Kina Securities Limited

28 February 2024

ASX – Announcement

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

BY ELECTRONIC LODGEMENT

Appendix 4E - Preliminary Final Report

Please find attached for release to the market, Kina Securities Limited (ASX:KSL) Appendix 4E – Preliminary Final Report for the year ended 31 December 2023.

ENDS

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

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Kina Securities Limited

Full Year Results as at 31 December 2023

(ABRN 606 168 594)

Incorporating the requirements of Appendix 4E

Kina Securities Limited

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ASX Appendix 4E

For the Full Year ended 31 December 2023

Comparisons of the current year results to 31 December 2023 (FY2023, reporting period) are with the full year to 31 December 2022 (FY2022, previous corresponding period (PCP)).

PGK	Dec-23	Dec-22	Change Dec23 vs Dec22 PGK'000	%
Revenue from ordinary activities	404,158	366,500	37,658	10%
Profit from ordinary activities	175,331	148,418	26,913	18%
Underlying Net Profit after tax	105,211	106,073	(862)	(1%)
Net Profit after tax attributable to equity holders	105,211	116,488	(11,277)	(10%)
Net Tangible Assets per security (PGK)	1.91	1.80		

Dividends	FY 2023	FY 2022
Dividends distributions (Final dividend)		
- unfranked (AUD cents per share)	6.0 cents	6.5 cents
- unfranked (PGK toea per share)	15.9 toea	16.1 toea
Dividends distributions (Interim dividend)		
- unfranked (AUD cents per share)	4.0 cents	4.1 cents
- unfranked (PGK toea per share)	9.7 toea	10.3 toea
Full year dividend		
- unfranked (AUD cents per share)	10.0 cents	10.6 cents
- unfranked (PGK toea per share)	25.6 toea	26.4 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 105.2m. This is compared to NPAT of PGK 116.5m for the PCP.

The final dividend is converted based on an exchange rate: 1 PGK = 0.3779 AUD.
The Record date for determining entitlements to the dividend is 6 March 2024.

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 Statements for the full year ended 31 December 2023 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 105.2m for the full year to 31 December 2023. This is compared to PGK 116.5m for the full year to 31 December 2022.

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

The Board has declared an unfranked final dividend for 2H23 of AUD 6.0 cents per share / PGK 15.9 toea per share. This compares to AUD 6.5 cents per share / PGK 16.1 toea in the PCP.

Key results

	Full Year Ended		
	Dec-23	Dec-22	%
Underlying NPAT from ordinary activities (PGK m)	105.2	106.1	(1%) *
Statutory NPAT from ordinary activities (PGK m)	105.2	116.5	(10%) **
Net Profit before tax (PGK m)	175.3	148.4	18%
Revenue (PGK m)	404.2	366.5	10%
FX Revenue (PGK m)	51.3	60.3	(15%)
Loan impairment expense (PGK m)	(9.8)	(4.8)	104%
Cost to income ratio (%)	54.2	58.2	(7%)
Net interest margin (%)	5.6	6.0	(7%)
Return on Equity (%) - underlying	16.8	17.9	(6%)
Return on Equity (%) - statutory	16.8	19.6	(14%)
Earnings per Share (PGK Toea) underlying	36.7	37.0	(1%)
Earnings per Share (PGK Toea) statutory	36.7	40.6	(10%)
Dividend (PGK Toea per share)	25.6	26.4	(3%)
Dividend (AUD Cents per share)	10.0	10.6	(6%) ***
Deposit Growth (PGK m)	4,344.6	3,878.8	12%
Net loans and advances (PGK m)	2,562.1	2,158.9	19%
Capital adequacy (T1+T2) (%)	20.0	22.5	(11%)

** Dec-23 bank industry CIT rate at 45% vs Dec-22 CIT rate at 30%*
*** Dec-22 Statutory NPAT includes impact of 45% increase on DTA hence ITE*
**** Impact of foreign exchange rate*

Operating performance and earnings

Kina's FY23 results were underpinned by continued solid revenue growth in core banking products and digital services consistent with the objectives of the 2025 strategic plan. Kina remains committed to delivering improved returns by growing market share organically, diversification of revenue streams, disciplined expense management and a prudent approach to maintaining a resilient balance sheet, including a regulatory capital ratio of 20.0% well above minimum regulatory requirements. Interest income on loans grew by 24% against PCP due to solid performance in Business lending and Home lending segments.

FY23 Highlights:

- 18% increase in Profit before Tax compared to PCP.
- Decrease in NPAT by 1% to PGK 105.2m, including the absorption of the increase in corporate income tax (CIT) rate to 45% of PBT.
- Loan book growth of 19%, to PGK 2.6b.
- Net Interest Income increased by 12% to PGK 203.3m, compared to PGK 181.2m in the PCP.
- Fees and Commissions increased by 18% against PCP underpinned by the expansion of Kina's digital channel.
- Cost to income decreased from 58.2% to 54.2% compared to PCP, arising from effective cost management strategies.
- Kina's Funds Administration business recorded NPAT of PGK 13.1m, with revenue growth of 3% compared to PCP generated from improved value add services to superannuation clients.
- The Funds Management business grew by 12% in total funds under management (PGK 10.0b), maintaining Kina's market share in the sector.

Kina remains on track to deliver against its 2025 strategic plan, despite some challenges arising from the increased corporate income tax rate, foreign exchange shortages and the prolonged impacts of COVID including staffing outages and supply chain impacts. The strategic program of work has been adapted where necessary to accommodate these headwinds, supported by continuing focus on disciplined and efficient operations and the achievement of business performance goals.

Investments in the core banking business have been oriented towards business banking to assert Kina's position as a full service business banking participant in the market. Work has continued on the bank's digital portfolio, and through wealth management and superannuation funds services, delivering key partnership products like automated onboarding via DIGIGBNKR and a refreshed flight payment facility with a major domestic airline, and enhancements to the core platform that supports our Superannuation service offerings.
As a challenger brand and the second largest bank by total footings (deposits and loans), sustainable returns will be delivered over the long-term through the further broadening of Kina's diversified portfolio, digital underpinnings and service proposition in key markets that Kina operates in.

Looking ahead, Kina will utilise digital capabilities alongside the diverse range of experience and capabilities of the bank's workforce, including an innovation mindset and risk maturity, to deliver the remainder of the strategic plan. The five pillars and key initiatives delivered this reporting period are summarised below:

Strategic Pillars	
Growth Core Business Momentum	• Retail customer base growth of 20% was achieved for the full year. Significant momentum in first half customer origination has continued into the second half following branch onboarding campaigns in Port Moresby, Lae, Madang and Mt Hagen, including the deployment of mobile onboarding teams. Approximately 40,000 customers were on-boarded for the year, the highest annual increment to date. • By the end of the year more than 60% of new retail customers were using the digital origination pathway, principally through Kina's market leading website. The mobile onboarding teams formed in the second half of the year acquired in excess of 4,000 new customer accounts and attended introductory meetings with more than a hundred companies, with plans for more regional activations in 2024. • Loan book growth was extremely strong for the year with growth of 10% in the half, and 8% in the second half, reflecting very strong drawdown performance and active pipeline management particularly across business lending segments. Loan rehabilitation strategies have also supplemented this growth. • Growth in non-interest income revenue streams continues, with impetus provided by ongoing development of Kina's segmentation strategy to better serve market segments. For example, the Corporate Business Advisory Unit has focused service on leading multi-national corporations, large PNG corporate businesses and PNG based exporters, particularly in natural resources, with a range of facilities across lending, foreign exchange, transactional banking, and digital services. • Digital Channels and Partnerships growth of 39% for the whole year is driven by Kina's continued roll out of merchant payment services and proactive partnership programs. • Kina Funds Management (KFM) has extended its service contract for a key client for several years. Kina Investment and Superannuation Services (KISS) has enhanced its funds administration capabilities during 2023 by partnering with a new technology platform support provider to assist superannuation clients in PNG organise their digital innovation plans through KISS's service platform.
Building Resilience	• A dedicated strategic program of works for "re-imagining" risk was completed during the year including the incorporation of best-practice governance enhancements, placing the organisation on track for its target risk maturity in 2025. • The risk management framework has been strengthened with focused risk management appropriately calibrated to take into account risk and reward profiles in an emerging market. • Risk appetite statements were enhanced with quantitative measures for all material risks which align with the 2025 strategic objectives. • The risk business unit was restructured to provide dedicated functional areas in Governance, Risk and Compliance to to deliver a greater level of risk maturity. • Enhancement of Kina's non-performing loan management has driven operational excellence including improved collections techniques.

	• Provisioning models were updated with more quantifiable techniques for loan impairment, as required by international financial reporting standards, thus providing better predictive capabilities to qualify levels of impairment. • Implementation of improved cyber and information security controls, including enhanced cyber architecture and onboarding of external partners to support the systems environment. • A focus on regulatory management provided additional preemptive and dedicated compliance programs that enhanced risk oversight and governance capability in a changing and evolving marketplace.
Service Excellence Digital inside and out	• Completion of Kina's first dedicated Business Banking Centre in Port Moresby to support further SME and business banking growth. This forms part of the three-year physical site remodeling program. • Commenced development of in-branch and off-site digital hubs for strategic locations in Port Moresby. This started with a major supermarket in a densely populated part of Port Moresby, offering services of account opening, general enquires and growing capability to provide all non-cash services outside of the branch. • The Kina Private service proposition was launched during 2023. The launch saw the high net-worth segment provided with an exclusive offer that provides a high-touch/high-trust relationship-based service. Client take-up has been strong, and this segment looks set to complement Kina's Wealth Management business and opportunities. • Kina's merchant terminal of choice strategy has been strengthened through expansion of the 'integrated POS' solution to include the GaP Software Solution, in addition to the existing integration with Pronto. • Following successful deployment of the Xero bank feed solution, Kina has commenced development of a 2nd phase solution to provide an expanded suite of Xero's services for SMEs. • Implemented market leading Business Lending refinance campaign supported by an expanded network of Business Banking Advisors in key regional locations. • Commencement of work to introduce a new, modern online banking solution for Corporate and Business Banking.
Dynamic people	• Refreshed corporate values oriented more to Customer service, accompanied by a Customer Service Program rolled out across the organisation • Launched a revised Leadership Capability Framework which defines the behaviors and capabilities necessary for staff professional development and achievement of organisational objectives as well as initiation of a talent development program to supplement the capability framework. • Supported by the Centre for Excellence in Financial Inclusion (CEFI PNG), Financial Literacy training was rolled out across the country to over 300 staff to develop skills in relation to the management of personal finances (customers and staff). • Expanded the Graduate Program to include candidates from additional disciplines relating to technology. • Kina's Strategic Intelligence focus groups continued, running exploratory workshops looking into the future of banking and receiving training on contemporary leadership practice. • Launched an upgraded cyber security training platform for increased staff awareness and risk mitigation. • Supported the roll-out of the Customer Service Program.
Sustainable communities	• Publication of the First Sustainability Report, which was well received. • Development of target KPI and a dedicated Risk Appetite Statement for Environmental, Social and Governance risks • Onboarded a new Internal Audit team with a program of works intended to deliver best practice and continuous improvement. • MiBank and Financial Inclusion Partnership delivering strong customer engagement and growth through a new co-branded branch in Alotau, with particular focus on SME services including lending, merchant services and digital banking. • Kina and MiBank partnered with Total to deliver financial services alongside Total's PNG wide solar generation roll out. • Strengthened the staff-led community support programs including a lead grant program called the Strongim Komuniti Grant to support activities or projects for local communities. • Renewed partnership with Kokoda Track Foundation including delivery of Flexible Open & Distance Education (FODE) programs in the community, and their flagship Archer Leadership program. • Continued support for Links of Hope program which supports children and orphans impacted by HIV and AIDS.

	• Partnership with the Litehaus International digital classroom program supporting the construction of digital classrooms across schools in remote PNG. The classrooms will have readily available materials to enrich teaching and learning activities. • Embedded support for youth development with the Junior Soccer Carnival and Academy Program to help develop junior soccer players and showcase PNGs talent on an overseas platform. • Introduced new visa debit cards made from recycled plastics, further demonstrating our commitment to our ESG responsibilities. • Hosted Prime Ministers Back to Business Breakfast Function for the seventh year, with over 500 private sector guests, dignitaries from the public sector and diplomatic corp. This was followed up later in the year by a presentation at the Mining & Petroleum Conference

Asset Quality

Asset quality remains sound and at an acceptable level.

Asset quality is measured using an Expected Credit Loss (ECL) methodology which measures and recognises potential impairment losses on financial assets. Kina has further enhanced its internal risk grading model to incorporate estimates for loss allowance based on the credit risk of the assets. The enhanced risk model more effectively utilises three key items:

- Probably of Default (PD)
- Loss Given Default (LGD); and
- Exposure at Default (ED)

The model considers past and present outcomes and incorporates future macro-economic forecasts to ensure an appropriate and timely recognition and provisioning for credit losses as changes in credit risks occur. The model allocates relative weightings to base, upside and downside risk scenarios.

Section 1.2.8 provides additional explanation.

Operating Expenses

Operational costs increased 3% overall as spending was carefully controlled during the year.

Staff expenses marginally increased by PGK 0.8m or 0.9%, following the strategic alignment and streamlining of functions. Management has also given attention to revising staff development pathways and trainings.

Administrative expense increased by PGK 14.8m or 22.0% supporting the continuous investment required in software development to supplement the Bank's digital strategy. Growth in digital channels, including transactional volumes and network expansion has resulted in an increase in associated costs.

Occupancy and Depreciation expenses decreased by PGK 8.5m or 17.7%. This is largely attributed to the full amortisation in September of 2022 of intangible assets in respect of ANZ PNG banking customer deposit acquisition since 2019. Office space optimisation also resulted in the termination of an entire floor space in Kina Bank Haus in December 2022.

Section 1.2.7 provides additional explanation.

Underlying Capital

The underlying capital of the banking business is strong, with regulatory capital (T1+T2) at 20.0% of risk weighted assets **(RWA)**. Kina remains well above the regulatory minimum of 12%.

The higher capital base positions the Group well for further growth opportunities in lending, digital and across the distribution network, and provides a good base for inorganic growth opportunities.

2023 Income Tax Rate increase

In December 2022, during the PNG Government's roll out of the 2023 national budget, an increase in the corporate income tax rate from 30% to 45% on commercial banks was announced and was effective 1 January 2023. Kina's Deferred taxes were therefore remeasured as at 31 December 2022 to the new rate in line with IFRS to reflect the change. This has resulted in an increase in deferred tax asset of PGK 10.4m and a tax credit of PGK 10.4m included in the statutory net profit after tax for 31 December 2022.

Economic Outlook

2023 Macroeconomic Summary
Following fiscal stimulus-driven growth in the aftermath of COVID-19, the PNG economy continues to benefit from high energy prices since the start of the Russian/Ukraine crisis with solid GDP growth of 4.6% in 2022. In 2023, official GDP growth is expected at 2.7%, which was revised lower than the 3.2% initially forecasted. The downward revision was attributed to lower gas exports with scheduled maintenance at the PNG LNG site, coupled with the delayed opening of the Porgera gold mine. This contraction in resources sector output was slightly off set by the increased production in palm oil, cocoa, copra, and copra oil, together with new competition into the telecommunications market.

2024 Outlook
Despite a tense start to the year which saw looting of businesses in Port Moresby following a pay dispute between the police and Government, businesses are slowly returning to some form of normalcy heading well into the first quarter of 2024. Official GDP growth estimates for this year are optimistic at 2.7%, largely driven by the reopening of the much-anticipated Porgera gold mine, coupled with stronger global energy prices as geopolitical tensions continue to constrain energy supply lines and elevate risk levels. The country's non-resource GDP is also expected to grow by 4.7%, based off the spin-off benefits to local businesses from Porgera's re-opening. With Porgera's recommencement, there will be bullish prospects within certain service sectors to the mine, especially transportation (+7%) and accommodation & food services (+6%). The construction (+6%) sector will also be supported by the government's on-going 'Connect PNG' initiative to build a national road network.

The agriculture sector is also set to grow with Cocoa (+9.9%), copra oil (+7.2%) and palm oil (+0.8%) all set to have increased output in 2024. The Cocoa output will be driven by increased harvests and Government subsidies. Copra Oil production will also increase due to higher price incentives. However, coffee (-0.3%) and copra (-2.7%) outputs are projected to slow down.

Foreign Exchange shortages will be ameliorated by Porgera resumption.
In the next 12 months, Kina anticipates a continuation of the country's FX crisis as foreign currency inflows are still outweighed by import orders. In 2023, the currency's benchmark interbank rate against the US dollar has gradually depreciated by 5.5%. Heading into 2024, the Bank of PNG opted to apply a 'crawling peg' regime which stemmed the nominal depreciation, as it also continues to provide much needed intervention. The reopening of the Porgera mine will be a big boost once export receipts start flowing.

Inflation price pressures remain a risk for businesses.
Inflation pressures started to creep up again at the back end of 2023, with forecasted inflation rates between 3.5% and 5.1% over the medium-term. Given the continuing nominal PGK depreciation, domestic price pressures are expected to be offset by the depreciation of PNG's trading partner currencies which would keep the real exchange rate depreciation relatively modest. However, in nominal terms, inflation is forecasted at 5% for this year.

IMF Program continues reform agenda.
The Government's reform agenda for the economy will continue in its second year of the International Monetary Fund's Staff Monitored Program (SMP). 2 of the 7 milestone dates to meet the 3-year agreement's targets are expected in March and September of this year, after which further tranches of the US$ 918m multi-year loan will be drawn down.
The conditional agreement with the IMF includes reforms to the current taxation regime, greater flexibility of the 'fixed' exchange rate framework and the strengthening of the country's anti-corruption frameworks.

1.1 Disclosure and Context

Financial reporting

The statutory result for the twelve months to 31 December 2023 was a consolidated Net Profit After Tax of PGK 105.2m. 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 2023

1.2.1 Statutory Results

	Full Year Ended		
	Dec-23 PGK'000	Dec-22 PGK'000	Change (%)
Continuing Operations			
Interest income on investments	59,225	67,890	(13%)
Interest income on loans	194,115	156,710	24%
Interest expense	(50,020)	(43,389)	15%
Net interest income	**203,320**	**181,211**	**12%**
Fee and commission income	136,979	116,324	18%
Fee and commission expense	(16)	(110)	(86%)
Net fee and commission income	**136,964**	**116,214**	**18%**
Foreign exchange income	51,342	60,339	(15%)
Dividend income	660	469	41%
Net (losses)/gain from financial assets through profit and loss	2,733	3,610	(24%)
Other operating income	9,139	4,657	96%
Non-interest income	**200,838**	**185,289**	**8%**
Operating income before impairment losses and operating expenses	**404,158**	**366,500**	**10%**
Impairment losses	(9,844)	(4,825)	104%
Separation cost	-	-	0%
Other operating expenses	(218,983)	(213,257)	3%
Profit before tax	**175,331**	**148,418**	**18%**
Income tax expense	(70,120)	(31,930)	120%
Net Profit for the full year attributable to the equity holder of the Company	**105,211**	**116,488**	**(10%)**
Other comprehensive income	-	-	0%
Total comprehensive income for the full year attributable to the equity holder of the Company	**105,211**	**116,488**	**(10%)**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2023, and where applicable, calculated by reference to the 31 December 2022 audited financial statements. The above information is being audited at the time of this report.

1.2.2 Dividends

	Dec-23	Dec-22
Earnings per share (PNG Toea) underlying	36.7	37.0
Earnings per share (A cents) underlying	13.9	15.0
Dividend per share (PGK toea)	25.6	26.4
Dividends per share (A cents)	10.0	10.6

1.2.3 Lending

PGK Millions	Full Year Ended Dec-23	Dec-22	Change %
Overdraft	97.6	80.1	22%
Term Loans	1,735.3	1,420.1	22%
Investment Property Loan	109.8	93.9	17%
Asset Financing	92.6	71.8	29%
Housing Loan	576.0	534.1	8%
Credit Cards	3.3	1.4	136%
Gross	**2,614.6**	**2,201.4**	**19%**
Provision	(52.5)	(42.5)	24%
Total	**2,562.1**	**2,158.9**	**19%**

Overall lending was up 19% against PCP volumes to PGK2.6bn including growth in Term Loans, Asset Financing and Home Loan portfolios of PGK377.9m. Additionally, growth in the business customer base, supported by improvements in the operating model across transactional, lending and digital banking services for business and SMEs, has contributed to this solid outcome.

Business lending segments experienced strong loan origination in the first half, onboarding new major customers and extension of loan footings within the existing base. The geographic expansion of the banking network footprint and re-organisation of the lending business commenced roll-out in the first half of 2023 with the implementation of five regional commercial lending hubs.

Home loan volumes experienced moderate growth of 8%. A slow start in the first half with 3% growth was followed by a boost in the second half through the incorporation of process reforms and activation of market campaigns. Asset Financing continues to realise positive momentum from the equipment hire, construction and building industry.

	Dec-23		Dec-22	
	PGK million	% of total loans	PGK million	% of total loans
Agriculture, Forestry & Fishing	4.1	0.2%	3.9	0.2%
Mining	15.5	0.6%	16.2	0.7%
Manufacturing	21.1	0.8%	18.8	0.9%
Electrical, Gas & Water	0.9	0.0%	6.7	0.3%
Building and Construction	183.6	7.0%	171.3	7.8%
Wholesale & Retail	770.9	29.5%	694.1	31.5%
Hotel & Restaurants	75.1	2.9%	79.0	3.6%
Transport & Storage	67.8	2.6%	23.2	1.1%
Financial Intermediation	0.7	0.0%	0.8	0.0%
Real Estate/Renting/Business Services	360.1	13.8%	316.1	14.4%
Equipment Hire	34.0	1.3%	43.6	2.0%
Other Business	285.7	10.9%	212.6	9.7%
Personal Banking	698.5	26.7%	615.1	27.9%
Post & Telecommunication	96.7	3.7%	-	0.0%
Gross Loans	**2,614.6**	**100.0%**	**2,201.4**	**100.0%**

Wholesale & Retail sector continues to be the largest proportion of the industry concentration comprising 29.5% of the total loan book. Lending growth has benefited from an increased exposure to transport and storage (increased by 192%) and personal banking (increased by 14%) which represents 26.7% of the total portfolio. The roll out of regional commercial lending hubs helped to further diversify the loan portfolio into the Post & Telecommunication sector.

1.2.4 Funding

PGK Millions	Full Year Ended Dec-23	Dec-22	Change (%)
Fixed Term	1,471.0	1,442.9	1.9%
Cash Management Accounts	497.0	326.8	52.1%
Current Accounts	1,864.3	1,637.0	13.9%
Savings Accounts	512.3	472.1	8.5%
Total	**4,344.6**	**3,878.8**	**12.0%**

Deposits grew by 12.0%, to PGK 4.3b. This growth in funds comprised by low-cost transaction accounts (Current and Savings Accounts) representing 57% of the total growth, 37% from Cash Management Accounts and a marginal volume from Fixed Term Deposits, resulting in a reasonable cost of funds. Total customer acquisition was up 19% with an increase in customer onboarding and the digital platform offering.

PGK Millions	Full Year Ended Dec-23	Dec-22	Change (%)
On Call	2,925.6	2,461.0	18.9%
1 month	310.4	317.8	(2.3%)
2 months	186.1	269.6	(31.0%)
3 months	117.0	120.7	(3.1%)
6 months	378.1	443.8	(14.8%)
12 months	387.0	260.9	48.3%
24 months	40.4	5.0	708.0%
Total	**4,344.6**	**3,878.8**	**12.0%**

Balance sheet funding was driven by a mix of On Call and 12-month deposits, reflecting the continued favorable domestic market liquidity. The loan to deposit ratio (LDR) increased by 300 bps to 59%, as the Bank positions itself to take advantage of additional lending opportunities in the market, including those anticipated from the major resource projects announced for roll-out in the medium term.

1.2.5 Net Interest Margin

PGK Million	Full Year Ended Dec-23	Dec-22	Change (%)
Net interest income	204.8	184.7	
Interest Income Loans	194.1	156.7	23.9%
Avg Interest Yield Loans	*8.2%*	*7.6%*	
Interest Income Investments	59.2	67.9	(12.8%)
Avg Interest Yield Investments	*4.6%*	*6.4%*	
Interest Expense	(48.6)	(39.9)	21.8%
Avg Cost of Funds	*(1.2%)*	*(1.1%)*	
Average interest earning assets	3,663.7	3,102.6	18.1%
Average interest-bearing liabilities	4,120.8	3,488.2	18.1%
Net interest spread (loans)	7.0%	6.5%	
Net interest spread (investments)	3.4%	5.3%	
Net Interest Margin	5.6%	6.0%	

The Net Interest margin was 5.6%, down 40 basis points over the course of the year. This was due to a combination of deposit growth, price competition, and non-loan investment yield volatility.

The reduction in Net Interest Margin (NIM) for FY2023 reflects several contributing factors:

- Solid growth in deposits as the balance sheet is positioned for continued loan growth, especially with imminent implementation of large natural resource projects.
- Lower yield from government securities which have on average reduced from +5.0% in prior periods to 3.4%

1.2.6 Non-Interest Income

PGK Millions	Full Year Ended Dec-23	Dec-22	Change (%)
Banking			
Foreign exchange income	51.4	61.8	(17%)
Fees and commissions*	102.0	81.0	26%
Other	10.8	10.7	1%
Total	**164.2**	**153.5**	**7%**
Wealth Management			
Fund Administration	23.2	22.2	5%
Investment Management	10.4	10.0	4%
Shares	1.5	2.1	(29%)
Other	1.5	(2.5)	(160%)
Total	**36.6**	**31.8**	**15%**
Total	**200.8**	**185.3**	**8%**

**see further analysis below*

Overall non-interest income growth was 8% to PGK 200.8m, attributed largely to an uplift in fees and commissions, although a decline in foreign currency income has dampened the overall growth in non-interest income.

Foreign Exchange income declined by 17% to PGK 51.4mThe continuous shortage in FX to clear customer orders has resulted in decrease in Kina's overall turnover by 9.8%. Subsequently, Kina's FX market share also declined from 8.5% to 6.3% in 2023. Although BPNG's total FX intervention in the market significantly increased year on year, KSL's share of the intervention dropped from 17.6% to 11.5%.

Digital channels and partnerships income grew by 44% propelled by expansion in visa cards on issue with domestic and international transactions and continued growth in core merchant payment services.

Revenues in the Wealth business increased by 5% against PCP. The funds under administration business delivered key efficiency programs of work to preserve normal revenue streams, despite system processing risks encountered by a key client and its primary banker in the second quarter of the year.

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-23	Dec-22	Change (PGK)	Change (%)
Merchant fees	31.4	26.4	5.0	19%
VISA Fees	26.6	14.1	12.5	89%
Mobile Banking fees	3.8	2.4	1.4	58%
Internet Banking fees	2.1	1.4	0.7	50%
Total digital	**63.9**	**44.3**	**19.6**	**44%**
Bank fees and commission income	24.8	25.3	(0.5)	(2%)
Loan fees	5.9	4.4	1.5	34%
ATM fees	7.4	7.0	0.4	6%
Total other	**38.1**	**36.7**	**1.4**	**4%**
Total fees and commissions	**102.0**	**81.0**	**21.0**	**26%**

1.2.7 Operating Expenses

Total operating cost as at December 2023 was PGK 219.0m, an overall increase of 3%. Staff, administrative and occupancy costs contributed 40%, 37% and 18% respectively to total operating costs for the year.

	Full Year ended		
Figures in PGK Million	Dec-23	Dec-22	Change (%)
Administration	82.0	67.2	22%
Staff	86.6	85.8	1%
Occupancy	39.4	47.9	(18%)
Other Operating expenses	7.9	9.1	(13%)
Board of Directors cost	2.1	2.1	0%
Investor Relationship	1.0	1.2	(17%)
Total operating expenses	**219.0**	**213.3**	**3%**

Administration costs have increased by 22% to PGK 82.0m, including priority technology and software and other safeguards in infrastructure and data management, AML and cybersecurity. Investments also occurred in capacity expansion in internet bandwidth to cater for a growing online digital banking presence through customer volume and transactional activities.

Staff costs increased by 1% to PGK 86.6m, contributing positively to the Bank's cost to income ratio. In the first half of the year, the bank undertook a strategic approach re-organising functional teams to drive and enhance the commercial and retail operations. In the second half of the year, a hundred-day campaign was launched to refresh the corporate values to a more customer service orientation, accompanied by a Customer Service Program roll out across the organization.

Occupancy costs decreased by 18% to PGK 39.4m attributed to the complete amortisation of intangible assets in September 2022, originating from the acquisition of ANZ PNG assets in 2019.

1.2.8 Asset Quality and Loan Impairment

Information about how risk is quantified and managed for potential impairment of Kina's loan assets requires robust risk management and model application. Kina has an IFRS9 compliant model which evaluates how economic and credit changes will affect its loan portfolio under a variety of scenarios including the application of critical estimates and judgements.

The Probability of Default, Exposure at Default and the Loss Given Default metrics are used in the computation of ECL across three distinct portfolios of assets:

- Loans
- Overdrafts and
- Credit Cards

Each portfolio is assessed by analysing the default stages, level of security (the collateral held by the Bank) and various economic and scenario analysis to formulate the ECL and level of provisioning.

Kina has improved its provisioning model which provides for the timely and adequate provisioning of credit losses. Kina has an implied conservatism in its end provisioning outcomes and uses increased scenario testing, individual review of assets and alignment of management focus between Finance & Risk which places the bank in a solid position in managing its asset base. Kina continues to monitor its systems and processes to ensure it maintains strong credit quality across the loan book and applies a continued disciplined approach to the Group's lending standards.

Asset Quality

Figures in PGK Million	Full year ended Dec-23	% of GLA	Dec-22	% of GLA
Loan impairment expense	9.8	0.4%	4.2	0.2%
Non-performing loans and loans in arrears	163.6	6.3%	191.0	8.7%
- 90-day arrears	22.2	0.8%	41.2	1.9%
- Gross non-performing loans (> 180 days)	141.4	5.4%	149.8	6.8%
Total provision	(52.5)	(2.0%)	(42.5)	(1.9%)

Loan Impairment expense

Figures in PGK'000	Dec-23	Dec-22	Change (PGK)	Change (%)
Provision Expense	10,490	4,498	5,992	133.2%
Net Write-offs	(499)	(931)	432	(46.4%)
Provision on loans	**9,991**	**3,567**	**6,424**	**180.1%**
Trade Debtors	162	665	(827)	(124.4%)
Total impairment (loans & advances)	**9,829**	**4,232**	**5,597**	**132.3%**
Provision on GIS*	14	593	(579)	(97.6%)
Total Impairment Expense	**9,843**	**4,825**	**5,018**	**104.0%**

** see note below on investments*

Impairment expense totalled PGK 9.8m as at 31 December 2023. The increase is attributed to growth in underlying loan book as well as enhancements to the ECL provisioning model for more precise IFRS alignment. The enhancements include a more punitive Significant Increase in Credit Risk (SICR) triggers, such as:

- Reassessment of staging criteria to prevent irregular shifts in staging by observing habitual arrears and restructuring.
- Re-evaluation of LGD model methodology applied on secured and unsecured loans.

Consequently, improvements in arrears position are not immediately reflected in provision adjustments.

Total non-performing loans (NPL) as a percentage of gross loans decreased from 8.7% in 2022 to 6.3%. The decrease is attributed to the program launched in 2022 to improve asset recovery and collection process which has continued into 2023.

An analysis of the loan portfolio and provision based on enhancement ECL model 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 2023	Total Dec 2022
Overdraft	73.8	10.0	13.8	-	97.6	80.1
Credit Cards	1.6	0.4	1.2	-	3.2	1.4
Loans	2,136.9	225.4	142.6	8.8	2,513.7	2,119.9
Total Gross Carrying Amount	**2,212.2**	**235.8**	**157.7**	**8.8**	**2,614.6**	**2,201.4**
Loss Allowance	(18.7)	(8.6)	(25.1)	-	(52.5)	(42.5)
Carrying Amount	**2,193.5**	**227.2**	**132.6**	**8.8**	**2,562.1**	**2,158.9**

The IFRS 9 compliant model establishes a three stage impairment criteria based on changes to credit quality since date of initial recognition to the reporting date, with 93.7% of Kina Bank's overall loan book representing performing loans.

Investments

In FY2020, as part of the BPNG's market intervention and quantitative easing requirements due to COVID-19, Kina (together with other financial institutions) took on greater placements of Governments Inscribed Stock (GIS) issued by the PNG Government. Kina took on a total of PGK 100m with terms great than 5 years. In accordance with IFRS 9 requirements, the Company was required to assess the ECL on these investments, thereby the total ECL calculated in 2022 was K2.2m, with an impact to P&L of PGK 593k in that year (see table under loans section above). There is minimal change impacting the P&L in 2023.

1.2.9 Capital Adequacy

BPNG Prudential Standard 1/2003 Capital Adequacy prescribes ranges of overall capital adequacy ratios and leverage capital ratios to measure whether a bank is adequately capitalised. Kina exceeds the existing BPNG prudential capital adequacy requirements and qualifies as 'well capitalised' as at 31 December 2023.

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

Capital ratios at the end of December 2023 remained above BPNG's requirement, with combined tier 1 (T1) and tier 2 (T2) capital equal to 20.0% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. The Bank also has maintained leverage ratio at 7.4%, above BPNG's minimum requirement of 6%.

Regulatory Capital Ratios	Dec-23	Dec-22
RWA	**2,507.9**	**2,080.6**
Capital: T1 (PGK'm)	379.2	337.0
Capital: T2 (PGK'm)	122.8	132.1
Capital: T1 + T2 (PGK'm)	502.0	469.1
Capital adequacy Ratio: T1	15.1%	16.2%
Capital adequacy: T2	4.9%	6.3%
Capital adequacy: T1 + T2	**20.0%**	**22.5%**
Leverage Ratio	**7.4%**	**7.5%**

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 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		
	Dec-23 PGK'000	Dec-22 PGK'000	Change (%)
Continuing Operations			
Interest income on investments	59,225	67,890	(13%)
Interest income on loans	194,115	156,710	24%
Interest expense	(50,020)	(43,389)	15%
Net interest income	**203,320**	**181,211**	**12%**
Fee and commission income	136,979	116,324	18%
Fee and commission expense	(16)	(110)	(86%)
Net fee and commission income	**136,964**	**116,214**	**18%**
Foreign exchange income	51,342	60,339	(15%)
Dividend income	660	469	41%
Net (losses)/gain from financial assets through profit and loss	2,733	3,610	(24%)
Other operating income	9,139	4,657	96%
Non-interest income	**200,838**	**185,289**	**8%**
Operating income before impairment losses and operating expenses	**404,158**	**366,500**	**10%**
Impairment losses	(9,844)	(4,825)	104%
Separation cost	-	-	0%
Other operating expenses	(218,983)	(213,257)	3%
Profit before tax	**175,331**	**148,418**	**18%**
Income tax expense	(70,120)	(31,930)	120%
Net Profit for the full year attributable to the equity holder of the Company	**105,211**	**116,488**	**10%**
Other comprehensive income	-	-	0%
Total comprehensive income for the full year attributable to the equity holder of the Company	**105,211**	**116,488**	**10%**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2023, and where applicable, calculated by reference to the 31 December 2022 audited financial statements. The above information is being audited at the time of this report.

2.2 Statement of financial position - consolidated

	Dec-23 PGK'000	Dec-22 PGK'000	Change %
Assets			
Cash and due from banks	387,526	433,488	(11%)
Central bank bills	1,236,496	1,215,763	2%
Regulatory deposits	433,274	383,083	13%
Financial assets at fair value through profit and loss	35,816	15,262	135%
Loans and advances to customers	2,562,078	2,158,921	19%
Investments in government inscribed stocks	157,611	152,650	3%
Current income tax assets	136	952	(86%)
Deferred tax assets	35,790	30,067	19%
Property, plant and equipment	71,954	82,839	(13%)
Goodwill	92,786	92,786	0%
Intangible assets	27,608	32,493	(15%)
Other assets	129,827	79,669	63%
Total Assets	**5,170,902**	**4,677,971**	**11%**
Liabilities			
Due to other banks	(4,598)	(2,060)	123%
Due to customers	(4,344,571)	(3,878,835)	12%
Current income tax liabilities	(11,832)	(5,148)	130%
Employee provisions	(17,011)	(14,111)	21%
Lease Liabilities	(33,775)	(41,713)	(19%)
Other liabilities	(118,544)	(126,801)	(7%)
Total Liabilities	**(4,530,331)**	**(4,068,668)**	**11%**
Net Assets	**640,571**	**609,303**	**5%**
Share capital and reserves			
Issued and fully paid ordinary shares	(394,693)	(394,693)	0%
Share-based payment reserve	(2,776)	(2,477)	12%
Retained earnings	(243,102)	(212,133)	15%
Total capital and reserves	**(640,571)**	**(609,303)**	**5%**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2023, and where applicable, calculated by reference to the 31 December 2022 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 PGK'000	Share based payment Reserve PGK'000	Retained Earnings PGK'000	Total PGK'000
Balance as at 31 December 2021	**394,693**	**3,587**	**178,343**	**576,623**
Profit for the period	-	-	116,488	116,488
Additional shares issued	-	-	-	-
Other comprehensive income	-	-	-	-
Contributions by and distributions to owners	-	-	-	-
Employee share scheme - vested rights	-	(1,360)	-	(1,360)
Employee share scheme - value of employee services	-	2,277	-	2,277
Deferred tax asset on share-based payment		(2,027)		(2,027)
Dividend paid	-	-	(82,698)	(82,698)
Balance as at 31 December 2022	**394,693**	**2,477**	**212,133**	**609,303**
Profit for the period	-	-	105,211	105,211
Additional shares issued	-	-	-	-
Other comprehensive income	-	-	-	-
Contributions by and distributions to owners	-	-	-	-
Employee share scheme - vested rights	-	(1,529)	-	(1,529)
Employee share scheme - value of employee services	-	2,073	-	2,073
Deferred tax asset on share-based payment	-	(245)	-	(245)
Dividend paid	-	-	(74,242)	(74,242)
Balance as at 31 December 2023	**394,693**	**2,776**	**243,102**	**640,571**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2023, and where applicable, calculated by reference to the 31 December 2022 audited financial statements. The above information is being audited at the time of this report.

2.4 Statement of Cashflow – consolidated

	Dec-23 PGK'000	Dec-22 PGK'000
Cash flows from operating activities		
Interest received	245,205	215,812
Interest paid	(51,865)	(29,974)
Foreign exchange gain	51,342	60,339
Dividend received	660	469
Fee, commission and other income received	137,286	118,472
Fee and commission expense paid	(16)	(110)
Net trading and other operating income received	(5,298)	6,177
Recoveries on loans previously written-off	499	935
Cash payments to employees and suppliers	(192,192)	(171,979)
Income tax paid	(68,506)	(54,436)
Cash flows from operating profits before changes in operating assets	**117,115**	**145,705**
Changes in operating assets and liabilities:		
- net (increase)/ decrease in regulatory deposits	(50,191)	(170,208)
- net increase in loans and advances to customers	(402,486)	(210,111)
- net (increase)/ decrease in other assets	(53,632)	(35,491)
- net increase in due to customers	467,581	828,498
- net increase in due to other banks	2,537	(2,640)
- net increase/ (decrease) in other liabilities	(17,554)	22,995
Net cash flows from operating activities	**63,371**	**578,333**
Cash flows from investing activities		
Purchase of property, equipment and software	(12,817)	(14,005)
Proceeds from sale of property and equipment	89	306
Purchase of investment securities	(19,036)	(452,937)
Other one-off expense	-	-
Refund of deposit from Westpac	-	-
Net cash flows from investing activities	**(31,764)**	**(466,636)**
Cash flows from financing activities		
Dividend payment	(74,242)	(82,698)
Proceeds from the issuance of share capital, net of transaction costs	-	-
Net cash flow from financing activities	**(74,242)**	**(82,698)**
Net increase/ (decrease) in cash and cash equivalents	**(42,634)**	**28,999**
Effect of changes in the foreign exchange rates on cash and cash equivalents	(3,328)	(3,845)
Cash and cash equivalents at beginning of period	**433,488**	**408,334**
Cash and cash equivalents at the end of the period	**387,526**	**433,488**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2023, and where applicable, calculated by reference to the 31 December 2022 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 2023 are consistent with those used in preparing the 31 December 2022 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-23 PGK'000	Dec-22 PGK'000
Cash and due from other banks	387,526	433,488
Total cash at the end of the period	**387,526**	**433,488**

2.8 Ratios

	Dec-23	Dec-22
Profit before tax / Operating Income		
Consolidated profit from ordinary activities before tax as a percentage of revenue	43.4%	40.5%
Profit after tax / equity interests		
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	16.4%	19.1%

2.9 Earnings Per Share - Statutory

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

	Dec-23	Dec-22
Calculation of the following in accordance with IAS33		
(a) Basic EPS	36.67	40.60
(b) Diluted EPS	36.39	40.35
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	286,935,900	286,935,900*

**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 2023 was 286,935,900 (31 December 2022: 286,935,900)

	Total Number Ordinary shares	Number Quoted Ordinary shares
Changes during the period ended 31 December 2023		
Opening Balance of number of shares	286,935,900	286,935,900
Increase through issue of shares	-	-
Closing Balance of number of shares 31 December 2023	**286,935,900**	**286,935,900**

2.12 Segment Reporting

31 December 2023	Banking & Finance PGK'000	Wealth Management PGK'000	Total PGK'000
Total external income	366,716	37,442	404,158
Total external expense	(220,370)	(8,457)	(228,827)
Profit before inter-segment revenue and expenses	**146,346**	**28,985**	**175,331**
Inter-segment income	(179)	-	(179)
Inter-segment expense	-	179	179
Profit before tax	**146,167**	**29,164**	**175,331**
Income tax expense	(61,993)	(8,127)	(70,120)
Profit after tax	**84,174**	**21,037**	**105,211**
Segment assets	5,156,209	14,693	5,170,902
Segment liabilities	(4,522,826)	(7,505)	(4,530,331)
Net assets	**633,383**	**7,188**	**640,571**
Capital expenditure	12,817	-	12,817
Depreciation	(29,946)	-	(29,946)

31 December 2022	Banking & Finance PGK'000	Wealth Management PGK'000	Total PGK'000
Total external income	334,477	32,023	366,500
Total external expense	(207,483)	(10,599)	(218,082)
Profit before inter-segment revenue and expenses	**126,994**	**21,424**	**148,418**
Inter-segment income	4,127	-	4,127
Inter-segment expense	-	(4,127)	(4,127)
Profit before tax	**131,121**	**17,297**	**148,418**
Income tax expense	(26,705)	(5,225)	(31,930)
Profit after tax	**104,416**	**12,072**	**116,488**
Segment assets	4,622,283	55,688	4,677,971
Segment liabilities	(4,062,542)	(6,126)	(4,068,668)
Net assets	**559,741**	**49,562**	**609,303**
Capital expenditure	14,005	-	14,005
Depreciation	(38,203)	-	(38,203)

2.13 Comparison of Profits

	Dec-23 PGK'000	Dec-22 PGK'000
Consolidated profit from continuing operations after tax attributable to members reported for the full year	105,211	116,488

2.14 Contingent Liabilities

The Company is a party to a number of litigations as at 31 December 2023. 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 2023, these totaled PGK 68.1m (31 December 2022: PGK 48.9m).

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.