



Kina Securities Limited **2018 Half Year Results**

Incorporating the requirements of Appendix 4D



ASX Appendix 4D

For the Half Year to 30 June 2018

Results for announcement to the market

Comparisons of current half year to 30 June 2018 are with the half year to 30 June 2017

Report for the half year ended 30 June 2018

Revenue from ordinary activities (PGK Millions)	78.1	Up 59%
Net Profit after Tax for the period Attributable to equity holders (PGK Millions)	20.6	Up 588%

Dividends (distributions) Interim dividend

- unfranked (AUD cents per share)	4 cents
- unfranked (PGK toea per share)	10 toea

The Directors have declared an interim dividend for June 2018 based on the Net profit After Tax attributable to equity holders of PGK 20.6m for the first half to 30 June 2018.

The interim dividend is converted based on an exchange rate: 1 PGK = 0.3935 AUD (rounded off to 0.40 AUD)

Record date for determining entitlements to the dividend - 30th August 2018

The numbers as reported in respective tables to this report, for the half year ended 30 June 2018 and the comparative period 30 June 2017 are unaudited numbers. The comparative figures for the half year ended 31 December 2017 and 31 December 2016 are audited numbers.

This report should be read in conjunction with the unaudited Interim Consolidated Financial Statements for the half year ended 30 June 2018 in Section 2.

This report is provided to the ASX under Listing Rule 4.2A.3

Directors

The directors present this report together with the consolidated financial report for the half year ended 30 June 2018.

Directors:

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

Isikeli Taureka, Chairman

Gregory Pawson, CEO and Managing Director Appointed - 1 January 2018

Andrew Carriline Appointed - 16 August 2018

Paul Hutchinson Appointed - 16 August 2018

Karen Smith-Pomeroy

Jane Thomason Appointed - 23 May 2018

Sydney Yates, Managing Director Retired - 31 December 2017

David Foster Retired - 23 May 2018

Jim Yap Retired - 16 August 2018

The Company Secretary during or since the end of the half year is:

Chetan Chopra

Table of contents

1. Results Overview	5
1.1 Disclosure and context.....	8
1.2 Profit results for the Half Year to June 2018	9
1.2.1 Statutory results	9
1.2.2 Dividends.....	9
1.2.3 Lending.....	10
1.2.4 Funding	10
1.2.5 Net interest margin	11
1.2.6 Non-interest income	11
1.2.7 Operating expenses	12
1.2.8 Asset quality and loan impairment	12
1.2.9 Capital adequacy.....	13
2. Consolidated Financial Statements	14
2.1 Statement of Comprehensive Income – consolidated.....	14
2.2 Statement of financial position - consolidated.....	15
2.3 Statement of changes in equity – consolidated.....	16
2.4 Statement of Cashflow – consolidated.....	17
2.5 Basis of preparation	18
2.6 Non-cash financing and investing activities	18
2.7 Reconciliation of cash and cash equivalents	18
2.8 Ratios	18
2.9 Earnings Per Share.....	18
2.10 NTA backing.....	19
2.11 Details of aggregate share of profits (losses) of associated entity.....	19
2.12 Issued Shares	19
2.13 Segment Reporting	19
2.14 Comparison of half year profits	20
2.15 Contingent liabilities	20
3. Compliance Statement.....	21

1. Results Overview

Kina Securities restores bank profits and delivers key strategic actions

Results Highlights

	Half Year Ended					Change % vs Jun-17
	Jun-18	Dec-17	Jun-17	Dec-16	Jun-16	
Statutory NPAT from ordinary activities (PGK m)	20.6	20.0	3.0	20.5	20.5	588%
Underlying Net Profit After Tax (PGK m)	20.6	20.0	10.0	20.5	20.5	106%
Net interest margin (%) *	8.1	7.6	7.3	8.7	9.4	11%
Cost to income ratio (%)	58.2	54.9	67.8	46.7	48.3	(14%)
Loan impairment expense (PGK m)	4.3	2.0	1.3	0.3	2.5	234%
Capital adequacy (T1+T2) (%)	29	28	28	30	31	5%
Net loans and advances (PGK m)	785.9	732.7	685.4	605.1	437.2	15%
Return on Equity (%) *	16.1	8.9	8.0	15.8	16.2	101%
Dividend (PGK Toea per share)	10.0	10.0	5.0	10.0	9.8	101%
Dividend (AUD Cents per share)	4.0	4.0	2.0	4.0	4.1	91%

*Annualised figures

Operating performance and earnings

Kina Securities Limited (KSL, Kina, or the Company) has reported statutory net profit after tax of PGK 20.6m for the June 2018 half year (H1 2018). The H1 2018 results show a significant change compared to the same period in 2017. The previous period was impacted by a one off lease termination charge and the loss of a correspondent banking relationship.

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

Directors have declared an interim dividend of AUD 4.0 cents per share / PGK 10.0 Toea per share.

KSL has delivered two additional key strategic actions in the first half of 2018. In line with the banking licence conditions, the substantial shareholding was diluted to Nil. The shareholding has been replaced by a diverse set of institutional and private investors both in PNG and Australia. This is further explained later. KSL also entered into a Sales and Purchase Agreement with ANZ PNG Limited to acquire their Retail and Commercial /SME business portfolio including both loans and deposits. Further details are also provided later.

Operational highlights

The following operational highlights contributed to the results for H1 2018:

- The FX trading income was restored to the levels of H1 2016 as the first target. The first half resulted in FX income of PGK 14.1m compared to PGK 12.9 m in 2016.
- Banking Loan book (excluding overdrafts) grew by 12.5% in H1 2018 up from December 2017.
- Deposit book grew by 8% in H1 2018 compared with closing balances as at December 2017. Growth in deposits was mainly focused on acquiring low cost funds.
- Total Provisions as a % of GLA was at 2.4%. Loan Impairment expense remained low at 0.54% of Gross Loans and Advances (GLA) and Total Arrears was 2.1%.
- Successful implementation of the new International Finance Reporting Standard (IFRS) No. 9 and provisioning model.
- A customer on-boarding module was completed in the first half and was launched in July 2018. This will create efficiencies in on-boarding new customers and servicing existing customers.
- Successful implementation of the final stage of the ICBA core banking platform upgrade which included the Treasury Module Implementation and SWIFT 7.2 Upgrade

- In the Wealth business, Kina Funds Management regained the funds management contract with Comrade Trustee Services FUM after losing it in 2017.
- Kina Funds Administration also has now completed the transition of member administration for NASFUND, the second largest provident fund in PNG, to the new Acurity system.

Shareholding reorganisation

Fu Shan Investments (Hong Kong) Ltd ceased to be a substantial shareholder (34.94%) in June 2018. This enabled KSL to comply with the last remaining condition applied to its Banking Licence, namely the requirement for its largest shareholder to reduce its shareholding in line with the Banks and Financial Institutions Act 2000. The sell down, managed by Morgans Financial Ltd, prompted strong demand from both PNG and overseas shareholders. Shares were bought by a diverse group of new and existing institutional and retail investors in Papua New Guinea and Australia.

Inorganic growth

In June 2018, Kina Bank announced its plans to make a transformative acquisition of ANZ PNG's retail and commercial/SME banking businesses. The acquisition supports Kina's strategic objectives to deliver greater value to customers and develop a more resilient and sustainable group. In particular, the acquisition will improve Kina Bank's market position in retail and commercial/SME banking and enable it to emerge as a leading participant in these sectors. The acquisition is in-line with Kina's strategy based on targeted market segments. It will provide Kina Bank with the scale to invest in new banking capabilities to improve the value of Kina Bank's product offering to new and existing customers.

The proposed acquisition includes the transfer of all of ANZ PNG's retail branches, ATMs and EFTPOS terminals expanding Kina Bank's distribution network significantly. The acquisition is expected to increase Kina's earnings and profitability to improve returns for its shareholders and enhance Kina's liquidity to support future lending growth.

Kina has developed a clear integration and migration strategy which is underway. Further details will be provided for investors on the Kina website.

Kina Bank

In H1 2018, Portfolio growth has been achieved while at the same time improving Net Interest Margin (NIM). Net interest income grew by 24% in H1 2018 compared with H1 2017. This growth was achieved on the back of growth in the loan book and also by reducing cost of funds by 23%. The focus of Kina Bank on ensuring funding growth through low cost funding has yielded results.

Non-interest income also grew by 130% in H1 2018 compared with the same period last year. The result was mainly driven by FX income, given a full six months of uninterrupted FX trading. Managing relationships with key exporters enabled Kina Bank to be a key player in the FX market.

Bank fees income grew by 23% due mainly to more fees collected from commissions on FX trading, given the trading volume increased substantially compared with same period last year. Fees collected on other banking products also experienced good growth.

The key focus to deliver growth for the second half, ahead of the competitors, is through Kina Bank's differentiated service proposition.

Wealth Management

Wealth Management has continued its strong relationships with the key superannuation funds in the country being Nambawan Super Limited (NSL), Comrade Trustee Services Limited (CTSL) and the National Superannuation Fund of Papua New Guinea (NASFUND). The Wealth Management business provides a range of services to these funds spanning funds management and funds administration.

Our most recent partnership in funds administration with NASFUND has been successfully transitioned from the previous provider, a transition that was significant in scope and scale, has taken a year, and has involved a strong and focussed effort between the NASFUND and Kina teams. This is an opportunity to grow the partnership between our organisations in a number of ways including preferential loan products and other banking services to a cohort of over 700,000 members.

In line with our “Connect anytime, anywhere, anyhow” strategic priority, we are developing our internet banking platform to provide for a consolidated real-time view of a customer’s complete financial relationship through Kina and our clients that will include superannuation

The division contributed PGK 2.3m to the H1 2018 result, compared with PGK 2.2m in H1 2017.

Asset quality

Overall asset quality remains sound, with a loan impairment and write-off expense of PGK 4.3m for the half year. This is equivalent to 0.54% of GLA. The low levels of impairment expense reflect the continued focus on strong credit quality of the loan book and continued discipline to our lending standards.

Kina continues to be prudent in its provisioning approach. In 2018 Kina implemented the IFRS 9 accounting standard and provided an additional PGK 4.2m as a consequence of moving to an expected loss methodology in line with the requirements of the standard. A coverage ratio of 130% was maintained on loans in arrears greater than 90 days.

Operating Expenses

Operating expenses grew by 37% in H1 2018 compared with the same period last year. This compares with a growth in Operating Income of 59%. The increase in operating expenses is within plan as Kina builds out its growth strategy to spend on technology upgrade, hire new talent, increase the frontline workforce and continue to focus on delivering key integration projections. The main drivers of operating expenses were around staff costs, licencing fees and additional depreciation on completed capital projects.

Underlying capital

The underlying capital of the business remains strong, with regulatory capital (T1+T2) at 29% of risk weighted assets (RWA), compared with a regulatory required minimum of 12%. This surplus capital is being utilised to acquire the ANZ retail and SME business. It is estimated at the time of completion the regulatory capital will stabilise at 17%. This is further explained in Section 1.2.9.

Organisational Capacity Building

A strategic priority is to attract and retain the best talent in the financial services sector in PNG. Kina recently implemented a number of key initiatives in line with this priority, including rolling out an extensive learning and performance management system, new online role accreditation and compliance modules, a high potential talent and leadership program, and continued support of a number of secondments across the business. A comprehensive people strategy is currently being developed which includes five key areas of focus: culture development, leadership development, succession planning, strategic workforce planning, capability building, people risk and compliance.

Economic Outlook

Despite tighter private sector lending and lower employment growth compared with recent years, the overall economic performance of PNG remains resilient. A recent survey by the Fraser Institute, a Canadian Public Policy think-tank, ranked Papua New Guinea ahead of several Australian states for attractiveness for mining investment. Additionally, recent oil and gas export prices have rebounded in the second quarter of 2018 with any sustained momentum acting to limit downside economic risk.

On the back of the recovery of oil prices and key agricultural commodity prices, stronger GDP growth is expected to shape the recovery of the PNG economy. The PNG LNG expansion, Papua LNG, Wafi-Golpu and Freida River projects are expected to lead the recovery over the next 3 years.

In the face of challenging economic conditions, the finance sector has also continued its modest growth and looks poised to leverage improving economic conditions and a return of stronger market sentiment.

The Asian Development Bank forecast growth in the PNG economy to run at 2.5% in 2017 and highlights a possible increase to 2.8% due to one-off activity relating to the Asia-Pacific Economic Cooperation leaders' summit. Additionally, rising US Treasury yields and the expectation of further rate hikes has resulted in the depreciation of the AUD as a result of cross-currency movements, translating further to a more favourable PGK relative to the AUD.

Key strategic priorities

In early 2018, Kina set a number of key strategic priorities for the year with an evolved vision and purpose to take advantage of new market opportunities as they arise. This refreshed and sharper approach was designed to deliver greater value to banking and wealth management customers and build a more agile, whilst still resilient and sustainable, business. The redefined vision is to be the most dynamic, progressive and accessible financial services company in PNG.

Partnerships: Leveraging key superannuation fund relationships to facilitate cross-selling of personal banking opportunities was a continued priority for the first six months of 2018.

Digital: Kina's digital strategy is comprehensive with continued investment in new products and services that are distributed digitally. The development and release of market leading mobile banking apps and the launch of a superannuation app provide further evidence of Kina's commitment to technology and innovation.

Responsible: Kina is continuing to evolve its Total Societal Impact strategy. Key themes emerging include: financial inclusion and economic wellbeing; fostering entrepreneurship and innovation; and creating the workforce for the future.

Brand: Kina has a unique position in the market as a proud, local, strong and safe bank. Through sponsoring major events such as the Prime Ministers Back to Business Breakfast, the Petroleum & Energy Summit and the APNG Business Forum in Brisbane, the level of enquiry and demand for Kina's services has exceeded expectations. The domestic rebranding program to Kina Bank has been very successful.

Knowledge: Kina's strategic priority of knowledge underpins the aspiration to attract and retain the best talent in the financial services sector in Papua New Guinea.

1.1 Disclosure and context

Financial reporting

The statutory result for the six months to June 2018 was a consolidated adjusted net profit after tax of PGK 20.6m. This included 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 the Port Moresby Stock Exchange (POMSoX), 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 currency) unless otherwise stated.

1.2 Profit results for the Half Year to June 2018

1.2.1 Statutory results

Figures in PGK'000s	Half Year Ended					Change (%) vs Jun-17
	Jun-18	Dec-17	Jun-17	Dec-16	Jun-16	
Continuing operations						
Interest income	52,533	51,561	47,787	41,943	35,325	10%
Interest expense	(10,901)	(12,632)	(14,207)	(8,053)	(4,087)	(23%)
Net interest income	41,632	38,929	33,580	33,890	31,238	24%
Fee and commission income	18,215	17,188	13,297	13,357	15,476	37%
Fee and commission expense	(17)	(21)	(31)	(30)	(39)	(45%)
Net fee and commission income	18,198	17,167	13,266	13,327	15,437	37%
Foreign exchange income	14,067	5,344	1,880	7,642	12,937	648%
Dividend income	106	265	92	37	74	15%
Net (losses)/gain from financial assets through profit and loss	11	(41)	36	87	500	(69%)
Other operating income	4,051	791	202	292	1,513	1905%
Operating income before impairment losses and operating expenses	78,065	62,455	49,056	55,275	61,699	59%
Impairment losses	(4,336)	(1,989)	(1,328)	(256)	(2,531)	227%
Lease termination payment expense	-	-	(7,000)	-	-	(100%)
Other operating expenses	(45,412)	(34,313)	(33,242)	(25,817)	(29,800)	37%
Profit before tax	28,317	26,153	7,486	29,202	29,368	278%
Income tax expense	(7,676)	(6,169)	(4,459)	(8,725)	(8,869)	72%
Net Profit for the half year attributable to the equity holder of the Company	20,642	19,984	3,027	20,477	20,499	588%
Other comprehensive income	-	-	-	-	-	
Total comprehensive income for the half year attributable to the equity holder of the Company	20,642	19,984	3,027	20,477	20,499	588%

The above information has been extracted from the interim consolidated financial statements of Kina Securities Limited for the Half Year ended 30 June 2018 or calculated by reference to the audited 31 December 2017 annual financial statements and the 30 June 2017 half year financial statements.

1.2.2 Dividends

	Jun-18	Dec-17	Jun-17	Dec-16	Jun-16
Earnings per share (PNG Toea)	12.6	12.2	1.8	12.5	12.5
Earnings per share (A cents)	4.8	4.6	0.7	5.4	5.1
Dividends per share (A cents)	4.0	4.0	2.0	4.0	4.1
Dividend per share (PGK toea)	10.0	10.0	5.0	10.0	10.0

*Calculation of EPS based on statutory profit as shown in table above.

*Dividends per share in the table above is based on underlying profit.

1.2.3 Lending

PGK Millions	Half Year Ended					
	Jun-18	Dec-17	Jun-17	Dec-16	Jun-16	Change (%) vs Dec-17
Overdraft	44	73	64	61	69	(40%)
Term Loans	557	484	478	411	245	15%
Investment Property Loan	28	21	1	-	-	35%
Asset Financing	21	17	13	13	15	23%
Housing Loan	118	117	113	105	102	0%
Esi loan	37	33	28	27	24	13%
Gross	805	746	698	617	455	8%
Provision	(19)	(13)	(13)	(12)	(14)	45%
Total	786	733	685	605	441	7%

The Loan book grew by 7% in H1 2018 up from December 2017 in line with expectations. The growth was impacted by seasonality.

Based on the Bank of Papua New Guinea's (BPNG) market data, Kina Bank's loan market share grew to 6.0% in H1 2018 from 5.5% in H1 2017.

Kina Bank's service proposition remains key to driving growth. Kina Bank currently has a diverse range of lending products suitable to the PNG market. Further investment has been made with the appointment of key frontline staff to improve sales capability. Strong credit management has been a focus area to ensure good credit quality.

Kina continues to leverage its relationships with key customers, including superannuation funds, to facilitate cross-selling opportunities. These relationships have been mutually beneficial and will continue to provide growth prospects for Kina in the near future.

1.2.4 Funding

PGK Millions	Half Year Ended					
	Jun-18	Dec-17	Jun-17	Dec-16	Jun-16	Change (%) vs Dec-17
On Call	437	412	377	397	350	6%
1 month	111	109	96	89	62	2%
2 months	76	97	140	105	30	(22%)
3 months	89	46	71	72	71	93%
6 months	282	226	182	289	40	25%
12 months	94	92	93	2	77	2%
24 months	9	32	6	4	4	(72%)
Total	1,098	1,014	965	958	634	8%

Deposits grew by 8% in H1 2018 compared to 5% growth in H2 2017. This growth was mainly driven by growing Cash Management Accounts and cheque accounts. Most of these funds were from major importers who also became foreign currency customers. The growth was also driven by a deposit campaign which resulted in raising an additional PGK 100m from new to bank customers.

Since the commencement of 2018, Kina Bank's strategy has focused on strengthening a low cost funding base. With an improved core banking platform, Kina also improved its Internet banking offering where customers have a choice of different product types to place their funds in either a savings account, cash management account or term deposit.

1.2.5 Net interest margin

PGK Million	Half Year Ended					
	Jun-18	Dec-17	Jun-17	Dec-16	Jun-16	Change vs Jun-17
Net interest income	41.6	38.9	33.6	33.9	31.2	23.9
Average interest earning assets	1,029.4	955.4	928.0	776.0	668.0	10.9
Average yield on interest earning assets (%)	10.2	10.4	10.3	10.8	10.6	(0.9)
Average interest bearing liabilities	1,045.5	962.6	941.0	772.0	659.0	11.1
Average cost on interest bearing liabilities (%)	2.1	2.8	3.0	2.1	2.6	(30.5)
Interest spread (%)	8.1	7.6	7.3	8.7	8.0	11.2
Net interest margin	8.1	7.6	7.3	8.7	8.0	10.8

Net interest margin (NIM) has improved to 8.1% from H2 2017 (7.6%). This is within the guidance set at the beginning of the year of between 6 - 8%. The result was largely driven by a focussed transition to a lower cost of funds base in H1 2018 compared with the funding mix in 2017. The average weighting on low cost deposits was also assisted through timing where large deposits were paid out or repriced to lower cost in late H2 2017 and early H1 2018.

1.2.6 Non-interest income

PGK Millions	Half Year Ended					
	Jun-18	Dec-17	Jun-17	Dec-16	Jun-16	Change (%) vs Jun-17
Banking						
Foreign exchange income	14.4	5.4	1.7	8.2	12.4	748%
Fees and commissions	4.7	4.5	3.8	4.1	3.4	23%
Other	0.1	0.3	-	0.1	-	0%
Total	19.2	10.2	5.5	12.4	15.8	249%
Wealth Management						
Foreign exchange income	-	0.1	0.1	(0.1)	-	(138%)
Fund Administration	8.0	7.8	4.0	3.7	5.0	99%
Investment Management	4.1	4.7	4.6	4.4	4.2	(10%)
Shares	0.4	0.1	0.3	0.2	0.2	28%
Other	1.4	0.3	0.7	0.8	0.8	100%
Total	13.9	13.0	9.7	9.0	10.2	43%
Other						
Foreign exchange income	(0.3)	(0.1)	0.1	(0.2)	0.6	(419%)
Fees and commissions	-	-	-	0.4	2.4	0%
Other	2.8	0.4	0.2	(0.1)	1.4	1309%
Total	2.5	0.3	0.3	0.1	4.4	733%
Total	35.6	23.5	15.5	21.5	30.4	130%

In H1 2018 Foreign Exchange Income has seen its first full six months of uninterrupted FX trading. This has resulted in a 163% increase in FX income compared to H2 2017. Kina has continued to focus on engaging with key exporter customers. New to bank exporter customers have also been acquired which has been of mutual benefit to the bank and its customers.

Bank Fees and Commissions Income experienced moderate growth. Whilst no new fees were introduced in H1 2018, the growth in fees income was mainly driven by fees and commissions from FX trading.

Total fees from Wealth management grew by 43%. This growth was mainly driven by the on boarding of NASFUND fund administration services in H2 2017. The Wealth Management business continued to be the leader in the region.

In line with the planned realignment of the property strategy, Kina Properties sold its property which housed the bank premises in Waigani, Port Moresby. The sale resulted in a capital gain of PKK 2.1m which is reflected in other income.

1.2.7 Operating expenses

Figures in PGK Million	Half Year Ended					
	30-Jun-18	31-Dec-17	30-Jun-17	31-Dec-16	30-Jun-16	Change (%) vs Jun-17
Administration	12.9	8.6	8.8	6.6	8.2	47%
Staff	23.5	19.3	16.1	13.8	14.6	46%
Occupancy	6.6	5.0	4.8	3.5	4.7	38%
Other Operating expenses	1.3	1.8	1.3	1.0	0.7	0%
Board of Directors cost	0.8	(0.1)	1.5	0.6	1.1	(47%)
Acquisition/Integration	-	(0.3)	0.3	-	0.2	(100%)
Investor Relationship	0.3	0.1	0.4	0.3	0.3	(25%)
	45.4	34.5	33.2	25.8	29.8	37%

Total operating costs for the H1 2018 was PGK 45.4m, a growth of 37% over the same period last year. The cost to income ratio for H1 2018 is 58% against 55% in H2 2017. The cost base shows an expected 37% growth in line with planned business expenses.

The operating costs increase was mainly attributed to staff and administration costs associated with planned business growth in 2018. There were increases in staff costs associated with the new NASFUND Funds Under Administration contract, as well as resourcing and bridging capability in the banking operations. Continued planned spend on IT and software costs in relation to licences and maintenance of software critical to business continuity contributed to increases in administration costs.

1.2.8 Asset quality and loan impairment

Figures in PGK Million	Half Year									
	Jun 18	% of GLA	Dec 17	% of GLA	Jun 17	% of GLA	Dec 16	% of GLA	Jun 16	% of GLA
Loan impairment expense	4.3	0.54%	2.0	0.27%	1.3	0.19%	0.3	0.05%	2.5	0.60%
Non-performing loans and loans in arrears	16.8	2.08%	24.7	3.32%	29.2	4.18%	35.2	5.70%	24.1	5.40%
- 60 day arrears	2.0	0.25%	13.1	1.76%	18.7	2.68%	30.2	4.90%	10.2	2.30%
- 90 day arrears	8.1	1.01%	10.1	1.35%	7.7	1.10%	3.0	0.50%	7.9	1.80%
- Gross non-performing loans (> 180 days)	6.7	0.83%	1.5	0.21%	2.8	0.40%	2.0	0.30%	6.0	1.30%
Total provision	19.3	2.39%	13.3	1.79%	12.6	1.81%	11.9	1.90%	13.6	3.00%

Overall credit quality remains sound with Kina continuing to apply disciplined lending standards across its portfolios. Loans 90 days in arrears has remained consistent with the H2 2017 levels in absolute terms, but given growth in portfolio, represents a lower percentage.

Gross non-performing loans greater than 180 day in arrears increased by PGK 5.2m to PGK 6.7 from H2 2017 but remains at less than 1% of GLA. Total Non-performing loans have decreased on H2 2017 by value (PGK 7.9m) and by percentage (32%).

Kina Bank continues to be prudent in its provisions. In 2018 Kina implemented the IFRS 9 accounting standard and provided an additional PGK 4.2m as it transitioned to an expected loss methodology to meet the requirements of this standard. This increase reflects Kina's assessment of the Loss Given Default and the Probability of default on the loan book as required by the accounting standard. The increase in provisions was accounted for in accordance with the IFRS transition provisions. This is further discussed in the Condensed Interim Consolidated Financial Statements for the half year ended 30 June 2018 which is submitted to ASX

We maintained a coverage ratio of 116% on loans greater than 90 days.

Dedicated effort from the Credit and Risk section of the Kina business as well as enhancements to credit risk analytical processes and tools have aided reduction in the impairment expense as at 30 June 2018.

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 prevailing BPNG prudential capital adequacy requirements and qualifies as 'well capitalised' as at 30 June 2018, providing a strong base for further growth in lending.

Each "Authorised Institution" within the Kina Group is required to comply with prudential standards issued under the PNG BFI Act by BPNG, the official authority for the prudential supervision of banks and relevant financial institutions in PNG. Kina Bank Limited is the Authorised Institution and reporting entity under the Kina Group and the reported ratios are in respect of Kina Bank.

Regulatory Capital Ratios	30-Jun-18	31-Dec-17	30-Jun-17	31-Dec-16
PGK'million				
RWA	883	816	766	679
Capital: T1	232	198	198	166
Capital: T2	26	32	17	40
Capital: T1 + T2	258	230	215	206
Capital adequacy Ratio: T1	26%	24%	26%	24%
Capital adequacy: T2	3%	4%	2%	6%
Capital adequacy: T1 + T2	29%	28%	28%	30%
Leverage Ratio	16%	16%	16%*	14%*

*Capital ratio has been restated for the period ended 30th June 2017 and 31st December 2016

Capital ratios at the end of June 2018 remained strong, with combined T1 and T2 capital equal to 29% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. As anticipated, capital adequacy ratios have reduced in order to fund growth over the year. Kina Bank also has a strong leverage ratio of 16%. The minimum capital requirements applied are 8% for Tier 1 capital, 12% for Tier 1 plus Tier 2 capital and a 6% leverage ratio.

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

The Kina Board has ensured Capital Adequacy is maintained at levels that would enable Kina to act early on any strong relevant growth opportunities arising in PNG and globally. In line with this, in June 2018 Kina announced the acquisition of the retail and commercial/SME business of ANZ. The acquisition is expected to be completed in September 2019 at which time the Capital Adequacy is expected to stabilise at 17.3%. This is still in line with the BPNG Prudential requirements of 12% for a well-capitalised bank.

2. Consolidated Financial Statements

2.1 Statement of Comprehensive Income – consolidated

	30-Jun-18	31-Dec-17	30-Jun-17	31-Dec-16	30-Jun-16
	PGK'000	PGK'000	PGK'000	PGK'000	PGK'000
Continuing Operations					
Interest income	52,533	51,561	47,787	41,943	35,325
Interest expense	(10,901)	(12,632)	(14,207)	(8,053)	(4,087)
Net interest income	41,632	38,929	33,580	33,890	31,238
Fee and commission income	18,215	17,188	13,297	13,357	15,476
Fee and commission expense	(17)	(21)	(31)	(30)	(39)
Net fee and commission income	18,198	17,167	13,266	13,327	15,437
Foreign exchange income	14,067	5,344	1,880	7,642	12,937
Dividend income	106	265	92	37	74
Net (losses)/gain from financial assets through profit and loss	11	(41)	36	87	500
Other operating income	4,051	791	202	292	1,513
Operating income before impairment losses and operating expenses	78,065	62,455	49,056	55,275	61,699
Impairment losses	(4,336)	(1,989)	(1,328)	(256)	(2,531)
Lease termination payment expense	-	-	(7,000)	-	-
Other operating expenses	(45,412)	(34,312)	(33,242)	(25,817)	(29,800)
Profit before tax	28,317	26,153	7,486	29,202	29,368
Income tax expense	(7,676)	(6,169)	(4,459)	(8,725)	(8,869)
Net Profit for the half year attributable to the equity holder of the Company	20,642	19,984	3,027	20,477	20,499
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the half year attributable to the equity holder of the Company	20,642	19,984	3,027	20,477	20,499

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2018.

2.2 Statement of financial position - consolidated

	30-Jun-18 PGK'000	31-Dec-17 PGK'000	30-Jun-17 PGK'000	31-Dec-16 PGK'000	30-Jun-16 PGK'000
Assets					
Cash and due from banks	87,775	47,514	79,838	148,020	95,606
Central bank bills	180,931	190,869	176,873	208,095	161,332
Regulatory deposits	109,620	106,823	96,398	96,013	57,188
Financial assets at fair value through profit and loss	4,813	4,637	4,677	4,642	4,555
Loans and advances to customers	785,901	732,707	685,370	605,112	437,197
Investments in government inscribed stocks	78,826	79,878	79,719	64,328	64,212
Current income tax assets	-	-	4,831	2,452	-
Deferred tax assets	8,443	4,526	6,434	6,291	5,844
Property, plant and equipment	19,827	27,830	30,331	24,019	20,488
Goodwill	92,786	92,786	92,786	92,786	90,353
Intangible assets	12,021	13,187	5,178	5,959	6,695
Other assets	22,995	14,391	5,710	8,030	21,208
Total Assets	1,403,938	1,315,148	1,268,145	1,265,747	964,678
Liabilities					
Due to other banks	(638)	(638)	(640)	(143)	(880)
Due to customers	(1,097,785)	(1,019,325)	(964,790)	(958,609)	(633,522)
Current income tax liabilities	(5,754)	(635)	(2,771)	(1,457)	(7,121)
Deferred income tax liabilities	-	-	(95)	(310)	(73)
Employee provisions	(6,078)	(4,353)	(3,407)	(3,277)	(4,128)
Other liabilities	(36,388)	(33,495)	(51,935)	(44,081)	(66,215)
Total Liabilities	(1,146,643)	(1,058,446)	(1,023,638)	(1,007,877)	(711,940)
Net Assets	257,294	256,702	244,507	257,870	252,738
Share capital and reserves					
Issued and fully paid ordinary shares	(142,213)	(142,213)	(142,005)	(142,005)	(141,797)
Capital reserve	-	(49)	(49)	(49)	(49)
Share-based payment reserve	(1,712)	(1,558)	(1,356)	(1,356)	(891)
Retained earnings	(113,369)	(112,882)	(101,097)	(114,460)	(110,001)
Total capital and reserves	(257,294)	(256,702)	(244,507)	(257,870)	(252,738)

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2018.

2.3 Statement of changes in equity – consolidated

	Share Capital	Capital Reserve	Share based payment Reserve	Retained Earnings	Total
	PGK'000	PGK'000	PGK'000	PGK'000	PGK'000
Balance as at 31 December 2015	141,797	-	461	102,208	244,466
Profit for the period	-	-	-	20,499	20,499
Other comprehensive income	-	-	-	-	-
Employee share scheme	-	-	430	-	430
Dividend paid	-	-	-	(12,657)	(12,657)
Balance as at 30 June 2016	141,797	-	891	110,050	252,738
Profit for the period	-	-	-	20,476	20,476
Other comprehensive income	-	-	-	-	-
Employee share scheme	208	-	465	-	673
Dividend paid	-	-	-	(16,017)	(16,017)
Balance as at 31 December 2016	142,005	-	1,356	114,509	257,870
Profit for the period	-	-	-	3,026	3,026
Other comprehensive income	-	-	-	-	-
<i>Contributions by and distributions to owners</i>	-	-	-	-	-
Employee share scheme	-	-	-	-	-
Dividend paid	-	-	-	(16,389)	(16,389)
Balance as at 30 June 2017	142,005	-	1,356	101,146	244,507
Profit for the period	-	-	-	19,985	19,985
Other comprehensive income	-	-	-	-	-
<i>Contributions by and distributions to owners</i>	-	-	-	-	-
Employee share scheme	208	-	202	-	410
Dividend paid	-	-	-	(8,200)	(8,200)
Balance as at 31 December 2017	142,213	-	1,558	112,931	256,702
Profit for the period	-	-	-	20,642	20,642
Other comprehensive income	-	-	-	-	-
<i>Contributions by and distributions to owners</i>	-	-	-	-	-
Employee share scheme	-	-	154	-	154
Dividend paid	-	-	-	(16,384)	(16,384)
IFRS9 adoption	-	-	-	(3,820)	(3,820)
Balance as at 30 June 2018	142,213	-	1,712	113,369	257,294

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2018.

2.4 Statement of Cashflow – consolidated

	30-Jun-18 PGK'000	31-Dec-17 PGK'000	30-Jun-17 PGK'000	31-Dec-16 PGK'000	30-Jun-16 PGK'000
Cash flows from operating activities					
Interest received	52,474	98,799	47,396	77,317	35,301
Interest paid	(10,049)	(26,822)	(6,886)	(8,864)	(5,041)
Foreign exchange gain	14,607	7,224	-	21,072	-
Dividend received	106	357	92	111	74
Fee, commission and other income received	10,065	27,842	14,072	25,570	24,858
Fee and commission expense paid	(17)	(52)	(31)	(69)	(39)
Net trading and other operating income received	1,375	988	202	2,017	1,971
Recoveries on loans previously written-off	770	2,016	1,104	1,036	434
Support fees charged from subsidiaries	-	-	-	-	-
Cash payments to employees and suppliers	(32,289)	(64,320)	(31,305)	(56,793)	(19,000)
Lease termination payment	-	(7,000)	(7,000)	-	-
Income tax paid	(4,999)	(7,694)	(5,882)	(20,728)	(3,658)
Cash flows from operating profits before changes in operating assets	31,503	31,338	11,762	40,669	34,900
Changes in operating assets and liabilities:					
- net increase in regulatory deposits	(2,797)	(10,810)	(385)	(50,523)	(11,697)
- net increase in loans and advances to customers	(53,195)	(126,422)	(81,586)	(229,594)	(63,579)
- net increase in other assets	(8,604)	(6,602)	2,320	1,216	(5,705)
- net increase/ (decrease) in due to customers	78,460	46,765	6,182	275,796	(48,646)
- net decrease in due to other banks	-	3,408	497	(1,586)	(850)
- net increase/ (decrease) in other liabilities	2,895	(271)	532	(3,364)	3,800
Net cash flows from operating activities	48,262	(62,594)	(60,678)	32,614	(91,777)
Cash flows from investing activities					
Purchase of property, equipment and software	(2,945)	(15,702)	(7,613)	(6,775)	(1,839)
Proceeds from sale of property and equipment	-	-	2	93	43
Purchase of investment securities	8,674	26,677	(11,778)	(54,275)	(33,749)
Net cash flows from investing activities	5,729	10,975	(19,389)	(60,957)	(35,545)
Cash flows from financing activities					
Dividend payment	(16,384)	(24,589)	(16,389)	(28,675)	(12,657)
Net cash flow from financing activities	(16,384)	(24,589)	(16,389)	(28,675)	(12,657)
Net increase/ (decrease) in cash and cash equivalents	37,606	(76,208)	(96,456)	(57,018)	(139,979)
Effect of changes in the foreign exchange rates on cash and cash equivalents	454	703	274	(214)	334
Cash and cash equivalents at beginning of period	102,515	178,020	178,020	235,251	235,251
Cash and cash equivalents at the end of the period	140,575	102,515	81,838	178,019	95,606

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2018.

2.5 Basis of preparation

The condensed financial information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited which have been prepared in accordance with IAS 34: Interim Financial Reporting.

The accounting policies, estimation methods and measurement basis used in the preparation of the interim consolidated financial statements for the half year ended 30 June 2018 are consistent with those used in preparing the 31 December 2017 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

	30 Jun 2018 PGK'000	31 Dec 2017 PGK'000	30 Jun 2017 PGK'000	31 Dec 2016 PGK'000	30 Jun 2016 PGK'000
Cash and due from other banks	87,775	47,514	79,838	148,019	95,606
Central bank bills (maturity less than 3 months)	52,800	100,000	2,000	30,000	-
Total cash at the end of the period	140,575	147,514	81,838	178,019	95,606

2.8 Ratios

	30-Jun-18	31-Dec-17	30-Jun-17	31-Dec-16	30-Jun-16
Profit before tax / Operating Income					
Consolidated profit from ordinary activities before tax as a percentage of revenue	36.3%	41.9%	15.3%	52.8%	47.6%
Profit after tax / equity interests					
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	8.0%	7.8%	1.2%	7.9%	8.1%

2.9 Earnings Per Share

Details of basic and diluted EPS reported separately in accordance with IAS33 *Earnings Per Share* are as follows.

	30-Jun-18	31-Dec-17	30-Jun-17	31-Dec-16	30-Jun-16
Calculation of the following in accordance with IAS33					
(a) Basic EPS	12.6	12.2	1.8	12.5	12.5
(b) Diluted EPS	12.5	12.2	1.8	12.5	12.5
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	163,993,253	163,993,253	163,893,253	163,893,253	163,793,253

* The EPS in the above Table is for the respective 6 months

2.10 NTA backing

	30-Jun-18 PGK	31-Dec-17 PGK	30-Jun-17 PGK	31-Dec-16 PGK	30-Jun-16 PGK
Net tangible asset backing per ordinary share	1.00	0.92	0.89	0.97	0.95

2.11 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.

2.12 Issued Shares

The total number of shares at 30 June 2018 was 163,993,253 (31 December 2017: 163,993,253, 30 June 2017: 163,893,253)

	Total Number	Number Quoted
	Ordinary shares	Ordinary shares
Changes during the year ended 31 December 2017		
Opening Balance of number of shares	163,993,253	163,993,253
Increase through issue of shares 2018		
Total	163,993,253	163,993,253

2.13 Segment Reporting

	Banking & Finance	Wealth Management	Corporate	Total
	PGK'000	PGK'000	PGK'000	PGK'000
30 June 2018				
Total external income	60,816	13,643	2,898	77,356
Total external expenses	(24,828)	(7,660)	(16,550)	(49,038)
Profit before inter-segment revenue and expenses	35,988	5,983	(13,652)	28,318
Inter-segment income	1,514	264	17,670	19,448
Inter-segment expenses	(15,664)	(3,070)	(714)	(19,448)
Profit before tax	21,838	3,177	3,303	28,318
Income tax expense	(6,547)	(885)	(244)	(7,676)
Profit after tax	15,290	2,292	3,060	20,642
Segment assets	1,245,509	23,024	135,406	1,403,938
Segment liabilities	(1,131,780)	(4,585)	(10,277)	(1,146,643)
Net assets	113,729	18,439	125,128	257,294
Capital expenditure	2,718		11,477	14,195
Depreciation	(1,725)		(1,645)	(3,370)

	Banking & Finance PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
30 June 2017				
Total external income	39,022	9,876	156	49,055
Total external expenses	(14,767)	(4,969)	(21,834)	(41,570)
Profit before inter-segment revenue and expenses	24,255	4,908	(21,677)	7,485
Inter-segment income	1,607	341	15,711	17,658
Inter-segment expenses	(15,171)	(2,146)	(342)	(17,658)
Profit before tax	10,691	3,103	(6,308)	7,485
Income tax expense	(3,176)	(908)	(374)	(4,459)
Profit after tax	7,515	2,194	(6,683)	3,026
Segment assets	1,122,801	15,462	129,882	1,268,145
Segment liabilities	1,013,583	3,959	6,097	1,023,638
Net assets	109,218	11,503	123,785	244,507
Capital expenditure	3,808	3,546	259	7,613
Depreciation	(1,082)	0	(996)	(2,079)

2.14 Comparison of half year profits

	30-Jun-18 PGK'000	31-Dec-17 PGK'000	31-Dec-16 PGK'000
First Half Year			
Consolidated profit from continuing operations after tax attributable to members reported for the first half year	20,642	3,027	20,499
Second Half Year			
Consolidated profit from continuing operations after tax attributable to members reported for the second half year	NA	19,984	20,476

2.15 Contingent liabilities

The company is a party to a number of litigations. The interim consolidated financial statements include provision for any losses where there is reasonable expectation that the litigations will result in a loss to the company. Other ongoing litigations are not expected to result in a material loss to the Group.

The Group guarantees the performance of customers by issuing stand-by letters of credit and guarantees to third parties. At 30 June 2018, these totalled PGK 34.5m (31 December 2017: PGK 36.8m).

3. Compliance Statement

1. This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX and to POMSoX.

Identify other standards used: **International Financial Reporting Standards**

2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies
3. This report gives a true and fair view of the matters disclosed (see note 2)
4. This report is based on accounts to which one of the following applies.

☐

The accounts have been audited

☒

The accounts have been subject to review

☐

The accounts are in the process of being audited or reviewed

☐

The accounts have not yet been audited or reviewed

5. The entity has a formally constituted audit committee.