we grow together

annual report 2016

kina together it's possible

Statutory profit of

PGK41.0 million

for the year to December, compared with **PGK5 million in the prior year**

Net interest margin **remains strong at**

8.3%

Final dividend of

PGK0.10 toea

(AUD$0.0395 cents) per share,

full year dividend

PGK0.20 toea

(AUD$0.0804 cents) per share

Loan impairment expense of

PGK2.8 million

equal to **0.5% of gross loans and advances.**

Loan growth of
62% from December 2015,
taking total lending to
PGK605 million

Strong **prudential position** and conservative capital adequacy

Capital adequacy ratio of
30%
compared with **minimum requirement of 12%**

Contents

Performance highlights

Banking

New mobile products, improved systems and online services.

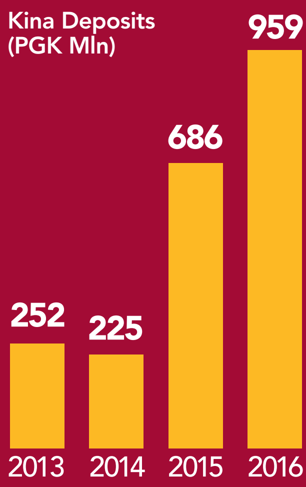
Kina customers can access all ATMs in PNG, and a vast network of EFTPOS terminals.

Major client win

Kina wins Nasfund client, adding PGK4 billion FUA and growing Kina's client base to 700,000 clients.

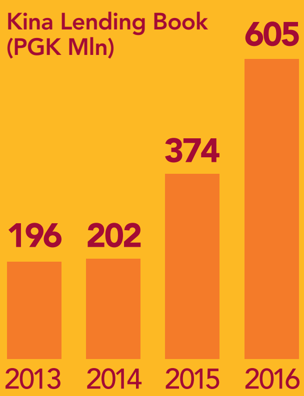
Continued growth

of the low-cost deposit base.



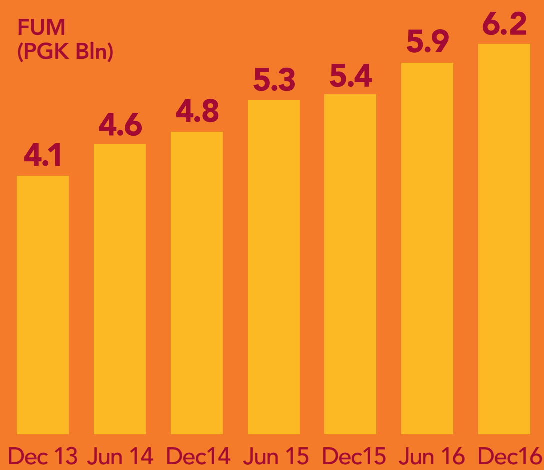
Deposits

up **40%** to PGK959 million, due to **new products and enhanced customer service.**



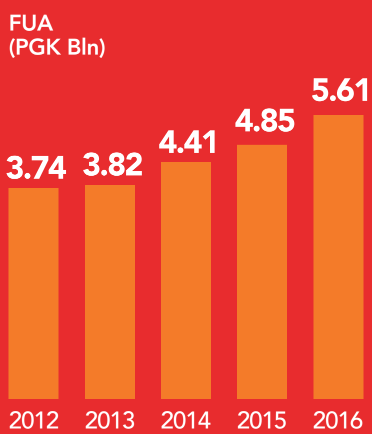
Lending

up **62%** to PGK605 million, driven by **customer service, strong management and new product offerings.**



Funds Under Management (FUM)

increased **14% to PGK6.2 billion.**



Funds Under Administration (FUA)

increased by **16% to PGK5.6 billion.**

PNG Overview

Our operating environment

Kina operates within the PNG economy which is showing signs of recovery from a challenging period due to falling global commodity prices.

The PNG economy is forecast to grow by 2.8% in 2017, recovering from 2.0% growth in 2016.

This means the PNG economy is into its fifteenth year of positive economic growth.

Increased economic activity is expected to be fuelled in the short term by government spending related to the National Elections to be held mid-year, as well as construction activity associated with the 2018 Asian-Pacific Economic Corporation APEC conference.

Kina operates in the banking and financial services industry in PNG, which plays a key role in underpinning the country's economic growth.

There has been strong growth in PNG's banking and financial services industry, driven by a growing small-to-medium enterprises (SMEs) sector and a burgeoning middle class. This growth is expected to continue as financial services customers become more sophisticated in their financial needs.

Foreign currency access has been a key challenge for PNG businesses in recent years. The government is seeking to resolve this situation and there are signs of improvement.

According to the PNG Government's 2016 PNG Mid-year Economic and Fiscal Outlook, foreign exchange is becoming more available because of the re-opening of the Ok Tedi mine and the drawdown of the Credit Suisse first tranche of a US$200 million syndicated loan facility in early August 2016.

There are also positives for the economy on the horizon, including the potential government approval of the Frieda River and Wafi-Golpu Project in 2017. The Total-led Papua LNG Project, which is PNG's second LNG project, may also gain approval in 2018.

There are also a number of new power projects slated for commencement including Exxon-Mobil 50MW plant, along with Daewoo and Oil Search also planning plants in Lae.

On the agriculture front, PNG's 2016 coffee crop was the strongest since 2011. The coffee industry earns about PGK700 million (US$220 million) annually in foreign exchange and currently supports more than two million farmers, who are predominantly rural-based.

There has been strong growth in PNG's banking and financial services industry, driven by a growing small-to-medium enterprises (SMEs) sector and a burgeoning middle class.

Kina operates in the banking and financial services industry in PNG, which plays a key role in underpinning the country's economic growth.

Chairman's Letter

Dear Shareholder,

We are strongly dedicated to our vision for prosperous customers and communities, underpinned by progressive accessible financial services.

To achieve our vision we understand we must put our customer at the centre of all that we do and continue to deliver them simpler and more convenient banking services and products.

With this focus it has been another significant year for Kina as we maintained the momentum of our acquisition of the Maybank business and our successful stock exchange listing in 2015.

Despite a challenging economic environment, full year net profit was PGK41.0 million, up from PGK4.9 million for the prior corresponding period.

The Board declared a final dividend of PGK10.0 toea per share, taking the full year dividend to PGK20.0 toea per share, compared with PGK9.9 toea per share paid for the full year to December 2015. This converts to a final dividend of AUD$0.0395 per share, taking the full year dividend to AUD$0.0804, compared with AUD$0.0340 per share paid for the full year to December 2015.

Kina's total operating income of PGK117 million was up 68% on the previous corresponding period, with net interest income rising 52% (PGK65 million) and non-interest income (PGK52 million) almost doubling.

A pleasing feature of the result was the decreased loan impairment expense to PGK2.8 million, from PGK3.0 million in the prior year. Impairment expenses as a proportion of Gross Loans and Advances (GLA) remained low at just 0.5%, which is the best level recorded since listing in 2015. Gross non-performing loans were PGK2.0 million, equal to 0.3% of GLA.

Kina's foreign exchange income also grew strongly to PGK20.6 million, up from PGK6.9 million. This growth was achieved despite the withdrawal of the Company's former correspondent banking partner for USD in the last quarter of 2016. Kina has identified a new potential partner for USD transactions and expects to have a solution in place by the second quarter of the calendar year.

An important achievement was the successful tender for the Funds Administration business of PNG's largest superannuation fund, Nasfund. This will lift Kina's funds under administration by another PGK4 billion this year and will also provide us with access to a large and affluent customer base in the future.

Following the close of the financial year, Kina also celebrated an important milestone on the stock exchange, joining the list of companies on the S&P/ASX All Ordinaries Index – Australia's premier market indicator.

I am proud to be part of a business that plays such an important role in assisting our personal and business customers to meet their financial needs, while supporting economic growth and job creation in PNG.

Helping customers improve their circumstances

As Kina's Chairman, I have continued to reinforce the importance of embracing a customer-focused culture across the business. This approach has enabled us to deliver for our customers, our people and our shareholders and it will continue to be the cornerstone of our success in the future.

Kina's purpose is help our customers improve their circumstances through our business activities. I am proud to be part of a business that plays such an important role in assisting our personal and business customers to meet their financial needs, while supporting economic growth and job creation in PNG.

Outlook

The PNG economy is forecast to grow by 2.8% in 2017, after it saw a lower 2.0% growth in 2016 affected by falling commodity prices. The increased economic activity is expected to be supported by government spending related to the National Elections to be held mid-year, as well as construction activity associated with the 2018 Asian-Pacific Economic Corporation (APEC) conference.

Against this backdrop, Kina is continuing to find ways to engage more meaningfully with its target markets. We are constantly introducing new, innovative products and services, strengthening our technology platforms, and improving our distribution networks to broaden and deepen our customer reach.

These various business initiatives will help to ensure Kina maintains its strong growth trajectory.

Board renewal

There were a number of changes to the Board during 2016 as we maintained our program of renewal, ensuring we have the skills and expertise to provide the highest possible standards of governance. I sincerely thank the three directors — Don Manoa, Peter Ng and Hilary Wong - who retired at the Annual General Meeting in May. They made an immense contribution to the Company in its formative years, and their advice and counsel was greatly appreciated. I also welcome to the Board Isikeli Taureka and Karen Smith-Pomeroy, who joined us later in the year and bring important technical knowledge and management experience.

I would also like to thank the staff at all levels of the Company for their hard work and dedication. They are what makes the Company successful.

And finally I thank all our shareholders for their ongoing support in 2017.

Yours faithfully

Sir Rabbie Namaliu, GL CSM KCMG
Chairman

Managing Director's Report

Dear Shareholder,

It was another milestone year for Kina Securities. We maintained our momentum following our acquisition of Maybank PNG, and we are building a stronger and more efficient business while delivering on our purpose of helping our customers improve their circumstances.

During 2016, we maintained our focus on putting customers at the centre of everything we do, living our values and driving a positive culture. Despite the challenging environment, our strong performance during the year was driven by improved customer service, leveraging the Kina brand, investing in people and strengthening management.

We know customers want simpler and more convenient products and services and our focus on introducing new products and expanded services enabled the Group to increase customer acquisition.

Technology has played a critical role in fuelling growth through the creation of new products and increasing the availability of our product and services.

Our lending book has grown by 62%, to PGK605 million at the end of 2016. The rapid growth was predominantly achieved in the business lending segment, with term loans increasing from PGK197 million to PGK416 million over the period. Kina continues to compete on service rather than price, however there are signs of some easing in lending rates due to competitor activities.

In Personal Banking, the EsiLoan consumer lending product showed strong growth during the year. EsiLoan was relaunched at the beginning of the year with increased marketing and promotional activities and enhanced access to the product. Kina also worked with a number of corporate customers to increase penetration of the EsiLoan product.

Customer service was enhanced during the year with the implementation of banking interconnect infrastructure, and agreements were reached with other PNG banks to enable Kina customers to access cash through any Automatic Teller Machine (ATM) in the country. New agreements also have been reached with other banks to enable Kina debit card customers to access their EFTPOS networks of more than 12,000 terminals.

Kina has also commenced enhancements to its banking systems and technology during the year to assist business growth. These include upgrading and modernising the Core Banking systems, which has enabled the addition of new products, an expansion of online services, and new synergies between the Banking and Wealth Management business. This project is expected to continue in 2017.

The upgrade of our branch network continued during the year, with a major refurbishment of the new concept branch located at Vision City Shopping Centre currently under way.

It is scheduled to be completed in May 2017 and offers a full range of services to customers.

At 2016 year end, deposits totalled PGK958 million, which was an increase of 40% compared with the previous year. This growth was achieved mainly through the introduction of new term deposit products.

During the year, Kina grew the number of term deposits accounts by 46%, while savings account numbers increased by 35% and cheque account numbers were up by 11%.

In addition, competitive rates were set on traditional products in response to market movements in rates, and a number of high-value corporate customers were acquired as a result of these marketing initiatives.

The Wealth Management business also achieved some exciting advancements during the year.

Wealth Management income totalled PGK18.5 million. This included income of PGK8.5 million from Funds Administration, PGK8.7 million from Funds Management, and PGK1.3 million from share trading and other operations.

Funds under Management increased 14% over the year to PGK6.2 billion, due to growth in member contributions, as well as positive investment returns.

Funds under Administration increased by 16% to PGK5.6 billion, and member numbers increased by 5.4% to 170,000 during the year.

Efficiency was improved by streamlining of administration work practices and increasing use of the technology platform supporting our funds administration business.

A highlight of the Wealth business was winning a competitive tender for the Funds Administration business of PNG's largest superannuation fund, Nasfund. This will lift Kina's funds under administration by another PGK4 billion this year, taking it to almost PGK10 billion. Importantly, it will also provide us with access to a large and affluent customer base in the future. Kina is now able to leverage relationships with all three major PNG superannuation funds (Nasfund, Nambawan Super and Comrade Trustees Services). This provides exciting opportunities to offer targeted banking and wealth management products to a customer base in excess of 700,000 superannuation fund members.

Importantly, we have been able to achieve these results without sacrificing our credit standards or margins. The loan impairment expense decreased to PGK2.8 million, from PGK3 million in the prior year, and there was only a minor contraction in net interest margins, which remained at a very healthy 8.3%.

However, the year was not without challenges, and foreign exchange operations were affected by the withdrawal of the Company's former correspondent banking partner for US dollar transactions.

Kina has identified a new potential partner for USD transactions and is currently working through the process to implement a solution in the near term. However, it is expected foreign exchange earnings will be affected to a similar extent to that experienced in the second half 2016.

Our people

Our people play a critical role in building customer trust. Our values of integrity, trust, fairness, putting customers first, and the opportunity to make a difference are central to how we support and lead our people. Kina has maintained a strong focus on building the capabilities of our people and the leadership skills of our managers. This focus has been further enhanced by key additions to our executive leadership team during the year, including Chetan Chopra as Chief Financial Officer, Danny Robinson as Executive General Manager Banking, and Deepak Gupta as the Executive General Manager Wealth.

Outlook

In the current economic environment, Kina will adopt a disciplined approach to operational performance as we continue to focus on maintaining a strong balance sheet, solid asset quality and capital position.

The Company has set a number of key operational priorities for 2017. These include:

- Leveraging its relationship with key Funds to facilitate cross-selling opportunities across its fund administration clients
- Delivering the Nasfund transition to Kina fund administration services
- Completing the bank's technology transformation. This includes expanding Kina's suite of personal and business banking products and services
- Providing increased convenience for our customers
- Finalising and expanding correspondent banking.

In conclusion, I thank all our staff for their hard work and diligence over the past 12 months. The Directors also have made a major contribution to the success of the past year through their valuable experience and wise counsel.

Finally, to shareholders, I thank you for your ongoing support and look forward to delivering another strong year in 2017.

Syd Yates, OBE
Chief Executive Officer

Banking

Kina operates the fourth-largest bank in PNG with more than 14,000 clients and seven branches covering the major industrial and growth centres in PNG.

Kina's head office and branch is located in the central business district of Port Moresby, PNG. It has additional bank branches in Waigani (one located in the central business district and another in the Vision City retail centre), Lae, Kokopo, and a sales office in Mount Hagen.

A new branch is scheduled to be launched at Vision City Mega Mall in Port Moresby in May 2017.

The Kina Bank network has been tailored to the specific requirements of the PNG retail and business banking markets and includes cash-free branches, full service branches, automatic teller machines and an online banking platform.

Kina offers a wide variety of lending products to a broad cross-section of the personal, business and corporate markets within PNG.

The loans and advances are provided on a secured or unsecured basis, in the form of term loans and overdrafts related to commercial and retail business lending, and property lending.

A key unsecured lending product is Kina's EsiLoan that provides short-term loans accessible via card, which can be used in either ATMs or EFTPOS facilities.

Kina also offers festival loans to eligible employees as part of its employee benefits scheme.

The majority of customers with outstanding loans are private companies, active in the property, wholesale, retail, transport, forestry and storage sectors. As at 31 December 2016, the total loan book value was PGK605 million.

Kina is primarily funded by depositors and retained earnings. The Company offers a number of deposit products to customers including traditional cash accounts, cheque accounts and other term deposits.

Kina offers a broad range of financial products and services in addition to deposits and traditional lending.

These products and services include foreign exchange transactions, insurance premium funding, novated leases, vehicle financing, operating leases and general insurance on an agency basis.

Kina offers a wide variety of lending products to a broad cross-section of the personal, business and corporate markets within PNG.

The Kina Bank network includes cash-free branches, full service branches, automatic teller machines and an online banking platform.

Wealth

Kina operates the largest Wealth Management business in PNG.

Services include:

- funds management and advisory
- funds administration
- custodian and trustee services
- financial planning
- stockbroking and corporate advisory.

Kina's funds management business manages investment funds for several major superannuation funds, landowner groups, corporate, and private investment clients. It manages funds (FUM) of PGK 6.2 billion as at 31 December 2016.

The funds management division is a licensed Investment Manager under the PNG SGP Act. The division has an in-depth understanding of the investment climate in PNG and the Asia-Pacific region.

This division provides investment management services across all major asset classes, both in PNG and internationally, to a diverse set of institutional clients, including portfolio management and financial advisory, primarily catered to institutional clients such as investment funds, corporations and financial institutions.

It manages assets including cash investments, fixed income investments (government and corporate debt), listed equities, private equities and property investment (real estate and property trusts). In addition to its investment management services, Kina also provides strategic advisory services, risk management, debt and equity investments, public offerings and private placements.

Nambawan Super generates the largest portion of Kina investment management fees, and is a substantial shareholder in the company.

Kina acts as a fund administrator for a number of superannuation funds and private investment clients.

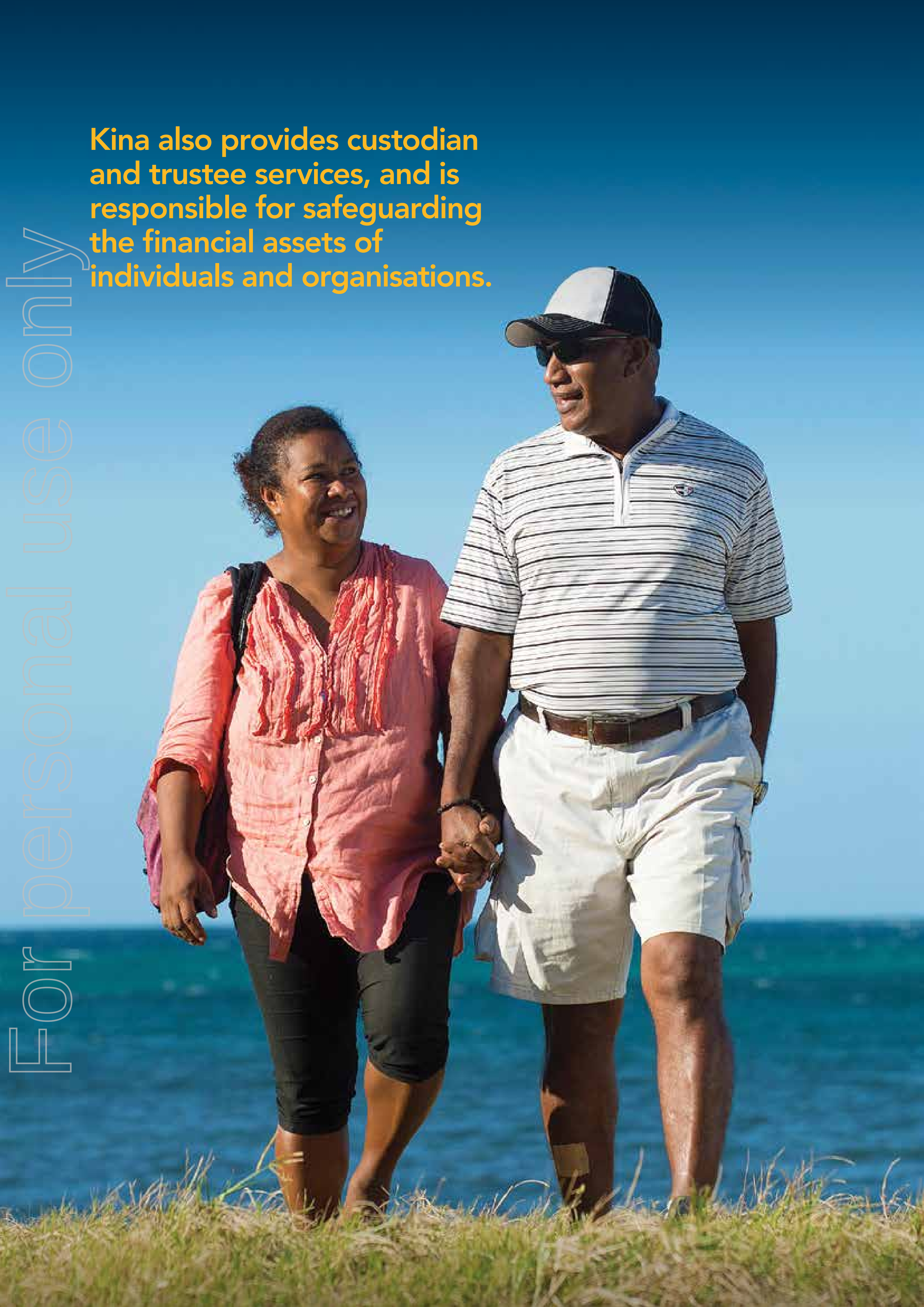
In FY2016, Funds Under Administration (FUA) grew by 16% to PGK5.6 billion and has 169,000 customers. The addition of Nasfund as a new client in 2017 will add PGK4 billion FUA and grow Kina's client base to 700,000 members.

Kina also provides custodian and trustee services, and is responsible for safeguarding the financial assets of individuals and organisations. It is licensed by the PNG Securities Commission under the PNG Securities Act to accept appointment or act as a trustee of unit trusts and in respect of other debt securities. It holds investments in trust on a nominee basis.

Kina is also the custodian of various investments such as equities, bonds and commodities. It also arranges settlements of investments and reports related to withholding tax implications.

Kina Wealth Management also provides clients with information on money management, investments, retirement planning, insurance, estate planning and philanthropy, in addition to a full-service stockbroking offering.

Kina also provides custodian and trustee services, and is responsible for safeguarding the financial assets of individuals and organisations.



Kina's strategy

Kina's business is about relationships and people. Our motto is "Together it's possible."

To achieve our vision of prosperous customers and communities, underpinned by progressive, accessible financial services, we must put our stakeholders at the centre of everything we do.

We understand our success will be built on continuously improving our customers' experience. We want our customers to be our advocates.

Innovation and technology play a key role in building customer trust and delivering an outstanding experience when they interact with our business.

We want to enable customers to connect with Kina 'anytime, anywhere, anyhow' and to make it easy to do business with us. As a Company we are also focused on finding innovative solutions to match our customers' aspirations.

This year, Kina significantly improved its banking systems and technology, enabling us to upgrade mobile and online services to our customers.

A key milestone in 2016 has been our capacity to provide Kina customers with access to all ATMs in PNG, and a significant network of EFTPOS terminals.

Kina understands that it is our people who are responsible for delivering our strategy and providing a great experience for our customers.

That is why we are focused on identifying and developing great people and leaders within our business. We are also focused on providing training for our people so they can support and contribute to a high-performance culture.

We also understand that we must continually challenge what we do and how we do it so we can continuously improve the products and services we provide our customers.

To achieve our vision of prosperous customers and communities, underpinned by progressive, accessible financial services, we must put our stakeholders at the centre of everything we do.

We understand we must continually challenge what we do and how we do it so we can continuously improve the products and services we provide our customers.

We will deliver shareholder value and proactively move to lift market share by:

Investing in our people

We are proud of our people and are committed to investing in them and their futures.

By providing diverse training opportunities, Kina supports employees to further their knowledge, skills and qualifications, as well as increase their contribution to our business, our customers and the community.

During 2016, training opportunities and achievements included:

- 199 training days at the Institute of Business and Banking Management (IBBM), covering topics such as sales fundamentals, MS Excel, supervisory skills, risk assessment and management, and 'train the trainer'
- an employee from Personal Banking completing Kina's Leadership Development Program, graduating with a Diploma in Leadership and Management
- 34 employees from Kina Investment Superannuation Services (KISS) undertaking a Diploma in Superannuation with the Association of Superannuation Funds of Australia
- one senior female executive completing a Governance, Strategy and Risk for Directors workshop with the Australian Institute of Company Directors (AICD).

The AICD workshop was initiated by Business Coalition for Women (BCFW), an organisation dedicated to being an innovative, relevant and inclusive driver of business growth through positive change for women in Papua New Guinea. Kina is one of the inaugural members of this group.

Diversity

Kina recognises the importance of workplace diversity. We value the unique qualities, attributes, skills and experiences of all our people, and are committed to actively promoting a positive work environment based on respect.

In recent years, improving gender balance within our business, particularly within leadership positions, has been a significant focus. This year, we appointed Karen Smith-Pomeroy as the first female member of our Board of Directors, and increased the number of female team leaders within our business by 10. Our objective wherever possible is to 'promote from within', establishing career pathways for our emerging female leaders.

At Kina, we also believe in promoting and providing leadership opportunities for our people. Our business is proudly Papua New Guinean, and contributing to and supporting the success of our local workforce is important to us. As a result, in 2016, we proudly promoted 20 male and six female Papua New Guinean employees to leadership roles in different parts of the business.

At Kina, we also believe in promoting and providing leadership opportunities for our people.

Equal opportunity and encouraging all staff to embrace an inclusive workplace are also being actively promoted. Our gender-smart policies provide maternity leave and paternity leave for new parents. Within the first six months of a child's life, mothers are also allowed to take an extra hour of paid leave per day to feed the new baby, in line with local legislation.

Kina will continue to champion awareness and understanding of workplace diversity principles, and implement policies protecting employees against discrimination and harassment.

1. Bernadette Tanou

Current position: Branch Manager, Operation – Lae Branch

Joined Kina: 2011

Province: Manus

Recent training: Leadership course, Kina, Credit and leadership training

What do you like about working for Kina? Kina is a diverse company. There are a lot of opportunities for individuals with drive and motivation to grow in their careers.

2. Jamin Kuson

Current position: Systems Specialist – IT

Joined Kina: 2010

Province: Manus and Central

Recent training: Core Banking System training, Infopro, Malaysia

What do you like about working for Kina? We have a management team that understands how we work. I also have the opportunity to grow as a person, while leading and mentoring others in my team.

3. Hahui Fairi

Current position: Branch Manager Operations – Waigani

Joined Kina: 1994

Province: Gulf

Recent training:

- Accounting, office administration, and lending and securities courses, Institute of Banking and Business Management (IBBM), Papua New Guinea
- Trade finance course
- KYC, AML, compliance, and corporate image and branding training
- Credit training, Omega Performance, Malaysia

What do you like about working for Kina? Working at Kina is very family-orientated, especially in the branch. I like that management come down to the staff level. It makes interaction a lot easier and shows the company cares about staff wellbeing.

4. Peterson Buna Kipla

Current position: Senior Relationship Manger

Joined Kina: 2016

Province: Western Highlands

Recent training: Trade Finance Program, Asian Development Bank, Fiji

"With the knowledge I obtained in this course, I can better assist my customers with their trade needs."

What do you like about working for Kina? Kina is a local, home-grown bank that's contributing to the development of our country.

5. Sharon Punau

Current position: Manager Business Development

Joined Kina: 2009

Province: Manus

Recent training:

- Diploma in Superannuation, Association of Superannuation Funds of Australia (ASFA)
- ASFA annual superannuation conference, Association of Superannuation Funds of Australia

What do you like about working for Kina? Kina has given me the opportunity to be trained and upskilled, and to give back to the company by mentoring and training others.

6. Solomon Kabaru

Current position: Senior Software Developer

Joined Kina: 2013

Province: East Sepik Province

Recent training: Core database training, Infopro

What do you like about working for Kina? My team, because they are innovative, spontaneous and bright.

Corporate Social Responsibility

At Kina, we are keenly aware of our social responsibility to support the growth and prosperity of Papua New Guinea. In line with our vision, which is to see local customers and communities prosper, we contribute to – and directly participate in – a range of great causes and events each year.

Key corporate social responsibility (CSR) activities in 2016 included:

- **PinkTober** – Kina sponsored a series of PinkTober morning and afternoon teas as part of women's cancer awareness month, with staff raising K3,500 for research and support services. We matched this figure as part of our Kina-for-Kina program, donating a total of K7,000 to the Papua New Guinea Cancer Foundation (PNGCF). This was in addition to K10,000 in sponsorship.
- **Port Moresby General Hospital Corporate Blood Drive** – In October, 56 Kina employees participated in our annual blood donation drive at Port Moresby General Hospital. Their donations will save lives, and we could not be more proud of our team members' contributions – a genuine personal commitment to community involvement.
- **PwC Corporate Challenge** – Kina sponsored 10 teams of employees to participate in the 2016 PwC Corporate Challenge, contributing K10,000 to several charities, including the Heart Institute, Child Fund Inc., WeCare Inc., Port Moresby General Hospital, and Ginigoada Foundation Inc. Not only did our people contribute funds to and raise awareness for these charities, they did so in style, being recognised as the 'most creative' by event organisers.
- Kina employees also supported **White Ribbon Day**, raising awareness of domestic violence, and **World AIDS Day** to raise awareness and reduce the stigma associated with the disease.

In future, Kina aims to support 20 charities each year, and achieve a donations target of K100,000 in 2017, K110,000 in 2018 and K120,000 in 2019. This goal is in addition to our Volunteer Day Program, which encourages employees to get involved in our corporate social responsibility activities. In 2017, our aim is for at least 50% of staff to participate, with the target increasing by 10% each year, to 60% in 2018 and 70% in 2019.

From top to bottom: PinkTober; Port Moresby General Hospital Corporate Blood Drive. **At right:** AFL PNG.


AFL
TLRA
esiLOAN
REAL LOANS REAL EASY

Board of Directors

Sir Rabbie Namaliu

GCL, KCMG, CSM

Non-Executive Chairman

Sir Rabbie Namaliu is a distinguished statesman with more than nine years of board experience in the financial services and mining and petroleum industries in PNG. Sir Rabbie has been the Chairman of Kina since 2009.

Sir Rabbie is former Prime Minister of PNG and former Speaker of the PNG National Parliament. Furthermore, Sir Rabbie has ministerial experience in Foreign Affairs & Trade, Treasury, Primary Industry, Petroleum and Energy and other areas of government responsibility. Before entering politics, he was Chairman and Secretary of the PNG Public Services Commission, Provincial Commissioner of East New Britain and Principal Private Secretary to the Chief Minister of PNG, Sir Michael Somare before Independence. In 1973 he was Senior Tutor and Lecturer in History at the University of Papua New Guinea.

Sir Rabbie is Chairman of Kramer Ausenco Ltd (appointed 2010), Kina Asset Management Ltd (appointed 2008), Kina Investment & Superannuation Services Ltd (appointed 2012). In addition, Sir Rabbie holds directorships at Era Resources formerly Marengo Mining Limited (appointed 2008), Bougainville Copper Limited (appointed 2011). InterOil Corporation (appointed 2012 and retired on the 22nd February 2017), South Pacific Post Ltd (appointed 2013).

In 2011, Sir Rabbie was appointed the Chairman of the 2012 PNG Games Host Organising Committee by the East New Britain Provincial Government to plan and coordinate preparations for the 2012 PNG Games held in Kokopo, PNG.

Sir Rabbie is a member for the PNG Institute of Directors.

Sir Rabbie also holds the following charity and honorary positions:

- Chancellor and Chairman of Council, PNG University of National Researches and Environment (2007-2011);
- Chairman, RH Foundation
- Chairman, ENB Sports Development Authority
- Patron, YWAM Medical Ships
- Director, YWAM Medical Ships (PNG) Ltd
- Patron, Badili Club Inc.
- Patron, Jesus Halfway House
- Patron, PNG Softball Federation

Sir Rabbie holds a Bachelor of Arts (BA) degree from the University of PNG and a Master of Arts (MA) degree and an Honorary Doctor of Laws (Hon. LLD) from the University of Victoria, British Columbia, Canada.

Syd Yates, OBE

Chief Executive Officer

Managing Director

Mr Syd Yates joined Kina in 1997 and has extensive experience in the banking, finance and investment industries, with a career spanning more than 30 years. He is currently serving as the CEO of Kina Group.

Within Kina Group, Syd is also a director of Kina Ventures (appointed 2012).

Syd is also currently serving as a director of KAML (appointed 2007), Port Moresby Stock Exchange Ltd POMSoX (appointed 1998) and the Commonwealth Games Association of PNG and is the Chairman for the Fundraising Committee of the PNG Olympic Committee.

Syd is a fellow of the Australian Institute of Company Directors, the Australian Institute of Management and the Financial Services Institute of Australasia. Syd is also a member of the PNG Institute of Directors.

Wayne Golding, OBE

Non-Executive Director

Mr Wayne Golding has over 25 years of board experience and has an extensive range of experience and skills in PNG's trade, investment and finance industries. Wayne is a former chairman of Kina.

Wayne is currently a Director of Kina (appointed 1996). Wayne is also currently serving as a director of Matching Investments Limited (appointed 1995), New Town Trading Ltd (appointed 1999), Ratung Ltd (appointed 1999), Tanubada Dairy Products Ltd (appointed 1988), 2G Developments Ltd (appointed 2012), and 2G Housing Ltd (appointed 2013).

Wayne is a former director of International Air Radio Limited, a subsidiary of British Airways (from 1992 to 1996), and was a member of the negotiating team acting for PNG regarding PNG's entry into a trade and investment agreement with the European Union.

Wayne was also a member of the committee that formed the APEC Business Advisory Council and has held various co-chair positions in their committees, including as co-chair of the Economic and Finance Committee.

Wayne is also the founding chairman of the Manufacturers' Council of PNG, a representative of the PNG/Queensland Business Council Group and advisor to the PNG National Fisheries Authority.

Wayne is a member of the PNG Institute of Directors and holds accounting and commerce qualifications from University of Technology, Sydney, Australia (formerly Sydney Technical College).

Jim Yap

Non-Executive Director

Mr Jim Yap has been a Director of Kina since 2012. Jim has significant experience in the banking industry in Australia, PNG and Taiwan.

Jim also currently serves as a director of Niule No.1 Ltd (appointed 2009) and Raintree Development Ltd (appointed 2012).

Jim's previous experience includes senior management roles at ANZ Banking Group (PNG) Ltd, including roles as head of commercial banking and head of regional sales and origination. In addition, Jim has held a number of other roles within ANZ spanning over 37 years in retail banking, import and export, credit, corporate and institutional banking.

Jim holds a Bachelor of Science degree and Graduate Diploma in Education from Monash University, Melbourne, Australia, a Graduate Diploma in Management from the Royal Melbourne Institute of Technology, Melbourne, Australia, and is a member of the PNG Institute of Directors.

Board of Directors

David Foster
Non-Executive Director

Mr David Foster is an experienced non-executive director with a diverse portfolio of directorships and advisory roles. David has 25 years of experience in financial services. David was appointed a Director of Kina in 2015.

David is currently an independent non-executive director for a variety of ASX listed companies across a range of industries. David is Chair of Motorcycles Holdings Ltd, and a Non-Executive Director of G8 Education Ltd, Genworth Mortgage Insurance Australia Ltd, Thorn Group Ltd and the commercial arm of Local Government Association of QLD.

David's prior experience includes a number of senior executive roles within Suncorp Group Limited, most recently as CEO of Suncorp Bank, where David led it through a highly volatile period during the global financial crisis. This included the turnaround of its retail, small and medium enterprise and agricultural businesses and managing down $18 billion in problem and non-core assets to maximise shareholder capital outcomes. David was also the Group Executive, Strategy during the acquisition of Promina Limited one of Australia's largest financial services transactions.

Prior to Suncorp, David had over 14 years at Westpac Banking Corporation in a number of senior roles in Sydney and Queensland.

David has an MBA, a Bachelor of Applied Science and is a Senior Fellow with Financial Services Institute of Australasia and a Graduate of the Australian Institute of Company Directors.

Isikeli Taureka
Non-Executive Director

Mr Isikeli Taureka was appointed as a Director of Kina in 18 May 2016. He is an Executive Director at InterOil Corporation and was previously InterOil's Executive Vice President, Papua New Guinea, accountable for the company's daily operations across the country.

Isikeli previously held a number of roles with Chevron Corporation including Head of Chevron Corporation's Geothermal and Power Operations; President of ChevronTexaco China Energy Company with responsibility for Chevron's oil and gas upstream activities in China; Managing Director of Chevron Asia South Business Unit responsible for exploration and production in Thailand, Bangladesh, Cambodia, Myanmar and Vietnam and;

General Manager and Country Manager for Chevron New Guinea Limited with responsibility for oil operations in Papua New Guinea and Western Australia.

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

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.

Karen Smith-Pomeroy

Non-Executive Director

Ms Karen Smith-Pomeroy was appointed as a Director on 12 September 2016. She 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 the Financial Services Institute of Australasia, a Member of Association of Superannuation Funds of Australia, a Certificate member of Governance Institute of Australia and a Graduate of the Australian Institute of Company Directors.

Peter Ng Choong Joo

Non-Executive Director

Don Manoa

Non-Executive Director

Hilary Wong

Non-Executive Director

Executive management team

Syd Yates, OBE

Chief Executive Officer
Managing Director

Mr Syd Yates joined Kina in 1997 and has extensive experience in the banking, finance and investment industries, with a career spanning more than 30 years. He is currently serving as the CEO of Kina Group.

Within Kina Group, Syd is also a director of Kina Ventures (appointed 2012).

Syd is also currently serving as a director of KAML (appointed 2007), Port Moresby Stock Exchange Ltd POMSoX (appointed 1998) and the Commonwealth Games Association of PNG and is the Chairman for the Fundraising Committee of the PNG Olympic Committee.

Syd is a fellow of the Australian Institute of Company Directors, the Australian Institute of Management and the Financial Services Institute of Australasia. Syd is also a member of the PNG Institute of Directors.

Chetan Chopra

Chief Financial Officer

Mr Chetan Chopra has been appointed as Chief Financial Officer, reporting directly to the CEO. Chetan is a widely experienced finance executive and joins Kina after spending the past two years as CFO of PNG's largest superannuation fund, Nambawan Super Limited.

An accountant by profession, Chetan previously 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.

Deepak Gupta

Executive General Manager – Kina Wealth

Mr Deepak Gupta has had a long and successful career in financial services spanning 32 years, having held a variety of senior executive roles in leading financial services institutions including Westpac, AMP and domestic New Zealand institutions.

These roles have involved 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.

Deepak brings substantial experience and a track record of success and innovation across a number of areas in financial services. These include 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.

Danny Robinson
Executive General Manager – Kina Bank

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

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

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

Michael Van Dorssen
Chief Risk Officer

Mr Michael Van Dorssen joined Kina in 2009 and is currently the Chief Risk Officer for the group. As part of the good governance of Kina and consistent with financial industry best practice, Kina has established the risk division to assist the group in its risk management and controls. 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).

Tony De La Fosse
Executive General Manager – Shared Services

Tony is responsible for a range of corporate functions including Human Resources, Administration, Information Technology, Real Estate, Legal and Procurement & Sourcing.

Tony graduated from the Royal Military College Duntroon in 1982. He holds an Arts Degree from the University of New South Wales together with a Graduate Diploma in Human Resources and an MBA.

He is also a graduate of the Australian Institute of Company Directors.

He has extensive senior level experience in Corporate Services having served throughout various Australian Public Service departments such as the High Court of Australia, Migration Review Tribunal, Ausaid, and the Australian Pesticides and Veterinary Medicines Authority where he held the position of Chief Operating Officer. Prior to joining Kina, Tony held the role of Security Manager at the Australian High Commission in PNG.

Corporate Governance Statement

Introduction

The Board is responsible for the overall corporate governance of Kina Securities Limited and its related entities, including adopting appropriate policies and procedures designed to ensure that Kina is properly managed to protect and enhance Shareholder interests.

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

The Board has created a framework for managing Kina, including adopting internal controls, risk management processes and governance policies and practices. The Board monitors adherence to this framework which, in turn, ensures operations comply with all relevant laws, regulations and standards. The majority of the documents which make up the Kina Governance Framework have been reviewed throughout the year to ensure they remain relevant to current operations and continue to comply with those requirements or guidelines set down by the Bank of Papua New Guinea (BPNG), the Australian Securities Exchange (ASX), the Port Moresby Stock Exchange (POMSoX), the PNG Companies Act and the Australian Corporations Act 2011 (Cth).

This Statement outlines Corporate Governance framework and practices adopted by the Board of Kina and in place for the financial year ended 31 December 2016, by reference to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition) (**Recommendations**). The Statement was approved by the Board on 22 February 2017.

The Board considers and applies the Recommendations taking into account the circumstances of Kina. Where Kina's practices depart from a Recommendation, this Statement identifies the area of divergence and reasons for it, or any alternative practices adopted by Kina.

Governance framework

The Board has established a number of corporate governance documents consistent with the Recommendations, which in addition to Kina's Constitution, form the basis of Kina's corporate governance framework – these documents are referenced in this Statement where relevant, and are as follows:

1. Kina Securities Ltd Constitution (2015)
2. Board Charter (approved December 2016);
3. Audit and Risk Committee Charter (approved December 2016);
4. Remuneration and Nominations Committee Charter (approved December 2016);
5. Securities Trading Policy (approved June 2016);
6. Shareholder Communications Policy (approved October 2016);
7. Continuous Disclosure Policy (approved October 2016);
8. Diversity Policy (approved October 2015);
9. Directors Code of Conduct (approved July 2015);
10. Code of Corporate Conduct (approved July 2015); and
11. Conflict of Interest Policy (approved July 2015).

Copies of the corporate governance documents are available on Kina's website (www.kina.com.pg) at:

http://investors.kina.com.pg/investors/?page=corporate-governance.

Board of Directors

The Role of the Board

The Board is committed to maximising performance, generating shareholder value and financial returns, and sustaining the growth and success of Kina. In conducting Kina's business in accordance with these objectives, the Board seeks to ensure that Kina is properly managed to protect and enhance shareholder interests, and that Kina, its directors, officers and personnel operate in an appropriate environment of corporate governance.

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

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

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

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

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

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

- roles and responsibilities of the Board, including those matters specifically reserved to the Board;
- role and responsibility of the CEO, which is primarily the day to day management of Kina;
- procedure for management of potential and actual conflicts of interest; and
- guidance on board performance evaluation, ethical standards and taking independent professional advice.

Director Appointment

As is required by the Bank of Papua New Guinea's Prudential Standards (BPNG Prudential Standards) Kina undertakes a 'Fit and Proper' testing for candidates for 'Responsible Person' positions, which includes Board Directors and Executive Management. This testing, which, in accordance with the Standard, is carried out on an annual basis includes thorough background checks. When Directors are proposed for election, or re-election at general meetings the notice of meeting provides material and relevant information to enable shareholders to make an informed decision as to whether or not to elect or re-elect the candidate.

Kina has entered into a written agreement with each director and senior management team member that sets out, amongst other items, the terms of their appointment and their roles and responsibilities.

Board Composition

The Board seeks to ensure that it has the appropriate mix of skills, knowledge and experience to guide Kina and assist management to achieve the strategic objectives set by the Board. To assist in identifying areas of focus and maintaining an appropriate mix of skills and experience, the Board uses a self-assessment questionnaire, the results of which feed into a skills matrix. The matrix, a high level version of which is depicted above, sets out the skills, experience and expertise represented on the Board and assists the Remuneration and Nomination Committee in identifying actual or potential gaps. The Board reviews the matrix in light of Company strategy and uses it as one aspect of the criteria applying to its renewal plan and Board appointments.

Kina's Board of Directors has been structured to ensure it has a high level of public market and PNG experience, coupled with financial and corporate governance capabilities. The Board has assessed that this is appropriate for the current stage of development and size of the business and the current Board members have the appropriate skills, knowledge and experience required to effectively oversee Kina's business.

Corporate Governance Statement

Independence

The Board considers an independent director to be a non-executive director who is not a member of Kina's management and who is free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the independent exercise of their judgement. The Board reviews the independence of each Director in light of interests disclosed to the Board regularly (and at least annually) and having regard to the relationships listed in Box 2.3 of the Recommendations.

The Board does not consider Syd Yates to be independent as he is the CEO of Kina. At the Annual General Meeting in April 2016, three Directors resigned, being Peter Ng, Don Manoa and Hilary Wong; and Isikeli Taureka was elected. In October 2016, Karen Smith-Pomeroy was appointed to the Board.

Having regard to the Recommendations, Peter Ng and Jim Yap are not considered independent due to their association with a substantial shareholder of Kina; and Wayne Golding, Don Manoa and Hilary Wong are not considered independent due to the length of time over which they have held directorships within the Group.

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

Following Ms Smith-Pomeroy's appointment, the Board now has a majority of independent directors.

Director induction and education

Kina delivers an induction program to assist and introduce all new directors to the business. As part of the induction, new directors are given a detailed overview on Kina's operations, copies of governance and internal policies and procedures and instruction on the roles and responsibilities of the Board, its committees and management. After their initial induction, directors are expected to keep themselves updated on changes and trends within the business, in the financial sector, market environment and any changes and trends in the economic, political, social, global, environmental and legal climate generally.

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

Performance Evaluation

In accordance with the BPNG Prudential Standards, and as set out in the Board Charter, the performance of the Board, its members and its committees is assessed each year. The Board has undertaken a performance evaluation and skills analysis during the year. The findings are used to further refine the succession and renewal plan which is focussed on the next two to five years. The plan manages the retirement and re-election of directors giving consideration to the length of time served on the Board and ensuring appropriate levels of Company experience and corporate knowledge are maintained as well as ensuring new appointments are made with a view to the Company's strategy over the medium to long term.

The Board will continue to review individual, Committee and whole of Board performance and ensure that Board composition and the skills and experience of the Directors is appropriate.

Directors' details

Name	Appointment date	Current length of service	Non-executive?	Independent?
Sir Rabbie Namaliu	2009	7 years	Yes	Yes
Syd Yates, OBE	1997	19 years	No	N/A
Wayne Golding, OBE	1996	19 years	Yes	No
Jim Yap	2012	4 years	Yes	No
David Foster	2015	8 months	Yes	Yes
Isikeli Taureka	2016	10 months	Yes	Yes
Karen Smith-Pomeroy	2016	5 months	Yes	Yes
Peter Ng Choong Joo	2012 – 2016	4 years	Yes	No
Don Manoa	2003 – 2016	12 years	Yes	No
Hilary Wong, OBE	2001 - 2016	15 years	Yes	No

Performance evaluations, overseen by the chairman, in the case of the CEO, and the Remuneration and Nomination Committee in the case of senior management are carried out on an annual basis and were completed in the year under review.

Chairman

In accordance with the Board Charter, the chairman of the Board is an independent director, Sir Rabbie Namaliu. The roles and responsibilities of the chairman are contained within the Board Charter.

Company Secretary

Mr Kong Wong was company secretary from 22 June 2015 until 21 June 2016. Kong has more than 15 years' experience in banking and finance, investment management, audit and financial control. Kong has a Bachelor of Economics, majoring in Accounting from La Trobe University and is a member of Certified Practising Accountants Australia and PNG.

Mr Chetan Chopra was appointed company secretary and CFO on 21 June 2016. Chetan holds a Bachelor of Science from Mumbai University and an MBA from Melbourne Business School, University of Melbourne. Chetan is a member of Certified Practising Accountants Australia, PNG and a practicing member of the Institute of Chartered Accountants of India.

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

Board Committees

The Board has the power to establish and delegate powers to committees that are formed to facilitate effective decision making. The Board, however, accepts full accountability for matters delegated by it to those committees. The Board has established an Audit and Risk Committee and a Remuneration and Nominations Committee. Each Committee has a separate charter which sets out, in detail, the guidance on the membership and powers of the Committee, and its roles and responsibilities. The charters are reviewed at least annually.

The Board has also established a Disclosure Committee which meets on ad hoc basis to consider any issues which may require disclosure to the market. During the year the Committee met once, to discuss the documentation to be released following 2015 financial year end. The Disclosure Committee consists of Sir Rabbie Namaliu, Syd Yates and David Foster and, as agreed by the Board, any other Director whose skills and experience may be required at that time.

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

For the majority of 2016, the Remuneration and Nomination Committee comprised two independent directors (David Foster and Sir Rabbie Namaliu, the Chairman) and two directors that are not independent (Wayne Golding and Jim Yap). In October 2016, Isikeli Taureka was appointed to the Committee and on 7 December 2016 the Board noted Sir Rabbie's resignation from the position of Chair of the Committee and appointed Isikeli to that position.

The Remuneration and Nomination committee did not contain a majority of independent directors for the majority of the year, as recommended by Recommendation 2.1. The Board addressed this by appointing Isikeli in October 2016.

The Audit and Risk Committee comprised Don Manoa (until his resignation in May), Wayne Golding, Jim Yap and independent director, David Foster as the Chairman of the Committee. In October 2016, independent director, Karen Smith-Pomeroy was appointed to the Committee. As such, the Audit and Risk Committee did not contain a majority of independent directors as recommended by Recommendation 4.1. The Board has assessed that this is appropriate for the current stage of development and size of the business and the current Committee members have the appropriate skills, knowledge and experience required to perform their duties as a Committee.

Corporate Governance Statement

	Remuneration and Nomination Committee	Audit and Risk Committee
Roles & Responsibilities	• recommend and review remuneration policy across group • review and consider composition of Board • make recommendations to Board in regard to succession planning for CEO and direct reports and appointments of directors • administering aspects of Fit and Proper requirements of BPNG Prudential Standards • review structure and level of director fees • review remuneration framework (incl STIs, LTIs and non-cash elements) of CEO, senior management and Responsible Persons • review terms and conditions of employment agreements • review terms of superannuation and pension scheme arrangements • assist in annual performance review of CEO • oversee annual performance review of senior management • review effectiveness of Diversity Policy and its objectives and strategies	• reviewing effectiveness of reporting of financial information, audit systems and controls • reviewing and recommending to the Board half-year and annual financial statements and reports • audit planning • reviewing the provision of non-audit services by the external auditor • reviewing internal and external audit reports and where weaknesses in controls or procedures have been identified and monitoring remedial action taken by management to ascertain whether it has been adequate and appropriate • establishing and maintaining a risk management framework and through this, working with the Group Chief Risk Officer and management to identify, manage and monitor potential and actual issues, concerns and risks • monitoring the risk profile of Kina against the agreed risk appetite and risk management framework • annual review of the effectiveness of the risk management framework in supporting business performance/ strategy
Membership throughout the year	David Foster Wayne Golding Jim Yap Isikeli Taureka[1] (Current Chair) Sir Rabbie Namaliu (Chair until 7/12/16)	Wayne Golding Don Manoa[2] Jim Yap Karen Smith-Pomeroy[3] David Foster (Chair)

1 Appointed to Remuneration and Nomination Committee 19 October. Appointed Chair 7 December.
2 Resigned from the Board 18 May 2016. Should this be retired from the board
3 Appointed to Audit and Risk Committee 18 October 2016.

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

Director	Board meetings		Audit and Risk Committee		Remuneration and Nomination		Disclosure Committee	
	A	B	A	B	A	B	A	B
Sir Rabbie Namaliu	7	7	-	-	6	6	1	0
Sydney Yates	7	7	-	-	-	-	1	1
David Foster	7	7	8	8	6	6	1	1
Wayne Golding	7	7	8	7	6	6	-	-
Donald Manoa	3	2	3	2	-	-	-	-
Peter Ng	3	2	-	-	-	-	-	-
Hilary Wong	3	2	-	-	-	-	-	-
Jim Yap	7	7	8	8	6	6	-	-
Isikeli Taureka	5	5	-	-	2	2	-	-
Karen Smith-Pomeroy	2	2	2	2	-	-	-	-

A – Meetings held that Director was eligible to attend

B – Meetings attended

18 April 2016 – I. Taureka was appointed

18 May 2016 – D. Manoa, P. Ng and H. Wong resigned

12 September 2016 – K. Smith-Pomeroy appointed

18 October 2016 – I. Taureka appointed to Remuneration and Nomination Committee. K. Smith-Pomeroy appointed to Audit and Risk Committee

Remuneration

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

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

Acting ethically and responsibly

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

Kina has adopted a Code of Corporate Conduct that applies to all employees of Kina and its subsidiaries (including subcontractors and consultants) and a separate Code of Conduct for Directors (**Codes of Conduct**). The Codes of Conduct set out certain minimum standards of conduct that Kina expects of its employees and directors including integrity, diligence, impartiality, equality and fairness. The Codes of Conduct set out how employees and directors are to conduct themselves in order to meet these minimum standards.

Diversity

The Diversity Policy emphasises Kina's commitment to the maintenance and promotion of workplace diversity and inclusiveness. Kina recognises the importance of embracing workplace diversity, specifically in valuing the unique qualities, attributes, skills and experiences all employees bring to our workplaces.

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

Kina is committed to actively promoting a positive work environment based on respect and will continue to implement initiatives to promote diversity. For example, Kina strongly supports the development of females in senior positions. This was demonstrated through Kina sending a senior female Executive to attend a Governance, Strategy & Risk for Directors workshop that was run by the Australian Institute of Company Directors in late June in 2016. This workshop was initiated by the Business Coalition for Women (BCFW), whose goals are dedicated to being the innovative, relevant and inclusive driver of business growth through positive change for women in Papua New Guinea. Kina is one of the inaugural members of this group and now has a senior female Executive as part of the Board.

Corporate Governance Statement

Kina's measurable objectives are:

Objective	**2016 Achievement**
Maintain or improve Kina's level of female participation across all levels of business, with particular focus at the leadership levels.	Overall the level of female participation across all levels of the business reduced slightly. Numbers of females in team leader position increased and a female Director was added to the Board. Six female staff were promoted throughout the year into Leadership roles and provided additional training through the Leadership Programme.
Maintain or improve level of participation at leadership level for PNG citizens.	Identified potential leaders were provided with additional training through the Leadership Programme.
Demonstrate improvement in creating an inclusive workplace environment.	KSL has continued to support gender smart policies, as outlined above.

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

	2016		**2015**	
Board	1	16%	0	0%
Senior Management	1	11%	1	14%
Team Leader	32	49%	16	52%
Other employees	100	76%	129	59%

Kina also believes in promoting and providing opportunities for Leadership locally. As a result, Kina promoted 20 male employees and 6 female employees in 2016 into Leadership roles in different parts of the business.

Kina is a strong advocate for gender smart policies in the workplace and provides both maternity and paternity leave for its workers. Also, within the first 6 months' of a child's life, new parents are provided with paid leave to enable time out of the workplace to feed new babies. The Group will continue to promote awareness and understanding of workplace diversity principles and develop policies to assist employees to balance work, family and cultural responsibilities whilst at the same time removing barriers to employment.

The Remuneration and Nominations Committee reviews and oversees the implementation of the Diversity Policy. The Committee has determined that the existing measurable objectives remain current and appropriate for 2017.

Written declarations

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

External Auditor

Kina's external auditor is PricewaterhouseCoopers (PwC). The Audit and Risk Committee is responsible for recommending the appointment or removal of the auditor as well as annually reviewing their effectiveness, performance and independence.

The external auditor is required to attend the Company's annual general meeting and is available to address questions relevant to the conduct of the audit and the preparation and content of the auditor's report.

Timely and balanced disclosure

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

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

Shareholder Communications

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

Kina's website contains information regarding the Company, the Board and management team, corporate governance, media coverage, ASX announcements, investor presentations and reports.

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

In accordance with the Shareholder Communications Policy, shareholders are encouraged to attend general meetings, or, if they are unable to attend, vote by proxy or other means included in the notice of general meeting. Shareholders may receive and send information electronically to and from both Kina and Kina's share registry. Other methods of communication are also available to shareholders and other stakeholders, including telephone, mail and facsimile. Kina may consider the use of other reliable technologies as they become widely available.

Risk Management and internal controls

Throughout the year, in accordance with its Charter, the Audit and Risk Committee reviewed Kina's risk management framework. Kina has continued to invest significant time and effort in the design of a comprehensive risk management framework and supporting software that extends to each area of the business. The risk division drives and influences the development of a strong and robust risk culture across the Group that is constantly being reinforced at all levels. Under supervision of the Board, management is responsible for the design, identification, assessment and management of risk frameworks and related policies, and for adherence to these. A dedicated compliance department is in place to ensure that Kina personnel are aware of the Group's prudential and legislative obligations and that these are maintained at all times. Operational risk within the Group is monitored and an Occupational Health and Safety regime has been expanded to maintain the safety of Kina's employees and customers. A three lines of defence model has been implemented across the organisation. The Group's risk management activities comply with all relevant regulation including that of the Bank of Papua New Guinea (Prudential Standards), relevant legislation and the Investment Promotion Authority (IPA).

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

Corporate Governance Statement

Kina's risk management framework and internal control functions incorporate a fully resourced internal audit function which reports directly to the Audit and Risk Committee. At present the internal audit function has been co-sourced with external providers for planning and review purposes, which is acceptable under the BPNG Prudential Standards, but not a position Kina will continue in the long term. The internal audit function provides independent and objective assurance to the Board, via the Audit and Risk Committee. The internal annual audit plan is formulated using a risk based approach. Progress against the plan is reported to the Committee on a quarterly basis.

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

Kina does not have any material exposure to economic, environmental and social sustainability risks.

Dealings in Company securities

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

The Securities Trading Policy:

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

Directors' report

The Directors of Kina Securities Limited and its Subsidiaries submit herewith the annual financial report of the Company and its Subsidiaries for the year ended 31 December 2016.

Principal activities

The principal continuing activities of the Company and its Subsidiaries during the year were the provision of share brokerage, fund administration, investment management services, asset financing, and provision of personal and commercial loans, money market operations and corporate advice. The Group acquired Maybank PNG Limited in 2015 whose principal activities were banking and related services.

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

The Group's operations for the year are reviewed in the front section of the Annual Report.

The net profit attributable to equity holders for the year for the Group was K41.0million compared with K4.96 million in 2015.

The profit includes the following items:

- Net interest income of K65.1 million, compared with K42.9 million in the prior year to December 2015.
- Net fee and commission income of K28.8 million, compared with K17.4 million in the prior year.
- Operating income before impairment losses and other operating income of K117.0 million, up from K69.7 million in the prior year.
- Impairment losses on loans and advances to K2.8 million, compared with K3.0 million in the prior year.
- Other operating expenses of K55.6 million, compared with K54.8 million in the prior period, which included one-off expenses associated with the acquisition of Maybank PNG and the listing of the company on the Australian Securities Exchange (ASX) and Port Moresby Stock Exchange (POMSoX).

Review of operations

Kina Securities completed an initial public offering and was listed on the ASX and POMSoX in July 2015, and it completed the acquisition of the Maybank PNG business in September, 2015.

The statutory result for the year ended 31 December 2016, was a profit of K41.0 million and K4.9million for the 12 months to 31 December 2015, which included 12 months contribution from the continuing Kina operations and three months contribution from the Maybank operations. The statutory profit in 2015 was after costs of approximately K12.0 million associated with the Maybank acquisition as well as the listing of Kina Securities.

As at 31 December 2016, Kina, which has been regarded as PNG's fourth largest bank, had lending assets of K605million and deposits of more than K950 million.

An explanation of the operational performance and highlights of the year is included at the front section of this annual report.

After balance sheet date events

Subsequent to balance date, the directors declared a dividend of 3.95 cents per share total of (K16.8m). There are no other events after the balance sheet date that require adjustment to or disclosure in the financial statements.

Future developments

The Kina Board and management have developed a 5 year strategic plan that is customer centric further building on the principles of "Together it's possible". The Banking business will further grow the business banking segment as well as increase customer interaction in personal banking. In 2017 the bank will offer a larger product offering to include home loans, asset financing and modern banking channels. Kina fully subscribes to the expansion of the financial inclusion targets of the Bank of Papua New Guinea. This will be supported by an aggressive investment in system upgrades and new technologies and enhancements to be available anytime, anywhere. The Board has allocated capital to these initiatives. The Wealth management business will grow on the gains from the new superannuation administration contract. The new arrangements allow the company to interact with a significant segment of the employment sector and further develops it wealth advisory services. It also allows the Banking business further leverage. Kina is also developing new wealth management products for individuals to improve the savings and banking environment in PNG.

Dividends

The Company paid dividend of 4.09 cents (9.78 toea) per share (K12.7m) in October 2016 in relation to the 2015 profit. Subsequently, the directors also declared dividend of 3.95 cents (10.0 toea) per share (K16.8m) in relation to profit for the half year ended 30 June 2016.

Solicitors

Allens at Level 6, Mogoru Moto Building, Champion Parade, Port Moresby, Papua New Guinea.

Auditors

PricewaterhouseCoopers PNG at PwC Haus, Level 6, Harbour City, Konedobu, Port Moresby, Papua New Guinea

Donations

During the year the Group made donations totalling K9,197 (2015:K1,000)

Auditor's fees

During the year fees paid to the auditor for professional services are shown in note 11 to the accounts. The external auditor PricewaterhouseCoopers is also engaged in providing other services to the Group as required and as permitted by Prudential Standards. The provision of other services included taxation and general training.

Kina Securities Limited

Remuneration report

Contents

1 Introduction & Overview to Shareholders

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

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

For personal use only

2 Kina's KMP (Key Management Personnel)

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

Name	Position held during the financial year ended 31 December 2016
Non-Executive Directors (section 4 of this Remuneration Report)	
Sir Rabbie Namaliu	Non-Executive Chairman
David Foster	Non-Executive Director
Wayne Golding	Non-Executive Director
Jim Yap	Non-Executive Director
Isikeli Taureka	Non-Executive Director
Karen Smith-Pomeroy	Non-Executive Director
Hilary Wong[1]	Non-Executive Director
Don Manoa[2]	Non-Executive Director
Peter Ng Choong Joo[3]	Non-Executive Director
Executive Directors and Senior Executive Team (direct reports)	
Syd Yates	MD and CEO
Chetan Chopra[4]	Chief Financial Officer and Company Secretary
Danny Robinson[5]	Executive General Manager of Banking
Deepak Gupta[6]	Executive General Manager Wealth
Michael Van Dorssen	Chief Risk Officer
Tony de la Fosse[7]	Executive General Manager Shared Services
Kong Wong[8]	Chief Financial Controller
Victor Shubin[9]	General Manager – KFM

Note: The following executive are senior officers but not included under the definition of KMP – Adam Fenech, Aaron Bird, Saima Kalis

1. Resigned as Director 18 May 2016
2. Resigned as Director 18 May 2016
3. Resigned as Director 18 May 2016
4. Chetan Chopra commenced as CFO on 1 June 2016
5. Danny Robinson commenced as EGM on 3 February 2016
6. Deepak Gupta commenced employment 10 July 2016
7. Tony de la Fosse commenced employment 1 December 2016
8. Kong Wong ceased employment in 30 June 2016
9. Victor Shubin ceased employment 23 September 2016

2.1 Remuneration and Nomination Committee

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

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

Refer to Kina's Corporate Governance Statement (available on Kina's website under the Corporate Governance Link and pages 26–34 of this Annual Report for more information regarding the Remuneration and Nomination Committee.

The Remuneration and Nomination Committee regularly reviews the following to align remuneration, performance and strategy:

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

3 Executive remuneration

3.1 Remuneration policy and governance framework

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

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

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

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

Fixed remuneration	**Total fixed remuneration comprises base salary, other non-cash benefits and includes superannuation.**
STI Plan	The STI plan provides participants with an opportunity to earn an incentive calculated as a percentage of their salary each year, conditional upon achievement of individual KPIs which may consist of financial and, if applicable non-financial performance measures. The incentive earned will be paid: – 65% in cash – 35% in an offer of performance rights. The cash portion of the incentive will be paid in the next pay cycle following confirmation of the performance outcomes being achieved. The Performance Rights portion will be issued in one tranche and will vest subject to the participant remaining employed by Kina or a member of the Kina group at vesting date.
LTI Plan	A long term incentive plan that provides an opportunity for employees to receive an equity interest in Kina through the granting of LTI Performance Rights Under the LTI Plan, LTI Participants may be offered LTI Performance Rights that are subject to vesting conditions set by the Board.
Retention Plan	A one-off equity based performance rights plan to assist in the retention and reward of key eligible employees. Under the retention plan for FY15, only Syd Yates was granted Performance Rights. These Performance Rights were subject to a service condition whereby 50% of the Performance Rights vest on the first anniversary of the grant date and the remaining 50% to vest on the second anniversary of the grant date. The Kina Board has discretion as to whether the Retention Plan will continue and apply to other KMP.

3.2 Fixed Remuneration (FR)

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

3.3 Short-term incentive plan (STI)

(a) Structure of STI

Features	**Description**
Eligibility	The CEO and Senior Executive Team are eligible to participate in the STI Plan (STI Participants).
STI components	**Cash bonus:** 65% of the STI Participant's award under the STI Plan. **STI Performance Rights:** 35% of the STI Participant's award under the STI Plan.

Features	Description
Performance measures	Individual KPIs specific to each Participant are agreed during the performance appraisal process each year. These KPIs consist of both financial and non-financial performance measures and include: • Achievement of agreed Corporate NPAT • Achieving agreed Cost to Income ratio • Growth of FUM • Compliance with Risk and quality framework with no exceptions No STI is payable unless a minimum Group NPAT is achieved. The Board allocates an annual pool to the STI each year. There are levels of targeted performance for allocation of the pool for 2016 : • Minimum (85% of budget) • Threshold (85% - 100% budget): 50% • Target (Budget 100%) 90% • Stretch (100+ to 110%+) 100% • Stretch (120%+) up to 200% The pool is then allocated in accordance with the maximum and target STI for each KMP (which is detailed later) as a percentage of Gross pay.
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 2016.
Treatment of dividends calculation	Dividends, or the value of any dividends, are not received on unvested share rights. Notional dividend equivalents accrue during the deferral period and are delivered through an adjustment to the number of vested share rights at the end of the deferral period. This is calculated by taking the value of dividends distributed during the deferral period and dividing by a 10-day VWAP as at the vesting date, in whole share rights.
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. The 2016 STI PRs deferred in the financial accounts in Share based Premium Reserve for 2016 represents 50% of the STI PRs granted in 2016.
Forfeiture of STI Performance Rights	STI Performance Rights are subject to Kina's clawback policy. Under the clawback policy, unvested STI Performance Rights may be forfeited if the Board determines that adverse events or outcomes arise that should impact on the grant of STI Performance Rights to a STI Participant.
Payments and grants	Payments under the STI Plan are made in March of each year after the release of full year financial results to ASX and POMSoX.

Target STI and maximum STI that can be awarded		Target	Maximum
	CEO	50% of base salary	75% of base salary
	CFO	40% of base salary	50% of base salary
	Other Senior Executives	30% of base salary	45% of base salary

(b) FY16 STI outcomes

The outcomes of the STI payments to Executives for the years FY16 and FY15 are provided in the table below. This shows the annual base salary and total STI opportunity on an annual basis. For KMP (direct reports to the CEO) joining during the year, the incentive earned is calculated and awarded based on date of joining.

STI Payments

Participant	Year	Annual base salary (AUD)	Total STI opportunity on an annual basis	Total incentive earned	Cash bonus	Performance rights (35%) (dollar value)*
Syd Yates	2016	400,000	200,000	80,000	52,000	28,000
	2015	400,000	200,000	270,000	175,500	94,500
Michael Van Dorrsen	2016	306,700	92,010	27,603	17,942	9,661
	2015	306,700	92,010	96,611	62,797	33,814
Deepak Gupta	2016	305,000	91,500	18,300	11,895	6,405
	2015	0	0	0	0	0
Chetan Chopra	2016	305,000	122,000	42,700	27,755	14,945
	2015	0	0	0	0	0
Danny Robinson	2016	320,000	96,000	48,000	31,200	16,800
	2015	0	0	0	0	0
Other senior executives	2016	1,369,421	401,976	138,363	89,936	48,427
	2015	1,068,361	320,509	202,548	131,658	70,893
TOTAL	**2016**	**3,006,121**	**1,003,486**	**354,966**	**230,728**	**124,238**
	2015	**1,775,061**	**612,519**	**569,159**	**369,955**	**199,207**

The outcomes of the STI payments to Executives for the FY15 year are provided in the table below:

Participant	Annual base salary (AUD)	Target STI opportunity (50% for CEO/30% for Execs)	Total incentive earned	Cash bonus (65%)	Performance rights (35%) (dollar value)*
Syd Yates	$400,000	$200,000	$270,000	$175,500	$94,500
Adam Fenech	$243,000	$72,900	$49,208	$31,985	$17,223
Kong Wong	$270,000	$81,000	$60,750	$39,488	$21,263
Aaron Bird	$172,500	$51,750	$53,044	$34,479	$18,565
Victor Shubin	$195,000	$58,500	$29,250	$19,013	$10,238
Michael Van Dorssen	$306,700	$92,010	$96,611	$62,797	$33,814
Saima Kalis	$91,522	$27,457	$10,296	$6,693	$3,604
Veronica Weiang	$96,339	$28,902	$0	$0	$0
TOTAL			$569,159	$369,955	$199,207

* Please note, the number of Performance Rights to be issued under the STI plan is yet to be confirmed. At this stage, only the dollar value is known.

3.4 Long term incentive plan

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

(a) *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 Plan will be delivered as Performance Rights with each right conferring on its owner the right to be issued or transferred one (1) fully paid ordinary share in the Company.
Performance measures	In respect of the FY16 grant, the Performance Rights will only vest subject to Board assessed satisfaction of the following conditions:

- Meeting the required TSR performance level based on peer group – 50% weighting
  Over a three year period

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%
20% and above	100% vesting

- Meeting EPS target level based on Peer group – 50% weighting
  Compound Annual Growth rate over a three year period

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

The Board works with an independent advisor to identify comparator group companies and the advisor calculates the vesting schedule.

The measurement period for 2016 LTIs will be from 1 April 2017 to 31 March 2020. The vesting will be effectively on 1 April 2020.

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 vesting.
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:

Period	Date Granted	Performance period / measures	Vesting date (subject to performance testing)
FY ended 31 December 2015	1 April 2016	Achieving profit of K 5.7 m IPO Listing	1 April 2019
FY ended 31 December 2016	1 April 2017	EPS assessment compound till FY 2019 – 50%	1 April 2020
		Relative TSR assessment compounded to FY 2019 – 50%	

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 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).
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; • in other circumstances specified in the LTI Plan (for example, if the Board determines that the LTI Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina); or • if the participant purports to deal in the LTI Performance Right in breach of any disposal or hedging restrictions in respect of the Performance Right.

Target LTI and maximum LTI that can be awarded

	Target	Maximum
CEO	50%	50%
CFO	40%	40%
Other Senior Executives	30%	30%

(b) FY16 LTI outcomes

Details of Kina's performance against the LTI performance measures are summarised as follows:

LTI Results

Participant	Year	Value of Performance Rights granted	Financial measures	Employed with Kina or Kina Group member on 3rd anniversary of Grant Date
Syd Yates	2016	200,000	As per LTI performance measures	Not yet achieved
	2015	200,000	Achieved	Not yet achieved
Michael Van Dorrsen	2016	92,010	As per LTI performance measures	Not yet achieved
	2015	92,010	Achieved	Not yet achieved
Deepak Gupta	2016	91,500	As per LTI performance measures	Not yet achieved
	2015	0	-	-
Chetan Chopra	2016	122,000	As per LTI performance measures	Not yet achieved
	2015	0	-	-
Danny Robinson	2016	96,000	As per LTI performance measures	Not yet achieved
	2015	0	-	-
Other senior executives	2016	288,861	As per LTI performance measures	Not yet achieved
	2015	291607	-	-
	2016	890,371		
TOTAL	**2015**	**583,617**		

3.5 Retention Plan

Features	Description
Eligibility	The Board to determine the Participants eligible for participation in the Retention Plan.
Retention Plan	The Retention Plan is a once off award of Performance Rights to assist in the retention and reward of key eligible participants.
Vesting conditions	In respect of the FY15 Retention Plan grant, the Performance Rights for the CEO are subject to a service condition as follows: • 50% of the Performance Rights granted to vest on the first anniversary of grant date; and • 50% of the Performance Rights granted to vest on the second anniversary of grant date.
Calculation of Performance Rights	The Board determined that under the Retention Grant, Syd Yates received a once off grant of $200,000 worth of Performance Rights, which will result in 200,000 Performance Rights being granted.
Forfeiture of Retention Plan Performance Rights	Unvested Retention Plan Performance Rights may be forfeited: • If the Board determines that any vesting condition applicable to the Retention Plan Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • In certain circumstances if the Retention Plan Participant's employment is terminated; or • In other circumstances specified in the Retention Plan (for example, if the Board determines that the Retention Plan Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina).
Lapse of Retention Plan Performance Rights	Unless otherwise specified in the vesting conditions or otherwise determined by the Board, a Retention Plan Performance Right lapses on the earliest of: • If the Board determines that any vesting condition applicable to the Retention Plan Performance Right has not been satisfied in accordance with its terms or is not capable of being satisfied; • The expiry of the exercise period (if any); • In circumstances of cessation of employment; • In other circumstances specified in the Retention Plan (for example, if the Board determines that the Retention Plan Participant has committed an act of fraud or gross misconduct in relation to the affairs of Kina); or • If the participant purports to deal in the Retention Plan Performance Right in breach of any disposal or hedging restrictions in respect of the Performance Rights.
Timing of grants	It is intended that there will be no future grants under the Retention Plan as it was a once off grant.

3.6 Remuneration components

(a) FY16 remuneration

The components of the Senior Executive Team's remuneration are set out in the below table (in AUD).

Remuneration components

		Short term employee benefits			Long term employee benefits			
	Year	**Cash salary/ fees/short-term compensated absences**	**Short -term cash profit sharing and other bonus**	**Non-monetary benefits**	**Super benefits**	**Other post-employment benefits**	**Equity settled: options and rights**	**Total**
Syd Yates	2016	400,000	52,000	231,297			228,000	911,297
	2015	400,000	175,500	225,434	-	233,808	494,500	1,529,242
Michael Van Dorssen	2016	306,700	17,942	154,734	36,664		101,671	617,711
	2015	306,700	62,797	233,105	54,396	-	125,823	782,821
Deepak Gupta	2016	305,000	11,895	175,278			97,905	590,078
	2015	-	-	-	-	-	-	-
Chetan Chopra	2016	305,000	27,755	185,331	25,620		136,945	680,651
	2015	-	-	-	-	-	-	-
Danny Robinson	2016	320,000	31,200	165,224			112,800	629,224
	2015	-	-	-	-	-	-	-
Other senior executives	2016	1,369,421	89,936	866,209	-	-	337,288	2,662,854
	2015	972,022	131,658	646,813	-	-	362,500	2,112,993
TOTAL	**2016**	**3,006,121**	**230,728**	**1,778,073**	**62,284**	**-**	**1,014,609**	**6,091,815**
	2015	**1,678,722**	**369,955**	**1,105,352**	**54,396**	**233,808**	**982,823**	**4,425,056**

Non-monetary benefits include provision of accommodation and vehicles for official and personal use. These are taxable perquisites.

For personal use only

3.7 Performance based and non-performance based components

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

3.8 Performance Rights holdings

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

Performance Rights holdings

	Year	Performance Rights held at start of the year	Performance Rights issued during the year	Forfeited Rights forfeited/lapsed during the year	Performance Rights held at year end
Syd Yates	2016	506,061	228,000	-	734,061
	2015	-	506,061	-	506,061
Michael Van Dorrsen	2016	129,961	101,671	-	231,632
	2015	-	129,961	-	129,961
Deepak Gupta	2016	-	97,905	-	97,905
	2015	-	-	-	-
Chetan Chopra	2016	-	136,945	-	136,945
	2015	-	-	-	-
Danny Robinson	2016	-	112,800	-	112,800
	2015	-	-	-	-
Other senior executives	2016	371,172	337,288	-113,091	595,369
	2015	-	371,172	-	371,172
Total	**2016**	**1,007,194**	**1,014,609**	**-113,091**	**1,908,712**
	2015	**-**	**1,007,194**	**-**	**1,007,194**

Employment agreements

(a) KMP Contracts

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

(b) CEO employment agreement

Kina may terminate Syd Yates' employment without notice or payment in lieu of notice in circumstances where Syd Yates:

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

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

Remuneration of employees

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

	2016	2015
1,520,000 - 1,530,000	-	1
1,510,000 - 1,520,000	1	-
1,200,000 - 1,300,000	2	-
1,100,000 - 1,200,000	2	-
1,000,000 - 1,110,000	2	-
950,000 - 960,000	1	-
860,000 - 870,000	1	-
850,000 - 860,000	-	1
830,000 - 840,000	-	1
820,000 - 830,000	1	-
750,000 - 760,000	1	-
630,000 - 640,000	1	-
620,000 - 630,000	1	-
570,000 - 580,000	1	-
560,000 - 570,000	1	-
500,000 - 510,000	1	-
450,000 - 460,000	1	-
350,000 - 360,000	-	1
340,000 - 350,000	1	-
310,000 - 320,000	2	-
280,000 - 290,000	-	1
240,000 - 250,000	2	-
210,000 - 220,000	1	-
190,000 - 200,000	1	-
180,000 - 190,000	-	1
160,000 - 170,000	1	-
150,000 - 160,000	1	1
140,000 - 150,000	-	1
130,000 - 140,000	4	-
120,000 - 130,000	3	-
110,000 - 120,000	5	-
100,000 - 110,000	2	2

4 Non-executive director arrangements

4.1 Remuneration policy

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

Fees are reviewed annually by the Board, taking into account comparable roles and market data provided by the Board's independent remuneration advisor. The current base fees were reviewed in 2015 and 2016 and no increases were applied.

4.2 Remuneration components

Kina's Board and Committee fee structure during the financial year ending 31 December 2016 was:

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

(a) Fee pool

Under the Constitution, the Board decides the total amount paid to each Non-Executive Director as remuneration for their services as a Director of the Company. However, the total amount of fees (including statutory superannuation entitlements, if any) paid to the Directors for their services (excluding, for these purposes, the remuneration of any Executive Director) must not exceed in aggregate in any financial year the amount fixed by the Company in general meeting. For the financial year ending 31 December 2016, this has been fixed at $1.28 million per annum. Any increase in the total amount payable by the Company to the Non-Executive Directors as remuneration for services must be approved by the Company in general meeting.

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

(b) Committee fees

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

4.3 Variable Remuneration

(a) 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.

(b) Reimbursement for out of pocket expenses

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

(c) Retirement benefits

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

(d) Participation in incentive schemes

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

5 Related party transactions

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

6 Directors' interests in shares

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

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

Remuneration report

Director	Number of Shares	Shareholding as at the date of this remuneration report (%)
Sir Rabbie Namaliu	100,000[10]	0.06
Syd Yates	5,180,297[11]	3.16
David Foster	40,000[12]	0.02
Wayne Golding	5,116,706[13]	3.12
Jim Yap	126,569[14]	0.08
Isikeli Taureka	Nil	-
Karen Smith-Pomeroy	Nil	-
Hilary Wong[15]	Nil	-
Don Manoa[16]	20,000	0.01%
Peter Ng Choong Joo[17]	Nil	-

10. 50,000 Shares held directly and 50,000 Shares held by Tobit Investments Ltd – Sir Rabbie is a Shareholder and Chairman of Tobit Investments Ltd.
11. 164,200 shares are held directly by Sydney Yates while 4,406,097 shares are held by Columbus Investments Ltd where Syd Yates is a sole shareholder. 500,000 Shares are held by Kina Asset Management No. 1 Ltd (Columbus Inv. Ltd holds approx. 7% of ISC in KAML of which KAM No.1 Ltd is a wholly-owned subsidiary and Syd Yates is executive director of KAML).

    Prior to Listing, Syd Yates entered into a voluntary escrow in respect of 4,406,097 Shares (Escrowed Shares). Under the terms of the voluntary escrow arrangement, Syd Yates is restricted from dealing in the Escrowed Shares until a date which is two Business Days after the date on which Kina's half-year financial results for the period ending 30 June 2016 are released to ASX and POMSoX by Kina.
12. Shares held by Foster Coastal Investments pty Ltd as trustee for Foster Coastal Superannuation Fund. Mr Foster is Director of Foster Coastal Investments Pty Ltd and a beneficiary of Foster Coastal Superannuation Fund).
13. 4,846,706 are held directly by Wayne Golding. 270,000 held by Matching Investment Company, of which Mr Golding owns 50%. Prior to listing, he entered into a voluntary escrow in respect of 4,846,706 Shares (Escrowed Shares). Under the terms of the voluntary escrow arrangement, Wayne Golding is restricted from dealing in the Escrowed Shares until a date which is two Business Days after the date on which Kina's half-year financial results for the period ending 30 June 2016 are released to ASX and POMSoX by Kina.
14. Subsequent to the year-end, Jim Yap disposed 33,431 ordinary shares.
15. Resigned as Director 18 May 2016.
16. Resigned as Director 18 May 2016.
17. Resigned as Director 18 May 2016.

7 Auditor's report

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

Directors' declaration

The directors declare that:

- in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable
- in the directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with International Financial Reporting Standards (IFRS) and giving a true and fair view of the financial position and performance of the Group.

Signed in accordance with a resolution of the directors.

On behalf of the Directors

Sir Rabbie Namaliu, GL CSM KCMG
Chairman
31 March 2017

Syd Yates, OBE
Director
31 March 2017

Independent auditor's report

pwc

Independent auditor's report

To the shareholders of Kina Securities Limited

Report on the audit of the financial statements of the Company and the Group

Our opinion

We have audited the financial statements of Kina Securities Limited (the Company), which comprise the statements of financial position as at 31 December 2016, and the income statements, statements of changes in shareholders' equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2016 or from time to time during the financial year.

In our opinion the accompanying financial statements:

- comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and
- give a true and fair view of the financial position of the Company and the Group as at 31 December 2016, and their financial performance and cash flows for the year then ended.

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 financial statements* section of our report.

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

Independence

We are independent of the Company and Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out services for the Group in the areas of tax advice and other assurance services. These services have not impaired our independence as auditor of the Company and the Group.

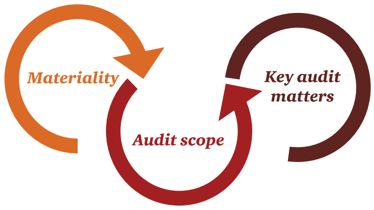
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Company and the Group, their accounting processes and controls and the industries in which they operate.

PricewaterhouseCoopers
PwC Haus, Level 6, Harbour City, Konedobu. PO Box 484, PORT MORESBY, PAPUA NEW GUINEA
T: (675) 321 1500 / (675) 305 3100, F: (675) 321 1428, www.pwc.com.pg

pwc



Materiality

- For the purpose of our audit of the Group we used overall Group materiality of K2.9 million which represents approximately 5% of the Group's profit before taxes.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.
- We chose the Group's profit before taxes as, in our view, it is the metric against which the performance of the Group is most commonly measured and is a generally accepted benchmark.
- We selected 5% based on our professional judgement noting that it is also within the range of commonly acceptable related thresholds.

Audit scope

- We (PwC Papua New Guinea) conducted audit work over all the subsidiaries which comprise the Group consolidation
- All subsidiaries of the Group are incorporated and operating in Papua New Guinea and audited by PwC Papua New Guinea
- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events

Key audit matters

- Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee:
  - Loan loss provisioning
  - Goodwill impairment assessment
  - Information Technology General Controls
- These matters are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the current period. The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key matters to be communicated in our report. Further, commentary on the outcomes of the particular audit procedures is made in that context.

Independent auditor's report

For personal use only

pwc

Key audit matter	How our audit addressed the key matter
Loan loss provisioning amounting to K11.9 million - Refer note 18 Our audit focused on this area as loans and advances are significant to the financial statements. In addition, the prevailing economic environment in Papua New Guinea, the subjectivity and management judgements involved in determining whether loans within the portfolio are impaired and the amount of impairment loss that should be recognised in the current period made it important to focus on this area. In making an assessment of loans that are impaired and determining the impairment provision required, the Group takes a portfolio approach. The application of the Group's policy is inherently judgmental. All loans are collectively assessed on a portfolio basis in addition to the individual considerations. For this assessment, impairment models are used which take into account the type of loan, history of repayment including arrears and consideration of securities.	The procedures we performed to support our audit conclusions, included: • Assessing the design and testing the operating effectiveness of the controls over loan origination, approval and processing of transactions during the year and performing a combination of confirmation and loan files review procedures in relation to the outstanding loan balances on which the loan loss provision is determined. • Examining the provisioning methodology for consistency with the previous years and compliance with the accounting standards, evaluating the provisioning rates applied in the model, testing the accuracy of data and re-performance of model calculations. • Performing a comparison of the provision balances determined based on the Group's methodology against the minimum provision required for regulatory reporting purposes. • Performing procedures to check the disclosures relating to the loan loss provision in accordance with the applicable accounting standards.
Goodwill impairment assessment – Refer note 32 The Group carries K92.7m of goodwill and the Group is required to annually test the goodwill for impairment. The Group's assessment process has some complexity and involves judgement and is based on a number of assumptions, including future profitability, future cash flow, and growth relating to the cash generating unit to which the goodwill has been allocated. These considerations are affected by the expected future market or economic conditions in Papua New Guinea and the discount rate applied. The process is subjective and the balance is significant. As such our audit has focused on this area.	The procedures we performed to support our audit conclusions included: • Assessing the Group's assumptions used in the goodwill impairment model including future profitability, cash flows and growth by understanding the basis and reasonability of those assumptions and comparing to market information where applicable. • Performing an analysis of the sensitivity of the outcome of the impairment model for those assumptions that have the most significant effect on the determination of the recoverable amount of goodwill and the related cash generating unit and performing procedures in relation to the adequacy of the Group's disclosures about such assumptions. • Comparing the discount rate used in the impairment model with our expectations. • Performing procedures to re-perform model calculations. • Together with our valuation specialist reviewing the methodology adopted in the impairment model.

For personal use only

pwc

Key audit matter	How our audit addressed the key matter
Information Technology General Controls We focused on this area because the Group's banking operations are heavily dependent on IT systems for the processing of significant volumes of transactions and automated calculations for financial accounting and reporting purposes. These systems are also critical to capturing various data that are used to produce reports which management use to make decisions, monitor and control the business and for financial reporting purposes. This information is also used in our audit. The Group uses three different IT systems, including a main general ledger and two subsidiary systems that are critical and relevant to its financial reporting. The configurations including the interfaces between these systems require frequent monitoring and reconciliation to ensure the consistency of the information. Our audit approach relies on reports that are generated from these critical IT systems. Accordingly, the operating effectiveness of automated controls and IT dependent manual controls are important to enable us to place reliance on these controls. Our audit focused on access rights, because they aim to ensure that changes to applications are authorised and made appropriately. We also assess internal controls to ensure that staff have appropriate access to IT systems and the monitoring of that access. In addition, key controls in mitigating the potential for fraud and error as a result of a change to an application or underlying data are considered critical.	The procedures we performed to support our audit conclusions, included: • Assessing and testing the design and operating effectiveness of the controls over the integrity of the IT systems that are relevant to financial reporting and upon which we relied for the purpose of our audit. • Examining the framework of governance over the Group's IT organisation, the controls over program changes and development, access to programs and data and IT operations, including compensating controls where required. We also carried out procedures over certain aspects of security of the Group's IT systems including access management and segregation of duties. • Performing external access security (penetration) testing to test the vulnerabilities in relation to the external facing interfaces of the applicable systems such as internet banking and SWIFT. • Performing testing of the reconciliations of the balances between the different IT systems.

Information other than the financial statements and auditor's report

The directors are responsible for the annual report which includes other information. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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, except that not all other information was available to us at the date of our signing.

Responsibilities of the directors for the financial statements

The directors are responsible, on behalf of the Company for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal control as the directors determine is necessary to enable the preparation of financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability 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 Company or any of its subsidiaries, or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report

For personal use only

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the 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 of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2016:

- We have obtained all the information and explanations that we have required;
- In our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Who we report to

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1997. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

GE Burns
Partner

Registered under the Accountants Act 1996

Port Moresby
31 March 2017

Income statements

For the year ended 31 December 2016

	Notes	CONSOLIDATED 2016 K	CONSOLIDATED 2015 K	PARENT 2016 K	PARENT 2015 K
Interest income	5	**77,267,740**	52,298,062	**88,336**	345,056
Interest expense	5	**(12,139,971)**	(9,438,194)	**(2,269,965)**	(1,539,122)
Net interest income/(expense)		**65,127,769**	42,859,868	**(2,181,629)**	(1,194,066)
Fee and commission income	6	**28,833,020**	17,552,531	**3,271,874**	2,125,927
Fee and commission expense	6	**(68,645)**	(105,559)	**(59,288)**	(105,559)
Net fee and commission income		**28,764,375**	17,446,972	**3,212,586**	2,020,368
Profit on sale of shares in subsidiary	7	**–**	–	**–**	125,500,000
Foreign exchange income		**20,578,719**	6,903,329	**–**	–
Dividend income	8	**111,225**	188,928	**16,691**	7,474
Net gain /(losses) from financial assets through profit and loss		**586,996**	(499,355)	**(2,823)**	703
Other operating income	9	**1,805,305**	2,766,471	**24,551,773**	17,068,405
Operating income before impairment losses and other operating expenses		**116,974,389**	69,666,213	**25,596,598**	143,402,884
Impairment losses	10	**(2,787,028)**	(2,961,985)	**(245,818)**	(7,513,700)
Other operating expenses	11	**(55,616,930)**	(54,820,195)	**(20,711,349)**	(20,865,815)
Profit before tax		**58,570,431**	11,884,033	**4,639,431**	115,023,369
Income tax expense	12	**(17,594,616)**	(6,928,302)	**(1,386,236)**	(291,434)
Net profit for the year attributable to the equity holders of the Company		**40,975,815**	4,955,731	**3,253,195**	114,731,935
Other comprehensive income		**–**	–	**–**	–
Total comprehensive income for the year attributable to the equity holders of the Company		**40,975,815**	4,955,731	**3,253,195**	114,731,935

		2016	2015
Earnings per share – basic & diluted (toea)	28 b	**25.00**	4.14

The notes on pages 60 to 97 are an integral part of these consolidated financial statements.

Statements of Changes in Shareholders' Equity

For the year ended 31 December 2016

CONSOLIDATED	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE GROUP				
	Share Capital K	**Capital Reserve K**	**Share based payment Reserve K**	**Retained Earnings K**	**Total K**
Balance as at 31 December 2014	2,000,000	49,050	–	97,203,205	99,252,255
Profit for the year	–	–	–	4,955,731	4,955,731
Contribution by and distribution to owners					
Other comprehensive income	–	–	–	–	–
Additional shares issued through IPO offer – net of transaction costs	139,797,464	–	–	–	139,797,464
Employee share scheme			460,379	–	460,379
Balance as at 31 December 2015	**141,797,464**	**49,050**	**460,379**	**102,158,936**	**244,465,829**
Profit for the year	–	–	–	40,975,815	40,975,815
Contribution by and distribution to owners					
Other comprehensive income	–	–	–	–	–
Employee share scheme	208,000	–	895,154	–	1,103,154
Dividend paid	–	–	–	(28,674,961)	(28,674,961)
Balance as at 31 December 2016	**142,005,464**	**49,050**	**1,355,533**	**114,459,790**	**257,869,837**

PARENT	ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT				
	Share Capital K	**Capital Reserve K**	**Share based payment Reserve K**	**Retained Earnings K**	**Total**
Balance as at 31 December 2014	2,000,000	49,050	–	17,294,466	19,343,516
Profit for the year	–	–	–	114,731,935	114,731,935
Contribution by and distribution to owners					
Other comprehensive income	–	–	–	–	–
Additional shares issued through IPO offer, net of transaction costs	139,797,464	–	–	–	139,797,464
Employee share scheme	–	–	460,379	–	460,379
Dividend paid	–	–		–	–
Balance as at 31 December 2015	141,797,464	49,050	460,379	132,026,401	274,333,294
Profit for the year	–	–	–	3,253,195	3,253,195
Contribution by and distribution to owners					
Other comprehensive income	–	–	–	–	–
Employee share scheme	208,000	–	895,154	–	1,103,154
Dividend paid	–	–		(28,674,961)	(28,674,961)
Balance as at 31 December 2016	142,005,464	49,050	1,355,533	106,604,635	250,014,682

Note: Subsequent to the financial reporting date, the directors declared a dividend of 3.95 cents / 10 toea per share total of (K16.8m).

The notes on pages 60 to 97 are an integral part of these consolidated financial statements.

Statements of Financial Position

As at 31 December 2016

	Notes	CONSOLIDATED 2016 K	CONSOLIDATED 2015 Restated* K	PARENT 2016 K	PARENT 2015 K
Assets					
Cash and due from banks	14	**148,019,915**	131,251,147	**15,540,654**	35,002,107
Central bank bills	15	**208,095,202**	228,014,121	**–**	–
Regulatory deposits	16	**96,013,000**	45,490,500	**–**	–
Financial assets at fair value through profit or loss	17	**4,641,657**	4,054,661	**142,474**	145,297
Loans and advances to customers	18	**605,112,099**	374,059,089	**–**	–
Investments in government inscribed stocks	19	**64,328,380**	64,134,508	**–**	–
Due from subsidiaries	30	**–**	–	**351,122,552**	352,791,615
Current income tax assets	25	**2,452,386**	827,673	**–**	–
Deferred tax assets	13	**6,290,872**	5,501,433	**–**	–
Investments in subsidiaries	20	**–**	–	**248,331**	500,008
Property, plant and equipment	21	**24,019,327**	20,895,228	**4,737,129**	5,561,169
Goodwill	32	**92,785,855**	92,785,855	**–**	–
Intangible assets	22	**5,958,869**	6,864,249	**444,778**	532,729
Other assets	23	**8,029,866**	12,301,552	**1,109,021**	3,441,344
		1,265,747,428	986,180,016	**373,344,939**	397,974,269
Liabilities					
Due to other banks		**142,943**	1,729,388	**–**	–
Due to customers	24	**958,608,911**	685,529,464	**–**	–
Current income tax liabilities	25	**1,457,086**	2,394,933	**168,784**	560,306
Deferred income tax liabilities	13	**310,165**	94,644	**228,718**	85,138
Due to subsidiaries	30	**–**	–	**118,436,969**	112,541,378
Employee provisions	26	**3,276,594**	5,408,405	**1,544,848**	2,200,496
Other liabilities	27	**44,081,892**	46,557,353	**2,950,938**	8,253,657
		1,007,877,591	741,714,187	**123,330,257**	123,640,975
Net assets		**257,869,837**	244,465,829	**250,014,682**	274,333,294
Shareholders' equity					
Issued and fully paid ordinary shares	28 a	**142,005,464**	141,797,464	**142,005,464**	141,797,464
Capital reserve		**49,050**	49,050	**49,050**	49,050
Share-based payment reserve	28 c	**1,355,533**	460,379	**1,355,533**	460,379
Retained earnings		**114,459,790**	102,158,936	**106,604,635**	132,026,401
Total equity		**257,869,837**	244,465,829	**250,014,682**	274,333,294

*see notes 23 and 32 for details regarding the restatement of other assets and goodwill as a result of the finalisation of acquisition accounting. This restatement had no impact on the financial position as at 1 January 2015.

The notes on pages 60 to 97 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:
31 March 2017.

Sir Rabbie Namaliu
Director

Mr. Syd Yates
Director

Statements of Cash Flows

For the year ended 31 December 2016

	Notes	CONSOLIDATED 2016 K	CONSOLIDATED 2015 K	PARENT 2016 K	PARENT 2015 K
Cash flows from operating activities					
Interest received		**77,316,578**	50,662,367	**96,988**	342,321
Interest paid		**(8,864,429)**	(11,039,651)	**(2,269,965)**	(1,539,122)
Foreign exchange gain		**21,071,837**	9,614,748	**351,632**	899,912
Dividend received		**111,225**	188,928	**16,691**	7,474
Fee and commission income received		**25,570,006**	21,210,500	**3,271,874**	2,149,605
Fee and commission expense paid		**(68,645)**	(105,559)	**(59,288)**	(105,559)
Net trading and other operating income received		**2,017,307**	5,979,556	**6,428,898**	4,059,417
Recoveries on loans previously written-off		**1,036,318**	2,240,076		–
Support fees charged from subsidiaries		**–**	–	**18,656,812**	12,088,132
Cash payments to employees and suppliers		**(56,792,712)**	(53,786,773)	**(36,388,369)**	(18,574,809)
Income tax paid		**(20,727,532)**	(8,603,253)	**(1,634,179)**	(547,437)
Cash flows from operating profits before changes in operating assets and liabilities		**40,669,953**	16,360,939	**(11,528,906)**	(1,220,066)
Changes in operating assets and liabilities:					
- increase/in regulatory deposits		**(50,522,500)**	(1,030,700)	**–**	–
- (increase)/decrease in loans and advances to customers		**(229,593,540)**	(34,561,480)	**16,778**	27,427
- net decrease/(increase) in other assets		**1,215,717**	3,847,495	**2,763,686**	–
- net decrease in due to customers		**275,796,095**	(67,714,017)	**–**	–
- decrease due to other banks		**(1,586,445)**	(519,208)	**–**	6,698,400
- net increase in other liabilities		**(3,364,112)**	6,821,491	**18,568,195**	6,517,012
Net cash inflow/(outflow) generated from/(used in) operating activities	29c	**32,615,168**	(76,795,480)	**9,819,753**	12,022,773
Cash flows from investing activities					
Purchase of property, equipment and software		**(6,774,867)**	(5,159,704)	**(693,845)**	(1,007,291)
Proceeds from sale of property and equipment		**92,600**	49,001	**87,600**	49,000
Receipt of funds from related parties		**–**	–	**–**	95,527,161
Loan to subsidiary		**–**	–	**–**	(213,666,768)
Net cash acquired in business combination, net of consideration paid	32	**–**	82,666,404	**–**	–
Net movement in investment securities	29b	**(54,274,862)**	38,637,689	**–**	–
Acquisition of shares		**–**	(114,201)	**–**	(106,731)
Proceeds from the sale of redemption securities		**–**	263,112	**–**	37,150
Net cash inflow/(outflow) generated from/(used in) investing activities		**(60,957,129)**	116,342,301	**(606,245)**	(119,167,479)
Cash flows from financing activities					
Proceeds from the issuance of share capital, net of transaction costs	28a	**–**	139,797,464	**–**	139,797,464
Dividend payment		**(28,674,961)**	–	**(28,674,961)**	–
Net cash inflow/(outflow) generated from/(used) in financing activities		**(28,674,961)**	139,797,464	**(28,674,961)**	139,797,464
Net increase/(decrease) in cash and cash equivalents		**(57,016,922)**	179,344,285	**(19,461,453)**	32,652,758
Effect of exchange rate movements on cash and cash equivalents		**(214,310)**	(1,860,529)		
Cash and cash equivalents at beginning of year		**235,251,147**	57,767,391	**35,002,107**	2,349,349
Cash and cash equivalents at end of year	29a	**178,019,915**	235,251,147	**15,540,654**	35,002,107

The notes on pages 60 to 97 are an integral part of these consolidated financial statements.

Notes to the financial statements

For the year ended 31 December 2016

1. Summary of significant accounting policies

The company and its subsidiaries are incorporated in Papua New Guinea. The groups business activities include provision of personal and commercial loans, money market operations, provision of share brokerage, fund administration, investment management services, asset financing, and corporate advice.

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Kina Securities Limited and its subsidiaries.

a) Basis of preparation

(i) Compliance with IFRS

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 2016 were authorized for issue by the Board of Directors on 31 March 2017.

(ii) Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

(iii) New and amended standards

Standards, amendment and interpretations effective in the year ended 31 December 2016

A number of new and amended standards, and interpretations became mandatory for the first time for the financial year beginning 1 January 2016. These standards generally did not have any significant impact on the financial statements of the group for the year ended 31 December 2016. Amendments to IAS 1 'Presentation of Financial Statements' form a part of the IASB's Disclosure Initiative and clarify guidance in IAS 1 on a number of issues including materiality. Accordingly, disclosures specified in IFRS are included in financial statements if they are considered material to the entity.

Standards, amendments, and interpretations issued but not effective for the year 31 December 2016 or adopted early

In addition, there are new standards, amendments and interpretations issued but not effective for the financial year ended 31 December 2016. The group has not early adopted these standards.

IFRS 9: "Financial Instruments"(effective 1 January 2018) is expected to impact the financial statements of the group when adopted. IFRS 9 deals with the classification and measurement of financial assets and liabilities, hedge accounting and recognition of impairment losses. The financial assets and liabilities of the Group are expected to be impacted by the classification and measurement and impairment requirements of this standard. The new standard simplifies the model for classifying and recognising financial instruments. IFRS 9's new impairment model is a move away from IAS 39's incurred credit loss approach to an expected credit loss model. Earlier recognition of impairment losses is likely to result and for entities with significant lending activities, an overhaul of related systems and processes will be needed. IFRS 9 is expected to have significant impact on the Group's current impairment practice and some impact on their classification and measurement.

The group is in the process of performing detailed analysis of the impact of this standard on the financial statements and preparing for its implementation.

IFRS 15 'Revenue from contracts with customers' (effective 1 January 2018) is a converged standard from the IASB and FASB on revenue recognition and replaces IAS 11 and IAS 18. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The entity will have to adopt a new 5-step process for the recognition of revenue:

- identify contracts with customers
- identify the separate performance obligations
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

The group is expected to be impacted by this standard and is currently in the process of assessing the impact of this standard on its financial statements.

1. Summary of significant accounting policies (continued)

a) Basis of preparation (continued)

(iii) New and amended standards (continued)

IFRS 16, 'Leases' (effective 1 January 2019) replaces the guidance in IAS 17 and will have a significant impact on accounting by lessees. The previous distinction under IAS 17 between finance leases and operating leases for lessees has been removed. IFRS 16 now requires a lessee to recognise a lease liability representing future lease payments and a 'right-of-use asset' for virtually all lease contracts. There is an optional exemption for certain short-term leases and leases of low-value assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
The entity expects that certain leases of property and equipment that are currently accounted for as operating leases will, from January 2019, be required to be recognised as right-of-use assets and depreciated, with a corresponding lease liability. This will increase reported debt levels in the statement of financial position and will increase the reporting charges for depreciation and interest expense. The details of the impact on the entities financial statements are currently being assessed by management.

In addition to there are other standards and amendments that have been issued and are not expected to have any impact on the financial statements of the Group.

b) Principles of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (note 32).

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

c) Segment reporting

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

d) Foreign currency translation

(i) Functional and presentation currency

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 functional and presentation currency.

(ii) Transactions and balances

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 recognized in the income statement.

e) Revenue recognition

(i) Interest income

Interest income for all interest earning financial assets including those at fair value is recognized in the income statement using the effective interest rate method.
The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses.
The calculation includes all fees and other amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest relating to impaired loans is recognized using the loan's original effective interest rate based on the net carrying value of the impaired loan after giving effect to impairment charges. This rate is also used to discount the future cash flows for the purpose of measuring impairment charges. For loans that have been impaired this method results in cash receipts being apportioned between interest and principal.

Notes to the financial statements

For the year ended 31 December 2016

1. Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

(ii) Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees related to investment funds are recognized notably over the period the service is provided.

(iii) Foreign exchange income

Realized gains or losses, and unrealized gains or losses arising from changes in the fair value of the trading assets and liabilities are recognized as trading income in the income statement in the period in which they arise.

(iv) Dividend income

Dividends on quoted shares are recognized on the ex-dividend date. Dividends on unquoted shares are recognized when the Company's right to receive payment is established.

f) Expense recognition

(i) Interest expense

Interest expense, including premiums or discounts and associated expenses incurred on the issue of financial liabilities, is recognized in the income statement using the effective interest method.

(ii) Impairment on loans and receivables carried at cost

The charge against profits for bad and doubtful debts reflects new specific provisions, reversals of specific provisions no longer required and movements in the general provision.

(iii) Leasing

Operating lease payments are recognized in the income statement as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit received. Incentives received on entering into operating leases are recorded as liabilities and amortized as a reduction of rental expense on a straight – line basis over the lease term.

g) Income tax

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

1. Summary of significant accounting policies (continued)

h) Business combination

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

- 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 recognizes 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 recognized 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 recognized 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 recognized in profit or loss.

i) Impairment of assets

Goodwill having an indefinite useful life is not subject to amortization and is tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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.

j) 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.

k) Investments and other financial assets

(i) Classification

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments, and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Notes to the financial statements

For the year ended 31 December 2016

1. Summary of significant accounting policies (continued)

k) Investments and other financial assets (continued)

(ii) Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

(iv) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognized as follows:

- for financial assets at fair value through profit or loss – in profit or loss within other income or other expenses
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in profit or loss and other changes in the carrying amount are recognized in other comprehensive income
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognized in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognized in the statement of profit or loss as part of revenue from continuing operations. Details on how the fair value of financial instruments is determined are disclosed in note 36.

(v) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Assets carried at amortized cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

1. Summary of significant accounting policies (continued)

k) Investments and other financial assets (continued)

(v) Impairment (continued)

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss. Impairment testing of loans and advances to customers is described in note 3c.

l) 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 vehicle	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 income statement, when the expenditure is incurred.

m) Intangible assets

(i) Goodwill

Goodwill is measured as described in note 1(h). Goodwill is not amortized but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(ii) Customer deposits relationship

A customer deposit relationship asset was recognized with the acquisition of Maybank (PNG) Limited in 2015 (note 32), representing the value, or avoided cost, of having a deposit base from consumer and business transaction accounts, savings accounts, term deposits and other money market accounts that provide a cheaper source of funding than alternative sources of funding. Customer deposit relationship is amortized using the straight-line method over a period of five years and is stated at cost less accumulated amortization and impairment. Customer deposit relationship is also assessed for any indication of impairment at each reporting date and whenever there is an indicator that these maybe impaired.

(iii) 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.

n) 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.

Notes to the financial statements

For the year ended 31 December 2016

1. Summary of significant accounting policies (continued)

o) Employee benefits

(i) 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 income statement in the year to which they relate.

(ii) Share-based payments

Senior executive employees are entitled to participate in a share ownership 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 during which the senior executive employees would become entitled to exercise their share rights.

(iii) 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.

p) Share capital and other equity accounts

(i) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities. 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.

(ii) Dividends

Dividends on ordinary shares are recognized in equity in the period in which they are declared by the Company's directors.

(iii) Reserves

Capital reserve comprises accumulated gains on asset revaluation. Share-based payment reserve comprises the fair value of performance rights during the vesting period.

(iv) 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 28b).

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.

q) Fiduciary activities

The Group provides custody, 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 31.

r) Changes in accounting policies and comparatives

Comparative information has been rearranged to conform to changes in presentation in the current year wherever necessary. The comparative information were restated in relation to the final settlement adjustment to the purchase price and the goodwill recorded in the 2015 financial statements. Refer note 32. There were no changes in the accounting policies in 2016.

2. Critical accounting estimates and judgments

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgment in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgment or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgments is included in the notes to the financial statements together with information about the basis of calculation for each affected line item in the financial statements.

2. Critical accounting estimates and judgments (continued)

The areas involving significant estimates or judgments are:

- Recognition of deferred tax asset for carried forward tax losses – note 13 (a)
- Estimated allowance for loans and advances to customers – note 18
- Estimated goodwill impairment – note 1(i) and note 32
- Estimated useful life of intangible asset – note 22
- Estimation of fair values of assets acquired and liabilities assumed in a business combination – note 32

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

(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:

	USD	AUD	SGD	GBP	EUR	NZD	HKD	PHP	MYR
					IN K'000				
31 December 2016									
Cash balance	3	–	7	–	–	–	–	–	–
Due from other banks	28,646	12,350	609	–	–	1,233	–	–	–
	28,649	**12,350**	**616**	–	–	1,233	–	–	–
31 December 2015									
Cash balance	1,241	255	63	–	–	–	–	–	–
Due from other banks	13,787	2,470	608	5	38	367	31	65	3
	15,028	**2,725**	**671**	**5**	**38**	**367**	**31**	**65**	**3**

There was no material liability denominated in foreign currency.

3. Financial risk management (continued)

a) Market risk (continued)

(i) Foreign Exchange Risk (continued)

Sensitivity

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

	IMPACT ON INCOME STATEMENT IN K '000	
	2016	2015
USD/PGK – exchange rate – increase 10% (2015:10%)	**(1,508)**	(1,501)
USD/PGK – exchange rate – decrease 10% (2015: 10%)	**1,508**	1,501

(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 revenue earnings in the current reporting period 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 objective of interest rate risk control is to minimize these fluctuations in value and net interest income over time, providing secure and stable sustainable net interest earnings in the long term. Interest rate on intercompany transactions was 3.16% and 4.39% for the years ended 31 December 2016 and 2015, respectively.

Sensitivity

Given the profile of assets and liabilities at 31 December 2016 and prevailing interest rates, a 100 basis points increase/decrease in market rates in relation to lending will result in a K1,065,000 (2015: K2,683,000) increase/decrease in net interest income at a Group level.

The table below summarizes the consolidated effective annual interest rates for monetary financial instruments:

	2016 % p.a.	2015 % p.a.
Assets		
Cash and due from banks	**1.0**	1.0
Central bank bills	**2.80**	2.87
Loans and advances to customers	**21.63**	20.71
Investments in government inscribed stocks	**9.87**	9.50
Liability		
Due to customers	**3.16**	4.39

(iii) Price risk

The Group is exposed to equity securities price risk because of investments held and classified as financial assets at fair value through profit or loss. To manage its price risks arising from financials assets at fair value through profit or loss, the Group diversifies its portfolio. Diversification of portfolio is done in accordance with the limits set by the Group. The Group's financial assets at fair value through profit or loss are publicly traded on the Port Moresby Stock Exchange (POMSoX) and the Australian Stock Exchange (ASX).

Sensitivity

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period. If equity prices had been 5% higher/lower, net profit for the year ended 31 December 2016 and net assets as of balance date would have been affected by K 232,000 (2015: K203,000). The Group's sensitivity to equity prices has not changed significantly from the prior year.

3. Financial risk management (continued)

b) Credit risk

(i) Risk management

The Group takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance date. Management therefore carefully manages its exposures to credit risks.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual review or more frequent review.

Comprehensive credit standards and approval limits have been formulated, approved by the Credit Committee and implemented. The Credit Committee (which reports to the Board) is responsible for the development and implementation of credit policy and loan portfolio review methodology.

Exposure to credit risk is managed through daily review of the ability of the borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. This is the responsibility of the Manager Credit. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

The tables below segregate the financial assets of the Group between financial assets that are neither past due nor impaired, past due but not impaired and impaired. An asset is considered to be past due when any payment under the contractual terms has been missed. The amount included as past due is the entire contractual balance, rather than the overdue portion.

	CONSOLIDATED					
	Neither past due nor impaired Km	Past due but not impaired Km	Impaired Km	Total Km	Km	Total carrying value Km
31 December 2016						
Cash and due from banks	148.0	–	–	148.0	–	148.0
Central bank bills	208.1	–	–	208.1	–	208.1
Regulatory deposits	96.0	–	–	96.0	–	96.0
Financial assets at fair value through profit or loss	64.3	–	–	64.3	–	64.3
Loans and advances to customers	612.0	4.8	0.3	617.1	(12.0)	605.1
Investments in government inscribed stocks	4.6	–	–	4.6	–	4.6
Total	**1,133.0**	**4.8**	**0.3**	**1,138.1**	**(12.0)**	**1,126.1**
31 December 2015						
Cash and due from banks	131.2	–	–	131.2	–	131.2
Central bank bills	228.0	–	–	228.0	–	228.0
Regulatory deposits	45.5	–	–	45.5	–	45.5
Financial assets at fair value through profit or loss	4.0	–	–	4.0	–	4.0
Loans and advances to customers	368.8	11.2	2.7	382.7	(8.7)	374.0
Investments in government inscribed stocks	64.1	–	–	64.1	–	64.1
Total	**841.6**	**11.2**	**2.7**	**855.5**	**(8.7)**	**846.8**

3. Financial risk management (continued)

b) Credit risk (continued)

(i) Risk Management (continued)

	PARENT					
	Neither past due nor impaired Km	**Past due but not impaired Km**	**Impaired Km**	**Total Km**	**Km**	**Total carrying value Km**
31 December 2016						
Cash and due from banks	15.5	–	–	15.5	–	15.5
Financial assets at fair value through profit or loss	0.1	–	–	0.1	–	0.1
Due from subsidiaries	20.3	338.3	–	358.6	(7.5)	351.1
Total	35.9	338.3	–	374.7	(7.5)	366.7
31 December 2015						
Cash and due from banks	35.0	–	–	35.0	–	35.0
Financial assets at fair value through profit or loss	0.1	–	–	0.1	–	0.1
Due from subsidiaries	–	360.3	–	360.3	(7.5)	352.8
Total	35.1	360.3	–	395.4	(7.5)	387.9

(ii) Impaired loans

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that impairment has been incurred but not yet identified. For these receivables the estimated impairment losses are recognized in a separate provision for impairment. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganization, and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognized are written off against the provision when there is no expectation of recovering additional cash. Subsequent recoveries of amounts previously written off are credited against impairment loss on loans and advances to customers. See note 1k (v) for information about how impairment losses are calculated.

Individually assessed impaired loans amounted to K 4.2 million (2015: K5.3million).

(iii) Past due but not impaired

As at 31 December 2016, loans and advances to customers of K4.8 million (2015: K11.2 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

(iv) Neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. These relate to customers for whom payment is made on a timely basis. Cash and due from banks are maintained at Central Bank of Papua New Guinea and other banks with good credit standing.

3. Financial risk management (continued)

b) Credit risk (continued)

(v) *Credit risk concentration*

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The risk concentrations within the customer loan portfolio by nature of the customers' business activities are as follows:

	CONSOLIDATED			
	2016		2015	
	Kmillion	%	Kmillion	%
31 December 2016				
Real Estate, renting & business services	**139.5**	**22.6**	91.3	23.9
Fisheries	**4.4**	**0.7**	5.0	1.3
Forestry	**11.5**	**1.9**	9.0	2.4
Engineering & metal processing	**0.4**	**0.1**	0.7	0.2
Textile, leather & wood products	**0.4**	**0.1**	3.0	0.8
Transport, storage & communication	**26.7**	**4.3**	11.3	3.0
Buyers, processors & exporters	**0.2**	**0.0**	4.6	1.2
Other manufacturing	**14.5**	**2.3**	3.0	0.8
Retail trade	**202.6**	**32.8**	55.2	14.4
Building & construction	**30.7**	**5.0**	26.1	6.8
Hotels & restaurants activity	**4.3**	**0.7**	4.6	1.2
Other business	**36**	**5.8**	39.8	10.4
Housing loans	**77.7**	**12.6**	81.7	21.3
Wholesale	**19.9**	**3.2**	14.9	3.9
Other personal	**48.3**	**7.8**	32.5	8.5
Total	**617.1**	**100.0**	**382.7**	**100.00**

c) Liquidity risk

Liquidity risk is the risk of being unable to meet financial obligations as they fall due. The Group's liquidity and funding risks are governed by a policy framework which is approved by the Board of Directors. Liquidity and funding positions and associated risks are overseen by the ALCO. The following outlines the Group's approach to liquidity and funding risk management focusing on conditions brought on by the current global economic environment:

- ensuring the liquidity management framework is compatible with local regulatory requirements,
- daily liquidity reporting and scenario analysis to quantify the Group's positions,
- targeting commercial and corporate customers' liability compositions,
- intense monitoring of detail daily reports to alert management and directors of abnormalities, and
- arranging back up facilities to protect against adverse funding conditions and to support day-to-day operations.

The Group is monitoring its liquidity contingency plans, lending requirements and guidelines which include:

- the monitoring of issue severity/stress levels with high level diligence,
- early warning signals indicative of an approaching issue and a mechanism to monitor and report these against signals,
- action plans and courses of action to account for early warning signals as noted above,
- management reporting at a higher level,
- maintenance of contractual obligations in regards to deposits, and
- assigned responsibilities for internal and external written communications.

3. Financial risk management (continued)

c) Liquidity risk (continued)

Maturities of financial liabilities

The table below analyzes the Group's financial assets and liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	CONSOLIDATED						
	Up to 1 month Km	1 to 3 months Km	4 to 12 months Km	1 to 5 years Km	Over 5 years	Total contract value Km	Total value Km
31 December 2016							
Cash and due from banks	148.5	–	–	–	–	148.5	148.5
Central bank bills	10.0	20.0	186.0	–	–	216.0	216.0
Regulatory deposits	96.0	–	–	–	–	96.0	96.0
Loans and advances to customers	59.1	63.8	20.5	102.4	359.3	605.1	605.1
Financial assets at fair value through profit or loss	0.0	–	–	4.6	–	4.6	4.6
Total financial assets	**313.6**	**83.8**	**206.5**	**107.0**	**359.3**	**1,070.2**	**1,070.2**
Due to other banks	–	–	0.1	–	–	0.1	0.1
Due to customers	439.9	153.2	360.2	5.3	–	958.6	977.3
Other liabilities	25.6	3.6	7.3	7.6	–	44.1	44.1
Total financial liabilities	**465.5**	**156.8**	**367.6**	**12.9**	**–**	**1,002.8**	**1,021.5**

	CONSOLIDATED						
	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	Over 5 years	Total contract value	Total value
31 December 2015							
Cash and due from banks	100.4	–	–	–	–	100.4	100.4
Central bank bills	63.8	121.4	46.4	–	–	231.6	231.6
Regulatory deposits	45.5	–	–	–	–	45.5	45.5
Loans and advances to customers	68.3	1.4	19.9	42.7	241.8	374.1	374.1
Financial assets at fair value through profit or loss	0.1	–	4.0	–	–	4.1	4.1
Total financial assets	**278.1**	**122.8**	**70.3**	**42.7**	**241.8**	**755.7**	**755.7**
Due to other banks	–	–	1.7	–	–	1.7	1.7
Due to customers	441.0	163.3	86.8	1.9	–	693.0	700.5
Other liabilities	37.2	8.1	4.4	–	–	49.7	49.7
Total financial liabilities	**478.2**	**171.4**	**92.9**	**1.9**	**–**	**744.4**	**751.9**

3. Financial risk management (continued)

c) Liquidity risk (continued)

The Parent's financial liabilities as at 31 December 2016 and 2015 are all classified from 1 to 12 months; hence, contractual value is equal to its carrying value.

PARENT

	Up to 1 month Km	1 to 3 months Km	4 to 12 months Km	1 to 5 years Km	Over 5 years	Total contract value Km	Total carrying value Km
31 December 2016							
Cash and due from banks	15.5	–	–	–	–	15.5	15.5
Financial assets at fair value through profit or loss	0.1	–	–	–	–	0.1	0.1
Due from subsidiaries	–	–	351.1	–	–	351.1	351.1
Total financial assets	15.6	–	351.1	–	–	366.7	366.7
Other liabilities	2.9	–	–	–	–	2.9	2.9
Due to subsidiaries	–	–	118.4	–	–	118.4	118.4
Total financial liabilities	2.9	–	118.4	–	–	121.3	121.3

PARENT

	Up to 1 month Km	1 to 3 months Km	4 to 12 months Km	1 to 5 years Km	Over 5 years	Total contract value Km	Total carrying value Km
31 December 2015							
Cash and due from banks	35.0	–	–	–	–	35.0	35.0
Financial assets at fair value through profit or loss	0.1	–	–	–	–	0.1	0.1
Due from other subsidiaries			352.7			352.7	352.7
Total financial assets	35.1	–	352.7	–	–	387.8	387.8
Other liabilities	0.1	–	5.3	2.8	–	8.2	8.2
Due to subsidiaries	–	–	–	113.1	–	113.1	112.5
Total financial liabilities	0.1	–	5.3	115.9	–	121.3	120.7

Notes to the financial statements

For the year ended 31 December 2016

4. Capital adequacy

Kina Securities Limited ("KSL") as the parent of Kina Bank Limited ("KBL") is required to comply with prudential standard PS1/2003 `Capital Adequacy` issued by the Bank of Papua New Guinea ("BPNG"). BPNG is the Government authority responsible for the prudential supervision of Banks and financial institution in Papua New Guinea. The prudential guidelines issued by BPNG follow the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord.

KSL calculates and reports its capital adequacy in respect of the bank (KBL).

Prudential Standard PS1/2003 `Capital Adequacy 'is intended to ensure KBL maintains a level of capital which:

1) Is adequate to protect the interest of depositors and creditors,
2) Is commensurate with risk profile and activities of KBL, and
3) Provide public confidence in KBL as a financial institution and the overall banking system

PS1/2003 `Capital Adequacy` prescribes ranges of capital ratios to measure whether KBL is under, adequately, or well capitalised and also prescribes a leverage ratio. The minimum capital adequacy ratios prescribed under PS1/2003 `Capital Adequacy` are:

1) Tier 1 risk based ratio of 8%,
2) Total risk-based capital of 12%,and
3) Leverage capital of 6%.

As at 31 December 2016, KBL's capital ratios was in compliance with the BPNG Minimum capital adequacy requirements as follows:

	2016 K	2015 K
Risk weighted assets	**678,993,573**	**506,645,865**
Capital : tier 1	**166,995,676**	170,074,007
Capital : tier 2	**39,958,138**	19,964,034
Capital : tier 1 and tier 2	**206,913,814**	190,038,073
Capital adequacy ratios		
Tier 1 capital	**24.45%**	35.57%
Total capital ratio	**30.34%**	37.51%
Leverage capital ratio	**8.50%**	17.78%

The measure of capital used for the purpose of prudential supervision is referred to as base capital. Total base capital varies from the capital shown on 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 from equity capital and audited retained earnings (or accumulated losses), intangible assets including deferred tax assets. 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 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	
	2016	2015	**2016**	2015
	K	K	**K**	K
Interest income				
Cash and short-term funds	**11,103,285**	4,864,127	**88,336**	345,056
Investment in government inscribed stocks	**5,951,766**	2,323,169	**–**	–
Loans and advances to customers	**60,212,689**	45,110,766	**–**	–
	77,267,740	52,298,062	**88,336**	345,056
Interest expense				
Banks and customers	**(12,139,971)**	(9,438,194)	**–**	–
Due to subsidiaries (note 30)	**–**	–	**(2,269,965)**	(1,539,122)
	(12,139,971)	(9,438,194)	**(2,269,965)**	(1,539,122)
Net interest income/(expense)	**65,127,769**	42,859,868	**(2,181,629)**	(1,194,066)

6. Net fee and commission income

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Fee and commission income				
Investment and portfolio management	**8,560,125**	7,781,026	**–**	–
Fund administration	**8,680,552**	7,412,729	**–**	–
Shares brokerage	**471,967**	925,927	**471,967**	925,927
Loans fees and bank commissions	**10,311,184**	–		
Other fees	**809,192**	1,432,849	**2,799,907**	1,200,000
	28,833,020	17,552,531	**3,271,874**	2,125,927
Fee and commission expense	**(68,645)**	(105,559)	**(59,288)**	(105,559)
Net fee and commission income	**28,764,375**	17,446,972	**3,212,586**	2,020,368

7. Profit on sale of share in subsidiary

On 30 September 2015, the Group, through Kina Ventures Limited (KVL) (a subsidiary) acquired Maybank (PNG) Limited (subsequently renamed Kina Bank Limited) and Maybank Property (PNG) Limited (subsequently renamed Kina Property Limited). The Parent sold its investment in Kina Finance Limited (KFL) (a subsidiary) to Kina Bank to facilitate the settlement of the purchase consideration. Carrying value of this investment at the time of sale was K9.5 million and the sale value of the shares was K135 million resulting in a profit of K125.5 million in the Parent entity's financial statements.

8. Dividend income

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Financial assets at fair value through profit or loss	**111,225**	188,928	**16,691**	7,474
	111,225	188,928	**16,691**	7,474

Notes to the financial statements

For the year ended 31 December 2016

9. Other operating income

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Profits from disposal of property and equipment	**92,600**	45,482	**87,600**	45,482
Support fees from subsidiaries (note 30)	–	–	**18,397,081**	12,088,132
Rental from subsidiaries (note 30)	–	–	**801,974**	1,040,677
Management fees	**–**	–	**3,679,692**	2,417,626
Realised gains/losses	**278,808**	850,890	**351,632**	899,912
Other	**1,433,897**	1,870,099	**1,233,794**	576,576
	1,805,305	2,766,471	**24,551,773**	17,068,405

10. Impairment losses

KSL cover provision on loan impairment expense using either a collective approach or individual approach.

Individually assessed

Individually assessed loans attract 25 to 100 percent provisioning rate per customer loan. Key judgments include the business prospects for the customer, the realisable value of collateral, the KSL Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of recovering the loan. Judgments can change with time as new information becomes available or as loan recovery strategies evolve, which may result in revisions to the impairment provision.

Collective assessed

Collectively assessed loans attract 1 to 24.99 percent provisioning rate. Key judgments are based on estimated loss rates applied on days in arrears. Actual credit losses may differ materially from reported loan impairment provisions due to uncertainties including interest rates and their effect on consumer spending, unemployment levels, payment behavior and bankruptcy rates.

The Group assesses impairment as follows:

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Individually assessed (note 18, 23 and 30)	**(1,011,613)**	2,331,368	**–**	7,513,700
Collective allowance (note 18)	**3,798,641**	630,617	**(245,818)**	–
Reversal of prior year provision	**–**	–	**–**	–
	2,787,028	2,961,985	**(245,818)**	7,513,700

11. Other operating expenses

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Staff costs	**28,412,180**	23,479,538	**11,480,570**	8,763,316
Administrative expenses	**10,758,240**	6,393,294	**4,108,209**	2,253,877
Operating lease	**3,417,909**	3,921,891	**416,344**	1,286,382
Depreciation and amortization	**4,556,147**	2,480,595	**1,605,835**	1,901,736
Software maintenance and support charges	**2,689,430**	1,852,517	**805,340**	163,662
Auditor's remuneration	**440,386**	415,805	**194,000**	38,978
Initial public offer (IPO) related costs	**–**	4,122,085	**–**	4,122,085
Impairment losses on other assets	**–**	22,679	**–**	22,679
Acquisition costs relating to business combination (note 32)	**389,946**	7,489,850	**–**	112,979
Other	**4,952,692**	4,641,941	**2,101,051**	2,200,121
	55,616,930	54,820,195	**20,711,349**	20,865,815

As at 31 December 2016 the Group had 264 (2015: 238) employees and 3 (2015: 2) consultants. The Company had 82 (2015:73) employees and 1 (2015: 2) consultants.

12. 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	
	2016	2015	**2016**	2015
	K	K	**K**	K
Profit before tax	58,570,431	11,884,033	**4,639,431**	115,023,369
Prima facie tax at 30% (2015: 30%)	**17,571,129**	3,565,210	**1,391,829**	34,507,011
Tax effect of				
- Net gains less losses from financial assets through profit and loss	**244,939**	90,291	**(4,160)**	–
- Non-deductible expenses/non-assessable income	**(221,452)**	3,272,397	**(1,433)**	(34,119,765)
Prior year under/(over) provision	**–**	404	**–**	(95,812)
Income tax expense	**17,594,616**	6,928,302	**1,386,236**	291,434
Represented by:				
Current tax	**18,164,972**	6,825,185	**1,242,657**	437,151
Deferred taxes	**(570,356)**	103,117	**143,579**	(145,717)
Income tax expense	**17,594,616**	6,928,302	**1,386,236**	291,434

Notes to the financial statements

For the year ended 31 December 2016

13. Deferred taxes

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

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Allowance for losses				
- Loans and advances to customers	**3,582,653**	3,697,262	**14,365**	21,156
- Other assets	**1,185,237**	4,003	**30,236**	30,236
Employee provisions	**–**	–	**–**	547,589
Accrual of employees entitlement	**519,524**	2,020,765	**463,454**	–
Accruals and others	**1,293,516**	102,758	**28,751**	11,693
Tax losses carried forward	**104,247**	30,336	**–**	–
	6,685,177	5,855,124	**536,806**	610,674
Depreciation and amortization	**(305,199)**	(183,644)	**–**	–
Prepayments and others	**(89,106)**	(170,047)	**–**	–
	(394,305)	(353,691)	**–**	–
Net deferred tax asset	**6,290,872**	5,501,433	**536,806**	610,674

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

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Allowance for losses				
- Loans and advances to customers	**(14,365)**	(89,514)	**–**	–
- Other assets	**45,268**	(30,870)	**–**	–
Provision on investments	**–**	(1,622,521)	**–**	–
Prepayments and others	**65,225**	(73,190)	**65,225**	30,575
Accrual of employees entitlement	**(463,454)**	1,942,142	**–**	–
Accruals	**(28,751)**	102,758	**–**	–
Tax losses carried forward	**–**	6,351	**–**	–
	(396,077)	235,156	**65,225**	30,575
Depreciation and amortization	**706,242**	(140,512)	**700,299**	665,237
	706,242	(140,512)	**700,299**	665,237
Net deferred tax liabilities	**310,165**	94,644	**765,524**	695,812

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

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Balance at beginning of year	**5,406,790**	2,420,456	**(85,138)**	(230,855)
Acquisition of subsidiary	**–**	3,089,451	**–**	–
Income statement credit/(charge)	**570,356**	(103,117)	**(143,579)**	145,717
Prior year adjustment	**3,562**	–	**–**	–
Balance at end of year	**5,980,708**	5,406,790	**(228,718)**	(85,138)
Represented by:				
Deferred tax assets (note 13(a))	**6,290,872**	5,501,433	**536,806**	610,674
Deferred tax liabilities (note 13(b))	**(310,165)**	(94,644)	**(765,524)**	(695,812)
	5,980,707	5,406,789	**(228,718)**	(85,138)

14. Cash and due from banks

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Cash on hand	**2,228,441**	1,184,526	**319,923**	2,800
Exchange settlement account (BPNG)	**69,851,663**	55,655,796	**–**	–
Due from other banks	**75,939,811**	74,410,825	**15,220,731**	34,999,307
	148,019,915	131,251,147	**15,540,654**	35,002,107

15. Central bank bills

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Central bank bills				
Less than 90 days	**30,000,000**	104,000,000	**–**	–
Over 90 days	**166,000,000**	68,665,280	**–**	–
Other eligible bills	**20,000,000**	59,000,000	**–**	–
Unearned discount	**(7,904,798)**	(3,651,159)	**–**	–
	208,095,202	228,014,121	**–**	–

Central bank bills are debt securities issued by the Bank of Papua New Guinea (BPNG). Central bank bills amounting to K30,000,000 (2015: K104,000,000) with a maturity term of one to three months from the date of purchase are classified as cash and cash equivalents (note 29). Central bank bills are measured at amortized cost.

16. Regulatory deposits

Regulatory deposit of the Group as at 31 December 2016 amounted to K96,013,000 (2015: K45,490,500). This represents mandatory balance required to be maintained in a non-interest bearing account with the Central Bank - Bank of Papua New Guinea.

Notes to the financial statements

For the year ended 31 December 2016

17. Financial assets through profit or loss

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Equity securities				
- Listed	**4,580,070**	3,993,074	**142,747**	145,297
- Unlisted	**61,587**	61,587	**–**	–
	4,641,657	4,054,661	**142,747**	145,297

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

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Balance at beginning of year	**4,054,661**	4,695,223	**145,297**	75,013
Gains/(losses) from changes in fair value	**586,996**	(499,355)	**(2,823)**	703
Additions	**–**	114,199	**–**	106,731
Disposals	**–**	(263,116)	**–**	(37,150)
Gains on disposal	**–**	7,710	**–**	–
Balance at end of year	**4,641,657**	4,054,661	**142,474**	145,297

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.

18. Loans and advances to customers

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Loans to individuals	**134,388,116**	119,039,921	**–**	–
Loans to corporate entities	**482,714,042**	263,752,890	**47,882**	68,408
Gross loans and advances to customers	**617,102,158**	382,792,811	**47,882**	68,408
Allowances for losses	**(11,990,059)**	(8,733,722)	**(47,882)**	(68,408)
	605,112,099	374,059,089	**–**	–

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

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Overdrafts	**60,899,437**	63,697,588	**–**	
Property mortgage	**471,417,274**	218,439,947	**–**	–
Asset financing	**13,118,532**	15,023,932	**–**	–
Insurance premium funding	**613,986**	244,626	**–**	–
Business and other loans	**71,052,929**	85,386,718	**47,882**	68,408
	617,102,158	382,792,811	**47,882**	68,408

18. Loans and advances to customers (continued)

Movements in allowance for losses are as follows:

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Collectively assessed				
Balance at beginning of year	**5,296,477**	4,621,381	**–**	–
Impairment losses (reversals) during the year (note 10)	**(1,011,613)**	2,308,689	**–**	–
Loans written off, net of other adjustments	**(552,344)**	(3,917,722)	**–**	–
Transfers (from/to) collective	**3,185,252**	154,592	**–**	–
Recoveries	**1,038,431**	2,129,537	**–**	–
Balance at end of year	**7,956,203**	5,296,477	**–**	–
Individually assessed				
Balance at beginning of year	**3,437,245**	2,940,913	**68,408**	64,660
Impairment losses during the year (note 10)	**3,798,641**	630,617	**245,818**	3,748
Loans written off	**(16,778)**	(90,232)	**(16,778)**	––
Recoveries	**–**	110,539	**(249,566)**	–
Transfers (from/to) individual	**(3,185,252)**	(154,592)	**–**	–
Balance at end of year	**4,033,856**	3,437,245	**47,882**	68,408
Total	**11,990,059**	8,733,722	**47,882**	68,408

The collective assessment relates to loans and advances fall in the 0-30 days category. Individual assessment relates to all loans and advances with arrears over 30 days.

19. Investments in government inscribed stocks

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Government inscribed stocks principal balance	**63,000,000**	63,000,000	**–**	–
Unamortized premium	**249,355**	66,278	**–**	–
Accrued interest	**1,079,025**	1,068,230	**–**	–
	64,328,380	64,134,508	**–**	–

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

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Balance at beginning of year	**64,134,508**	19,672,699	**–**	–
Additions	**–**	44,085,766	**–**	–
Accrued interest	**183,166**	512,545	**–**	–
Amortized premium	**10,706**	(136,502)	**–**	–
	64,328,380	64,134,508	**–**	–

Investments in government inscribed stocks are measured at amortized cost.

20. Investments in subsidiaries

	SHAREHOLDINGS**			
	2016 %	2015 %	**2016 Amount**	2015 Amount
Kina Funds Management Limited (KFM)	**100**	100	**2**	2
Kina Investment and Superannuation Services Limited (KISS)	**100**	100	**2**	2
Kina Ventures Limited (KVL)*	**100**	100	**2**	2
Kina Wealth Management Limited (KWML)	**100**	100	**2**	2
Kina Nominees Limited (KNL)***	**100**	100	**500,000**	500,000
*Kina Ventures Limited (KVL) shareholding structure				
Kina Bank Limited (KBL) – note 32	**100**	100	**5,000,000**	5,000,000
Kina Properties Limited (KPL)	**100**	100	**2,125,000**	2,125,000

**All the subsidiaries are incorporated in Papua New Guinea. The results of the operations of above subsidiaries have been considered in the Group's financial statements.

During the year, Kina Finance Limited and PNG Home Finance Company Limited were amalgamated into Kina Bank Limited.

*** Impairment loss on investment in subsidiary amounted to K251,677 for the year ended 31 December 2016.

21. Property, plant and equipment

CONSOLIDATED	Furniture & Fittings K	Building improvements K	Motor Vehicles K	Office Equipment K	Land & Building K	Work in Progress K	Total K
Cost							
Balance 31 December 2014	511,078	870,120	2,537,224	8,860,262	2,129,010	–	14,907,694
Acquisition of subsidiary	520,363	5,670,485	833,548	2,603,501	9,617,000	–	19,244,897
Additions	**29,870**	**909,882**	204,518	585,368	–	–	1,729,638
Disposals	–	–	(438,174)	(2,582)	–	–	(440,756)
Balance 31 December 2015	**1,061,311**	**7,450,487**	**3,137,116**	**12,046,549**	**11,746,010**	**–**	**35,441,473**
Additions	**14,640**	**239,415**	**645,819**	**858,342**	**–**	**4,384,816**	**6,143,032**
Disposal	–	–	**(605,267)**	–	–	–	**(605,267)**
Balance 31 December 2016	**1,075,951**	**7,689,902**	**3,177,668**	**12,904,891**	**11,746,010**	**4,384,816**	**40,979,238**
Accumulated depreciation							
Balance 31 December 2014	(275,730)	(447,918)	(1,709,019)	(5,483,166)	–	–	(7,915,833)
Acquisition of subsidiary	(265,628)	(2,286,914)	(643,301)	(1,747,285)	–	–	(4,943,128)
Charge during the year	(79,165)	(227,316)	(454,719)	(1,363,322)	–	–	(2,124,522)
Disposals	–	–	436,949	289	–	–	437,238
Balance 31 December 2015	**(620,523)**	**(2,962,148)**	**(2,370,090)**	**(8,593,484)**	–	–	**(14,546,245)**
Charge during the year	(126,031)	(682,324)	(645,452)	(1,456,480)	(108,646)	–	(3,018,933)
Disposals	–	–	605,267	–	–	–	605,267
Balance 31 December 2016	**(746,554)**	**(3,644,472)**	**(2,410,275)**	**(10,049,964)**	**(108,646)**	**–**	**(16,959,911)**
Book value 31 December 2016	329,397	4,045,430	767,393	2,854,927	**11,637,364**	**4,384,816**	**24,019,327**
Book value 31 December 2015	440 ,787	4,488,339	767,027	3,453,065	11,746,010	–	20,895,228

Notes to the financial statements

For the year ended 31 December 2016

21. Property, plant and equipment (continued)

PARENT	Furniture & Fittings K	Building improvements K	Motor Vehicles K	Office Equipment K	Land & Building K	Work in Progress K	Total K
Cost							
Balance 31 December 2014	511,078	870,120	2,537,224	8,860,262	2,129,010	–	14,907,694
Additions	23,982	7,382	204,518	170,981	–	–	406,863
Disposals	–	–	(438,174)	(2,582)	–	–	(440,756)
Balance 31 December 2015	**535,060**	**877,502**	**2,303,568**	**9,028,661**	**2,129,010**	**–**	**14,873,801**
Additions	–	–	100,000	130,741	–	427,544	658,285
Disposals	–	–	(436,953)	–	–	–	(436,953)
Adjustment	**(1,391)**	**–**	–	–	–	–	(1,391)
Balance 31 December 2016	**533,669**	**877,502**	**1,966,615**	**9,159,402**	**2,129,010**	**427,544**	**15,093,742**
Accumulated depreciation							
Balance 31 December 2014	(275,730)	(447,918)	(1,709,019)	(5,483,166)	–	–	(7,915,833)
Charges during the year	(62,760)	(89,443)	(412,512)	(1,269,322)	–	–	(1,834,037)
Disposals	–	–	436,949	289	–	–	437,238
Balance 31 December 2015	**(338,490)**	**(537,361)**	**(1,684,582)**	**(6,752,199)**	**–**	**–**	**(9,312,632)**
Charges during the year	(59,183)	(85,526)	(391,585)	(944,640)	–	–	(1,480,934)
Disposals	–	–	436,953	–	–	–	436,953
Adjustments	–	–	–	–	–	–	–
Balance 31 December 2016	(397,673)	(622,887)	(1,639,214)	(7,696,839)	–	–	(10,356,613)
Book value 31 December 2016	**135,996**	**254,615**	**327,401**	**1,462,563**	**2,129,010**	**427,544**	**4,737,129**
Book value 31 December 2015	196,570	340,141	618,986	2,276,462	2,129,010	–	5,561,169

22. Intangible asset

CONSOLIDATED	Software K	Customer deposits relationship K	Total K
Cost			
Balance 31 December 2014	–	–	–
Additions	3,432,366	3,780,000	7,212,366
Disposals	–	–	–
Balance 31 December 2015	**3,432,366**	**3,780,000**	**7,212,366**
Additions	**631,834**	–	**631,834**
Disposals	–	–	–
Balance 31 December 2016	**4,064,200**	**3,780,000**	**7,844,200**
Accumulated depreciation			
Balance 31 December 2014	–	–	–
Charges during the year	(159,117)	(189,000)	(348,117)
Disposals	–	–	–
Balance 31 December 2015	**(159,117)**	**(189,000)**	**(348,117)**
Charges during the year	**(781,214)**	**(756,000)**	**(1,537,214)**
Disposals	–	–	–
Balance 31 December 2016	**(940,331)**	**(945,000)**	**(1,885,331)**
Book value 31 December 2016	**3,123,869**	**2,835,000**	**5,958,869**
Book value 31 December 2015	3,273,249	3,591,000	6,864,249

PARENT	Software K	Customer deposits relationship K	Total K
Cost			
Balance 31 December 2014	–	–	–
Additions	600,428	–	600,428
Disposals	–	–	–
Balance 31 December 2015	**600,428**	–	**600,428**
Additions	36,950	–	36,950
Disposals	–	–	–
Balance 31 December 2016	**637,378**	–	**637,378**
Accumulated depreciation			
Balance 31 December 2015	–	–	–
Charge during the year	(67,699)	–	(67,699)
Disposals	–	–	–
Balance 31 December 2015	**(67,699)**	–	**(67,699)**
Charge during the year	**(124,901)**	–	**(124,901)**
Disposals	–	–	–
Balance 31 December 2016	**(192,600)**	–	**(192,600)**
Book value 31 December 2016	**444,778**	–	**444,778**
Book value 31 December 2015	532,729	–	532,729

Customer deposits relationship was recognized when Maybank (PNG) Limited was acquired on 30 September 2015. The value of the customer deposit relationship was derived on the present value of the expected benefit from existing funds coming from depositors. A pre-tax discount rate of 11.2% was used in the valuation consistent with the impairment testing performed for goodwill. The intangible assets were estimated to have a useful life of five years based on the license term of software and expected length of the customer deposit relationship.

Notes to the financial statements

For the year ended 31 December 2016

23. Other assets

	CONSOLIDATED 2016 K	CONSOLIDATED 2015 Restated K	PARENT 2016 K	PARENT 2015 K
Prepayments	**2,115,410**	1,217,648	**700,989**	342,049
Security deposits and bonds	**814,335**	566,828	**363,428**	287,899
Other debtors	**9,151,700**	10,633,321	**145,390**	2,914,296
	12,081,445	12,417,797	**1,209,807**	3,544,244
Less: allowance for losses on other assets	**(4,051,579)**	(116,245)	**(100,786)**	(102,900)
	8,029,866	12,301,552	**1,109,021**	3,441,344

Other debtors as at 31 December 2015 included certain estimated receivable of K4,121,232 from the seller of Maybank (PNG) Limited in relation to certain completion adjustments that were being discussed between the buyer and the seller at the time of finalising the 2015 financial statements an accounted for on a provisional basis. This receivable was restated to K1,688,782 following finalisation of the settlement in September 2016 (refer note 32 (i))

Movement of allowance for losses on other assets is as follows:

	CONSOLIDATED 2016 K	CONSOLIDATED 2015 K	PARENT 2016 K	PARENT 2015 K
Balances at beginning of year	**116,245**	93,566	**102,900**	80,221
Impairment losses during the year	**–**	22,679	**–**	22,679
Reclassification	**3,935,334**	–	**(2,114)**	–
Balance at end of year	**4,051,579**	116,245	**100,786**	102,900

24. Due to customers

	CONSOLIDATED 2016 K	CONSOLIDATED 2015 K	PARENT 2016 K	PARENT 2015 K
Corporate customers	**934,957,697**	682,227,143	**–**	–
Retail customers	**23,651,214**	3,302,321	–	–
	958,608,911	685,529,464	–	–

25. Current income tax (assets) liabilities

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Balance at beginning of year	**1,567,260**	521,298	**560,306**	670,592
Income tax acquired on subsidiary acquisition	**–**	2,823,626	**–**	–
Paid during the year	**(20,727,532)**	(8,603,253)	**(1,634,179)**	(547,437)
Current provision	**18,164,972**	6,825,185	**1,242,657**	437,151
Prior year under provision	**–**	404	**–**	–
Balance at end of year	**(995,300)**	1,567,260	**168,784**	560,306

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Current income tax asset	**(2,452,386)**	(827,673)	**–**	–
Current income tax liability	**1,457,086**	2,394,933	**168,784**	554,363
	(995,300)	1,567,260	**168,784**	554,363

26. Employee provisions

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Balance at beginning of year	**5,408,405**	2,172,882	**2,200,496**	1,084,436
Charged to profit and loss	**(2,131,811)**	3,880,183	**(655,648)**	1,256,262
Utilized during the year	**–**	(699,660)	**–**	(140,202)
Balance at end of year	**3,276,594**	5,408,405	**1,544,848**	2,200,496
Represented by:				
Short term provisions	**2,459,217**	3,300,794	**1,230,591**	1,407,298
Long term provisions	**817,377**	2,107,611	**314,257**	793,198
	3,276,594	5,408,405	**1,544,848**	2,200,496

27. Other liabilities

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Accruals	**13,072,547**	14,746,359	**2,221,968**	3,761,575
Deposits against guarantee	**10,332,804**	3,127,005	**–**	–
Unclaimed money and stale cheques	**7,596,119**	9,039,913	**–**	–
Bank cheques	**5,304,422**	12,520,717	**–**	–
Accounts payable	**2,690,590**	2,851,620	**648,762**	1,692,082
Unearned commission income	**1,044,624**	3,916,057	**–**	2,800,000
Other liabilities	**4,040,786**	355,683	**80,208**	
Balance at end of year	**44,081,892**	46,557,354	**2,950,938**	8,253,657

28. Issued and paid ordinary shares

a) Movement

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

		2016	
	Number of shares	**K**	**Share capital**
Original shares	2,000,000		2,000,000
Share split	86,121,935		–
Shares after split and before IPO	**88,121,935**		**2,000,000**
Proceeds from IPO at K2.08/share)	75,580,415		157,207,263
Free shares issued to the employees	90,902		–
Total IPO costs		21,531,884	
Less: secondary costs (note 11)		(4,122,085)	
Total primary costs			(17,409,799)
Balance as at 31 December 2015	**163,793,252**		**141,797,464**
Share issued during the year – retention incentive	100,000		208,000
Balance at end of year 2016	**163,893,252**		**142,005,464**

In February 2017, the directors declared a dividend of 3.95 cents / 10 toea per share (total of K16.8m). There are no other events after the financial reporting date that require adjustment to or disclosure in the financial statements.

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	
	2016	2015
Net profit attributable to shareholders	**40,975,815**	4,955,731
Weighted average number of ordinary shares basic earnings	**163,893,253**	119,651,650
Weighted average number of ordinary shares diluted earnings	**163,893,253**	119,872,986
Basic and diluted earnings /per share in toea)	**25.00**	4.14

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 grants for 2016 are restricted until the second anniversary after the grant date.

The following STI were approved by the Board.

		2016	2015
		K	K
Cash bonus	65%	**1,179,745**	1,298,471
Total performance rights entitled	35%	**635,247**	699,177
Performance rights recognised in the year		**317,624**	145,662

28. Issued and paid ordinary shares (continued)

c) Share-based payment reserve (continued)

Long term incentive plan (LTI Plan)

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

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

Performance rights granted	**2016** **K**	2015 K
CEO	**457,560**	415,200
Other senior executives	**1,333,551**	916,565
Performance rights recognised in the year	**597,037**	184,967

CEO retention incentive

Under the Retention Grant, the CEO received a one off grant amounting to K457,560 (2015: K415,200). 50% of the performance rights were vested on the first anniversary of the grant date. The 50% of the CEO's performance rights vested in August 2016, where the CEO received K208,000 worth of shares (100,000 at K2.08 per share). The remaining 50% of the Performance Rights will vest on the second anniversary of the grant date subject to him remaining employed by the Kina Group. Performance rights recognised in 2016 amounted to K57,195 (2015: K129,750).

Share Based Premium Reserve

Under the Plan, share options were granted to the Chief Executive Officer (CEO) and other senior executive employees. The movement in the Share Based Premium Reserve is as below:

	CONSOLIDATED	
	2016	2015
Brought forward from previous year	**460,379**	–
Adjustment to prior period entitlements	**(76,702)**	–
Short-term incentive (STI) plan	**317,624**	145,662
Long-term incentive (LTI) plan	**597,037**	184,967
One-off payment	**57,195**	129,750
Total	**1,355,533**	460,379

Notes to the financial statements

For the year ended 31 December 2016

29. Statement of cash flows

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

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Cash and due from banks (note 14)	**148,019,915**	131,251,147	**15,540,654**	35,002,007
Central bank bills (note 15)	**30,000,000**	104,000,000	**–**	–
	178,019,915	235,251,147	**15,540,654**	35,002,007

The consolidated financial statements for the year ended 31 December 2016 included central bank bills amounting to K208,095,202 (2015: K228,014,121) as shown in note 15. As the Group policy is to classify only investments with less than three maturities as part of the cash and cash equivalent, central bank bills amounting to K30,000,000 (K2015:104,000,000) have been classified as part of cash and cash equivalents for the purpose of cash flow statements.

b) Movement in investment securities is as follows:

	CONSOLIDATED		
	2016	2015	**Movement**
	K	K	**K**
Central bank bills (note 15)	**208,095,202**	228,014,121	(19,918,919)
Central bank bills & other eligible bills (less than 3 months)	**(30,000,000)**	(104,000,000)	74,000,000
Investments in government inscribed stocks (note 19)	**64,328,380**	64,134,599	193,781
	242,423,582	**188,148,720**	**54,274,862**

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

	CONSOLIDATED		PARENT	
	2016	2015	**2016**	2015
	K	K	**K**	K
Net profit after tax	**40,975,815**	4,955,731	**3,253,195**	114,731,935
Profit from disposal of property and equipment	**(92,600)**	(45,482)	**(87,600)**	(45,482)
Profit on sale of shares in subsidiary (note 7)	**–**	–	**–**	(125,500,000)
Depreciation and amortization (note 21 and 22)	**4,556,147**	2,472,639	**1,605,835**	1,901,736
Impairment losses:				
Loan and advances to customers (note 18)	**(5,861)**	2,939,306	**(5,861)**	–
Intercompany receivable (note 30)	**–**	–	**–**	7,487,273
Other assets (note 23)	**–**	22,679	**–**	22,679
Premium/discount amortization (note 19)	**(10,706)**	136,502	**–**	–
Share-based amortization	**430,375**	–	**430,375**	–
LTI Accrual	**672,779**	–	**672,799**	–
Net losses/(gains) from changes in fair values of financial assets (note 17)	**(586,996)**	499,355	**2,823**	(703)
Gain on sale of financial assets (note 17)	**–**	(7,710)	**–**	–
Increase/(decrease) in income tax payable	**(2,562,560)**	1,778,069	**(391,522)**	(110,283)
Increase/(decrease) in deferred income tax	**(573,918)**	103,118	**143,579**	(145,718)
Changes in net assets and liabilities:				
Decrease/(increase) in assets:	**(264,831,764)**	(573,199,454)	**4,041,684**	7,164,324
Increase/(decrease) in liabilities:	**254,644,457**	483,549,767	**154,446**	6,517,012
Net cash inflow/outflow) from operating activities	**32,615,168**	**(76,795,480)**	**9,819,753**	**12,022,773**

30. 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 2016, and related expenses and income for the year ended are as follows:

a) Directors and management transactions

As at 31 December 2016, Directors and management transactions were as follows:

Niule No 1 Ltd. Trading as Raintree Consultancy provided consultancy services to Kina Securities Limited (KSL) during the year until May 2016. The fee paid for these services during the year is K100,000 (2015: K345,000). Jim Yap who is the director of KSL is also a director and shareholder of Niule No 1.

H. Wong (ceased 18 May 2016) maintained interest-bearing deposits at normal market rates of interest with Kina Bank Limited ("KBL"). The balance due as at 31 December 2016 and related income and expenses for the year ended are as follows:

	2016 K	2015 K
Deposit:		
Balance at the beginning of year	**7,965**	7,626
Received during the year	**271**	339
Balance at end of year	**8,236**	7,965
Interest expense on deposit	**–**	–
Average interest rate per annum	**3.50%**	4.00%

W. Golding is a Director and Shareholder of KSL and also a Director and Shareholder of The Manufacturers Council of PNG (MCP). MCP maintained interest-bearing deposits at normal market rates of interest. The balances due as at 31 December 2016 and related income and expenses for the year ended are as follows:

	2016 K	2015 K
Deposit:		
Balance at beginning of year	**59,008**	58,090
Received during the year	**505**	918
Balance at end of year	**59,513**	59,008
Interest expense on deposits	**505**	918
Average interest rate per annum	**1.25%**	1.5%

Kina Nominees Limited ("KNL") acted as a trustee for 2G Development Limited, a company of which W. Golding is a Director. The 2G Development Limited housing estate clients' equity funds are held in trust by KNL, processing receipts and deposits from 2G Development clients and payment made to 2G Development building and civil works contractors. As at 31 December 2016, KNL have billed and received from 2G Development Limited a total of K34,594 representing Trustee service fee.

30. Related party transactions (continued)

a) Directors and management transactions (continued)

S. Yates, Managing Director and Chief Executive Officer of KSL is also a Director of Port Moresby Stock Exchange POMSoX) and shareholder of Columbus Investment Limited. During the year, POMSoX, Columbus Investment Limited and S. Yates maintained interest-bearing deposits at normal market rates of interest. The balances due as at 31 December 2016 and related expense for the year are as follows:

	POMSoX K	Columbus Investments	S. Yates K	Total 2016 K	Total 2015 K
Balance at beginning of year	–	1,778,261	69,130	**1,847,391**	589,591
Received during the year	–	23,616	5,164	**28,780**	2,000,281
Repaid during the year	–	(315,587)	–	**(315,587)**	(742,481)
Balance at end of year	–	1,486,290	74,294	**1,560,584**	1,847,391
Average interest rate per annum	–	1.25%	0.35%	**0.80%**	0.30%
Interest expense on deposits	–	23,616	164	**23,780**	45,344

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 2016, the total remuneration of the Directors was K2,336,390 (2015: K2,296,514).

Key management personnel (KMP) during the year were as follows

2016	Syd Yates, Michael Van Dorssen, Chetan Chopra, Danny Robinson, Anthony De La Fosse, Deepak Gutpa, Saima Kalis, Aaron Bird, Adam Fenech, Victor Shubin*, Kong Wong*
2015	Syd Yates, Michael Van Dorssen, Kong Wong, Adam Fenech, Victor Shubin, Aaron Bird, Saima Kalis

*Key management personnel who resigned during the year

The table below shows the Group specified executive remuneration in aggregate.

	No of KMP	Salary	Bonus	Super	Equity Options	Other benefits	Total
2016	**11**	**5,140,965**	**1,311,768**	**118,949**	**895,154**	**2,651,269**	**10,118,105**
2015	9	4,392,632	1,298,471	101,303	460,379	1,853,489	8,106,274

b) Subsidiary transactions and balances

The Company maintains an intercompany account with subsidiary undertakings, which are interest bearing at the rate of KBL cost of funds plus 12.50 (2015:12.50) basis points, unsecured and with no fixed term of repayment. Details as follows:

	TRANSACTIONS				BALANCE OUTSTANDING			
					DUE FROM		DUE TO	
	INCOME 2016 K	EXPENSES 2016 K	INCOME 2015 K	EXPENSES 2015 K	2016 K	2015 K	2016 K	2015 K
KFM	**880,245**	**359,570**	2,639,713	169,301	**–**	–	**(16,323,596)**	(7,981,047)
KISS	**1,631,992**	**–**	2,133,976	46,581	**–**	–	**(7,302,011)**	(3,410,540)
KWM	**–**	**–**	–	–	**–**	–	**(6,151)**	(292)
KBL	**19,952,197**	**1,910,395**	8,355,120	1,323,240	**–**	–	**(94,805,211)**	(101,149,499)
KVL	**–**	**–**	–	–	**351,106,165***	352,791,165*	**–**	–
KNL	**–**	**–**	–	–	**16,387**	450	**–**	–
	22,464,434	**2,269,965**	13,128,809	1,539,122	**351,122,552**	352,791,615	**(118,436,969)**	(112,541,378)

* net of allowance for impairment losses of K7,487,273 which is interest free and payable on demand.

31. Investment under trust

The Group acts as trustee holding or placing of assets on behalf of superannuation funds and individuals. As the relationship is legally supported, 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	
	2016 **K**	2015 K	**2016** **K**	2015 K
Clients funds held for shares trading	**925,265**	3,288,828	**925,265**	3,288,828
	925,265	3,288,828	**925,265**	3,288,828

32. Business combination

A. Acquisition of Maybank (PNG) Limited and Maybank Property (PNG) Limited

Kina Group, through Kina Ventures Limited a (100% owned subsidiary of Kina Securities) acquired all of the shares in Maybank (PNG) Limited and Maybank Property (PNG) Limited on 30 September 2015.

(i) Purchase consideration

The purchase consideration was provisionally accounted for the purpose of 2015 financial statements and amounted to K348,666,768. Certain adjustments to the purchase consideration were being discussed between the buyer and seller at the time of finalising the 2015 financial statements. These adjustments were finalised in September 2016 in accordance with the Completion Audit Side Agreement dated 6 June 2016 and the reconciled balances were settled. This resulted in an increase in the purchase consideration by K2,432,450. This adjustment to the purchase consideration has been retrospectively accounted in these financial statements and the goodwill has been restated. This restatement had no impact on the periods before 1 January 2015 or on the profit for the year-ended 31 December 2015 and 31 December 2016.

(ii) Fair value of assets acquired and liabilities assumed

	2015 K
Total assets acquired	951,789,786
Total liabilities assumed	(693,476,423)
Total net assets acquired	**258,313,363**

There was no non-controlling interest.

(iii) Goodwill – Restated

Purchase consideration – provisionally accounted in 2015	348,666,768
Adjustment to the purchase consideration finalised in 2016	2,432,450
Final purchase consideration	**351,099,218**
Fair value of net assets acquired	258,313,363
Goodwill as at 31 December 2016 and 2015	**92,785,855**

The goodwill is 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 2016 and no impairment has been recognized in the income statement. The recoverable amount has been determined as the value in use at each reporting date. Value in use refers to expected future cash flows over the next four years on a discounted cash flow basis.

32. Business combination (continued)

(iii) Goodwill – Restated (continued)

Key assumptions used in the model are as follows:

- a pre-tax discount rate of approximately 12.6%,
- 2016 actual cash flow projected based on terminal growth rate of 3%
- historical growth rate in loans and deposits.

Estimates for CGU reflect past experience and are consistent with external sources of information.
Other acquisition related information included in the comparative financial statements are as follows:

(iv) Acquisition related costs

Acquisition-related costs of K7,489,850 were included in the income statement in the reporting period ended 31 December 2015.

(v) Acquired receivables

The fair value of acquired loans and advances to customers is K142,697,234. This included an allowance for impairment of K3,658,895.

(vi) Revenue and profit contribution

The acquired business contributed revenues for 2015 of K15,105,517 and net profit of K6,745,321 to the Group for the period from 1 October to 31 December 2015. If the acquisition had occurred on 1 January 2015, consolidated revenue and net profit of the group for the year ended 31 December 2015 would have been K119,900,998 and K22,676,489, respectively.

33. Segment reporting

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 31 December 2016 is as follows:

	Banking & Finance K '000	Wealth Management K '000	Corporate K '000	Total K '000
Interest income	84,922	540	(8,194)	77,268
Foreign exchange income	20,579	–	–	20,579
Fee and commission income	7,511	21,322	–	28,833
Other revenue	110	707	25,895	26,712
Inter-segment revenue	–	–	(24,208)	(24,208)
Total revenue	**113,122**	**22,569**	**(6,507)**	**129,184**
Interest expense	(18,108)	(44)	6,012	(12,140)
Other operating expenses	(45,261)	(9,824)	(21,009)	(76,094)
Provision for impairment	(2,684)	(109)	6	(2,787)
Depreciation and amortisation	(2,086)	–	(1,714)	(3,800)
Inter-segment costs	–	–	24,208	24,208
Total expenses	**(68,139)**	**(9,977)**	**7,503**	**(70,613)**
Profit before tax	**44,983**	**12,592**	996	**58,571**
Income tax expense	(13,512)	(2,594)	(1,488)	(17,595)
Profit after tax	**31,471**	**9,998**	(492)	**40,976**
Total assets	1,145,979	16,162	103,606	1,265,747
Total assets include:				
Additions to non-current assets	5,155	–	1,619	6,774
Total liabilities	1,003,753	4,097	27	1,007,877

33. Segment reporting (continued)

The segment information provided to the Chief Executive Officer for the reportable segments for the year ended 31 December 2015 is as follows:

	Banking & Finance K '000	Wealth Management K '000	Corporate K '000	Total K '000
Interest income	45,738	734	5,826	52,298
Foreign exchange income	7,754	–	–	7,754
Fee and commission income	–	16,238	1,314	17,552
Other revenue	–	903	17,978	18,881
Inter-segment revenue	–	–	(17,277)	(17,277)
Total revenue	**53,492**	**17,875**	**7,841**	**79,208**
Interest expense	(9,438)	–	–	(9,438)
Other operating expenses	(27,634)	(15,464)	(26,631)	(69,729)
Provision for impairment	(2,950)	(12)	–	(2,962)
Depreciation and amortisation	(570)	–	(1,902)	(2,472)
Inter-segment costs	–		17,277	17,277
Total expenses	**(40,592)**	**(15,476)**	**(11,256)**	**(67,324)**
Profit before tax	**12,900**	**2,399**	**(3,415)**	**11,884**
Income tax expense	(5,905)	(1,024)	–	(6,929)
Profit after tax	**6,995**	**1,375**	**(3,415)**	**4,955**
Total assets	817,082	27,303	141,795	986,180
Total assets include:				
Additions to non-current assets	4,152	–	1,009	5,161
Total liabilities	732,473	2,776	9,334	744,583

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

34. 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 2016, the Group is a party to some litigation before the courts, however, management does not believe these will result in any material loss to the Group. There was no litigation matter of a material nature that is not already provided for in the financial statements.

Other liabilities

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

Group	2016 K	2015 K
Documentary letters of credit	**1,864,990**	146,213
Performance guarantee	**34,937,710**	26,011,878
Other contingent liabilities	**3,075,101**	7,907,204
	39,877,801	34,065,295

The company had no contingent liabilities.

35. Commitments

Capital commitments

There was no commitment under contracts for capital expenditure at balance date.

Operating lease commitments

Total of future minimum lease payments under operating lease commitments are as follows:

	2016 K	2015 K
Within one year	**4,878,929**	2,412,838
Between one and five years	**18,818,786**	16,193,520
	23,697,715	18,606,358

36. Fair value estimation

There is no material difference between the fair value and carrying value of the Group and the Company's financial assets and liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices unadjusted in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly that is, as prices or indirectly that is, derived from prices (Level 2).
- Inputs for the asset or liability that are not based on observable market data that is, unobservable inputs (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

Assets	**Level 1** **K**	**Level 2** **K**	**Level 3** **K**	**Total** **K**
Financial assets at fair value through profit or loss				
Investment in shares – Listed	4,580,070	–	–	4,580,070
Investment in shares – Unlisted	–	–	61,587	61,587
Total assets	4,580,070	–	61,587	4,641,657

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

Assets	**Level 1** **K**	**Level 2** **K**	**Level 3** **K**	**Total** **K**
Financial assets at fair value through profit or loss				
Investment in shares – Listed	3,993,074	–	–	3,993,074
Investment in shares – Unlisted	–	–	61,587	61,587
Total assets	3,993,074	–	61,587	4,054,661

37. Auditors' remuneration

	2015 **K**	2014 K
Audit	**553,000**	509,000
Tax compliance	**110,323**	170,132
Other assurance services	**–**	190,020

In addition, PricewaterhouseCoopers Securities Limited – Australia provided services to the Company in 2015 in relation to the acquisition of Maybank (PNG) Limited and Mayban Property (PNG) Limited and for the initial public offering. Fees for these services charged in 2015 were K4,995,723.

38. Events after the statement of financial reporting date

Subsequent to the financial reporting date, the directors declared a dividend of 3.95 cents / 10 toea per share total of (K16.8m). There are no other events after the financial reporting date that require adjustment to or disclosure in the financial statements.

Shareholder information

Kina Securities Limited

ARBN: 606 168 594

The distribution of ordinary shares ranked according to size as at 10 March 2017 was:

Size of holding	Nbr of holders	Nbr of shares	% of issued capital
1-1,000	49	25,716	0.03
1,001-5,000	232	837,937	0.90
5,001-10,000	300	2,659,232	2.86
10,001-100,000	577	16,468,046	18.79
100,001-over	52	144,179,655	77.42

The 20 largest shareholders representing 80.05% of the ordinary shares as at 10 March 2017 were as follows:

Shareholder	Nbr of Shares	% of issued capital
FU SHAN INVESTMENT LIMITED	57,295,900	34.96
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	26,338,204	16.07
UBS NOMINEES PTY LTD	8,050,000	4.91
NATIONAL SUPERANNUATION FUND LIMITED	8,000,000	4.88
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD	6,038,275	3.68
WAYNE KENNETH GOLDING	4,846,706	2.96
COLUMBUS INVESTMENTS LIMITED	4,068,574	2.48
COMRADE TRUSTEE SERVICES LIMITED	3,500,885	2.14
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,215,964	1.35
NATIONAL NOMINEES LIMITED	1,687,828	1.03
COMRADE TRUSTEE SERVICES LIMITED	1,600,000	0.98
BNP PARIBAS NOMINEES PTY LTD	1,295,137	0.79
HITSUMA SDN BHD	1,000,000	0.61
PERPETUAL SHIPPING LIMITED	1,000,000	0.61
NEW IRELAND DEVELOPMENT CORPORATION LIMITED	800,000	0.49
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	670,710	0.41
TRUEBELL CAPITAL PTY LTD	653,000	0.40
DR DAVID JOHN RITCHIE & DR GILLIAN JOAN RITCHIE	600,000	0.37
CITICORP NOMINEES PTY LIMITED	519,800	0.32
KINA ASSET MANAGEMENT NO 1 LIMITED	515,000	0.31
CAPITAL GENERAL INSURANCE LIMITED	500,000	0.31
Total	131,195,983	80.05%
Grand total	163,893,253	100%

32,758,650 shares held by Fu Shan Investment limited are held in escrow until 27 July 2017

Issued capital as at 10 March 2017 was:

163,893,253 ordinary fully paid shares

32,758,650 shares are held in escrow until 29 July 2017

The following interests were registered on the Company's register of Substantial Shareholders as at 10 March 2017:

Shareholder	**Nbr of Shares**	**% of Issued Capital**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	26,338,204	16.07%
FU SHAN INVESTMENT LIMITED	57,295,900	34.96%

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

At 10 March 2017, there were no holders of unmarketable parcels of ordinary shares in the Company

VOTING RIGHTS ATTACHED TO ORDINARY SHARES

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

Corporate directory

Directors

Sir Rabbie Namaliu (Chairman)
Sydney Yates (CEO)
David Foster
Wayne Golding
Karen Smith-Pomeroy
Isikeli Taureka
Jim Yap
Don Manoa (ceased 18/5/16)
Peter Ng Choong Joo
(ceased 18/5/16)
Hilary Wong (ceased 18/5/16)

Company secretary

Chetan Chopra (appointed 21/6/16)
Kong Wong (ceased 21/6/16)

Registered Office

HEAD OFFICE

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

VISION CITY OFFICE

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

LAE OFFICE

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

MT HAGEN OFFICE

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

KOKOPO OFFICE

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

Branch offices

WAIGANI BRANCH

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

LAE BRANCH

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

VISION CITY

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

KOKOPO BRANCH

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

MT HAGEN OFFICE

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

Share registry

PAPUA NEW GUINEA

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

AUSTRALIA

Link Market Services Ltd
Level 15, 324 Queen Street
Brisbane QLD 4000
Telephone: 1300 554 474
(within Australia)
+61 1300 544 474
(outside Australia)

AUDITOR

PricewaterhouseCoopers PNG
PwC Haus
Level 6, Harbour City
Konedobu
Port Moresby
Papua New Guinea

STOCK EXCHANGE LISTING

ASX Code: KSL
POMSoX Code: KSL

WEBSITE

www.kina.com.pg

kina together it's possible

www.kina.com.pg