



Kina Securities Limited **2016 Full Year Results**

Incorporating the requirements of **Appendix 4E**



ASX Appendix 4E

For the Year to 31 December 2016

Results for announcement to the market

Comparisons of year to 31 December 2016 are with the year to 31 December 2015

Preliminary Final Report for the year ended 31 December 2016

Revenue from ordinary activities (K Millions)	117.0	Up 68%
Profit/(loss) from ordinary activities After tax attributable to equity holders (K Millions)	41.0	Up 727%
Net profit/(loss) for the period attributable to equity holders (K Millions)	41.0	Up 727%
Dividends (distributions)		
Final dividend - unfranked (AUD cents per share)		3.95
Final dividend - unfranked (PGK toea per share)		10.00
Full Year dividend - unfranked (AUD cents per share)		8.04
Full year dividend - unfranked (PGK toea per share)		20.00

The final dividend is converted based on an exchange rate: 1 PGK = 0.3953 AUD.
Record date for determining entitlements to the dividend – 3 March 2017

The above results reflect the contribution of the banking business of Maybank PNG acquired in September 2015.

The numbers as reported in respective tables to this report, for the year ended 31 December 2016 are numbers that are in the process of being audited.

This report should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2016 in Section 2.

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

Directors

The directors present this report together with the consolidated financial report for the year ended 31 December 2016.

Directors:

The directors of the company during or since the end of the year are:

Sir Rabbie Namaliu, Chairman

Syd Yates, CEO and Managing Director

Wayne Golding

Jim Yap

David Foster

Isikeli Taureka

Appointed - 18 May 2016

Karen Smith-Pomeroy

Appointed - 12 Sept 2016

Chetan Chopra, Company Secretary

Appointed - 21 June 2016

Peter Ng Choong Joo

Ceased -18 May 2016

Don Manoa

Ceased -18 May 2016

Hilary Wong

Ceased -18 May 2016

Kong Wong, Company secretary

Ceased -21 June 2016

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1. Results Overview

Kina Securities continues Strong Profit Growth and maintains Dividend

Results Highlights

	Full Year Ended			Half Year Ended		
	Dec 16	Dec 15	Change (%)	Dec 16	Jun 16	Change (%)
Net profit after tax (PGK m)	41.0	5.0	727	20.5	20.5	-0
Net interest margin (%)	8.3	8.8		8.7	9.4	
Cost to income ratio (%)	47.5	62*		46.7	48.3	
Loan impairment expense	2.8	3.0		0.3	2.5	
Capital adequacy (T1+T2) (%)	30	37		30	34	
Net loans and advances (PGK m)	606	374	62	606	437	39
Return on equity (Annualised) (%)	15.9	9.6**	66	15.9	16.2	
Dividend (PGK Toea per share)	20.0	9.9		10.0	9.9	
Dividend (AUD cents per share)	8.04	3.4***		3.95	4.09	

* Ratio calculated excluding IPO-related and acquisition costs of PGK11.1 million

** NPAT includes IPO-related and acquisition costs on the average equity balance

***Dividends for 31 December 2015 were pro rata for four months

Operating performance and earnings

Kina Securities Limited (KSL) has reported a Net Profit of PGK41.0 million for the year to 31 December 2016, up from PGK4.9 million in the prior year. The step change in earnings has been achieved through the acquisition of the Maybank PNG business in September 2015, and from strong organic growth achieved during the year to December 2016.

Directors have declared a final dividend of PGK10 Toea per share, taking the full year dividend to PGK20 Toea per share compared with PGK Toea 9.9 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\$0.034 per share paid for the full year to December 2015.

The merger of Kina with the Maybank business created a new financial services leader in PNG and provided a solid base for Kina to build its market position in the year to December 2016.

Operational highlights

The following operational initiatives contributed to the strong financial result:

- Excellent progress in the banking business, with 62% growth in lending to PGK606 million, driven by improved customer service, leveraging the Kina brand, investing in people and strengthening management, in addition to the introduction of attractive new product offerings.
- Continued strong growth in deposits, which rose 40% to PGK958 million, due to new products and enhanced customer service.
- The number of term deposits accounts increased by 46%, savings account numbers rose 35% and cheque account numbers grew by 11%. While acknowledging this was from a low base, there is strong potential for future growth.

- Continued strong asset quality monitoring and arrears management with non-performing loans at 5.7% of Gross Loans and Advances and maintaining a strong Coverage ratio of above 200%
- Continued focus on managing impairment expense and follow up actions. During the year despite loan growth, the impairment expense was at PGK2.8 million, which was 0.5% of Gross Loans and Advances.
- The Banking business committed further investment to upgrades and new innovative technology platforms, enabling increased customer access and service. Core banking systems were improved significantly, enabling new product offerings and upgraded online services. During the year, Kina customers were also provided with access to all ATMs in PNG, in addition to a vast network of EFTPOS terminals.
- The Wealth business achieved several major milestones during the year, lifting Funds Under Management by 13% to PGK6.2 billion and Funds Under Administration by 15% to PGK5.6 billion.
- Kina Funds Administration won a competitive tender to secure PNG's largest superannuation fund, Nasfund, as a client. This will lift funds under administration by PGK4 billion.
- Kina has invested in new technology platforms that will ensure greater superannuation customer access and service capabilities for the Funds.
- Kina is now able to leverage relationships with all three major PNG superannuation funds (Nasfund, Nambawan Super and Comrade Trustees Services). This provides opportunities including greater cross-selling of banking and wealth products to a large and affluent customer base in excess of 700,000 superannuation fund members.

The bank recorded net interest income of PGK65.1 million for the year, up 52% from the previous corresponding period. This has been achieved in a more competitive banking environment in PNG, resulting in a slight reduction in the net interest margin to 8.3%. The strong margin performance compares with average net interest margins for the major banks in Australia of approximately 2%.

Non-interest income increased to PGK51.8 million for the year, from PGK26.8 million in 2015, with the increase primarily driven by higher foreign exchange (FX) income, which totalled PGK20.9 million. FX income grew strongly, however the growth was affected by the withdrawal of the Company's former correspondent banking partner for USD in the last quarter of 2016. This comes at a time when a number of major banks have curtailed their business models in developing countries.

Total operating income increased by 68% to PGK117.0 million compared with the prior year. This reflected the solid performance of the Banking and Wealth Management divisions as new operational initiatives, and strong customer acquisitions drove top line growth.

The Wealth Management division recorded a contribution of PGK19.2 million, compared with PGK17.9 million in the previous corresponding period.

Overall asset quality remains sound. The loan impairment expense decreased to PGK2.8 million, from PGK3 million in the prior year. Impairment expense as a proportion of Gross Loans and Advances (GLA) remained low at just 0.5%. Gross non-performing loans were just PGK2 million, equal to 0.3% of GLA.

Operating expenses for the year totalled PGK55.6 million, which resulted in a cost to income ratio of 47.5%, down from 61.9% in the prior year.

The underlying capital of the business remains strong, with regulatory capital (T1+T2) at 30% of risk weighted assets (RWA), compared with regulatory required minimum of 12%.

Outlook

The PNG economy grew by approximately 2% in 2016. According to the Supplementary Budget issued by the PNG Department of Treasury, the PNG economy is forecast to grow by 2.8% in the current year, during which the National election will be conducted. There are also some positives for the economy on the immediate 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, could also potentially gain approval in 2018. The APEC Summit in 2018 is also likely to provide some short-term opportunities in domestic tourism and construction.

The market segments that are the focus of the Kina business remain resilient, and following the strengthening of the management team during 2016, various new business initiatives are being implemented to ensure Kina maintains its strong growth trajectory.

As advised to the market in November 2016, foreign exchange earnings have been 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 expects to have a solution in place by the second quarter of the calendar year. In the meantime, however, foreign exchange earnings will be affected. The estimated FX income in the first half of 2017 will be similar to that in the second half of 2016.

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. The ability to leverage PNG's three largest superannuation funds provides a significant database of large and affluent members which can be offered a suite of Banking and Wealth products and services
- 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 such as mobile applications for retail customers and mobile applications and internet banking for corporate clients.
- Providing increased convenience for our customers including the launch of a new branch at Vision City mall in Port Moresby in May 2017.
- Finalising and expanding correspondent banking partnerships to reduce the costs and risks associated with interruptions to these services.

The Company expects to achieve the following targets for 2017:

- Net interest margin of 7-9%
- Cost to income ratio of 45-50%, balancing investment for growth and cost management
- Profitable, quality lending growth
- Continued growth of the low cost deposit base
- Strong prudential position and conservative capital adequacy.

1.1 Disclosure and Context

Financial Reporting

Kina Securities completed an initial public offering and was listed on the ASX and Port Moresby Stock Exchange in July 2015. The statutory result for the year to December 2016 included full year results from the combined operations of both Kina Securities Limited and its subsidiaries and the Maybank operations which were acquired in September 2015.

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 or POMSx, 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 (PNG currency) unless otherwise stated.

1.2 Profit results for the Year to December 2016

1.2.1 Statutory Results

PGK 000	Full Year Ended			Half Year Ended		
	Dec 16	Dec 15	Change (%)	Dec 16	Jun 16	Change (%)
Interest income	77,268	52,298	48	41,943	35,325	19
Interest expense	(12,140)	(9,438)	29	(8,053)	(4,087)	97
Net interest income	65,128	42,860	52	33,890	31,238	8
Net fee and commission income	28,085	17,447	61	12,648	15,437	(18)
Foreign exchange income	20,858	7,754	169	7,921	12,937	(39)
Dividend income	111	188	(41)	37	74	(50)
Net gain / (losses) from financial assets through profit and loss	587	(499)	218	87	500	(83)
Other operating income	2,205	1,916	15	692	1,513	(54)
Operating income before impairment losses and other operating expenses	116,974	69,666	68	55,275	61,699	(10)
Impairment losses	(2,787)	(2,962)	(6)	(256)	(2,531)	(90)
Other operating expenses	(55,617)	(54,819)	1	(25,817)	(29,800)	(13)
Profit before tax	58,570	11,885	393	29,202	29,368	(1)
Income tax expense	(17,595)	(6,929)	154	(8,726)	(8,869)	(2)
Net profit	40,975	4,956	727	20,476	20,499	(0.1)

1.2.2 Dividends

	Dec 16	Jun 16	Dec 15
Earnings per share (PNG Toea)	12.5	12.5	0.3
Earnings per share (A cents)	5.4	5.1	0.14
Dividends per share (A cents)	3.95	4.09	3.4

1.2.3 Lending

PGK Million	As at:			As at:		
	Dec 2016	Dec 2015	Change (%)	Dec 2016	Jun 2016	Change (%)
Overdrafts	60	64	-5	60	69	-12
Term Loans	416	197	111	416	245	70
Housing Loans	104	94	10	104	100	3
Esi Loans	26	19	37	26	23	13
Total	606	374	62	606	437	39

The lending book totalled PGK606 million at the year end, which was up 62% from PGK374.1 million at 31 December, 2015. The rapid growth was mainly achieved in the business lending segment, with term loans increasing from PGK197 million to PGK416 million at year end. This was achieved through recruitment of high calibre business lending executives, with a track record of providing excellent service levels to their customers. Kina continues to compete on service rather than price, however there are signs of some easing in lending rates due to competitor activities.

The EsiLoan consumer lending product showed strong growth after being relaunched at the beginning of the year with increased marketing and promotional activities and enhanced access to the product. Kina worked with a number of corporate customers to increase penetration of the EsiLoan product.

Customer service was enhanced during the year as banking interconnect infrastructure was implemented and agreements were reached with BSP, Westpac and ANZ to enable Kina customers to access cash through any Automatic Teller Machine (ATM) in the country. Kina customers can now use more than 100 PNG ATMs, compared with three Kina ATMs previously in Port Moresby. New agreements also have been reached with BSP, Westpac and ANZ to enable Kina debit card customers to access their EFTPOS network of more than 12,000 terminals.

In addition, upgrading of the branch network continued during the year, with a major refurbishment of the new concept branch located at Vision City Shopping Centre currently under way and due for completion in April 2017 providing a full range of services.

Kina has 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 new products to be added, on-line services expanded and new synergies between the Banking and Wealth Management businesses identified. This project is expected to continue in 2017 with further investment in systems to drive new business growth.

1.2.4 Funding

PGK Million	As at:			As at:		
	Dec 2016	Dec 2015	Change (%)	Dec 2016	Jun 2016	Change (%)
On call	397	403	(1)	397	350	7
1 month	89	39	7	89	62	4
2 months	105	40	9	105	30	12
3 months	72	79	(1)	72	71	1
6 months	289	61	33	289	40	39
12 months	2	63	(9)	2	77	(12)
24 months	4	1	0	4	4	0
Total	958	686	40	958	634	51

At the end of December 2016 deposits totalled PGK958 million, which significantly exceeded the size of the loan book at PGK606 million, and gave a deposit to loan ratio of 158%.

Total deposits increased by 40% compared with December 2015, with growth driven by the introduction of new term deposit products that have been well received by the customer base. During the year Kina grew the number of term deposits accounts by 46%, while saving account numbers went up 35% and cheque account numbers by 11%.

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

The average cost of funds was 1.53%. Competition in the market for deposits raised the cost of borrowing in particular for long term deposits, and the portfolio is now being reweighted to durations of between 6 months and 1 year.

1.2.5 Net interest Margin

PGK Million	Full Year Ended			Half Year Ended		
	Dec 16	Dec 15	Change (%)	Dec 16	Jun 16	Change (%)
Net interest income	65.1	42.9	52	33.9	31.2	9
Average interest earning assets	786	486	62	776	668	16
Average yield on interest earning assets (%)	9.8	10.8	(9)	10.8	10.6	2
Average interest bearing liabilities	794	447	78	772	659	17
Average cost on interest bearing liabilities (%)	1.5	2.1	(29)	2.1	2.6	(19)
Interest spread (%)	8.3	8.7	(5)	8.7	8.0	9
Net interest margin	8.3	8.8	(6)	8.7	9.4	(7)

Net interest income totalled PGK65.1 million for the year compared to PGK42.9 million in the same period last year. Total Interest income of PGK77.3 million included PGK17.1 million derived from investment securities (principally PNG central bank and treasury bills) paying an average interest rate of 5.8%, as well as PGK60.2 million from loans and advances at an average interest rate of 12.2%, leaving the average yield on interest earning assets at 9.8%. This is down slightly from the prior year due to reduced interest rates on government securities.

Kina is continuing to restructure its investment portfolio to achieve an optimal mix of liquidity and returns. This included lengthening the duration of investments to maximise yields. This is also reviewed from an asset liability matching perspective to ensure loan growth and maturities.

Interest spread remained strong at 8.3%. This is the difference between average yield on interest earning assets and the average cost on interest bearing liabilities.

1.2.6 Non-interest Income

PGK Million	Full Year Ended			Half Year Ended		
	FY 2016	FY 2015	Change (%)	Dec-16	Jun-16	Change (%)
Banking						
Foreign exchange income	20.6	7.8	164	8.2	12.4	(34)
Other fee income	7.5	0.0*	n/a	4.0	3.5	(15)
Total	28.1	7.8	260	12.2	15.9	(23)
Wealth Management	18.5	17.1	8	7.5	11.0	(32)
Other	5.3	2.0	165	1.6	3.7	(57)
Total	51.9	26.9	93	21.3	30.6	(30)

* This portion of fees were classified under interest for the 2015 reporting period

Non-interest income for the year to 31 December 2016 totalled PGK51.8 million, which was up 93% compared with the prior year due to substantial increases in foreign exchange and Other Fee income.

Foreign exchange income reduced in the second half to PGK8.2 million due to inability to conduct US dollar transactions following the withdrawal of the Company's correspondent banking partner. Kina has identified a replacement potential partner and expects to resume normal foreign exchange services in the second quarter of 2017.

Fee income from banking operations totalled PGK7.5 million for the year. Net Fee income reduced by PGK 2.8 million in the second half. The income in the first half included recharge of capital projects for fund administration systems which was completed in June 2016.

Wealth Management income totalled PGK18.5 million. This includes income of PGK8.5 million from Funds Administration and 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. Contracts to provide fund administration services to our two major clients were renewed for extended periods.

A highlight for the year was winning a competitive tender for the provision of administration services for the National Superannuation Fund (Nasfund). This will lead to a K4billion increase in Funds Under Administration (FUA) in the second half of 2017 to more than K9 billion, and will add 500,000 members. This will represent over 95% of the overall superannuation membership in Papua New Guinea.

Wealth Management IT capabilities were also upgraded during 2016, with the core superannuation administration systems enhanced to develop reporting capabilities and customer reporting. These functionalities will assist in new business generation.

1.2.7 Operating Expenses

Total operating costs for the period were PGK55.6 million and was marginally higher by 1% compared to prior year.

Underlying costs increased due to further investment in the growth of the business, with higher staff and administrative expenses, as well as additional costs related to IT and software. Core banking and superannuation systems have been upgraded over the past year to provide increased functionality and better products for our customers, and to provide greater understanding of customer needs. Additional key staff have been employed across the business, including in executive management roles, in business banking, IT and risk management to ensure the Company has the expertise to grow profitably. Staff costs make up approximately half of the cost base of the business.

The cost to income ratio, however, remained competitive at 47.5% for the year, and it reduced to 46.7% in the second half.

1.2.8 Asset Quality and Loan Impairment

PGK Million	Full Year to Dec 16		Half Year to Dec-16		Half Year to Jun 2016	
		% of GLA		% of GLA		% of GLA
Loan impairment expense	2.8	0.5%	0.3	0.05%	2.5	0.6%
Non-performing loans and loans in arrears	35.2	5.7%	35.2	5.7%	24.1	5.4%
- 30 day arrears	30.2	4.9%	30.2	4.9%	10.2	2.3%
- 90 day arrears	3.0	0.5%	3.0	0.5%	7.9	1.8%
- Gross non-performing loans	2.0	0.3%	2.0	0.3%	6.0	1.3%
Total provision	11.9	1.9%	11.9	1.9%	13.6	3.0%

Overall asset quality remains sound, with a loan impairment expense of PGK2.8 million for the year, equivalent to 0.5% of gross loans and advances. The low level of impairments reflects the disciplined lending standards and sound quality of loans in the Kina book.

Kina continues to be prudent in its levels of provisions. Total provisions are equivalent to 1.9% of gross loans and advances, which compares with the minimum statutory requirement of 1.47% including specific provisioning. Provisioning levels have been reduced over the June half due to sustained low levels of losses being experienced. This was supported by strong discipline in arrears recovery and follow up management.

The quality of the loan book is further reflected in the high Coverage Ratio at greater than 200%. Kina adopts the industry standard methodology of measuring loan loss provision cover against the balance of greater than 90 days impaired balances.

During the year Kina appointed a dedicated Head of Credit with extensive experience in credit risk management within both Australia and PNG. Enhancements to credit risk analytical processes and tools, especially for the business portfolio, will ensure growth in the portfolios continues to be sustainable.

Kina maintains a disciplined approach to portfolio concentrations across both the business and personal lending portfolios and has enhanced its portfolio monitoring capability during the year.

Kina has enhanced its internal audit capabilities with the outsourcing of a material part of the function to an international accounting firm. This will result in improved access to better practice opportunities and the ability to develop additional capability internally within the business.

1.2.9 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 under, adequately or well capitalised. Kina exceeds the

prevailing BPNG prudential capital adequacy requirements and qualifies as 'well capitalised' at 31 December 2016, providing a strong base for further growth in lending.

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 the Bank.

Regulatory Capital Ratios	FY16	FY15
PGK'million		
Risk Weighted Assets	679	507
Capital: T1	166	170
Capital: T2	40	20
Capital: T1 + T2	206	190
Capital adequacy Ratio: T1	24%	34%
Capital adequacy: T2	6%	4%
Capital adequacy: T1 + T2	30%	38%
Leverage Ratio	8.5%	13.0%

Capital ratios at the end of December 2016 remained strong, with combined T1 and T2 capital equal to 30% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. Capital adequacy ratios have reduced slightly over the year, as expected, to fund growth. The Bank also has a strong leverage ratio of 8.5%.

The minimum capital requirements applied are 8% for Tier 1 capital, 12% for Tier 1 plus Tier 2 capital and a 6% leverage ratio.

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.

Given strong ongoing growth opportunities and further investment into new technology initiatives in 2017, it is the Board's intention to maintain its conservative capital position.

2. Consolidated Financial Statements

2.1 Statement of Comprehensive Income – consolidated

	FY 31-Dec-16 PGK'000	FY 31-Dec-15 PGK'000
Continuing Operations		
Interest income	77,268	52,298
Interest expense	(12,140)	(9,438)
Net interest income	65,128	42,860
Fee and commission income	28,154	17,553
Fee and commission expense	(69)	(106)
Net fee and commission income	28,085	17,447
Foreign exchange income	20,858	7,754
Dividend income	111	188
Net gain / (losses) from financial assets through profit and loss	587	(499)
Other operating income	2,205	1,916
Operating income before impairment losses and other operating expenses	116,974	69,666
Impairment losses	(2,787)	(2,962)
Other operating expenses	(55,617)	(54,819)
Profit before tax	58,570	11,885
Income tax expense	(17,595)	(6,929)
Net profit for the year attributable to the equity holder of the Company	40,975	4,956
Other comprehensive income		
Total comprehensive income for the year attributable to the equity holder of the Company	40,975	4,956

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the Year Ended 31 December 2016.

2.2 Statement of Financial Position - consolidated

	AS AT 31 DEC 2016 PGK'000	AS AT 31 DEC 2015 PGK'000
Assets		
Cash and due from banks	148,952	131,251
Central bank bills	216,000	231,665
Regulatory deposits	96,013	45,491
Financial assets at fair value through profit or loss	4,642	4,055
Loans and advances to customers	605,569	374,059
Investments in government inscribed stocks	63,249	64,135
Deferred tax assets	9,638	5,547
Property, plant and equipment	19,635	20,895
Goodwill	93,275	93,275
Intangible assets	5,959	6,864
Other assets	12,409	11,812
Total assets	1,275,341	989,049
Liabilities		
Due to other banks	143	1,729
Due to customers	957,862	685,529
Current income tax liabilities	1,667	1,567
Deferred income tax liabilities	996	140
Employee provisions	3,277	5,408
Other liabilities	53,526	50,209
Total Liabilities	1,017,471	744,583
Net assets	257,870	244,466
Share capital and reserves		
Issued and fully paid ordinary shares	142,005	141,797
Capital reserve	49	49
Share-based payment reserve	1,356	461
Retained earnings	114,460	102,159
Total capital and reserves	257,870	244,466

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the Year Ended 31 December 2016

2.3 Statement of Changes in Equity – consolidated

	Share Capital	Capital Reserve	Share based payment Reserve	Retained Earnings	Total
	PGK'000	PGK'000	PGK'000	PGK'000	PGK'000
Balance as at 31 December 2014	2,000	49	-	97,203	99,252
Profit for the period	-	-	-	4,548	4,548
Other comprehensive income	-	-	-	-	-
Balance as at 30 June 2015	2,000	49	-	101,752	103,801
Profit for the period	-	-	-	407	407
Other comprehensive income	-	-	-	-	-
Additional shares issued through IPO offer - net of transaction costs	139,797	-	-	-	139,797
Employee share scheme	-	-	461	-	461
Balance as at 31 December 2015	141,797	49	461	102,159	244,466
Profit for the period	-	-	-	20,499	20,499
Other comprehensive income	-	-	-	-	-
Employee share scheme	-	-	430	-	430
Dividend paid	-	-	-	(12,657)	(12,657)
Balance as at 30 June 2016	141,797	49	891	110,001	252,738
Profit for the period	-	-	-	20,476	20,476
Other comprehensive income	-	-	-	-	-
Employee share scheme	208	-	465	-	673
Dividend paid	-	-	-	(16,017)	(16,017)
Balance as at 31 December 2016	142,005	49	1,356	114,460	257,870

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the Year Ended 31 December 2016

2.4 Statement of Cashflows - consolidated

	FY 31/12/2016 PGK'000	FY 31/12/2015 PGK'000
Cash flows from operating activities		
Interest received	77,683	50,662
Interest paid	(8,864)	(11,040)
Dividend received	111	188
Fee, commission and other income received	46,444	28,965
Fee and commission expense paid	(69)	(106)
Net trading and other operating income received	2,700	5,980
Recoveries on loans previously written-off	1,036	2,240
Cash payments to employees and suppliers	(60,879)	(53,786)
Income tax paid	(20,728)	(8,603)
Cash flows from operating profits before changes in operating assets and liabilities	37,434	14,500
Changes in operating assets and liabilities:		
- net increase in regulatory deposits	(50,523)	(1,031)
- net increase in loans and advances to customers	(231,512)	(34,561)
- net increase in other assets	3,395	3,847
- net increase/(decrease) in due to customers	272,332	(67,714)
- net decrease in due to other banks	(1,586)	(519)
- net increase/(decrease) in other liabilities	3,319	6,822
Net cash flows from operating activities	32,860	(78,656)
Cash flows from investing activities		
Purchase of property, equipment and software	(2,058)	(5,160)
Proceeds from sale of property and equipment	93	49
Net cash acquired in business combination, net of consideration paid	-	82,666
Purchase of investment securities	(58,518)	38,638
Acquisition of shares	-	(113)
Proceeds from sale of available-for-sale financial assets	-	263
Net cash flows from investing activities	(60,483)	116,343

Cash flows from financing activities		
Dividend payment	(28,675)	-
Proceeds for issuance of share capital, net of transaction costs	-	139,797
Net cash flow from financing activities	(28,675)	139,797
Net increase/(decrease) in cash and cash equivalents	(56,299)	177,484
Cash and cash equivalents at beginning of period	235,251	57,767
Cash and cash equivalents	178,952	235,251

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the Year Ended 31 December 2016.

The net decrease in cash and cash equivalents reflects the funding of growth of the loan book and the adherence to the dividend distribution policy. The Board and management regularly review the cashflow statement to ensure adequate funding of both loan growth and capital investment into new and contemporary technologies.

2.5 Basis of preparation

The accounting policies, estimation methods and measurement basis used in the preparation of the consolidated financial statements for the year ended 31 December 2016 are consistent with those used in preparing the 31 December 2015 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

Reconciliation of cash at the end of the period (as shown in the consolidated statements of cash flows) to the related items in the accounts as follows:

	31 Dec 2016 PGK'000	31 Dec 2015 PGK'000
Cash and due from other banks	148,952	131,251
Central bank bills (maturity less than 3 months)	30,000	104,000
Total cash at the end of the period	178,952	235,251

2.8 Ratios

	31-Dec-16	31-Dec-15
Profit before tax / Operating Income		
Consolidated profit from ordinary activities before tax as a percentage of revenue	50.07%	20.02%
Profit after tax / equity interests		
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	15.89%	3.09%

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-16	30-Jun-16	31-Dec-15	30-Jun-15
Calculation of the following in accordance with IAS33				
(a) Basic EPS	25t	12.5t	0.3t	5.2t
(b) Diluted EPS	25t	12.5t	0.3t	5.2t
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	163,893,253	163,793,253	150,848,033	88,121,935

The movement in issued capital is the issue of 100,000 shares that have vested under the performance rights agreements.

2.10 NTA Backing

	31-Dec-16 PGK	31-Dec-15 PGK
Net tangible asset backing per ordinary share	K0.97	0.92

2.11 Control gained over entities having material effect

Acquisition of the Maybank Group operations

On 30 September 2015, Kina Group, through Kina Ventures Limited (a 100% owned subsidiary of Kina Securities Limited) acquired all of the shares in Maybank (PNG) Limited and Maybank Property (PNG) Limited. The Total Purchase Consideration paid was PGK 348.7 m. Information in respect of this was provided in the Appendix 4E and annual financial statements as at 31 December 2015. As disclosed in the Annual report for 2015, in Note 32(i), certain adjustments to the purchase consideration were to be finalised in 2016 based on a Completion Audit conducted by the independent accountants.

In accordance with the Completion Audit Side Agreement dated 6 June 2016, the Completion Audit adjustments were reviewed in September 2016 and reconciled balances were settled. This resulted in an adjustment to the carrying value of goodwill by an increase of K 2.9 million. This is now reflected in Note 2.2.

2.12 Dividends

Directors have declared a final dividend of PGK 10 Toea per share, taking the full year dividend to PGK Toea 20 per share compared with PGK Toea 9.9 per share paid for the full year to December 2015. This translates to a final dividend of AUD\$0.0395 per share, taking the full year dividend to AUD\$0.0804, compared with AUD\$0.034 per share paid for the full year to December 2015.

2.13 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.

2.14 Issued Shares

The total number of shares at 31 December 2016 was 163,893,253 (31 December 2015: 163,793,253)

	Total Number Ordinary shares	Number Quoted Ordinary shares	Issue Price per Security (toea)	Amount Paid up Per Security (toea)
Opening Balance of number of shares	2,000,000	2,000,000		
Share split 2015	86,121,935	86,121,935		
Increase through issue of shares 2015	75,671,318	75,671,318	208	208
Increase through issue of shares 2016	100,000	100,000	208	208

The company issued shares and raised equity with its listing on the ASX and Port Moresby stock exchanges in July 2015. During the year the company issued performance rights of 100,000 shares which vested during the year.

2.15 Segment Reporting

	Banking & Finance PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
2016				
Total Revenue	107,222	19,243	2,718	129,183
Segment Result	44,938	8,979	4,653	58,570
Income Tax Expense	(13,499)	(2,492)	(1,604)	(17,595)
Group Net Profit After Tax	31,439	6,487	3,049	40,975
Segment Assets	1,152,772	16,263	106,306	1,275,341
Segment Liabilities	1,010,753	4,454	2,264	1,017,471
Net Assets	142,019	11,809	104,042	257,870
Capital Expenditure	2,703		273	2,976
Depreciation	1,792		1,606	3,398

	Banking & Finance PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
2015				
Total Revenue	53,492	17,875	7,841	79,208
Segment Result	12,900	2,399	(3,414)	11,885
Income Tax Expense	(5,905)	(1,024)	-	(6,929)
Group Net Profit After Tax	6,995	1,375	(3,415)	4,956
Segment Assets	819,950	27,303	141,796	989,049
Segment Liabilities	732,473	2,776	9,334	744,583
Net Assets	87,477	24,527	132,462	244,466
Capital Expenditure	4,152	-	1,007	5,159
Depreciation	381	-	1,902	2,283

2.16 Comparison of Half Year Profits

	Full Year 2016 PGK'000	Full Year 2015 PGK'000
Consolidated profit from continuing operations after tax attributable to members reported for the first half year	20,499	4,548
Consolidated profit from continuing operations after tax attributable to members reported for the second half year	20,476	407

2.17 Contingent Liabilities

The company is a party to a number of litigations. 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. Other 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. At 31 December 2016 these totalled PGK62.8 million (31 December 2015: PGK34 million).

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 POMSoX.

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

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.