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## ASX/PNGX | Announcement

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### BY ELECTRONIC LODGEMENT

#### Appendix 4E - Preliminary Final Report

Please find attached for release to the market, Kina Securities Limited (ASX:KSL | PNGX:KSL) Appendix 4E - Preliminary Final Report for the year ended 31 December 2021.

ENDS

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

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# Kina Securities Limited 2021 Full Year Results

(ABRN 606 168 594)

Incorporating the requirements of Appendix 4E

## ASX Appendix 4E

### For the Full Year ended 31 December 2021

#### Results for announcement to the market

Comparisons of the current year results to 31 December 2021 (FY2021, reporting period) are with the full year to 31 December 2020 (FY2020, previous corresponding period (PCP)).

PGK	Dec-21	Dec-20	Change Dec21 vs Dec20	
			PGK'000	%
Revenue from ordinary activities	334,366	314,794	19,572	6%
Profit from ordinary activities	106,020	109,906	(3,886)	(4%)
Underlying Net Profit after tax	96,157	75,974	20,183	27%
Net Profit after tax attributable to equity holders	70,813	75,974	(5,161)	(7%)
Net Tangible Assets per security (PGK)	1.69	1.69		

Dividends	FY 2021	FY 2020
<b>Dividends distributions (Final dividend)</b>		
- unfranked (AUD cents per share)	7.0 cents	6.0 cents
- unfranked (PGK toea per share)	18.5 toea	16.9 toea
<b>Dividends distributions (Interim dividend)</b>		
- unfranked (AUD cents per share)	3.0 cents	4.0 cents
- unfranked (PGK toea per share)	8.25 toea	10.0 toea
<b>Full year dividend</b>		
- unfranked (AUD cents per share)	10.0 cents	10.0 cents
- unfranked (PGK toea per share)	26.8 toea	26.9 toea

The Directors have declared a final unfranked dividend for the reporting period based on the Net Profit After Tax (**NPAT**) attributable to equity holders for the full year of PGK 70.8m. This is compared to PGK 76.0m for the PCP.

The final dividend is converted based on an exchange rate: 1 PGK = 0.3781 AUD.

The Record date for determining entitlements to the dividend is 4 March 2022.

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 2021 in Section 2.

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

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## 1. Results Overview

Kina Securities Limited (KSL, Kina, Kina Group, Bank, the Business or the Company) has reported an unaudited statutory Net Profit After Tax of PGK 70.8m for the full year to 31 December 2021. This is compared to PGK 76.0m for 31 December 2020.

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

The Board has declared an unfranked final dividend for 2H21 of AUD 7.00 cents per share / PGK 18.5 toea per share. This compares to AUD 6.0 cents per share / PGK 16.9 toea in the PCP.

### Key results

	Full Year Ended		
	Dec-21	Dec-20	%
Underlying NPAT from ordinary activities (PGK m)	96.2	76.0	27%
Statutory NPAT from ordinary activities (PGK m)	70.8	76.0	(7%)
Revenue (PGK m)	334.4	314.8	6%
FX Revenue (PGK m)	65.6	55.2	19%
Loan impairment expense (PGK m)	(6.5)	(22.0)	(70%)
Cost to income ratio (%) underlying	58.1	58.1	0%
Cost to income ratio (%) statutory	66.3	58.1	14%
Net interest margin (%)	6.7	7.5	(11%)
Return on Equity (%) - underlying	16.7	16.8	(1%)
Return on Equity (%) - statutory	12.3	16.8	(27%)
Earnings per Share (PGK Toea) underlying	33.5	37.3	(10%)
Earnings per Share (PGK Toea) statutory	24.7	37.3	(34%)
Dividend (PGK Toea per share)	26.8	26.9	(0%)
Dividend (AUD Cents per share)	10.0	10.0	0%
Deposit Growth (PGK m)	3,036.9	2,560.7	19%
Net loans and advances (PGK m)	1,950.5	1,614.7	21%
Capital adequacy (T1+T2) (%)	23.3	25.4	(8%)

### Operating performance and earnings

Kina's FY21 underlying results demonstrates the organic growth opportunities within the market and the ability to execute on strategic priorities. The statutory results were impacted by one-off costs associated with the termination of the Westpac acquisition. This cost was an agreed retention of Deposit fee of AUD 10m being costs incurred by Westpac on the separation process. The key results highlights are:

- Underlying NPAT increased by 27% to PGK 96.2m.
- The Loan book grew by 21% growth.
- Foreign Exchange (FX) revenue grew by 19% supported by inflows from new to business commodity exporters on-boarded during the year.
- Effective management of loan levels well within industry benchmarks.
- Fees and Commissions increased by 17% to PGK 89.3m primarily by continued development and build out of the Kina's channel network. Organic growth and digital expansion resulted in an increment of 65% in digital and channel fees.

- The performance in non-interest income from fees and commissions and foreign exchange income increased 18% to Kina's strong revenue growth.
- Cost to income ratio (underlying) maintained at 58% with investment in Brand and Marketing refresh, new website and digital analysis and required technology spend.
- Reduction in impairment cost to PGK 6.5m. The lower impairment in the current year is primarily a reflection of continued application of robust loan and asset quality measures. The higher impairment in the prior year was due to the application of IFRS 9 and consequential reassessment of the ANZ acquired loan book which increased impairment levels by PGK 22m.
- Kina's Funds Administration business achieved NPAT of PGK 10.1m, which reflects a 22% improvement. This is consistent with revenues arising from increased funds under administration and growth in member numbers.

The revenue growth benefits realised from in-branch-focus, digital on boarding and targeted marketing, supported by a focus on merchant relationship management were key to these results. In addition, the business delivered on the objective of on boarding large corporate customers and access to relationships with FX income. The five new Corporate customers have provided Kina with a material increase in opportunities across Corporate Lending, FX products and other Banking and Funds services to these new customers. Harnessing these relationships will deliver sustainable revenue growth over the next three years.

These, together with continued stable foreign exchange (FX) trading income, increase in the loan book, investment in high yielding government securities and lower cost of funds has contributed positively to the overall performance.

Strategic initiatives have progressed well. In FY2021 the focus was on simplifying the business, building digital capability, creating a competitive corporate bank and compelling home loan offer and products. Kina delivered:

- Digital capability across core banking has seen an uplift in digital usage by 98% year on year.
- Competitive deposit products such as fee free online banking helped deliver an increase of 8% in Customer acquisition.
- Completed refresh of Brand and Marketing strategy including new Website that will underpin customer acquisition in FY2022.

### Asset Quality

Asset quality is measured using the Expected Credit Loss (ECL) approach which measures and recognises impairment losses on financial assets measured at amortised cost.

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 focus. The overall level of non-performing loans (NPL) has improved. Section 1.2.9 provides additional explanation.

## Operating Expenses

In line with Kina's capability build-out strategy, total administrative expenses have increased by 6% to PGK 194.1m.

The required spend on technology costs including license fees, software support, development costs and communications expenses grew by over 90%. The increase was in line the strategy to build digital capability. The key expenditure included:

- Procurement of additional licenses across the Group,
- Software support costs to build channel (including ATM) transactional systems to support increased customer reach and improve performance,
- Expanded fraud monitoring capability and;
- Enhanced online and mobile banking functionality.

Technology related costs are being judiciously managed to achieve an acceptable balance between operational efficiency to support current and future growth.

The Group also increased its marketing initiatives with the roll out of enhancements to existing products and introduction of new products/services resulting in an increase in advertising cost. Kina also delivered a brand refresh, including a customer centric website. As part of the refresh Kina finalised an independent branding convention for its digital partnerships. This will allow Kina to put into m market innovative digital services that can be accessed by customers of any bank.

The high cost in technology and advertising were offset by lower security charges as part of management's initiatives on cost monitoring. The impact was the underlying cost to income ratio was maintained at 58%. Targeted management actions are in place to drive continued improvement in FY2022.

## Underlying Capital

The underlying capital of the banking business is strong, with regulatory capital (T1+T2) at 23% of risk weighted assets (RWA). Regulatory minimum is 12%.

In the prior year, Kina successfully completed two strategic initiatives relevant to simplifying its structure and increasing the Banks capital base. These included the simplification of its corporate structure resulting in 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), and completion of a Non-Renounceable Rights Issue (ANREO) that further strengthened its capital base and regulatory ratios.

The higher capital base positions the Group well for further growth opportunities in digital and across the distribution network.

### Acquisition of Westpac Pacific not to proceed

On 22 September 2021, Papua New Guinea's Independent Consumer and Competition Commission (ICCC) gave its final determination denying authorisation for Kina's proposed acquisition of the Westpac Pacific Business.

This however has not changed the Company's strategy of seeking both organic and inorganic growth in PNG and the Pan Pacific region. The strategic priorities to build on Kina's digital capabilities remain. Kina's organic growth strategy is well supported through the FY22 priorities of targeted growth in specific segments.

Given the regulatory decision and in accordance with the requirements of IFRS, the Group has expensed all relevant associated costs to the Profit and Loss. While this has impacted the statutory NPAT of the Group, performance on underlying NPAT remains within expectation.

### Economic Outlook

Economic growth was subdued in 2021 with real GDP growth at 1.5% as the economy closed out the first full year of the COVID-19 impact.

The Government continued to stimulate the economy through an expansionary budget with a forecast deficit of 7.3% of nominal GDP in its 2021 budget. The Government financed this deficit through external sources including the International Monetary Fund and bilateral development partners.

The Bank of PNG forecast headline inflation last year at 4.5%, driven by increasing global oil and food prices as BPNG continued its accommodative monetary policy stance to stimulate the economy. Higher global commodity prices also meant a current account surplus in the balance of payments, which was offset by a capital and financial account deficit, attributed to debt servicing by the Government and resource companies.

The Government remains bullish on its expectations for an economic rebound in 2022.

For 2022, Officials have forecasted 5.4% GDP real growth, which will be primarily driven by an increase in the mining sector. This includes a full year of uninterrupted operations at Ok Tedi; the resumption of Porgera mine; and the much-awaited news on proceeding with the Wafi-Golpu mine.

In terms of the non-mining sector, coffee and palm oil are forecasted to grow, following global multi-year high prices in 2021.

Inflation is forecast at 5.6% for 2022. The risk to this forecast will be higher given increasing inflation overseas which is likely to impact prices of imports into PNG. This is against a background of ongoing (but slow) depreciation of PGK, and the economic stimulus from upcoming national elections pre-election pattern of consumption/spending.

In the medium-term, the recent budget forecast an inflation outlook of 5%, with 4% real growth in the economy. Although this points to a steady return to a balanced budget for the Government, we anticipate that the inflationary outlook is optimistic in the current environment and the forecast will track with the level of growth predicted.

A major ongoing risk for 2022 growth is the Covid19 vaccination rate, which at the end of 2021 is still well below 4% of the total population. This may hinder the progress of opening up the international trade services sector and slow some of our larger resource producers and indeed the projects noted above.



The exchange rate is expected to remain steady with risk pointed to depreciation in 2022 following a flat line in the nominal exchange rate for the full 2021 calendar year. BPNG intervention continues to provide support, however, structural imbalances with demand outstripping FX supply remain a further crucial constraint and risk to the growth outlook whilst a weak PGK is a risk to imported inflationary pressures.

With regard to interest rates, the Government's increased access to foreign borrowing is driving rates down in domestic debt markets with an abundance of liquidity closing out 2021 and early into 2022. According to the Department of Treasury's official figures, the Government's weighted average interest rate for borrowing from the domestic fixed income market is 8.6%. This is in stark contrast to the Government's weighted average interest of borrowing from foreign sources, which is at 2.8%, attributed to concessional conditions from multi-lateral development partners.

We anticipate that domestic fixed income rates for Treasury Bills will continue to track down, due to concessional off-shore financing options for the Government, together with fierce competition for Government debt from local financial institutions. Rates should stabilise and possibly increase to a degree as liquidity is absorbed, and if there is a domestically-financed pre-election stimulus.

In its 2022 Official Budget estimates, the Government plans to source PGK 5.9bn to fund the fiscal deficit, with major sources being the Australian Government through the Australian Infrastructure Financing Facility for the Pacific (AIFFP), Asian Development Bank and other development partners. On the domestic front, funding is expected to primarily come from Government Inscribed Stocks (PGK 1.8bn) and Treasury Bills (PGK 0.4bn), with commercial banks and superannuation funds expected to provide the bulk of support.

Despite the optimism of infrastructure stimulus in the next 2-3 years as new projects potentially come on line, structural challenges such as the large and growing fiscal deficit and level of debt-to-GDP will still remain. This will need to be managed through careful revenue management with strong policy reform initiatives.



## 1.1 Disclosure and Context

### Financial reporting

The statutory result for the twelve months to 31 December 2021 was a consolidated Net Profit After Tax of PGK 70.8m. 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.

## 1.2 Financial results for the full year-ended 31 December 2021

### 1.2.1 Statutory Results

	Full Year Ended		Change
	31/12/2021 PGK'000	31/12/2020 PGK'000	(%)
<b>Continuing Operations</b>			
Interest income on investments	57,256	53,926	6%
Interest income on loans	149,679	145,761	3%
Interest expense	(29,623)	(29,964)	(1%)
<b>Net interest income</b>	<b>177,312</b>	<b>169,723</b>	<b>4%</b>
Fee and commission income	89,391	76,352	17%
Fee and commission expense	(55)	(134)	(59%)
<b>Net fee and commission income</b>	<b>89,336</b>	<b>76,218</b>	<b>17%</b>
Foreign exchange income	65,632	55,239	19%
Dividend income	562	136	313%
Net (losses)/gain from financial assets through profit and loss	817	2,510	(67%)
Other operating income	707	10,968	(94%)
<b>Non-interest income</b>	<b>157,054</b>	<b>145,071</b>	<b>8%</b>
<b>Operating income before impairment losses and operating expenses</b>	<b>334,366</b>	<b>314,794</b>	<b>6%</b>
Impairment losses	(6,519)	(22,018)	(70%)
Separation cost	(27,700)	-	0%
Other operating expenses	(194,127)	(182,870)	6%
<b>Profit before tax</b>	<b>106,020</b>	<b>109,906</b>	<b>(4%)</b>
Income tax expense	(35,207)	(33,932)	4%
<b>Net Profit for the full year attributable to the equity holder of the Company</b>	<b>70,813</b>	<b>75,974</b>	<b>(7%)</b>
Other comprehensive income	-	-	0%
<b>Total comprehensive income for the full year attributable to the equity holder of the Company</b>	<b>70,813</b>	<b>75,974</b>	<b>(7%)</b>

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2021, and where applicable, calculated by reference to the 31 December 2020 audited financial statements. The above information is being audited at the time of this report.

### 1.2.2 Dividends

	Dec-21	Dec-20
Earnings per share (PNG Toea)	24.7	37.3
Earnings per share (A cents)	9.3	13.3
Dividend per share (PGK toea)	26.8	26.9
Dividends per share (A cents)	10.0	10.0

### 1.2.3 Lending

PGK Millions	Full Year Ended		
	Dec-21	Dec-20	Change %
Overdraft	78.5	80.7	(3%)
Term Loans	1,329.7	1,058.5	26%
Investment Property Loan	97.9	94.5	4%
Asset Financing	30.3	21.7	40%
Housing Loan	449.9	389.5	16%
Credit Cards	2.3	5.1	(55%)
<b>Gross</b>	<b>1,988.6</b>	<b>1,650.0</b>	<b>21%</b>
Provision	(38.1)	(35.3)	8%
<b>Total</b>	<b>1,950.5</b>	<b>1,614.7</b>	<b>21%</b>

Total loans increased by 21%, to PGK1,950.5m. Term and Home Loans portfolios grew by PGK 332m, representing over 20% growth with term loans contributing more than 80% of book growth and home loans 18% of book growth. The 26% growth in term loans is due to the successful on-boarding of new to bank key corporate customers delivering on the strategic increase in capital base. These new clients are from a diverse range of industries such as Mining, Hospitals and Retail.

Risk concentration by sector is shown in the table below.

	Dec-21		Dec-20	
	PGK million	% of total loans	PGK million	% of total loans
Agriculture, Forestry & Fishing	15.0	0.8%	13.8	0.8%
Mining	26.9	1.4%	14.5	0.9%
Manufacturing	20.0	1.0%	16.8	1.0%
Electrical, Gas & Water	7.2	0.4%	7.5	0.5%
Building and Construction	105.3	5.3%	105.6	6.4%
Wholesale & Retail	606.6	30.5%	379.9	23.0%
Hotel & Restaurants	94.8	4.8%	104.9	6.4%
Transport & Storage	17.8	0.9%	12.6	0.8%
Financial Intermediation	1.3	0.1%	14.3	0.9%
Real Estate/Renting/Business Services	350.5	17.6%	329.8	20.0%
Equipment Hire	20.2	1.0%	23.0	1.4%
Other Business	168.6	8.5%	109.9	6.7%
Personal Banking	554.4	27.9%	517.4	31.4%
<b>Gross Loans</b>	<b>1,988.6</b>	<b>100.0%</b>	<b>1,650.0</b>	<b>100.0%</b>

Net lending after ECL as at 31 December 2021 reflects a 21% growth against 31 December 2020. Provisions are further explained in Section 1.2.9 - Asset Quality and Loan Impairment.

### 1.2.4 Funding

PGK Millions	Full Year Ended		
	Dec-21	Dec-20	Change (%)
Fixed Term	785.7	720.7	9%
Cash Management Accounts	584.6	510.2	15%
Current Accounts	1,298.2	1,008.1	29%
Savings Accounts	368.4	321.7	15%
<b>Total</b>	<b>3,036.9</b>	<b>2,560.7</b>	<b>19%</b>

Deposits grew by 19% largely attributed to the increase in current accounts. The growth in current accounts reflects increased operational deposits owing to Kina's improved transactional product offering including corporate online, payroll processing and an enhanced personal banking platform.

PGK Millions	Full Year Ended		
	Dec-21	Dec-20	Change (%)
On Call	2,277.1	1,856.00	23%
1 month	173.1	126.3	37%
2 months	122.5	73.2	67%
3 months	208.0	214.9	(3%)
6 months	154.5	146.9	5%
12 months	90.7	124.4	(27%)
24 months	11.0	19	(42%)
<b>Total</b>	<b>3,036.9</b>	<b>2,560.7</b>	<b>19%</b>

Over the course of the financial year the balance sheet approach was to deliver a funding base to best match change in Kina's assets which resulted from growth in the Corporate loan book.

The Loan to Deposit Ratio (LDR) of 64% is within the internal target range set by the Board.

### 1.2.5 Net Interest Margin

PGK Million	Full Year Ended		
	Dec-21	Dec-20	Change (%)
Net interest income	177.3	169.7	4%
Average interest earning assets	2,733.8	2,328.2	17%
Average yield on interest earning assets (%)	7.6	8.5	(11%)
Average interest-bearing liabilities	2,798.8	2,510.9	11%
Average cost on interest-bearing liabilities (%)	0.9	1.0	(10%)
Interest spread (%)	6.7	7.5	(11%)
Net interest margin	6.7	7.5	(11%)

NIM reflects a mix of increased lending to the corporate sector, strong deposit growth to maintain the loan to deposit ratio at less than 70%, and our strategy to grow FX revenues with the resources sector. While interest earning assets saw a 20% increase over the prior year, 69% of this growth was recorded in the second half. We expect NIM to normalise in the first half of 2022, well within the target range of 6-8%.

### 1.2.6 Non-Interest Income

PGK Millions	Full Year Ended		
	Dec-21	Dec-20	Change (%)
Banking			
Foreign exchange income	66.3	55.2	19%
Fees and commissions*	57.0	45.9	24%
Other	2.2	11.2	(80%)
Total	125.5	112.3	12%
Wealth Management			
Fund Administration	21.2	19.7	8%
Investment Management	9.6	9.3	3%
Shares	1.7	1.2	42%
Other	(0.9)	2.6	(135%)
Total	31.6	32.8	(4%)
Total	157.1	145.1	8%

\*see further analysis below

Overall non-interest income growth was 8%, to PGK 157.1m. Total core banking and wealth income was up 19%.

As earlier noted, the drive to increase transactional volumes via Kina's digital platform is seeing revenue growth across all digital channels showing an increase of 65% within digital channels. Further improving these results is increased foreign exchange income supported by on-boarding of new Corporate customers.

Core wealth business revenue shows a growth 8% on the back of increased funds under administration, increased member numbers and a higher asset management base in the fund management business. This has been offset by foreign exchange valuation losses recorded under the "Other" category resulting in an overall reduction.

Other income in the PCP included foreign exchange valuation gains at period end.

The table below shows the increase in fees and commissions (banking).

Banking - PGK millions	Dec-21	Dec-20	Change (PGK)	Change (%)
Merchant fees	14.2	8.1	6.1	75%
VISA Fees	6.9	4.9	2.0	41%
Mobile Banking fees	1.7	1.0	0.7	70%
Internet Banking fees	0.6	0.3	0.3	0%
Total digital	23.4	14.3	9.1	65%
Bank fees and commission income	24.6	21.8	2.8	13%
Loan fees	3.5	5.3	(1.8)	(34%)
ATM fees	5.5	4.5	1.0	22%
Total other	33.6	31.6	2.0	6%
Total fees and commissions	57.0	45.9	11.1	24%

### 1.2.7 Operating Expenses

Total operating cost as at December 2021 was PGK 194.1m, an overall increase of 6%. Staff, administrative and occupancy costs contributed 39%, 32% and 24% respectively to total operating costs for the year.

Within operating expenses, administrative costs increased by 18%. License and software support and development, telephone and communications and advertising costs saw an upward trend as the Group continued the build out of its 2025 Strategy. The Group also increased its marketing initiatives with the roll out of enhancements to existing products and introduction of new products/services with a consequential increase in advertising cost.

License, software support and development costs contributed the highest increase at 183% of administration cost however, these costs remained within business plan targets. Both cost categories were required to bolster changes and upgrades to the technology build out to facilitate a wider reach for customer facing distribution channels. Resources were directed to improve and expand the Group's ICT capabilities in mandated areas of cybersecurity, disaster recovery and infrastructure redundancy. The Group also incurred costs on technology support of business continuity contingencies to support remote and safe working, increase storage and computing capacity, enhance applications performance and improve network and internet communications.

The increase in administrative costs were partially offset by other operating expenses due to recoveries on non-lending losses. Staff costs were largely in line with the prior year, due to vacancies and a reduction in staff travel resulting in lower spend on salaries, leave accruals, accommodation, and insurance costs.

Figures in PGK Million	Full Year ended		
	31-Dec-21	31-Dec-20	Change (%)
Administration	62.9	53.2	18%
Staff	75.6	75.2	1%
Occupancy	46.7	44.4	5%
Other Operating expenses	5.6	7.2	(22%)
Board of Directors cost	2.1	1.4	50%
Acquisition/Integration	-	0.8	(100%)
Investor Relationship	1.2	0.7	71%
<b>Total operating expenses</b>	<b>194.1</b>	<b>182.9</b>	<b>6%</b>

### 1.2.8 Separation Cost

In September 2021, the PNG Independent Consumer and Competition Commission (ICCC) did not approve the acquisition of the Pacific business from Westpac. In accordance with the requirements of IFRS, the Group has expensed relevant associated costs to the Profit and Loss (P&L). A total of K 27.7m comprising costs incurred directly by Kina and the costs incurred by Westpac has been charged to the P&L. Costs directly incurred by Kina represent 30% of the total charge to the P&L. Westpac withheld AUD 10m reflecting their costs incurred in the separation process, including the development of software assets of the KSL group which have been capitalized in accordance with International Accounting Standards.

### 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 (**PD**) and the Loss Given Default (**LGD**). Default stages are applied depending on the aging and/or any change in the risk grade since origination. The LGD 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 to monitor its systems and processes to maintain strong credit quality across the loan book and a continued disciplined approach to the application of the Group's lending standards.

#### Asset Quality

Figures in PGK Million	Full year ended			
	Dec-21	% of GLA	Dec-20	% of GLA
Loan impairment expense	6.6	0.3%	20.8	1.3%
Non-performing loans and loans in arrears	173.5	8.7%	161.7	9.8%
- 90 day arrears	61.2	3.1%	60.3	3.7%
- Gross non-performing loans (> 180 days)	112.3	5.6%	101.4	6.1%
Total provision	(38.1)	(1.9%)	(35.3)	(2.1%)



## Loan Impairment expense

Figures in PGK'000	Dec-21	Dec-20	Dec-21	Dec-20	Change (PGK)	Change (%)
Provision on loans			6,616	20,626	(14,010)	(68%)
Provision expense	8,286	16,060				
Net write-offs	(1,670)	4,566				
Trade Debtors			(62)	207	(269)	(130%)
Total impairment (loans & advances)			6,554	20,833	(14,279)	(69%)
Provision on GIS*			(35)	1,185	(1,220)	(103%)
<b>Total Loan Impairment Expense</b>			<b>6,519</b>	<b>22,018</b>	<b>(15,499)</b>	<b>(70%)</b>

Impairment expense totalled PGK 6.5m as at 31 December 2021. The higher impairment in the prior year was due to a mix of the application of IFRS 9 and reassessment of the ANZ acquired loan book increasing impairment level to PGK 22m. The reduction in the FY2021 reflects an adjusted position on the ANZ acquired book (taken up in the prior year) and the result of improvements to loan account management, reduction in overall NPL against GLA and a lower write-off rate and higher recoveries on loans previously written off on the back of a more robust monitoring system.

The reduction in total NPL as a percentage of gross loans and advances is a result of more robust and disciplined relationship management and maintaining strong credit follow up processes by the credit team. A significant program of work undertaken by management during FY2021 was collateral value updates into the core banking system where different business units across lending, risk and credit and finance were involved with the objective to improve data accuracy. This has improved outcomes in the current year.

Management continues to remain focused on NPL accounts. The pandemic has impacted cash flows due to job losses, lower rental income, deferred government payments and slowed the recovery actions due to protracted closure of the courts. Kina has in place a number of workouts with individual impacted customers and property sales in the near future including loan restructures with retail clients which will further reduce NPL levels. The loan book remains well secured and there is no material degradation of collateral values.

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

Loans and advances to customers	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total Dec 2021	Total Dec 2020
Grade A-D: Low to fair risk	1,750.5	61.0	0.9	-	1,812.4	1,486.60
Grade E: Monitoring	-	34.2	-	-	34.2	24.6
Grade F: Substandard	-	26.7	-	-	26.7	36.6
Grade G: Doubtful	-	29.6	32.3	-	61.9	59.2
Grade H: Impaired	-	-	37.7	14.9	52.6	43
Not graded	-	-	0.8	-	0.8	-
<b>Gross Carrying Amount</b>	<b>1,750.5</b>	<b>151.5</b>	<b>71.7</b>	<b>14.9</b>	<b>1,988.6</b>	<b>1,650.0</b>
Loss Allowance	(20.1)	(10.4)	(7.6)	-	(38.1)	(35.3)
<b>Net Carrying Amount</b>	<b>1,730.4</b>	<b>141.1</b>	<b>64.1</b>	<b>14.9</b>	<b>1,950.5</b>	<b>1,614.7</b>

In accordance with the Risk grading policy and process, Kina credit and risk regularly assess the risk grades of each loan. 91% of the loan book is assessed as Low to Fair Risk (Grade A-D). The level of impaired loans remains at 3% largely due to the loans acquired from ANZ. These remain a focus area of work where Kina is working with these customers to reduce any further impairment.

## Investments

In FY2020, as part of BPNG's market 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 was required to assess the ECL on these investments. Based on this requirement, total ECL calculated (taking into account PD and LGD) was PGK 1.7 m in the prior year. The impact to the P&L in the prior year was PGK 1.2 m (see table under Loans section above). There is minimal change impacting the P&L in the current year.

### 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 2021.

As an authorised institution licensed by the BPNG to accept or collect deposits from the public and lend to the public, Kina is required to comply with the prudential standards issued by BPNG. The reported ratios are at the consolidated level of the Group.

Regulatory Capital Ratios	31-Dec-21	31-Dec-20
<b>RWA</b>	<b>1,905.2</b>	<b>1,670.1</b>
Capital: T1 (PGK'm)	349.1	365.6
Capital: T2 (PGK'm)	94.6	58.3
Capital: T1 + T2 (PGK'm)	443.7	429.3
Capital adequacy Ratio: T1	18.3%	21.9%
Capital adequacy: T2	5.0%	3.5%
<b>Capital adequacy: T1 + T2</b>	<b>23.3%</b>	<b>25.4%</b>
<b>Leverage Ratio</b>	<b>9.5%</b>	<b>11.2%</b>

Capital ratios at the end of December 2021 remained above BPNG's requirement, with combined tier 1 (T1) and T2 capital equal to 23.3% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. The overall decrease against the prior year is related to higher dividend payments. The Bank also has maintained a leverage ratio at 9.5%, above BPNG's minimum requirement of 6%. The higher capital ratios place the Bank in a good position to deal with growth initiatives into the future.

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

## 2. Consolidated Financial Statements

### 2.1 Statement of Comprehensive Income - consolidated

	Full Year Ended		
	31/12/2021	31/12/2020	Change
	PGK'000	PGK'000	(%)
<b>Continuing Operations</b>			
Interest income on investments	57,256	53,926	6%
Interest income on loans	149,679	145,761	3%
Interest expense	(29,623)	(29,964)	(1%)
<b>Net interest income</b>	<b>177,312</b>	<b>169,723</b>	<b>4%</b>
Fee and commission income	89,391	76,352	17%
Fee and commission expense	(55)	(134)	(59%)
<b>Net fee and commission income</b>	<b>89,336</b>	<b>76,218</b>	<b>17%</b>
Foreign exchange income	65,632	55,239	19%
Dividend income	562	136	313%
Net (losses)/gain from financial assets through profit and loss	817	2,510	(67%)
Other operating income	707	10,968	(94%)
<b>Non-interest income</b>	<b>157,054</b>	<b>145,071</b>	<b>8%</b>
<b>Operating income before impairment losses and operating expenses</b>	<b>334,366</b>	<b>314,794</b>	<b>6%</b>
Impairment losses	(6,519)	(22,018)	(70%)
Separation cost	(27,700)	-	0%
Other operating expenses	(194,127)	(182,870)	6%
<b>Profit before tax</b>	<b>106,020</b>	<b>109,906</b>	<b>(4%)</b>
Income tax expense	(35,207)	(33,932)	4%
<b>Net Profit for the full year attributable to the equity holder of the Company</b>	<b>70,813</b>	<b>75,974</b>	<b>(7%)</b>
Other comprehensive income	-	-	0%
<b>Total comprehensive income for the full year attributable to the equity holder of the Company</b>	<b>70,813</b>	<b>75,974</b>	<b>(7%)</b>

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2021, and where applicable, calculated by reference to the 31 December 2020 audited financial statements. The above information is being audited at the time of this report.

## 2.2 Statement of financial position - consolidated

	31-Dec-21 PGK'000	31-Dec-20 PGK'000	Change %
<b>Assets</b>			
Cash and due from banks	408,334	335,147	22%
Central bank bills	795,362	647,874	23%
Regulatory deposits	212,874	185,711	15%
Financial assets at fair value through profit and loss	11,652	10,682	9%
Loans and advances to customers	1,950,451	1,614,731	21%
Investments in government inscribed stocks	112,107	114,519	(2%)
Current income tax assets	30	83	(64%)
Deferred tax assets	16,988	16,482	3%
Property, plant and equipment	90,467	86,274	5%
Goodwill	92,786	92,786	0%
Intangible assets	48,663	49,449	(2%)
Other assets	45,947	145,813	(68%)
<b>Total Assets</b>	<b>3,785,661</b>	<b>3,299,551</b>	<b>15%</b>
<b>Liabilities</b>			
Due to other banks	(4,701)	(5,385)	(13%)
Due to customers	(3,036,921)	(2,560,715)	19%
Current income tax liabilities	(11,697)	(4,966)	136%
Employee provisions	(10,906)	(11,538)	(5%)
Lease Liabilities	(48,851)	(47,342)	3%
Other liabilities	(95,959)	(92,571)	4%
<b>Total Liabilities</b>	<b>(3,209,035)</b>	<b>(2,722,517)</b>	<b>18%</b>
<b>Net Assets</b>	<b>576,626</b>	<b>577,034</b>	<b>(0%)</b>
<b>Share capital and reserves</b>			
Issued and fully paid ordinary shares	(394,693)	(394,693)	0%
Share-based payment reserve	(3,587)	(2,774)	29%
Retained earnings	(178,346)	(179,567)	(1%)
<b>Total capital and reserves</b>	<b>(576,626)</b>	<b>(577,034)</b>	<b>(0%)</b>

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2021, and where applicable, calculated by reference to the 31 December 2020 audited financial statements. The above information is being audited at the time of this report.

### 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
<b>Balance as at 31 December 2019</b>	<b>176,970</b>	<b>2,063</b>	<b>148,243</b>	<b>327,276</b>
Profit for the period	-	-	75,974	75,974
Additional shares issued	217,723	-	-	217,723
Other comprehensive income	-	-	-	-
Contributions by and distributions to owners	-	-	-	-
Employee share scheme - vested rights	-	(2,297)	-	(2,297)
Employee share scheme - value of employee services	-	3,008	-	3,008
Dividend paid	-	-	(44,650)	(44,650)
<b>Balance as at 31 December 2020</b>	<b>394,693</b>	<b>2,774</b>	<b>179,567</b>	<b>577,034</b>
Profit for the period	-	-	70,813	70,813
Additional shares issued	-	-	-	-
Other comprehensive income	-	-	-	-
Contributions by and distributions to owners	-	-	-	-
Employee share scheme - vested rights	-	(3,476)	-	(3,476)
Employee share scheme - value of employee services	-	4,289	-	4,289
Dividend paid	-	-	(72,034)	(72,034)
<b>Balance as at 31 December 2021</b>	<b>394,693</b>	<b>3,587</b>	<b>178,346</b>	<b>576,626</b>

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2021, and where applicable, calculated by reference to the 31 December 2020 audited financial statements. The above information is being audited at the time of this report.

## 2.4 Statement of Cashflow - consolidated

	31-Dec-21 PGK'000	31-Dec-20 PGK'000
<b>Cash flows from operating activities</b>		
Interest received	206,779	202,364
Interest paid	(33,943)	(27,376)
Foreign exchange gain	65,632	55,239
Dividend received	562	136
Fee, commission and other income received	87,974	78,271
Fee and commission expense paid	(55)	(134)
Net trading and other operating income received	1,419	13,256
Recoveries on loans previously written-off	1,598	1,943
Cash payments to employees and suppliers	(164,078)	(169,183)
Income tax paid	(28,918)	(36,195)
<b>Cash flows from operating profits before changes in operating assets</b>	<b>136,970</b>	<b>118,321</b>
<b>Changes in operating assets and liabilities:</b>		
- net (increase)/ decrease in regulatory deposits	(27,163)	64,002
- net increase in loans and advances to customers	(335,901)	(217,160)
- net (increase)/ decrease in other assets	99,471	(82,487)
- net increase in due to customers	476,206	99,748
- net increase in due to other banks	3,367	4,814
- net increase/ (decrease) in other liabilities	9,859	(60,110)
<b>Net cash flows from operating activities</b>	<b>362,809</b>	<b>(72,872)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, equipment and software	(40,491)	(22,924)
Proceeds from sale of property and equipment	148	264
Purchase of investment securities	(145,494)	52,355
Separation cost	(27,700)	-
<b>Net cash flows from investing activities</b>	<b>(213,537)</b>	<b>29,695</b>
<b>Cash flows from financing activities</b>		
Dividend payment	(72,034)	(44,650)
Proceeds from the issuance of share capital, net of transaction costs		217,723
<b>Net cash flow from financing activities</b>	<b>(72,034)</b>	<b>173,073</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>77,238</b>	<b>129,896</b>
Effect of changes in the foreign exchange rates on cash and cash equivalents	(4,051)	549
<b>Cash and cash equivalents at beginning of period</b>	<b>400,147</b>	<b>269,702</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>473,334</b>	<b>400,147</b>

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2021, and where applicable, calculated by reference to the 31 December 2020 audited financial statements. The above information is being audited at the time of this report.

## 2.5 Basis of Preparation

The accounting policies, estimation methods and measurement basis used in the preparation of the consolidated financial statements for the full year ended 31 December 2021 are consistent with those used in preparing the 31 December 2020 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

	Dec-21 PGK'000	Dec-20 PGK'000
Cash and due from other banks	408,334	335,147
Central bank bills (maturity less than 3 months)	65,000	65,000
<b>Total cash at the end of the period</b>	<b>473,334</b>	<b>400,147</b>

## 2.8 Ratios

	31-Dec-21	31-Dec-20
<b>Profit before tax / Operating Income</b>		
Consolidated profit from ordinary activities before tax as a percentage of revenue	31.7%	34.9%
<b>Profit after tax / equity interests</b>		
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	12.3%	13.2%

## 2.9 Earnings Per Share - Statutory

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

	31-Dec-21	31-Dec-20
Calculation of the following in accordance with IAS33		
(a) Basic EPS	24.68	37.25
(b) Diluted EPS	24.18	37.06
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	286,935,900	230,840,535*

*\*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.

## 2.11 Issued Shares

The total number of shares at 31 December 2021 was 286,935,900 (31 December 2020: 286,935,900)

Issued Ordinary Shares	Total Number Ordinary shares	Number Quoted Ordinary shares
Changes during the period ended 31 December 2021		
Opening Balance of number of shares	286,935,900	286,935,900
Increase through issue of shares	-	-
<b>Closing Balance of number of shares 31 December 2021</b>	<b>286,935,900</b>	<b>286,935,900</b>

## 2.12 Segment Reporting

	Banking & Finance	Wealth Management	Total
31 December 2021	PGK'000	PGK'000	PGK'000
Total external income	302,851	31,516	334,367
Total external expense	(220,491)	(7,855)	(228,346)
<b>Profit before inter-segment revenue and expenses</b>	<b>82,360</b>	<b>23,661</b>	<b>106,021</b>
Inter-segment income	6,312	-	6,312
Inter-segment expense	(2,515)	(3,797)	(6,312)
<b>Profit before tax</b>	<b>86,157</b>	<b>19,864</b>	<b>106,021</b>
Income tax expense	(29,634)	(5,574)	(35,208)
<b>Profit after tax</b>	<b>56,523</b>	<b>14,290</b>	<b>70,813</b>
Segment assets	3,706,504	79,157	3,785,661
Segment liabilities	(3,206,686)	(2,349)	(3,209,035)
<b>Net assets</b>	<b>499,818</b>	<b>76,808</b>	<b>576,626</b>
Capital expenditure	40,491	-	40,491
Depreciation	(36,398)	-	(36,398)
31 December 2020	Banking & Finance	Wealth Management	Total
	PGK'000	PGK'000	PGK'000
Total external income	281,868	32,926	314,794
Total external expense	(195,326)	(9,562)	(204,888)
<b>Profit before inter-segment revenue and expenses</b>	<b>86,542</b>	<b>23,364</b>	<b>109,906</b>
Inter-segment income	15,392	-	15,392
Inter-segment expense	(11,800)	(3,592)	(15,392)
<b>Profit before tax</b>	<b>90,134</b>	<b>19,772</b>	<b>109,906</b>
Income tax expense	(28,807)	(5,125)	(33,932)
<b>Profit after tax</b>	<b>61,327</b>	<b>14,647</b>	<b>75,974</b>
Segment assets	3,285,349	14,202	3,299,551
Segment liabilities	(2,719,289)	(3,228)	(2,722,517)
<b>Net assets</b>	<b>566,060</b>	<b>10,974</b>	<b>577,034</b>
Capital expenditure	22,924	-	22,924
Depreciation	(35,065)	-	(35,065)



### 2.13 Comparison of Profits

	Dec-21 PGK'000	Dec-20 PGK'000
Consolidated profit from continuing operations after tax attributable to members reported for the full year	70,813	75,974

### 2.14 Contingent Liabilities

The Company is a party to a number of litigations as at 31 December 2021. 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.

Kina guarantees the performance of customers by issuing bank guarantees to third parties. As at 31 December 2021, these totalled PGK 73.0m (31 December 2020: PGK 88.7m).

### 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

☒

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.

