

**KINA SECURITIES LIMITED
AND ITS SUBSIDIARIES**

**INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

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KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

DIRECTORS' REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2016

The Directors of Kina Securities Limited and its Subsidiaries (the Group) submit herewith the interim consolidated financial statements of the Group for the half year ended 30 June 2016.

Principal Activities

The principal continuing activities of the Group during the half year was the provision of share brokerage, fund administration, investment management services, asset financing, and provision of personal and commercial loans, money market operations, banking services and corporate advice.

The Directors consider there are no unusual or other matters that warrant their comments and the Group's financial position and results from operations are properly reflected in these financial statements.

Accounting Policies

Details of accounting policies are shown in note 1 (c) to the accounts. There have been no changes to policies adopted at 31 December 2015.

Country of Incorporation

The Company is incorporated in Papua New Guinea and has its principal place in Papua New Guinea.

Registered Office

Its registered office is Level 9, Deloitte Tower, Douglas Street, Port Moresby, National Capital District.

Directors and Secretary

The names of the directors of the Company in office during the accounting period are:

R. Namaliu (Chairman)

S. G. Yates (Chief Executive Officer and Director)

W. Golding

J. Yap

D. Foster

I. Taureka – appointed 18 May 2016

C. Chopra (Company Secretary –
appointed 21 June 2016)

D. Manoa – ceased 18 May 2016

P. Ng – ceased 18 May 2016

H. Wong – ceased 18 May 2016

Dividends

Dividends declared and paid during the half year amounted to K12,657,202 (2015:Knil).

Results

The operating profit attributable to equity holders for the half year for the Group was K20,498,970 (2015: K4,548,422).

Signed at Port Moresby on behalf of the board on the 29 day of August 2016.


Mr. Wayne Golding
Director


Mr. Syd Yates
Director



Independent Auditor's Review Report to the Directors of Kina Securities Limited

Report on the interim consolidated financial statements

We have reviewed the accompanying interim consolidated financial statements, being a special purpose financial report, of Kina Securities Limited (the Company), which comprise the interim consolidated statement of financial position as at 30 June 2016, the interim consolidated statement of comprehensive income, interim consolidated statement of changes in shareholders' equity and interim consolidated statement of cash flows for the half-year ended on that date and other selected explanatory notes for the Group. The Group comprises the Company and the entities it controlled at 30 June 2016 or from time to time during the half-year.

The interim consolidated financial statements do not contain all the disclosures required of the full financial statements under generally accepted accounting practice in Papua New Guinea. Reading these interim consolidated financial statements, therefore, is not a substitute for reading the annual financial statements of the Company.

Directors' responsibility for the condensed interim financial statements

The Directors of the Company are responsible for the preparation of these interim consolidated financial statements such that they present fairly the matters to which they relate in accordance with IAS 34 'Interim Financial Reporting' and for such internal controls as the Directors determine are necessary to enable the preparation of the interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim consolidated financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' in order to state whether, on the basis of the procedures described, anything has come to our attention that makes us believe that the interim consolidated financial statements do not present fairly the matters to which they relate. As the auditor of the Company, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the interim consolidated financial statements of Kina Securities Limited do not present fairly the Group's financial position as at 30 June 2016 and its financial performance and cash flows for the half-year ended on that date in accordance with IAS 34 'Interim Financial Reporting'.



Independent Auditor's Review Report
to the Directors of Kina Securities Limited

Restriction on distribution or use

This report is made solely to the Directors of the Company, as a body. Our review work has been undertaken so that we might state to the Directors those matters which we are required to state to them in our review report and for no other purpose. We do not accept or assume responsibility to anyone other than the Directors of the Company, as a body, for our review work, for this report or for those conclusions we have formed.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers' in a cursive style.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Grant Burns', enclosed within a circular blue stamp or seal.

Grant Burns
Partner
Registered under the Accountants Act 1996

Port Moresby
29 August 2016

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
DIRECTORS DECLARATION
FOR THE HALF YEAR ENDED 30 JUNE 2016

The directors declare that:

- in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable
- in the directors' opinion, the attached interim consolidated financial statements and notes thereto give a true and fair view of the financial position and performance of the Group in compliance with International Financial Reporting Standard IAS 34: Interim Financial Reporting.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Director
Port Moresby



Director
Port Moresby

on the *29* day of *August* 2016.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE
HALF YEAR ENDED 30 JUNE 2016

	Notes	Consolidated Half year 30 June	
		2016 Unaudited K	2015 Unaudited K
Interest income		35,324,509	21,256,052
Interest expense		(4,087,356)	(4,591,082)
Net interest income	3	31,237,153	16,664,970
Fee and commission income		15,476,467	9,395,750
Fee and commission expense		(38,526)	(48,399)
Net fee and commission income	4	15,437,941	9,347,351
Foreign exchange income		12,936,730	-
Dividend income		74,109	81,882
Net gains/(losses) from financial assets through profit and loss		500,454	(19,164)
Other operating income		1,513,324	305,361
Operating income before impairment losses and other operating expenses		61,699,711	26,380,400
Impairment losses	5	(2,531,197)	(1,784,289)
Other operating expenses	6	(29,800,138)	(17,660,627)
Profit before tax		29,368,376	6,935,484
Income tax expense		(8,869,406)	(2,387,062)
Net profit for the period		20,498,970	4,548,422
Other comprehensive income		-	-
Total comprehensive income for the period		20,498,970	4,548,422

Earnings per share - basic & diluted (toea)	17(b)	2016 12.5	2015 5.2
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The notes on pages 9 to 21 are an integral part of these condensed interim consolidated financial statements.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS'
EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2016

Consolidated	Attributable to the equity holders of the Group				
	Share Capital	Capital Reserve	Share based payment Reserve	Retained Earnings	Total
	K	K	K	K	K
Balance as at 31 December 2014 (audited)	2,000,000	49,050	-	97,203,205	99,252,255
Profit for the period	-	-	-	4,548,422	4,548,422
Other comprehensive income	-	-	-	-	-
Balance as at 30 June 2015 (unaudited)	2,000,000	49,050	-	101,751,627	103,800,677
Profit for the period	-	-	-	407,309	407,309
Other comprehensive income	-	-	-	-	-
Additional shares issued through IPO offer - net of transaction costs	139,797,464	-	-	-	139,797,464
Employee share scheme	-	-	460,379	-	460,379
Balance as at 31 December 2015 (audited)	141,797,464	49,050	460,379	102,158,936	244,465,829
Profit for the period	-	-	-	20,498,970	20,498,970
Other comprehensive income	-	-	-	-	-
Employee share scheme	-	-	430,375	-	430,375
Dividend paid	-	-	-	(12,657,202)	(12,657,202)
Balance as at 30 June 2016 (unaudited)	141,797,464	49,050	890,754	110,000,704	252,737,972

The notes on pages 9 to 21 are an integral part of these interim consolidated financial statements.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	Consolidated	
		30 June 2016 Unaudited K	31 December 2015 Audited K
Assets			
Cash and due from banks	7	95,606,354	131,251,147
Central bank bills	8	161,331,655	231,665,280
Regulatory deposits	9	57,187,500	45,490,500
Financial assets at fair value through profit or loss	10	4,555,115	4,054,661
Loans and advances to customers	11	437,197,139	374,059,089
Investments in government inscribed stocks	12	64,212,153	64,134,508
Deferred tax assets		5,844,017	5,546,779
Property and equipment	13	20,487,835	20,895,228
Goodwill	20(ii)	90,353,405	90,353,405
Intangible assets	14	6,694,594	6,864,249
Other assets		21,207,992	14,734,002
		964,677,759	989,048,848
Liabilities			
Due to other banks		879,865	1,729,388
Due to customers	15	633,522,345	685,529,464
Current income tax liabilities		7,121,365	1,567,260
Deferred income tax liabilities		72,722	139,989
Employee provisions		4,128,284	5,408,405
Other liabilities	16	66,215,206	50,208,513
		711,939,787	744,583,019
Net assets		252,737,972	244,465,829
Shareholders' equity			
Issued and fully paid ordinary shares	17a	141,797,464	141,797,464
Capital reserve		49,050	49,050
Share-based payment reserve	17c	890,754	460,379
Retained earnings		110,000,704	102,158,936
Total equity		252,737,972	244,465,829

The notes on pages 9 to 21 are an integral part of these interim consolidated financial statements.

These financial statements have been approved for issue by the Board of Directors and signed on its behalf by:

Mr. Wayne Golding
 Director

on the 29 day of August 2016.

Mr. Syd Yates
 Director

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2016

	Notes	Consolidated	
		Half year ended 30 June 2016	2015
		Unaudited	Unaudited
		K	K
Cash flows from operating activities			
Interest received		35,300,844	21,237,073
Interest paid		(5,041,143)	(5,817,699)
Dividend received		74,109	81,822
Fee, commission and other income received		24,857,536	9,470,168
Fee and commission expense paid		(38,526)	(48,399)
Net trading and other operating income received		1,971,278	286,197
Recoveries on loans previously written-off		433,859	1,137,320
Cash payments to employees and suppliers		(18,999,910)	(18,484,806)
Income tax paid		(3,658,196)	(2,577,947)
Cash flows from operating profits before changes in operating assets and liabilities		34,899,851	5,283,729
Changes in operating assets and liabilities:			
- net increase in regulatory deposits		(11,697,000)	-
- net increase in loans and advances to customers		(63,578,841)	(6,934,883)
- net increase in other assets		(5,705,061)	(12,972,688)
- net increase/(decrease) in due to customers		(48,646,101)	18,903,585
- net decrease in due to other banks		(849,523)	-
- net increase/(decrease) in other liabilities		3,800,919	(1,952,692)
Net cash flows from operating activities		(91,775,756)	2,327,051
Cash flows from investing activities			
Purchase of property, equipment and software		(1,839,456)	(353,899)
Proceeds from sale of property and equipment		42,500	34,000
Purchase of investment securities		(33,749,170)	(262,782)
Proceeds from sale of available-for-sale financial assets		-	410,732
Net cash flows from investing activities		(35,546,126)	(171,949)
Cash flows from financing activities			
Dividend payment		(12,657,202)	-
Net cash outflows from financing activities		(12,657,202)	-
Net increase/(decrease) in cash and cash equivalents		(139,979,084)	2,155,102
Effect of changes in the foreign exchange rates on cash and cash equivalents		334,291	-
Cash and cash equivalents at 1 January 2016 (1 January 2015)		235,251,147	57,767,391
Cash and cash equivalents at 30 June 2016 (30 June 2015)		95,606,354	59,922,4493
Net cash generated during the six months ended 31 December 2015		-	175,328,654
Cash and cash equivalents at end of period		95,606,354	235,251,147

The notes on pages 9 to 21 are an integral part of these interim consolidated financial statements.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016

1. Significant accounting policies

a) Statement of compliance

These interim consolidated financial statements of Kina Securities Limited and its subsidiaries (“the Group”) have been prepared in accordance with IAS 34: Interim Financial Reporting. The half year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial statements.

These interim consolidated financial statements have been reviewed, not audited.

b) Basis of presentation

These interim consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

On 30 September 2015 the Group acquired a 100% interest in Maybank (PNG) Limited and Mayban Property (PNG) Limited, and accordingly the financial performances of those entities are included in the income for the half year ended 30 June 2016 (nil for half year to 30 June 2015).

c) Accounting policies and disclosures

The accounting policies and methods of computation adopted are consistent with those adopted and disclosed in the Group’s annual financial report for the year ended 31 December 2015. These accounting policies are consistent with International Financial Reporting Standards.

2. Critical accounting estimates and judgments

The preparation of interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim consolidated financial statements, the significant judgements made by management in applying the group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

3. Net interest income

	Consolidated	
	Half year ended 30 June	
	2016	2015
	Unaudited	Unaudited
	K	K
Interest income		
Cash and short-term funds	5,590,119	1,306,814
Investment in government inscribed stocks	2,957,555	776,298
Loans and advances to customers	26,776,835	19,172,940
	35,324,509	21,256,052
Interest expense		
Banks and customers	(4,087,356)	(4,591,082)
Net interest income	31,237,153	16,664,970

4. Net fee and commission income

	Consolidated	
	Half year ended 30 June	
	2016	2015
	Unaudited	Unaudited
	K	K
Fee and commission income		
Credit related fees and commission	5,844,056	1,491,789
Investment and portfolio management	4,202,081	3,871,263
Fund administration	5,017,472	3,576,800
Shares brokerage	234,005	204,102
Corporate service fee	-	100,000
Other fees	178,853	151,796
	15,476,467	9,395,750
Fee and commission expense		
Fees and commission	(38,526)	(48,399)
Net fee and commission income	15,437,941	9,347,351

5. Impairment losses

	Consolidated	
	Half year ended 30 June	
	2016	2015
	Unaudited	Unaudited
	K	K
Individually assessed (note 11)	1,536,815	1,607,833
Collective allowance (note 11)	994,382	176,456
	2,531,197	1,784,289

6. Other operating expenses

	Consolidated	
	Half year ended 30 June	
	2016	2015
	Unaudited	Unaudited
	K	K
Staff costs	14,605,597	9,049,050
Administrative expenses	5,947,064	3,308,240
Operating lease	2,263,448	1,798,079
Software maintenance and support charges	1,602,121	672,038
Depreciation (note 13)	1,479,444	949,533
Amortisation of intangible assets (note 14)	817,306	-
Auditor's remuneration	195,837	144,958
Acquisition costs relating to business combination (note 20)	-	1,067,523
Other	2,889,321	671,206
	29,800,138	17,660,627

As at 30 June 2016 the Group had 248 (2015: 212) employees.

7. Cash and due from banks

	Consolidated	
	30 June	31 December
	2016	2015
	Unaudited	Audited
	K	K
Cash on hand	1,179,271	1,184,526
Exchange settlement account (Bank of Papua New Guinea)	36,738,024	55,655,796
Due from other banks	57,689,059	74,410,825
	95,606,354	131,251,147

8. Central bank bills

	Consolidated	
	30 June	31 December
	2016	2015
	Unaudited	Audited
	K	K
Central bank bills	161,331,655	231,665,280

Central bank bills are debt securities issued by the Bank of Papua New Guinea. Central bank bills at 30 June 2016 amounting to K nil (2015: K104,000,000) with maturity term of one to three months from the date of purchase are classified as cash equivalents in the consolidated statement of cash flows.

9. Regulatory deposits

	Consolidated	
	30 June 2016 Unaudited K	31 December 2015 Audited K
Regulatory deposits	57,187,500	45,490,500

Bank of Papua New Guinea requires a minimum cash reserve requirement of 10% against the average deposit liabilities.

10. Financial assets at fair value through profit or loss

Fair value of listed investments are measured based on the quoted market prices.

11. Loans and advances to customers

	Consolidated	
	30 June 2016 Unaudited K	31 December 2015 Audited K
Loans to individuals	134,960,497	119,039,921
Loans to corporate entities	312,450,082	263,752,890
Gross loans and advances to customers	447,410,579	382,792,811
Allowances for losses	(10,213,440)	(8,733,722)
	437,197,139	374,059,089

Details of gross loans and advances to customers are as follows:

	Consolidated	
	30 June 2016 Unaudited K	31 December 2015 Audited K
Overdrafts	65,233,263	63,697,588
Property mortgage	290,532,727	218,439,947
Asset financing	14,688,085	15,023,932
Insurance premium funding	260,785	244,626
Business and other loans	76,695,719	85,386,718
	447,410,579	382,792,811

11. Loans and advances to customers (continued)

Movements in allowance for losses are as follows:

	Consolidated	
	30 June 2016 Unaudited	31 December 2015 Audited
	K	K
<i>Individually assessed</i>		
Balance at beginning of the period	5,269,477	4,621,381
Impairment losses during the period	1,536,815	2,308,689
Loans written off	(1,470,674)	(3,917,722)
Reversals	12,336	-
Transfers from collective	-	154,592
Recoveries	433,859	2,129,537
Balance at end of the period	5,781,813	5,296,477
<i>Collectively assessed</i>		
Balance at beginning of period	3,437,245	2,940,913
Impairment losses during the period	994,382	630,617
Loans written off	-	(90,232)
Recoveries	-	110,539
Transfers to individual	-	(154,592)
Balance at end of period	4,431,627	3,437,245
	10,213,440	8,733,722

12. Investments in government inscribed stocks

	Consolidated	
	30 June 2016 Unaudited	31 December 2015 Audited
	K	K
Government inscribed stocks principal balance	63,000,000	63,000,000
Unamortized premium	912,945	66,278
Unamortized discount	(755,774)	-
Accrued interest	1,054,982	1,068,230
	64,212,153	64,134,508

The movement in investments in government inscribed stocks is as follows:

	Consolidated	
	30 June 2016 Unaudited	31 December 2015 Audited
	K	K
Balance at beginning of the period	64,134,508	19,672,699
Additions	-	44,085,756
Accrued interest	(13,248)	512,555
Amortized premium	(67,576)	(136,502)
Amortized discount	158,469	-
Balance at the end of the period	64,212,153	64,134,508

Investments in government inscribed stocks are measured at amortized cost.

13. Property and equipment

Consolidated	Furniture & Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Total
	K	K	K	K	K	K
At 31 December 2015						
Cost	1,061,311	7,450,487	3,137,116	12,046,549	11,746,010	35,441,473
Accumulated depreciation	(620,523)	(2,962,148)	(2,370,090)	(8,593,484)	-	(14,546,245)
Net book value	440,788	4,488,339	767,026	3,453,065	11,746,010	20,895,228
Half year ended 30 June 2016						
Opening net book value	440,788	4,488,339	767,026	3,453,065	11,746,010	20,895,228
Additions	25,179	220,464	645,819	300,343	-	1,191,805
Disposals	-	-	-	(119,754)	-	(119,754)
Depreciation	(56,872)	(317,766)	(322,240)	(728,540)	(54,026)	(1,479,444)
Closing net book value	409,095	4,391,037	1,090,605	2,905,114	11,691,984	20,487,835
At 30 June 2016						
Cost	1,086,490	7,670,951	3,782,935	12,227,138	11,746,010	36,513,524
Accumulated depreciation	(677,395)	(3,279,914)	(2,692,330)	(9,322,024)	(54,026)	(16,025,689)
Net book value	409,095	4,391,037	1,090,605	2,905,114	11,691,984	20,487,835

14. Intangible assets

Consolidated	Software	Customer deposits relationship	Total
	K	K	K
Cost			
Balance 31 December 2015	3,432,366	3,780,000	7,212,366
Additions	647,651	-	647,651
Balance 30 June 2016	4,080,017	3,780,000	7,860,017
Accumulated amortisation			
Balance 31 December 2015	(159,117)	(189,000)	(348,117)
Charges during the period	(439,306)	(378,000)	(817,306)
Balance 30 June 2016	(598,423)	(567,000)	(1,165,423)
Book value 30 June 2016	3,481,594	3,213,000	6,694,594
Book value 31 December 2015	3,273,249	3,591,000	6,864,249

Customer deposits relationship was recognised when Maybank (PNG) Limited was acquired on 30 September 2015. The value of the customer deposits relationship was derived on the present value of the expected benefit from existing funds coming from depositors. A pre-tax discount rate of 11.2% was used in the valuation consistent with the impairment testing performed for goodwill. The intangible asset was estimated to have a useful life of five years based on the expected length of the customer deposits relationship.

15. Due to customers

	Consolidated	
	30 June 2016	31 December 2015
	Unaudited	Audited
	K	K
Corporate customers	504,740,648	682,227,143
Retail customers	128,781,697	3,302,321
	633,522,345	685,529,464

16. Other liabilities

	Consolidated	
	30 June 2016	31 December 2015
	Unaudited	Audited
	K	K
Bank cheques	20,143,179	21,560,630
Deposits against guarantee	11,450,024	3,127,005
Creditors	2,197,782	2,851,620
Unearned commission income	1,189,078	3,916,057
Accruals and other liabilities	31,235,143	18,753,201
	66,215,206	50,208,513

17. Issued and paid ordinary shares

a. Share capital

The Company does not have authorized capital and all ordinary shares have no par value.

	Number of shares	Share capital
Ordinary shares		
Balance at 31 December 2015	163,793,253	141,797,464
Balance at 30 June 2016	163,793,253	141,797,464

b. Earnings per share (EPS)

Basic earnings per ordinary share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The group has dilutive potential ordinary shares in the form of performance rights issued to senior management. However they do not have any material impact on the EPS calculation. Consequently, basic earnings per ordinary share equals diluted earnings per share.

	Consolidated	
	30 June 2016	30 June 2015
	Unaudited	Unaudited
Net profit attributable to shareholders	20,498,970	4,548,422
Weighted average number of ordinary shares basic earnings	163,793,253	88,121,935
Weighted average number of ordinary shares diluted earnings	164,221,499	88,121,935
Basic and diluted earnings /per share (in toea)	12.5	5.2

c. Share-based payment reserve

In July 2015, after the Company was listed on the Australian Stock Exchange and Port Moresby Stock Exchange, Kina established various incentive arrangements to assist in the attraction, motivation and retention of management and its employees. Share options were granted to the Chief Executive Officer (CEO) and other senior executive employees. These included short term incentive plan (STI Plan), long term incentive plan (LTI Plan) and retention plan (RI Plan). The share based payment expense recognized for the period ended 30 June 2016 is K430,375 (2015: 460,379).

18. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or where there are common directors and shareholders. Kina Securities Limited (incorporated in Papua New Guinea), is the parent entity of the Group which owns 100% of the ordinary shares of its subsidiaries, unless otherwise stated.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions and provision of certain services to the Group by companies where there is common directorship. These transactions were carried out on normal commercial terms and at normal market rates.

From time to time during the year, Directors and Senior Management of the Parent and subsidiaries had deposits in the Company on normal terms and conditions. Brokerage rates for buying and selling shares for the Senior Management and staff are discounted.

Total remunerations (including benefits) paid to key management personnel during the period is K2,647,603 (2015: K1,466,868).

19. Investment under trust

The Group acts as trustee holding or placing of assets on behalf of superannuation funds and individuals. As the relationship is legally supported, these assets are not assets of the Group and, therefore, are not included in its balance sheet. The Group is also engaged in investing client monies. A corresponding liability in respect of these monies is also excluded from the balance sheet. Investments under trust at balance sheet are:

	Consolidated	
	30 June	31 December
	2016	2015
	Unaudited	Audited
	K	K
Shares clients funds	2,652,734	3,288,828
	2,652,734	3,288,828

20. Business combination

On 30 September 2015, the Group, through Kina Ventures Limited (a 100% owned subsidiary of Kina Securities Limited) acquired all of the shares in Maybank (PNG) Limited and Mayban Property (PNG) Limited.

The purchase consideration for this acquisition amounted to K348,666,768. There was no contingent consideration involved. Certain adjustments to the purchase consideration were being discussed between the buyer and the seller at the time of the acquisition. These adjustments are still in the process of being finalised.

(i) Fair value of assets acquired and liabilities assumed

Total assets acquired	K 951,789,786
Total liabilities assumed	(693,476,423)
Total net assets acquired	258,313,363

There was no non-controlling interest.

Full details are included in the 31 December 2015 financial statements.

20. Business combination (continued)

(ii) Goodwill

	K
Purchase consideration	348,666,768
Fair value of net assets acquired	(258,313,363)
Goodwill	90,353,405

The goodwill is attributable to Maybank (PNG) Limited's strong position and synergies expected to arise after the Group's acquisition of the new subsidiary. None of the goodwill is expected to be deductible for tax purposes.

(iii) Acquired receivables

The fair value of acquired loans and advances to customers was K142,697,234. This included an allowance for impairment of K3,658,895.

(iv) Revenue and profit contribution

The revenues and expenses relating to the business acquired in September 2015 are presented below for the period ended 30 June 2016 with comparative information for the corresponding period in 2015. The results of the acquired business for the half year ended 30 June 2016 are included in the consolidated results for the period. However, the consolidated results for the comparative period ended 30 June 2015 did not include the results of the acquired business as it was prior to the date of acquisition.

	Half year ended 30 June	
	2016	2015
	Unaudited	Unaudited
	K	K
Interest income	15,315,629	14,789,450
Foreign exchange income	12,414,328	12,923,118
Fee and commission income	2,087,279	2,188,109
Impairment losses	(1,397,562)	(2,719,243)
Expenses	(12,197,390)	(7,859,057)
Profit before taxes	16,222,284	19,322,377

21. Segment reporting

The segment information provided to the Chief Executive Officer for the reportable segments for the period ended 30 June 2016 is as follows:

	Banking & Finance	Wealth Management	Corporate	Total
	K '000	K '000	K '000	K '000
Interest income	36,217	301	(1,193)	35,325
Interest expense	(4,087)	-	-	(4,087)
Foreign exchange income	12,359	616	(39)	12,936
Fee and commission income	3,444	9,594	14,529	27,567
Other revenue	50	652	1,386	2,088
Inter-segment income	(995)	(200)	(10,934)	(12,129)
Total income	46,988	10,963	3,749	61,700
Other operating expenses	(23,691)	(6,098)	(10,222)	(40,011)
Provision for impairment	(2,434)	(103)	6	(2,531)
Depreciation and amortisation	(956)	0	(963)	(1,919)
Inter-segment expense	9,998	1,719	412	12,129
Total expenses	(17,083)	(4,482)	(10,767)	(32,332)
Profit before tax	29,905	6,481	(7,018)	29,368
Income tax expense	(6,271)	(1,313)	(1,285)	(8,869)
Profit after tax	23,634	5,168	(8,303)	20,499
Total assets	814,191	10,678	139,813	964,678
Total assets include:				
Additions to non-current assets	1,646	0	186	1,832
Total liabilities	702,200	3,136	6,604	711,940

Included in the banking & finance segment for 2016, is the Kina Bank Limited figures following the acquisition of the former Maybank PNG Ltd on 30 September 2015.

21. Segment reporting (continued)

The segment information provided to the Chief Executive Officer for the reportable segments for the period ended 30 June 2015 is as follows:

	Banking & Finance	Wealth Management	Corporate	Total
	K '000	K '000	K '000	K '000
Interest income	21,173	194	64	21,431
Interest expense	(4,766)	-	-	(4,766)
Fee and commission income	1,492	7,900	7,107	16,499
Other revenue	196	166	6	368
Inter-segment revenue	-	-	(7,151)	(7,151)
Total revenue	18,095	8,260	26	26,381
Other operating expenses	(11,030)	(5,640)	(7,193)	(23,863)
Provision for impairment	(1,763)	(51)	30	(1,784)
Depreciation and amortisation	-	-	(950)	(950)
Inter-segment costs	4,083	2,299	769	7,151
Total expenses	(8,710)	(3,392)	(7,344)	(19,446)
Profit before tax	9,385	4,868	(7,317)	6,935
Income tax expense	(1,599)	(656)	(133)	(2,387)
Profit after tax	7,786	4,212	(7,450)	4,548
Total assets	338,137	13,324	10,903	362,364
Total assets include:				
Additions to non-current assets	-	-	354	354
Total liabilities	252,252	794	5,517	258,563

22. Contingent liabilities

Litigations and claims

Contingent liabilities exist in respect of actual and potential claims and proceedings that have not been determined. An assessment of the Group's likely loss has been made on a case by case basis for the purposes of the financial statements and specific provisions are made where appropriate. As at 30 June 2016, the Group is a party to some litigation before the courts, however, management does not believe these will result in any material loss to the Group. There was no litigation matter of a material nature that is not already provided for in the consolidated financial statements.

Other liabilities

The Bank guarantees the performance of customers by issuing stand-by letters of credit and guarantees to third parties. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subject to the same credit origination, portfolio maintenance and collateral requirements applied to customers applying for loans. As the facilities may expire without being drawn upon, the notional amount does not necessarily reflect future cash requirements. The credit risk of these facilities may be less than the notional amount but as it cannot be accurately determined, the credit risk has been taken as the contract notional amount.

22. Contingent liabilities (continued)

	Consolidated	
	30 June 2016 Unaudited K	31 December 2015 Audited K
Documentary letters of credit	1,187,242	146,213
Performance guarantee	28,638,112	26,011,878
Other contingent liabilities	9,163,197	7,907,204
	<u>38,988,551</u>	<u>34,065,295</u>

23. Capital commitments

There was no commitment under contracts for capital expenditure at balance date.

24. Fair value estimation

There is no material difference between the fair value and carrying value of the Group's financial assets and liabilities.

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2016.

Assets	Level 1 K	Level 2 K	Level 3 K	Total K
Financial assets at fair value through profit or loss				
Investment in shares - Listed	4,493,528	-	-	4,493,528
Investment in shares - Unlisted	-	-	61,587	61,587
Total assets	4,493,528	-	61,587	4,555,115

Unlisted investments are classified as Level 3. There is no material movement in value of unlisted investments since the last reporting period.

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

Assets	Level 1 K	Level 2 K	Level 3 K	Total K
Financial assets at fair value through profit or loss				
Investment in shares – Listed	3,993,074	-	-	3,993,074
Investment in shares – Unlisted	-	-	61,587	61,587
Total assets	3,993,074	-	61,587	4,054,661

25. Events after the balance sheet date

Subsequent to 30 June 2016, the directors have declared an interim dividend of AUD\$0.0409 per share. There are no other events after the balance date that require adjustment or disclosure in the financial statements.