27 February 2020

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

BY ELECTRONIC LODGEMENT

Appendix 4E - Preliminary Final Report
Year ended 31 December 2019

Please find attached for release to the market, Kina Securities Limited's *Appendix 4E - Preliminary Final Report for the year ended 31 December 2019.*

-ENDS-

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

For further information:

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

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

Kina Securities Limited

(ABRN 606 168 594)

2019 Full Year Results

Incorporating the requirements of Appendix 4E

ASX Appendix 4E

For the Full Year ended 31 December 2019

Results for announcement to the market

Comparisons of the current year results to 31 December 2019 (**FY2019**, **reporting period**) are with the full year to 31 December 2018 (**FY2018**, **previous corresponding pepiod**)

	Full Year Ended			
	Dec-19 PGK'000	**Dec-18 PGK'000**	**Change PGK'000**	**% Increase**
Revenue from ordinary activities	205,565	161,650	43,915	27%
Profit from ordinary activities	82,693	69,203	13,489	19%
Net Profit after tax attributable to equity holders	60,871	48,093	12,778	27%

	Dec-19	**Dec-18**
Net Tangible Assets per security (PGK)	1.34	1.08

Dividends distributions (Final dividend)	
- unfranked (AUD cents per share)	**6.4 cents**
- unfranked (PGK toea per share)	**15.5 toea**
Dividends distributions (Interim dividend)	
- unfranked (AUD cents per share)	**4.0 cents**
- unfranked (PGK toea per share)	**10.0 toea**
Full year dividend	
- unfranked (AUD cents per share)	**10.4 cents**
- unfranked (PGK toea per share)	**25.5 toea**

The Directors have declared a final unfranked dividend for the reporting period based on the Net Profit After Tax attributable to equity holders of PGK 37.3m for the reporting period. This is compared to PGK 27.5m for the prior corresponding period.

The final dividend is converted based on an exchange rate: 1 PGK = 0.4114 AUD.

The Record date for determining entitlements to the dividend is 4 March 2020.

The financial information contained in this report for the reporting period, is presently being audited. The figures for the prior corresponding period are audited numbers.

This report should be read in conjunction with the unaudited Consolidated Financial Statements for the full year ended 31 December 2019 in Section 2.

This report is provided to the ASX under Listing Rule 4.3A.

Table of contents

1. Results Overview

Kina delivers strong 2019 full year results

Results Highlights

	Full Year Ended		
	Dec-19	Dec-18	%
Statutory NPAT from ordinary activities (PGK m)	60.9	48.1	27%
Revenue (PGK m)	205.6	161.7	27%
FX Revenue (PGK m)	42.0	34.2	23%
Loan impairment expense (PGK m)	5.6	5.1	10%
Cost to income ratio (%)	57.0	54.1	5%
Net interest margin (%)	8.8	7.6	16%
Return on Equity (%)	20.4	18.3	11%
Earnings per Share (PNG Toea)	35.7	29.3	22%
Dividend (PGK Toea per share)	25.5	22.1	15%
Dividend (AUD Cents per share)	10.4	9.0	16%
Deposit (PGK m)	2,480.0	1,315.4	89%
Net Loans and Advances (PGK m)	1,401.5	851.7	65%
Capital Adequacy (T1+T2) (%)	21.5	28.9	(26%)

Operating performance and earnings

Kina Securities Limited (**KSL, Kina, Kina Group, Bank**, the **Business** or the **Company**) has reported an unaudited statutory Net Profit After Tax of PGK 60.9m for the full year to 31 December 2019. The full year results show a 27% uplift compared to the full year to 31 December 2018.

The statutory profit has been calculated in accordance with International Financial Reporting Standards (**IFRS**).

Directors have declared an unfranked final dividend for FY19 of AUD 6.4 cents per share / PGK 15.5 toea per share. This takes the full year FY2019 unfranked dividend per share to AUD 10.4 cents / PGK 25.5 toea compared to an unfranked dividend per share of AUD 9 cents / PGK 22.1 toea for the prior corresponding full year.

The underlying financial performance was largely driven by an uplift in interest income earnings largely weighted favourably towards the second half of FY2019. In addition to the growth of the existing loan book, the addition of the acquired ANZ loan book further boosted earnings in the second half. The existing loan book net of the ANZ acquisition grew by 26% against FY2018.

The strong performance in non-interest income was a result of strengthening resources in the Treasury and Foreign Exchange business. The growth in fees and commissions, which was well supported by the acquisition of ANZ's Retail, Commercial and Small and Medium-Sized Enterprises (**SME**) business in PNG (**ANZ Acquisition**), further augmented the favourable results in FY2019.

While the cost to income ratio for the period has increased compared to the prior corresponding period on the back of Kina's growth strategy and capability build, management's focus on this important ratio has not wavered. Increase in staff costs were incurred to deliver business post the ANZ Acquisition. Required changes in accordance with IFRS16 *Leases* (**IFRS 16**) have also impacted the results.

Key features of the result

Kina maintained growth across all of its existing businesses while achieving the integration milestones critical to the ANZ Acquisition. Key highlights FY2019 (compared to FY2018) financial results include:

- Net Interest Income increased by 31% to PGK 114.6m compared to the prior corresponding year. This was achieved on the back of the growth in the existing loan book of 26% and overall loan book growth (including the ANZ acquired loan book) of 65%, an increase in investment in government treasury bills and lower interest expense compared to the prior year.
- Foreign Exchange (**FX)** growth increased by 23% to PGK 42.0m compared to FY2018. This was underpinned by an increase in overall market share on the back of the ANZ Acquisition, increase in new customers and USD remittance sources from the export sector.
- The Deposit book grew by 89% compared to FY2018. 9% of this growth was attributed to the existing business. While the overall growth noted was significant, no material adverse impact was noted in interest expense due to a mix of Kina's focus on low cost working capital deposits through the refreshed launch of an innovative digital cash management account and the acquisition of low cost deposits.
- Continued momentum in customer growth up 7 times to 165,0 across the business, boosted by the ANZ Acquisition and an enhanced digital online offer and service differentiation. 83% of this growth is due to the acquisition.
- Maintained a disciplined approach to credit risk management with Total Provisions as a % of Gross Loans and Advances (**GLA**) at 1.4% of combined loan book. Loan impairment expense remained low at 0.51% of GLA.
- Kina's Funds Management division achieved revenue of PGK 11.2m for the full year, commensurate with a lift in total funds under management of PGK 480m to PGK 8.0bn as at 31 December 2019.
- Kina's Funds Administration division also recorded growth in profit by 25% on the back of increased funds under administration and growth in member numbers compared to the prior year.

There were several important strategic and organisational milestones and initiatives delivered over FY2019:

- Completed the ANZ acquisition on 23 September 2019. The ANZ Acquisition involved a complex integration, and capability build including an Information and Communication Technology (**ICT**) program that was completed on time and within budget.
- The ANZ Acquisition has elevated Kina to the second largest domestic retail bank in PNG with over 165,000 retail customers, a national footprint with 17 branches, 77 ATMs, a new Point of Sale (**POS**) network with 1,700 Electronic Funds Transfer at Point of Sale (**EFTPOS**) appliances and over 800 merchants, and enhanced market leading digital online retail and corporate applications.
- Implemented a new business operating model during the year in preparation for the ANZ Acquisition, with a sharper and more concentrated focus on key customer segments for growth, including personal banking and home loans, business banking and online / e-commerce transactional services, investment management, corporate cash and foreign exchange.
- Announced a strategic partnership with Nationwide Microbank Limited (**MiBank**) mid-year to support financial inclusion and finance to the micro SME sector. The partnership extends to the production of card and POS services.
- Asian Development Bank (**ADB**) invested USD10.0m to become the second largest shareholder. ADB's strong regional presence and AAA rated investment grade, enhances Kina's international correspondent banking, trade services and corporate FX relationships.
- There are several opportunities to partner with ADB including: growth of financial inclusion with MiBank; Trade Finance and Correspondent Banking; implementation of an Environmental and Social Governance (**ESG**) Framework; Building Data and ICT capability; remittances and payment gateways.
- Kina became the first bank to connect to the Bank of Papua New Guinea's (**BPNG**) new National Payments System (**NPS**) which gives Kina the ability to accept full interchange with all PNG domestic banks.

- Finalised the Bank's 2025 Strategic Plan *Building the Bank of the Future*, (**2025 Strategy**), that sets a five year pathway to becoming PNG's leading digital bank, providing options for business model renewal based on the evolving PNG and global financial services context.
- The 2025 Strategy continues a theme of strong growth across three targeted customer segments: Retail, SME and Commercial; continued digitisation, partnering to create and capture more value, and convening a market place of assets, capabilities and services.

Asset Quality

The Company utilises an internal risk grading model which takes into account quantitative and qualitative factors in grading individual exposures with each grade having an associated 'loss rate' . Default stages are applied depending on the aging and/or any adverse change in the risk grade since origination. The total level of provision held includes an allowance for model and economic risk.

Overall asset quality remains sound, with a loan impairment and write-off expense of PGK 5.6m for FY2019 or 0.51% of total GLA compared to 0.59% in the prior corresponding period. This is further explained in section 1.2.10.

Non-performing loans increased to 5.9% of GLA compared to 2.0% in the prior corresponding period largely due to the acquired loan book from ANZ. Management has commenced actions and engagement with customers to restore the financial performance on the loans. Improvements have been noted in the three months since completion of the ANZ Acquisition, and this action will continue into FY2020. Management has put measures in train to reduce this in FY2020.

Operating Expenses

The Company continued to invest and build out its 2025 Strategy, digital and ICT capability, enhance risk management maturity and expand customer facing distribution channels. At the same time, the Business continued to achieve synergies from the consolidation of middle and back office functions across the Group to support the transition of the ANZ acquired business. Licencing fees, communications (including internet and network charges), marketing and brand, integration expenses and additional depreciation on completed capital projects form the main administration costs.

Staff costs were the largest component of operating expenses at PGK 58.4m, representing 50% of total operating expenses.

With the implementation of IFRS 16 as from 1 January 2019, related accounting standards have impacted the FY2019 balances. The inclusion of the leases for the acquired ANZ branches, has contributed to the increase in occupancy costs against FY2018. Increases related to capacity bulidng and onboarding ANZ's eatil staff across the country.

The resultant impact is an increase in the cost to income ratio from 54% in FY2018 to 57% in FY2019. Management anticipated this increase in the period immediately following the ANZ Acquisition, and will continue to focus on this important ratio with a view to lowering it over FY2020 and FY2021.

Underlying Capital

The underlying capital of the banking business remains strong, with regulatory capital (T1+T2) at 21.5% of risk weighted assets (**RWA**), compared with a regulatory minimum of 12%. The surplus capital is available for strategic growth initiatives in the future.

Economic Outlook

Calendar year 2020 is expected to be another subdued year for the PNG economy with key indicators pointing towards low levels of activity in the absence of a major economic boost. The PNG Government is looking to reign in expenditure in the public service, which has been a major contributor to an increased fiscal deficit, and invest in the non-resource sector.

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

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

Foreign exchange shortages will continue to be an impediment to businesses in PNG throughout 2020. Proceeds of the USD 300m budget support funding from the Australian Government, is expected to help ease some pressure in the immediate term whilst proceeds from the PNG Government's planned offshore borrowings are expected to support FX requirements as they are brought onshore in the second half of 2020. Domestic interest rates remain high and are expected to continue in the face of the government fiscal funding needs. Headline inflation remains high albeit lower then recent years, while employment intentions and discretionary consumption remain weak.

The negotiating deadline for the development of a new onshore gas field known as P'Nyang was set for 31 January 2020 by the PNG Government. This was to be the third-largest liquefied natural gas (**LNG**) project for the country, taking advantage of PNG's rich abundance of gas reserves and low cost structures. Unfortunately, the project developers and the PNG Government were unable to reach an agreement on the commercial terms, which led to a cessation of negotiations. There is an element of uncertainty as to whether the Papua LNG project, also a new development, will now go ahead. The best case alternative would be a redesign of what were to be shared facilities to support P'Nyang and Papua LNG, to allow only the Papua LNG project to proceed. This will delay the development of Papua LNG however, the parties are reengaging to arrive at an acceptable solution. A reassuring fact is that in the 2020 National Budget, the PNG Government had not allowed for the upside to economic performance from these gas projects. Notwithstanding this, the difficulties experienced by the economy and business in general will not be helped by this development.

1.1 Disclosure and Context

Financial reporting

The statutory result for the twelve months to 31 December 2019 was a consolidated Net Profit after Tax of PGK 60.9m. This included results from the combined operations of Kina Securities Limited and its subsidiaries.

The results presented in this report have been presented on a statutory basis.

Future performance. Forward looking statements

The information in this document is for general information only. To the extent that certain statements contained in this document may constitute "forward-looking statements" or statements about "future matters", the information reflects Kina's intent, belief or expectations at the date of this document. Subject to any continuing obligations under applicable law or any relevant listing rules of the Australian Securities Exchange (**ASX)** or PNG's National Stock Exchange (**PNGX**) (formerly POMSOX), Kina disclaims any obligation or undertaking to disseminate any updates or revisions to this information over time. Any forward-looking statements, including projections, guidance on future revenues, earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Kina's actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

Rounding

All amounts in this report have been rounded to the nearest million Kina (**PGK**) (PNG's currency) unless otherwise stated.

1.2 Financial results for the year-ended 31 December 2019

1.2.1 Statutory Results

Figures in PGK Million	Full Year Ended		
	31-Dec-19	31-Dec-18	Change
Continuing Operations			
Interest income on investments	36,129	22,281	62%
Interest income on loans	110,353	90,527	22%
Interest expense	(31,901)	(25,232)	26%
Net interest income	**114,581**	**87,576**	**31%**
Fee and commission income	47,878	36,401	32%
Fee and commission expense	(93)	(50)	86%
Net fee and commission income	**47,785**	**36,351**	**31%**
Foreign exchange income	41,956	34,201	23%
Dividend income	357	327	9%
Net (losses)/gain from financial assets through profit and loss	153	106	44%
Other operating income	734	3,089	(76%)
Non-interest income	**90,985**	**74,074**	**23%**
Operating income before impairment losses and operating expenses	**205,565**	**161,650**	**27%**
Impairment losses	(5,646)	(5,070)	11%
Other operating expenses	(117,227)	(87,377)	34%
Profit before tax	**82,693**	**69,203**	**19%**
Income tax expense	(21,822)	(21,110)	3%
Net Profit for the half year attributable to the equity holder of the Company	**60,871**	**48,093**	**27%**
Other comprehensive income	-	-	0%
Total comprehensive income for the half year attributable to the equity holder of the Company	**60,871**	**48,093**	**27%**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2019 and where applicable calculated by reference to the audited 31 December 2018 annual financial statements.

1.2.2 Dividends

	Dec-19	Dec-18
Earnings per share (PGK toea)	35.7	29.3
Earnings per share (AUD cents)	14.5	11.5
Dividend per share (PGK toea)	25.5	22.1
Dividends per share (AUD cents)	10.4	9.0

1.2.3 Business Combination

In accordance with IFRS 3 *Business Combinations* (**IFRS 3**) , the ANZ Acquisition constitutes a **business combination**. IFRS 3 requires, in all business combinations, that the acquirer should recognise, separately from goodwill, all acquired assets and liabilities that meet recognition criteria including those not previously recognised by the acquirer.

Based on the analysis of the assets and liabilities acquired, taking into account the recognition criteria of the transaction, the Bank has recognised an intangible asset of 'customer deposit intangible' representing the benefit the bank has to a low cost deposit base. This has been valued at PGK18.5m.

For loans acquied, the recognition criteria of IFRS 3 requires that the loans be fair valued at acquisition date. The fair value adjustment was recognised directly against the gross loans without recognising separately any initial loss allowance. The amounts recognised in the financial statements in respect of the acquired loans therefore will differ from the contractual principal amount of the loans. The initial difference (valued at PGK 4.9m) due to fair value will be amortised on effective interest method over the life of the loans.

The purchase price of PGK 24.2m, taking into account the customer deposit intangible, fair value of loans and resultant tax application, was allocated as shown below;

Purchase Price allocation:	PGK'000
Intangible asset	18,486
Deferred tax liability on customer deposit intangible	(5,546)
Fair value adjustment on loans	4,875
Deferred tax asset on loans and advances	6,212
Others	202
Total	**24,229**

1.2.4 First time adoption of IFRS 16 *Leases*

The Group has adopted IFRS 16 *Leases* which replaces IAS 17 *Leases,* effective for annual periods beginning on or after 1 January 2019. The standard introduces an on balance sheet lease accounting model where a right-of-use (**ROU**) asset (representing the right to use the underlying asset) and a lease liability (representing present value of future lease payments) is recognised.

The asset is depreciated over the term of the lease and the liability is reduced by the actual lease payments. Interest on the outstanding liability is recognised as an expense in the income statement with any impact arising on the transition recognised in the opening retained earnings balance without restating comparatives.

Table below shows the financial impact of the first time adoption of IFRS 16:

	PGK'000
Impact on balance sheet at 1 January 2019	
Creation of ROU	20,028
Creation of lease liability	(20,753)
Impact on opening retained earnings	**(725)**
Impact of profit or loss account for the year ended 31 December 2019	
Recognition of depreciation expense on ROU	6,705
Recognition of interest expense on lease liability	2,583
Derecognition of lease rentals	(7,796)
Impact on profit or loss	**1,492**

1.2.5 Lending

Net lending after provisions has increased by 65% since 31 December 2018, with the inclusion of the acquired loan book from ANZ. In line with the ANZ Acquisition, significant increases were in home loans and term loans in the retail segment. 60% of the increase against prior year is related to the increase in the loan book due to the acquisition.

The impact of accounting for fair value of the loans and associated provision balance in accordance with IFRS 3 and IFRS 9 is explained in the table below. The gross balance of PGK 1.422m comprises the organic book gross loans and the fair value of the acquired loans.

In accordance with IFRS 3 (referred to section 1.2.3 above) and IFRS 9 Financial Instruments (**IFRS 9**), no legacy impairment loss allowance is recognised at acquisition date. Every loan is fair valued and the fair value adjustment is recognised directly against the loan itself. The acquired loans have been recognised on a 'net basis' rather than at their gross principal amount. As at the reporting period end, the loan is reassessed for any impairment indicators and based on this, impairment loss is recognised.

	Full Year Ended		
Total Loan Book PGK Millions	Dec-19	Dec-18	Change (%)
Overdraft	68.2	60.8	12.2%
Term Loans	880.8	587.8	49.8%
Investment Property Loan	87.0	42.2	106.2%
Asset Financing	19.8	22.4	(11.6%)
Housing Loan	320.7	118.5	170.6%
Esi loan	37.5	38.4	(2.3%)
Credit Cards	8.0	-	0.0%
Gross	**1,422.0**	**870.1**	**63.4%**
Provision	(20.5)	(18.4)	11.4%
Total Net Loans	**1,401.5**	**851.7**	**64.6%**

In the existing business, the net loan book grew by 25.9% (PGK 221m) as shown in the table below. A strong FY2019 second half performance in term loans, housing loans and investment property loans was achieved on the back of competitive pricing strategies, facilitation of cross selling opportunities with Kina's wealth client base and the realignment of frontline staff to improve sales capability.

	Full Year Ended		
Organic Loan Book PGK Millions	Dec-19	Dec-18	Change (%)
Overdraft	54.2	60.8	(10.9%)
Term Loans	724.3	587.8	23.2%
Investment Property Loan	87.0	42.2	106.2%
Asset Financing	19.8	22.4	(11.6%)
Housing Loan	170.3	118.5	43.7%
Esi loan	37.5	38.4	(2.3%)
Credit Cards	-	-	0.0%
Gross	**1,093.1**	**870.1**	**25.6%**
Provision	(20.5)	(18.4)	11.4%
Total Net Loans	**1,072.6**	**851.7**	**25.9%**

Risk concentration by sector is explained in the table on the next page.

Risk Concentration by sector	Dec-19 PGK million	Dec-19 % of total loans	Dec-18 PGK million	Dec-18 % of total loans
Agriculture, Forestry & Fishing	7.1	0.5%	11.8	1.4%
Mining	19.1	1.3%	4.1	0.4%
Manufacturing	14.9	1.0%	3.8	0.4%
Electrical, Gas & Water	1.2	0.1%	0.7	0.1%
Building and Construction	86.7	6.1%	72.7	8.4%
Wholesale & Retail	278.5	19.6%	154.8	17.8%
Hotel & Restaurants	91.7	6.4%	84.0	9.6%
Transport & Storage	8.8	0.6%	5.0	0.6%
Financial Intermediation	0.6	0.0%	14.7	1.7%
Real Estate/Renting/Business Services	294.2	20.7%	248.6	28.6%
Equipment Hire	10.6	0.7%	1.4	0.2%
Other Business	70.3	4.9%	21.8	2.5%
Personal Banking	538.3	37.9%	246.7	28.3%
Total	**1,422.0**	**100.0%**	**870.1**	**100.0%**

1.2.6 Funding

PGK Millions	Full Year Ended Dec-19	Full Year Ended Dec-18	Change (%)
On Call	1,969.8	759.1	159%
1 month	106.9	99.0	8%
2 months	58.2	94.6	(38%)
3 months	112.3	63.6	77%
6 months	80.1	199.8	(60%)
12 months	86.7	94.9	(9%)
24 months	66.0	4.4	1400%
Total	**2,480.0**	**1,315.4**	**89%**

Existing deposits grew by 9% compared with the same comparative period in 2018. Post the ANZ Acquisition, deposit growth totalled 89%. While the overall growth noted was significant, interest expense grew by 26% due to a mix of Kina's focus on low cost working capital deposits through the refreshed launch of an innovative digital cash management account and the acquisition of low cost deposits in current and savings accounts from ANZ.

Organic Growth – PGK'm	Full Year Ended Dec-19	Full Year Ended Dec-18	Change (%)
Fixed Term	409.1	649.6	(37%)
Cash Management Accounts	543.8	250.9	117%
Current Accounts	454.3	396.2	15%
Savings Accounts	27.8	18.7	49%
Total	**1,435.0**	**1,315.4**	**9%**

Total Growth - PGK'm	Full Year Ended Dec-19	Full Year Ended Dec-18	Change (%)
Fixed Term	556.4	649.6	(14%)
Cash Management Accounts	543.8	250.9	117%
Current Accounts	1,087.0	396.2	174%
Savings Accounts	292.8	18.7	1466%
Total	**2,480.0**	**1,315.4**	**89%**

The loan to deposit ratio of 57% is within the internal target range set by the Board.

1.2.7 Net Interest Margin

PGK Million	Full Year Ended		
	Dec-19	Dec-18	Change (%)
Net interest income	114.6	87.6	30.8
Average interest earning assets	1,771.0	1,158.4	52.9
Average yield on interest earning assets (%)	10.6	9.8	8.2
Average interest bearing liabilities	1,742.0	1,148.0	51.7
Average cost on interest bearing liabilities (%)	1.8	2.2	(18.2)
Interest spread (%)	8.8	7.6	16%
Net interest margin	8.8	7.6	16%

Net interest margin (**NIM**) for FY2019 was 8.8% compared to 7.6% in FY2018. The results reflect movements in the average yield on interest earning assets and cost of funds largely due to competitive pricing on interest earning assets, the substantial growth in the loan book over the last 3 months of FY2019 and the significant increase in low cost deposits gained from the ANZ Acquisition.

Average interest earning assets grew by 53% to PGK 1.8bn. While this reflects a significant growth on the asset base, the yield spread on product type between loans and investments averaged 10.6% from 9.8% in the last year reflecting a mix of repricing of the loan book, significant increase in the last 3 months book balance and maturity profile of investments.

The growth in average interest bearing deposits is largely driven by the acquisition of low cost deposits and to a lesser extent, maturity of deposits at higher rates during the year.

1.2.8 Non-Interest Income

The strong performance in non-interest income as a result of another year of uninterrupted foreign exchange trading and the growth in fees and commissions, well supported by the acquisition of the ANZ retail business, contributed positively to the strong NPAT performance of the Group.

Total fees from Wealth operations was consistent against last year. Overall, the performance of the stock broking business together with other income offset the growth recorded for the fund administration and investment management business. The details are as follows:

PGK Millions	Full Year Ended		
	31-Dec-19	31-Dec-18	Change (%)
Banking			
Foreign exchange income	42.0	34.5	22%
Fees and commissions	18.8	8.4	124%
Other	0.4	(1.0)	(140%)
Total	**61.2**	**41.9**	**46%**
Wealth Management			
Fund Administration	18.3	16.2	13%
Investment Management	10.1	8.8	15%
Shares	0.9	0.9	0%
Other	0.3	2.7	(89%)
Total	**29.6**	**28.6**	**3%**
Other			
Other	0.2	3.6	(94%)
Total	0.2	3.6	(94%)
Total	**91.0**	**74.1**	**23%**

1.2.9 Operating Expenses

Total operating costs for full year 2019 were PGK 117.3m, an increase of 34% compared to FY2018 with cost to income ratio at 57.0% compared to 54.1% same period last year.

Staff costs (contributing 50% of operating expense increase) and Administrative expense (contributing 24% of operating expense increase) were the key areas that incurred cost increases. This is in line with the organisational restructure required to deliver business post the acquisition. There was also an increase in business volumes which required a spend in non-capital licensing and software related costs, as well as the impact of change to IFRS 16 standards.

Figures in PGK Million	Full Year Ended		
	31-Dec-19	31-Dec-18	Change (%)
Administration	28.3	19.9	42%
Staff	58.4	44.8	30%
Occupancy	21.7	13.8	57%
Other Operating expenses	3.6	3.8	(5%)
Board of Directors cost	1.6	1.7	(6%)
Acquisition/Integration	3.1	2.9	7%
Investor Relationship	0.6	0.5	20%
	117.3	**87.4**	**34%**

While the cost to income ratio has increased to 57.0% , it is related to Kina's growth strategy and capability build. Management's focus on this important ratio has not wavered.

1.2.10 Asset Quality and Loan Impairment

1.2.10.1 Existing Loan Book

Figures in PGK Million	Full Year			
	Dec19	% of GLA	Dec18	% of GLA
Loan impairment expense	5.6	0.51%	5.1	0.59%
Non-performing loans and loans in arrears	49.5	4.50%	17.7	2.03%
- 90 day arrears	33.3	3.03%	5.5	0.63%
- Gross non-performing loans (> 180 days)	16.2	1.47%	12.2	1.40%
Total provision	20.5	1.87%	18.4	2.11%

The company utilises an internal risk grading model which takes into account quantitative and qualitative factors in grading individual exposures with each grade having an associated 'loss rate'. Default stages are applied depending on the aging and/or any adverse change in the risk grade since origination. The total level of provisions held includes an allowance for model and economic risk.

As at 31 December 2019, loan impairment expense as a percentage of GLA remained low compared to the same period last year at PGK 5.6m or 0.51% of GLA. This is a consequence of continued application of disciplined lending standards across the Bank's portfolio.

Non-performing loans (**NPL**) increased to 4.5% of GLA compared to 2.03% in the corresponding prior year. These related to 6 connections that were downgraded during the year. Management has commenced engagement with these connections and resolution programs have commenced. We believe these loans are well collaterlaised.

The coverage ratio has decreased to 41% however still remains above internal benchmark of 40%.

1.2.10.2 Acquired Loan Book

Figures in PGK Million	Full Year			
	Dec19	% of GLA	Dec18	% of GLA
Loan impairment expense	0.0	0.0%	0.0	0.0%
Non-performing loans and loans in arrears	42.5	12.6%	0.0	0.0%
- 90 day arrears	15.1	4.5%	0.0	0.0%
- Gross non-performing loans (> 180 days)	27.4	8.1%	0.0	0.0%
Total provision	15.3	4.5%	0.0	0.0%

Total NPLs were 12.6% of GLA on the acquired loan book from ANZ. Home loans constituted 56% of total NPL with 44% in commercial and secured consumer loans. Based on our initial investigation, we belive that the majority of these loans are also well collateralised.

Since ANZ Acquisition, management has commenced actions to restore the financial performance on these loans. Improvements have been noted in the 3 months and this action will continue into 2020. Management has put measures in train to reduce these levels in 2020.

The Bank fair valued the acquired loans on the date of acquisition under the requirements of IFRS 3 and recognised the adjustment directly against gross loans without factoring any initial loss allowance. In assessing the level of the provision amount transferred on acquisition date, the table above shows the fair value of the provision at reporting date. This has been presented to show the unadjusted ratio as a percentage of GLA.

1.2.10.3 Expected Credit Loss (ECL) on total loan book

The ECL approach, which requires predicting the probability of default events occurring in the future, measures and recognises impairment losses on financial assets.

Acquired loans were assessed using the existing ECL model as if the loans were originated by the Group rather than acquired from ANZ. No additional provision was taken at year-end due to immaterial impact.

In line with recognition and measurement principles of IFRS 3 and IFRS 9, the table below shows the ECL of the total loan book portfolio by risk grade as required by IFRS 9. The acquired loan book is presented on a 'net amount' basis within gross loans in accordance with IFRS3 and IFRS 9 requirements.

Loans and advances to customers at amortised cost: PGK'm	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total Dec 2019	Total Dec 2018
Grade A-D: Low to fair risk	1,293.7	47.1	0.1	1,340.9	806.6
Grade E: Monitoring	23.6	7.2	-	30.8	37.7
Grade F: Substandard	5.9	17.1	0.9	23.9	9.2
Grade G: Doubtful	1.4	2.4	0.6	4.4	4.5
Grade H: Impaired	-	-	22.0	22.0	2.2
Not Graded	-	-	-	-	9.9
Total Gross Carrying Amount	**1,324.6**	**73.8**	**23.6**	**1,422.0**	**870.1**
Loss allowance	(12.1)	(6.7)	(1.7)	(20.5)	(18.4)
Carrying Amount	**1,312.5**	**67.1**	**21.9**	**1,401.5**	**851.7**

1.2.11 Capital Adequacy

BPNG Prudential Standard 1/2003 *Capital Adequacy* prescribes ranges of overall capital adequacy ratios and leverage capital ratios to measure whether a bank is adequately capitalised. Kina exceeds the existing BPNG prudential capital adequacy requirements and qualifies as 'well capitalised' as at 31 December 2019.

Each "Authorised Institution" within the Kina Group is required to comply with prudential standards issued under the PNG BFI Act by BPNG, the official authority for the prudential supervision of banks and relevant financial institutions in PNG. Kina Bank Limited is the Authorised Institution and reporting entity under the Kina Group and the reported ratios are in respect of Kina Bank Limited.

Regulatory Capital Ratios	31-Dec-19	31-Dec-18
PGK'million		
RWA	**1,583**	**980**
Capital: T1	270	234
Capital: T2	71	49
Capital: T1 + T2	341	283
Capital adequacy Ratio: T1	17%	24%
Capital adequacy: T2	4%	5%
Capital adequacy: T1 + T2	21.5%	28.9%
Leverage Ratio	8.9%%	13.9%

Capital ratios at the end of December 2019 remained above BPNG's requirement, with combined T1 and T2 capital equal to 21.5% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. The Bank also has maintained leverage ratio at 8.9% above BPNG minimum requirement of 6%.

The Bank's capital adequacy ratio is still above the minimum requirements for a well capitalised bank as set by BPNG,. The reduction is due to the deployment of capital to complete the acquisition and a consequent increase in risk weighted assets and total assets.

The objective of Kina's Capital Management Plan is to maintain a strong, profitable financial risk profile and capacity to meet financial commitments. Capital adequacy and liquidity ratios are monitored against internal targets and triggers that are set over and above minimum capital requirements set by the Board. These are reviewed on a monthly basis by the Asset and Liability Committee.

2. Consolidated Financial Statements

2.1 Statement of Comprehensive Income – consolidated

Figures in PGK Million	Full Year Ended 31-Dec-19	31-Dec-18	Change
Continuing Operations			
Interest income on investments	36,129	22,281	62%
Interest income on loans	110,353	90,527	22%
Interest expense	(31,901)	(25,232)	26%
Net interest income	**114,581**	**87,576**	**31%**
Fee and commission income	47,878	36,401	32%
Fee and commission expense	(93)	(50)	86%
Net fee and commission income	**47,785**	**36,351**	**31%**
Foreign exchange income	41,956	34,201	23%
Dividend income	357	327	9%
Net (losses)/gain from financial assets through profit and loss	153	106	44%
Other operating income	734	3,089	(76%)
Non-interest income	**90,985**	**74,074**	**23%**
Operating income before impairment losses and operating expenses	**205,566**	**161,650**	**27%**
Impairment losses	(5,646)	(5,070)	11%
Other operating expenses	(117,227)	(87,377)	34%
Profit before tax	**82,693**	**69,203**	**19%**
Income tax expense	(21,822)	(21,110)	3%
Net Profit for the half year attributable to the equity holder of the Company	**60,871**	**48,093**	**27%**
Other comprehensive income	-	-	0%
Total comprehensive income for the half year attributable to the equity holder of the Company	**60,871**	**48,093**	**27%**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the full year ended 31 December 2019. The above information is in the process of being audited at the time of this report.

2.2 Statement of financial position – consolidated

	31-Dec-19 PGK'000	31-Dec-18 PGK'000	Change %
Assets			
Cash and due from banks	297,826	85,638	248%
Central bank bills	722,090	396,154	82%
Regulatory deposits	249,713	137,494	82%
Financial assets at fair value through profit and loss	7,636	4,907	56%
Loans and advances to customers	1,401,481	851,663	65%
Investments in government inscribed stocks	34,003	34,195	(1%)
Deferred tax assets	10,491	7,193	46%
Property, plant and equipment	97,252	12,108	703%
Goodwill	92,786	92,786	0%
Intangible assets	48,917	26,432	85%
Other assets	45,347	13,424	238%
Total Assets	**3,007,542**	**1,661,994**	**81%**
Liabilities			
Due to other banks	(22)	(25,065)	(100%)
Due to customers	(2,479,933)	(1,315,460)	89%
Current income tax liabilities	(3,696)	(8,154)	(55%)
Employee provisions	(9,068)	(6,251)	45%
Other liabilities	(187,547)	(37,795)	396%
Total Liabilities	**(2,680,266)**	**(1,392,725)**	**92%**
Net Assets	**327,276**	**269,269**	**22%**
Share capital and reserves			
Issued and fully paid ordinary shares	(176,970)	(142,213)	24%
Share-based payment reserve	(2,063)	(2,651)	(22%)
Retained earnings	(148,243)	(124,405)	19%
Total capital and reserves	**(327,276)**	**(269,269)**	**22%**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the full year ended 31 December 2019. The above information is in the process of being audited at the time of this report.

2.3 Statement of changes in equity – consolidated

	Share Capital PGK'000	Capital Reserve PGK'000	Share based payment Reserve PGK'000	Retained Earnings PGK'000	Total PGK'000
Balance as at 31 December 2017	142,213	-	1,558	112,931	256,702
Effect of adoption of IFRS 9 Financial Instruments	-	-	-	(3,820)	(3,820)
Balance as at 1 January 2018	**142,213**	**-**	**1,558**	**109,111**	**252,882**
Profit for the period	-	-	-	48,093	48,093
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme - vested rights			(423)		(423)
Employee share scheme - value of employee services	-	-	1,516	-	1,516
Dividend paid	-	-	-	(32,799)	(32,799)
Balance as at 31 December 2018	**142,213**	**-**	**2,651**	**124,405**	**269,269**
Effect of change in accounting policy - IFRS 16				(725)	(725)
Balance as at 01 January 2019	**142,213**	**-**	**2,651**	**123,680**	**268,544**
Profit for the period	-	-	-	60,871	60,871
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme - vested rights	-	-	(1,430)	-	(1,430)
Employee share scheme - value of employee services	-	-	842	-	842
Dividend paid	-	-	-	(36,308)	(36,308)
Issued capital	34,757		-	-	34,757
Balance as at 31 December 2019	**176,970**	**-**	**2,063**	**148,243**	**327,276**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the full year ended 31 December 2019. The above information is in the process of being audited at the time of this report.

2.4 Statement of Cashflow – consolidated

	31-Dec-19	31-Dec-18
	PGK'000	PGK'000
Cash flows from operating activities		
Interest received	146,984	112,691
Interest paid	(32,835)	(23,525)
Dividend received	357	327
Fee, commission and other income received	92,487	68,174
Fee and commission expense paid	(93)	(50)
Net trading and other operating income received	887	3,195
Recoveries on loans previously written-off	1,991	1,725
Cash payments to employees and suppliers	(130,424)	(98,032)
Income tax paid	(30,635)	(13,561)
Cash flows from operating profits before changes in operating assets	**48,719**	**50,944**
Changes in operating assets and liabilities:		
- net increase in regulatory deposits	(112,218)	(30,671)
- net increase in loans and advances to customers	(554,964)	(118,579)
- net increase / (decrease) in other assets	(35,547)	763
- net increase in due to customers	1,150,036	293,027
- net (decrease) / increase in due to other banks	(13,122)	21,145
- net increase in other liabilities	150,686	2,593
Net cash flows from operating activities	**633,590**	**219,222**
Cash flows from investing activities		
Purchase of property, equipment and software	(61,880)	(14,999)
Proceeds from sale of property and equipment	16	19,912
Purchase of investment securities	(400,744)	(139,602)
Net cash flows from investing activities	**(462,608)**	**(134,689)**
Cash flows from financing activities		
Dividend payment	(36,308)	(32,799)
Net cash flow from financing activities	**(36,308)**	**(32,799)**
Net increase in cash and cash equivalents	134,674	51,734
Effect of changes in the foreign exchange rates on cash and cash equivalents	2,514	6,391
Cash and cash equivalents at beginning of period	**160,638**	**102,513**
Cash and cash equivalents at the end of the period	**297,826**	**160,638**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the full year ended 31 December 2019. The above information is in the process of being audited at the time of this report.

2.5 Basis of Preparation

The accounting policies, estimation methods and measurement basis used in the preparation of the consolidated financial statements for the full year ended 31 December 2019 are consistent with those used in preparing the 31 December 2018 financial statements of the Group.

2.6 Non-Cash Financing and Investing Activities

There are no financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flow.

2.7 Reconciliation of Cash and Cash Equivalents

	31 Dec 2019 PGK'000	31 Dec 2018 PGK'000
Cash and due from other banks	**297,826**	85,638
Central bank bills (maturity less than 3 months)	**0**	75,000
Total cash at the end of the period	**297,826**	160,638

2.8 Ratios

	31-Dec-19	31-Dec-18
Profit before tax / Operating Income Consolidated profit from ordinary activities before tax as a percentage of revenue	40.2%	42.8%
Profit after tax / equity interests Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	18.60 %	17.90%

2.9 Earnings Per Share

Details of basic and diluted EPS reported separately in accordance with *IAS33 Earnings Per Share* are as follows.

	31-Dec-19	31-Dec-18
Calculation of the following in accordance with IAS33		
(a) Basic EPS	35.7	29.3
(b) Diluted EPS	35.5	29.0
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	174,745,169	163,993,253

2.10 Details of aggregate share of profits (losses) of associated entity

The company has no significant investment in associates. There are also no material interests in entities that are not controlled entities.

2.11 Issued Shares

The total number of shares at 31 December 2019 was 174,745,169 (31 December 2018: 163,993,253).

Issued Ordinary Shares	Total Number Ordinary shares	Number Quoted Ordinary shares
Changes during the year ended 31 December 2019		
Opening Balance of number of shares	163,993,253	163,993,253
Increase through issue of shares 2019	10,751,916	10,751,916
Total	**174,745,169**	**174,745,169**

2.12 Segment Reporting

31 Dec 2019	**Banking PGK'000**	**Wealth Management PGK'000**	**Corporate PGK'000**	**Total PGK'000**
Total external income	176,509	28,735	322	205,566
Total external expense	(67,683)	(10,773)	(44,417)	(122,873)
Profit before inter-segment revenue and expenses	**108,826**	**17,962**	**(44,095)**	**82,693**
Inter-segment income	1,779	910	46,838	49,527
Inter-segment expense	(40,194)	(7,318)	(2,015)	(49,527)
Profit before tax	**70,411**	**11,554**	**728**	**82,693**
Income tax expense	(19,452)	(3,314)	945	(21,821)
Profit after tax	**50,959**	**8,240**	**1,673**	**60,871**
Segment assets	**2,838,400**	**16,821**	**152,320**	**3,007,541**
Segment liabilities	**(2,669,039)**	**(2,273)**	**(8,953)**	**(2,680,265)**
Net assets	169,361	14,548	143,367	327,276
Capital expenditure	(61,088)	-	(792)	(61,880)
Depreciation	(10,452)	-	(6,581)	(17,033)

31-Dec-18	Banking PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
Total external income	129,374	28,606	3,670	161,650
Total external expenses	(46,143)	(13,485)	(32,819)	(92,477)
Profit before inter-segment revenue and expenses	**82,231**	**15,121**	**(29,149)**	**69,203**
Inter-segment income	3,281	548	36,168	39,997
Inter-segment expenses	(32,174)	(6,304)	(1,519)	(39,997)
Profit before tax	**54,338**	**9,365**	**5,500**	**69,203**
Income tax expense	(16,833)	(2,692)	(1,585)	(21,110)
Profit after tax	**37,505**	**6,673**	**3,915**	**48,093**
Segment assets	1,667,333	80,282	85,621	1,661,994
Segment liabilities	(1,390,711)	(36,097)	34,083	(1,392,725)
Net assets	**276,622**	**44,185**	**51,538**	**269,269**
Capital expenditure	10,911	-	4,088	14,999
Depreciation	(3,449)	-	(3,308)	(6,757)

2.13 Comparison of Profits

	31-Dec-19 PGK'000	31-Dec-18 PGK'000	31-Dec-17 PGK'000
Consolidated profit from continuing operations after tax attributable to members reported for the full year	60,871	48,094	23,011

2.14 Contingent Liabilities

The company is a party to 15 litigations as at 31 December 2019.. The consolidated financial statements include provision for any losses where there is reasonable expectation that the litigations will result in a loss to the company. Ongoing litigations are not expected to result in a material loss to the Group.

The Group guarantees the performance of customers by issuing stand-by letters of credit and guarantees to third parties. As at 31 December 2019, these totalled PGK 70.4m (31 December 2018: PGK 45.9m).

3. Compliance Statement

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX and to PNGX.

Identify other standards used: **International Financial Reporting Standards**

2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies

3. This report gives a true and fair view of the matters disclosed (see note 2)

4. This report is based on accounts to which one of the following applies.

[ ]	**The accounts have been audited**
[ ]	**The accounts have been subject to review**
[x]	**The accounts are in the process of being audited or reviewed**
[ ]	**The accounts have not yet been audited or reviewed**

5. The entity has a formally constituted audit committee.