Kina Securities Limited

27 February 2023

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 2022.

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 2022

(ABRN 606 168 594)

Incorporating the requirements of Appendix 4E

Kina Securities Limited

kinabank.com.pg

ASX Appendix 4E

For the Full Year ended 31 December 2022
Results for announcement to the market

Comparisons of the current year results to 31 December 2022 (FY2022, reporting period) are with the full year to 31 December 2021 (FY2021, previous corresponding period (PCP)).

			Change Dec22 vs Dec21	
PGK	Dec-22	Dec-21	PGK'000	%
Revenue from ordinary activities	366,500	334,362	32,138	10%
Profit from ordinary activities	148,418	106,016	40,445	40%
Underlying Net Profit after tax	106,073	96,154	8,549	10%
Net Profit after tax attributable to equity holders	116,488	70,810	33,893	65%
Net Tangible Assets per security (PGK)	1.81	1.67		

Dividends	FY 2022	FY 2021
Dividends distributions (Final dividend)		
- unfranked (AUD cents per share)	6.5 cents	7.0 cents
- unfranked (PGK toea per share)	16.1 toea	18.5 toea
Dividends distributions (Interim dividend)		
- unfranked (AUD cents per share)	4.1 cents	3.0 cents
- unfranked (PGK toea per share)	10.3 toea	8.25 toea
Full year dividend		
- unfranked (AUD cents per share)	10.6 cents	10.0 cents
- unfranked (PGK toea per share)	26.4 toea	26.8 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 116.5m. This is compared to NPAT of PGK 70.8m for the PCP.

The final dividend is converted based on an exchange rate: 1 PGK = 0.4042 AUD.
The Record date for determining entitlements to the dividend is 6 March 2023.

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 2022 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 116.5m for the full year to 31 December 2022. This is compared to PGK 70.8m for the full year to 31 December 2021.

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

The Board has declared an unfranked final dividend for 2H22 of AUD 6.5 cents per share / PGK 16.1 toea per share. This compares to AUD 7.0 cents per share / PGK 18.5 toea in the PCP.

Key results

	Full Year Ended		
	Dec-22	Dec-21	%
Underlying NPAT from ordinary activities (PGK m)	106.1	96.2	10%
Statutory NPAT from ordinary activities (PGK m)	116.5	70.8	65%*
Revenue (PGK m)	366.5	334.4	10%
FX Revenue (PGK m)	60.3	65.6	(8%)
Loan impairment expense (PGK m)	(4.8)	(6.5)	(26%)
Cost to income ratio (%) underlying	58.2	58.1	0%
Cost to income ratio (%) statutory	58.2	66.3	(12%)
Net interest margin (%)	6.0	6.7	(10%)
Return on Equity (%) – underlying	17.9	16.7	7%
Return on Equity (%) – statutory	19.6	12.3	59%
Earnings per Share (PGK Toea) underlying	37.0	33.5	10%
Earnings per Share (PGK Toea) statutory	40.6	24.7	64%
Dividend (PGK Toea per share)	26.4	26.8	(1%)
Dividend (AUD Cents per share)	10.6	10.0	6%**
Deposit Growth (PGK m)	3,878.8	3,036.9	28%
Net loans and advances (PGK m)	2,158.9	1,950.5	11%
Capital adequacy (T1+T2) (%)	22.5	23.3	(3%)

* *Dec-22 Statutory NPAT includes impact of 45% increase on DTA hence ITE*

* *Dec-21 Statutory NPAT includes impact of Westpac separation cost*

** *Impact of foreign exchange rate*

Operating performance and earnings

Kina's FY22 results were underpinned by continued solid revenue growth in core banking products and digital services contributing towards the progress of the 2025 strategic plan. Kina's underlying ROE of 17.9% is now restored to the level it was prior to the 2020 capital raising, while maintaining a robust balance sheet with a regulatory capital ratio of 22.5% well above the minimum requirement. The strong results demonstrate Kina's ability to execute on its revenue diversification strategy, with 50% of income now derived from non-interest products. Home lending grew by 11% over the year due to market leading products in targeted segments, and digital banking products continue to deliver significant revenue opportunities for Kina.

The key features of FY22 results are:

- Underlying NPAT increased by 10% to PGK 106.1m.
- Net Fees and Commissions increased by 30% to PGK 116.2m primarily due to continued development and build out of Kina's channel network. Organic growth and digital expansion resulted in an increase of 78% in channel fees
- The Loan book grew by 11%.
- Kina grew its customer base by 19%, including strong low-cost transactional deposit growth of 27.7%.
- Digital Channel growth of 89% year on year, due to expanded EFTPOS and terminal of choice strategy.
- Cost to income ratio remained flat at 58.2% arising from investment in a middleware API layer and further investments in core technology and enabling infrastructure.
- Underlying ROE was 17.9% demonstrating Kina's ability to generate quality returns.

- Reduction in impairment cost to PGK 4.8m. The lower impairment in the current year is due to such factors as the continued application of the assets recovery program of work and security database improvements contributing to robust lending practices and asset quality measures.
- Kina Investment Superannuation Services recorded an increase of 10% in total revenue associated with an increase in total funds under administration to PGK 17.3b and an increase of 4% in total membership.
- FX customer volume increased by 19%, albeit the revenue reduction was significantly driven by transactions using lower margin USD currency.

Kina remains on track to deliver against its 2025 strategic plan. In 2022, several strategic projects illustrated Kina's ability to execute customer led digital products and services. Kina has cemented its position as the challenger brand and is the second largest bank by total footings at 16% market share (deposits and loans), through targeted products and services that generate sustainable returns over the long-term. The plan has been delivered to date despite external headwinds over the past two years brought about by the global pandemic. Looking ahead, Kina will utilise our digital capabilities alongside the diverse range of experience and skills of our people, including an innovation mindset 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	• New retail customer acquisition up 19% against PCP. Total Kina Bank customers comprise 230,000 • New Commercial customer acquisition up 17% against PCP. • Kina continues to execute on target customer segments with strong value propositions resulting in home loan growth up 19%, SME growth (25%) and the newly formed Kina Private and Retail Wealth building a significant presence in the market over the last 6 months. • Further growing non-interest income revenue streams with Corporate Business Advisory Unit servicing mid-tier corporate clientele. • On-boarded several of PNG's largest retailers for the provision of POS merchant services. • Commenced a three-year physical site remodeling program which incorporates two new commercial centres, and three new retail provincial sites in 2022/23. • Expansion of our commercial banking footprint to key provincial locations including Lae, Mt Hagen, Kokopo, Goroka, and Madang.
Building Resilience	• Reimagining Risk program of work was launched with a focus on renewed governance processes and an establishment of a target risk maturity for 2025 • Alignment of organisation structures (and three lines of defence) to enhance material risk management and risk culture • Risk appetite statements that appropriately align with strategic goals whilst protecting the bank's assets • New and improved risk modelling techniques to predict external factors on credit default and mature systems for loan loss provisioning • Implementation of improved cyber and information security controls, including enhanced external support.
Service Excellence Digital inside and out	• Launched Kina WhatsApp banking, first in market for PNG to allow greater accessibility to financial services throughout the country • Launched Xero Bank Feed providing SME's online tools to manage their every-day transactions • Digital online payment system through partnership with PeiBeta launched. • Enhancements made to Kina's corporate online service including the provision of automated foreign currency transactions. • Implemented market leading Home Loan campaign with a PGK 2,000 cash incentive offer. • The launch of in-branch Customer Satisfaction surveys with over 12,000 customers responding with an overwhelming positive experience with Customer Satisfaction at 86%. • Customer retention of 100% during 2022.
Dynamic people	• Continued roll out of Kina's leadership development program with 80 leaders and emerging talent. Focus on transformational leadership, leading for high performance, diversity and Inclusion. • Launched internal financial literacy training program, 30 financial champions have been certified to deliver financial literacy programs to our customers. • Expanded the Graduate Program to include candidates from disciplines of IT, Data, Finance and HR • Implementation of domestic violence prevention training and supported the Walk for Women against Violence campaign.
Sustainable communities	• MiBank and Financial Inclusion Partnership performing well ○ Opened first co-branded branch in Alotau

	○ Online transfers enabled between Kina and MiBank • ESG strategy approved with Scope 1 and Scope 2 targets identified and plans implemented • Community support programs include: ○ Staff grant program, Strongim Komuniti Grant ○ Renewed partnership with Kokoda Track Foundation including delivery of Flexible Open & Distance Education (FODE) Programs in the Motu Koita Community ○ Engaged PNG Assembly of Disabled Persons to conduct accessibility audit in branches ○ Main sponsor of the National SME Awards ○ Hosted Prime Ministers Back to Business Breakfast Function • The Environmental and Social Management System lending approach implemented with 60 accredited staff who can assess loans.

Asset Quality

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 a risk model that estimates a loss allowance based on the credit risk of the assets. The enhanced risk model more effectively utilises three key items:

- Probably of Default
- Loss Given Default; and
- Exposure at Default

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. Asset quality remains sound and at an acceptable level.

Section 1.2.8 provides additional explanation.

Operating Expenses

Operational costs increased 10% overall but were carefully controlled during the year.

Staff expenses increased by PGK 10.2m or 13.5%, reflecting the bank's focus on building capability in emerging areas of risk and compliance, cybersecurity and an increased distribution footprint. Other expenses were managed tightly to keep the overall increase within an acceptable range.

Administrative expense increased by PGK 4.3m or 6.8%. The increase was primarily due to continued investment in technology combined with costs associated with increase in customer and transactional activity. Brand and marketing campaigns were launched to promote some new initiatives in WhatsApp banking, Xero Bank Feed, Home and School Fee loans.

Occupancy and Depreciation expenses increased by PGK 1.2m or 2.6%. In 2022 the bank fully realised the depreciation against capitalised IT enhancement costs which were part of the planned Westpac acquisition project. There were also other significant strategic capex projects commissioned towards the end of 2021, with full depreciation impacts commencing in 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 22.5% of risk weighted assets **(RWA)**. The regulatory minimum is 12%, and Kina remains well above the regulatory minimum.

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

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 is effective 1 January 2023. Kina's Deferred taxes have therefore been remeasured to the new rate inline with IFRS to reflect the change, resulting 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.

Economic Outlook

The PNG economy continued its course to full recovery as the Government relaxed COVID-19 restrictions through 2022. Following economic contraction in 2020 (-3.5%) and a slight rebound in 2021 (1.5%), the economy grew by 4.6% in 2022. This was mainly driven by the resources sector, in particular income from mining activities, which grew by 13.5% through the year due to increased gold production from major mines including Ok Tedi and Hidden Valley. In the non-resources sector, solid growth of 4.5% was aided by a stronger-than-expected private sector recovery, supported by election-related spending.

The greatest impact on PNG businesses and households through 2022 was the rate of inflation, at 6.6%. Official Treasury estimates reported that the general price levels would have been higher had it not been for the Government's exemptions on fuel product import tariffs.

Meanwhile, interest rates for Government debt stabilised in the second half of 2022 following a sharp drop during the first half of the year. This was mainly attributed to the Government's access to offshore concessional financing. During the final quarter of 2022, the Government further announced that it would be sourcing more financial support from the International Monetary Fund (IMF) under its Extended Credit Facility. This will drive Government debt interest rates lower in the first half of 2023.

In November 2022, Moody's announced a change to the PNG Governments rating outlook from 'negative' to 'stable' (B2 long-term issuer and senior unsecured ratings have been affirmed). This was due to the "improved external conditions and the implementation of debt sustainability measures". Looking ahead to 2023, official estimates point to the economy growing by 4%.

With the on-set of major resource projects in the next 3 to 5 years, optimism must be managed with careful revenue management and a more stable policy environment to encourage business investments and growth. These projects include the Porgera and Wafi-Golpu mines and the P'nyang, Papua, Pasca LNG projects. The Government of PNG recently announced that the Porgera gold mine is in the final stages of finalizing arrangements for the re-commencement of the mine. With regards to Wafi-Golpu, the State and Joint Venture partners are also in the process of finalizing the agreed terms before the Project Agreement is signed.

In terms of the major gas projects, the Total-led Papua LNG is currently undergoing its FEED phase, with reports that a Final Investment Decision is expected at the end of this calendar year, followed by construction in the first half of 2024. The Government also plans to have the P'nyang project constructed after the Papua LNG construction phase. The intention by Government is to have the country see LNG construction sector running from 2024 to 2032. With respect to Pasca, the Prime Minister remarked that 'talks had stalled, the Government 'was confident that it would proceed to its final conclusion'. The total capital investment for all five projects is approximately USD$ 30 billion.

The non-resource sector growth is forecast at 4.6%, underpinned by increased production and solid global prices for agricultural commodities, especially for coffee, cocoa and oil palm. The construction sector is also expected to boom with the signing of a PGK 1.4 billion maritime ports development project, together with the Government's implementation of its 'Connect PNG' infrastructure strategy. In 2023, inflation is projected to ease at 5.7%, with PNG's major trading partners tightening their monetary policy stance to rein in interest rates and cool inflationary pressures.

The nominal PNG Kina exchange rate will continue with ongoing excess demand of foreign currency. However, we expect the exchange rate to remain relatively flat around its current levels (PGK/USD at 0.2840) as the Bank of Papua New Guinea (BPNG) enters the ninth year of instituting a regulated trading band for the PGK. Despite the structural imbalance of foreign currency inflows not matching import orders, gross international reserves are projected to be in excess of PGK 14 billion in 2023, which represents about 11 months of import cover.

1.1 Disclosure and Context

Financial reporting

The statutory result for the twelve months to 31 December 2022 was a consolidated Net Profit After Tax of PGK 116.5m. 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 2022

1.2.1 Statutory Results

	Full Year Ended Dec-22 PGK'000	Dec-21 PGK'000	Change (%)
Continuing Operations			
Interest income on investments	67,890	57,256	19%
Interest income on loans	156,710	149,679	5%
Interest expense	(43,389)	(29,623)	46%
Net interest income	**181,211**	**177,312**	**2%**
Fee and commission income	116,324	89,391	30%
Fee and commission expense	(110)	(55)	100%
Net fee and commission income	**116,214**	**89,336**	**30%**
Foreign exchange income	60,339	65,632	(8%)
Dividend income	469	562	(17%)
Net (losses)/gain from financial assets through profit and loss	3,610	817	342%
Other operating income	4,657	707	562%
Non-interest income	**185,289**	**157,054**	**18%**
Operating income before impairment losses and operating expenses	**366,500**	**334,366**	**10%**
Impairment losses	(4,825)	(6,519)	(26%)
Separation cost	-	(27,700)	(100%)
Other operating expenses	(213,257)	(194,127)	10%
Profit before tax	**148,418**	**106,020**	**40%**
Income tax expense	(31,930)	(35,207)	(9%)
Net Profit for the full year attributable to the equity holder of the Company	**116,488**	**70,813**	**65%**
Other comprehensive income	-	-	0%
Total comprehensive income for the full year attributable to the equity holder of the Company	**116,488**	**70,813**	**65%**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2022, and where applicable, calculated by reference to the 31 December 2021 audited financial statements. The above information is being audited at the time of this report.

1.2.2 Dividends

	Dec-22	Dec-21
Earnings per share (PNG Toea) underlying	37.0	24.7
Earnings per share (A cents) underlying	15.0	9.3
Dividend per share (PGK toea)	26.4	26.8
Dividends per share (A cents)	10.6	10.0

1.2.3 Lending

PGK Millions	Full Year Ended Dec-22	Dec-21	Change %
Overdraft	80.1	78.5	2%
Term Loans	1,420.1	1,329.7	7%
Investment Property Loan	93.9	97.9	(4%)
Asset Financing	71.8	30.3	137%
Housing Loan	534.1	449.9	19%
Credit Cards	1.4	2.3	(39%)
Gross	**2,201.4**	**1,988.6**	**11%**
Provision	(42.5)	(38.1)	12%
Total	**2,158.9**	**1,950.5**	**11%**

Overall lending was up 11% against PCP with the overall balance above PGK2.1bn. Growth in Commercial was up 9.6%, this includes a strong year on year SME growth of 25% and Home lending up 19%. Total system growth in PNG was lower in 2022 compared to 2021, at 5% further demonstrating Kina's strong performance with market shares gains of 1%, bringing total market share to 16%. Growth momentum was added towards the back end of the year with over PGK 250m of loans settled including an additional PGK 155mn of syndicated loans.

Home loans grew by 19% due to a market leading cash back offer that resonated strongly with our targeted segments. Term loans increased by 7%, with Kina continuing to onboard corporate customers in Retail aligning with our credit expertise. Asset Finance, was up 137%, although off a lower balance, this segment continues to experience solid support due the expansion from the construction and building industry.

Geographic diversity will serve as the strategic driver for achieving sustainable growth in 2023. Five regional Commercial lending hubs will open with the assistance of 10 business bankers, the development of a targeted Agri business strategy to support Kina's ESG objectives will also be implemented in 2023. The trajectory of the Home Loan portfolio is expected to continue due to Kina's attractive brand proposition.

	Dec-22		Dec-21	
	PGK million	% of total loans	PGK million	% of total loans
Agriculture, Forestry & Fishing	3.9	0.2%	15.0	0.8%
Mining	16.2	0.7%	26.9	1.4%
Manufacturing	18.8	0.9%	20.0	1.0%
Electrical, Gas & Water	6.7	0.3%	7.2	0.4%
Building and Construction	171.3	7.8%	105.3	5.3%
Wholesale & Retail	694.1	31.5%	606.6	30.5%
Hotel & Restaurants	79.0	3.6%	94.8	4.8%
Transport & Storage	23.2	1.1%	17.8	0.9%
Financial Intermediation	0.8	0.0%	1.3	0.1%
Real Estate/Renting/Business Services	316.1	14.4%	350.5	17.6%
Equipment Hire	43.6	2.0%	20.2	1.0%
Other Business	212.6	9.7%	168.6	8.5%
Personal Banking	615.1	27.9%	554.4	27.9%
Gross Loans	**2,201.4**	**100.0%**	**1,988.6**	**100.0%**

Wholesale and Retail lending was up 30.5% to PGK 694.1m. The second half of the year saw Kina deliver against the lending objectives with the launch of the Corporate advisory unit. Deepening corporate relationship supported stable growth over the full year and helped improve segment diversity, with growth in Building and Construction now representing 7.8% of the total portfolio, up 2.5% in portfolio exposure terms from December 2021. Personal banking (Home and personal loans) retained its portfolio share of 27.9%, consistent with the overall growth in gross loans.

1.2.4 Funding

PGK Millions	Full Year Ended Dec-22	 Dec-21	 Change (%)
Fixed Term	1,442.9	785.7	83.6%
Cash Management Accounts	326.8	584.6	(44.1%)
Current Accounts	1,637.0	1,298.2	26.1%
Savings Accounts	472.1	368.4	28.1%
Total	**3,878.8**	**3,036.9**	**27.7%**

Deposits grew by 27.7%, to PGK 3.9b. This growth is due to a solid performance in low-cost transaction accounts (Savings accounts) with customer acquisition up 19%. For the commercial sector, customer acquisition was up 17%, with an increase in online banking and payroll processing. The increase in Fixed Term reflects the strategic approach to lengthening the duration of the liability side of the balance sheet, and this also saw Commercial customers transition out of Cash Management Accounts into Fixed Term deposits.

PGK Millions	Full Year Ended Dec-22	 Dec-21	 Change (%)
On Call	2,461.0	2,277.1	8.1%
1 month	317.8	173.1	83.6%
2 months	269.6	122.5	120.1%
3 months	120.7	208.0	(42.0%)
6 months	443.8	154.5	187.2%
12 months	260.9	90.7	187.7%
24 months	5.0	11.0	(54.5%)
Total	**3,878.8**	**3,036.9**	**27.7%**

Over the course of the financial year the balance sheet approach was to deliver a funding base to best match Kina's assets. In the first half of the year, the favourable domestic market liquidity helped lengthen the 6 month and 12-month funding which resulted in a 187% increase to both cohorts respectively. For the full year, the balance sheet has been positioned for favourable lending growth in the first half of 2023. As a result, the Loan to Deposit Ratio (LDR) of 56% reflects a 13% decline due to deposit growth outpacing lending growth.

1.2.5 Net Interest Margin

PGK Million	Full Year Ended Dec-22	 Dec-21	 Change (%)
Net interest income	181.2	177.3	4%
Average interest earning assets	3,324.6	2,733.8	22%
Average yield on interest earning assets (%)	7.0	7.6	(8%)
Average interest-bearing liabilities	3,457.9	2,798.8	24%
Average cost on interest-bearing liabilities (%)	1.0	0.9	11%
Net interest margin	6.0	6.7	(10%)

The Net Interest margin was 6.0%, down 70 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 FY2022 reflects several contributing factors:

- In the first half, strong growth in corporate deposits which eased in the second half due to the accelerated growth in low-cost transaction accounts.
- Deliberate strategy of participating in corporate lending, including syndicated transactions, has required competitive pricing to meet the market.

1.2.6 Non-Interest Income

PGK Millions	Full Year Ended Dec-22	Dec-21	Change (%)
Banking			
Foreign exchange income	61.8	66.3	(7%)
Fees and commissions*	81.0	57.0	42%
Other	10.7	2.2	386%
Total	**153.5**	**125.5**	**22%**
Wealth Management			
Fund Administration	22.2	21.2	5%
Investment Management	10.0	9.6	4%
Shares	2.1	1.7	24%
Other	(2.5)	(0.9)	178%
Total	**31.8**	**31.6**	**1%**
Total	**185.3**	**157.1**	**18%**

**see further analysis below*

Overall non-interest income growth was 18%, to PGK 185.3m. Total core banking and wealth income was up 14%

Foreign Exchange income declined by 7%, to PGK 61.8m. This is due a higher volume of USD trades which resulted in lower margins. Historically, the Foreign Exchange portfolio composition was balanced between higher margin currencies such as AUD, GBP and EURO and lower margin currency of the USD. In 2022, this mix altered, due to a higher volume of USD trades. However, transaction flows were up 17%, against system of 10%. The portfolio continues to grow, aligned to strong customer acquisition both in Commercial and in the Kina Private segment (Kina Private, high net worth customers). The expectation for 2023 is for the portfolio to return to historical patterns which will support consistent revenue growth.

Digital Channel growth was up 89% year on year. Kina continues to deliver against its Digital strategy with best-in-class merchant point of sale services, e-commerce payments direct to merchants and improved online corporate banking functionality. The investment in these platforms delivered a 42% increase over 2022. For online banking, results were aligned to strong customer growth across all segments. In merchant facilities, the expanded EFTPOS and terminal of choice strategy has seen Kina reach market share of 25% throughout PNG. Additionally, Visa card issuance is up 152% year on year, reflected in Visa fees increased by 104%.

Revenues in the wealth business increased by 5% against PCP. Funds under administration business delivered key efficient programs of work that reduced processing time, improved data management and streamlined customer experience to enhance revenues.

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-22	Dec-21	Change (PGK)	Change (%)
Merchant fees	26.4	14.2	12.2	86%
VISA Fees	14.1	6.9	7.2	104%
Mobile Banking fees	2.4	1.7	0.7	41%
Internet Banking fees	1.4	0.6	0.8	133%
Total digital	**44.3**	**23.4**	**20.9**	**89%**
Bank fees and commission income	25.3	24.6	0.7	3%
Loan fees	4.4	3.5	0.9	26%
ATM fees	7.0	5.5	1.5	27%
Total other	**36.7**	**33.6**	**3.1**	**9%**
Total fees and commissions	**81.0**	**57.0**	**24.0**	**42%**

1.2.7 Operating Expenses

Total operating cost as at December 2022 was PGK 215.2m, an overall increase of 11%. Staff, administrative and occupancy costs contributed 41%, 31% and 22% respectively to total operating costs for the year.

	Full Year ended		
Figures in PGK Million	Dec-22	Dec-21	Change (%)
Administration	67.2	62.9	7%
Staff	85.8	75.6	13%
Occupancy	47.9	46.7	3%
Other Operating expenses	9.1	5.6	63%
Board of Directors cost	2.1	2.1	0%
Investor Relationship	1.2	1.2	0%
Total operating expenses	**213.3**	**194.1**	**10%**

Administration costs have increased by 7% to PGK 67.2m. The increase is due to investments in core growth areas of the business. Investments in IT vendor and software costs to strengthen infrastructure in Anti-Money Laundering and Cyber security are expected to continue over the medium term. System enhancements continue to be made to improve customer service operations in branches. In 2022, the launch of 4 new digital products contributed to the administrations costs and additional marketing spend in growth areas such as Digital and SME. Investments in professional support and implemented systems training costs were also made to support our overall cyber security program.

Staff costs increased by 13% to PGK 85.8m. The increase reflects the investment in building capabilities in the emerging risk areas of AML transaction monitoring and cyber security. These are aligned to the priorities set by the Bank of Papua New Guinea and Kina is building a dedicated AML compliance team to deliver this function. The creation of long service leave provisions for former ANZ staff on their 3-year employment anniversary with KSL, as required by PNG labour regulations, also contributed.

Occupancy costs increased by 3% to PGK 47.9m largely reflecting the commencement of depreciation on capital expenditure on projects commissioned towards the end of 2021 and the start of the 2022 financial year.

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-22	% of GLA	Dec-21	% of GLA
Loan impairment expense	4.2	0.2%	6.6	0.3%
Non-performing loans and loans in arrears	191.0	8.7%	173.5	8.7%
- 90-day arrears	41.2	1.9%	61.2	3.1%
- Gross non-performing loans (> 180 days)	149.8	6.8%	112.3	5.6%
Total provision	(42.5)	(1.9%)	(38.1)	(1.9%)

Loan Impairment expense

Figures in PGK'000	Dec-22	Dec-21	Change (PGK)	Change (%)
Provision Expense	4,498	8,286	(3,788)	(45.7%)
Net Write-offs	(931)	(1,670)	739	(44.3%)
Provision on loans	**3,567**	**6,616**	**(3,049)**	**(46.1%)**
Trade Debtors	665	(62)	727	(1172.6%)
Total impairment (loans & advances)	**4,232**	**6,554**	**(2,322)**	**(35.4%)**
Provision on GIS*	593	(35)	628	(1794.3%)
Total Impairment Expense	**4,825**	**6,519**	**(1,694)**	**(26.0%)**

Impairment expense totalled K4.8m as at 31 December 2022. The reduction against the PCP is reflective of a lower provisional expense achieved on the back of a more robust asset management system and switch to the IFRS9 provisioning model.

In 2022, improvements in asset recovery and collection processes were implemented, including a sustained program to recover outstanding arrears. This is reflected in Net Recoveries of PGK 931k in 2022.

Total non-performing loans (NPL) as a percentage of gross loans remains steady at 8.7% and continues to be a key focus area for Management. The nominal increase of PGK17.5m compared to December 2021 is largely on account of several large secured loans within the Property Investment Industry whereby cash flows from rental income have come under pressure post elections.

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 2022	Total Dec 2021
Overdraft	63.2	3.6	13.3	-	80.1	78.5
Credit Cards	0.4	0.2	0.8	-	1.4	2.3
Loans	1,835.7	106.6	164.0	13.6	2,119.9	1,907.8
Total Gross Carrying Amount	**1,899.3**	**110.4**	**178.1**	**13.6**	**2,201.4**	**1,988.6**
Loss Allowance	(17.8)	(5.5)	(18.2)	(1.0)	(42.5)	(38.1)
Carrying Amount	**1,881.5**	**104.9**	**159.9**	**12.6**	**2,158.9**	**1,950.5**

The IFRS 9 compliant model establishes a 3 stage impairment criteria based on changes to credit quality since date of initial recognition to the reporting date. 91% of Kina's loan book is classified as performing whilst the level of impaired loans remains at 9% attributable to Property Investment Industry loans in which performance has been impacted post elections. More than 90% of these loans are well secured with a low probability of loss. Kina continues to work closely with these customers to gradually bring these accounts into order.

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 2022.

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 2022 remained above BPNG's requirement, with combined tier 1 (T1) and tier 2 (T2) capital equal to 22.5% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. The Bank also has maintained leverage ratio at 7.5%, above BPNG's minimum requirement of 6%. The higher capital ratios are generally required for growth initiatives into the future.

Regulatory Capital Ratios	Dec-22	Dec-21
RWA	**2,080.6**	**1,905.2**
Capital: T1 (PGK'm)	337.0	349.1
Capital: T2 (PGK'm)	132.1	94.6
Capital: T1 + T2 (PGK'm)	469.1	443.7
Capital adequacy Ratio: T1	16.2%	18.3%
Capital adequacy: T2	6.3%	5.0%
Capital adequacy: T1 + T2	**22.5%**	**23.3%**
Leverage Ratio	**7.5%**	**9.5%**

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 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		
	Dec-22 PGK'000	Dec-21 PGK'000	Change (%)
Continuing Operations			
Interest income on investments	67,890	57,256	19%
Interest income on loans	156,710	149,679	5%
Interest expense	(43,389)	(29,623)	46%
Net interest income	**181,211**	**177,312**	**2%**
Fee and commission income	116,324	89,391	30%
Fee and commission expense	(110)	(55)	100%
Net fee and commission income	**116,214**	**89,336**	**30%**
Foreign exchange income	60,339	65,632	(8%)
Dividend income	469	562	(17%)
Net (losses)/gain from financial assets through profit and loss	3,610	817	342%
Other operating income	4,657	703	562%
Non-interest income	**185,289**	**157,050**	**18%**
Operating income before impairment losses and operating expenses	**366,500**	**334,362**	**10%**
Impairment losses	(4,825)	(6,519)	(26%)
Separation cost	-	(27,700)	(100%)
Other operating expenses	(213,257)	(194,127)	10%
Profit before tax	**148,418**	**106,016**	**40%**
Income tax expense	(31,930)	(35,206)	(9%)
Net Profit for the full year attributable to the equity holder of the Company	**116,488**	**70,810**	**65%**
Other comprehensive income	-	-	0%
Total comprehensive income for the full year attributable to the equity holder of the Company	**116,488**	**70,810**	**65%**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2022, and where applicable, calculated by reference to the 31 December 2021 audited financial statements. The above information is being audited at the time of this report.

2.2 Statement of financial position – consolidated

	Dec-22 PGK'000	Dec-21 PGK'000	Change %
Assets			
Cash and due from banks	433,488	408,334	6%
Central bank bills	1,215,763	795,362	53%
Regulatory deposits	383,083	212,874	80%
Financial assets at fair value through profit and loss	15,262	11,652	31%
Loans and advances to customers	2,158,921	1,950,447	11%
Investments in government inscribed stocks	152,650	112,107	36%
Current income tax assets	952	31	2,971%
Deferred tax assets	32,094	16,988	89%
Property, plant and equipment	82,839	90,467	(8%)
Goodwill	92,786	92,786	0%
Intangible assets	32,493	48,663	(33%)
Other assets	79,669	45,947	73%
Total Assets	**4,680,000**	**3,785,658**	**24%**
Liabilities			
Due to other banks	(2,060)	(4,701)	(56%)
Due to customers	(3,878,835)	(3,036,921)	28%
Current income tax liabilities	(5,148)	(11,697)	(56%)
Employee provisions	(14,111)	(10,906)	29%
Lease Liabilities	(41,713)	(48,851)	(15%)
Other liabilities	(126,803)	(95,959)	32%
Total Liabilities	**(4,068,670)**	**(3,209,035)**	**27%**
Net Assets	**611,330**	**576,623**	**6%**
Share capital and reserves			
Issued and fully paid ordinary shares	(394,693)	(394,693)	0%
Share-based payment reserve	(4,504)	(3,587)	80%
Retained earnings	(212,133)	(178,346)	12%
Total capital and reserves	**(611,330)**	**(576,623)**	**6%**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2022, and where applicable, calculated by reference to the 31 December 2021 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 2020	**394,693**	**2,774**	**179,567**	**577,034**
Profit for the period	-	-	70,810	70,810
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)
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
Dividend paid	-	-	(82,698)	(82,698)
Balance as at 31 December 2022	**394,693**	**4,504**	**212,133**	**611,330**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2022, and where applicable, calculated by reference to the 31 December 2021 audited financial statements. The above information is being audited at the time of this report.

2.4 Statement of Cashflow – consolidated

	Dec-22 PGK'000	Dec-21 PGK'000
Cash flows from operating activities		
Interest received	215,812	206,779
Interest paid	(29,974)	(33,943)
Foreign exchange gain	60,339	65,632
Dividend received	469	562
Fee, commission and other income received	117,807	87,978
Fee and commission expense paid	(110)	(55)
Net trading and other operating income received	6,426	1,415
Recoveries on loans previously written-off	935	1,750
Cash payments to employees and suppliers	(171,979)	(179,187)
Income tax paid	(54,436)	(28,918)
Cash flows from operating profits before changes in operating assets	**145,289**	**122,013**
Changes in operating assets and liabilities:		
- net (increase)/ decrease in regulatory deposits	(170,208)	(27,163)
- net increase in loans and advances to customers	(210,111)	(336,053)
- net (increase)/ decrease in other assets	(35,491)	14,904
- net increase in due to customers	828,498	476,206
- net increase in due to other banks	(2,640)	(684)
- net increase/ (decrease) in other liabilities	22,995	(2,201)
Net cash flows from operating activities	**578,333**	**247,022**
Cash flows from investing activities		
Purchase of property, equipment and software	(14,005)	(28,431)
Proceeds from sale of property and equipment	306	148
Purchase of investment securities	(527,937)	(50,494)
Other one-off expense	-	(8,407)
Refund of deposit from Westpac	-	84,567
Net cash flows from investing activities	**(541,636)**	**(2,617)**
Cash flows from financing activities		
Dividend payment	(82,698)	(72,034)
Proceeds from the issuance of share capital, net of transaction costs	-	-
Net cash flow from financing activities	**(82,698)**	**(72,034)**
Net increase/ (decrease) in cash and cash equivalents	**(46,001)**	**172,371**
Effect of changes in the foreign exchange rates on cash and cash equivalents	(3,845)	(4,184)
Cash and cash equivalents at beginning of period	**568,334**	**400,147**
Cash and cash equivalents at the end of the period	**518,488**	**568,334**

The above information has been extracted from the unaudited consolidated financial statements of Kina Securities Limited for the year-ended 31 December 2022, and where applicable, calculated by reference to the 31 December 2021 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 2022 are consistent with those used in preparing the 31 December 2021 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-22 PGK'000	Dec-21 PGK'000
Cash and due from other banks	433,488	408,334
Central bank bills (maturity less than 3 months)	85,000	160,000
Total cash at the end of the period	**518,488**	**568,334**

2.8 Ratios

	Dec-22	Dec-21
Profit before tax / Operating Income		
Consolidated profit from ordinary activities before tax as a percentage of revenue	40.5%	31.7%
Profit after tax / equity interests		
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	19.1%	12.3%

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-22	Dec-21
Calculation of the following in accordance with IAS33		
(a) Basic EPS	40.60	24.68
(b) Diluted EPS	40.35	24.39
(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 2022 was 286,935,900 (31 December 2021: 286,935,900)

	Total Number Ordinary shares	Number Quoted Ordinary shares
Changes during the period ended 31 December 2022		
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 2021	**286,935,900**	**286,935,900**

2.12 Segment Reporting

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	4,624,312	55,688	4,680,000
Segment liabilities	(4,062,544)	(6,126)	(4,068,670)
Net assets	**561,768**	**49,562**	**611,330**
Capital expenditure	14,005	-	14,005
Depreciation	(38,203)	-	(38,203)
31 December 2021	**Banking & Finance PGK'000**	**Wealth Management PGK'000**	**Total PGK'000**
Total external income	302,852	31,510	334,362
Total external expense	(220,491)	(7,856)	(228,346)
Profit before inter-segment revenue and expenses	**82,361**	**23,655**	**106,016**
Inter-segment income	3,797	-	3,797
Inter-segment expense	-	(3,797)	(3,797)
Profit before tax	**86,158**	**19,858**	**106,016**
Income tax expense	(29,634)	(5,574)	(35,206)
Profit after tax	**56,524**	**14,286**	**70,810**
Segment assets	3,706,503	79,154	3,785,657
Segment liabilities	(3,206,686)	(2,349)	(3,209,035)
Net assets	**499,817**	**76,805**	**576,622**
Capital expenditure	28,431	-	28,431
Depreciation	(36,398)	-	(36,398)

2.13 Comparison of Profits

	Dec-22 PGK'000	Dec-21 PGK'000
Consolidated profit from continuing operations after tax attributable to members reported for the full year	116,488	70,810

2.14 Contingent Liabilities

The Company is a party to a number of litigations as at 31 December 2022. 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 2022, these totaled PGK 48.9m (31 December 2021: PGK 73.0m).

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.