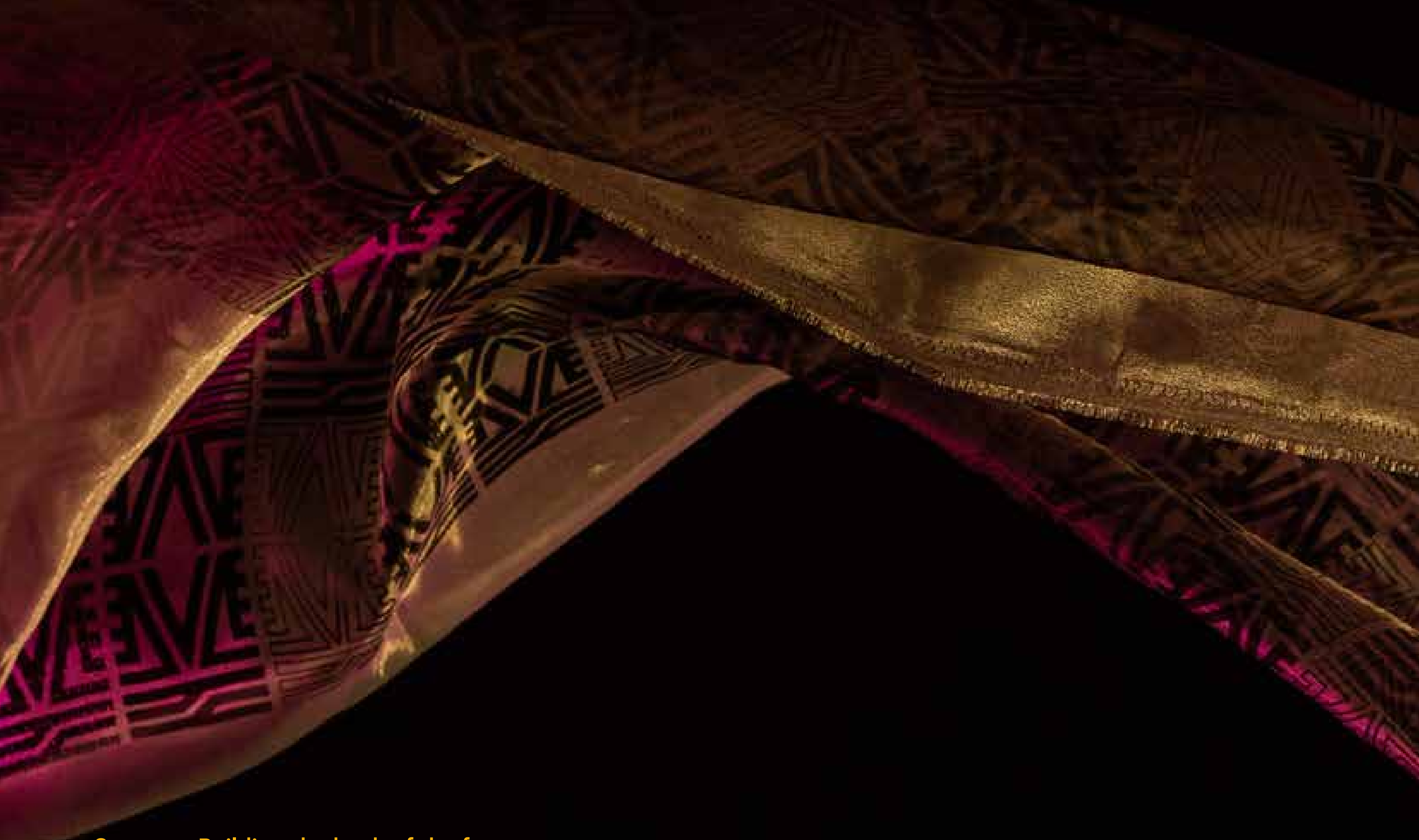
Revenue up **27%** to PGK205.6m



Chairman's Message

It was a transformative year for Kina and perhaps will be recognised as the biggest year in our history. We completed a series of milestones that fundamentally changed the shape and scale of our business and set us up for long term sustainable growth.

I am also pleased to announce a strong financial performance that exceeded market expectation. It has resulted in a final dividend of AUD6.4 cents per share or PGK 15.5 toea and a full year dividend of AUD10.4 cents or PGK 25.5 toea per share. Our success was delivered in a complex business environment that continued to recover from external shocks where foreign exchange was in tight supply and economic activity low.



Strategy: Building the bank of the future

On September 23, we completed the acquisition of ANZ PNG's Retail, SME and Commercial business on time and materially under budget. The acquisition makes us the second largest retail bank in the country with a national footprint across 21 locations and over 165,000 customers. This complex program took eighteen months with a capex spend in excess of K55.0m. It was the largest M&A transaction for banking in PNG for some years. The acquisition has enhanced our liquidity to support future lending growth and will increase our earnings and profitability, therefore improving returns for shareholders.

We also announced our strategic partnership with MiBank in August for the provision of financial inclusion, with specific focus on building out the micro and small and medium enterprise (SME) sector. The partnership includes a mutual referral agreement for SME customers, providing a smooth pathway between our businesses depending on a customer's lending requirements.

In November, we welcomed AAA rated Asian Development Bank as our second largest shareholder. The USD10m investment strengthens our international correspondent banking relationships and improves Kina's access to the PNG export sector. ADB have an extensive aid program in PNG exceeding K1.0 billion including the re-sealing of the Highlands Highway at a cost of USD 300m. The investment is strategically aligned to enhance and leverage regional and technical expertise; support our growth in the SME and retail sectors; and support the continued build of our digital capabilities.

Business growth

Kina reported a Net Profit After Tax of PGK60.9 million, up 27% on the previous corresponding period and exceeding market expectations. The results were driven by a 31% increase in Net Interest Income to PGK114.6m; solid growth in the existing loan book of 26% and the addition of the acquired ANZ PNG loan book in the second half of the year. Overall loan growth was 65%. With another year of uninterrupted foreign exchange trading, FX income was up 23% to PGK 42m and saw an increase in overall market share. Kina Funds Management grew by PGK 480 million to PGK8 billion by 31 December 2019 and achieved a revenue of PGK11.2 million. Kina Funds Administration also recorded growth in profit by 7% to PGK 12.5b.

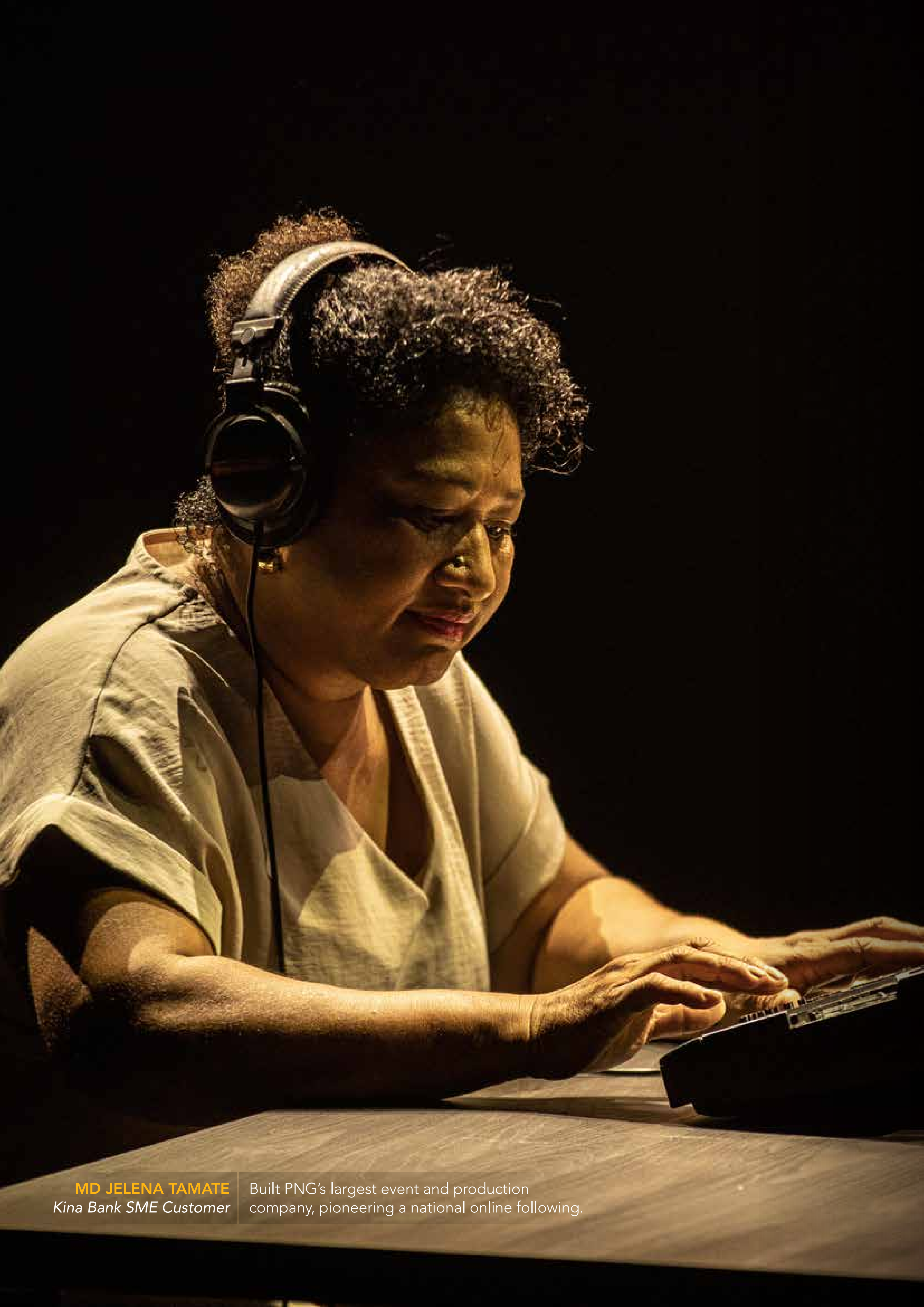
Leadership and culture

Under the leadership of Greg Pawson, our Chief Executive Officer and Managing Director, we appointed three new members of the executive leadership team and strengthened our business model. This ensured we were prepared for the acquisition and that our existing business continued to grow. The new team has significant experience in digital innovation and transformational change that will help set us up for long term success. Together, they are working on a major culture change program to help staff navigate the complex process of integrating two different businesses. They have made significant progress on this and are working to embed our values and purpose throughout the business. Our people have a real sense of pride in our organisation and our vision, which has been and will continue to be crucial to our success.

On behalf of the board I would like to thank our staff for their commitment and energy. Completing the acquisition of ANZ PNG on time was a substantial achievement that required dedication. They also maintained focus on growing the existing business so that we delivered solid results.

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

Isikeli Taureka
Chairman



MD JELENA TAMATE
Kina Bank SME Customer

Built PNG's largest event and production company, pioneering a national online following.

Managing Director's Report

In what was a major year where we finalised a number of strategic milestones, we also delivered results above market expectation and maintained growth across all of our existing businesses.

Progress on our strategy

Through the acquisition of ANZ PNG, we took the business nationwide to become the second largest retail bank in PNG. The acquisition was the culmination of 18 months of investment – where we built our capability, our banking infrastructure, and enhanced our products and services. We rolled out an eftpos network with the fastest, most sophisticated terminal of choice to more than 1500 merchants; launched a Visa Credit and Debit card platform; performed significant enhancements to our digital retail and corporate banking platforms; and introduced USSD mobile banking.

We also delivered several transformational e-commerce programs that will improve cost efficiency, including an automated debt collection system, a reconciliation tool, and a new collections system.

We experienced no customer loss during the acquisition, with all in-scope ANZ PNG customers transferring to Kina Bank. A significant amount of preparation was put in place to ensure the transfer was as seamless as possible, accompanied by a comprehensive information and public relations campaign. Customer numbers now total over 165,000 with organic customer growth for the year at 17%. Through our partnership with MiBank and Kina Investment and Superannuation Services, our reach extends to over 1.2 million Papua New Guineans.

The acquisition was also good news for the PNG job market. We brought back to PNG more than 80 jobs that were performed off shore in the cards and operations teams. I'm also pleased to report that we achieved a 96% transfer rate with nearly 300 impacted ANZ PNG staff accepting contracts at Kina Bank.

Delivering financial performance

We completed the acquisition in September 2019 materially under budget and on time. Our results reflect three months of income from the ANZ PNG Retail, Commercial and SME business. Total Loans grew by 65% to PGK1.40b and Total Deposits grew by 87% to PGK2.46b.

We continued a strong focus on home lending which increased by 44%. In March we launched PNG's lowest ever standard variable home loan. As a market leader it stimulated customer growth and prompted other banks to follow suit, lowering their interest rates, benefitting all customers across PNG. Later in the year, we launched PNG's first ever fixed rate home loan. To support our market leading products, we redeveloped our home loans approval process. By making it digital, we are able to offer faster credit decisions and a simpler, more convenient customer experience, as well as reduce risk and cost.

As a leading, full-scale commercial bank our focus is to bring real disruptive competition to the market and this is proving to be successful.

Strengthening our culture

Our staff have always had a strong sense of pride in our brand and when we integrated the new ANZ PNG business into Kina Bank it was essential we maintained this energy and commitment. We undertook a major culture change program to embed our values and behaviours. Through an extensive series of workshops, we brought together all staff from two different cultures with the unique opportunity to build a really strong network and promote our new culture.

Alongside this, we delivered a considerable training program focusing on products, services and customer experience. Our commitment to help our people stay on top of their game - by building knowledge, skill and experience - is fundamental to our Total Societal Impact Strategy, a pillar of which is to help build the workforce of the future.

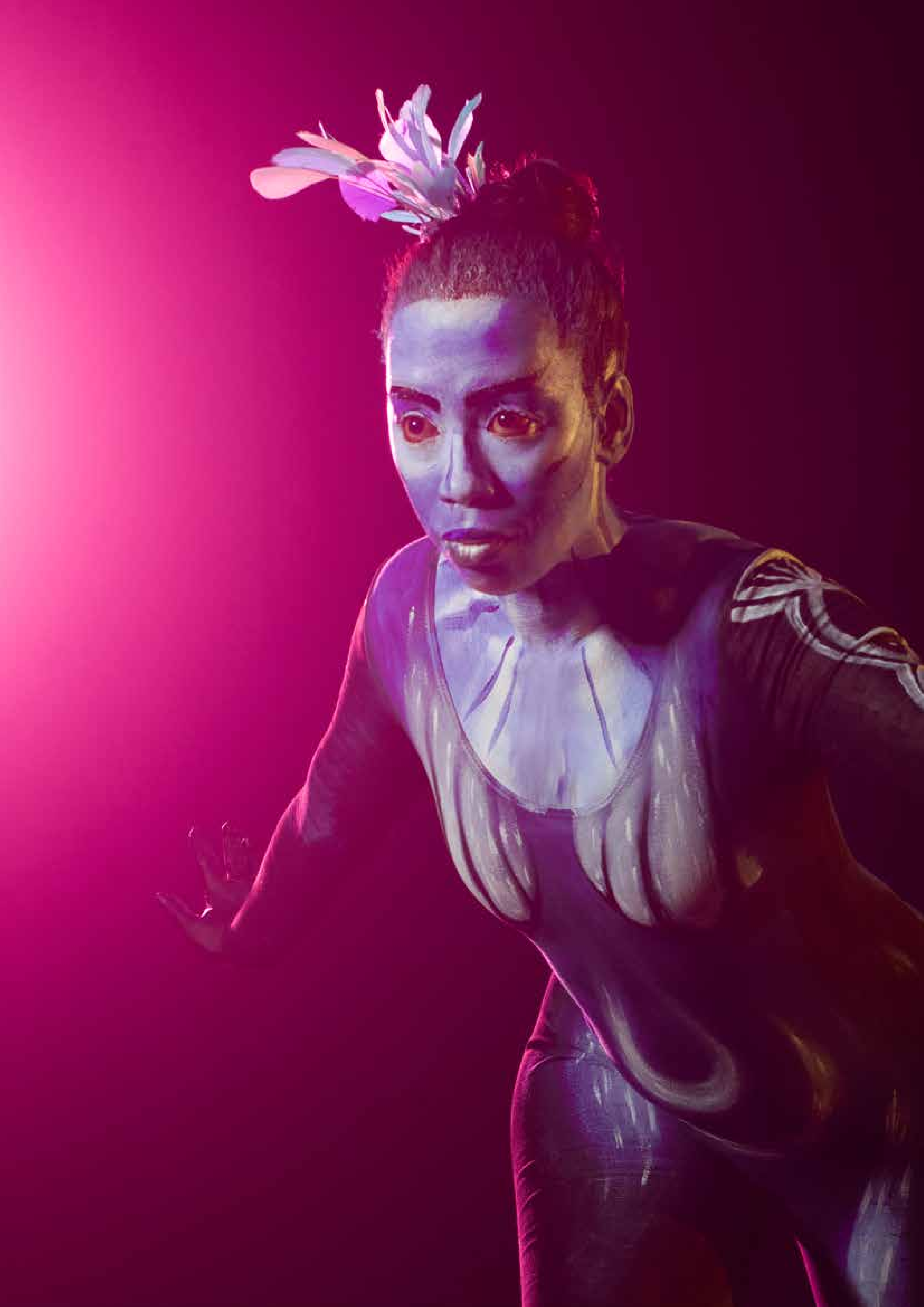
Our culture journey is ongoing and will see further expansion throughout 2020 and onwards. We see it as a vital component to delivering our 2025 Strategic Plan which we finalised in December: 'Building the bank of the future' sets a five year pathway to becoming PNG's leading digital bank.

Looking ahead

Our focus for 2020 is to continue to build out our base. By combining the best service and technology we aim to deliver an exceptional banking experience for our customers. Simplicity, convenience, and ease of access are the key themes we are building into our service proposition.

In 2019 we delivered a series of firsts as market leaders, which includes being the first bank to connect to the central bank's national payments system, giving us the ability to accept full interchange with all PNG domestic banks. We will continue to be always first, to be competitive and disrupt the market with innovative new products and services.

Greg Pawson
Chief Executive Officer and
Managing Director



External Market Conditions

We expect 2020 to be another subdued year for the PNG economy with key indicators pointing towards generally lower levels of activity in the absence of a major economic boost. The PNG government is also targeting reductions to public service expenditure, which will further act as a drag on economic growth. However, given the increase in the fiscal deficit after an extensive review of revenue and expenditure, such reductions over a multi-year time frame are warranted.

The negotiating deadline for the development of P'Nyang, the new onshore gas field, was set for 31 January 2020 by the government. This was to be the third-largest liquefied natural gas (LNG) project for the country, taking advantage of PNG's rich abundance of gas reserves and low cost structures. Unfortunately, the project developers and the government were unable to reach an agreement on the commercial terms and negotiations ended unsuccessfully.

This is an important reason for our economic view of the immediate future. This large scale LNG project would have seen multi USD billion investment into PNG over a number of years and was a key driver of confidence – which has fallen since the negotiations concluded unsuccessfully.

There is an element of uncertainty as to whether the Papua LNG project (which is the second leg of the overall LNG project) will now go ahead. The best case alternative would be a redesign of what were to be shared facilities to support P'Nyang and Papua LNG, to allow only the Papua LNG project to proceed. This will delay the development of Papua LNG, however the parties are reengaging to see if an acceptable solution can be found. A reassuring fact is that in the 2020 National Budget, the government had not allowed for revenues from these gas projects in its revenue track so there will not be additional fiscal downside from the project not proceeding. Notwithstanding this, the difficulties experienced by the economy and business in general will not be helped by this development.

We expect that the short to medium term outlook will be a period of ongoing reform and adjustment as the government puts in place initiatives to reduce the fiscal deficit over time, while simultaneously building on foundational work in areas such as infrastructure spending and value added processing to build the manufacturing base of the country. Priority outcomes for government spending in 2020 include rightsizing the public service and laying the groundwork for future infrastructure investments in economic corridors.

The government aims to increase its spending in the non-resource sector in an effort to encourage the diversification of the economic base. Also, the Government has committed to settling PGK 2.5bn worth of arrears to the private sector over the next three years starting with PGK 1.1bn in 2020. This is positive as the arrears have acted as a drag on economic performance. The settlement of arrears will provide liquidity for the private sector in an otherwise subdued economy. Spending in the construction sector is also expected to provide some boost to the economy in 2020. However, overall risks are tilted to the downside. Policy development and spending in the SME and agriculture sectors are positive for the future development of these sectors and the wider economy, but economic benefits will not be felt in the near term.

Foreign exchange shortages will continue to be an impediment to businesses in PNG throughout 2020. Proceeds of the USD 300m budget support funding from the Australian Government eased some pressure with further foreign exchange support to come from proceeds from the PNG Government's planned offshore borrowings. Domestic interest rates remain high and are expected to continue in the face of the government fiscal funding needs. Headline inflation remains high albeit lower then recent years, while employment intentions and discretionary consumption remain weak.

Since the end of our financial year COVID-19 has catalysed a significant fall in equity markets and some commodity markets globally (with oil being the prime impacted commodity). Central banks have acted through a combination of interest rate cuts and the boosting of quantitative easing programs. A significant global economic slowdown now appears inevitable with the likelihood of recession increasing. PNG will to some extent be impacted through its linkages to the global economy which are primarily through the resources industry. However a large part of the economy is internally focussed and as a developing country whose population and large segments of business service local consumption there is a level of activity that will not be impacted to the degree that may happen in a fully open economy. We expect the main area of impact will come via supply constraints if global manufacturing capacity, specifically China, remain "offline" for any extended period of time.

Strategic Report

In 2019 we delivered three strategic milestones and they lay the foundations to build a strong, competitive business that will deliver lasting benefit to our customers, the banking sector and Papua New Guinea. We completed the acquisition of ANZ PNG on time and materially under budget; took a 15% stake in MiBank for the provision of financial inclusion and service to the micro-SME sector; and welcomed the Asian Development Bank as our second largest shareholder with an investment of USD 10.0m.

Putting our strategy into action

The acquisition is a rare example of a smaller business acquiring the larger one. It was one of the most high profile banking transactions in PNG for a decade, and one of the largest and most complex since independence in 1975.

On completion, Kina Bank became the second largest domestic retail bank in the country servicing over 165,000 retail customers through a national network of 17 branches, 77 ATMs and an eftpos fleet of over 1,800 terminals through more than 800 merchants.

As a strategic milestone, it improved Kina Bank's market position in retail, commercial and SME banking, allowing us to emerge as a leading participant in these sectors. Approximately 80% of business is conducted outside of the main cities of Port Moresby and Lae – our existing branch footprint. With our new expanded distribution network we are now able to operate in areas we were previously unable to reach and therefore meet the growing needs of communities across PNG.

The acquisition also provided instant scale to justify our investment in new banking capabilities, and product and development costs. We completed a major systems build throughout the year. This saw the upgrade of our core banking system and the development of a suite of products and services. We launched a best-in-class eftpos network; a contactless credit card platform; and a mobile banking USSD platform, providing additional revenue streams. We were also the first bank to connect to the Bank of Papua New Guinea's central switch. This gave us the ability to accept full interchange with all PNG domestic banks and it showed us to be industry leaders.

As we continue to improve the value of our product offering, our philosophy is that banking should be simple, convenient and easy to access for our new and existing customers. This philosophy underpinned our approach to the integration of ANZ customers into Kina Bank. An immense effort took place to ensure there was a successful and seamless transfer of accounts: account numbers remained the same, ANZ debit and credit cards continue to work on Kina Bank systems; and only minor updates were required to PINs and Internet login details. We also digitalised a number of systems and processes introducing for example an automated reconciliation tool and an automated debt collections system.

In August, we completed the second strategic milestone when we entered into a partnership with Nationwide Microfinance Limited (MiBank) through a 15% stake worth PGK2.5 million. The partnership delivers on our goal to support financial inclusion and finance to the micro-SME sector. It also enables us to make an effective contribution to the central bank's goal to reach 2 million unbanked people by 2020 and it fulfils our mandate to provide financial inclusion services.

We completed our third strategic milestone in December when we welcomed the Asian Development Bank (ADB) as a major shareholder. ADB's strong regional presence and AAA rated investment grade enhances our international correspondent banking, trade services and corporate FX relationships.

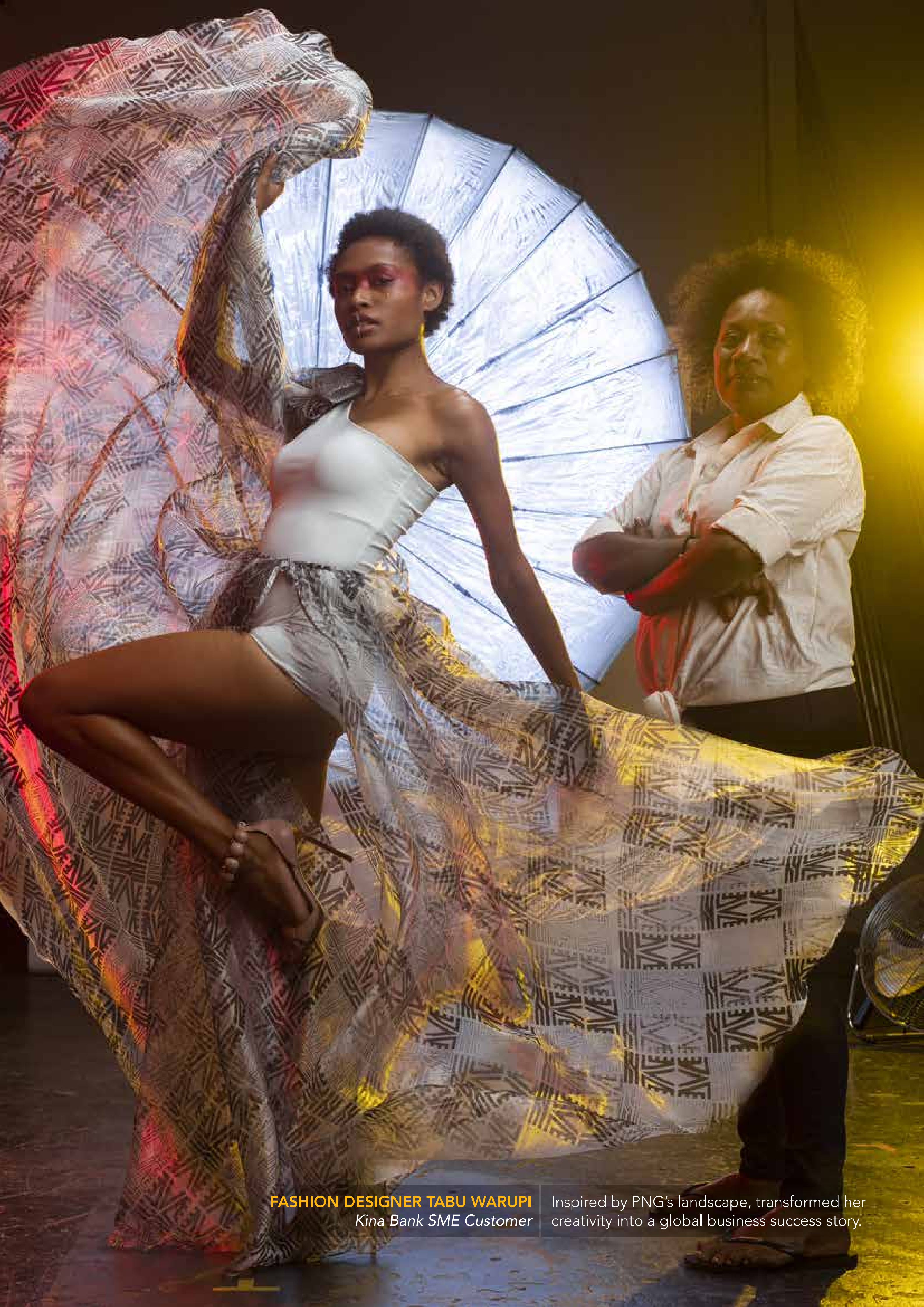
There are several opportunities to partner with MiBank and ADB and this will be a focus for 2020. We will be looking to implement an Environmental and Social Governance Framework, continue to build data and ICT capability and develop remittances and payment gateways.

Building our culture to deliver our strategy

Fundamental to the delivery of our strategy is our focus on building a strong culture. In September we welcomed more than 300 new colleagues from ANZ PNG across the country, changing the shape of our business dramatically. It offered the unique opportunity to build a new combined culture with behaviours that will drive a differentiated approach to banking - exceeding customer expectations and delivering great outcomes.

Prior to the acquisition, we conducted a major series of surveys and workshops with ANZ and Kina Bank staff to create deep, strong conversations and a robust network of change agents. The aim was to embed our values and purpose and join together the two businesses coherently. To support this we refreshed our quarterly awards, aligning them with our vision, values and behaviours. The awards recognise the achievements of teams and individuals who are role models for the business.

We also appointed a Chief Transformation Officer who has significant experience in culture change to drive this program forward. The CTO reports regularly on the progress of the program to a board committed to providing strong governance and oversight. We will continue to foster our people's strong sense of pride to create a truly unique culture.



FASHION DESIGNER TABU WARUPI
Kina Bank SME Customer

Inspired by PNG's landscape, transformed her creativity into a global business success story.

Banking

The acquisition of ANZ PNG's retail, SME and Commercial business significantly accelerated our five year strategic plan. It involved a full-scale 15 month program building out our retail, commercial and transactional banking capabilities. This included:

- gaining Visa, MasterCard and China Union Pay acquiring capability
- becoming a Visa card issuer
- launching an eftpos platform with state of the art dual SIM card POS terminals for business customers
- launching a USSD mobile banking platform branded as Konnect
- enhancing our retail and corporate internet banking platform
- expanding and enhancing 'back office' systems to cater for the expanded business.

Considerable investment was made to ensure our banking platforms were robust enough to support a larger bank, with major IT infrastructure upgrades and two new data centres being put in place.

During this complex project we also maintained our focus on the growth of our existing business. Foreign exchange income increased K42m, up 23% compared to the full year 2018, increasing our overall market share. Our total loan book grew 26% and our existing deposit book grew 9%.

Growth of our home loan book was a priority for our banking teams. Early in the year, we introduced PNG's lowest ever standard variable home loan with a major marketing campaign. As a leading product, it generated significant growth and prompted other banks to drop their rates to remain competitive. In Q4 we launched PNG's first ever fixed rate home loan that has seen significant demand.

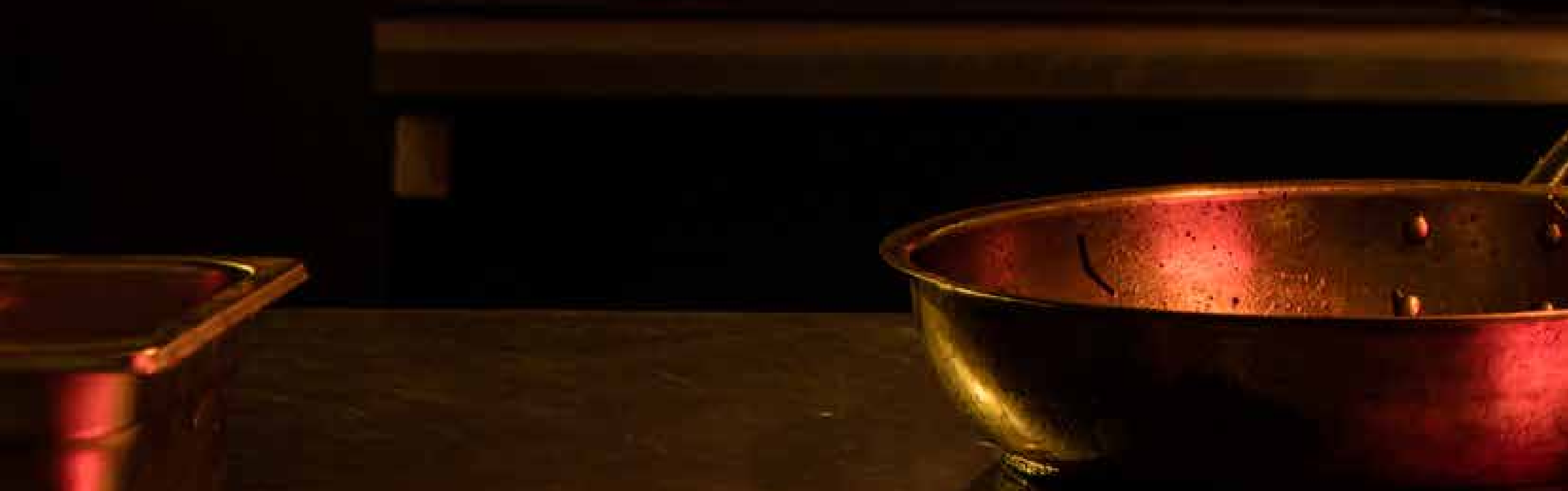
We also re-engineered our home loan application and approval process. With a new digital capability we can provide quicker credit decisions and offer customers a faster, better experience. Our organic home loan book grew by 44% during 2019, and our residential investment property loan portfolio doubled in size. As the second largest retail bank we want to be competitive and drive market disruption.

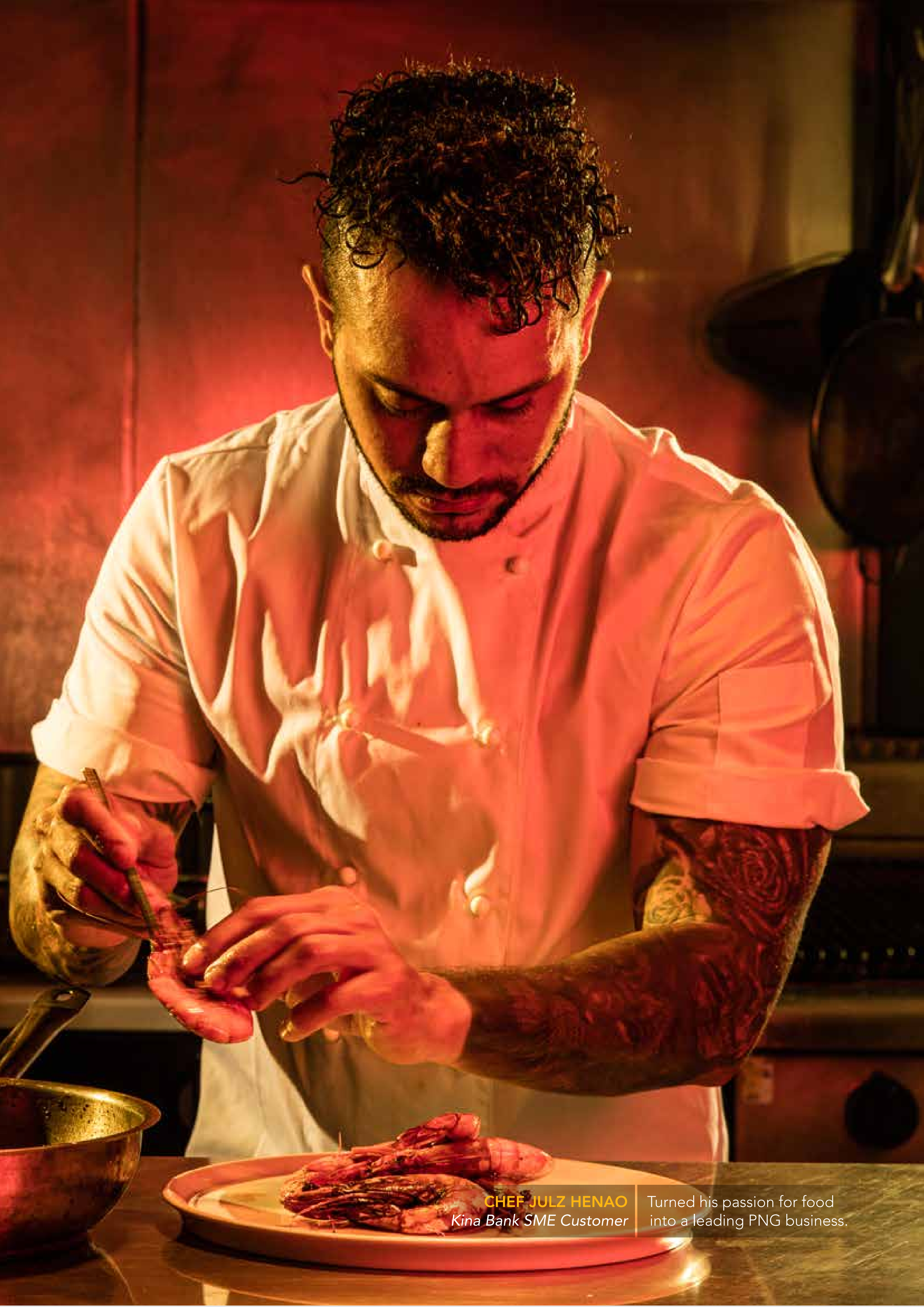
Our customer base grew from 20,000 to more than 165,000, with no customer loss during the integration of the acquired ANZ business with ours. Organic customer growth was up 17%.

We also signed a five-year Network Extension Partnership with ANZ. The partnership enables us to service ANZ's retained institutional customers at dedicated counters in some of our regional branches, where ANZ is no longer represented. Through a tailor made portal, we are able to offer cash and cheque deposits, cash withdrawals and bank cheques. This new revenue stream has already delivered good results.

Our business banking is known as Business Partners which reflects our strategy to partner with our clients. By working closely with our clients and understanding their business in greater detail as a business partner we aim to offer solutions that incorporate not only our loan products but extend to our digital offerings, payments platforms and broader ecosystem of services that we are building out progressively with external parties. The aim is to have more meaningful and deeper engagement with our clients by offering a broad spectrum of products and services which deepen our relationships.

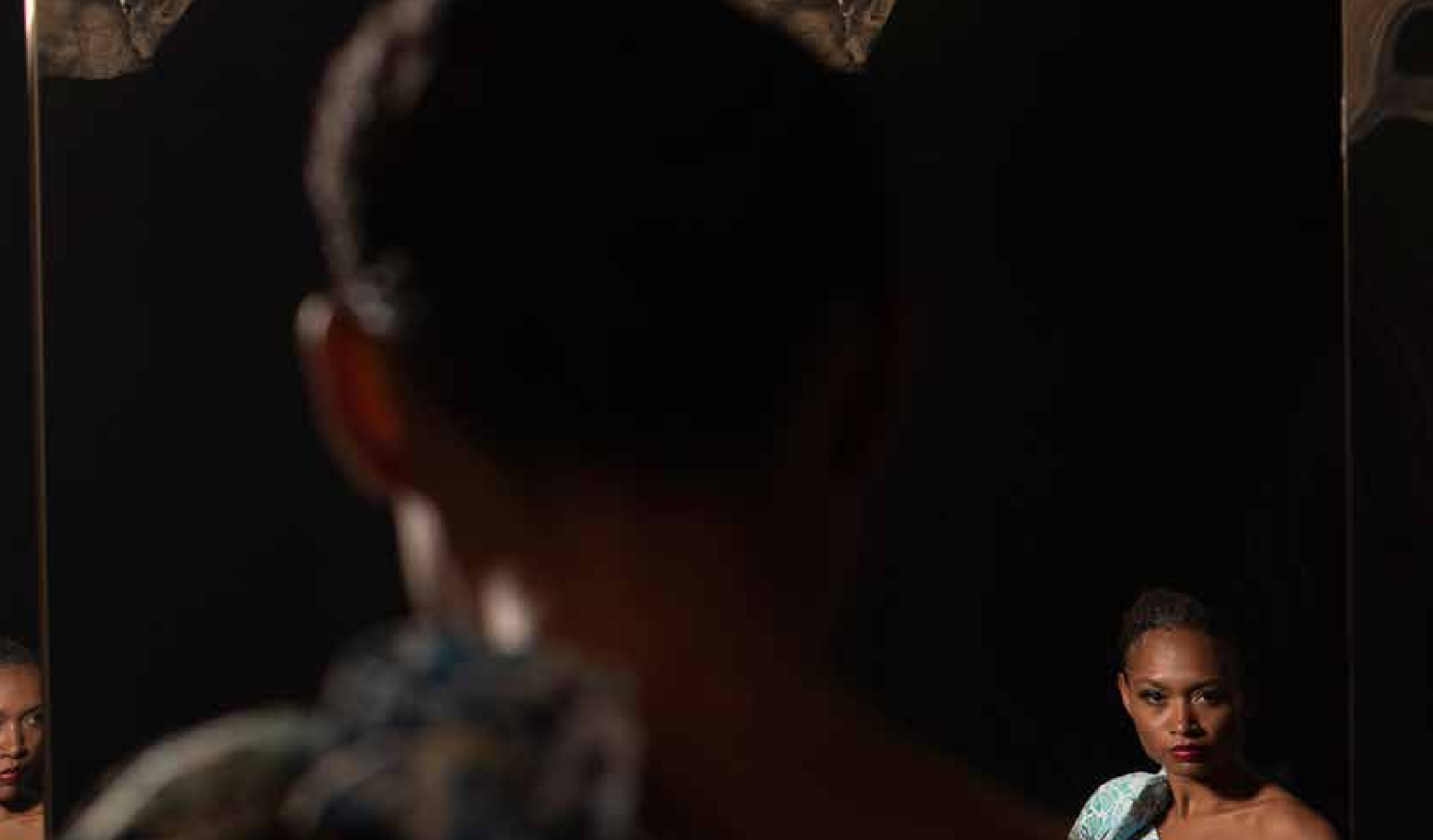
During the year we refined our Business Partner structure by creating a clear front office and mid office. This was done in conjunction with integrating the ANZ PNG acquisition, giving our business a more scalable platform as we look to catalyze growth across our larger regional network. Our structure will allow us to engage greater staff resources as the business grows in areas of greatest added value. It will also allow us to create efficiencies as we retain the strong centralisation of process type activities. This fits with our strategy of being strongly relationship based in the business segment.





CHEF JULZ HENAO
Kina Bank SME Customer

Turned his passion for food into a leading PNG business.



Wealth

We continue to be the largest wealth management business in PNG, with over PGK8 billion of funds under management; the largest fund administrator, administering accounts on behalf of almost 800,000 clients whose funds total K12.55 billion; and the leading stock broking company.

We continued our strong relationships with the major PNG superannuation funds and delivered excellent services and outcomes for the year ending 31 December 2019.

The Wealth Management business comprises License Holders, Kina Funds Management Ltd, Kina Investment and Superannuation Services Ltd, and Kina Retail Wealth Management. We provide a range of services including wholesale funds management retail funds management, funds administration, custodial services, corporate advisory and stockbroking.

Funds Management saw growth of 7% to PGK 8b, a reflection of sold investment returns over the period as well as ongoing contributions. Clients achieved impressive return results, relative to competing funds, despite the ongoing volatility in markets and subdued domestic economic conditions.

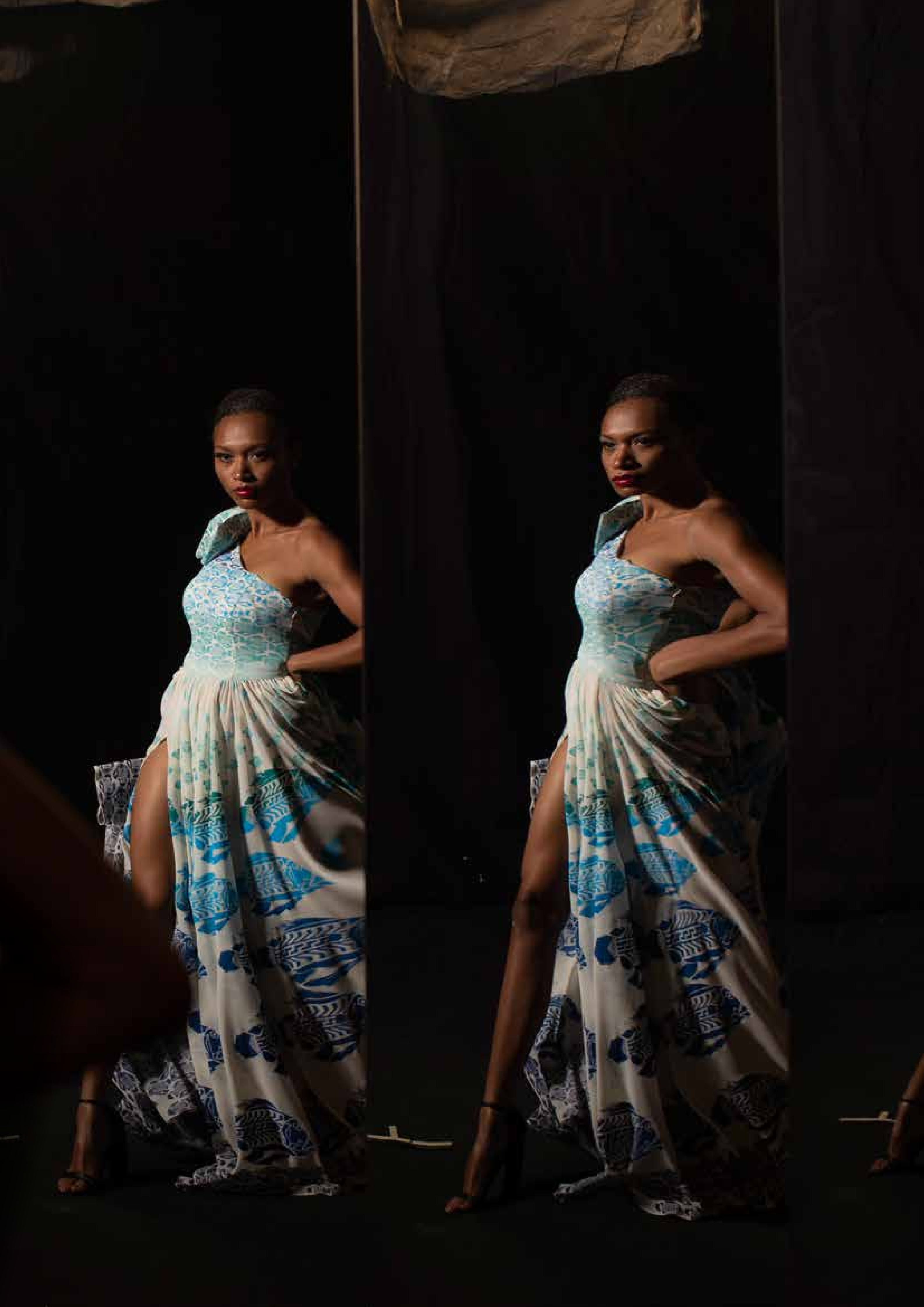
Funds Administration also recorded growth in profit by 25% on the back of increased funds under administration and growth in member numbers compared to the prior year.

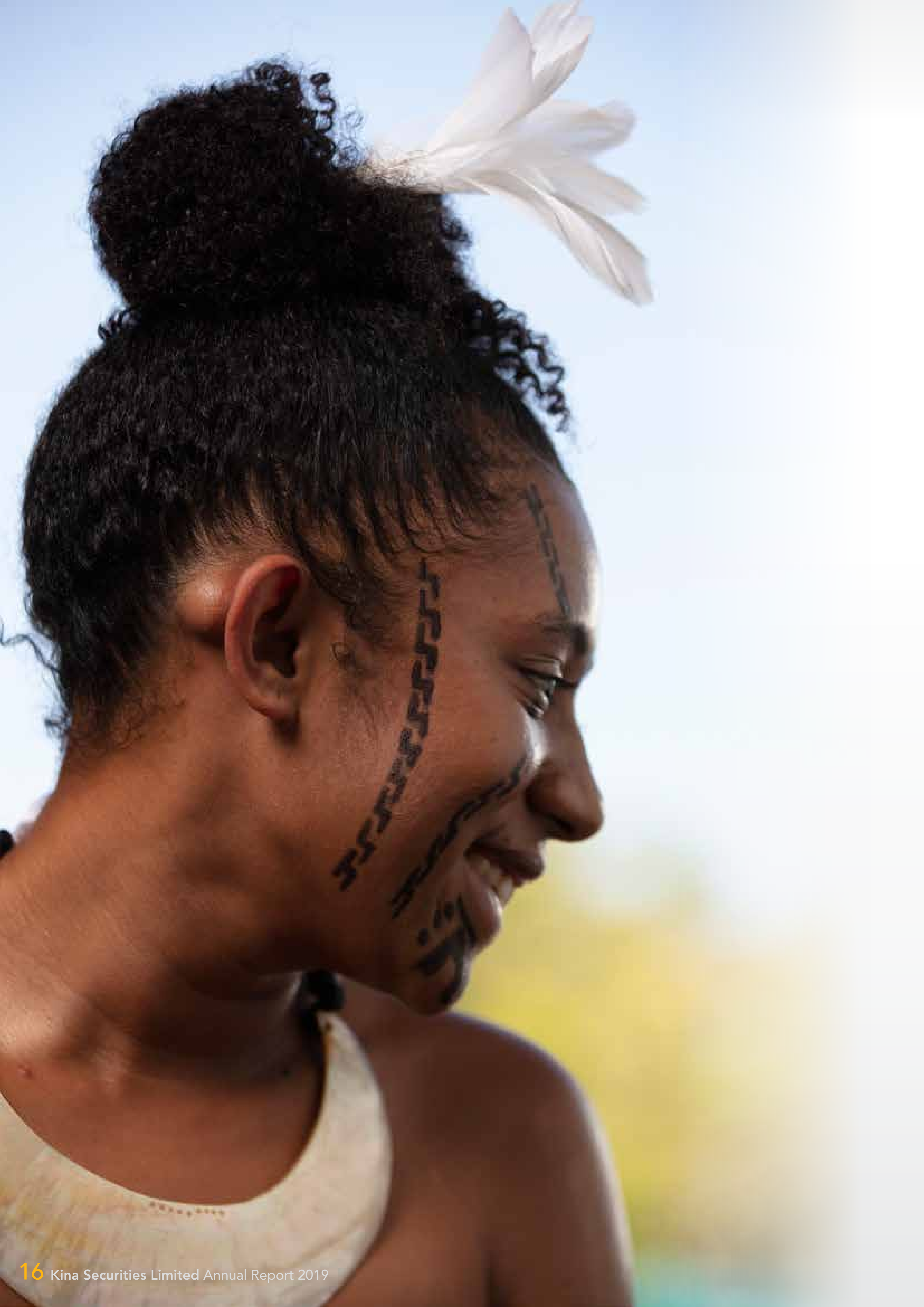
We have been providing strong funds administration services for over 18 years and quality customer service remains our highest priority. We have strict measurement and tracking controls in place to ensure we reach our service level agreements for all of our clients. We were delighted to achieve a 98% performance rating for 2019. This is well above industry standard results. Our transparent and efficient process management is an important driver of this success.

Within our share broking business, our market share remained above 50%. We established new service offerings, including a Separately Management Account and an Outsourced Treasury Management service. We also diversified our share broking service to transact for clients in wholesale fixed interest instruments, as well as enabling clients to trade on foreign exchanges, such as the ASX.

These were developed internally by our dedicated team who are developing a range of skills and knowledge unique in PNG and of strategic value. Our funds administration staff were also accredited by the Association of Superannuation Funds of Australia.

With the acquisition of ANZ PNG complete, we now have a strong distribution platform for the retail component of our wealth management business to grow. Leveraging this opportunity will be a medium term priority.





Total Societal Impact

In 2019 we formalised our Total Societal Impact Strategy which outlines the approach we are taking to address social and environmental challenges. The strategy underpins our purpose of building a successful and positive future for Papua New Guinea by: helping to create the workforce of the future; supporting enterprise; and helping to build a digital PNG.

We delivered on our first strategic objective with the launch of Project Wok, our key youth development initiative, in partnership with a local not-for-profit charity. Youth unemployment is a pressing social and economic issue in PNG and our aim was to help under 30s into employment. The initiative provided school leavers with face-to-face training sessions, individual coaching and support covering a range of subjects on job readiness. Of those who successfully completed the course more than half were female.

Our second strategic initiative was our partnership with MiBank. MiBank is the largest microfinance institution in the South Pacific and at the forefront of innovation. With digital and inclusive products, they empower women and grassroots people to access its products and services. Working together, we are helping to significantly expand financial inclusion services in PNG, assisting unbanked Papua New Guineans enter the formal financial services sector. We're helping MiBank expand its existing operations by providing their customers with access to ATMs and developing an eftpos network. We also entered into a mutual referral agreement for micro-SMEs who fall outside each respective banks' customer limits. This provides businesses a systemised and formalised pathway to access capital from a microfinance institution and a commercial bank, a first in Papua New Guinea.

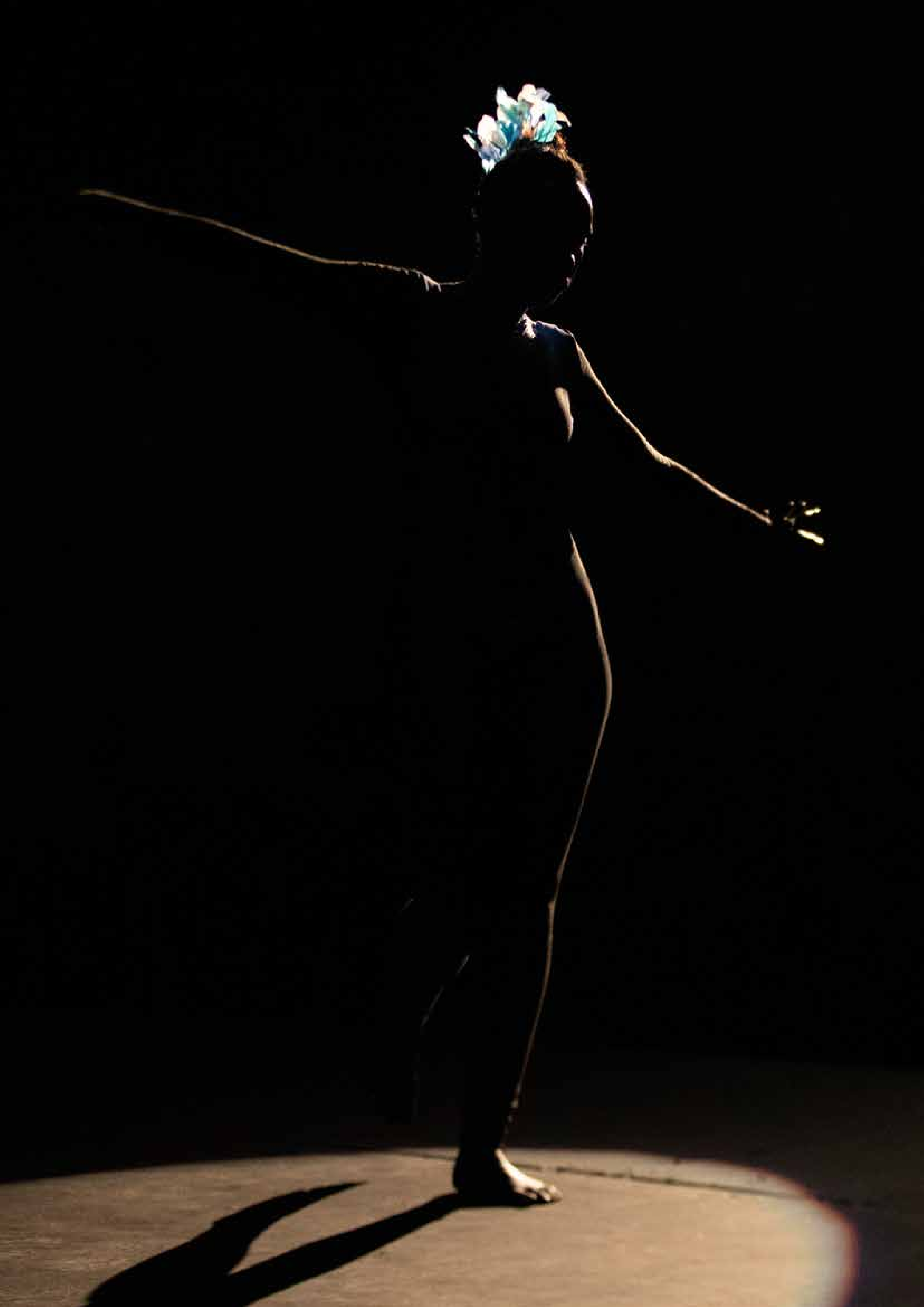
The partnership goals are to provide better service for the SME sector and wholesale funding to support future lending and personal banking services. It delivers on our commitment to financial inclusion and the economic wellbeing of Papua New Guineans.

Throughout the year, we maintained our community support with sponsorships of a wide range of activities: sporting events and corporate fun runs promoting health and wellbeing; fundraising events that support health and education initiatives; and technology and innovation conferences supporting the SME sector and entrepreneurship. A significant gold sponsorship for us was the StartUp PNG Convention in Port Moresby – a major new conference supporting the SME sector. It aligns with the Marape-Steven Government's 2030 vision for MSMEs. Our specialist teams were on hand at the convention to offer business advice and banking solutions.

Our inaugural membership with the Business Coalition for Women continues, supporting female leaders with specialised training for career development. We understand the importance of embracing diversity, specifically in the value of talent that our employees bring to the workplace and this is supported by our gender smart policies. This commitment to maintaining and promoting a corporate culture that promotes an equitable and fair workplace is emphasised in our Diversity Policy.

We also established our Women in Digital Initiative. A research, innovation and coaching program, it is led by female staff in technology and design. They are creating an environment that will nurture design thinking, through which entrepreneurs can ideate and test tailor made solutions to PNG-specific problems. This encourages the participation of more people, especially women, in the digital economy and is in line with our vision to be the leading digital bank in Papua New Guinea.

Our Corporate Governance Statement ensures that the highest standards of integrity, honesty and fairness is maintained with all stakeholders. This continues our strong track record and commitment to acting ethically and responsibly in everything we do.



Strategic Direction

In December we finalised our 2025 Strategic Plan: Building the bank of the future. The plan sets a five year pathway to becoming PNG's leading digital bank. Its theme is strong growth across the three targeted customer sectors of retail, commercial and SME. It codifies our continued focus on digitalisation, partnering to create and capture more value, and convening a market place of assets, capabilities and services.

To align with our strategy, we refreshed our vision to clearly articulate this long-term and sustainable commitment to our customers, communities and shareholders. We also refined our company purpose: Building the bank of the future today to empower the lives of Papua New Guineans tomorrow. Our purpose unites our business, giving our people the direction and clarity required to deliver on our vision.

The foundation of the strategy is our continued investment in digital and technology infrastructure. This investment will enable us to serve customers better, offer more digital products and services, engage with partners and continuously innovate. We are also appointing a Chief Data Officer whose responsibility will be to deliver data analytics and business intelligence that drives innovation.

Future business growth

By leveraging our relationship with the Asian Development Bank we have significantly improved our access to the corporate sector. The ADB's AAA external credit rating strengthens our position and will allow us to build the size and scale of our Foreign Exchange business and trade finance. We are already seeing new corporate customers trading FX with us and we will focus on growing our market share.

We now have the capability to reach new customers in all major provincial centres through our national branch network. Customer service will be a key differentiator for us and we are embedding a strong service ethos across the business through a series of service principles.

Our aim is to ensure all of our customers receive quality service quickly, and that the experience is consistent across all locations.

We have also appointed a customer advocate, reporting to the Head of Customer Experience, whose role will be to oversee the prompt resolution of complaints, champion the customer and hold the business to account.

In branch we are introducing a network of business lenders for quick decisions and a fast and efficient turnaround; and a concierge service to encourage customers to use our expanded suite of self-service options at our new digital kiosks.

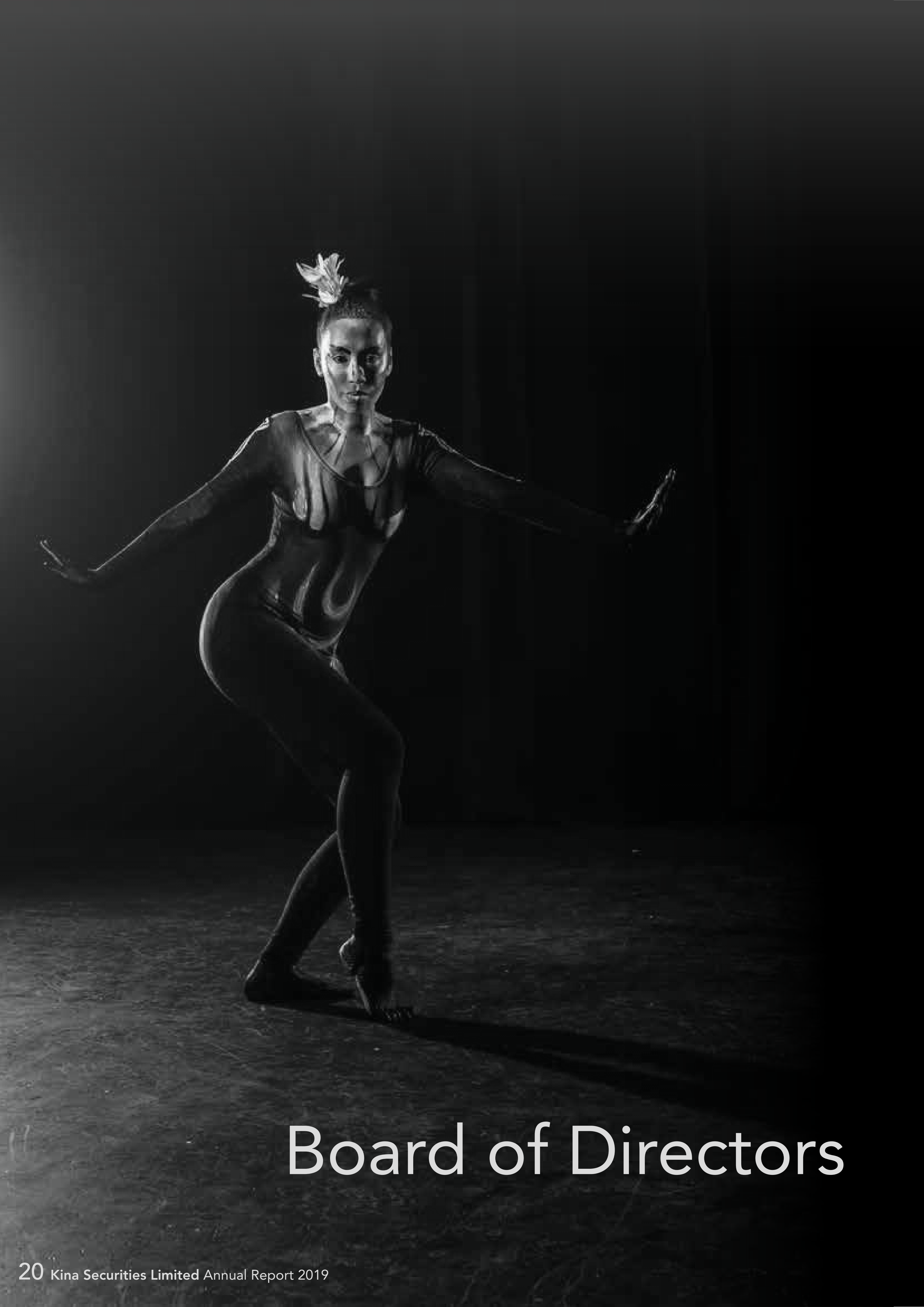
Digital innovation

Our continued investment in digital innovation will fuel future revenue growth and strengthen existing revenue. We have a series of projects in development to improve our service offering to each of our target sectors.

For merchants, we are investing in new digital payments solutions. Our market-leading eftpos service has been extremely popular and seen significant growth, which we anticipate to continue further. We see our continued investment in merchant services as a key platform for our support of the SME sector.

There is also significant opportunity to provide greater value-added services to our superannuation customers. We will look to offer bespoke products and services and refresh our online offering. We provide customers with a consolidated real-time view of the superfund balances alongside their bank accounts and we're the only bank in PNG to offer this single-view. We will enhance this in the coming months.

Finally, with the addition of our new channels after the acquisition, such as USSD mobile banking, eftpos, and Visa Credit and Debit cards, we expect to see healthy growth in non-interest revenue.



Board of Directors

Term of office: Director since 13 April 2016 and Chairman since 16 May 2017

Date of next scheduled re-election: May 2022

Independent: Yes

Current directorships of listed entities and dates of office: Nil

Other principal directorships: Nil

Other interests: CEO Kumul Consolidated Holdings Limited, Council Member St John Ambulance PNG, Chair of PNG Digital Commerce Association and Member of PNG APEC Business Advisory Council

Other Kina related entities directorships and dates of office: Kina Bank Limited (since June 2016)

Skills, experience and expertise: Isikeli previously held a number of roles in the oil & gas sector, including Executive Director InterOil Corporation; President Chevron Geothermal & Power - Indonesia and Philippines; President of ChevronTexaco China Energy Company; Managing Director of Chevron Asia South Business Unit responsible for exploration and production in Thailand, Bangladesh, Cambodia, Myanmar and Vietnam and; Country Manager for Chevron New Guinea Limited with responsibility for oil operations in Papua New Guinea and Western Australia. Before joining Chevron, Mr Taureka managed the PNG-owned Post and Telecommunication Corporation, worked at the Bank of South Pacific Limited in a senior management capacity and was Deputy Managing Director at Resources Investment Finance Limited

Kina Board Committee membership: Disclosure Committee (Chairman)

Directorships of other listed entities over the last three years and dates of office: Nil

Isikeli (Keli) Taureka

Chairman and Independent Non-Executive Director
BEc (UPNG), GAICD

Term of office: Chief Executive Officer and Managing Director of Kina Securities Limited since 1 Januart 2018

Date of next scheduled re-election: Not applicable

Independent: No

Current directorships of listed entities and dates of office: Nil

Other principal directorships: Nil

Other interests: Former President Executive Committee of Australia Papua New Guinea Business Council

Other Kina related entities directorships and dates of office: Kina Bank Limited (since January 2018), Kina Funds Management Limited (since January 2018), Kina Investment & Superannuation Services Ltd. (since January 2018), Kina Nominees Limited (since January 2018), Kina Properties Limited (since January 2018), Kina Ventures Limited (since January 2018) and Kina Wealth Management Limited (since January 2018).

Skills, experience and expertise: Greg has an extensive knowledge of the financial services industry in Australia, New Zealand, South East Asia and the Pacific. Before his appointment, Mr Pawson was Regional Head of South Asia Pacific for the Westpac Group and held senior executive roles in retail banking, corporate financial services, financial planning and funds management.

Kina Board Committee membership: Disclosure Committee

Directorships of other listed entities over the last three years and dates of office: Nil

Greg Pawson

Chief Executive Officer and Managing Director
MBA and MAICD

Karen Smith-Pomeroy

Independent Non-Executive Director
ADip Accounting, FIPA,
GAICD and FFin

Term of office: Director since 12 September 2016

Date of next scheduled re-election: May 2020

Independent: Yes

Current directorships of listed entities and dates of office: Director of Ifigen Energy since 2018

Other principal directorships: Non-Executive Director of Queensland Treasury Corporation, Stanwell Corporation Limited, InFocus Wealth Management Limited and Chair of National Affordable Housing Consortium Limited.

Other interests: Nil

Other Kina related entities directorships and dates of office: Kina Bank Limited (since September 2016)

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

Kina Board Committee membership: Audit & Risk Committee (Chair), Disclosure Committee and Remuneration and Nomination Committee

Directorships of other listed entities over the last three years and dates of office: Nil

Jane Thomason

Independent Non-Executive Director
BSW, MPH PhD

Term of office: Director since 27 April 2018

Date of next scheduled re-election: May 2021

Independent: Yes

Current directorships of listed entities and dates of office: Nil

Other principal directorships: Director Fintech Worldwide UK and Australia

Other interests: Jane is an active role model for women, having educated mentored many young women, and was on the steering committee for "Gender equality in Australia's aid program - why and how", and delivered the keynote address at its launch at Parliament House. Jane is also a global thought leader in digital transformation and blockchain for social good

Other Kina related entities directorships and dates of office: Kina Bank Limited (since April 2018).

Skills, experience and expertise: Jane is a successful business founder and values based leader with highly developed abilities in strategic planning, communication, facilitation and influencing. Jane has demonstrated capacity to work in a multi-sector global environment, and experienced in engaging at the highest policy and political levels. She has 30 years leading major, complex programs in Asia and Pacific, including Indonesia, Mongolia, Philippines, Papua New Guinea, Solomon Islands, Fiji, Samoa, for a range of international organisations including AusAID, USAID, ADB, and World Bank.

Kina Board Committee membership: Remuneration and Nomination Committee (Chair)

Directorships of other listed entities over the last three years and dates of office: Nil

Paul Hutchinson

Independent Non-Executive Director
GGMP Harvard Business School and MAICD

Term of office: Director since 16 August 2018

Date of next scheduled re-election: May 2022

Independent: Yes

Current directorships of listed entities and dates of office: Nil

Other principal directorships: Vice-President and Director RSPCA (South Australia), and Chair Business School Advisory Board, The University of Adelaide

Other interests: Nil

Other Kina related entities directorships and dates of office: Kina Bank Limited (since August 2018).

Skills, experience and expertise: Paul is currently employed by the University of Adelaide in the capacity of Executive Director for the Faculty of Professions responsible for the provision of strategic, technical and operational support to the schools of Business, Economics and Law. Previously, Paul was the Managing Director and Chief Executive Officer of Rural Bank (specialising in the provision of financial services to the agribusiness sector), Chief Operating Officer of New Zealand Post and a variety of senior appointments with Westpac Banking Corporation, National Australia Bank and Bank of New Zealand. Paul has extensive background in strategy, finance, sales and distribution, commercial operations and risk management honed over 30 years in the financial services sector. He is well versed in corporate governance practices having previously been a member of the Rural Bank Board and other public companies in Australia and New Zealand

Kina Board Committee membership: Audit and Risk Committee.

Directorships of other listed entities over the last three years and dates of office: Nil

Andrew Carriline

Independent Non-Executive Director
BCom/LLB UNSW, GAICD

Term of office: Director since 16 August 2018

Date of next scheduled re-election: May 2022

Independent: Yes

Current directorships of listed entities and dates of office: Nil

Other principal directorships: Andrew is a Non-Executive Director of Bluestone Group, Hay Group, GRC Solutions Pty Limited and the Human Rights Law Centre.

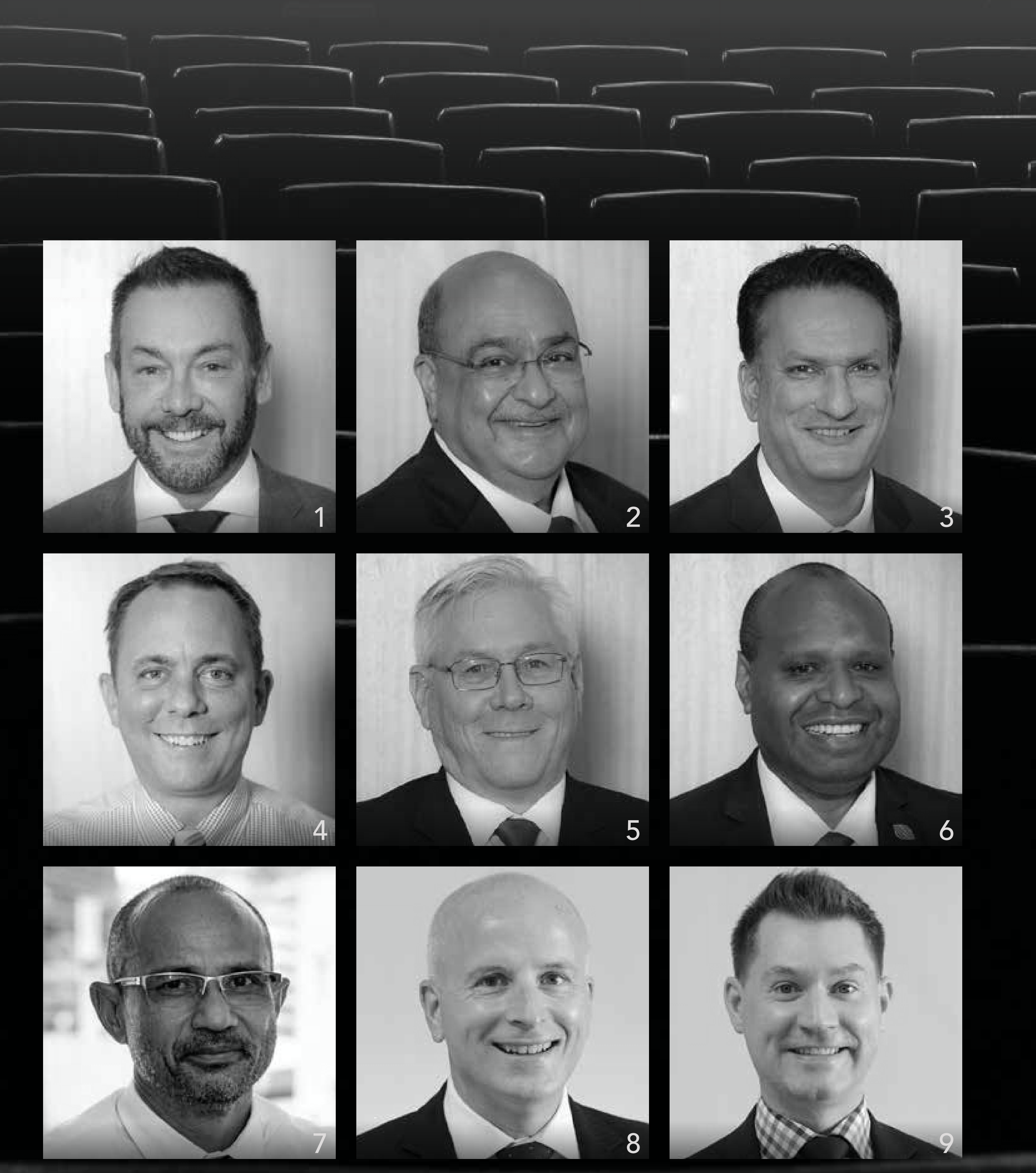
Other interests: Andrew is the inaugural Ambassador for the International Centre for Democratic Partnerships, a private non-profit company expanding and strengthening leadership capability, and Australia's relationships, throughout the Pacific; and an accredited coach and facilitator.

Other Kina related entities directorships and dates of office: Kina Bank Limited (since August 2018).

Skills, experience and expertise: Andrew is an experienced business executive, highly skilled at operating successfully in regulated environments. Andrew retired from a major Australian bank in July 2017. He spent the period from 2002 until his retirement in senior risk and executive roles. He was also Chairman of the bank's business in PNG until early 2018. Until 2002, Andrew practiced corporate law in the public, private and corporate sectors.

Kina Board Committee membership: Audit and Risk Committee, Disclosure Committee and Remuneration and Nomination Committee

Directorships of other listed entities over the last three years and dates of office: Nil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Senior Executive Team

Greg Pawson
Chief Executive Officer/Managing Director

Greg was appointed CEO in 2018. Before his appointment, he was Regional Head of South Asia Pacific for the Westpac Group and held senior executive roles in retail banking, corporate financial services, financial planning and funds management.

Chetan Chopra
Chief Financial Officer

Chetan is a Chartered Accountant from India and a widely experienced finance executive. He was previously CFO of PNG's largest superannuation fund, Nambawan Super.

Deepak Gupta
Executive General Manager of Business Partners and Wealth

Deepak has had a long and successful career in financial services, spanning all facets of institutional funds management, private equity investment, funds administration, financial planning and corporate trusteeship.

Adam Downie
Executive General Manager of Personal Banking

Adam joined Kina Bank in 2018 to assist with the acquisition of ANZ's Retail, SME and Commercial operations. Prior to joining Kina Bank, Adam oversaw the retail strategy of Westpac's businesses in Papua New Guinea and Fiji.

Michael Van Dorssen
Chief Risk Officer

Michael joined Kina Bank in 2009. He has extensive experience in the banking industry in both Australia and PNG with a career spanning more than 30 years. Prior to joining Kina Bank, he worked for SunCorp Limited and Westpac Bank PNG.

Nathanial Wingti
Treasurer and Head of Markets

Nathan joined Kina Bank from ANZ where he spent 15 years working on foreign exchange, money markets and balance sheet management.

Johnson Kalo
Chief Operating Officer

Johnson was appointed Chief Operating Officer in September 2019. Johnson has substantial industry experience in Papua New Guinea having previously held the positions of Deputy Chief Executive Officer and Chief Financial Officer for BSP.

Ivan Vidovich
Chief Transformation Officer

Ivan joined Kina Bank in 2019 and is responsible for Group Strategy and Planning, People and Culture, Digital Channels, Innovation, Design, Product and Marketing. He has 20 years senior leadership experience in Australia, Asia and Europe in the financial services and logistics industries.

Gavin Heard
Group Manager Corporate Affairs and Investor Relations

Gavin joined Kina Bank in 2018. With over 15 years' of experience as a communications specialist, his roles include working for the BBC in cultural and current affairs; developing crisis planning policy for the Australian Government in PNG; and in communications for Westpac Pacific.

Remuneration report

Contents

1 Introduction & Overview to Shareholders

The Remuneration Report is focused on providing information that the Board considers important for shareholders to understand the remuneration framework of Kina. This is designed to deliver targeted operating financial and non-financial results. The Remuneration Report has not been prepared in accordance with section 300A of the Australian Corporations Act 2001 (Cth).

During the year, Kina reviewed its incentive plans to ensure they were aligned with market best practice and that they continue to attract, motivate and retain high calibre management and employees. No material amendments have been made to the Company's incentive plan for the 2019 financial year.

2 Kina's Key Management Personnel (KMP)

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

Name	Position held during the financial year ended 31 December 2019
Non-Executive Director (section 4 of this Remuneration Report)	
Isikeli Taureka	Non-Executive Chairman
Karen Smith-Pomeroy	Non-Executive Director
Jane Thomason	Non-Executive Director
Paul Hutchinson	Non-Executive Director
Andrew Carriline	Non-Executive Director
MD & CEO and Senior Executive Team (direct reports)	
Greg Pawson	CEO
Chetan Chopra	Chief Financial Officer and Company Secretary
Adam Downie [1]	Executive General Manager, Personal Banking
Deepak Gupta	Executive General Manager, Business Partners and Wealth
Michael Van Dorssen	Chief Risk Officer
Adam Fenech [2]	Executive General Manager, Shared Services
Wayne Beckley [3]	Executive General Manager, Integration
Gavin Heard [4]	General Manager Corporate Affairs and Investor Relations
Johnson Kalo [5]	Chief Operating Officer
Ivan Vidovich [6]	Chief Transformation Officer
Danny Robinson [7]	Executive General Manager, Banking

1. Appointed 6 May 2019
2. Resigned 4 November 2019
3. Resigned 30 December 2019
4. Appointed 23 January 2019
5. Appointed 23 September 2019
6. Appointed 5 August 2019
7. Resigned 3 May 2019

2.1 Remuneration and Nomination Committee

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

- formulating advice to the Board on the remuneration of the CEO, Senior Executive Team and employees holding Responsible Person positions (as defined in accordance with Banking Prudential Standard BPS310 Corporate Governance – Fit and Proper Requirements, issued by the Bank of Papua New Guinea (BPNG);
- providing an objective, non-executive review of the effectiveness of Kina's remuneration policies and practices;
- recommending to the Board for approval by shareholders, the amount and structure of directors' fees;
- administering aspects of the "Fit and Proper" requirements of BPNG BPS310; and
- identifying the mix of skills and individuals required to allow the Board to contribute to the successful oversight and stewardship of the Company.

Refer to Kina's Corporate Governance Statement (available on Kina's website at http://investors.kinabank.com.pg/investors/?page=corporate-governance) for more information regarding the RNC.

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

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

3 Executive remuneration

3.1 Remuneration policy and governance framework

The RNC reviews and determines Kina's remuneration policy and structure annually, for approval by the Board, to ensure it remains aligned to the Company's business needs, and meets its remuneration principles. From time to time, the RNC also engages external remuneration consultants to assist with this review. In particular, the Board aims to ensure that Kina's remuneration practices are:

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

Under the Company's Securities Trading Policy, Relevant Persons (which includes all directors and officers of Kina (CEO, CFO and Company Secretary) and all direct reports of the CEO), are prohibited from entering into any hedging arrangements that limit the economic risk of holding Kina securities under Kina equity plans. This helps align the interests of directors, the Senior Executives Team and shareholders.

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

Fixed remuneration	Total fixed remuneration comprises base salary, other non-cash benefits and includes superannuation.
STI Award	The short term incentive award (STI Award) provides participants with an opportunity to earn an incentive calculated as a percentage of their salary each year, conditional upon achievement of individual key performance indicators (KPIs) which may consist of financial and, if applicable non-financial performance measures. The incentive earned will be paid: • 65% in cash • 35% in an offer of performance rights. The cash portion of the incentive will be paid in the next pay cycle following confirmation of the performance outcomes being achieved. The performance rights portion (STI Performance Rights) will be issued under Kina's Performance Rights Plan (Plan) in one tranche and will remain payable even following resignation. The Board has the right to vary the STI Award.
LTI Award	A long term incentive award (LTI Award) that provides an opportunity for employees to receive an equity interest in Kina through the granting of Performance Rights (LTI Performance Rights) under the Plan, Under the LTI Award, LTI Participants may be offered LTI Performance Rights that are subject to vesting conditions set by the Board. The Board has the right to vary the LTI Award.
Retention Plan	A one-off equity based performance rights plan that was utilised at the time of the Company's listing on ASX and PNGX in July 2015, to assist in the retention and reward of key eligible employees at that time. The Kina Board has discretion as to whether the Retention Plan will continue and apply to other KMP..

3.2 Fixed Remuneration (FR)

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

3.3 Short-term incentive award (STI Award)

Structure of STI Award

FEATURES	DESCRIPTION
Eligibility	The CEO and Senior Executive Team are eligible to participate in the STI Award (STI Participants).
STI Award components	Cash bonus: 65% of the STI Participant's STI Award. STI Performance Rights: 35% of the STI Participant's Award.
Performance measures	Individual KPIs specific to each STI Participant are agreed during the performance appraisal process each year. These KPIs consist of both financial and non-financial performance measures and are agreed with the CEO and KMP at the start of each year. No STI Award is payable unless a minimum Group Net Profit After Tax (NPAT) is achieved. The Board has the right to vary this requirement. The Board allocates an annual pool to the STI Award each year. There are levels of targeted performance for allocation of the pool for 2019: Minimum (85% of budget) Threshold (85% - 100% budget): 50% Target (Budget 100%) 90% Stretch (100+ to 110%+) 100% Stretch (120%+) up to 120%
	The pool is then allocated in accordance with the maximum and target STI Award for each KMP (which is detailed later) as a percentage of Gross pay. The Board has the right to vary the STI Award.
Calculation of STI Performance Rights	The number of STI Performance Rights granted is determined by dividing the award value by the 10-day volume weighted average price per share prior to 31 December of the year of award (VWAP).
Vesting of STI Performance Rights	STI Performance Rights are restricted from exercise until the second anniversary after the grant date and will vest on the second anniversary. These are not subject to any further measurement after award and allotment.

Period	Date Granted	Vesting date
FY ended 31 December 2016	17 February 2017	17 February 2019
FY ended 31 December 2017	1 April 2018	1 April 2020
FY ended 31 December 2018	1 April 2019	1 April 2021
FY ended 31 December 2019	1 April 2020	1 April 2022

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

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

3.4 Long term incentive award

The CEO and the Senior Executive Team participate, at the Board's discretion, in the LTI Award comprising annual grants of Performance Rights. Further details are shown in the table below:

Structure of LTI

FEATURES	DESCRIPTION
Eligibility	Participants must be a permanent full-time or part-time employee or Executive Director of Kina or any of its subsidiaries (LTI Participants).
LTI components	The LTI Award will be delivered as performance rights (LTI Performance Rights) with each right conferring on its owner the right to be issued or transferred one (1) fully paid ordinary share in the Company.
Performance measures	Since 2016, the LTI Performance Rights will only vest subject to Board assessed satisfaction of the following conditions: • Meeting the required Total Shareholder Return (TSR) performance level based on peer group - 50% weighting • Over a three-year period *(see TSR vesting table below)* • Meeting Earnings Per Share (EPS) target level based on Peer group - 50% weighting • Compound Annual Growth rate over a three-year period *(see EPS vesting table below)* The Board worked with an independent advisor to identify the comparator group companies and the advisor calculates the vesting schedule.
Calculation of LTI Performance Rights	Grants are approved annually. The number of LTI Performance Rights for each year will be determined by dividing the LTI Awards by the 10-day volume weighted average price per share prior to 31 December in the year of grant (VWAP).
Vesting and exercise of LTI Performance Rights	While the grants are approved annually, they will vest no earlier than the third anniversary of the commencement of the performance period and subject to satisfaction of the vesting conditions and performance measures. The performance periods for the outstanding awards are as follows:

Peer group relative TSR performance	Vesting outcome
Below 50th percentile of peer group	Nil
At 50th percentile	50% vesting
Between 50th – 75% percentile	Pro rata between 50% to 100%
75% and above	100% vesting

EPS performance	Vesting Outcome
< 5% compound annual growth	Nil
5%	50% vesting
>5% and < 10%	Pro rata between 50% - 100%
10%	100% vesting

Financial Year	Date Granted	Performance Period	Measures	Vesting date (subject to performance testing)
2015	25/03/2016	2015 Year performance	Achieving profit of PGK 5.7m IPO Listing	25/03/2019
2016	17/02/2017	01/04/2017 to 31/03/2020	EPS assessment compound till FY 2019 - 50% Relative TSR assessment compounded to FY 2019 - 50%	01/04/2020
2017	01/04/2018	01/04/2018 to 31/03/2021	EPS assessment compound till FY 2020 - 50% Relative TSR assessment compounded to FY 2020 - 50%	01/04/2021
2018	01/04/2019	01/04/2019 to 31/03/2022	EPS assessment compound till FY 2021 - 50% Relative TSR assessment compounded to FY 2021 - 50%	01/04/2022
2019	01/04/2020	01/04/2020 to 31/03/2023	01/04/2021 Relative TSR assessment compounded to FY 2021 - 50%	01/04/2023

Forfeiture of LTI Performance Rights	Unvested LTI Performance Rights may be forfeited: • if the Board determines that any vesting condition applicable to the LTI Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • in certain circumstances if the LTI Participant's employment is terminated; or • in other circumstances specified in the LTI Plan (for example, if the Board determines that the LTI Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina).

3.4 Long term incentive award (continued)

<table>
<tr><td>Lapse of LTI Performance Rights</td><td>Unless otherwise specified in the vesting conditions or otherwise determined by the Board, a LTI Performance Right lapses on the earliest of:
if the Board determines that any vesting condition applicable to the LTI Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied;
the expiry of the exercise period (if any);
in circumstances of cessation of employment;
in other circumstances specified in the LTI Plan (for example, if the Board determines that the LTI Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina); or
if the participant purports to deal in the LTI Performance Right in breach of any disposal or hedging restrictions in respect of the Performance Right.</td></tr>
<tr><td>Target LTI and maximum LTI that can be awarded</td><td><table><tr><th></th><th>Target</th><th>Maximum</th></tr><tr><td>CEO</td><td>50%</td><td>50%</td></tr><tr><td>CFO</td><td>40%</td><td>40%</td></tr><tr><td>Other Senior Executive Team Members</td><td>30%</td><td>30%</td></tr></table></td></tr>
<tr><td>Calculation of Fair Value of LTI Performance Rights</td><td>Fair value of the LTI performance rights subject to TSR and EPS vesting conditions for financial reporting purposes is generally estimated based on Kina's ASX market share price at grant date and using a simulation pricing model applying the assumptions of price volatility, risk free interest rates and dividend yields. Kina engages an independent valuation expert who performs the fair value calculations on the grants based on the valuation methodologies referenced above and below.

TSR:

A Monte Carlo simulation approach is used to value the LTI Awards subject to the relative TSR performance condition as it incorporates an appropriate amount of flexibility with respect to different features of the award. This approach is assumed to follow Geometric Brownian motion under a risk-neutral measure as follows;
simulates correlations between Kina's proxy and other peer companies as well as correlations between other companies in the group;
ranks simulated performances and the proportion of relative TSR award vested as calculated based on vesting schedule; and
record present value of TSR-hurdle award vested
The above process is repeated multiple times and the estimated fair value is the average of the results.

EPS:

Fair value of awards subject to EPS is calculated using a risk-neutral assumption. The fair value is the difference between the share prices of the underlying asset, minus the expected present value of future dividends over the expected life if holders of the underlying asset are not entitled to receive future dividends. The fair value of the awards subject to EPS performance condition will be equal to the share price of the underlying asset if holders are entitled to receive future dividends.</td></tr>
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3.5 Retention Plan

FEATURES	DESCRIPTION
Eligibility	The Board determines the Participants eligible for participation in the Retention Plan also taking into account any recommendation made by the RNC.
Retention Plan	The Retention Plan was a once off award of performance rights (Retention Performance Rights) at the time of listing on ASX and PNGX in July 2015, to assist in the retention and reward of key eligible participants at that time.
Vesting conditions	Vesting of the Retention Performance Rights is subject to a service condition wherein Retention Performance Rights only vest upon successful completion of a service period as determined by the Board at the time of grant.
Calculation of Performance Rights	During 2019, there were no awards of any Retention Performance Rights. During 2018, $300,000 worth of 'Commencement' performance rights equalling 402,685 Retention Performance Rights were granted to the CEO, and approved by shareholders at the 2018 Annual General Meeting on 23 May 2018, vesting in equal instalments over 3 years as follows; • 134,229 vested on 4 December 2018; • 134,229 vested on 4 December 2019; and • 134,227 will vest on 4 December 2020
Forfeiture of Retention Plan Performance Rights	Unvested Retention Performance Rights may be forfeited: • If the Board determines that any vesting condition applicable to the Retention Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • In certain circumstances if the Retention Plan Participant's employment is terminated; or • In other circumstances specified in the Retention Plan (for example, if the Board determines that the Retention Plan Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina).
Lapse of Retention Performance Rights	Unless otherwise specified in the vesting conditions or otherwise determined by the Board, a Retention Performance Right lapses on the earliest of: • If the Board determines that any vesting condition applicable to the Retention Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • The expiry of the exercise period (if any); • In circumstances of cessation of employment; • In other circumstances specified in the Retention Plan (for example, if the Board determines that the Retention Plan Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina); or • If the participant purports to deal in the Retention Performance Right in breach of any disposal or hedging restrictions in respect of the Performance Rights.
Timing of grants	Grants of Retention Performance Rights only apply to new hires (as a one off).

3.6 Performance based and non-performance based components

All STI and LTI elements of the remuneration of the KMP are performance based.

Participant	Cash salary/fees/short-term compensated absences	Non-monetary benefits	Total
Greg Pawson	591,300	186,606	777,906
Chetan Chopra	400,000	169,567	569,567
Michael van Dorssen	400,000	161,048	561,048
Deepak Gupta	350,000	169,567	519,567
Nathan Wingti	225,270	122,875	348,145
Gavin Heard*	206,740	28,290	235,030
Adam Downie*	197,260	89,816	287,076
Ivan Vidovich*	153,082	21,903	174,985
Johnson Kalo*	89,772	7,294	97,066
Wayne Beckley*	349,041	137,222	486,263
Adam Fenech*	232,055	26,267	258,322
Danny Robinson*	117,945	42,787	160,732

* Pro-rata based on start and exit dates

3.7 External Advisor Services

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

3.8 Performance Rights holdings

The table below sets out the current holdings of Performance Rights (PR) by KMP:

First Name	Last Name	Award	Year	Grant Date	Vesting date	Value of PR Granted (AUD)	VWAP Period	VWAP $ applied	PR 31/12/19
GREGORY	PAWSON	RET	2017	3/07/2018	4/12/2020	200,000	29/12/2017	0.745	134,227
		STI	2018	1/04/2019	1/04/2021	206,949	31/12/2018	0.9072	228,118
		LTI	2018	1/04/2019	1/04/2022	295,641	31/12/2018	0.9072	325,883
CHETAN	CHOPRA	STI	2018	1/04/2019	1/04/2021	40,250	31/12/2018	0.9072	44,367
		LTI	2017	16/02/2018	1/04/2021	122,000	31/12/2017	0.6980	174,785
		LTI	2018	1/04/2019	1/04/2022	144,000	31/12/2018	0.9072	158,730
MICHAEL	VAN DORSSEN	STI	2018	1/04/2019	1/04/2021	35,000	31/12/2018	0.9072	38,580
		LTI	2017	16/02/2018	1/04/2021	107,883	31/12/2017	0.6980	154,560
		LTI	2018	1/04/2019	1/04/2022	107,882	31/12/2018	0.9072	118,918
DEEPAK	GUPTA	STI	2018	1/04/2019	1/04/2021	21,000	31/12/2018	0.9072	23,148
		LTI	2017	16/02/2018	1/04/2021	91,500	31/12/2017	0.6980	131,089
		LTI	2018	1/04/2019	1/04/2022	91,499	31/12/2018	0.9072	100,859
NATHAN	WINGTI	STI	2018	1/04/2019	1/04/2021	26,250	31/12/2018	0.9072	28,935
		LTI	2018	1/04/2019	1/04/2022	48,000	31/12/2018	0.9072	52,910
WAYNE	BECKLEY	STI	2018	1/04/2019	1/04/2021	52,500	31/12/2018	0.9072	57,870
		LTI	2018	1/04/2019	1/04/2022	104,999	31/12/2018	0.9072	115,740
DANNY	ROBINSON	STI	2018	1/04/2019	1/04/2021	17,500	31/12/2018	0.9072	19,290
		LTI	2017	16/02/2018	1/04/2021	96,000	31/12/2017	0.6980	137,536
		LTI	2018	1/04/2019	1/04/2022	96,000	31/12/2018	0.9072	105,820
TONY	DE LA FOSSE	LTI	2017	16/02/2018	1/04/2021	72,000	31/12/2017	0.6980	103,152
SYD	YATES	STI	2016	6/06/2017	6/06/2019	30,752	31/12/2017	1.065	28,875
		LTI	2016	6/06/2017	1/04/2020	200,000	31/12/2017	1.065	45,498
KONG	WONG	LTI	2015	25/03/2016	23/03/2018	73,710	25/03/2016	0.910	81,000

Subsequent to, and in relation to, the year-ended 31 December 2019 (FY2019 Awards), the Board approved the following STI and LTI Awards for eligible participants. The STI Performance Rights and LTI Performance Rights components of the FY2019 Awards are subject to shareholder approval at the 2020 AGM to be held on 19 May 2020:

3.8 Performance Rights holdings (continued)

First Name	Last Name	Plan Name	Year	Grant Date	Vesting Date	Value of PR Granted (AUD)	VWAP period	VWAP $ applied	FY2019 PR
Greg	Pawson	STIP	2019	1/04/2020	1/04/2022	269,042	31/12/2019	1.430	188,141
		LTIP	2019	1/04/2020	1/04/2023	295,650	31/12/2019	1.430	206,748
Chetan	Chopra	STIP	2019	1/04/2020	1/04/2022	70,000	31/12/2019	1.430	48,951
		LTIP	2019	1/04/2020	1/04/2023	160,000	31/12/2019	1.430	111,888
Michael	Van Dorssen	STIP	2019	1/04/2020	1/04/2022	42,000	31/12/2019	1.430	29,371
		LTIP	2019	1/04/2020	1/04/2023	120,000	31/12/2019	1.430	83,916
Deepak	Gupta	STIP	2019	1/04/2020	1/04/2022	43,750	31/12/2019	1.430	30,594
		LTIP	2019	1/04/2020	1/04/2023	105,000	31/12/2019	1.430	73,427
Nathan	Wingti	STIP	2019	1/04/2020	1/04/2022	49,000	31/12/2019	1.430	34,266
		LTIP	2019	1/04/2020	1/04/2023	48,000	31/12/2019	1.430	33,566
Adam	Downie	STIP	2019	1/04/2020	1/04/2022	42,000	31/12/2019	1.430	29,371
		LTIP	2019	1/04/2020	1/04/2023	90,000	31/12/2019	1.430	62,937
Gavin	Heard	STIP	2019	1/04/2020	1/04/2022	23,100	31/12/2019	1.430	16,154
		LTIP	2019	1/04/2020	1/04/2023	66,000	31/12/2019	1.430	46,154
Ivan	Vidovich	STIP	2019	1/04/2020	1/04/2022	38,500	31/12/2019	1.430	26,923
		LTIP	2019	1/04/2020	1/04/2023	-	31/12/2019	1.430	-

3.9 Employment agreements

KMP Contracts

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

CEO employment agreement

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

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

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

Remuneration of employees

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

In PGK	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	-

In PGK	2019	2018
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.

4 Non-executive director arrangements

4.1 Remuneration policy

Non-executive directors receive a Board fee and fees for chairing or participating on Board Committees as shown in table blow. They do not receive performance-based pay or retirement allowances.

The fees are inclusive of superannuation.

Fees are reviewed annually by the Board, taking into account comparable roles and market data provided by the Board's independent remuneration advisor. The current base fees were reviewed in 2017, 2018 and 2019, and no increases were applied.

4.2 Remuneration components

Kina's Board and Committee fee structure during the financial year ended 31 December 2019 was:

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

Fee pool

Under the Constitution, the Board decides the total amount paid to each Non-Executive Director as remuneration for their services as a Director of the Company. However, the total amount of fees (including statutory superannuation entitlements, if any) paid to the Directors for their services (excluding, for these purposes, the remuneration of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. For the financial year ended 31 December 2019, this has been fixed at $1.28 million per annum (no change from prior year, and that amount set out in the Company's Listing Prospectus). Any increase in the total amount payable by the Company to the Non-Executive Directors as remuneration for services must be approved by shareholders in general meeting.

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

Committee fees

The Committee Chair fees are not duplicated for those Directors who are appointed to Chair f more than one Committee or the Board.

4.3 Variable Remuneration

Special remuneration

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

Reimbursement for out of pocket expenses

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

Retirement benefits

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

Participation in incentive schemes

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

5 Related party transactions

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

6 Directors' interests in shares

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

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

Director	Number of Shares	Shareholding as at the date of this Remuneration Report (%)
Isikeli Taureka	30,000 [1]	0.02%
Greg Pawson	268,458 [2]	0.15%
Andrew Carriline	100,000 [3]	0.06%
Paul Hutchinson	50,000 [4]	0.03%
Karen Smith-Pomeroy	60,000 [5]	0.03%
Jane Thomason	20,000 [6]	0.01%

7 Auditor's report

Kina is not required to have this Remuneration Report audited. This Remuneration Report is prepared as a voluntary disclosure and will not be put to shareholders for approval at the 2020 AGM. The expected level of disclosure of an Australian incorporated company has been provided through this Remuneration Report.

1. 30,000 shares held directly.
2. 268,458 shares held directly. At the time of this remuneration report, Greg Pawson holds 134,227 performance rights due to vest on the anniversary of his start date in 2020 as part of his retention incentive. During 2018, Greg Pawson was awarded a total of 228,118 STI performance rights due to vest on 1 April 2021 and 325,883 LTI performance rights due to vest on 1 April 2022. The STI and LTI performance rights relate to the financial year 2018 performance and are subject to vesting conditions as set by the Board. Subsequent to the year ended 31 December 2019, Greg Pawson was awarded a total of 188,141 STI performance rights due to vest on 1 April 2022 and 206,748 LTI performance rights due to vest on 1 April 2023. The STI and LTI performance rights relate to the financial year 2019 performance and are subject to vesting conditions as set by the Board.
3. 100,000 shares held by Maajic Tees Pty Ltd ATF Maajic Super Fund. Andrew Carriline is a Director of Maajic Tees Pty Ltd.
4. 50,000 shares held directly.
5. 60,000 shares held by The Pomeroy Family Superannuation Fund. Karen Smith-Pomeroy is a beneficiary of the Pomeroy Family Superannuation Fund.
6. 20,000 shares held by Jane Thomason Investments Pty Ltd. Jane Thomason is a director of Jane Thomason Investments Pty Ltd.

Directors' Report

Directors' report

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

Directors remuneration

Directors fees paid during the year was as follows:

	2019	2018
	K'000	K'000
Directors		
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
	1,242	1,339
Managing Director		
G. Pawson (appointed 2 January 2018)		
Salaries	1,444**	1,495
Other benefits including leave entitlements	454	443
	1,898	1,938
	3,140	3,277

** 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

Deloitte.

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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.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Business combination 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. 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. The transaction has been accounted for in accordance with IFRS 3 *Business Combination* using acquisition method of accounting whereby acquired assets and liabilities including other identifiable intangible assets have been recognised at fair value. 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.	In conjunction with our valuation and financial reporting specialists our procedures included, but were not limited to: - Obtaining an understanding of the Agreement and reviewing Group's assessment of the application of IFRS 3 to the transaction; - 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 - Engaging valuation specialists to assist in assessing key valuation assumptions; and We also assessed the appropriateness of the disclosures in note 31 to the consolidated financial statements.
Impairment of loans and advances 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. Loans and advances subject to provisioning using the ECL model include the residential lending portfolio, personal loan portfolio and loan commitments. Significant judgement was involved in determining the provision for credit impairment (including the timing of recognition and the amount of the provision). Key areas of the judgement include: - The application of the requirements to determine impairment under IFRS 9	Our procedures in conjunction with our credit specialists included, but were not limited to: **Control design, observation and operation:** We tested the design and operation of manual and automated controls over the impairment provision including: - The accuracy of data input into the system used for credit grading and the approval of credit facilities; and - The ongoing monitoring and identification of loans displaying indicators of impairment and whether they are migrating on timely basis to appropriate risk grading buckets including generation of days past due reports. **Assessing model adequacy:** We assessed the appropriateness of management's internally developed model in determining the impairment loss provision by:

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Financial Instruments, which is reflected in the Company's and the Group's expected credit loss model; - Identification of exposures with a significant movement in credit quality to determine whether 12-month or lifetime expected credit loss should be recognised; - Assumptions used in the expected credit loss model such as the financial condition of the counterparty, repayment capacity and forward-looking macroeconomic factors as disclosed in Note 3; and - Incorporation of forward-looking information to reflect current or future external factors.	- Assessing whether the model adequately addresses the requirements of IFRS 9; - Assessing on a sample basis, the individual exposures to determine if they are classified into appropriate credit risk grades and aging buckets for the purpose of determining impairment loss provision; - Assessing reasonableness of the loss rates applicable to risk grade and aging buckets; and - Assessing 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 We also assessed appropriateness of the disclosures in Note 3 to the consolidated financial statements.
Impairment of non current assets 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. In accordance with IAS 36 *Impairment of Assets* Cash Generating Units (CGUs) including goodwill must be tested for impairment at least annually. The impairment test requires significant judgement due to assumptions required in preparing a discounted cash flow model ('value in use'), including: - Identification of appropriate CGUs to which goodwill is allocated for the purpose of impairment testing; - Future cash flows for the Cash Generating Unit ('CGU'); - Discount rates; and - Terminal value growth rates.	In conjunction with our valuation specialists, our procedures included, but were not limited to: - Evaluating the appropriateness of management's identification of the Group's CGUs and testing of key controls over the impairment assessment process, including the identification of indicators of impairment; - Assessing the reasonableness of cash flow projections and growth rates against external economic and financial data, the Group's own historical performance and historical forecasting reasonableness; - Assessing the key assumptions and methodology used by management in impairment model, in particular the weighted average cost of capital, the cost of debt and the terminal growth rate; - Evaluating the value in use estimate determined by management against the Company's market capitalisation; and - Testing the mathematical accuracy of the impairment model. We also assessed the appropriateness of the disclosures in Note 37 to the consolidated financial statements.

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.

Independent auditor's report

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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

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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
DELOITTE TOUCHE TOHMATSU

Benjamin Lee
Partner
Chartered Accountants
Registered under Accountants Act 1996

Port Moresby, 30 March 2020

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

David Rodgers
Partner
Chartered Accountants
Registered Company Auditor in Australia

Brisbane, 30 March 2020

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
Operating income before impairment losses and other operating expenses		205,566	161,650	87,163	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)
Profit before tax		82,693	69,203	41,488	3,954
Income tax expense	10	(21,822)	(21,110)	945	(1,051)
Net profit for the year attributable to the equity holders of the Company		60,871	48,093	42,433	2,903
Other comprehensive income		-	-	-	-
Total comprehensive income for the year attributable to the equity holders of the Company		60,871	48,093	42,433	2,903

		2019	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 52 to 109 are an integral part of these consolidated financial statements.

Statements of Financial Position

As at 31 December 2019

		CONSOLIDATED		PARENT	
		2019	2018	2019	2018
		K '000	K '000	K '000	K '000
Assets					
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
		2,997,535	1,661,994	423,455	379,637
Liabilities					
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
		2,670,259	1,392,725	192,393	188,455
Net assets		327,276	269,269	231,062	191,182
Shareholders' equity					
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
Total equity		327,276	269,269	231,062	191,182

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

The notes on pages 52 to 109 are an integral part of these consolidated financial statements.

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
Balance as at 31 December 2017	142,213	1,558	112,931	256,702
Transition effect IFRS 9	-	-	(3,820)	(3,820)
Balance as at 01 January 2018	142,213	1,558	109,111	252,882
Profit for the year	-	-	48,093	48,093
Other comprehensive income	-	-	-	-
Employee share scheme – vested rights	-	(769)	-	(769)
Employee share scheme – value of employee services	-	1,862	-	1,862
Dividend paid	-	-	(32,799)	(32,799)
Balance as at 31 December 2018	142,213	2,651	124,405	269,269
Transition effect IFRS 16	-	-	(725)	(725)
Balance as at 01 January 2019	142,213	2,651	123,680	268,544
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)
Balance as at 31 December 2019	176,970	2,063	148,243	327,276

Parent	Attributable to the equity holders of the Parent			
	Share Capital	Share Based Payment Reserve	Retained Earnings	Total
	K '000	K '000	K '000	K '000
Balance as at 31 December 2017	142,213	1,558	76,214	219,985
Profit for the year	-	-	2,903	2,903
Other comprehensive income	-	-	-	-
Employee share scheme – vested rights	-	(769)	-	(769)
Employee share scheme – value of employee services	-	1,862	-	1,862
Dividend paid	-	-	(32,799)	(32,799)
Balance as at 31 December 2018	142,213	2,651	46,318	191,182
Transition effect IFRS 16	-	-	(414)	(414)
Balance as at 01 January 2019	142,213	2,651	45,904	190,768
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)
Balance as at 31 December 2019	176,970	2,063	52,029	231,062

The notes on pages 52 to 109 are an integral part of these consolidated financial statements.

Statements of Cash Flows

For the year ended 31 December 2019

	Note	CONSOLIDATED 2019 K '000	CONSOLIDATED 2018 K '000	PARENT 2019 K '000	PARENT 2018 K '000
Cash flows from operating activities					
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)
Cash flows from operating profits before changes in operating assets and liabilities		69,176	50,944	35,875	30,252
Changes in operating assets and liabilities:					
- (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)
Net cash inflow/(outflow) generated from/(used in) operating activities	28c	(137,310)	219,221	36,612	36,251
Cash flows from investing activities					
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	687,178	-	-	-
Proceeds from sale of property and equipment		16	19,912	16	-
Net movement in investment securities	28b	(403,319)	(139,602)	8	-
Net cash inflow/(outflow) generated from/(used in) investing activities		245,410	(134,689)	(4,614)	(3,920)
Cash flows from financing activities					
Dividend paid		(36,308)	(32,799)	(36,308)	(32,799)
Proceeds on issuance of shares		34,757	-	34,757	-
Net cash inflow/(outflow) generated from/(used) in financing activities		(1,551)	(32,799)	(1,551)	(32,799)
Net increase/(decrease) in cash and cash equivalents		106,549	51,733	30,447	(468)
Effect of exchange rate movements on cash and cash equivalents		2,515	6,391	504	525
Cash and cash equivalents at beginning of year		160,638	102,514	12,886	12,828
Cash and cash equivalents at end of year	28a	269,702	160,638	43,837	12,885

The notes on pages 52 to 109 are an integral part of these consolidated financial statements.

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.

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.

	CONSOLIDATED	PARENT
	1 January 2019	1 January 2019
	K'000	K'000
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	-	-
Lease liabilities recognised on 1 January 2019	21,957	9,004

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)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1 and IAS 8	Definition of material
Conceptual Framework	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.

1.6 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.
- 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:
  - the Group has the right to operate the asset; or
  - 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.

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.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities

are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

1.12 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the following:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the following is considered as goodwill:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired if those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquire is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in profit or loss.

1.13 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.

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.

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.

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.

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 v 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% - 15%
Building improvements	10%
Motor vehicles	30%
Office equipment	15% - 30%

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

1.16 Intangible assets 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.

1.18 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)).

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.

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
31 December 2019											
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
	99,496	(489)	(139)	552	2,146	875	435	355	83	19	607
31 December 2018											
Cash balance	48	2	3	-	-	-	-	-	-	-	-
Due from other banks	57,598	1,240	-	396	(58)	685	3	(64)	3	-	-
	57,646	1,242	3	396	(58)	685	3	(64)	3	-	-

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	
	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.

These mismatches are actively managed by the Assets and Liabilities Committee (ALCO), which meets regularly to review the effects of fluctuations in the prevailing levels of market interest rates of the financial position and cash flows of the Group.

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

	Year ended 31 December 2019	
	Carrying amount	Average Interest rate (% p.a.)
Assets	K '000	
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%
Liability		
Due to customers	2,460,967	1.25%

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

	IMPACT ON STATEMENT OF COMPREHENSIVE INCOME	
	K,000	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.

Internal credit risk ratings

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

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

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

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

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

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

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

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

Incorporation of forward-looking information

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

Measurement of ECL

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

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

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

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.:

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.

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

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

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

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

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

	CONSOLIDATED	
	31 December 2019	31 December 2018
Loans and advances to customers at amortised cost	K'000	K'000
Concentration by sector		
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
Total	1,421,958	870,114
Concentration by region		
Papua New Guinea	1,421,958	870,114
Total	1,421,958	870,114

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

	CONSOLIDATED	
	31 December 2019	31 December 2018
Bank guarantees	K'000	K'000
Concentration by sector		
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
Total	70,375	45,933
Concentration by region		
Papua New Guinea	70,375	45,933
Total	70,375	45,933

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

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

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

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

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

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

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

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

Loans and advances to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	CONSOLIDATED 31 December 2019				
	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	-	-	-	-	-
Total gross carrying amount	1,324,738	73,818	7,894	15,508	1,421,958
Loss allowance	(12,102)	(6,699)	(1,724)	-	(20,525)
Carrying amount	1,312,636	67,119	6,170	15,508	1,401,433

Loans and advances to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	CONSOLIDATED 31 December 2018				
	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
Total gross carrying amount	836,048	28,413	5,653	-	870,114
Loss allowance	(11,010)	(6,053)	(1,388)	-	(18,451)
Carrying amount	825,038	22,360	4,265	-	851,663

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

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

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

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

	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
Total	25,052	23,289

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
Total	23,289	5,646	(5,959)	2,076	25,052

			CONSOLIDATED		
	Balance at 01 January 2018	Additional ECL recognised	Write-offs	Bad debt Recoveries	Balance at 31 December 2018
Loss allowance by classes	K'000	K'000	K'000	K'000	K'000
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
Total	22,838	5,070	(6,345)	1,726	23,289

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

			CONSOLIDATED 31 December 2019		
	Stage 1	Stage 2	Stage 3		
Loss allowance – Loans and advances to customers at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL	POCI	Total
	K'000	K'000	K'000	K'000	K'000
Loss allowance as at 01 January	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)
Loss allowance as at 31 December	12,102	6,698	1,725	-	20,525

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	31 December 2018				
	K'000	K'000	K'000	K'000	K'000
Loss allowance as at 01 January	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)
Loss allowance as at 31 December	11,010	6,053	1,388	-	18,451

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	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	CONSOLIDATED 31 December 2019				
	K'000	K'000	K'000	K'000	K'000
Gross carrying amount as at 01 January	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)
Gross carrying amount as at 31 December	1,324,738	73,818	7,894	15,508	1,421,958

Loans and advances to customers at amortised cost	31 December 2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	K'000	K'000	K'000	K'000
Gross carrying amount as at 01 January	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)
Gross carrying amount as at 31 December	836,048	28,413	5,653	870,114

Investments in government inscribed stock

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

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

	Consolidated			
	Year ended 2019		Year ended 2018	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Loans and advances to customers	K'000	K'000	K'000	K'000
0-29 days	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
Total	1,421,958	20,525	870,114	18,451

Collateral held as security and other credit enhancements

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

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

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

Mortgage lending

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

	CONSOLIDATED	
	Year ended 2019	Year ended 2018
Mortgage lending	Gross carrying amount	Gross carrying amount
LTDV ratio	K'000	K'000
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
Total	320,658	118,541

	CONSOLIDATED	
	Year ended 2019	Year ended 2018
Credit impaired – Mortgage lending	Gross carrying amount	Gross carrying amount
LTDV ratio	K'000	K'000
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
Total	9,721	4,119

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
Total	621,881	208,487

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

Investment securities

The Group holds investment in government inscribed stocks measured at amortised cost with a carrying amount of K34,003,163 (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.

	CONSOLIDATED						
	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years	Total contract value	Total carrying value
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
31 December 2019							
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
Total financial assets	519,415	5,000	750,000	-	-	1,274,415	1,241,505
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
Total financial liabilities	2,199,696	173,791	170,667	72,891	-	2,617,045	2,587,724
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
Total	32,919	102,882	35,710	30,665	-	202,176	N/A
31 December 2018							
Cash and due from banks	85,638	-	-	-	-	85,638	85,638
Central bank bills	80,000	38,000	295,000	-	-	413,000	396,154
Regulatory deposits	137,494	-	-	-	-	137,494	137,494
Total financial assets	303,132	38,000	295,000	-	-	636,132	619,286
Due to other banks	25,075	-	-	-	-	25,075	25,065
Due to customers	760,495	262,715	302,080	4,721	-	1,330,011	1,315,460
Other liabilities	21,972	-	-	-	-	21,972	21,972
Total financial liabilities	807,541	262,715	302,080	4,721	-	1,377,058	1,362,497
Issued financial guarantee contracts	3,032	5,288	28,202	7,713	1,699	45,933	N/A
Issued loan commitments	45,891	19,061	-	-	-	64,952	N/A
Total	48,923	24,349	28,202	7,713	1,699	110,885	N/A

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

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%.

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

	2019	2018
	K '000	K '000
Risk weighted assets	1,598,159	979,611
Capital : tier 1	252,596	233,390
Capital : tier 2	70,932	49,750
Capital : tier 1 and tier 2	323,528	283,140

Capital adequacy ratios		
Tier 1 capital	15.8%	23.8%
Total capital ratio	20.1%	28.9%
Leverage capital ratio	8.5%	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 the on statements of financial position and is made up of tier 1 (core) and tier 2 (supplementary) capital, after deducting the value of investments in other banks and financial institutions. Tier 1 capital is obtained by deducting intangible assets including deferred tax assets from equity capital and audited retained earnings (or accumulated losses). Tier 2 capital cannot exceed the amount of tier 1 capital, and can include subordinated loan capital, specified assets revaluation reserves, un-audited profits (or losses) and a small percentage of general loan provisions.

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

5. Net interest income/ (expense)

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

6. Net fee and commission income

	CONSOLIDATED		PARENT	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Fees and commission income				
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	-	-
	47,878	36,401	879	865
Fee and commission expenses	(93)	(50)	(82)	(35)
Net fee and commission income	47,785	36,351	797	830

7. Dividend income

	CONSOLIDATED		PARENT	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Dividend income from investments				
Financial assets at fair value through profit or loss	357	327	4	12
Investment in subsidiaries	-	-	40,000	-
	357	327	40,004	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
	734	3,089	49,919	40,397

9. Other operating expenses

	CONSOLIDATED		PARENT	
	2019	2018	2019	2018
	K '000	K '000	K '000	K '000
Staff costs	58,443	44,821	27,729	19,402
Acquisition costs relating to business combination	191	345	16	-
Administrative expenses	25,446	18,152	6,323	4,633
Depreciation and amortization	17,034	6,758	5,825	2,498
Operating lease	2,444	5,785	49	2,263
Software maintenance and support charges	1,687	2,028	285	222
Auditor's remuneration (note 36)	1,017	765	377	221
Other	10,965	8,723	5,071	4,001
	117,227	87,377	45,675	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	52,795	41,473	23,517	16,854
Superannuation costs	2,765	1,368	1,329	568
Cost of employee share based incentive plan	2,883	1,980	2,883	1,980
Total staff costs	58,443	44,821	27,729	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	82,693	69,203	41,488	3,954
Prima facie tax at 30% (2018: 30%)	24,808	20,761	12,446	1,186
Tax effect of:				
Permanent differences	63	61	(12,044)	13
Prior year adjustment	(3,049)	288	(1,347)	(148)
Income tax expense	21,822	21,110	(945)	1,051
Represented by:				
Current tax	25,120	18,443	1,298	784
Deferred taxes	3,298	2,667	(2,243)	267
Income tax expense	21,822	21,110	(945)	1,051

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	-
	31,335	7,569	4,176	685
Depreciation and amortisation	(20,302)	(579)	(1,192)	82
Others	(542)	203	242	20
	(20,844)	(376)	(950)	102
Net deferred tax asset	10,491	7,193	3,226	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
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	-
	31,335	7,569	4,176	685
Depreciation and amortisation	(20,302)	(579)	(1,192)	82
Others	(542)	203	242	20
	(20,844)	(376)	(950)	102
Net deferred tax asset	10,491	7,193	3,226	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
	269,702	85,638	43,837	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)	-	-
	722,090	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.

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	4,834	4,681	174	182
- Listed	2,636	61	-	-
- Unlisted	165	165	165	165
Convertible notes	7,635	4,907	339	347

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	7,635	4,907	339	347

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)	-	-
	1,401,433	851,663	-	7

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
	1,421,958	870,114	-	7

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.

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
Total Investment at cost			500,010	500,010
Provision for impairment			(251,677)	(251,677)
Balance as at 31 December			248,333	248,333
*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).

19. Property, plant and equipment

CONSOLIDATED	Furniture & Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Right-of-use assets	Total
Cost	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
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
Balance 31 December 2018	1,238	7,334	4,174	16,699	2,129	2,320	-	33,894
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)
Balance 31 December 2019	4,810	17,685	5,785	37,979	2,129	-	62,799	131,187
Accumulated depreciation								
Balance 31 December 2017	(876)	(4,552)	(2,822)	(11,451)	(218)	-	-	(19,919)
Charge for the year	(137)	(939)	(508)	(2,004)	(54)	-	-	(3,637)
Disposals	-	1,338	160	-	272	-	-	1,770
Balance 31 December 2018	(1,013)	(4,148)	(3,170)	(13,455)	-	-	-	(21,786)
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
Balance 31 December 2019	(1,402)	(3,398)	(3,714)	(15,897)	-	-	(9,854)	(34,265)
Book value								
Balance 31 December 2019	3,408	14,287	2,071	22,082	2,129	-	52,945	96,922
Balance 31 December 2018	225	3,186	1,004	3,244	2,129	2,320	-	12,108

19. Property, plant and equipment

PARENT	Furniture & Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Right-of-use assets	Total
Cost	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
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	-	-	-	-	-	-	-	-
Balance 31 December 2018	686	878	2,399	11,294	2,128	2,246	-	19,631
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)
Balance 31 December 2019	688	3,671	3,654	11,909	2,128	-	14,108	36,159
Accumulated depreciation								
Balance 31 December 2017	(460)	(681)	(1,853)	(8,422)	-	-	-	(11,416)
Charge during the year	(70)	(37)	(180)	(999)	-	-	-	(1,286)
Disposals	-	-	-	-	-	-	-	-
Balance 31 December 2018	(530)	(718)	(2,033)	(9,421)	-	-	-	(12,702)
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
Balance 31 December 2019	(566)	(753)	(2,310)	(10,490)	-	-	(5,396)	(19,515)
Book value								
Balance 31 December 2019	123	2,918	1,344	1,419	2,128	-	8,712	16,644
Balance 31 December 2018	156	160	366	1,872	2,128	2,246	-	6,929

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)	-
Balance 31 December 2018	13,345	3,780	16,014	33,139
Additions	7,700	18,688	322	26,710
Transfer in (out)	16,476	-	(14,834)	1,642
Balance 31 December 2019	37,521	22,468	1,502	61,491
Accumulated depreciation				
Balance 31 December 2017	(1,885)	(1,701)	-	(3,586)
Charge for the year	(2,365)	(756)	-	(3,121)
Balance 31 December 2018	(4,250)	(2,457)	-	(6,707)
Charge during the year	(3,110)	(2,427)	-	(5,537)
Balance 31 December 2019	(7,360)	(4,884)	-	(12,244)
Book value				
Balance 31 December 2019	30,161	17,584	1,502	49,247
Balance 31 December 2018	9,095	1,323	16,014	26,432

PARENT	Software	Customer deposit relationship	Work in Progress	Total
Cost	K'000	K'000	K'000	K'000
Balance 31 December 2017	6,058	-	603	6,661
Additions	-	-	769	769
Disposals	-	-	-	-
Balance 31 December 2018*	6,058	-	1,372	7,430
Additions	1,979	-	360	2,339
Transfer in (out)	316	-	(676)	(360)
Balance 31 December 2019	8,353	-	1,056	9,409
Accumulated depreciation				
Balance 31 December 2017	(424)	-	-	(424)
Charge during the year	(1,212)	-	-	(1,212)
Disposals	-	-	-	-
Balance 31 December 2018	(1,636)	-	-	(1,636)
Charge during the year	(1,241)	-	-	(1,241)
Disposals	-	-	-	-
Balance 31 December 2019	(2,877)	-	-	(2,877)
Book value				
Balance 31 December 2019	5,476	-	1,056	6,532
Balance 31 December 2018	4,422	-	1,372	5,794

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:				
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:				
Current income tax asset	(810)	-	(317)	-
Current income tax liability	4,506	8,154	-	1,011
	3,696	8,154	(317)	1,011

24. Employee provisions

CONSOLIDATED	2019			
	Opening balance	Additions	Payments	Closing balance
	K '000	K '000	K '000	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
Total	6,251	44,583	(41,766)	9,068

PARENT	2019			
	Opening balance	Additions	Payments	Closing balance
	K '000	K '000	K '000	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
Total	2,642	20,355	(18,577)	4,420

2019		
Represented by:	CONSOLIDATED	PARENT
Short term provisions	7,003	3,785
Long term provisions	2,065	635
Total employee provision	9,068	4,420

CONSOLIDATED	2018			
	Opening balance	Additions	Payments	Closing balance
	K '000	K '000	K '000	K '000
Provision for Annual Leave	1,498	1,608	(997)	2,109
Provision for Long Service Leave	1,769	410	(894)	1,285
Provision for Salaries	255	31,852	(32,048)	59
Provision for Bonus	831	3,017	(1,050)	2,798
Total	4,353	36,887	(34,989)	6,251

PARENT	2018			
	Opening balance	Additions	Payments	Closing balance
	K '000	K '000	K '000	K '000
Provision for Annual Leave	745	952	(629)	1,068
Provision for Long Service Leave	1,091	166	(845)	412
Provision for Salaries	-	11,648	(11,586)	62
Provision for Bonus	515	1,054	(469)	1,100
Total	2,351	13,820	(13,529)	2,642

2018		
Represented by:	CONSOLIDATED	PARENT
Short term provisions	4,966	2,230
Long term provisions	1,285	412
Total employee provision	6,251	2,642

25. Lease Liabilities

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

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

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

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

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

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
	K '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
Balance as at 31 December 2019	174,745	176,970

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	10,752	34,757
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.

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	AUD419,155	AUD 583,193
Vesting date	1 April 2022	1 April 2021	1 April 2020
Vesting conditions	Continued service	Continued service	Continued service
	50% target TSR	50% target TSR	50% target TSR
	50% target EPS growth	50% target EPS growth	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	2018
	Number	2018
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	3,586,169	2,573,006

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	-	-
Total	2,063	2,651

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	-	-
	269,702	160,638	43,837	12,885

b) Movement in investment securities is as follows:

	CONSOLIDATED		
	2019	2018	MOVEMENT
	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
	763,729	360,410	403,319

28. Statements of cash flows (continued)

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

	CONSOLIDATED		PARENT	
	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)	-
Net cash inflow/(outflow) from operating	(137,310)	219,221	36,612	36,251

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

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	EXPENSES	INCOME	EXPENSES	DUE FROM		DUE TO	
	2019	2019	2018	2018	2019	2018	2019	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	-	-	-	-	-	-	-	-
	49,527	2,689	39,910	3,829	351,096	351,096	(167,212)	(174,364)

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.

	Fair value of the assets and liabilities recognised on acquisition
	K'000
Assets	
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
Liabilities	
Customers' Deposit	1,048,837
Lease Liabilities	32,916
Other Liabilities	2,081
Total identifiable net assets at fair value	24,229
Total consideration	24,229
Purchased price allocation	
Intangible asset	18,486
Fair value adjustments on loawn	4,875
Deferred tax asset, net	666
Others	202
Total consideration transferred	24,229

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
Total external income	176,508	28,733	325	205,566
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)
Total external expenses	(67,683)	(10,773)	(44,417)	(122,873)
Profit before inter-segment revenue and expenses	108,825	17,960	(44,092)	82,693
Inter-segment income	1,779	910	46,838	49,527
Inter-segment expenses	(40,194)	(7,318)	(2,015)	(49,527)
Profit before tax	70,410	11,552	731	82,693
Income tax expense	(19,453)	(3,314)	945	(21,822)
Profit after tax	50,957	8,238	1,676	60,871
Total assets	2,813,044	17,221	167,270	2,997,535
Total assets include:				
Additions to non-current assets	(34,367)	-	(4,638)	(39,005)
Total liabilities	(2,642,276)	(2,673)	(25,310)	(2,670,259)

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.

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:

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

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.

33. Contingent liabilities (continued)

CONSOLIDATED	2019	2018
	K '000	K '000
Bank guarantee	70,375	45,933
	70,375	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.

	CONSOLIDATED			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	K '000	K '000	K '000	K '000
Investment securities measured at FVTPL				
- Investment in shares – Listed	4,834	-	-	4,834
- Investment in shares – Unlisted	-	-	2,636	2,636
- Investment in convertible notes – Unlisted	-	-	165	165
Total assets	4,834	-	2,801	7,635

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

	PARENT			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	K '000	K '000	K '000	K '000
Investment securities measured at FVTPL				
- Investment in shares – Listed	174	-	-	174
- Investment in shares – Unlisted	-	-	165	165
Total assets	174	-	165	339

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

	CONSOLIDATED			
ASSETS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	K '000	K '000	K '000	K '000
Investment securities measured at FVTPL				
- Investment in shares – Listed	4,681	-	-	4,681
- Investment in shares – Unlisted	-	-	61	61
- Investment in convertible notes – Unlisted	-	-	165	165
Total assets	4,681	-	226	4,907

	PARENT			
ASSETS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	K '000	K '000	K '000	K '000
Investment securities measured at FVTPL				
- Investment in shares – Listed	182	-	-	182
- Investment in shares – Unlisted	-	-	165	165
Total assets	182	-	165	347

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
	1,017	765

PARENT	2019	2018
	K '000	K '000
Audit and audit related	329	162
Tax services	-	45
Other services	48	14
	377	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.

Shareholder information

Kina Securities Limited ARBN: 606 168 594

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in the Report is set out below. The information is current as at 16 March 2020.

a) The distribution of security holders

Size of holding	Number of holders	Number of shares	% of issued capital
1 to 1,000	507	252,171	14.06
1,001 to 5,000	710	2,185,532	19.68
5,001 to 10,000	707	5,722,629	19.60
10,001 to 100,000	1,548	47,161,441	42.92
100,001 and over	135	119,423,396	3.74
Total	3,607	174,745,169	100.00

b) 20 largest shareholders of quote security holders

Shareholder	Number of Shares	% of issued capital
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	39,635,770	22.68%
ASIAN DEVELOPMENT BANK	10,751,916	6.15%
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	8,792,594	5.03%
NATIONAL NOMINEES LIMITED	6,904,055	3.95%
CITICORP NOMINEES PTY LIMITED	3,726,530	2.13%
COMRADE TRUSTEE SERVICES LIMITED	3,500,885	2.00%
MINERAL RESOURCES CMCA HOLDINGS LIMITED	3,208,556	1.84%
COLUMBUS INVESTMENTS LIMITED	3,000,000	1.72%
AIRWOLF LIMITED	2,885,390	1.65%
GAS RESOURCES PNGLNG PLANT LIMITED	2,139,037	1.22%
HEDURU MONI LTD	1,946,507	1.11%
HUMANA PTY LTD	1,100,000	0.63%
GEAT INCORPORATED	1,047,000	0.60%
PERPETUAL SHIPPING LIMITED	1,000,000	0.57%
HITSUMA SDN BHD	1,000,000	0.57%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	800,135	0.46%
NEW IRELAND DEVELOPMENT CORPORATION LIMITED	800,000	0.46%
SU CHIU IVAN LU	627,651	0.36%
INSPAC (PNG) LIMITED	600,000	0.34%
DOUGLAS FINANCIAL CONSULTANTS PTY LTD	575,700	0.33%
TOTAL TOP 20	94,041,726	53.82%
BALANCE OF REGISTER	80,703,443	46.18%
TOTAL REGISTER	174,745,169	100.00%

c) Number of security holders and securities on issue

Quoted securities

174,745,169 ordinary fully paid shares, held by 3,607 shareholders.

Unquoted securities

3,415,940 Performance Rights issued as long term incentives to 16 senior executives

d) Unmarketable Parcel of Shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 126.

e) Substantial Shareholders

Shareholder	Number of Shares	% of Issued Capital
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	46,460,109	28.33%
PERPETUAL LIMITED	18,659,662	10.68%
ASIAN DEVELOPMENT BANK	10,751,916	6.15%
J P MORGAN NOMINEES AUSTRALIA	7,895,706	4.81%

f) Stock Exchanges

The Company's ordinary fully paid shares are listed on the Australian Securities Exchange (ASX) and the Papua New Guinea National Stock Exchange (PNGX).

g) Voting Rights

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

Corporate Directory

Directors

Isikeli Taureka (Chairman)
Greg Pawson (CEO)
Karen Smith-Pomeroy
Jane Thomason
Paul Hutchinson
Andrew Carriline

Company Secretary
Chetan Chopra

Registered Office

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VISION CITY BRANCH

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2nd Street Top Town
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Morobe Province
Papua New Guinea

LAE MARKETS BRANCH
Cnr Cedarbank Street and Aircorps Rd
Second Street, Top Town
PO Box 674
Lae Morobe Province

WAIGANI DRIVE BRANCH
Cnr Waigani and Islander Drive
PO Box 1141
Port Moresby NCD 121
Papua New Guinea
WAIGANI CAMERON RD BRANCH
Cnr Waigani Drive & Cameron Rd
PO Box 252, Waigani 131
National Capital District
Papua New Guinea

PORT MORESBY BRANCH
Cnr Musgrave St & Champion Parade
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Port Moresby 121
National Capital District
Papua New Guinea

HARBOUR CITY BRANCH
ANZ Habour City
Off Poreporena Freeway
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Port Moresby 121
National Capital District
Papua New Guinea

BOROKO BRANCH
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Boroko
Po Box 1718
Boroko 111
National Capital District
Papua New Guinea

JACKSONS BRANCH
Jacksons International Airport
Saraga Jacksons Airport
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Port Moresby 121 NCD
Papua New Guinea

KOKOPO BRANCH
Post PNG Haus
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East New Britain

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Madang 511
Madang Province

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PO Box 767
Goroka 441
East Highlands Province

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Wewak 531
East Sepik Province

KIMBE BRANCH
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Kimbe 621
West New Britain Province

MT HAGEN BRANCH
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Mt Hagen 281
Western Highlands Province
Papua New Guinea

LIHIR BRANCH
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Portion 830, Wide Road
Londolovit
Lihir Island NIP

HIDES BRANCH
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Tari
Southern Highlands Province
Hides Hela Province

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PNGX Code: KSL

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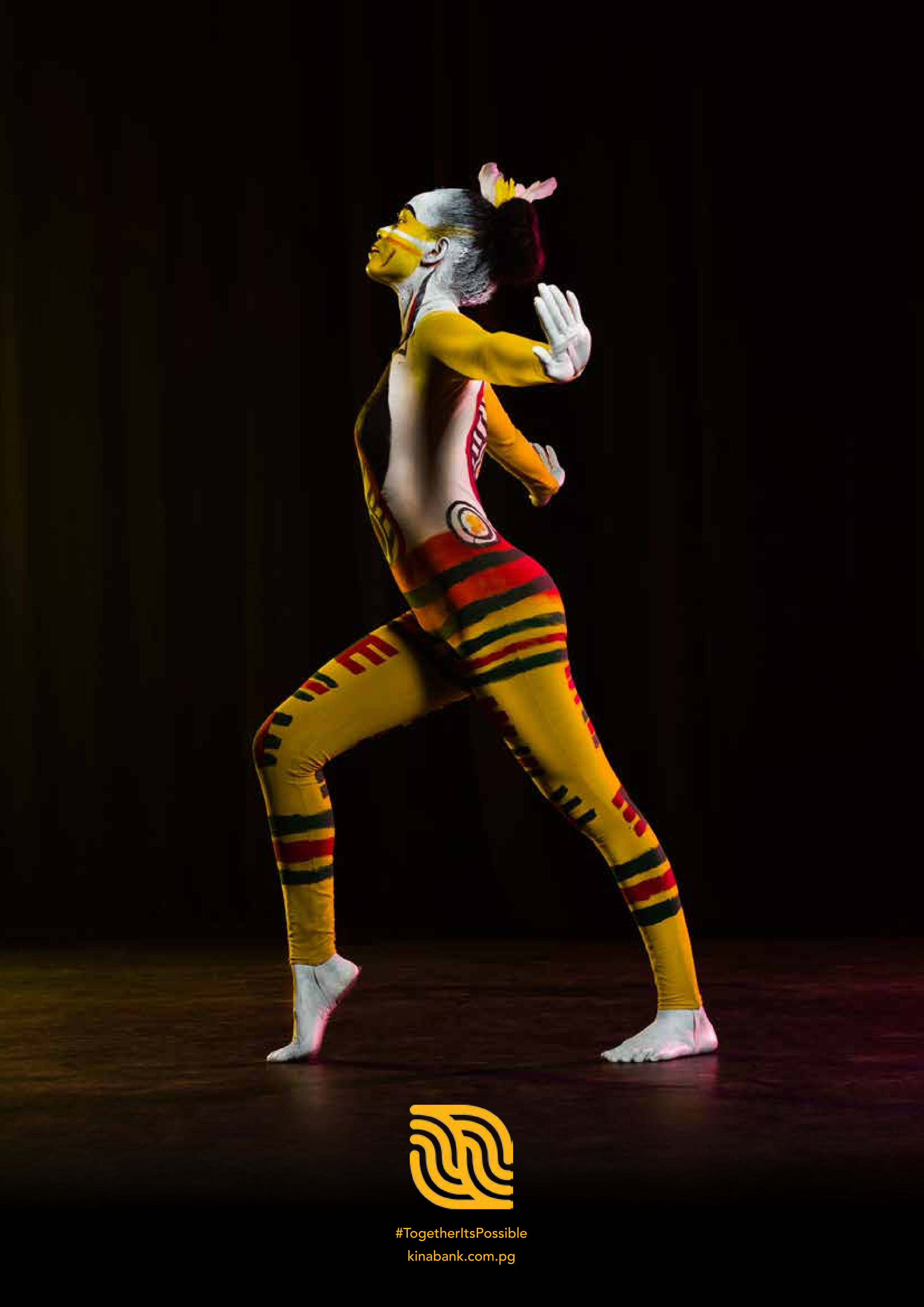
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