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25 February 2021

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BY ELECTRONIC LODGEMENT

Appendix 4E - Preliminary Final Report
Year ended 31 December 2020

Please find attached for release to the market, Kina Securities Limited's *Appendix 4E - Preliminary Final Report for the year ended 31 December 2020.*

-ENDS-

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

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Kina Securities Limited

(ABRN 606 168 594)

2020 Full Year Results

Incorporating the requirements of Appendix 4E

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ASX Appendix 4E

For the Full Year ended 31 December 2020

Results for announcement to the market

Comparisons of the current year results to 31 December 2020 (FY2020, reporting period) are with the full year to 31 December 2019 (FY2019, previous corresponding period)

	Full Year Ended			
	Dec-20 PGK'000	Dec-19 PGK'000	Change PGK'000	% Increase
Revenue from ordinary activities	314,794	205,566	109,228	53%
Profit from ordinary activities	109,906	82,693	27,213	33%
Net Profit after tax attributable to equity holders	75,974	60,871	15,103	25%

	Dec-20	Dec-19
Net Tangible Assets per security (PGK)	1.69	1.34

Dividends	FY 2020	FY2019
Dividends distributions (Final dividend)		
- unfranked (AUD cents per share)	6.0 cents	6.4 cents
- unfranked (PGK toea per share)	16.9 toea	15.5 toea
Dividends distributions (Interim dividend)		
- unfranked (AUD cents per share)	4.0 cents	4.0 cents
- unfranked (PGK toea per share)	10.0 toea	10.0 toea
Full year dividend		
- unfranked (AUD cents per share)	10.0 cents	10.4 cents
- unfranked (PGK toea per share)	26.9 toea	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 for the full year of PGK 76.0m. This is compared to PGK 60.9m for the prior corresponding period.

The final dividend is converted based on an exchange rate: 1 PGK = 0.3560 AUD.
The Record date for determining entitlements to the dividend is 3 March 2021.

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 2020 in Section 2.

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

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1. Results Overview

Kina delivers on planned acquisition gains and maintains growth momentum

Results Highlights

	Full Year Ended		
	Dec-20	Dec-19	%
Statutory NPAT from ordinary activities (PGK m)	76.0	60.9	25%
Revenue (PGK m)	314.8	205.6	53%
FX Revenue (PGK m)	55.2	42.0	32%
Loan impairment expense (PGK m)	22.0	5.6	290%
Cost to income ratio (%)	58.1	57.0	2%
Net interest margin (%)	7.5	8.8	(15%)
Return on Equity (%)	16.8	20.4	(18%)
Earnings per Share (PNG Toea)	32.9	35.9	(8%)
Dividend (PGK Toea per share)	26.9	25.5	5%
Dividend (AUD Cents per share)	10.0	10.4	(4%)
Deposit (PGK m)	2,575.1	2,461.1	5%
Gross Loans and Advances (PGK m)	1,650.0	1,422.0	16%
Capital Adequacy (T1+T2) (%)	23.8	20.1	18%

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 76.0m for the full year to 31 December 2020. This represents an uplift of 25% compared to the prior corresponding period.

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

The Board has declared an unfranked final dividend for the second half of FY20 of AUD 6.0 cents per share / PGK 16.9 toea per share. This takes the full year FY2020 unfranked dividend per share to AUD 10.0 cents / PGK 26.9 toea compared to an unfranked dividend per share of AUD 10.4 cents / PGK 25.5 toea for the prior corresponding full year.

Operating income growth over the prior corresponding period is attributable to a full year of operations of the business acquired from ANZ while maintaining strong growth in the organic business across loans, the development of new channels to market, and gains from strategic reorganisation actions during the year. Furthermore, the acquisition of low cost deposits has seen interest expense lower than the prior year with excess funds prudentially invested in high yielding government securities.

In the second half year period, the Company continued its focus on its cost of operations, reducing the cost to income ratio from 64.9% in 1H20 to 52.0% in 2H20. The effective full year Cost to Income ratio was 58.1%. This is a marginal increase to prior corresponding period, although is impacted by a number of extraordinary items including:

- planned delivery of 6 strategic agile projects which required significant front ending of costs
- an increase in staff and administrative costs as a consequence of actions taken to support operations during COVID-19.
- IFRS16 *Leases* (**IFRS 16**) costs.

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Key features of the result

Kina delivered the planned business growth across all of its existing businesses particularly achieving the integration benefits critical to the ANZ Acquisition. The key features of FY20 result included:

- Increase in NPAT by 25% to PGK 76.0m against the corresponding prior period.
- Net Interest Income increased by 48% to PGK 169.7m compared to the prior corresponding period. This was achieved through growth in the existing loan book, incorporation of the ANZ loans and deposit portfolio and business acquisition, and lower interest expense (against total deposits) compared to the prior year. Overall gross loan book growth was up 16% against the corresponding prior period.
- Foreign Exchange (**FX)** growth increased by 32% to PGK 55.2m compared to FY2019. This was underpinned by an increase in overall market share including gaining new customers and USD remittance sources from the export sector.
- Fees and Commissions increased by 60% against the prior corresponding period to PGK 76.2m primarily by development and build out of our channel network. The revenue sources and details are explained in the table in section 1.2.7.
- Total revenue increased 53% to K314.8m against the prior corresponding period as a result of positive performance in key revenue lines as noted above, further strengthened by other income performance realised from strategic initiatives (see below).
- End of year Capital Adequacy increased by 18% against 31 December 2019, to 23.8%. This was a planned outcome of the strategic non-renounceable rights issue completed in November 2020.
- Kina's Funds Administration business continued to record growth in revenues. Profit increased to PGK8.3m. This is consistent with revenues arising from increased funds under administration and growth in member numbers compared to the prior year.

Significant progress has been made on a series of strategic initiatives that have successfully delivered growth for the business:

- Announced the proposed acquisition of Westpac's Pacific businesses in PNG and Fiji which is expected to complete by 30 September 2021 to become a larger scale regional bank. The acquisition is subject to regulatory approvals by the Bank of Papua New Guinea and the ICCC (Competition regulator).

- Simplified the corporate structure and successfully conducted a 1:2 Non-Renounceable Rights Issue (ANREO) ensuring strong capital adequacy for the Bank. This will position the company for further growth while creating capacity to take advantage of acquisition and growth opportunities that may arise.

- Delivered planned revenues of K18.8m from new channels successfully launched during the year which were new to business during the year.

- Introduced a flagship new customer offering, Prime, that includes fee free Visa cards, the lowest fixed rate home loan in PNG history, and a dedicated relationship advisor for expert customer advice for all business customers.

- Invested significantly in cards fraud risk and compliance systems and processes, resulting in a 95% reduction in fraud losses. New capabilities include a fraud monitoring module, 3D Secure, SMS email and WhatsApp alerts.

- Became the first commercial bank in the Pacific to implement VISA transaction controls online, giving customers greater choice on how their cards are used, further reducing the risk of fraud.

- Launched a market leading internet payment gateway that facilitates digital payments through multiple online channels for scheme cards and local bank cards issued by Kina Bank. The gateway enables payment partnerships direct to merchants or via intermediated e-commerce providers.

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- Signed a digital partnership with a local fintech company to deliver e-government services. The Department of Lands and the Immigration and Citizenship Authority were onboarded in Q4. The partnership is a significant step forward in Kina's ambition to drive digitally enabled government services.

- Launched Xero bankfeed API - another first for a bank in the Pacific. It enables business customers to integrate their banking transaction data directly with the Xero platform, and opens up additional commercial partnership opportunities.

- In addition to doubling the number of merchant POS terminals in market, implemented a fully integrated solution between Pronto terminals and Kina POS machines, with best in-market performance and superior reliability.

- Became the first commercial bank in PNG to design and test an eKYC solution for digital account opening, with full biometric and digital document identification. The Bank is working with the regulator to enable a scalable in-market solution.

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 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. Given the economic challenges associated with COVID-19, monitoring of asset quality remains heightened and will continue to be a key area of management oversight. While increases in loan impairment, write-off expense, and age of arrears are noted, the overall level of non-performing loans (**NPL**) remains relatively consistent compared to the prior corresponding period. This is further explained in section 1.2.9 below.

Operating Expenses

As noted during 1H20 reporting, Kina Group continued its investment and rollout of its 2025 Strategy, including the deployment of digital and ICT capabilities, enhanced risk management maturity and expansion of 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 Kina Group to support the transition of the ANZ acquired business. Security, licencing fees, communications (including internet, network and telephone charges) and software support costs form the main administration costs.

Staff costs were the largest component of operating expenses at PGK 75.2m, representing 41.1% of total operating expenses.

Commencing in March 2020, Kina Group took significant socially responsible actions to minimise the impact of COVID-19 on staff and the business. On the back of the Papua New Guinea government's classification of banking and financial services as essential services, banking and superannuation administration services have continued to function at full capacity. This required committing additional costs towards ensuring employee safety and measures to support health and hygiene.

Inclusion of leases for the acquired ANZ branches contributed to the increase in occupancy costs against FY19 as a result of the impact of IFRS 16.

The resultant impact is an increase in the cost to income ratio to 58.1% from 57.0% for the full year compared to the prior corresponding period. Management had anticipated an increase in the period following the ANZ portfolio acquisition. As noted earlier, the cost to income ratio in 2H20 was 52.0% from 64.9% in the first half reflecting Kina's continued cost focus on operations.

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Underlying Capital

The underlying capital of the banking business is strong, with regulatory capital (T1+T2) at 23.8% of risk weighted assets (**RWA**). Regulatory minimum is 12%.

Kina completed the simplification of its corporate structure in 2H20. This saw the amalgamation of Kina Bank Limited (KBL) and two interceding holding companies, Kina Ventures Limited (KVL) and Kina Properties Limited (KPL) into Kina Securities Limited (KSL). The Bank of Papua New Guinea issued the banking license in the name of Kina Securities Limited on 28 August 2020. The companies office, (Investment Promotion Authority) also issued the amalgamation certificate on the same date. The amalgamation has simplified the Group's operating and capital structure. Kina Bank's capital adequacy ratio post amalgamation remains compliant with BPNG's capital adequacy requirements in accordance with Prudential Standard 1/2003 - Capital Adequacy.

Following the amalgamation in September 2020, the group conducted a Non-Renounceable Rights Issue (ANREO) to further strengthen the capital base and regulatory ratios. A total of PGK220m was raised, and resulted in an increase in the capital adequacy ratio. The increased capital will also position the group for other growth opportunities.

Acquisition of Westpac Pacific

On 7 December 2020 Kina announced the proposed acquisition of Westpac's Pacific businesses in PNG and Fiji to become a larger scale regional bank with a market leading digital platform.

Kina's intention is to maintain Westpac PNG's commercial banking licence and operate the acquired business under a new, independent brand. The new brand will effectively continue the Westpac business but under a new name.

A key rationale of the acquisition is the addition of large commercial and institutional banking markets to the portfolio of products of the group. Kina will also assume ownership of the overseas business in Fiji as a wholly owned subsidiary.

The acquisition metrics as announced earlier are below:

	Kina Group	Westpac PNG	Westpac Fiji	Kina Group Proforma	% change
Customers	165,000	367,255	318,968	851,223	415.90%
Deposits (PGK)	2.52 bn	2.57 bn	2.94 bn (1.82bn FJD)	8.03 bn	218%
Loans (PGK)	1.42 bn	1.45 bn	2.47 bn (1.53 bn FJD)	5.34 bn	275.60%
Employees	700	469	584	1,753	150.50%
Branches	17	15	16	48	182.30%
ATMs	80	65	76	221	176.30%
EFTPOS terminals	2,500	3,400	2,800	8,700	71.30%

Economic Outlook

2020 was a challenging year for PNG as the Covid-19 pandemic took a significant toll on all sectors of the economy. The Prime Minister stated in September that PNG's economy had declined by K10.7 billion in nominal terms by the third quarter, which is significant when considering that PNG had an estimated gross domestic product (GDP) of K81.6 billion. The Department of Treasury (DoT) and the International Monetary Fund (IMF) estimate that real GDP will decline in 2020 by 3.8% and 3.3%, respectively. The deferment of Papua LNG and P'nyang LNG before the Covid-19 outbreak subdued investments in resource-adjacent sectors and tilted risks in the broader economy towards the downside. The pandemic aggravated these risks and caused a number of private and commercial investments to be either delayed or cancelled outright. Discretionary spending was

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impacted negatively and the closure of Porgera Mine in April 2020 amidst the pandemic added to concerns and had a significant impact on GDP, expected taxation revenue, and foreign currency inflows.

The pandemic triggered a fiscal response that was unprecedented for PNG, as in many other countries. The Government already faced the largest fiscal deficit in the country's history prior to the pandemic in 2020, but had to reprioritise its spending to support efforts to contain the spread of the virus. The original deficit of K4.6 billion anticipated revenues of K14.1 billion, with total expenditure of K18.7 billion. However, in the midst of the pandemic, revenue saw a 19.4% reduction and the deficit needed to increase further to K6.6 billion, even with reduced total expenditure totalling K18 billion. To allow the additional borrowing, the government amended the debt-to-GDP ceiling prescribed in the *Fiscal Responsibility Act* from 45% to 60%. This was a necessary amendment in our view as a reduction in fiscal stimulus in the immediate short-term would disadvantage the economy and slow down recovery timeframes. The Government projects that debt levels as a percentage of GDP will increase from 48.9% in 2020 to 52.5% in 2023. These figures, and rate of increase of the debt/GDP ratio, are not out of line with many economies as a result of pandemic induced fiscal support.

PNG's monetary response to the pandemic was also urgent and unprecedented. The Bank of PNG (BPNG) undertook several targeted measures to increase money supply and lower interest rates, which had the added effect of supporting the Government's fiscal operations during the pandemic. The main monetary policy lever that BPNG employed was the overnight rate—the Kina Facility Rate (KFR). The KFR was lowered by 200 basis point from 5.0% to 3.0% in April, however, the systematic problems remained which muted the transmission of the policy rate into market rates. BPNG also instituted a repurchase facility for Government bondholders to liquidate Treasury bonds. This allowed investors to participate in new government bond auctions, specifically the "Covid Bond", which was issued in May and was oversubscribed by the market. The government also relied heavily on BPNG's Temporary Advance Facility to meet their fiscal spending shortfalls during the height of the pandemic lockdown period. BPNG also intervened in the foreign exchange market at a pace of US$30-60 million per month in the middle of the year, prioritising foreign currency orders related to healthcare and the national Covid-19 response. Financial institutions also provided support with banks lowering interest rates and providing for temporary loan repayment deferments to support borrowers. A year after the initial lockdowns, the country was not as severely affected as its neighbors in the region, and businesses have reopened, with masks and social distancing mandates in place.

The main economic drivers in the medium term remain the resource projects that are currently being negotiated. Investors and economic stakeholders continue to hope for a speedy resolution to key resource project negotiations to drive confidence and economic growth. These are in addition to the planned Government spending over the medium-term to improve infrastructure, providing confidence that the economy will have some support until the global pandemic subsides. The positive impact of these resource projects is not expected to be felt by the PNG economy in the near-term as the restructuring of commercial terms is likely to push development timelines out further. The resource projects currently in the pipeline for PNG represent an estimated K110 billion in foreign direct investment and domestic production over their respective lives. The government also remains committed to funding major infrastructure projects throughout the country in the medium-term. The 2021 National Budget projects over K40 billion in Capital Expenditure from 2021 to 2025, averaging 7.9% of GDP per annum within that timeframe. The government has committed 38% of its 2021 Budget to Capital Expenditure, which is K7.5 billion or 8.3% of GDP. This fiscal support, especially after the sharp downturn witnessed globally, gives some measure of reassurance to economic stakeholders. This combined with proposed reforms and the stated intention to diversify the non-mining sectors has potential to set a solid foundation for future growth.

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1.1 Disclosure and Context

Financial reporting

The statutory result for the twelve months to 31 December 2020 was a consolidated Net Profit After Tax of PGK76.0m. This includes 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**), 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.

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1.2 Financial results for the year-ended 31 December 2020

1.2.1 Statutory Results

	Full Year Ended		
	31-Dec-20 PGK'000	31-Dec-19 PGK'000	Change (%)
Continuing Operations			
Interest income on investments	53,926	36,129	49%
Interest income on loans	145,761	110,353	32%
Interest expense	(29,964)	(31,901)	(6%)
Net interest income	**169,723**	**114,581**	**48%**
Fee and commission income	76,352	47,878	59%
Fee and commission expense	(134)	(93)	44%
Net fee and commission income	**76,218**	**47,785**	**60%**
Foreign exchange income	55,239	41,956	32%
Dividend income	136	357	(62%)
Net (losses)/gain from financial assets through profit and loss	2,510	153	1,541%
Other operating income	10,968	734	1,394%
Non-interest income	**145,071**	**90,985**	**59%**
Operating income before impairment losses and operating expenses	**314,794**	**205,566**	**53%**
Impairment losses	(22,018)	(5,646)	290%
Other operating expenses	(182,870)	(117,227)	56%
Profit before tax	**109,906**	**82,693**	**33%**
Income tax expense	(33,932)	(21,822)	55%
Net Profit for the half year attributable to the equity holder of the Company	**75,974**	**60,871**	**25%**
Other comprehensive income	-	-	0%
Total comprehensive income for the half year attributable to the equity holder of the Company	**75,974**	**60,871**	**25%**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2020, and where applicable, calculated by reference to the 31 December 2019 audited financial statements. The above information is being audited at the time of this report.

1.2.2 Dividends

	Dec-20	Dec-19
Earnings per share (PGK toea)	32.9	35.9
Earnings per share (AUD cents)	11.7	14.5
Dividend per share (PGK toea)	26.9	25.5
Dividends per share (AUD cents)	10.0	10.4

1.2.3 Impact of Covid-19

The COVID-19 outbreak has presented challenges that have had broad implications for the financial sector and economy as a whole. The gradual cascading financial impact saw some sectors report financial difficulties and seek debt relief for cash flow and loan servicing. Kina took various measures to mitigate the impact of COVID-19 on its operations, considering implications for customers, suppliers and employees.

The Bank of Papua New Guinea reduced the Kina Facility Rate by 2% in April 2020. Accordingly, to support all new and existing customers, Kina reduced all local currency overdraft interest rates by 2% per annum to support business cash flows.

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Kina also introduced a support initiative that included door-to-door private transport to and from work; flexible working arrangements; additional leave options; and the regular measures of advanced hygiene and social distancing. Combined, these measures ensured we were able to continue business as usual as an essential service provider. These measures are still in place. The impact on increased staff costs is further explained in 1.2.8 – Operating Expenses.

1.2.4 Lending

PGK Millions	Full Year Ended		
	Dec-20	Dec-19	Change (%)
Overdraft	80.7	68.2	18%
Term Loans	1,058.5	880.9	20%
Investment Property Loan	94.5	87.0	9%
Asset Financing	21.7	19.8	10%
Housing Loan	389.5	320.6	21%
Esi loan	-	37.5	(100%)
Credit Cards	5.1	8.0	(36%)
Gross	1,650.0	1,422.0	16%
Provision	(35.3)	(20.5)	72%
Total	**1,614.7**	**1,401.5**	15%

Lending remains strong against the prior corresponding period. Term Loans, Investment Property and Home Loan portfolios grew by PGK 266m. This was offset however by the disposal of the Esiloans portfolio to MiBank which saw the net growth at PGK 228m or 16%. The divestment was in line with the strategic partnership to provide greater financial inclusion, increased micro-finance and improved services for small and medium business. Kina Bank also originated its first significant trade facility for a large PNG based coffee exporter with blue chip parentage. Such trade facilities are of strategic importance as it brings Kina into a new area of lending to exporters who represent a large component of the emerging future PNG economy.

Risk concentration by sector is shown in the table below.

Sector	Dec-20		Dec-19	
	PGK million	% of total loans	PGK million	% of total loans
Agriculture, Forestry & Fishing	13.8	0.8%	7.1	0.5%
Mining	14.5	0.9%	19.1	1.3%
Manufacturing	16.8	1.0%	14.9	1.0%
Electrical, Gas & Water	7.5	0.5%	1.2	0.1%
Building and Construction	105.6	6.4%	86.7	6.1%
Wholesale & Retail	379.9	23.0%	278.5	19.6%
Hotel & Restaurants	104.9	6.4%	91.7	6.4%
Transport & Storage	12.6	0.8%	8.8	0.6%
Financial Intermediation	14.3	0.9%	0.6	0.0%
Real Estate/Renting/Business Services	329.8	20.0%	294.2	20.7%
Equipment Hire	23.0	1.4%	10.6	0.7%
Other Business	109.9	6.7%	70.3	4.9%
Personal Banking	517.4	31.4%	538.3	37.9%
Total	**1,650.0**	**100.0%**	1,422.0	**100.0%**

Net lending after provisions as at 31 December 2020 shows a 15% growth against 31 December 2019. Provisions are further explained in Section 1.2.9 – Asset Quality and Loan Impairment.

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1.2.5 Funding

PGK Millions	Full Year Ended		
	Dec-20	Dec-19	Change (%)
On Call	1,854.4	1,950.9	(5%)
1 month	147.6	106.9	38%
2 months	81.6	58.2	40%
3 months	310.5	112.3	176%
6 months	31.8	80.1	(60%)
12 months	129.4	86.7	49%
24 months	19.8	66.0	(70%)
Total	**2,575.1**	**2,461.1**	**5%**

Deposits grew by 5% against December 2019. The growth is largely attributed to an increase in fixed term deposits on the back of competitive pricing in the first quarter of FY 2020.

PGK Millions	Full Year Ended		
	Dec-20	Dec-19	Change (%)
Fixed Term	720.7	556.4	30%
Cash Management Accounts	510.2	543.8	(6%)
Current Accounts	1,022.5	1,068.1	(4%)
Savings Accounts	321.7	292.8	10%
Total	**2,575.1**	**2,461.1**	**5%**

The Loan to Deposit Ratio (**LDR**) of 63% is within the internal target range set by the Board.

1.2.6 Net Interest Margin

PGK Million	Full Year Ended		
	Dec-20	Dec-19	Change
Net interest income	169.7	114.6	48.1%
Average interest earning assets	2,328.2	1,771.0	31.5%
Average yield on interest earning assets (%)	8.6	10.7	(19.6%)
Average interest bearing liabilities	2,371.6	1,742.0	36.1%
Average cost on interest bearing liabilities (%)	1.1	1.9	(42.1%)
Interest spread (%)	7.5	8.8	(14.8%)
Net interest margin (%)	7.5	8.8	(14.8%)

Net interest margin (NIM) for FY2020 was 7.5% compared to 8.8% in FY2019. The drop in NIM compared to 2019 is largely due to annualisation of the interest on the acquired loan book in 2019 for reporting purposes. Further to this, repricing of the loan portfolio on targeted products to gain competitive market positioning, disposal of the Esiloan portfolio and some limited COVID-19 relief measures has impacted average yield in the current year.

The drop on average cost of interest bearing liabilities is largely driven by the acquisition of low cost deposits in the fourth quarter of 2019 and repricing of deposits on maturity.

NIM is within guidance rate range set by the Board of 6%-8%.

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1.2.7 Non-Interest Income

PGK Millions	Full Year Ended 31-Dec-20	31-Dec-19	Change (%)
Banking			
Foreign exchange income	55.2	42.0	31%
Fees and commissions	45.9	18.8	144%
Other	11.2	0.6	1767%
Total	**112.3**	**61.4**	**83%**
Wealth Management			
Fund Administration	19.7	18.3	8%
Investment Management	9.3	10.1	(8%)
Shares	1.2	0.9	33%
Other	2.6	0.3	767%
Total	**32.8**	**29.6**	**11%**
Total	**145.1**	**91.0**	**59%**

Non-interest income grew by 59% against the prior corresponding period. The increase in foreign exchange income is derived from new business generated from larger export clients and strategic initiative gains, resulting in a PGK 13.2 million increment against the prior corresponding period.

Bank fees and commission fees saw a PGK 11.3 million increase against the prior corresponding period, an increase of 72%, as a result of the growth in the loan portfolio post the ANZ acquisition and the growth in organic business lending.

The successful implementation of new channels and revenue realisation from these new channels, namely debit and credit cards, point of sale (POS) income and internet banking fees delivered the planned revenue generation of PGK18.8 million. This represents an increase of over 500% against the prior corresponding period confirming the delivery of critical expected gains from the ANZ Acquisition.

The table below shows the increase in fees and commissions against the corresponding prior year.

Banking – PGK millions	Dec-20	Dec-19	Change (PGK)	Change (%)
Bank fees and commission income	21.8	11.9	9.9	83%
Loan fees	5.3	3.8	1.5	39%
Merchant fees	8.1	1.3	6.8	523%
VISA Fees	4.9	0.6	4.3	717%
ATM fees	4.5	0.8	3.7	463%
Mobile Banking fees	1.0	0.4	0.6	150%
Internet Banking fees	0.3	-	0.3	0%
Total	**45.9**	**18.8**	**27.1**	**144%**

As reported earlier, Kina derived PGK 3.0 million gain on sale which was recognised on the disposal of the Esiloan business. Further gains arose from foreign currency translation of PGK3.0m due to the capital raise in the ANREO in November 2020, and revaluation on financial assets through profit and loss of PGK2.7 million.

1.2.8 Operating Expenses

Total operating costs for FY20 were PGK 182.9 million, an increase of 56% compared to the prior corresponding period with a cost to income ratio at 58.1% compared to 57.0% in the same period last year. The increase represents the costs of operating the acquired business operations of the SME Commercial and Retail business of ANZ in 2H 2019. The overall results are as expected.

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Administrative costs, occupancy costs and staff costs contributed 38%, 35% and 26% respectively to the increase against the prior corresponding period. Staff and administrative cost increases are in line with the organisational restructure required to deliver business post the ANZ Acquisition.

Staff costs remain the largest component of operating expenses at PGK 75.2 million, representing 41.1% of total operating expenses as at 31 December 2020.

The inclusion of the leases for the acquired ANZ branches, has contributed to the increase in occupancy costs against FY19 due to the implementation of IFRS 16.

Security costs, communications (including internet, telephone and network charges), licensing and software support charges form the main administration costs. The Company continued to invest and build out its 2025 Strategy, digital and information and communication technology (**ICT**) capability, enhance risk management maturity and expand customer facing distribution channels. The company completed the first phase of a brand campaign including the appointment of three brand ambassadors significantly raising the bank's profile in the business and social community across PNG.

	Full Year Ended		
Figures in PGK Million	**31-Dec-20**	**31-Dec-19**	**Change**
Administration	53.2	28.3	88%
Staff	75.2	58.4	29%
Occupancy	44.4	21.7	105%
Other Operating expenses	7.2	3.6	100%
Board of Directors cost	1.4	1.6	(13%)
Acquisition/Integration	0.8	3.1	(74%)
Investor Relationship	0.7	0.6	17%
Total	**182.9**	**117.3**	**56%**

Commencing in March 2020, the organisation took significant socially responsible actions to ensure minimal impact of COVID-19 on staff and the business. This required committing costs towards ensuring employee safety which included safe transportation, safe work places and practices and measures to support health and hygiene. At an operations level, the Bank increased its security support costs to ensure businesses were supported across the country, particularly the islands and highlands. This required increased costs on security around ensuring regular cash operations. To enable enhanced working from home practices, increased costs towards system and access security measures and the increased communication networks required to enable working from home were also incurred.

While the cost to income ratio has increased to 58.1%, it is related to Kina's growth strategy and capability build and appropriate action taken as a result COVID-19. Management's focus on this important ratio has not wavered.

1.2.9 Asset Quality and Loan Impairment

In line with the IFRS 9 Accounting and Reporting requirements, Kina adopts 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'. The model operates on the principles of assessment of Probability of Default and the Loss Given Default. Default stages are applied depending on the aging and/or any change in the risk grade since origination. The Loss Given default is a consequence of security and collateral held by the Bank. Further, the total level of provisions held includes an allowance for model and economic risk. Kina continues its systems and processes to maintain strong credit quality across the loan book and a continued disciplined approach to the Group's lending standards.

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Asset Quality

Figures in PGK Million – Total Loan book	Full Year			
	Dec20	% of GLA	Dec19	% of GLA
Loan impairment expense	20.8	1.25%	5.6	0.39%
Non-performing loans and loans in arrears	169.3	10.18%	92.0	6.40%
- 90 day arrears	61.8	3.72%	48.4	3.37%
- Gross non-performing loans (> 180 days)	107.5	6.46%	43.6	3.03%
Total provision	48.0	2.89%	35.8	2.49%

**Total provision for this comparison includes the provision on acquired book. For financial statement reporting and presentation purposes, the provision on acquired book is presented as net of gross loans (thereby reducing gross loans and total provision by this amount - PGK 12.7m).*

Loan Impairment expense

Figures in PGK'000's	*Dec-20*	*Dec-19*	Dec-20	Dec-19	Change (PGK)	Change (%)
Provision on loans			20,626	6,217	14,409	232%
Provision expense	*16,060*	*2,336*				
Net write-offs	*4,566*	*3,881*				
Trade Debtors			207	(261)	468	(179%)
Total Impairment (loans and advances)			20,833	5,956	14,877	250%
Provision on GIS *			1,185	(311)	1,496	(481%)
Total Loan Impairment Expense			**22,018**	**5,645**	**16,373**	**290%**

** see note below on investments*

Loan Impairment expense as calculated and reported in the Provision on Loans totalled PGK 16.1 million and net write-offs (after recoveries) totalling PGK 4.6 million. This is a consequence of the application of the IFRS 9 provisioning model to a larger loan book. The model was applied to a larger gross loan book of PGK 1.65 billion, compared to a gross loan book of PGK 1.42 billion in 2019. Total net write-offs (after adjusting for write-offs of acquired loans) as a percentage of GLA was 0.28% of GLA in FY 2020 and 0.27% of GLA in FY 2019). This reflects a relatively stable write-off rate against GLA.

There has been an increase in the non-performing loans (NPL). NPL as at 31 December 2020 increased to 10.18% of GLA, compared to 6.4% as at 31 December 2019. The majority of the increase of PGK77m is related to a small number of well secured loans that we expect to be fully recoverable and corrected within the next half year. The reported increase in Gross NPL greater than 180 days relates to 6 connections (representing 1% of total loans) in the Home loan portfolio and 13 connections (representing 2% of total loans) in business loans. These loans are well secured and management are working with the customers to reduce the arrears.

An analysis of the loan portfolio and provision based on risk grades is set out as follows:

Loans and advances to customers at amortised cost: PGK millions	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total Dec 2020	Total Dec 2019
Grade A-D: Low to fair risk	1,417.1	66.4	3.1	1,486.6	1,340.9
Grade E: Monitoring	-	24.6	-	24.6	30.8
Grade F: Substandard	-	36.6	-	36.6	23.9
Grade G: Doubtful	-	56.0	3.2	59.2	4.4
Grade H: Impaired	-	0.6	42.4	43.0	22.0
Total Gross Carrying Amount	**1,417.1**	**184.2**	**48.7**	**1,650.0**	**1,422.0**
Loss allowance	(12.1)	(19.7)	(3.5)	(35.3)	(20.5)
Carrying Amount	**1,405.0**	**164.5**	**45.2**	**1,614.7**	**1,401.5**

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Investments

Under the recent BPNG intervention and quantitative easing requirements due to COVID-19, Kina (together with other financial institutions) took on greater placements of Government Inscribed Stock (**GIS**) issued by the PNG Government. Kina took on a total of PGK 100 million with terms greater than 5 years. In accordance with IFRS 9 requirements, the Company is required to assess the ECL on these investments. Based on this requirement, total ECL calculated (taking into account probability of default (**PD**) and Loss Given Default **(LGD**)) was PGK 1.7 million. The impact to the P&L was PGK 1.2 million (see table under Loans section above).

1.2.10 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 2020.

Each "BFI Licensed Authorised Institution" (**Authorised Institution**) within the Kina Group, which is licensed or authorized by the BPNG to accept or collect deposits from the public, is required to comply with prudential standards issued by BPNG, the official authority for the prudential supervision of banks and relevant financial institutions in PNG. Kina Securities Limited is the Authorised Institution and reporting entity under the Kina Group and the reported ratios are in respect of Kina Securities Limited.

Regulatory Capital Ratios	31-Dec-20	31-Dec-19
PGK'million		
RWA	**1,665**	**1,598**
Capital: T1	314	253
Capital: T2	82	71
Capital: T1 + T2	396	324
Capital adequacy Ratio: T1	19%	16%
Capital adequacy: T2	5%	4%
Capital adequacy: T1 + T2	23.8%	20.1%
Leverage Ratio	9.6%	8.5%

Capital ratios at the end of December 2020 remained above BPNG's requirement, with combined tier 1 (**T1**) and T2 capital equal to 23.8% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. The Bank also has maintained leverage ratio at 9.6%, above BPNG's minimum requirement of 6%.

Kina completed its simplification project, short form amalgamation, in 2H20, simplifying the Groups operating and capital structure. Kina Bank's capital adequacy ratio post the amalgamation of 15% remained compliant with BPNG's capital adequacy requirements in accordance with BPNG's Prudential Standard 1/2003 *Capital Adequacy*.

Following the amalgamation, an equity raising was conducted to enhance the capital base and regulatory ratios, providing a platform for continued strong underlying organic growth. The capital raise saw a total of PGK220m raised, an increase in the capital adequacy ratio and an increase in the single borrower limit allowing the Bank increased bandwidth on lending.

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 Company's Asset and Liability Committee.

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2. Consolidated Financial Statements

2.1 Statement of Comprehensive Income – consolidated

	Full Year Ended		
	31-Dec-20 PGK'000	31-Dec-19 PGK'000	Change (%)
Continuing Operations			
Interest income on investments	53,926	36,129	49%
Interest income on loans	145,761	110,353	32%
Interest expense	(29,964)	(31,901)	(6%)
Net interest income	**169,723**	**114,581**	**48%**
Fee and commission income	76,352	47,878	59%
Fee and commission expense	(134)	(93)	44%
Net fee and commission income	**76,218**	**47,785**	**60%**
Foreign exchange income	55,239	41,956	32%
Dividend income	136	357	(62%)
Net (losses)/gain from financial assets through profit and loss	2,510	153	1,541%
Other operating income	10,968	734	1,394%
Non-interest income	**145,071**	**90,985**	**59%**
Operating income before impairment losses and operating expenses	**314,794**	**205,566**	**53%**
Impairment losses	(22,018)	(5,646)	290%
Other operating expenses	(182,870)	(117,227)	56%
Profit before tax	**109,906**	**82,693**	**33%**
Income tax expense	(33,932)	(21,822)	55%
Net Profit for the half year attributable to the equity holder of the Company	**75,974**	**60,871**	**25%**
Other comprehensive income	-	-	0%
Total comprehensive income for the half year attributable to the equity holder of the Company	**75,974**	**60,871**	**25%**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2020, and where applicable, calculated by reference to the 31 December 2019 audited financial statements. The above information is being audited at the time of this report.

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2.2 Statement of financial position – consolidated

	31-Dec-20 PGK'000	31-Dec-19 PGK'000	Change %
Assets			
Cash and due from banks	352,250	269,702	31%
Central bank bills	647,874	722,090	(10%)
Regulatory deposits	185,711	249,713	(26%)
Financial assets at fair value through profit and loss	10,682	7,635	40%
Loans and advances to customers	1,614,731	1,401,433	15%
Investments in government inscribed stocks	114,519	34,003	237%
Current income tax assets	83	810	(90%)
Deferred tax assets	16,482	10,491	57%
Property, plant and equipment	86,274	96,922	(11%)
Goodwill	92,786	92,786	0%
Intangible assets	49,449	49,247	0%
Other assets	152,637	62,703	143%
Total Assets	**3,323,478**	**2,997,535**	**11%**
Liabilities			
Due to other banks	(5,385)	(22)	24377%
Due to customers	(2,575,089)	(2,460,967)	5%
Current income tax liabilities	(4,966)	(4,506)	10%
Employee provisions	(11,538)	(9,068)	27%
Lease Liabilities	(47,342)	(54,958)	(14%)
Other liabilities	(102,124)	(140,738)	(27%)
Total Liabilities	**(2,746,444)**	**(2,670,259)**	**3%**
Net Assets	**577,034**	**327,276**	**76%**
Share capital and reserves			
Issued and fully paid ordinary shares	(394,693)	(176,970)	123%
Share-based payment reserve	(2,774)	(2,063)	34%
Retained earnings	(179,567)	(148,243)	21%
Total capital and reserves	**(577,034)**	**(327,276)**	**76%**

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2.3 Statement of changes in equity – consolidated

	Share Capital	Share based payment Reserve	Retained Earnings	Total
	PGK'000	PGK'000	PGK'000	PGK'000
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**
Profit for the period	-	-	75,974	75,974
Other comprehensive income	-	-	-	-
Contributions by and distributions to owners	-	-	-	-
Employee share scheme - vested rights	-	(2,631)	-	(2,631)
Employee share scheme - value of employee services	-	3,342	-	3,342
Dividend paid	-	-	(44,650)	(44,650)
Issued capital	217,723	-	-	217,723
Balance as at 31 December 2020	**394,693**	**2,774**	**179,567**	**577,034**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2020, and where applicable, calculated by reference to the 31 December 2019 audited financial statements. The above information is being audited at the time of this report.

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2.4 Statement of Cashflow – consolidated

	31-Dec-20	31-Dec-19
	PGK'000	PGK'000
Cash flows from operating activities		
Interest received	202,987	146,984
Interest paid	(27,376)	(32,835)
Foreign exchange gain/(loss)	55,239	41,956
Dividend received	136	357
Fee, commission and other income received	78,271	50,531
Fee and commission expense paid	(134)	(93)
Net trading and other operating income received	13,478	887
Recoveries on loans previously written-off	1,943	2,076
Cash payments to employees and suppliers	(250,240)	(110,059)
Income tax paid	(30,524)	(30,628)
Cash flows from operating profits before changes in operating assets	**43,780**	**69,176**
Changes in operating assets and liabilities:		
- net (increase) / decrease in regulatory deposits	64,002	(112,218)
- net increase in loans and advances to customers	(220,459)	(225,415)
- net increase in other assets	(88,885)	(41,844)
- net increase in due to customers	99,610	96,872
- net (decrease) / increase in due to other banks	19,227	(27,558)
- net (decrease) / increase in other liabilities	(43,073)	103,677
Net cash flows from operating activities	**(125,798)**	**(137,310)**
Cash flows from investing activities		
Purchase of property, equipment and software	(22,924)	(39,005)
Net cash acquired in business combination, net of consideration paid	-	687,178
Proceeds from sale of property and equipment	264	16
Net movement in investment securities	57,285	(402,779)
Net cash flows from investing activities	**34,625**	**245,410**
Cash flows from financing activities		
Dividend payment	(44,650)	(36,308)
Proceeds on issuance of shares	217,723	34,757
Net cash flow from financing activities	**173,073**	**(1,551)**
Net increase in cash and cash equivalents	81,900	106,549
Effect of changes in the foreign exchange rates on cash and cash equivalents	648	2,515
Cash and cash equivalents at beginning of period	**269,702**	**160,638**
Cash and cash equivalents at the end of the period	**352,250**	**269,702**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2020, and where applicable, calculated by reference to the 31 December 2019 audited financial statements. The above information is being audited at the time of this report.

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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 2020 are consistent with those used in preparing the 31 December 2019 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 2020 PGK'000	31 Dec 2019 PGK'000
Cash and due from other banks	**352,250**	269,702
Central bank bills (maturity less than 3 months)	**-**	-
Total cash at the end of the period	**352,250**	269,702

2.8 Ratios

	31-Dec-20	31-Dec-19
Profit before tax / Operating Income Consolidated profit from ordinary activities before tax as a percentage of revenue	34.9%	40.2%
Profit after tax / equity interests Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	13.2%	18.6%

2.9 Earnings Per Share

Details of basic and diluted earnings per share (**EPS**) reported separately in accordance with IAS 33: *Earnings Per Share* are as follows;

	31-Dec-20	31-Dec-19
Calculation of the following in accordance with IAS33		
(a) Basic EPS	32.9	35.9
(b) Diluted EPS	32.8	35.7
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	230,840,535*	169,369,211*

**Weighted average calculated as the average of shares outstanding at the beginning of the reporting period and at the end of the reporting period.*

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.

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2.11 Issued Shares

The total number of shares at 31 December 2020 was 286,935,900 (31 December 2019: 174,745,169).

Issued Ordinary Shares	Total Number Ordinary shares	Number Quoted Ordinary shares
Changes during the year ended 31 December 2020		
Opening Balance of number of shares	174,745,169	174,745,169
Increase through issue of shares 2020	112,190,731	112,190,731
Total	**286,935,900**	**286,935,900**

2.12 Segment Reporting

31 Dec 2020	Banking PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
Total external income	281,867	32,927	-	314,794
Total external expense	(195,326)	(9,562)	-	(204,888)
Profit before inter-segment revenue and expenses	**86,541**	**23,365**	**-**	**109,906**
Inter-segment income	15,392	-	-	15,392
Inter-segment expense	(11,800)	(3,592)	-	(15,392)
Profit before tax	**90,133**	**19,773**	**-**	**109,906**
Income tax expense	(28,807)	(5,125)	-	(33,932)
Profit after tax	**61,326**	**14,648**	**-**	**75,974**
Segment assets	**3,309,282**	**14,196**	**-**	**3,323,478**
Segment liabilities	**(2,743,221)**	**(3,223)**	**-**	**(2,746,444)**
Net assets	566,061	10,973	-	577,034
Capital expenditure	22,924	-	-	22,924
Depreciation	(35,065)	-	-	(35,065)

Current year balances are reported based on the amalgamation in 2H20. In the prior year, the amalgamating entities were reported under 'Corporate'.

31-Dec-19	Banking PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
Total external income	176,508	28,733	325	205,566
Total external expenses	(67,683)	(10,773)	(44,417)	(122,873)
Profit before inter-segment revenue and expenses	**108,825**	**17,960**	**(44,092)**	**82,693**
Inter-segment income	1,779	910	46,838	49,527
Inter-segment expenses	(40,194)	(7,318)	(2,015)	(49,527)
Profit before tax	**70,410**	**11,552**	**731**	**82,693**
Income tax expense	(19,453)	(3,314)	945	(21,822)
Profit after tax	**50,957**	**8,238**	**1,676**	**60,871**
Segment assets	2,813,044	17,221	167,270	2,997,535
Segment liabilities	(2,642,276)	(2,673)	(25,310)	(2,670,259)
Net assets	**170,768**	**14,548**	**141,960**	**327,276**
Capital expenditure	34,367	-	4,638	39,005
Depreciation	(10,453)	-	(6,581)	(17,034)

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2.13 Comparison of Profits

	31-Dec-20 PGK'000	31-Dec-19 PGK'000	31-Dec-18 PGK'000
Consolidated profit from continuing operations after tax attributable to members reported for the full year	75,974	60,871	48,094

2.14 Contingent Liabilities

The Company is a party to a number of litigations as at 31 December 2020. 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 Kina Group.

The Kina Group guarantees the performance of customers by issuing bank guarantees to third parties. As at 31 December 2020, these totalled PGK 88.7 million (31 December 2019: PGK 74.4 million).

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3. Compliance Statement

1. This report has been prepared in accordance with Australian Accounting Standards Board (**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.

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