ASX/PNGX announcement

kinabank

30 March 2021

ASX Markets Announcement Office	PNGX Markets
Exchange Centre	Harbourside West Building
20 Bridge Street	Unit 1B.02, Level 1, Stanley Esplanade
Sydney NSW 2000	Down Town, Port Moresby 121
Australia	Papua New Guinea

BY ELECTRONIC LODGEMENT

Audited Consolidated Financial Statements
Year ended 31 December 2020

Please find attached for release to the market, Kina Securities Limited's *Audited Consolidated Financial Statements for the year ended 31 December 2020.*

-ENDS-

For further information:

Greg Pawson
Chief Executive Officer and Managing Director
Email: greg.pawson@kinabank.com.pg

Chetan Chopra
Chief Financial Officer and Company Secretary
Email: Chetan.chopra@kinabank.com.pg

This Announcement was authorised for release by Kina Securities Limited's Board of Directors.

CONSOLIDATED FINANCIAL STATEMENTS 2020

December 2020

Directors' report

The Directors of Kina Securities Limited and its Subsidiaries ("the Group", "Company", "Kina") submit herewith the annual financial report of the Company and its Subsidiaries for the year ended 31 December 2020.

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.

Effective 9 July 2020, Kina Securities Limited amalgamated with Kina Bank Limited (KBL), Kina Ventures Limited (KVL) and Kina Properties Limited (KPL) and is now known as Kina Securities Limited. Accordingly, the financial statements of the Company include 12 months results of Kina Securities Limited and 4 months results of the previous KBL, KVL and KPL.

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 K76.0 million compared with K60.9 million in 2019.

The profit includes the following items:

- Net interest income of K169.7 million, compared with K114.6 million in the prior year to 31 December 2019.
- Net fee and commission income of K76.2 million compared with K47.8 million in the prior year.
- Operating income before impairment losses and other operating income of K314.8 million, up from K205.6 million in the prior year.
- Expected credit losses on financial instruments at amortised cost of K22.0 million, compared with K5.6 million in the prior year.
- Other operating expenses of K182.9 million, compared with K117.2 million in the prior period.

Dividends

The Company paid a dividend of AUD 6.4 cents (PGK 15.5 toea) per share (K27.0m) in April 2020 in relation to the profit for the half year ended 31 December 2019. In September 2020 the Company also paid dividend of AUD 4.0 cents (PGK 10.0 toea) per share (K17.6m) in relation to the profit for the half year ended 30 June 2020.

After balance sheet date events

Subsequent to balance sheet date, the directors declared a final dividend of AUD 6.0 cents (PGK 16.9 toea) per share (K48.5m) on net profit declared for the second half of financial year 2020.

The Group announced the proposed acquisition of Westpac's Pacific Businesses in PNG and Fiji. This is expected to be completed by September 2021. The acquisition is subject to regulatory approvals by the Bank of Papua New Guinea and the ICCC (Competition regulator) in Papua New Guinea and the Reserve Bank of Fiji and the FCCC (competition regulator) in Fiji.

See also note 39 for other subsequent events.

Donations

During the year the Group made donations totalling K258,491 (2019: K26,336)

Auditor’s fees

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

Remuneration report

Remuneration of employees

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

In PGK	**2020**	2019
1,450,000 - 1,460,000	1*	-
1,440,000 - 1,450,000	-	1*
980,000 - 990,000	2	-
970,000 - 980,000	-	2
920,000 - 930,000	1	-
860,000 - 870,000	1	-
850,000 - 860,000	-	2
800,000 - 810,000	1	-
750,000 - 760,000	1	-
740,000 - 750,000	1	-
640,000 - 650,000	-	1
610,000 - 620,000	1	-
580,000 - 590,000	2	1
570,000 - 580,000	-	1
560,000 - 570,000	-	1
550,000 - 560,000	1	1
540,000 - 550,000	1	-
500,000 - 510,000	-	2
490,000 - 500,000	2	-
480,000 - 490,000	-	4
470,000 - 480,000	1	-
460,000 - 470,000	1	-
450,000 - 460,000	-	1
440,000 - 450,000	2	-
430,000 - 440,000	-	3
420,000 - 430,000	-	1
400,000 - 410,000	1	-
390,000 - 400,000	1	-
380,000 - 390,000	2	2
370,000 - 380,000	-	1
360,000 - 370,000	1	2
350,000 - 360,000	-	1
330,000 - 340,000	-	1
320,000 - 330,000	2	1
310,000 - 320,000	3	2
300,000 - 310,000	-	4
280,000 - 290,000	1	2
260,000 - 270,000	2	-

Remuneration report

Remuneration of employees (continued)

In PGK	**2020**	2019
250,000 - 260,000	-	1
240,000 - 250,000	1	-
220,000 - 230,000	2	-
210,000 - 220,000	-	2
200,000 - 210,000	1	3
190,000 - 200,000	2	2
180,000 - 190,000	4	4
170,000 - 180,000	10	4
160,000 - 170,000	4	3
150,000 - 160,000	7	6
140,000 - 150,000	9	7
130,000 - 140,000	8	9
120,000 - 130,000	2	4
110,000 - 120,000	18	4
100,000 - 110,000	23	8

Remuneration report

Directors remuneration

Directors fees paid during the year was as follows:

	2020	2019
	K'000	K'000
Directors		
I. Taureka	**362**	362
K. Smith- Pomeroy	**269**	240
J. Thomason	**236**	238
P. Hutchinson	**211**	195
A. Carriline	**227**	207
I. Temu (appointed 14 December 2020)	**-****	-
	1,305	1,242
Managing Director		
G. Pawson		
-Salaries	**1,460***	1,444*
-Other benefits including leave entitlements	**454**	454
	1,914	1,898
	3,219	3,140

**Impact of foreign exchange conversion.*
***Payment made in subsequent year*

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Signed at Port Moresby on behalf of the board on 30 March 2021.

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 2020

Signed in accordance with a resolution of the directors.

On behalf of the Directors

Mr. Isikeli Taureka
Director
Port Moresby, 30 March 2021

Mr. Greg Pawson
Director
Port Moresby, 30 March 2021

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 comprise the consolidated statement of financial position as at 31 December 2020, 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 financial position as at 31 December 2020 and of their 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 (ISAs). 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' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Papua New Guinea, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

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

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Impairment of loans and advances As at 31 December 2020 the Group has recognised provisions amounting to K35.3m 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	Our procedures in conjunction with our credit specialists included, but were not limited to: **Control design and implementation:** We tested the design and implementation of controls over the impairment provision including:

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<table>
<tr><th>Key Audit Matter</th><th>How the scope of our audit responded to the Key Audit Matter</th></tr>
<tr><td>using the ECL model include the corporate, commercial, residential and personal lending 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 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 with particular focus on impacts arising due to COVID-19.</td><td>- 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:

- Assessing whether the model adequately addresses the requirements of the applicable accounting standard;
- 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 the impairment loss provision;
- Assessing reasonableness of the loss rates applicable to risk grade and aging buckets; and
- Assessing the adequacy of management overlays to the modelled collective provision by recalculating the coverage provided by the collective impairment provision (including overlays) to loan book, taking into account recent history, performance, de-risking of the relevant portfolios and the impact of COVID-19.

We also assessed appropriateness of the disclosures in Note 3 to the consolidated financial statements.</td></tr>
<tr><td>Impairment of non-current assets

As at 31 December 2020 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 CGU</td><td>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, 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 the 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</td></tr>
</table>

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
- Discount rates; and - Terminal value growth rates.	- 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, which we obtained prior to the date of this auditor's report, and the annual report (but does not include the consolidated financial statements and the auditors' report thereon), which is expected to be made available to us 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.

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 give 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 give a true and fair view and are 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 are 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 the 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 these consolidated financial statements.

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As part of an audit in accordance with the 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 control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 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 represent 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 also provide the directors of the Company 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, actions taken to eliminate threats or safeguards applied.

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.

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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 2020.

Our firm carries out other services for the Group and the Company in the areas of assurance, Information Technology (IT) and advisory in relation to risk management. The provision for these other services has not impaired our independence as auditors of the Group and the Company.

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 2021

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

David Rodgers
Partner
Chartered Accountants
Registered Company Auditor in Australia

Brisbane 30 March 2021

KINA SECURITIES LIMITED

Statements of Comprehensive Income
For the year ended 31 December 2020

		Consolidated		Parent	
		2020	2019	**2020**	2019
		K ’000	K ‘000	**K ‘000**	K ‘000
Interest income	**5**	**199,687**	146,482	**89,176**	31
Interest expense	**5**	**(29,964)**	(31,901)	**(13,719)**	(3,492)
Net interest income/(expense)		**169,723**	114,581	**75,457**	(3,461)
Fee and commission income	**6**	**76,352**	47,878	**20,960**	879
Fee and commission expense	**6**	**(134)**	(93)	**(122)**	(82)
Net fee and commission income		**76,218**	47,785	**20,838**	797
Foreign exchange income/(expense)		**55,239**	41,956	**25,772**	(88)
Dividend income	**7**	**136**	357	**-**	40,004
Net gains /(losses) from financial assets at fair value through profit and loss	**15**	**2,510**	153	**2,666**	(8)
Other income	**8**	**10,968**	734	**25,097**	49,919
Operating income before impairment losses and other operating expenses		**314,794**	205,566	**149,830**	87,163
Expected credit losses on financial instruments at amortised cost	**3b**	**(22,018)**	(5,646)	**(11,828)**	-
Other operating expenses	**9**	**(182,870)**	(117,227)	**(83,309)**	(45,675)
Profit before tax		**109,906**	82,693	**54,693**	41,488
Income tax expense	**10**	**(33,932)**	(21,822)	**(17,226)**	945
Net profit for the year attributable to the equity holders of the Company		**75,974**	60,871	**37,467**	42,433
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income for the year attributable to the equity holders of the Company		**75,974**	60,871	**37,467**	42,433

		2020	2019
Earnings per share – basic (toea)	**27 b**	**37.25**	35.94
Earnings per share – diluted (toea)	**27 b**	**37.06**	35.74

The notes on pages 17 to 88 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED

Statements of Financial Position
As at 31 December 2020

	Note	Consolidated 2020	Consolidated 2019	Parent 2020	Parent 2019
		K '000	K '000	**K '000**	K '000
Assets					
Cash and due from banks	**12**	**335,147**	269,702	**361,614**	43,837
Central bank bills	**13**	**647,874**	722,090	**647,874**	-
Regulatory deposits	**14**	**185,711**	249,713	**185,711**	-
Financial assets at fair value through profit or loss	**15**	**10,682**	7,635	**6,151**	339
Loans and advances to customers	**16**	**1,614,731**	1,401,433	**1,609,969**	-
Investments in government inscribed stocks	**17**	**114,519**	34,003	**114,519**	-
Due from subsidiaries	**29**	**-**	-	**1,387**	351,096
Current income tax assets	**23**	**83**	810	**-**	317
Deferred tax assets	**11**	**16,482**	10,491	**15,956**	3,226
Investments in subsidiaries	**18**	**-**	-	**248**	248
Property, plant and equipment	**19**	**86,274**	96,922	**86,274**	16,644
Goodwill	**37**	**92,786**	92,786	**92,786**	-
Intangible assets	**20**	**49,449**	49,247	**49,150**	6,532
Other assets	**21**	**145,813**	62,703	**145,204**	1,216
		3,299,551	2,997,535	**3,316,843**	423,455
Liabilities					
Due to other banks		**5,385**	22	**5,385**	-
Due to customers	**22**	**2,560,715**	2,460,967	**2,599,474**	-
Current income tax liabilities	**23**	**4,966**	4,506	**3,761**	-
Due to subsidiaries	**29**	**-**	-	**8,988**	167,212
Employee provisions	**24**	**11,538**	9,068	**10,593**	4,420
Lease Liabilities	**25**	**47,342**	54,958	**47,342**	9,397
Other liabilities	**26**	**92,571**	140,738	**91,493**	11,364
		2,722,517	2,670,259	**2,767,036**	192,393
Net assets		**577,034**	327,276	**549,807**	231,062
Shareholders' equity					
Issued and fully paid ordinary shares	**27 a**	**394,693**	176,970	**394,693**	176,970
Share-based payment reserve	**27 c**	**2,774**	2,063	**2,774**	2,063
Capital reserve		**-**	-	**107,494**	-
Retained earnings		**179,567**	148,243	**44,846**	52,029
Total equity		**577,034**	327,276	**549,807**	231,062

The notes on pages 17 to 88 are an integral part of these consolidated financial statements.

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

Mr. Isikeli Taureka
Director

Mr. Greg Pawson
Director

KINA SECURITIES LIMITED

Statements of Changes in Equity
For the year ended 31 December 2020

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 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**
Profit for the year	-	-	75,974	75,974
Other comprehensive income	-	-	-	-
Additional shares issued	217,723	-	-	217,723
Employee share scheme – vested rights	-	(2,297)	-	(2,297)
Employee share scheme – value of employee services	-	3,008	-	3,008
Dividend paid	-	-	(44,650)	(44,650)
Balance as at 31 December 2020	**394,693**	**2,774**	**179,567**	**577,034**

Parent	**Attributable to the equity holders of the Parent**				
	Share Capital	**Share based payment Reserve**	**Retained Earnings**	**Capital Reserve**	**Total**
	K ’000	**K ’000**	**K ’000**	**K ’000**	**K ’000**
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**
Profit for the year	-	-	37,467	-	37,467
Additional shares issued	217,723	-	-	-	217,723
Other comprehensive income	-	-	-	-	-
Employee share scheme – vested rights	-	(2,297)	-	-	(2,297)
Employee share scheme – value of employee services	-	3,008	-	-	3,008
Amalgamation adjustment	-	-	-	107,494	107,494
Dividend paid	-	-	(44,650)	-	(44,650)
Balance as at 31 December 2020	**394,693**	**2,774**	**44,846**	**107,494**	**549,807**

The notes on pages 17 to 88 are an integral part of these consolidated financial statements.

KINA SECURITIES LIMITED

Statements of Cash Flows
For the year ended 31 December 2020

	Note	Consolidated		Parent	
		2020	2019	**2020**	2019
		K '000	K '000	**K '000**	K '000
Cash flows from operating activities					
Interest received		**202,364**	146,984	**85,218**	31
Interest paid		**(27,376)**	(32,835)	**(3,704)**	(3,492)
Foreign exchange gain/ (loss)		**55,239**	41,956	**25,772**	(88)
Dividend received		**136**	357	**-**	40,004
Fee and commission income received		**78,271**	50,531	**20,960**	887
Fee and commission expense paid		**(134)**	(93)	**(123)**	(82)
Net trading and other operating income		**13,256**	887	**25,791**	11,051
Recoveries on loans previously written-off		**1,943**	2,076	**1,943**	-
Support fees charged from subsidiaries			-	**1,751**	38,860
Cash payments to employees and suppliers		**(169,183)**	(110,059)	**(32,269)**	(50,117)
Income tax paid		**(36,195)**	(30,628)	**(32,394)**	(1,179)
Cash flows from operating profits before changes in operating assets and liabilities		**118,321**	69,176	**92,945**	35,875
Changes in operating assets and liabilities:					
- (increase) in regulatory deposits		**64,002**	(112,218)	**(14,687)**	-
- (increase) in loans and advances to customers		**(217,160)**	(225,415)	**(138,215)**	-
- net decrease/(increase) in other assets		**(82,487)**	(41,844)	**(111,488)**	313
- net increase in due to customers		**99,748**	96,872	**51,011**	-
- (decrease)/increase due to other banks		**4,814**	(27,558)	**4,849**	(504)
- net increase/(decrease) in other liabilities		**(60,110)**	103,677	**1,025**	928
Net cash inflow/(outflow) generated from/(used in) operating activities	**28c**	**(72,872)**	(137,310)	**(114,560)**	36,612
Cash flows from investing activities					
Purchase of property, equipment and software		**(22,924)**	(39,005)	**(22,924)**	(4,638)
Net cash acquired in business combination, net of consideration paid	31	**-**	687,718	**-**	-
Proceeds from sale of property and equipment		**264**	16	**264**	16
Cash acquired on amalgamation		**-**	-	**243,321**	-
Net movement in investment securities		**52,355**	(403,319)	**103,088**	8
Net cash inflow/(outflow) generated from/(used in) investing activities		**29,695**	245,410	**323,749**	(4,614)
Cash flows from financing activities					
Dividend paid		**(44,650)**	(36,308)	**(44,650)**	(36,308)
Proceeds on issuance of shares		**217,723**	34,757	**217,723**	34,757
Net cash inflow/(outflow) generated from/(used) in financing activities		**173,073**	(1,551)	**173,073**	(1,551)
Net increase/(decrease) in cash and cash equivalents		**129,896**	106,549	**382,262**	30,447
Effect of exchange rate movements on cash and cash equivalents		**549**	2,515	**515**	504
Cash and cash equivalents at beginning of year		**269,702**	160,638	**43,837**	12,886
Cash and cash equivalents at end of year	**28a**	**400,147**	269,702	**426,614**	43,837

The notes on pages 17 to 88 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.

Effective 9 July 2020, Kina Securities Limited amalgamated with Kina Bank Limited (KBL), Kina Ventures Limited (KVL) and Kina Properties Limited (KPL) and is now known as Kina Securities Limited.

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 2020 were authorized for issue by the Board of Directors on 30 March 2021.

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*:*

- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 *Definition of a business*
- Amendments to IAS 1 and IAS 8 *Definition of material*

Amendments to References to the Conceptual Framework in IFRS Standards

The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

Amendments to IFRS 3 *Definition of a business*

The Group has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired

1. Summary of significant accounting policies (continued)

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

is concentrated in a single identifiable asset or group of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020.

Amendments to IAS 1 and IAS 8 *Definition of material*

The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements

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 17	*Insurance Contracts*
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*
Amendments to IFRS 3	*Reference to the Conceptual Framework*

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

1. Summary of significant accounting policies (continued)

1.5 Basis of consolidation (continued)

- 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 two reportable segments, which are the two business divisions – Bank and Wealth Management.

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 fair value through profit and loss (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.

1. Summary of significant accounting policies (continued)

1.8 Interest income and interest expense (continued)

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 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;

1. Summary of significant accounting policies (continued)

1.10 Leases (continued)

- 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. Summary of significant accounting policies (continued)

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.

1. Summary of significant accounting policies (continued)

1.12 Business combinations (continued)

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 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.

1. Summary of significant accounting policies (continued)

1.14 Financial instruments (continued)

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.

1. Summary of significant accounting policies (continued)

1.14 Financial instruments (continued)

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).

1. Summary of significant accounting policies (continued)

1.14 Financial instruments (continued)

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

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

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

1. Summary of significant accounting policies (continued)

1.14 Financial instruments (continued)

- 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.

1. Summary of significant accounting policies (continued)

1.14 Financial instruments (continued)

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

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

1.15 Property, plant and equipment

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

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

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

1.16 Intangible assets 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 gave 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

1. Summary of significant accounting policies (continued)

1.16 Intangible assets and other non-financial assets (continued)

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. Summary of significant accounting policies (continued)

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 as at the reporting date.

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

2. Critical accounting estimates and judgments (continued)

- 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**	**LKR**	**THB**
31 December 2020													
Cash balance	288	492	95	42	199	660	233	74	-	-	12	-	-
Due from other banks	90,405	3,926	1,820	665	517	541	-	407	(1,243)	174	228	9	160
	90,693	**4,418**	**1,915**	**707**	**716**	**1,201**	**233**	**481**	**(1,243)**	**174**	**240**	**9**	**160**
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**	**-**	**-**

There was no material liabilities denominated in foreign currency.

3. Financial risk management (continued)

a) Market risk (continued)

Sensitivity

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

	Impact on statement of comprehensive income in	
	K'000	**K'000**
	2020	2019
USD/PGK – exchange rate – increase 10% (2019:10%)	**(8,219)**	(8,981)
USD/PGK – exchange rate – decrease 10% (2019: 10%)	**10,045**	10,977

(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 2020	
	Carrying amount	**Average Interest rate (% p.a.)**
Assets	**K '000**	
Cash and due from banks	335,147	0.03%
Central bank bills	647,874	6.27%
Loans and advances to customers	1,614,731	9.45%
Investments in government inscribed stocks	114,519	12.11%
Liability		
Due to customers	2,560,715	1.03%

	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%

3. Financial risk management (continued)

a) Market risk (continued)

Sensitivity

Given the profile of assets and liabilities at 31 December 2020 and prevailing interest rates, a 100 basis points increase/decrease in market rates in relation to lending will result in a maximum possibility of K1,407,752 (2019: K14,014,330) 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 2020 and net assets as of balance date would have been affected by K534,112 (2019: K381,777). The Group's sensitivity to equity prices has changed relative to asset balance from the prior year.

	Impact on statement of comprehensive income in K '000	
	2020	2019
Equity prices – increase 5% (2019:5%)	**534**	382
Equity prices – decrease 5% (2019: 5%)	**(534)**	(382)

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.

3. Financial risk management (continued)

b) Credit risk (continued)

- 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:

3. Financial risk management (continued)

b) Credit risk

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.

3. Financial risk management (continued)

b) Credit risk

The Group defines stage of default as follows:

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

Groupings based on shared risks characteristics

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

Class of financial instrument	Financial statement line	Note
Cash and due from banks at amortised cost	Cash and due from banks	Note 12
Treasury and central bank bills at amortised cost	Central bank bills	Note 13
Regulatory deposits at amortised cost	Regulatory deposits	Note 14
Loans and advances to customers at amortised cost	Loans and advances to customers	Note 16
Investments in government inscribed stocks at amortised cost	Investments in government inscribed stocks	Note 17
Bank guarantees	Contingent liabilities	Note 33
Other financial assets	Other assets	Note 21

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

	Consolidated	
	31 December 2020	**31 December 2019**
Cash and due from banks at amortised cost	**K'000**	K'000
Concentration by sector		
Cash on hand	**118,811**	82,413
With central bank (exchange settlement account)	**112,024**	58,314
With other banks	**104,312**	128,975
Total	**335,147**	269,702
Concentration by region		
Papua New Guinea	**237,539**	167,363
Offshore*	**97,608**	102,339
Total	**335,147**	269,702

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

3. Financial risk management (continued)

b) Credit risk (Continued)

	Parent	
	31 December 2020	**31 December 2019**
Cash and due from banks at amortised cost	**K'000**	K'000
Concentration by sector		
Cash on hand	**118,811**	3
With central bank (exchange settlement account)	**112,024**	-
With other banks	**130,779**	43,834
Total	**361,614**	43,837
Concentration by region		
Papua New Guinea	**273,279**	226
Offshore*	**88,335**	43,611
Total	**361,614**	43,837

	Consolidated	
	31 December 2020	**31 December 2019**
Treasury and central bank bills at amortised cost	K'000	K'000
Concentration by sector		
With central banks	**647,874**	722,090
Total	**647,874**	722,090
Concentration by region		
Papua New Guinea	**647,874**	722,090
Total	**647,874**	722,090

	Parent	
	31 December 2020	**31 December 2019**
Treasury and central bank bills at amortised cost	K'000	K'000
Concentration by sector		
With central banks	**647,874**	-
Total	**647,874**	-
Concentration by region		
Papua New Guinea	**647,874**	-
Total	**647,874**	-

3. Financial risk management (continued)

b) Credit risk (Continued)

	Consolidated	
	31 December 2020	**31 December 2019**
Regulatory deposits at amortised cost	**K'000**	K'000
Concentration by sector		
With central banks	**185,711**	249,713
Total	**185,711**	249,713
Concentration by region		
Papua New Guinea	**185,711**	249,713
Total	**185,711**	249,713

	Parent	
	31 December 2020	**31 December 2019**
Regulatory deposits at amortised cost	**K'000**	K'000
Concentration by sector		
With central banks	**185,711**	-
Total	**185,711**	-
Concentration by region		
Papua New Guinea	**185,711**	-
Total	**185,711**	-

3. Financial risk management (continued)

b) Credit risk (Continued)

	Consolidated	
	31 December 2020	**31 December 2019**
Loans and advances to customers at amortised cost	**K'000**	K'000
Concentration by sector		
Individuals:		
Mortgages	**481,492**	507,593
Unsecured lending	**33,436**	114,288
Corporate entities:		
Agriculture, Forestry & Fishing	**13,763**	7,085
Mining	**14,528**	19,078
Manufacturing	**16,786**	14,878
Electrical, Gas & Water	**7,459**	1,160
Building and Construction	**105,606**	86,664
Wholesale & Retail	**379,893**	198,747
Hotel & Restaurants	**104,928**	91,905
Transport & Storage	**12,635**	8,897
Financial Intermediation	**14,329**	592
Real Estate/Renting/Business Services	**329,776**	271,028
Equipment Hire	**23,038**	10,811
Other Business	**109,838**	30,602
Personal Banking	**2,569**	58,630
Total	**1,650,076**	1,421,958
Concentration by region		
Papua New Guinea	**1,650,076**	1,421,958
Total	**1,650,076**	1,421,958

3. Financial risk management (continued)

b) Credit risk (Continued)

	Parent	
	31 December 2020	**31 December 2019**
Loans and advances to customers at amortised cost	**K'000**	K'000
Concentration by sector		
Individuals:		
Mortgages	**481,492**	-
Unsecured lending	**33,436**	-
Corporate entities:		
Agriculture, Forestry & Fishing	**13,763**	-
Mining	**14,528**	-
Manufacturing	**16,786**	-
Electrical, Gas & Water	**7,459**	-
Building and Construction	**105,606**	-
Wholesale & Retail	**379,893**	-
Hotel & Restaurants	**104,928**	-
Transport & Storage	**12,635**	-
Financial Intermediation	**14,329**	-
Real Estate/Renting/Business Services	**329,776**	-
Equipment Hire	**23,038**	-
Other Business	**104,576**	-
Personal Banking	**2,569**	-
Total	**1,644,814**	-
Concentration by region		
Papua New Guinea	**1,644,814**	-
Total	**1,644,814**	-

	Consolidated	
	31 December 2020	**31 December 2019**
Investments in government inscribed stocks at amortised cost	K'000	K'000
Concentration by sector		
Sovereign	**116,193**	34,492
Total	**116,193**	34,492
Concentration by region		
Papua New Guinea	**116,193**	34,492
Total	**116,193**	34,492

3. Financial risk management (continued)

b) Credit risk (Continued)

	Parent	
	31 December 2020	31 December 2019
Investments in government inscribed stocks at amortised cost	K'000	K'000
Concentration by sector		
Sovereign	**116,193**	-
Total	**116,193**	-
Concentration by region		
Papua New Guinea	**116,193**	-
Total	**116,193**	-

	Consolidated	
	31 December 2020	31 December 2019
Bank guarantees	K'000	K'000
Concentration by sector		
Corporate entities:		
Agriculture, Forestry & Fishing	26,285	25,306
Mining	22,003	400
Wholesale & Retail	13,300	9,402
Hotels and Restaurants	-	400
Building and Construction	20,106	2,059
Transport & Storage	4,510	7,987
Electrical, Gas & Water	1,470	1,170
Other Business	1,030	23,651
Total	**88,704**	70,375
Concentration by region		
Papua New Guinea	**88,704**	70,375
Total	**88,704**	70,375

3. Financial risk management (continued)

b) Credit risk (Continued)

	Parent	
	31 December 2020	31 December 2019
Bank guarantees	K'000	K'000
Concentration by sector		
Corporate entities:		
Agriculture, Forestry & Fishing	26,285	-
Mining	22,003	-
Wholesale & Retail	13,300	-
Hotels and Restaurants	-	-
Building and Construction	20,106	-
Transport & Storage	4,510	-
Electrical, Gas & Water	1,470	-
Other Business	1,030	-
Total	**88,704**	-
Concentration by region		
Papua New Guinea	**88,704**	-
Total	**88,704**	-

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 2020			
	Stage 1	Stage 2	Stage 3	
Cash and due from banks at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	335,147	-	-	335,147
Total gross carrying amount	**335,147**	**-**	**-**	**335,147**
Loss allowance	-	-	-	-
Net carrying amount	**335,147**	**-**	**-**	**335,147**

3. **Financial risk management (continued)**

b) Credit risk (Continued)

	Parent			
	31 December 2020			
	Stage 1	Stage 2	Stage 3	
Cash and due from banks at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	361,614	-	-	361,614
Total gross carrying amount	**361,614**	**-**	**-**	**361,614**
Loss allowance	-	-	-	-
Net carrying amount	**361,614**	**-**	**-**	**361,614**

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

	Parent			
	31 December 2019			
	Stage 1	Stage 2	Stage 3	
Cash and due from banks at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	43,837	-	-	43,837
Total gross carrying amount	**43,837**	**-**	**-**	**43,837**
Loss allowance	-	-	-	-
Net carrying amount	**43,837**	**-**	**-**	**43,837**

3. Financial risk management (continued)

b) Credit risk (Continued)

	Consolidated			
	31 December 2020			
	Stage 1	Stage 2	Stage 3	
Treasury and central bank bills at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	647,874	-	-	647,874
Total gross carrying amount	**647,874**	**-**	**-**	**647,874**
Loss allowance	-	-	-	-
Net carrying amount	**647,874**	**-**	**-**	**647,874**

	Parent			
	31 December 2020			
	Stage 1	Stage 2	Stage 3	
Treasury and central bank bills at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	647,874	-	-	647,874
Total gross carrying amount	**647,874**	**-**	**-**	**647,874**
Loss allowance	-	-	-	-
Net carrying amount	**647,874**	**-**	**-**	**647,874**

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

3. Financial risk management (continued)

b) Credit risk (Continued)

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

	Consolidated 31 December 2020			
	Stage 1	Stage 2	Stage 3	
Regulatory deposits at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	185,711	-	-	185,711
Total gross carrying amount	**185,711**	**-**	**-**	**185,711**
Loss allowance	-	-	-	-
Net carrying amount	**185,711**	**-**	**-**	**185,711**

	Parent 31 December 2020			
	Stage 1	Stage 2	Stage 3	
Regulatory deposits at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	185,711	-	-	185,711
Total gross carrying amount	**185,711**	**-**	**-**	**185,711**
Loss allowance	-	-	-	-
Net carrying amount	**185,711**	**-**	**-**	**185,711**

3. Financial risk management (continued)

b) Credit risk (Continued)

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

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

	Consolidated				
Loans and advances to customers at amortised cost	31 December 2020				
	Stage 1	**Stage 2**	**Stage 3**		
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**POCI**	**Total**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**
Grade C-D: Moderate and acceptable risk	1,417,091	65,994	699	-	1,483,784
Grade E: Watchlist/ special mention	-	24,620	-	-	24,620
Grades F: Substandard	-	36,628	10	-	36,638
Grade G: Doubtful	-	56,083	3,188	-	59,271
Grade H: Loss	-	937	25,776	19,050	45,763
Total gross carrying amount	**1,417,091**	**184,262**	**29,673**	**19,050**	**1,650,076**
Loss allowance	(12,058)	(19,777)	(3,510)	-	(35,345)
Carrying amount	**1,405,033**	**164,485**	**26,163**	**19,050**	**1,614,731**

3. Financial risk management (continued)

b) Credit risk (Continued)

Loans and advances to customers at amortised cost	**Parent 31 December 2020**				
	Stage 1	**Stage 2**	**Stage 3**		
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**POCI**	**Total**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**
Grade C-D: Moderate and acceptable risk	1,414,258	65,617	699	-	1,480,574
Grade E: Watchlist/ special mention	-	24,620	-	-	24,620
Grades F: Substandard	-	36,628	10	-	36,638
Grade G: Doubtful	-	56,083	3,188	-	59,271
Grade H: Loss	-	937	23,724	19,050	43,711
Total gross carrying amount	**1,414,258**	**183,885**	**27,621**	**19,050**	**1,644,814**
Loss allowance	(12,058)	(19,718)	(3,069)	-	(34,845)
Carrying amount	**1,402,200**	**164,167**	**24,552**	**19,050**	**1,609,969**

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

Loans and advances to customers at amortised cost	**Consolidated 31 December 2019**				
	Stage 1	**Stage 2**	**Stage 3**		
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**POCI**	**Total**
	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
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**

3. Financial risk management (continued)

b) Credit risk (Continued)

Loans and advances to customers at amortised cost	**Parent 31 December 2019**				
	Stage 1	**Stage 2**	**Stage 3**		
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**POCI**	**Total**
	K'000	**K'000**	**K'000**	**K'000**	**K'000**
Grade C-D: Moderate and acceptable risk	-	-	-	-	-
Grade E: Watchlist/ special mention	-	-	-	-	-
Grades F: Substandard	-	-	-	-	-
Grade G: Doubtful	-	-	-	-	-
Grade H: Loss	-	-	-	-	-
Total gross carrying amount	**-**	**-**	**-**	**-**	**-**
Loss allowance	-	-	-	-	-
Carrying amount	**-**	**-**	**-**	**-**	**-**

	Consolidated 31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	
Investments in government inscribed stocks at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	116,193	-	-	116,193
Total gross carrying amount	**116,193**	-	**-**	**116,193**
Loss allowance	(1,674)	-	-	(1,674)
Net carrying amount	**114,519**	**-**	**-**	**114,519**

	Parent 31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	
Investments in government inscribed stocks at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	116,193	-	-	116,193
Total gross carrying amount	**116,193**	-	**-**	**116,193**
Loss allowance	(1,674)	-	-	(1,674)
Net carrying amount	**114,519**	**-**	**-**	**114,519**

3. Financial risk management (continued)

b) Credit risk (Continued)

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

	Parent			
	31 December 2019			
	Stage 1	Stage 2	Stage 3	
Investments in government inscribed stocks at amortised cost	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	-	-	-	-
Total gross carrying amount	-	-	-	-
Loss allowance	-	-	-	-
Net carrying amount	-	-	-	-

	Consolidated			
	31 December 2020			
	Stage 1	Stage 2	Stage 3	
Bank guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	88,704	-	-	88,704
Maximum exposure to credit risk	**88,704**	**-**	**-**	**88,704**
Loss allowance	-	-	-	-
Net amount	**88,704**	**-**	**-**	**88,704**

3. Financial risk management (continued)

b) Credit risk (Continued)

	Parent 31 December 2020			
	Stage 1	**Stage 2**	**Stage 3**	
Bank guarantees	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Grades A-B: Low to fair risk	88,704	-	-	88,704
Maximum exposure to credit risk	**88,704**	**-**	**-**	**88,704**
Loss allowance	-	-	-	-
Net amount	**88,704**	**-**	**-**	**88,704**

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

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

3. Financial risk management (continued)

b) Credit risk (Continued)

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

	Consolidated	
	31 December 2020	31 December 2019
Loss allowance by classes	**K'000**	**K'000**
Loans and advances to customers at amortised cost	**35,345**	20,525
Investments in government inscribed stocks at amortised cost	**1,674**	489
Other financial assets	**4,038**	4,038
Total	**41,057**	25,052

	Parent	
	31 December 2020	31 December 2019
Loss allowance by classes	**K'000**	**K'000**
Loans and advances to customers at amortised cost	**34,845**	-
Investments in government inscribed stocks at amortised cost	**1,674**	-
Other financial assets	**4,038**	101
Total	**40,557**	101

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 2020	Additional ECL recognised	Write-offs	Bad debt Recoveries	Provision derecognized in respect of sales of loan book	Balance at 31 December 2020
Loss allowance by classes	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Loans and advances to customers at amortised cost	20,525	20,833	(7,096)	1,943	(859)	35,345
Investments in government inscribed stocks at amortised cost	489	1,185	-	-	-	1,674
Other financial assets	4,038	-	-	-	-	4,038
Total	**25,052**	**22,018**	**(7,096)**	**1,943**	**(859)**	**41,057**

3. Financial risk management (continued)

b) Credit risk (Continued)

	Parent						
	Balance at 01 January 2020	**Amalgamation adjustment**	**Additional ECL recognised**	**Write-offs**	**Bad debt Recoveries**	**Provision derecognized in respect of sales of loan book**	**Balance at 31 December 2020**
Loss allowance by classes	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Loans and advances to customers at amortised cost	-	29,029	11,828	(7,096)	1,943	(859)	34,845
Investments in government inscribed stocks at amortised cost	-	1,674	-	-	-	-	1,674
Other financial assets	101	3,937	-	-	-	-	4,038
Total	**101**	**34,640**	**11,828**	**(7,096)**	**1,943**	**(859)**	**40,557**

	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**

	Parent				
	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	-	-	-	-	-
Investments in government inscribed stocks at amortised cost	-	-	-	-	-
Other financial assets	101	-	-	-	101
Total	101	-	-	-	101

3. Financial risk management (continued)

b) Credit risk (Continued)

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

	Consolidated 31 December 2020				
	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	**12,102**	**6,698**	**1,725**	-	**20,525**
Changes in the loss allowance					
- Transfer to stage 1	84	(84)	-	-	-
- Transfer to stage 2	(811)	812	(1)	-	-
- Transfer to stage 3	(6)	(404)	410	-	-
- Write-offs	-	(4,406)	(747)	-	(5,153)
New financial assets originated or purchased	4,716	17,972	2,245	-	24,933
Financial assets that have been derecognised	(4,027)	(811)	(122)	-	(4,960)
Loss allowance as at 31 December	**12,058**	**19,777**	**3,510**	-	**35,345**

	Parent 31 December 2020				
	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	**-**	**-**	**-**	-	**-**
Amalgamation adjustment	**12,102**	**6,648**	**1,483**	-	**20,233**
Changes in the loss allowance					
- Transfer to stage 1	84	(84)	-	-	-
- Transfer to stage 2	(811)	812	(1)	-	-
- Transfer to stage 3	(6)	(404)	410	-	-
- Write-offs	-	(4,406)	(747)	-	(5,153)
New financial assets originated or purchased	4,716	17,963	2,046	-	24,725
Financial assets that have been derecognised	(4,027)	(811)	(122)	-	(4,960)
Loss allowance as at 31 December	**12,058**	**19,718**	**3,069**	-	**34,845**

3. **Financial risk management (continued)**

b) **Credit risk (Continued)**

	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**

	Parent				
	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	-	-	-	-	-
Changes in the loss allowance					
- Transfer to stage 1	-	-	-	-	-
- Transfer to stage 2	-	-	-	-	-
- Transfer to stage 3	-	-	-	-	-
- Write-offs	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Financial assets that have been derecognised	-	-	-	-	-
Loss allowance as at 31 December	-	-	-	-	-

3. Financial risk management (continued)

b) Credit risk (Continued)

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

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

	Consolidated				
	31 December 2020				
	Stage 1	Stage 2	Stage 3		
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**
Gross carrying amount as at 01 January	1,324,738	73,818	7,894	15,508	1,421,958
Changes in the gross carrying amount					
- Transfer to stage 1	8,602	(8,363)	(239)	-	-
- Transfer to stage 2	(114,785)	115,628	(843)	-	-
- Transfer to stage 3	(5,728)	(12,964)	18,692	-	-
New financial assets originated or purchased	536,918	36,610	5,357	6,718	585,603
Financial assets that have been derecognised	(332,654)	(16,061)	(441)	(3,176)	(352,332)
Write-offs	-	(4,406)	(747)	-	(5,153)
Gross carrying amount as at 31 December	**1,417,091**	**184,262**	**29,673**	**19,050**	**1,650,076**

3. Financial risk management (continued)

b) Credit risk (Continued)

			Parent 31 December 2020		
	Stage 1	**Stage 2**	**Stage 3**		
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**
Gross carrying amount as at 01 January	-	-	-	-	-
Amalgamation adjustment	1,319,158	72,883	7,438	15,508	1,414,987
Changes in the gross carrying amount					
- Transfer to stage 1	8,602	(8,363)	(239)	-	-
- Transfer to stage 2	(114,785)	115,628	(843)	-	-
- Transfer to stage 3	(5,573)	(12,767)	18,340	-	-
New financial assets originated or purchased	534,092	36,234	4,777	6,718	581,821
Financial assets that have been derecognised	(327,236)	(15,324)	(1,105)	(3,176)	(346,841)
Write-offs	-	(4,406)	(747)	-	(5,153)
Gross carrying amount as at 31 December	**1,414,258**	**183,885**	**27,621**	**19,050**	**1,644,814**

3. Financial risk management (continued)

b) Credit risk (Continued)

	Consolidated				
	31 December 2019				
	Stage 1	**Stage 2**	**Stage 3**		
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**
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 derecognized	(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**

3. Financial risk management (continued)

b) Credit risk (Continued)

	Parent				
	31 December 2019				
	Stage 1	Stage 2	Stage 3		
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**
Gross carrying amount as at 01 January	-	-	-	-	-
Changes in the gross carrying amount					
- Transfer to stage 1	-	-	-	-	-
- Transfer to stage 2	-	-	-	-	-
- Transfer to stage 3	-	-	-	-	-
New financial assets originated or purchased	-	-	-	-	-
Financial assets that have been derecognized	-	-	-	-	-
Write-offs	-	-	-	-	-
Gross carrying amount as at 31 December	-	-	-	-	-

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 2020		Year ended 2019	
	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	1,387,203	14,427	1,307,764	14,378
30-59 days	53,222	799	22,082	330
60-89 days	47,868	1,673	8,763	28
90-180 days	60,345	9,222	47,012	4,582
More than 181 days	101,438	9,224	36,337	1,207
Total	**1,650,076**	**35,345**	**1,421,958**	**20,525**

3. Financial risk management (continued)

b) Credit risk (Continued)

	Parent			
	Year ended 2020		Year ended 2019	
	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	1,384,515	14,427	-	-
30-59 days	53,153	799	-	-
60-89 days	47,834	1,673	-	-
90-180 days	59,968	9,163	-	-
More than 181 days	99,344	8,783	-	-
Total	**1,644,814**	**34,845**	-	-

Collateral held as security and other credit enhancements

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

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

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

Mortgage lending

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

3. Financial risk management (continued)

b) Credit risk (Continued)

	Consolidated	
	Year ended 2020	Year ended 2019
	Gross carrying	Gross carrying
Mortgage lending	**amount**	**Amount**
LTDV ratio	**K'000**	**K'000**
Less than 50%	60,938	51,636
51-75%	68,368	40,964
75-90%	43,021	14,186
90-100%	174,952	114,106
More than 100%	133,892	99,350
Fully cash covered	253	416
Total	**481,424**	**320,658**

	Parent	
	Year ended 2020	Year ended 2019
	Gross carrying	Gross carrying
Mortgage lending	**amount**	**Amount**
LTDV ratio	**K'000**	**K'000**
Less than 50%	60,938	-
51-75%	68,368	-
75-90%	43,021	-
90-100%	174,952	-
More than 100%	133,892	-
Fully cash covered	253	-
Total	**481,424**	-

	Consolidated	
	Year ended 2020	Year ended 2019
	Gross carrying	Gross carrying
Credit impaired – Mortgage lending	**amount**	**amount**
LTDV ratio	**K'000**	**K'000**
Less than 50%	2,427	1,515
51-75%	7,310	1,129
75-90%	2,362	-
90-100%	3,307	1,410
More than 100%	7,150	5,667
Total	**22,556**	**9,721**

3. Financial risk management (continued)

b) Credit risk (Continued)

	Parent	
	Year ended 2020	Year ended 2019
	Gross carrying	Gross carrying
Credit impaired – Mortgage lending	**amount**	**amount**
LTDV ratio	**K'000**	**K'000**
Less than 50%	2,427	-
51-75%	7,310	-
75-90%	2,362	-
90-100%	3,307	-
More than 100%	7,150	-
Total	**22,556**	-

Personal lending

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

	Consolidated	
	Year ended 2020	**Year ended 2019**
	K'000	**K'000**
Secured	481,492	507,593
Unsecured	33,436	114,288
Total	**514,928**	**621,881**

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 2020, the portfolio of secured personal lending is entirely secured by eligible collateral.

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

Corporate lending

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

3. Financial risk management (continued)

b) Credit risk (Continued)

ongoing basis and in event of any indicator which may result in significant decline will require the fresh valuation to be performed. As at 31 December 2020, 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 K114,519,320 (2019: K34,003,163) which are collateralized by sovereign guarantee.

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 K1m (31 December 2019: 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.

3. Financial risk management (continued)

c) Liquidity risk (Continued)

	Consolidated						
	Up to 1 month K'000	**1 to 3 months K'000**	**4 to 12 months K'000**	**1 to 5 years K'000**	**Over 5 years K'000**	**Total contract value K'000**	**Total carrying value K'000**
31 December 2020							
Cash and due from banks	335,147	-	-	-	-	335,147	335,147
Central bank bills	65,000	35,000	575,000	-	-	675,000	647,874
Regulatory deposits	185,711	-	-	-	-	185,711	185,711
Total financial assets	585,858	35,000	575,000	-	-	1,195,858	1,168,732
Due to other banks	5,385	-	-	-	-	5,385	5,385
Due to customers	2,026,766	286,671	282,025	20,189	-	2,615,651	2,560,715
Other liabilities	57,228	-	-	-	-	57,228	57,228
Total financial liabilities	2,089,379	286,671	282,025	20,189	-	2,678,264	2,623,328
Issued financial guarantee contracts	250	32,339	49,861	6,254	-	88,704	N/A
Issued loan commitments	177,528	27,396	-	-	-	204,924	N/A
Total	177,778	59,735	49,861	6,254	-	293,628	N/A
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	30,625	-	202,176	N/A

3. Financial risk management (continued)

c) Liquidity risk (Continued)

	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**
31 December 2020	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**	**K'000**
Cash and due from banks	361,614	-	-	-	-	361,614	361,614
Central bank bills	65,000	35,000	575,000	-	-	675,000	647,874
Regulatory deposits	185,711	-	-	-	-	185,711	185,711
Due from subsidiaries	1,387	-	-	-	-	1,387	1,387
Total financial assets	**613,712**	**35,000**	**575,000**	**-**	**-**	**1,223,712**	**1,196,586**
Due to other banks	5,385	-	-	-	-	5,385	5,385
Due to customers	2,065,525	286,671	282,025	20,189	-	2,654,410	2,599,474
Other liabilities	56,197	-	-	-	-	56,197	56,197
Due to subsidiaries	8,988	-	-	-	-	8,988	8,988
Total financial liabilities	**2,136,095**	**286,671**	**282,025**	**20,189**	**-**	**2,724,980**	**2,670,044**
31 December 2019							
Cash and due from banks	43,837	-	-	-	-	43,837	43,837
Central bank bills	-	-	-	-	-	-	-
Regulatory deposits	-	-	-	-	-	-	-
Due from subsidiaries	351,096	-	-	-	-	351,096	351,096
Total financial assets	**394,933**	**-**	**-**	**-**	**-**	**394,933**	**394,933**
Due to other banks	-	-	-	-	-	-	-
Due to customers	-	-	-	-	-	-	-
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**

The liquidity gap in 'up to 1 month bucket' is due to assumption that current and saving deposits amounting to K1,330m (31 December 2019:1,919m) 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 Company 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.

Prudential Standard PS1/2003 `Capital Adequacy' is intended to ensure KSL 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 KSL, and
3) Provide public confidence in KSL as a financial institution and the overall banking system

4. Capital adequacy (continued)

PS1/2003 `Capital Adequacy` prescribes ranges of capital ratios to measure whether KSL 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 2020, KSL’s capital ratios were in compliance with the BPNG Minimum capital adequacy requirements as follows:

	2020 **K ‘000**	2019 K ‘000
Risk weighted assets	**1,670,142**	1,598,159
Capital : tier 1	**370,986**	252,596
Capital : tier 2	**58,344**	70,932
Capital : tier 1 and tier 2	**429,330**	323,528
Capital adequacy ratios		
Tier 1 capital	**22.2%**	15.8%
Total capital ratio	**25.4%**	20.1%
Leverage capital ratio	**11.2%**	8.5%

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**	
	2020	2019	**2020**	2019
	K ‘000	K ‘000	**K ‘000**	K ‘000
Interest income				
Cash and short-term funds	**44,937**	33,570	**17,259**	31
Investment in government inscribed stocks	**8,990**	2,560	**5,471**	-
Loans and advances to customers	**145,760**	110,352	**66,446**	-
	199,687	146,482	**89,176**	31
Interest expense				
Banks and customers	**(29,964)**	(29,318)	**(13,685)**	-
Lease Liability	**-**	(2,583)	**-**	(803)
Due to subsidiaries (note 29)	**-**	-	**(34)**	(2,689)
	(29,964)	(31,901)	**(13,719)**	(3,492)
Net interest income/(expense)	**169,723**	114,581	**75,457**	(3,461)

6. Net fee and commission income

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Fees and commission income				
Investment and portfolio management	**9,279**	10,121	-	**-**
Fund administration	**19,669**	18,261	-	**-**
Shares brokerage	**1,197**	879	**690**	879
Loans fees and bank commissions	**24,469**	13,591	**9,360**	-
Other fees (net of expense)	**21,738**	5,026	**10,910**	-
	76,352	47,878	**20,960**	879
Fee and commission expenses	**(134)**	(93)	**(122)**	(82)
Net fee and commission income	**76,218**	47,785	**20,838**	797

7. Dividend income

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Dividend income from investments				
Financial assets at fair value through profit or loss	**136**	357	**-**	4
Investment in subsidiaries	-	-	**-**	40,000
	136	357	**-**	40,004

8. Other income

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Profits from disposal of property and equipment	**221**	53	**221**	56
Realised gains/losses	**4,004**	178	**952**	178
Support fees from subsidiaries (note 29)	-	-	**1,751**	38,860
Office space recharge (note 29)	-	-	**1,699**	2,895
Management fees (note 29)	-	-	**350**	7,772
Gain on sale of Esiloan portfolio	**3,025**	-	**3,025**	-
Intercompany charges	**-**	-	**16,536**	-
Other	**3,718**	503	**563**	158
	10,968	734	**25,097**	49,919

9. Other operating expenses

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Staff costs	**75,186**	58,443	**35,067**	27,729
Acquisition costs relating to business combination	**-**	191	**-**	16
Administrative expenses	**48,900**	25,446	**19,006**	6,323
Depreciation and amortization	**35,065**	17,033	**18,653**	5,825
Operating lease	**3,353**	2,444	**511**	49
Software maintenance and support charges	**3,562**	1,687	**1,741**	285
Auditor's remuneration (note 36)	**1,248**	1,017	**1,144**	377
Other	**15,556**	10,966	**7,187**	5,071
	182,870	117,227	**83,309**	45,675

Break-up of staff costs:

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Salaries, wages and other benefits	**68,233**	52,795	**29,990**	23,517
Superannuation costs	**3,944**	2,765	**1,879**	1,329
Cost of employee share based incentive plan	**3,009**	2,883	**3,198**	2,883
Total staff costs	**75,186**	58,443	**35,067**	27,729

As at 31 December 2020 the Group had 691 (2019: 740) employees and 2 (2019: 5) consultants. The Company had 626 (2019:228) employees (post amalgamation) and 2 (2019: 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	
	2020	2019	**2020**	2019
	K'000	K'000	**K'000**	K'000
Profit before tax	**109,906**	82,693	**54,693**	41,488
Prima facie tax at 30% (2019: 30%)	**32,972**	24,808	**16,408**	12,446
Tax effect of:				
Permanent differences	**(2,834)**	63	**(1,929)**	(12,044)
Prior year adjustment	**3,794**	(3,049)	**2,747**	(1,347)
Income tax expense	**33,932**	21,822	**17,226**	(945)
Represented by:				
Current tax	**39,923**	25,120	**23,243**	1,298
Deferred taxes	**(5,991)**	(3,298)	**(6,017)**	(2,243)
Income tax expense	**33,932**	21,822	**17,226**	(945)

11. Deferred taxes

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K'000	K'000	**K'000**	K'000
Allowance for losses	**16,158**	12,127	**15,978**	30
Employee benefit provision	**3,526**	2,720	**3,179**	1,327
Lease liability	**14,202**	16,488	**14,202**	2,819
	33,886	31,335	**33,359**	4,176
Depreciation and amortisation	**(17,388)**	(20,302)	**(17,388)**	(1,192)
Others	**(16)**	(542)	**(15)**	242
	(17,404)	(20,844)	**(17,403)**	(950)
Net deferred tax asset/(liabilities)	**16,482**	10,491	**15,956**	3,226

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

	Consolidated		Parent	
	2020	**2019**	**2020**	2019
	K'000	**K'000**	**K'000**	K'000
Balance at beginning of year	**10,491**	7,193	**3,226**	787
Statement of comprehensive income credit/(charge)	**5,991**	3,298	**12,730**	2,439
Balance at end of year	**16,482**	10,491	**15,956**	3,226
Represented by:				
Deferred tax assets (note 11(a))	**33,886**	31,335	**33,359**	4,176
Deferred tax liabilities (note 11(a))	**(17,404)**	(20,844)	**(17,403)**	(950)
	16,482	10,491	**15,596**	3,226

12. Cash and due from banks

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Cash on hand	**118,811**	82,413	**118,811**	3
Exchange settlement accounts	**112,024**	58,314	**112,024**	-
Due from other banks	**104,312**	128,975	**130,779**	43,834
	335,147	269,702	**361,614**	43,837

13. Central bank bills

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Central bank and treasury bills				
Less than 90 days	**65,000**	-	**65,000**	-
Over 90 days	**610,000**	755,000	**610,000**	-
Unearned discount	**(27,126)**	(32,910)	**(27,126)**	-
	647,874	722,090	**647,874**	-

Central bank bills are debt securities issued by the Bank of Papua New Guinea (BPNG). Central bank bills amounting to K65m (2019: Knil) 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 2020 amounted to K185,711,050 (2019: K249,712,700). 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 2020 amounted to K 185,711,050 (2019: K nil).

15. Financial assets at fair value through profit or loss

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Equity securities				
- Listed	**4,680**	4,834	**177**	174
- Unlisted	**6,002**	2,636	**5,974**	-
Convertible notes	**-**	165	**-**	165
	10,682	7,635	**6,151**	339

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K'000	K '000	K '000	K '000
Balance at beginning of year	**7,635**	4,907	**339**	347
Gains/(losses) from changes in fair value	**2,510**	153	**2,666**	(8)
Additions	**537**	2,575	**3,146**	-
Balance at end of year	**10,682**	7,635	**6,151**	339

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	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Loans to individuals	**514,928**	621,881	**514,928**	**-**
Loans to corporate entities	**1,135,148**	800,077	**1,129,886**	**-**
Gross loans and advances to customers	**1,650,076**	1,421,958	**1,644,814**	**-**
Expected credit losses	**(35,345)**	(20,525)	**(34,845)**	**-**
	1,614,731	1,401,433	**1,609,969**	**-**

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Overdrafts	**83,611**	68,273	**83,611**	**-**
Property mortgage	**481,424**	320,658	**481,424**	**-**
Asset financing	**17,653**	20,056	**17,653**	**-**
Insurance premium funding	**1,949**	2,289	**1,949**	**-**
Business and other loans	**1,065,439**	1,010,682	**1,060,177**	**-**
	1,650,076	1,421,958	**1,644,814**	**-**

16. Loans and advances to customers (Continued)

Movements in expected credit losses are as follows:

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Balance at beginning of year	**20,525**	18,451	**-**	-
Provision derecognised in respect of sales of loan book*	**(859)**	-	**(859)**	-
Impairment losses during the year	**20,833**	5,957	**11,828**	-
Loans written off	**(7,096)**	(5,959)	**(7,096)**	-
Bad debt recoveries	**1,943**	2,076	**1,943**	-
Amalgamation adjustment	**-**	-	**29,029**	-
Balance at end of year	**35,345**	20,525	**34,845**	-

In June 2020, Kina divested Esiloan portfolio to Nationwide Microbank Limited (MiBank) for an amount of PGK 34.2m. The transaction was in line with the strategic partnership announced between Kina and Mibank in August 2019 to provide greater financial inclusion and provision of micro-finance to customers. The gain on sale of Esiloan portfolio amounted to K3.0m recognised under other income.

17. Investments in government inscribed stocks

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Government inscribed stocks principal balance	**118,000**	33,000	**118,000**	-
Unamortised premium	**301**	437	**301**	-
Unamortised discount	**(4,777)**	(8)	**(4,777)**	-
Accrued interest	**2,669**	1,063	**2,669**	-
Gross investments in government inscribed stocks	**116,193**	34,492	**116,193**	-
Expected credit losses	**(1,674)**	(489)	**(1,674)**	-
	114,519	34,003	**114,519**	-

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Balance at beginning of year	**34,003**	34,195	**-**	-
Additions / (maturities)	**85,000**	-	**85,000**	-
Amortized discount/(premium)	**(4,906)**	(70)	**(4,906)**	-
Accrued interest	**1,607**	(433)	**1,607**	-
Write back / (addition) of expected credit losses	**(1,185)**	311	**(1,185)**	-
Amalgamation adjustment	**-**	-	**34,003**	-
	114,519	34,003	**114,519**	-

Investments in government inscribed stocks are measured at amortized cost. Included within the balance is an amount of K nil (31 December 2019: K nil) which has been pledged with a third party against repurchase agreement transaction.

18. Investments in subsidiaries

	Shareholdings*			
	2020	2019	**2020**	2019
	%	%	**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 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

*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 2020 (2019: 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
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Cost								
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**
Additions	-	893	1,168	5,055	-	1,074	1,976	10,166
Transfer in (out)	-	-	-	-	-	-	-	-
Disposals	-	-	(1,326)	-	-	-	(1,272)	(2,598)
Balance 31 December 2020	**4,810**	**18,578**	**5,627**	**43,034**	**2,129**	**1,074**	**63,503**	**138,755**
Accumulated depreciation								
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)**
Charge during the year	(1,087)	(2,314)	(1,083)	(4,821)	-	-	(11,228)	(20,533)
Disposals	-	-	1,283	-	-	-	1,034	2,317
Balance 31 December 2020	**(2,489)**	**(5,712)**	**(3,514)**	**(20,718)**	**-**	**-**	**(20,048)**	**(52,481)**
Book value								
Balance 31 December 2020	**2,321**	**12,866**	**2,114**	**22,316**	**2,129**	**1,074**	**44,454**	**86,274**
Balance 31 December 2019	3,408	14,287	2,071	22,082	2,129	-	52,945	96,922

19. Property, plant and equipment (continued)

Parent	Furniture & Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Right-of-use assets	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Cost								
Balance 31 December 2018	582	878	2100	10,683	2,129	110	-	16,481
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**	**2,129**	**-**	**14,108**	**36,159**
Amalgamation adjustment	4,122	14,014	2,131	26,070	-	-	48,691	95,028
Additions	-	893	1,168	5,055	-	1,074	1,976	10,166
Disposals	-	-	(1,326)	-	-	-	(1,272)	(2,598)
Balance 31 December 2020	**4,810**	**18,578**	**5,627**	**43,034**	**2,129**	**1,074**	**63,503**	**138,755**
Accumulated depreciation								
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)**
Amalgamation adjustment	(1,480)	(3,815)	(1,642)	(7,914)	-	-	(9,240)	(24,091)
Charge during the year	(443)	(1,144)	(844)	(2,314)	-	-	(6,447)	(11,192)
Disposals	-	-	1,283	-	-	-	1,034	2,317
Balance 31 December 2020	**(2,489)**	**(5,712)**	**(3,513)**	**(20,718)**	**-**	**-**	**(20,049)**	**(52,481)**
Book value								
Balance 31 December 2020	**2,321**	**12,866**	**2,114**	**22,316**	**2,129**	**1,074**	**43,454**	**86,274**
Balance 31 December 2019	123	2,918	1,344	1,419	2,128	-	8,712	16,644

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 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**
Additions	5,058	-	9,676	14,734
Transfer in (out)	206	-	(206)	-
Balance 31 December 2020	**42,785**	**22,468**	**10,972**	**76,225**
Accumulated depreciation				
Balance 31 December 2018	(4,250)	(2,457)	-	(6,707)
Charge for the year	(3,110)	(2,427)	-	(5,537)
Balance 31 December 2019	**(7,360)**	**(4,884)**	-	**(12,244)**
Charge during the year	(7,711)	(6,821)	-	(14,532)
Balance 31 December 2020	**(15,071)**	**(11,705)**	-	**(26,776)**
Book value				
Balance 31 December 2020	**27,714**	**10,763**	**10,972**	**49,449**
Balance 31 December 2019	30,161	17,584	1,502	49,247

Parent	Software	Customer deposit relationship	Work in Progress	Total
Cost				
Balance 31 December 2018	**6,058**	-	**1,372**	**7,430**
Additions	1,979	-	360	2,339
Disposals	316	-	(676)	(360)
Balance 31 December 2019	**8,353**	-	**1,056**	**9,409**
Amalgamation adjustment	29,168	22,468	446	52,082
Additions	5,058	-	9,377	14,435
Transfer in (out)	206	-	(206)	-
Balance 31 December 2020	**42,785**	22,468	**10,673**	**75,926**
Accumulated depreciation				
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)**
Amalgamation adjustment	(7,959)	(8,479)	-	(16,438)
Charge during the year	(4,235)	(3,226)	-	(7,461)
Disposals	-	-	-	-
Balance 31 December 2020	**(15,071)**	**(11,705)**	-	**(26,776)**
Book value				
Balance 31 December 2020	**27,714**	**10,763**	**10,673**	**49,150**
Balance 31 December 2019	5,476	-	1,056	6,532

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 gave 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 respectively 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 one year respectively.

21. Other assets

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Prepayments	**1,550**	6,241	**1,512**	572
Security deposits and bonds	**5,435**	5,292	**5,387**	498
Other debtors	**142,866**	55,208	**142,343**	247
	149,851	66,741	**149,242**	1,317
Less: expected credit losses	**(4,038)**	(4,038)	**(4,038)**	(101)
	145,813	62,703	**145,204**	1,216

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

Balances at beginning of year	**4,038**	4,038	**101**	101
Amalgamation adjustment	**-**	-	**3,937**	-
Balance at end of year	**4,038**	4,038	**4,038**	101

22. Due to customers

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K '000	K '000	**K '000**	K '000
Corporate customers	**1,925,006**	1,624,450	**1,963,765**	-
Retail customers	**635,709**	836,517	**635,709**	-
	2,560,715	2,460,967	**2,599,474**	-

23. Current income tax (assets) liabilities

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K'000	K'000	**K'000**	K'000
Balance at beginning of year	**3,696**	**8,154**	**(317)**	1,011
Paid during the year	**(36,195)**	**(30,628)**	**(32,394)**	(1,179)
Current provision	**39,923**	**25,120**	**23,243**	1,298
Amalgamation adjustment	**-**	**-**	**13,448**	-
Prior year under provision	**(2,541)**	**1,050**	**(219)**	(1,447)
Balance at end of year	**4,883**	**3,696**	**3,761**	(317)

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

Current income tax asset	**(83)**	(810)	**-**	(317)
Current income tax liability	**4,966**	4,506	**3,761**	-
	4,883	3,696	**3,761**	(317)

24. Employee provisions

Consolidated	2020			
	Opening balance K'000	Additions K'000	Payments K'000	Closing balance K'000
Provision for Annual Leave	3,156	3,706	(2,164)	4,698
Provision for Long Service Leave	2,065	619	(590)	2,094
Provision for Salaries	67	49,508	(49,537)	38
Provision for Bonus	3,780	5,116	(4,188)	4,708
Total	9,068	58,949	(56,479)	11,538

Parent	2020			
	Opening balance K'000	Additions K'000	Payments K'000	Closing balance K'000
Provision for Annual Leave	1,607	3,387	(628)	4,366
Provision for Long Service Leave	635	503	580	1,718
Provision for Salaries	71	45,599	(45,633)	37
Provision for Bonus	2,107	4,955	(2,590)	4,472
Total	4,420	54,444	(48,271)	10,593

2020

	Consolidated	Parent
Represented by:		
Short term provisions	9,445	3,785
Long term provisions	2,093	6,808
Total employee provision	11,538	10,593

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

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

2019

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

25. Lease Liabilities

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

Consolidated	**31 December 2020 K'000**	**31 December 2019 K'000**
Maturity analysis – contractual undiscounted cash flows		
Less than one year	11,724	13,163
One to five years	31,434	35,603
More than five years	16,161	22,544
Total undiscounted lease liabilities at 31 December	**59,319**	**71,310**
Lease liabilities included in statement of financial position at 31 December		
Current	11,834	9,319
Non-current	35,508	45,639
	47,342	**54,958**
Amounts recognised in statement of comprehensive income		
Interest on lease liabilities	3,841	2,583
Expense relating to short-term leases	6,552	5,746
	10,393	**8,329**
Amounts recognised in statement of cash flows		
Total cash outflow for leases	**19,986**	**7,796**

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

Parent	**31 December 2020 K'000**	**31 December 2019 K'000**
Maturity analysis – contractual undiscounted cash flows		
Less than one year	11,724	**3,572**
One to five years	31,434	**6,546**
More than five years	16,161	**528**
Total undiscounted lease liabilities at 31 December	**59,319**	**10,646**
Lease liabilities included in statement of financial position at 31 December		
Current	11,834	**2,971**
Non-current	35,508	**6,426**
	47,342	**9,397**
Amounts recognised in statement of comprehensive income		
Interest on lease liabilities	3,841	**803**
Expense relating to short-term leases	6,552	**985**
	10,393	**1,788**
Amounts recognised in statement of cash flows		
Total cash outflow for leases	**19,986**	**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	
	2020	**2019**	**2020**	**2019**
	K'000	**K'000**	**K'000**	**K'000**
Accruals	**14,497**	12,694	**13,894**	2,326
Unclaimed money and stale cheques	**9,028**	8,166	**9,028**	36
Bank cheques	**20,044**	46,716	**20,044**	-
Accounts payable	**6,271**	4,996	**6,223**	2,002
Unearned commission income	**1,676**	1,309	**1,676**	-
Lease incentive payable	**4,783**	5,483	**4,783**	-
Advance payments	**22,902**	16,215	**22,902**	-
Other liabilities	**13,370**	45,159	**12,943**	7,000
Balance at end of year	**92,571**	140,738	**91,493**	11,364

27. Issued and paid ordinary shares

a. Movement

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

	Number of shares	Share capital
	'000	**K'000**
Balance as at 31 December 2018	163,993	142,213
Share issued during the year	10,752	34,757
Balance as at 31 December 2019	**174,745**	**176,970**
Share issued during the year	112,191	217,723
Balance as at 31 December 2020	**286,936**	**394,693**

In September 2020, the group conducted a Non-Renounceable Rights Issue (ANREO) to further strengthen the capital base and regulatory ratios. Based on this, a total of 112,190,731 additional shares were issued resulting in an increase in share capital of PGK217.7m.

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	
	2020	2019
Net profit attributable to shareholders – K'000	**75,974**	60,871
Weighted average number of ordinary shares basic earnings	**203,941**	169,369
Weighted average number of ordinary shares diluted earnings	**205,024**	170,308
Basic earnings per share (in toea)	**37.25**	35.94
Diluted earnings per share (in toea)	**37.06**	35.74

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:

27. Issued and paid ordinary shares (continued)

Short term incentive plan (STI Plan)

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

The following STI plan arrangements were in place during the year ended 31 December 2020

Date of grant	1 April 2020	1 April 2019
Number of share rights granted	403,180	440,776
Market value at grant date	AUD 576,547	AUD 485,864
Vesting date	1 April 2022	1 April 2021
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 2020

Date of grant	1 April 2020	1 April 2019	16 February 2018
Number of share rights granted	617,987	1,069,800	974,780
Market value at grant date	AUD 883,722	AUD 970,523	AUD 690,394
Fair value at grant date	AUD 349,163	AUD 543,493	AUD 419,155
Vesting date	1 April 2023	1 April 2022	1 April 2021
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	
	2020	**2019**
	Number	Number
Outstanding rights at beginning of year	**3,586,169**	2,573,006
New rights granted	**1,021,167**	1,555,663
Rights vested and shares issued/purchased	**(945,851)**	(542,500)
Rights forfeited or lapsed	**-**	-
Outstanding rights at end of year	**3,661,485**	3,586,169

27. Issued and paid ordinary shares (continued)

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

	Consolidated	
	2020	2019
	K'000	K'000
Brought forward from previous year	**2,063**	2,651
Expense arising from share incentive plans	**3,008**	842
Rights vested	**(2,297)**	(1,430)
Rights forfeited or lapsed	**-**	-
Total	**2,774**	2,063

28. Statements of cash flows

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K'000	K'000	**K'000**	K'000
Cash and due from banks (note 12)	**335,147**	269,702	**361,614**	43,837
Central bank bills (note 13)	**65,000**	-	**65,000**	-
	400,147	269,702	**426,614**	43,837

b) Movement in investment securities is as follows:

	Consolidated		
	2020	2019	**Movement**
	K'000	K'000	**K'000**
Central bank bills (note 13)	**582,874**	722,090	**(139,216)**
Central bank bills & other eligible bills (less than 3 months)	**65,000**	-	**65,000**
Government inscribed stocks (note 17)	**114,519**	34,003	**80,516**
Financial assets at FVTPL	**10,682**	7,636	**3,046**
	773,075	763,729	**9,346**

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

	Consolidated		Parent	
	2020	2019	**2020**	2019
	K'000	**K'000**	**K'000**	K'000
Net profit after tax	**75,974**	60,871	**37,467**	42,433
Profit from disposal of property and equipment	**(221)**	2	**(221)**	-
Depreciation and amortization (note 19 and 20)	**35,065**	17,033	**18,653**	5,825
(Premium)/discount amortization (note 17)	**(4,906)**	(70)	**(4,906)**	-
Share-based payment expense	**711**	(588)	**711**	(588)
Net (losses)/gains from changes in fair values of financial assets (note 15)	**2,510**	153	**2,666**	(8)
Increase/(decrease) in income tax payable	**1,186**	(4,141)	**4,077**	(1,328)
Increase/(decrease) in deferred income tax (note 11b)	**(5,991)**	(3,298)	**(12,730)**	(2,439)
Changes in net assets and liabilities:				
Decrease/(increase) in assets:	**(226,709)**	(371,349)	**(233,347)**	325
Increase/(decrease) in liabilities:	**49,509**	164,802	**73,070**	(7,194)
Effect of change in accounting policy as disclosed in note 1.3	**-**	(725)	**-**	(414)
Net cash inflow/(outflow) from operating	**(72,872)**	(137,310)	**(114,560)**	36,612

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 2020, 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 2020, the total remuneration of the Directors was K3,219,047 (2019: K3,140,026).

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
2020	**10**	**7,650**	**2,093**	**-**	**711**	**2,084**	**12,538**
2019	13	8,388	1,985	-	1,013	2,314	13,700

b) Subsidiary transactions and balances

The Company maintains an intercompany account with subsidiary undertakings, which are interest bearing at the rate of KSL cost of funds plus 12.50 (2019: 12.50) basis points, unsecured and with no fixed term of repayment. Details as follows:

	Transactions				Balance outstanding			
	Income 2020	**Expenses 2020**	**Income 2019**	**Expenses 2019**	**Due from 2020**	Due from 2019	**Due to 2020**	Due to 2019
	K ‘000	**K ‘000**	K ‘000	K ‘000	**K ‘000**	K ‘000	**K ‘000**	K ‘000
KFM	**723**	**54**	2,827	670	**1,323**	-	**-**	(7,386)
KISS	**2,869**	**372**	4,491	670	**-**	-	**(8,880)**	(28,812)
KWM	**-**	**-**	-	-	**-**	-	**(108)**	(285)
KBL*	**-**	**-**	42,209	1,349	**-**		**-**	(130,704)
KVL*	**-**	**-**	-	-	**-**	351,096	**-**	-
KPL*	**-**	**-**	-	-	**-**	-	**-**	(25)
KNL	**-**	**-**	-	-	**64**	-	**-**	-
	3,592	**426**	49,527	2,689	**1,387**	**351,096**	**(8,988)**	(167,212)

**Amalgamated entities (KBL, KVL and KPL) shown for comparative purposes.*

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	
	2020	2019	**2020**	2018
	K'000	K'000	**K'000**	K'000
Clients funds held for shares trading	2,202	4,869	2,138	4,869
	2,202	4,869	2,138	4,869

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		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 loan	4,875	
Deferred tax asset, net	666	
Others	202	
Total consideration transferred		24,229

31. Business Combinations (continued)

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

Effective 9 July 2020, Kina Securities Limited amalgamated with Kina Bank Limited (KBL), Kina Ventures Limited (KVL) and Kina Properties Limited (KPL) and is now known as Kina Securities Limited (note 38).

32. Segment reporting

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 31 December 2020 is as follows:

	Banking & Finance	**Wealth Management**	**Corporate**	**Total**
	PGK'000	**PGK'000**	**PGK'000**	**PGK'000**
Interest income	199,581	106	-	199,687
Interest expense	(29,964)	-	-	(29,964)
Foreign exchange income	55,196	43	-	55,239
Fee and commission income	46,489	29,729	-	76,218
Other revenue	10,566	3,048	-	13,614
Total external income	**281,868**	**32,926**	**-**	**314,794**
Other operating expenses	(138,450)	(9,355)	-	(147,805)
Provision for impairment	(21,811)	(207)	-	(22,018)
Depreciation and amortisation	(35,065)	-	-	(35,065)
Total external expenses	**(195,326)**	**(9,562)**	**-**	**(204,888)**
Profit before inter-segment revenue and expenses	**86,542**	**23,364**	-	**109,906**
Inter-segment income	15,392	-	-	15,392
Inter-segment expenses	(11,800)	(3,592)	-	(15,392)
Profit before tax	**90,134**	**19,772**	**-**	**109,906**
Income tax expense	(28,807)	(5,125)	-	(33,932)
Profit after tax	**61,327**	**14,647**	**-**	**75,974**
Total assets	**3,285,349**	**14,202**	**-**	**3,299,551**
Total assets include:				
Additions to non-current assets	**(22,924)**	**-**	**-**	**(22,924)**
Total liabilities	**(2,719,289)**	**(3,228)**	**-**	**(2,722,517)**

Banking and finance segments includes the operations of the Kina Bank while Wealth Management includes fund management and fund administration business. The section for Corporate is nil as the entities have been amalgamated into Banking.

32. Segment reporting (continued)

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)**

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 2020, 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	**2020**	2019
	K'000	K'000
Bank guarantee	**88,704**	70,375
	88,704	70,375

34. Commitments

Capital commitments
There was a total of K4,927,290 relating to commitments under contracts for capital expenditure at balance sheet date (31 December 2019: K4,802,205).

Loan commitments
There was a total of K204,924k relating loan commitment at balance sheet date (31 December 2019: K131,801k).

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 2020.

	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	4,680	-	-	4,680
- Investment in shares – Unlisted	-	-	6,002	6,002
- Investment in convertible notes – Unlisted	-	-	-	-
Total assets	4,680	-	6,002	10,682

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

	Parent			
	Level 1 K'000	**Level 2** K'000	**Level 3** K'000	**Total** K'000
Investment securities measured at FVTPL				
- Investment in shares – Listed	177	-	-	177
- Investment in convertible notes – Unlisted	-	-	5,974	5,974
Total assets	177	-	5,974	6,151

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			
Assets	**Level 1** K'000	**Level 2** K'000	**Level 3** K'000	**Total** 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

	Parent			
Assets	**Level 1** K'000	**Level 2** K'000	**Level 3** K'000	**Total** K'000
Investment securities measured at FVTPL				
- Investment in shares – Listed	174	-	-	174
- Investment in shares – Unlisted	-	-	165	165
Total assets	174	-	165	339

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

The group holds investment in unlisted securities amounting to K6,002,718 (31 December 2019: K2,801,607) 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 K5,974,431 (31 December 2019: 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 2020 and 2019, 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	**2020** **K'000**	2019 K'000
Audit and audit related	**909**	942
Tax services	**-**	-
Other services	**339**	75
	1,248	1,017

36. Auditors' remuneration (continued)

Parent	**2020 K'000**	2019 K'000
Audit and audit related	**819**	329
Other services	**325**	48
	1,144	377

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 2020 and no impairment loss arose on this assessment. The goodwill is allocated and tested at the KSL 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 2019: 3.0%). The estimated cash flows are discounted using a discount rate of 4.7% (31 December 2019: 6.5%). The fair value calculation includes future maintainable earnings of K128.5m (31 December 2019: K74.8m) and earnings multiple of 8 times. There is no reasonably possible change in these key assumptions on which the CGU's recoverable amount is based would cause its carrying amount to exceed its recoverable amount.

38. Group reorganisation

During the year, the Group reorganised its legal structure so that the subsidiaries Kina Bank Limited, Kina Ventures Limited and Kina Properties Limited (amalgamating subsidiaries) were amalgamated into Kina Securities Limited (KSL). The amalgamation was affected at the carrying amount of net assets of the amalgamating subsidiaries immediately before the effective date of amalgamation. The difference between the pre-amalgamation carrying amount of the net assets and the investment in the amalgamating subsidiaries was recognised as 'capital reserves' in separate financial statements of KSL. Further, the separate financial statement of KSL includes results of the amalgamating subsidiaries from the effective date of amalgamation. The amalgamation does not have any impact on the consolidated financial statements.

39. Events after the statements of financial reporting date

Subsequent to the financial reporting date, the directors declared a final dividend of AUD 6.0 cents / PGK 16.9 toea per share (K48.5m).

The Group announced the proposed acquisition of Westpac's Pacific Businesses in PNG and Fiji which is expected to be completed by September 2021. The acquisition is subject to regulatory approvals by the Bank of Papua New Guinea and the ICCC (Competition regulator) in Papua New Guinea and the Reserve Bank of Fiji and the FCCC (competition regulator) in Fiji. Kina's intention is to maintain Westpac PNG's commercial banking licence and operate the acquired business under a new, independent brand. The new brand will effectively continue the Westpac business but under a new name.

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

39. Events after the statements of financial reporting date (continued)

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. Given the recent surge in COVID-19 cases in Papua New Guinea in 2021, this is still reported as a subsequent event.

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 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.