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Annual Report 2020

Kina Securities Limited | ARBN: 606 168 594

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

Performance Highlights

Successfully transitioned the ANZ acquisition

Successfully completed equity raising for future growth

Announced acquisition of Westpac PNG and Fiji

Net Interest Income
UP 48%
to PGK 169.7 m

Revenue
UP 53%
to PGK 314.8 m

FX income
UP 32%
to PGK 55.2 m

NPAT
UP 25%
to PGK 76.0 m

Total loans
UP 16%
to PGK 1.7 bn

Funds Admin Profit
UP 9%
to PGK 8.3 m

Total deposits
UP 5%
to PGK 2.6 bn

Chairman's Message

I am pleased to introduce Kina's 2020 Annual Report. Our strong financial performance during a challenging year reflects the continued successful execution of our growth strategy. As a result, we were able to deliver a full year dividend of AUD 10.0 cents / PGK26.9 toea per share.

Our results demonstrate the strength of the leadership team, led by Chief Executive Officer and Managing Director Greg Pawson, and the success of the Kina Bank business model that has contributed to our growth agenda.

Like many businesses, the year offered up a number of challenges as the uncertainties of Covid-19 developed. Leadership and culture have never been more important and I am delighted that the Bank's executive team were able to respond quickly and effectively. Our teams have done an exceptional job to meet the needs of clients, whilst protecting the health and safety of our people, customers and communities.

Building the bank of the future

During the year, we continued to deliver on our strategic priorities to drive the growth of the business. A primary focus was to successfully transition the ANZ PNG portfolio into business as usual operations. With an emphasis on providing the best banking experience for customers, and ongoing investment in market-leading digital products and services, Kina achieved this transition effectively.

In June we divested the Esiloans portfolio to Nationwide Microbank Limited (MiBank). The divestment supports the strategic partnership between our two institutions to support greater financial inclusion, increased micro-finance and improved services for small and medium sized businesses.

We also simplified the corporate legal structure and successfully conducted a Non-Renounceable 1:2 Rights Issue, strengthening the capital adequacy of the Bank. This will position the company for future growth and create the capacity to take advantage of acquisition opportunities. Obtaining investor support for this during the pandemic and the market volatility that followed, shows confidence in our business proposition and it is a credit to the Bank's management.

Finally, in December we announced the proposed acquisition of Westpac PNG and Westpac Fiji. Our view is that there is a great story here, promoting a stronger publicly listed regional bank. The additional scale, customers and footprint will increase Kina's ability to drive innovation, introduce more choice for customers, and deliver more value for shareholders.

Business growth

Kina delivered planned business growth across all of the existing businesses and in particular achieved the integration benefits critical to the ANZ PNG Acquisition. Net Profit After Tax increased by 25% to PGK 76.0m compared with the prior corresponding period and in line with market expectations. It was achieved through growth in the existing loan book, incorporating the ANZ PNG loans and deposit portfolio and lower interest expense against total deposits compared to the previous year.

Foreign exchange income increased by 32% and was underpinned by an increase in overall market share, including new business generated from larger export clients. Kina's Funds Administration business continued to record growth in revenue, consistent with increased funds under management and growth in member numbers.

Leadership in uncertain times

As an essential service, banking has never been more important for PNG. Throughout the year our teams worked to support our staff, customers and communities by continuing to operate and show strong financial leadership. We prioritised the health of our colleagues, ensuring our branches and offices were safe and we supported an extensive health and wellbeing program.

I would like to thank all of my fellow directors for their contribution, rigour and governance. The appointment of Dr Ila Temu in December as Non-Executive Director reflects Kina's growing strength in the large corporate sector.

On behalf of the board I would like to thank our staff for their continued dedication and commitment. Their pride in our brand has enabled us to deliver solid results in a challenging year. I am also immensely grateful to our shareholders for the support we have received as we look to become a scale regional business.

Isikeli Taureka
Chairman

Managing Director's Report

It was another extremely successful year for Kina where we delivered a solid financial performance and finalised a number of strategic priorities.

We also announced the proposed acquisition of Westpac's businesses in Fiji and PNG. The acquisition is a strong strategic fit for us. The expansion into a new market, additional scale, customers and footprint will enable Kina to be better positioned to drive innovation and introduce more choice for customers. It will provide additional growth opportunities, pave the way for further investment, and provide a bigger Bank and stronger financial services sector for both PNG and Fiji.

Our 2025 Strategy concentrates on five key areas that we have made significant progress on throughout 2020:

Core banking
Our focus is on the experience our customers have when they interact with us every day; and growth in our lending products. We introduced digital concierges and kiosks to our branches to help customers bank with us digitally. We also launched a flagship and unique new customer offering, Prime, that comes with fee free Visa cards, the lowest fixed rate home loan in PNG history, and associated advisory services.

Digital channels
We have invested in world-class merchant POS terminals, online and mobile banking, and more recently a best-in-market internet payment gateway that allows eCommerce and online purchases for scheme and non-scheme cards. Our new digital channels delivered planned revenue of PGK 18.8m.

Digital partnerships
We implemented some innovative partnerships in 2020 with more to come in 2021. We have developed PNG's first foreign exchange app with biometrics recognition and electronic verification capability. An important extension of this technology is the ability to digitally originate customers and allow existing customers to acquire new products and services online. We also launched the xero bank feed API – a first for the Pacific and the first phase of a broader business advisory services capability.

Bank as a service
We provide infrastructure and services that are leveraged by other financial institutions. For our partner, MiBank, we built cards issuing and operations capability and provided POS services, ATM interchange and central bank clearance.

Diversified investment bank
As the largest wealth management business, funds administrator and leading stockbroking company in PNG, our strategy builds on these strengths. We successfully renewed the key strategic funds management and administration contracts for a further term.

Delivering financial performance
Our strong results come from a full year of operations of the business acquired from ANZ PNG, while maintaining strong growth in the organic business across loans and the development of new digital channels. We continued our focus on home lending with the launch of Prime, our flagship customer offering, and as a result of the build out of our channel network, fees and commissions increased by 60%. Total loans grew by 16% to PGK 1.7bn and total deposits grew by 5% to PGK 2.6bn.

We also launched a major brand campaign featuring three brand ambassadors, Chef Julz Henao, Designer Tabu Warupi and Events Entrepreneur Jelena Tamate - all SME business owners who are home grown success stories. The campaign was unlike anything seen before in PNG with exceptionally high production values. It showcased our support for SME customers and boosted Kina's brand awareness.

Strengthening our culture
We invested significantly in strengthening our culture after the acquisition of ANZ PNG when we brought two very different teams together. As a values-led business, we enhanced our definition of everyday behaviours and embedded them across the company through a series of workshops, and embedded them in our learning and development assessment process. We also completed an employee engagement survey that provided extremely positive feedback about the underlying pride and engagement in the organisation. We continued to invest in our Occupational Health, Safety and Wellbeing program, which we benchmark against international standards. We also took steps forward in diversity and inclusion objectives with the appointment of two female PNG nationals to the executive team, and also promoted local PNG talent into senior leadership roles.

We made great progress on our Total Societal Impact strategy with a series of partnerships and initiatives that delivered value for our communities. From funding the build of a new learning centre, to supporting digital development and literacy, we're providing new avenues for people to access education, government services and financial inclusion products and services.

The outbreak of Covid-19 presented challenges that we met swiftly and efficiently. To support our staff, we introduced a number of initiatives including private transport to and from work; flexible working arrangements; additional leave options; and the regular conventions of advanced hygiene and social distancing. Combined, these measures ensured we were able to protect the health and safety of everyone, whilst continuing business as usual as an essential service provider. The requirements remain in place and will continue throughout 2021.

Greg Pawson
Managing Director and Chief Executive Officer

Strategic Report

We have made significant progress on a series of initiatives that have delivered growth for the business. We have a commitment to being 'Always First' and as a truly effective competitor we have actively transformed the PNG banking sector with a series of market firsts. By innovating in the design of products, services and digital partnerships, we have provided new forms of value for customers and delivered diversified revenues for the group.

Always First

We were the first bank in PNG to launch a locally hosted Internet Payment Gateway, with the capability to accept multiple payment types including scheme, local cards and other forms of digital payments. It also has the flexibility to integrate with partnership platforms and for direct connections to businesses of all sizes. Extremely popular with our business customers, it has also been implemented by two major government departments, the Lands Department and Immigration and Citizenship Authority - via our partnership with local fintech company NiuPay. We see this as an important step towards transforming the way payments are made across the public sector, both for efficiency and transparency.

We were the first bank in the Pacific to implement the xero accounting software bank-feed API. Business customers have the ability to trigger an automatic transaction sweep from corporate and retail internet banking into the xero platform, meaning finance management is simpler and more efficient. With the pilot phase completed in 2020, the solution will be available at scale in 2021, delivering an improved customer service and new business.

We were also the first bank in PNG to pilot 100% digital onboarding using biometric recognition and electronic document verification, via our partnership with Everest. This work is complemented by our investment in the YuTru platform – a private sector led open scheme for the digital identification of people and businesses. In 2021, following regulatory approval from the central bank, we will launch the Everest app, a 100% digital banking product that enables customers to transfer money overseas and trade in foreign exchange. This project was also a great example of risk and regulation being front and centre to disruptive innovation.

We became the first commercial bank in the Pacific to implement Visa transaction controls online, giving customers greater choice on how their cards are used. With online transaction controls, transaction alerts via SMS and WhatsApp, 3D Secure and the technology delivery for Visa fraud monitoring, we significantly enhanced cards performance and risk management.

In addition to doubling the number of merchant POS terminals in market, we implemented a fully integrated solution between Pronto terminals and Kina POS machines. Kina's POS terminals are unquestionably the best for in-market for performance and reliability, supported by a comprehensive merchant team model. With continued investment in POS terminal growth, we saw an uplift of more than 50% from the ANZ fleet we replaced.

As part of our strategic partnership with MiBank, we completed the technology build to provide MiBank with POS services, ATM interchange, central bank clearance and debit card production. As our first 'bank as a service' business model innovation project, it forms a central part of our financial inclusion efforts and paves the way for potential banking infrastructure deployment in the future.

Banking

Covid-19 made 2020 a unique year for the Bank. With the PNG Government classifying banking and financial services as essential, we took significant socially responsible actions to ensure 100% of our branch network remained open; our contact centre continued to operate daily and our digital services were available 24/7. At an operations level, the Bank increased its security support to ensure regular cash operations.

To protect the health and safety of our staff and customers, we introduced a comprehensive safe work-place program in line with international standards. We also introduced door-to-door Covid safe transport for staff to and from work.

With these measures in place we were able to continue to grow. Loan book growth increased by 16% (our business loan book by 20%) and total deposits increased to PGK 2.6bn. Our FX income grew by 32% to a market share of circa 16%.

The Bank of PNG released its policy response in April and lowered the cost of funds, reducing the Kina Facility Rate by 2%. We reduced all local currency overdraft interest rates by 2% p.a. for new and existing customers to support business cash flows. We also re-priced our home loans to ensure that new and existing owner-occupiers benefited from our historically low home loan rate, and we provided tailored support to individuals and businesses who experienced stress. We lent over PGK 550 million to support the SME and commercial sectors.

Despite the current environmental challenges, we continued our innovations in banking products and services. We took the first step towards fee free banking with our new customer relationship offering, Prime - a 3-year fee free Visa card with PNG's lowest ever fixed rate home loan, and a dedicated relationship manager. Prime status has been extremely popular and, supported by a major marketing campaign, has reinforced our reputation as the 'go-to' bank for home lending.

Another best in market solution, we completed the design and build of Kina Everyday. Our first transaction account with no monthly fees, it also comes with modest transaction fees compared with equivalent competitor products. It supports our drive to increase competition, give customers greater choice and lower the cost of banking.

With an eye on social distancing and socially responsible branch banking, we piloted a concierge service and digital kiosks so that customers can bank digitally, but in the context of a branch. Designed for customers who have no, or limited, access to the internet, the 'Wantok Experience' has modernised banking in PNG and further drives our ambition to be PNG's leading digital bank. We also took a market leading position in lowering fees and charges for POS and our digital banking channels.

Our new digital channels delivered strong growth with merchant POS revenue being a stand-out capability. We rolled-out an additional 800 terminals across the country and saw the expected generation of income in fee revenue from cards, internet banking and Unstructured Supplementary Service Data (USSD) channels.

Wealth

Our Wealth Management businesses continued to deliver stable and growing revenue and excellent service outcomes for the year, as we continued our strong relationships with the major PNG superannuation funds.

A highlight was the renewal of large contracts in both our funds administration and wholesale funds management businesses. We continue to be the largest wealth management business in PNG, with over PGK 8 bn of funds under management; the largest fund administrator, administering accounts on behalf of more than 800,000 clients whose funds total K13.82 bn; and the leading stock broking company.

Funds Management achieved growth in funds under management of 7% to PGK 8bn, a reflection of the positive returns as well as ongoing contributions. Although 2020 was a difficult local investment climate, clients achieved positive returns relative to competing funds.

Funds Administration also recorded growth in profit by 46% on the back of stringent control of expenses, increased funds under administration and growth in member numbers. We maintain stringent measurement and tracking controls in place to ensure we reach our service level agreements and were delighted to achieve a 99.23% performance rating for 2020. This is well above industry standard results.

Our focus going forward will be to enhance our technology and system capability to make access easier for trustees and their members to manage their retirement savings.

Within our Retail Wealth business, our market share for share broking services remained above 50%. The various new wealth management services introduced in 2019 provided additional revenue in the reporting period.

Throughout 2021 we're expanding our product and service set to drive overall revenue growth. We're also developing our segment strategy across the business, with high-touch relationship management a significant feature. This will provide a strong distribution platform for the Retail Wealth business.

Nominee custodial services is an area of expected growth as we extend our offerings to large investor clients. We have been able to consider new types of lending where we can act in a custodial and non-discretionary security trustee capacity for loans secured by financial assets. The segment and distribution strategy, combined with the launch of new products, will allow us to grow the Retail Wealth business funds under management with little additional cost, thus driving margins.

Strategic Direction

The proposed acquisition of Westpac's Pacific businesses in Fiji and PNG will provide a scale financial services organisation with a firm strategic commitment to banking in the region. A bigger business will enable us to support a stronger financial services sector and deliver more much-needed choice for customers.

A multi-brand approach
Our intention is to create a completely new brand for the acquired business and to maintain the independent commercial banking licences in both jurisdictions. The newly branded bank will be independent and separate from the existing Kina Bank brand, and it will have a specific focus on inclusion, MSME, SME and the commercial segments of both markets. This will be a great outcome for customers from a service and product perspective. Our proposal is to introduce fee free banking options, re-structure the business indicator lending rate and introduce a new platform for superannuation. The additional scale, customers and footprint will enable Kina to continue its drive in innovation and deliver a new suite of world-class digital products and services.

We will ensure that the branch and Instore network continues to operate as it does today, with a commitment to jobs for all local employees. Kina and Westpac have developed a comprehensive implementation plan where there will be no complex migration of customer data across platforms as the core banking infrastructure and associated ICT would be acquired. One of the key features is that the acquisition is essentially 'turn-key' and Kina will assume ownership and operation of the Pacific Businesses effective from the completion date. There will be no disruption to customers or employees in both countries, with no changes to systems or processes or the way customers transact. Completion is subject to regulatory approval in both PNG and Fiji and the process to secure approvals is underway.

Strategic Initiatives
The acquisition is one of eight strategic programs for 2021 that continue to drive growth in core banking and digital solutions. Kina continues to assert its leadership position creating opportunities to increase market competitiveness and business model resilience.

We will maintain our focus on lending to implement an agile, seamless end-to-end lending process across home and business lending. By leveraging customer feedback and introducing improved complaints resolution we aim to significantly enhance the customer experience. We will continue upgrades and improvements to our digital channels and platforms, including a corporate online technology and further innovations for our internet payment gateway. We are also focusing on an artificial intelligence program to continue improvements to AML, compliance and fraud detection.

Further concentration on our partnership with MiBank will include joint business development opportunities, customer migration and digital referral processes. We are also developing an SME capital fund through the Kina Funds Management business; exploring new retail products for Wealth Management; and refreshing the strategic intent of our funds administration business.

Total Societal Impact

Kina's sustainability vision is to be recognised as one of PNG's most sustainable organisations. Closely aligned to the organisation's 2025 Strategy, we have a clear focus on social, environmental and economic development across three distinct themes, as well as providing community leadership. In the first full year of delivering on our Total Societal Impact Strategy, we have made significant progress on a number of initiatives.

Creating the workforce of the future

Unemployment is one of the most pressing social and economic issues facing PNG. To help address this, we partnered with the Kokoda Track Foundation, a not for profit organisation, to fund the build and operation of a Flexible Open & Distance Education (FODE) centre in Port Moresby. The centre gives students a second chance at education and progress into employment with relevant skills and qualifications. Throughout 2020, over 150 students were enrolled across grades 10, 11 and 12.

We also implemented a mentoring scheme where Kina Bank staff provided one-on-one coaching to students, to help with their studies and to prepare for exams. Our team gave over 130 volunteer hours across each academic term to students and shared their experiences, stories and general life skills to help guide students on their path to success.

e-PNG

A digital society will help to empower Papua New Guineans. It can help to break down barriers to services, products and platforms; and can increase people's ability to contribute to decision-making and production. By supporting digital development and literacy, we're helping to inspire the entrepreneurial development of solutions to PNG-specific problems.

A major focus has been our support of the Women in Digital network which we assisted with a series of sponsorships and events. The emphasis has been on providing women with access to and training on new digital platforms that offer financial services. We also sponsored the first female in PNG to be accredited Certified Information Security Manager.

We partnered with a local fintech company, NiuPay, to develop a suite of digital access solutions to help bring Government services online. This citizen-centred approach means more Papua New Guineans than ever before now have access to the Lands Department and Immigration and Citizenship Authority, the first Government departments to come online. We see this as an important step toward transforming the way services are offered and payments are made across the public sector, both for efficiency and transparency.

We have also partnered with YuTru, an open scheme for the digital identification of people and businesses, to promote financial inclusion and economic and social empowerment. The scheme helps people who previously haven't been able to access the formal financial system.

Community Leadership

We have also supported a number of additional programs of work throughout the year. We donated AUD$50,000 to the Fiji cyclone relief effort; we supported our dedicated frontline health workers at the Covid isolation unit in PNG with food and water; and we launched a major mental health program to help our staff and communities stay mentally healthy during these challenging times.

Promoting enterprise

Access to financial services for many is restricted, and growth of the MSME sector is restrained by a lack of investment and education. Our strategic partnership with MiBank, our financial inclusion partner, created a solid platform for us to reach further into the community and deploy our capabilities and assets – and create mutual value exchange across both organisations.

We successfully completed our first 'bank as a service' business innovation project to provide MiBank with cards issuing, central bank clearance and POS. Together, we were able to bring more than 130,000 new customers into the formal financial services sector for the first time, by helping them open bank accounts and providing them with financial education.

We also created a customer referral pathway between the two organisations to give customer access to the most appropriate products and services depending on their needs.

We supported this pillar of our strategy with a series of thought leadership programs for the business community. Launched at the Prime Minister's Back to Business Breakfast in January 2020, we delivered a series of workshops, talks and presentations focusing on financial literacy and education, business development and outreach.

Looking ahead

In partnership with the Asian Development Bank we have commenced the development of our Environmental Social Governance Principles and Framework. To be completed in 2021, these will address the nature and extent of environmental and social risks to the business. Our Total Societal Impact Strategy requires ongoing development over time in order to reach our vision, including taking future strategic decisions about scope and suitable operating models.

Economic Outlook

2020 was a challenging year for PNG as the Covid-19 pandemic took a significant toll on all sectors of the economy. The Prime Minister stated in September that PNG's economy had declined by PGK 10.7 billion in nominal terms by the third quarter, which is significant when considering that PNG had an estimated gross domestic product (GDP) of PGK 81.6 billion.

The Department of Treasury (DoT) and the International Monetary Fund (IMF) estimate that real GDP would decline in 2020 by 3.8% and 3.3%, respectively. The deferment of Papua LNG and P'nyang LNG before the Covid-19 outbreak subdued investments in resource-adjacent sectors and tilted risks in the broader economy towards the downside. The pandemic aggravated these risks and caused a number of private and commercial investments to be either delayed or cancelled outright. Discretionary spending was impacted negatively and the closure of Porgera Mine in April 2020 amidst the pandemic added to concerns resulting in significant impact on GDP, expected taxation revenue, and foreign currency inflows.

The pandemic triggered a fiscal response that was unprecedented for PNG, as in many other countries.

The Government already faced the largest fiscal deficit in the country's history prior to the pandemic in 2020. It had to reprioritise its spending to support efforts to contain the spread of the virus. The original deficit of PGK 4.6 billion anticipated revenues of PGK 14.1 billion, with total expenditure of PGK 18.7 billion. Due to the impact of the pandemic, revenue saw a 19.4% reduction, resulting in the deficit increasing to PGK 6.6 billion, despite a reduced total expenditure of PGK 18 billion. To allow additional borrowing, the Government amended the debt-to-GDP ceiling prescribed in the Fiscal Responsibility Act from 45% to 60%. This was a necessary amendment in our view as a reduction in fiscal stimulus in the immediate short-term would disadvantage the economy and slow down recovery timeframes. The Government projects that debt levels as a percentage of GDP will increase from 48.9% in 2020 to 52.5% in 2023. These figures, and rate of increase of the debt/GDP ratio, are not out of line with many economies as a result of pandemic induced fiscal support.

PNG's monetary response to the pandemic was also urgent and unprecedented. The Bank of PNG undertook several targeted measures to increase money and FX supply and lower interest rates, which had the added effect of supporting the Government's fiscal operations during the pandemic. Financial institutions also provided support with banks lowering interest rates and providing for temporary loan repayment deferments to support borrowers.

The main economic drivers in the medium term remain the resource projects that are currently being negotiated.

Investors and economic stakeholders continue to hope for a speedy resolution to key resource project negotiations to drive confidence and economic growth. These are in addition to the planned Government spending over the medium-term to improve infrastructure, providing confidence that the economy will have some support until the global pandemic subsides. The positive impact of these resource projects is not expected to be felt by the PNG economy in the near-term as the restructuring of commercial terms is likely to push development timelines out further. The resource projects currently in the pipeline for PNG represent an estimated PGK 110 billion in foreign direct investment and domestic production over their respective lives. The Government also remains committed to funding major infrastructure projects throughout the country in the medium-term. The 2021 National Budget projects over PGK 40 billion in Capital Expenditure from 2021 to 2025, averaging 7.9% of GDP per annum within that timeframe. The Government has committed 38% of its 2021 Budget to Capital Expenditure, which is PGK 7.5 billion or 8.3% of GDP. This fiscal support, especially after the sharp downturn witnessed globally, gives some measure of reassurance to economic stakeholders. This combined with proposed reforms and the stated intention to diversify the non-mining sectors has potential to set a solid foundation for future growth.

Board of Directors

Isikeli (Keli) Taureka
Chairman and Non-Executive Director
Member of the Remuneration and Nomination Committee

Mr Taureka was appointed as a Director of Kina Securities Limited in April 2016.

He currently holds the position of Managing Director of Kumul Consolidated Holdings which is the trustee and shareholder for the Government of PNG in major State owned entities including Air Niugini, Water PNG, PNG Power Limited, Kumul Telikom Holdings,Ports PNG, Post PNG and Motor Vehicles Insurance Limited.

He provides extensive knowledge and networks across Papua New Guinea and Fiji.

Isikeli previously held a number of senior executive roles with Chevron Corporation including:

- President Chevron Corporation Geothermal; President Chevron South East Asia and President of ChevronTexaco China Energy Company with responsibility for Chevron’s oil, gas upstream and geothermal power activities.
- Before joining Chevron, he managed the PNG-owned Post and Telecommunication Corporation and held senior management positions in the Bank of South Pacific Limited.

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

Greg Pawson
Chief Executive Officer/Managing Director

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

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

Andrew Carriline
Non-Executive Director
Member of the Remuneration and Nomination Committee

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

Andrew is an experienced business executive, highly skilled at operating successfully in regulated environments. He recently retired from a major Australian bank, where he spent most of the last decade in senior risk roles. He was also most recently Chairman of the bank's business in PNG.

Before his focus on pure risk roles, Andrew practised corporate law in the public and private sector and has held a number of senior legal and operational roles.

Andrew holds Bachelor degrees in Law and Commerce from UNSW and is a graduate of the Australian Institute of Company of Directors.

Karen Smith-Pomeroy
Non-Executive Director
Chairman of the Audit and Risk Committee

Ms Karen Smith-Pomeroy is an experienced non-executive director, with involvement across a number of industry sectors. Karen has over 30 years of experience in the financial services sector, with senior roles in Queensland and South Australia, including a period of 5 years as Chief Risk Officer for Suncorp Bank.

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

Karen is currently a non-executive director of Queensland Treasury Corporation, Stanwell Corporation Limited, InFocus Wealth Management group and National Affordable Housing Consortium Limited. She is also a member of the Qld Advisory board for Australian Super, Australia's largest industry super fund.

Karen holds accounting qualifications and is a Fellow of the Institute of Public Accountants, Fellow of FINSIA and a graduate of the Australian Institute of Company Directors.

Paul Hutchinson
Non-Executive Director
Member of the Audit & Risk Committee

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

Paul was the Managing Director and Chief Executive Officer of Rural Bank, following over nine years leading the business. Before joining Rural Bank, Paul was Chief Operating Officer with New Zealand Post Limited, responsible for the sales and distribution capabilities of the group and notably the key origination capability for Kiwibank.

Paul's prior experience has included senior appointments with Westpac Banking Corporation (Australia), National Australia Bank and Bank of New Zealand.

Paul is currently employed by the University of Adelaide in the capacity of Executive Director for the Faculty of Professionals.

Ila Temu
Non-Executive Director
Dr Ila Temu was appointed as a Director of Kina on 14 December 2020.

Dr Ila Temu was appointed as a Director of Kina on 14 December 2020.

Dr Temu is the Executive Director (PNG) of Barrick (Niugini) Limited (BNL), a role he has held for some time now, which places him as one of the senior Managers within BNL Management. Dr Temu has held various senior roles with Placer Dome Niugini since 2000 including General Manager Government Relations, Director Corporate Affairs and Country Manager Tanzania. With Barrick Niugini Ltd, Dr Temu has held similar roles since 2006.

Prior to joining Placer Dome, Dr Temu was Managing Director of Mineral Resources Development Company (MRDC), a state-owned organization that held PNG's equity in major mining and petroleum projects throughout PNG. He has also held senior positions within a number of public organizations, including a term as a Director of the National Research Institute in PNG, Research Director for the Pacific Islands Program at the Australian National University, Canberra and Senior Lecturer at the University of Papua New Guinea.

Dr Temu has also held a number of Board Directorships/ Memberships in PNG including Dome Resources Ltd, MRDC, Kina Finances Ltd, PNG Incentive Fund, National Economic Fiscal Commission, Independent Public Business Corporation, the Employees Federation of PNG and Bank of South Pacific where he was Director for 13 years. He was Chairman of PNG Ports Corporation for five years, Chairman of Bank South Pacific (BSP) Capital for three years, and President of the Chamber of Mines and Petroleum for three years. He is currently a Director of Kina Petroleum Ltd, Director of Kumul Petroleum Holdings Ltd, and a Council Member of the Divine Word University.

Dr Temu holds a Bachelor of Economics from the University of Papua New Guinea, a Masters in Agricultural Development Economics from the Australia National University, Canberra Australia and a Ph.D in Agricultural Economics from the University of California, Davis, USA.

Jane Thomason
Non-Executive Director
Chair of the Remuneration & Nomination Committee

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

Jane has worked in international development and policy and implementation in the Asia Pacific region for 30 years. Her international career has included work for governments and donors including the Asian Development Bank, WHO, World Bank, USAID and AusAID.

As an entrepreneur and innovator, Dr Thomason has built a $50 million revenue company and merged this with Abt Associates in 2013. Since the merger, Dr Thomason has led the growth and diversification of the company to achieve a tripling of revenue and diversification into new sectors and is now CEO of a $200 million revenue company with 650 staff across Asia and the Pacific. She has held senior appointments including Queensland Director of Women's Health, CEO of the Queensland Royal Children's Hospital, Commissioner on the Commission of Inquiry into Child Abuse in Queensland, Chairman of the Wesley Hospital Board, Member of the Uniting Health Care Board, the International Operations Committee of the Red Cross, the Consultative Council of the Australian Centre for International Tropical Health and Nutrition and the Aid Advisory Council to the Australian Minister of Foreign Affairs and Trade (Alexander Downer), She has been a Member of the Burnett Institute Board, and an Adjunct Associate Professor at the University of Queensland.

Jane is an active role model for future women leaders and an active supporter of innovation and new technologies, especially blockchain, and their application to the problems of the poor.

Senior Executive Team

Greg Pawson
Chief Executive Officer/Managing Director

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

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

Chetan Chopra
Chief Financial Officer

Chetan is Chief Financial Officer, reporting to the CEO. Chetan is a Chartered Accountant from India and a widely experienced finance executive. He was previously CFO of PNG's largest superannuation fund, Nambawan Super.

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

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

Lesieli Taviri
Executive General Manager Banking

Lesieli joined Kina Bank in 2020 and is responsible for running the national branch network and a seamless banking experience to personal and small business customers. In her role, Lesieli leads the focus on customer service satisfaction in branch and through the contact centre, along with the development of digital concierge services.

Prior to joining Kina Bank, Lesieli was the CEO of Origin Energy and she is one of PNG's most highly regarded executive leaders. She holds a number of high-profile board roles including Founding Chair of the Business Coalition for Women. She served as the Deputy Chair of Nambawan Super Limited, PNG's largest superannuation fund and was formerly a director of Nationwide Microbank Limited.

Lesieli is also a graduate member of the Australian and PNG Institute of Company Directors.

Nathaniel Wingti
GM Treasury and Financial Markets

Nathan joined Kina in February 2016 as GM Treasury and Financial Markets. Prior to joining Kina, he spent 15 years at ANZ Bank where his last role was Head of Global Markets PNG and Balance Sheet Manager for ANZ across the Pacific. Nathan has 20 years experience in foreign exchange, money markets and balance sheet management across the Pacific region having worked in PNG, Fiji and Australia.

Nathan holds graduate and post graduate qualifications in finance and commerce. He has also completed the AFMA Dealer Accreditation Program and the PNG Institute of Directors Program. He is a current serving Board Member of the Business Council of PNG.

Asi Nauna
Executive General Manager Lending

Asi joined Kina Bank in 2018 to assist with the acquisition of ANZ's Retail, SME and Commercial operations leading the integration of the SME and Commercial customer streams. In the last two years she has held a senior leadership role in our Business Partners and Wealth team, establishing herself as a dynamic and successful leader with a track record of delivering exceptional results. In her role as Executive General Manager Lending, Asi is responsible for end to end retail and business lending. Prior to joining Kina Bank, Asi was ANZ's Associate Director, Institutional Banking.

Michael Van Dorssen
Chief Risk Officer

Michael Van Dorssen joined Kina in 2009 and is currently the Chief Risk Officer for the group. Michael has extensive experience in the banking industry in both Australia and PNG, with a career spanning more than 30 years.

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

Johnson Kalo
Chief Information Officer

Johnson Kalo was appointed Chief Information Officer in September 2019. Johnson has substantial industry experience in Papua New Guinea having previously held the positions of Deputy Chief Executive Officer and Chief Financial Officer for the Bank South Pacific (BSP).

Johnson played a central role in BSP's acquisition of Westpac's Pacific assets in Tonga, Samoa, the Cook Islands, SolomonI Islands, Vanuatu and he brings to Kina Bank exceptional leadership qualities. His previous roles also include independent Director of the Board of Credit Corporation and Executive Director of the Port Moresby Stock Exchange (PNGX). He is a fellow of the Financial Services Institute of Australasia and an associate member of Certified Practicing Accountants PNG.

Deepak Gupta
Executive General Manager of Business Partners and Wealth

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

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

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

Ivan Vidovich
Chief Transformation Officer

Ivan joined Kina Bank in 2019. In the role of Chief Transformation Officer Ivan is responsible for Group Strategy and Planning, People and Culture, Digital Channels, Innovation, Design, Product and Marketing.

Ivan has 20 years senior leadership experience in Australia, Asia and Europe in the financial services and logistics industries with companies including Suncorp, TNT Express and DBS Bank, where he has managed large-scale sales and service operations, strategy, customer experience, innovation and multi-country integration and transformation programs. He brings significant experience in people and culture transformational change and is a strong advocate of diversity and inclusion in the workplace. Ivan holds a Bachelor of Arts from La Trobe University and is a member of the Australian Institute of Company Directors.

Gavin Heard
GM Corporate Affairs and Investor Relations

Gavin joined Kina Bank in 2018 with over 15 years' experience as a communications specialist.

Gavin's previous roles include working for the BBC in cultural and current affairs broadcasting; developing crisis planning policy for the Australian Government in PNG and in communications for Westpac Pacific.

Remuneration Report

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1. Introduction & Overview to Shareholders

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

During the year, Kina reviewed its incentive plans to ensure they were aligned with market best practice and that they continue to attract, motivate and retain high calibre management and employees. No material amendments have been made to the Company's incentive plan for the 2020 financial year.

2. Kina's Key Management Personnel (KMP)

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

Non-Executive Directors (section 4 of this Remuneration Report)

Name	Position held during the financial year ended 31 December 2020*
Isikeli Taureka	Non-Executive Chairman
Karen Smith-Pomeroy	Non-Executive Director
Jane Thomason	Non-Executive Director
Paul Hutchinson	Non-Executive Director
Andrew Carriline	Non-Executive Director
Ila Temu[1]	Non-Executive Director

MD & CEO and Senior Executive Team (direct reports)

Name	Position held during the financial year ended 31 December 2020*
Greg Pawson	MD&CEO
Chetan Chopra	Chief Financial Officer and Company Secretary
Deepak Gupta	Executive General Manager, Business Partners and Wealth
Michael Van Dorssen	Chief Risk Officer
Gavin Heard	General Manager Corporate Affairs and Investor Relations
Johnson Kalo	Chief Information Officer
Ivan Vidovich	Chief Transformation Officer
Nathan Wingti	Head of Treasury
Lesieli Taviri [2]	Executive General Manager, Banking
Asi Nauna [3]	Executive General Manager, Lending

* The term as KMP was for the full year unless otherwise indicated
1 Appointed 14 December 2020
2 Appointed 11 September 2020
3 Appointed 11 September 2020

Remuneration and Nomination Committee

The Board has established the Remuneration and Nomination Committee (RNC) to ensure that the Company:

- Has a Board with an effective composition, size and commitment to adequately discharge its responsibilities and duties and to bring transparency, focus and independent judgment to decisions;
- Has coherent remuneration policies and practices to attract and retain directors and senior executives who will create value for shareholders;
- Observes those remuneration policies and practices; and
- Fairly and responsibly rewards Group Executives having regard to the performance of the Group, the performance of the Group Executives and the general external pay environment.

The RNC assists the Board in the performance of its statutory and regulatory duties by:

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

Refer to Kina's Corporate Governance Statement available on Kina's website at:

(http://investors.kinabank.com.pg/investors/?page=corporate-governance) for more information regarding the RNC.

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

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

Remuneration Report

3. Executive remuneration

Remuneration policy and governance framework

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

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

Remuneration Policy

Kina's Remuneration Policy is that:

- Remuneration should be set at levels that reflect the relative size of the position, including comparable positions in the relevant market, the performance of the person holding the position and any position-specific factors such as location or strategic importance of the role to Kina;
- Remuneration levels must reflect what the Group can afford. The Board through the Remuneration and Nomination Committee will provide the MD&CEO with advice on affordability and this must be factored into the Chief Executive's annual review of remuneration across all levels;
- The Levels of every role in the organisation shall be identified through a professional Job Evaluation exercise and endorsed by the selected Job Evaluation Panel;
- The level structure may be reviewed based on the organisational growth and maturity and from time to time benchmark its remuneration against identified market participants to define its pay structure and pay levels. This survey cycle period shall typically be not more than once in two years;
- Remuneration packages may comprise a mix of base pay, performance related pay and other benefits where this is consistent with the structure of packages for similar sized roles in the market. Such mixed remuneration packages must take into account the value of all elements of the package;
- Remuneration packages, including any performance based component, must not compromise the independence of any risk and financial control officers of the Group;
- Where a package includes a variable performance-based component the package must be structured to:
  - Motivate the employee to achieve personal goals that demonstrably contribute to the Group's overall strategic direction and medium to long term financial performance objectives;
  - Encourage the employee to work within the Group's risk management framework and to comply with the Group's prudential policies;
  - Specify measurable, objective, verifiable performance targets which have to be met or exceeded before any additional payment is due;
  - Specify a measurement period that takes into account the time to observe the real outcomes of the employee's business activities and efforts;
  - Discourage the employee from taking extreme risks to achieve short term performance targets that could jeopardize the financial stability and viability of the Group in the medium to long term;
  - Provide for the Board to set aside part or all of the performance based payments due if in its judgment this is necessary to protect the financial soundness of the Group including unintended and unforeseen consequences when the performance based measures were originally formulated;
- Where a package includes equity or equity linked deferred remuneration the package must be structured to forbid the employee leveraging the equity in any way until it is fully vested. The Group will cancel the vested equity and rights to future equity of any employees found to be in breach of this provision of their employment agreement.
- On an overall basis, Kina Group would like to position itself between the 50th and 75th percentile of the defined market, with flexibility to adjust based on market dynamics and organisational strategy;

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

Remuneration components, approach and mix

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

Fixed remuneration	Total fixed remuneration comprises base salary, other non-cash benefits and includes superannuation. There was no change to the fixed remuneration for the MD&CEO and other executive KMP during the year.
STI Award	The short term incentive award (STI Award) provides participants with an opportunity to earn an incentive calculated as a percentage of their salary each year, conditional upon achievement of individual key performance indicators (KPIs) which may consist of financial and, if applicable non-financial performance measures. The incentive earned will be paid: • 65% in cash; • 35% in an offer of performance rights. The cash portion of the incentive will be paid in the next pay cycle following confirmation of the performance outcomes being achieved. The performance rights portion (STI Performance Rights) will be issued under Kina's Performance Rights Plan (Plan) in one tranche and will lapse upon resignation or termination, subject to the absolute discretion of the Board. The Board has the right to vary the STI Award.
LTI Award	A long term incentive award (LTI Award) that provides an opportunity for employees to receive an equity interest in Kina through the granting of Performance Rights (LTI Performance Rights) under the Plan. Under the LTI Award, LTI Participants may be offered LTI Performance Rights that are subject to vesting conditions set by the Board. The Board has the absolute discretion to vary the LTI Award.
Retention Award	A one-off equity based Retention Rights allocation under the Plan that was utilised at the time of the Company's listing on ASX and PNGX in July 2015, to assist in the retention and reward of key eligible employees at that time. The Kina Board has the absolute discretion as to whether the allocation of Retention Rights will continue and apply to other KMP.

Fixed Remuneration (FR)

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

Remuneration Report

3. Executive remuneration (continued)

Short-term incentive award (STI Award)

Structure of STI Award:

Features	Description
Eligibility	The MD&CEO and Senior Executive Team are eligible to participate in the STI Award **(STI Participants).**
STI Award components	**Cash bonus:** 65% of the STI Participant's STI Award. **STI Performance Rights:** 35% of the STI Participant's Award.
Performance measures	Individual KPIs specific to each STI Participant are agreed during the performance appraisal process each year. These KPIs consist of both financial and non-financial performance measures and are agreed with the MD&CEO and KMP at the start of each year. No STI Award is payable unless a minimum Group Net Profit After Tax (NPAT) is achieved. The Board has the absolute discretion to vary this requirement. The Board allocates an annual pool to the STI Award each year. There are levels of targeted performance for allocation of the pool for 2020: • Minimum (85% of budget) • Threshold (85% - 100% budget): 50% • Target (Budget 100%): 90% • Stretch (100+ to 110%+): 100% • Stretch (120%+): up to 120% The pool is then allocated in accordance with the maximum and target STI Award for each KMP (which is detailed later) as a percentage of Gross pay. The Board has the absolute discretion to vary the STI Award.
Calculation of STI Performance Rights	The number of STI Performance Rights granted is determined by dividing the award value by the 10-day volume weighted average price per share prior to 31 December of the year of award (VWAP).
Vesting of STI Performance Rights	STI Performance Rights are restricted from exercise until the second anniversary after the grant date and will vest on the second anniversary. These are not subject to any further measurement after award and allotment.

Period	Date Granted	Vesting date
FY ended 31 December 2017	1 April 2018	1 April 2020
FY ended 31 December 2018	1 April 2019	1 April 2021
FY ended 31 December 2019	1 April 2020	1 April 2022
FY ended 31 December 2020	1 April 2021	1 April 2023

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

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

Long term incentive award

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

Structure of LTI

Features	Description
Eligibility	Participants must be a permanent full-time or part-time employee or Executive Director of Kina or any of its subsidiaries (LTI Participants).
LTI components	The LTI Award will be delivered as performance rights (LTI Performance Rights) with each right conferring on its owner the right to be issued or transferred one (1) fully paid ordinary share in the Company.
Performance measures	Since 2016, the LTI Performance Rights will only vest subject to Board assessed satisfaction of the following conditions: • Meeting the required Total Shareholder Return (TSR) performance level based on peer group - 50% weighting; • Over a three-year period, whereby:

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

- Meeting Earnings Per Share (EPS) target level based on Peer group - 50% weighting;
- Compound Annual Growth rate over a three-year period, whereby:

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

In 2020, the Board worked with an independent advisor to identify the comparator group companies including the calculation of the vesting schedule.

Features	Description
Calculation of LTI Performance Rights	Grants are approved annually. The number of LTI Performance Rights for each year will be determined by dividing the LTI Awards by the 10-day volume weighted average price per share prior to 31 December in the year of grant (VWAP).

Remuneration Report

3. Executive remuneration (continued)

Long term incentive award (continued)

Features	Description
Vesting and exercise of LTI Performance Rights	While the grants are approved annually, they will vest no earlier than the third anniversary of the commencement of the performance period and subject to satisfaction of the vesting conditions and performance measures. The performance periods for the outstanding awards are as follows:

Financial Year	Date Granted	Performance Period	Measures	Vesting date (subject to performance testing)
2017	01/04/2018	01/04/2018 to 31/03/2021	EPS assessment compound till FY 2020 - 50% Relative TSR assessment compounded to FY 2020 - 50%	01/04/2021
2018	01/04/2019	01/04/2019 to 31/03/2022	EPS assessment compound till FY 2021 - 50% Relative TSR assessment compounded to FY 2021 - 50%	01/04/2022
2019	01/04/2020	01/04/2020 to 31/03/2023	EPS assessment compound till FY 2021 - 50% Relative TSR assessment compounded to FY 2021 - 50%	01/04/2023
2020	01/04/2021	01/04/2021 to 31/03/2024	EPS assessment compound till FY 2021 - 50% Relative TSR assessment compounded to FY 2021 - 50%	01/04/2024

Features	Description
Forfeiture of LTI Performance Rights	Unvested LTI Performance Rights may be forfeited: • If the Board determines that any vesting condition applicable to the LTI Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • In certain circumstances if the LTI Participant's employment is terminated; or • In other circumstances specified in the LTI Award under the Plan (for example, if the Board determines that the LTI Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina or for any other reason as determined by the Board in its sole discretion).
Lapse of LTI Performance Rights	Unless otherwise specified in the vesting conditions or otherwise determined by the Board, a LTI Performance Right lapses on the earliest of: • If the Board determines that any vesting condition applicable to the LTI Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • The expiry of the exercise period (if any); • In circumstances of cessation of employment, i.e. either resignation or termination; • In other circumstances specified in the LTI Award under the Plan (for example, if the Board determines that the LTI Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina or for any other reason as determined by the Board in its sole discretion); or • If the participant purports to deal in the LTI Performance Right in breach of any disposal or hedging restrictions in respect of the Performance Right.

Features	Description
Target LTI and maximum LTI that can be awarded	

	Target	Maximum
MD&CEO	50%	50%
CFO	40%	40%
Other Senior Executive Team Members	30%	30%

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

Remuneration Report

3. Executive remuneration (continued)

Retention rights

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

Performance based and non-performance based components

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

Participant		Cash salary/fees/short-term compensated absences	Non-monetary benefits	Total
		$	$	$
Greg Pawson	2020	591,300	183,800	775,100
	2019	591,300	186,606	777,906
Chetan Chopra	2020	400,000	163,296	563,296
	2019	400,000	169,567	569,567
Michael van Dorssen	2020	398,549	150,816	549,365
	2019	400,000	161,048	561,048
Ivan Vidovich *1	2020	375,000	42,546	417,546
	2019	153,082	21,903	174,985
Deepak Gupta	2020	350,000	161,270	511,270
	2019	350,000	169,567	519,567
Johnson Kalo *2	2020	324,162	13,777	337,939
	2019	89,772	7,294	97,066
Nathan Wingti	2020	303,901	108,999	412,900
	2019	225,270	122,875	348,145
Gavin Heard *3	2020	220,000	12,764	232,764
	2019	206,740	28,290	235,030
Asi Nauna *4	2020	65,942	4,076	70,018
	2019	-	-	-
Lesieli Taviri *5	2020	71,049	3,020	74,069
	2019	-	-	-

* Pro-rata based on start dates
1 Appointed 5 August 2019
2 Appointed 23 September 2019
3 Appointed 23 January 2019
4 Appointed 11 September 2020
5 Appointed 11 September 2020

Remuneration Report

3. Executive remuneration (continued)

External Advisor Services

The Kina Performance Rights Plan is administered independently by Link Market Services Pty Ltd. Orient Capital Pty Limited is engaged to provide the assessment of EPS Growth and Relative TSR Performance in relation to the LTI Awards and valuation of the VWAP. During 2020, the Board engaged EY to complete an Executive Incentives Review (STI and LTI), and McGuirk Management Consultants Pty Limited to undertake: (a) a Total Shareholder Return Hurdle Comparison Group Analysis; and (b) a Board Remuneration Benchmarking Review.

Company Shares holdings

The table below sets out the current holdings of Company Shares by KMP:

KMP Shareholding	Current Balance	April 2021 Vesting	Total Shares
Gregory Pawson	402,685	228,118	630,803
Chetan Chopra	76,441	197,304	273,745
Deepak Gupta	53,553	137,851	191,404
Michael Van Dorssen	117,235	173,820	291,055
Nathan Wingti	22,192	28,935	51,127

Performance Rights holdings

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

First Name	Last Name	Award	Year	Grant Date	Vesting date	Value of PR Granted (AUD)	VWAP Period	VWAP $ applied	PR 31/12/2020
Gregory	Pawson	STI	2019	19/05/2020	19/05/2022	268,197	31/12/2019	1.4300	187,550
		LTI	2018	01/04/2019	01/04/2022	295,641	31/12/2018	0.9072	325,883
		LTI	2019	19/05/2020	01/04/2023	294,722	31/12/2019	1.4300	206,099
Chetan	Chopra	STI	2019	01/04/2020	01/04/2022	70,000	31/12/2019	1.4300	48,951
		LTI	2018	01/04/2019	01/04/2022	144,000	31/12/2018	0.9072	158,730
		LTI	2019	01/04/2020	01/04/2023	160,000	31/12/2019	1.4300	111,888
Michael	Van Dorssen	STI	2019	01/04/2020	01/04/2022	42,000	31/12/2019	1.4300	29,371
		LTI	2018	01/04/2019	01/04/2022	107,882	31/12/2018	0.9072	118,918
		LTI	2019	01/04/2020	01/04/2023	120,000	31/12/2019	1.4300	83,916
Deepak	Gupta	STI	2019	01/04/2020	01/04/2022	43,750	31/12/2019	1.4300	30,594
		LTI	2018	01/04/2019	01/04/2022	91,499	31/12/2018	0.9072	100,859
		LTI	2019	01/04/2020	01/04/2023	105,000	31/12/2019	1.4300	73,427
Nathan	Wingti	STI	2019	01/04/2020	01/04/2022	49,000	31/12/2019	1.4300	34,266
		LTI	2018	01/04/2019	01/04/2022	48,000	31/12/2018	0.9072	52,910
		LTI	2019	01/04/2020	01/04/2023	48,000	31/12/2019	1.4300	33,566
Gavin	Heard	STI	2019	01/04/2020	01/04/2022	23,100	31/12/2019	1.4300	16,154
		LTI	2019	01/04/2020	01/04/2023	66,000	31/12/2019	1.4300	46,154
Ivan	Vidovich	STI	2019	01/04/2020	01/04/2022	38,500	31/12/2019	1.4300	26,923
Adam	Downie	STI	2019	01/04/2020	01/04/2022	42,000	31/12/2019	1.4300	29,371
		LTI	2019	01/04/2020	01/04/2023	90,000	31/12/2019	1.4300	62,937
Wayne	Beckley	LTI	2018	01/04/2019	01/04/2022	104,999	31/12/2018	0.9072	115,740

Subsequent to, and in relation to, the year-ended 31 December 2020 (FY2020 Awards), the Board approved the following STI and LTI Awards for eligible participants. The STI Performance Rights and LTI Performance Rights components of the FY2020 STI and LTI Awards are subject to shareholder approval at the 2021 AGM to be held on 26 May 2021:

First Name	Last Name	Award	Year	Grant Date	Vesting date	Value of PR Granted (AUD)	VWAP Period	VWAP $ applied	FY2020 PR
Gregory	Pawson	STI	2020	01/04/2021	01/04/2023	310,433	31/12/2020	0.8868	350,060
		LTI	2020	01/04/2021	01/04/2024	295,650	31/12/2020	0.8868	333,390
Chetan	Chopra	STI	2020	01/04/2021	01/04/2023	113,750	31/12/2020	0.8868	128,270
		LTI	2020	01/04/2021	01/04/2024	160,000	31/12/2020	0.8868	180,424
Michael	Van Dorssen	STI	2020	01/04/2021	01/04/2023	52,500	31/12/2020	0.8868	59,202
		LTI	2020	01/04/2021	01/04/2024	120,000	31/12/2020	0.8868	135,318
Deepak	Gupta	STI	2020	01/04/2021	01/04/2023	52,500	31/12/2020	0.8868	59,202
		LTI	2020	01/04/2021	01/04/2024	105,000	31/12/2020	0.8868	118,403
Nathan	Wingti	STI	2020	01/04/2021	01/04/2023	61,250	31/12/2020	0.8868	69,069
		LTI	2020	01/04/2021	01/04/2024	90,000	31/12/2020	0.8868	101,488
Gavin	Heard	STI	2020	01/04/2021	01/04/2023	28,000	31/12/2020	0.8868	31,574
		LTI	2020	01/04/2021	01/04/2024	66,000	31/12/2020	0.8868	74,425
Ivan	Vidovich	STI	2020	01/04/2021	01/04/2023	70,000	31/12/2020	0.8868	78,935
		LTI	2020	01/04/2021	01/04/2024	150,000	31/12/2020	0.8868	169,147
Johnson	Kalo	STI	2020	01/04/2021	01/04/2023	42,000	31/12/2020	0.8868	47,361
		LTI	2020	01/04/2021	01/04/2024	96,000	31/12/2020	0.8868	108,254
Lesieli	Taviri	STI	2020	01/04/2021	01/04/2023	17,500	31/12/2020	0.8868	19,734
		LTI	2020	01/04/2021	01/04/2024	96,000	31/12/2020	0.8868	108,254
Asi	Nauna	STI	2020	01/04/2021	01/04/2023	26,250	31/12/2020	0.8868	29,601
		LTI	2020	01/04/2021	01/04/2024	66,000	31/12/2020	0.8868	74,425

Employment agreements

KMP Contracts

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

CEO employment agreement

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

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

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

Remuneration Report

3. Executive remuneration (continued)

Remuneration of employees

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

In PGK	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	-
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

In PGK (continued)	2020	2019
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	-
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

*Impact of foreign exchange conversion.

4. Non-executive director arrangements

Remuneration policy

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

The fees are exclusive of superannuation.

Fees are reviewed annually by the Board, taking into account comparable roles and market data provided by the Board's independent remuneration advisor. The current base fees were reviewed in 2020 and increases were applied with effect from 1 October 2020.

Remuneration components

Kina's Board and Committee fee structure as at 31 December 2020 was:

Board fees	Chairman	Non-executive Director/committee member
Board		
Board	$180,000 (excluding superannuation entitlements)	$90,000 (excluding any superannuation entitlements)
Committee fees		
Audit and Risk Committee	Committee Chair: $22,500 (excluding any superannuation entitlements)	Members: $11,250 (excluding any superannuation entitlements)
Remuneration and Nomination Committee	Committee Chair: $22,500 (excluding any superannuation entitlements)	Members: $11,250 (excluding any superannuation entitlements)
Disclosure Committee	No additional fees are paid	No additional fees are paid Members.

Fee pool

Under the Constitution, the Board decides the total amount paid to each Non-Executive Director as remuneration for their services as a Director of the Company. However, the total amount of fees (including statutory superannuation entitlements, if any) paid to the Directors for their services (excluding, for these purposes, the remuneration of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. For the financial year ended 31 December 2020, this has been fixed at $1.28 million per annum (no change from prior year, and that amount set out in the Company's Listing Prospectus). Any increase in the total amount payable by the Company to the Non-Executive Directors as remuneration for services must be approved by shareholders in general meeting.

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

Committee fees

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

Remuneration Report

4. Non-executive director arrangements (continued)

Non-Executive Director Remuneration details

The following payments were made to Non-Executive Directors in the 2020 and 2019 financial years.

Director	Year		Short-term Benefits	Post-employment benefits	Total
		Fees	Non-monetary benefits	Superannuation contributions	
Isikeli Taureka	2020	146,250	-	36,001	182,251
	2019	148,100	-	12,138	160,238
Andrew Carriline	2020	91,875	-	6,615	98,490
	2019	84,996	-	6,300	91,296
Paul Hutchinson	2020	85,313	-	6,615	91,928
	2019	80,004	-	6,300	86,304
Karen Smith-Pomeroy	2020	108,803	-	-	108,803
	2019	98,646	-	4,265	102,911
Ila Temu [1]	2020	3,750	-	315	4,065
	2019	-	-	-	-
Jane Thomason	2020	95,625	-	6,615	99,300
	2019	76,250	-	6,300	82,550

1 Appointed 14 December 2020.

Variable Remuneration

Special remuneration

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

Reimbursement for out of pocket expenses

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

Retirement benefits

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

Participation in incentive schemes

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

5. Related party transactions

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

6. Directors' interests in shares

Directors are not required under the Constitution to hold any shares in the Company. As at the date of this Remuneration Report, the Directors have the following interests in the shares in Kina (either directly or through beneficial interests or entities associated with the Director).

Director	Number of Shares	Shareholding as at the date of this Remuneration Report (%)
Isikeli Taureka	65,000	0.02%
Greg Pawson	402,685	0.14%
Andrew Carriline	125,000	0.04%
Paul Hutchinson	80,299	0.03%
Karen Smith-Pomeroy	90,000	0.03%
Jane Thomason	35,000	0.01%
Ila Temu	-	0.00%

7. Auditor's report

As a PNG incorporated Company, Kina is not required to have this Remuneration Report audited. This Remuneration Report is prepared as a voluntary disclosure and the Board has decided as a matter of good corporate governance, that it will be put to shareholders for approval at the 2021 AGM. The expected level of disclosure of an Australian incorporated company has been provided through this Remuneration Report.

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

Directors remuneration

Directors fees paid during the year was as follows:

	2020 K'000	2019 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

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

Independent auditor's report

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:

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
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.	- 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.
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	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

Independent auditor's report

Deloitte.

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.

Deloitte.

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.

Deloitte.

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

Benjamin Lee
Partner
Chartered Accountants
Registered under Accountants Act 1996

Port Moresby 30 March 2021

DELOITTE TOUCHE TOHMATSU

David Rodgers
Partner
Chartered Accountants
Registered Company Auditor in Australia

Brisbane 30 March 2021

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 57 to 130 are an integral part of these consolidated financial statements.

Statements of Financial Position

As at 31 December 2020

		CONSOLIDATED		PARENT	
		2020	2019	2020	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 57 to 130 are an integral part of these consolidated financial statements.
These financial statements have been approved for issue by the Board of Directors and signed on its behalf by:

Mr. Isikeli Taureka
Director

Mr. Greg Pawson
Director

Statements of 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 Group				
	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 57 to 130 are an integral part of these consolidated financial statements.

Statements of Cash Flows

For the year ended 31 December 2020

		CONSOLIDATED		PARENT	
		2020	2019	2020	2019
Cash flows from operating activities		K '000	K '000	K '000	K '000
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		**cv**	-	**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 57 to 130 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2020

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 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.

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

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
- 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.

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;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - The Group has the right to operate the asset; or
  - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

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

The Group recognises a right-of-use asset and a lease liability at the lease commencement date.

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

1.11 Taxation

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the country where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authority.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rate (and law) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

1.12 Business combinations

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

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

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

The excess of the following is considered as goodwill:

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

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

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

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

1.13 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less from date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

1.14 Financial instruments

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

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at 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 time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL.

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

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

Specifically:

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

Debt instruments at amortised cost or at FVTOCI

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

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

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

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

Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

Reclassification

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

Impairment

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

- Loans and advances;
- Investment in government inscribed stocks;
- Other financial assets;
- Loan commitments issued; and
- Financial guarantee contracts issued.

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

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

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

Credit impaired financial assets

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

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

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

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

1.14 Financial instruments (continued)

Definition of default

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

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

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

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

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

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

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

Write-off

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

Presentation of allowance for ECL in the statement of financial position

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

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

Financial liabilities

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

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

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

1.14 Financial instruments (continued)

Financial guarantee contracts

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

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

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

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

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

1.15 Property, plant and equipment

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

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

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

1.16 Intangible assets and other non-financial asset

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 impairment. Customer deposit relationship is also assessed for any indication of impairment at each reporting date and whenever there is an indicator that these maybe impaired.

Software

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group that will probably generate economic benefits exceeding costs beyond one year are recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Expenditure which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives, not exceeding a period of five years.

1.17 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligations can be made.

1.18 Employee benefits

Short-term obligations

Provision is made for benefits accruing to employees in respect of annual leave and other short term obligations when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within twelve months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognized in respect of employee benefits which are not expected to be settled within twelve months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

The contributions in relation to employees of the Group who contribute to defined contribution pension plans are charged to the statement of comprehensive income in the year to which they relate.

Share-based payments

Senior executive employees are entitled to participate in a share ownership incentive scheme. The fair value of share rights provided to senior executive employees as share-based payments is recognized as an expense with a corresponding increase in equity. The fair value is measured at grant date and is recognized over the period the services are received being the expected vesting period at the end of which the senior executive employees would become entitled to exercise their share rights. The fair value of the share based payments is based on the market price of the shares at grant date and market vesting conditions upon which the rights were granted. Non-market vesting conditions are taken into account by adjusting the number of rights which will eventually vest.

Cash bonus

The Group recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

1.19 Share capital and other equity accounts

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends on ordinary shares are recognised 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;
- 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)

Sensitivity

As shown in the previous table, 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
Assets	K '000	% p.a.
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
Assets	K '000	% p.a.
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%

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.

(iii) Equity price risk

The Group is exposed to equity securities price risk due to the majority of the investments in listed equity securities through profit or loss. To manage its price risks arising from financials assets at fair value through profit or loss, the Group diversifies its portfolio. Diversification of portfolio is done in accordance with the limits set by the Group. The Group's financial assets at fair value through profit or loss are publicly traded on the Port Moresby Stock Exchange (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	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.
- 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.

3. Financial risk management (continued)

(ii) Significant increase in credit risk

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

Internal credit risk ratings

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

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

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

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

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

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

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

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

Incorporation of forward-looking information

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

Measurement of ECL

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

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

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

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

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

The Group defines stage of default as follows:

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

Groupings based on shared risks characteristics

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

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.

3. Financial risk management (continued)

	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, Philipines, Japan, India and Turkey.

	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	-

	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)

	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

	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	-

3. Financial risk management (continued)

	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

	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

	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	-

3. Financial risk management (continued)

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

	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

	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)

	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

	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				
	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
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)

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
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.

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
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

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
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)

	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 carrying amount	88,704	-	-	88,704

	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 carrying 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	-	-	-	-

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

3. Financial risk management (continued)

	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

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)

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

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	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

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	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

CONSOLIDATED

31 December 2019

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	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

Loss allowance – Loans and advances to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	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)

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

	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

	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)

	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

	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)

	CONSOLIDATED	
	YEAR ENDED 2020	YEAR ENDED 2019
	Gross carrying amount	Gross carrying amount
Mortgage lending		
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 amount	Gross carrying amount
Mortgage lending		
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 amount	Gross carrying amount
Credit impaired – Mortgage lending		
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

	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
	Gross carrying	Gross carrying
	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 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.

3. Financial risk management (continued)

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.
- 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.
- Assigned responsibilities for internal and external written communications.

Maturities of financial assets and liabilities

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

	CONSOLIDATED						
	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years	Total contract value	Total carrying value
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
31 December 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)

	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.

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%,
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:

4. Capital Adequacy (continued)

	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 K '000	2019 K '000	2020 K '000	2019 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 K '000	2019 K '000	2020 K '000	2019 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	-

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
Cost	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
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

PARENT	Furniture & Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Right-of-use assets	Total
Cost	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Balance 31 December 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 / intangible	Work in Progress	Total
Cost	K '000	K '000	K '000	K '000
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

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

24. Employee provisions (continued)

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

2019		
Represented by:	Consolidated	Parent
	K '000	K '000
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	31 December 2019
Maturity analysis – contractual undiscounted cash flows	K '000	K '000
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 comprehensive income		
Total cash outflow for leases	19,986	7,796

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

PARENT

	31 December 2020	31 December 2019
Maturity analysis – contractual undiscounted cash flows	K '000	K '000
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 cash flows 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:

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.

27. Issued and paid ordinary shares (continued)

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

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 activities	(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	Expenses	Income	Expenses	Due From		Due To	
	2020	2020	2019	2019	2020	2019	2020	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	2019
	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 adjustment on loan	4,875
Deferred tax asset, net	666
Others	202
Total consideration transferred	24,229

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

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
	K '000	K '000	K '000	K '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.

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
	K '000	K '000	K '000	K '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.

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

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

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

The following tables present the Group's and the parent's assets and liabilities that are measured at fair value at 31 December 2019.

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

PARENT	Level 1	Level 2	Level 3	Total
ASSETS	K '000	K '000	K '000	K '000
Investment securities measured at FVTaPL				
- 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	2019
	K '000	K '000
Audit and audit related	909	942
Tax services	-	-
Other services	339	75
	1,248	1,017

PARENT	2020	2019
	K '000	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 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.

Shareholder Information

Kina Securities Limited ARBN: 606 168 594

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in the Report is set out below. The information is current as at 31 March 2021.

a) The distribution of security holders

Range	Securities	%	No. of holders	%
100,001 and Over	196,132,527	68.35	293	5.50
50,001 to 100,000	28,313,090	9.87	387	7.26
10,001 to 50,000	51,126,396	17.82	2,095	39.31
5,001 to 10,000	7,664,527	2.67	933	17.50
1,001 to 5,000	3,395,472	1.18	1,125	21.11
1 to 1,000	303,888	0.11	497	9.32
Total	286,935,900	100.00	5,330	100.00

b) 20 largest shareholders of quote security holders

Rank	Name	Number of shares	% of Issued Capital
1	HSBC Custody Nominees (Australia) Limited	59,582,530	20.77
2	Asian Development Bank	10,751,916	3.75
3	J P Morgan Nominees Australia Pty Limited	9,995,887	3.48
4	Comrade Trustee Services Limited	7,951,328	2.77
5	Citicorp Nominees Pty Limited	6,861,116	2.39
6	National Nominees Limited	5,595,217	1.95
7	Mineral Resources CMCA Holdings Limited	5,312,834	1.85
8	Airwolf Limited	2,885,390	1.01
9	Columbus Investments Limited	2,726,355	0.95
10	Gas Resources PNG LNG Plant Limited	2,139,037	0.75
11	Kina Asset Management No 1 Limited	2,000,000	0.70
12	Garmaral Pty Ltd	1,732,615	0.60
13	Mr Ivan Lu	1,619,301	0.56
14	GEAT Incorporated	1,570,500	0.55
15	CS Fourth Nominees Pty Limited	1,474,468	0.51
16	Hitsuma Sdn Bhd	1,250,000	0.44
17	Perpetual Shipping Limited	1,250,000	0.44
18	Capital Nominees Limited	1,214,437	0.42
19	Chan Beng Lee	1,163,660	0.41
20	Prof Alan Jonathan Berrick	1,128,016	0.39
	Total top 20	128,204,607	44.68
	Balance of register	158,731,293	55.32
	Total Register	286,935,900	100.00

Shareholder Information (continued)

c) Number of security holders and securities on issue

Quoted securities: 286,935,900

Unquoted securities: 4,170,743

d) Unmarketable Parcel of Shares

The number of shareholders holding less than a marketable parcel of ordinary shares is 189.

e) Substantial Shareholders

Name	Name of Shares	% of issued captial
HSBC Custody Nominees (Australia) Limited	59,582,530	20.77

f) Stock Exchanges

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

g) Voting Rights

Each ordinary shareholder present at a general meeting (whether in person, by proxy or by representative),

is entitled to one vote on a show of hands, or on a poll, for each fully paid ordinary share held.

Corporate Directory

Directors

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

Company Secretary

Chetan Chopra

Share Registry

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

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

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

Stock Exchange Listing
ASX Code: KSL
PNGX Code: KSL

www.kinabank.com.pg

Registered Office

Boroko Branch
Turumu St
Boroko
PO Box 1718, Boroko 111
National Capital District
Papua New Guinea

Goroka Branch
Cnr of Fox & Elizabeth St
Ground Floor, Gouna Plaza
PO Box 767, Goroka 441
Eastern Highlands Province

Harbour City Branch
ANZ Habour City
Off Poreporena Freeway
PO Box 1152, Port Moresby 121
National Capital District
Papua New Guinea

Head Office
Level 9, Kina Bank Haus,
Douglas St, Port Moresby,
National Capital District
Papua New Guinea
Telephone: +675 308 3000

Hides Branch
Block 8 – HGDC Para Camp
Tari, Hela Province
Hela Province
Papua New Guinea

Jacksons Branch
Jacksons International Airport
PO Box 1152, Port Moresby 121
National Capital District
Papua New Guinea

Kimbe Branch
Cnr San Remo Drive and Talasea Rd
PO Box 466, Kimbe 621
West New Britain Province
Papua New Guinea

Kokopo Branch
Post PNG Haus
Williams Road
PO Box 41, Kokopo
East New Britain Province

Lae Market Branch
Cnr Cedarbank St and
Aircorps Rd Second St, Top Town
PO Box 674, Lae Morobe Province
Papua New Guinea

Lae Top Town Branch
Ground Floor
Nambawan Super Haus
2nd St Top Town
PO Box 682, Lae
Morobe Province
Papua New Guinea

Lihir Branch
PO Box 223
Portion 830, Wide Rd
Londolovit
Lihir Island NIP
Papua New Guinea

Madang Branch
Section 20, Lot 08
Coastwatcher's Ave
PO Box 181, Madang 511
Madang Province
Papua New Guinea

Mt Hagen Branch
Hagen Dr
PO Box 121,
Mt Hagen 281
Western Highlands Province
Papua New Guinea

Port Moresby Branch
Cnr Musgrave St and
Champion Parade
PO Box 143,
Port Moresby 121
National Capital District
Papua New Guinea

Vision City Branch
Ground Floor
Sir John Guise Dr
PO Box 1141,
National Capital District
Papua New Guinea

Waigani Drive Branch
Cnr Waigani and Islander Dr
PO Box 1141, Port Moresby
National Capital District 121
Papua New Guinea

Waigani Cameron Rd Branch
Cnr Waigani Drive
and Cameron Rd
PO Box 252,
Waigani 131
National Capital District
Papua New Guinea

Wewak Branch
Centre St
PO Box 1069,
Wewak 531
East Sepik Province
Papua New Guinea


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