



# Kina Securities Limited 2017 Half Year Results

Incorporating the requirements of Appendix 4D



# ASX Appendix 4D

## For the Half Year to 30 June 2017

### Results for announcement to the market

Comparisons of current half year to 30 June 2017 are with the half year to 30 June 2016

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#### Report for the half year ended 30 June 2017

Revenue from ordinary activities (K Millions)	49.1	Down 20%
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Net Profit After Tax for the period attributable to equity holders (K Millions)	3.0	Down 85%
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Underlying Net Profit After Tax for the period attributable to equity holders (K Millions)*	10.0	Down 51%
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\*Underlying net profit represents the statutory profit as adjusted in order to present a figure which reflects the Directors' assessment of the results of the ongoing business activities of the Group, in accordance with ASIC Regulatory Guide 230 and the AICD/Finsia principles for reporting underlying profit.

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	Half year June 2017 PNGK million	Half year June 2016 PNGK million
Consolidated statutory net profit after tax attributable to equity holders	3.0	20.5
Lease termination payment expense	7.0	-
Tax effect of above adjustment	-	-
Underlying net profit after tax attributable to equity holders	10.0	20.5

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<b>Dividends (distributions) Interim dividend</b>	
- unfranked (AUD cents per share)	2.00
- unfranked (PGK toea per share)	5.00

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The Directors have declared an interim dividend based on the underlying profit after tax of K10.0m.

The interim dividend is converted based on an exchange rate: 1 PGK = 0.3978 AUD.  
Record date for determining entitlements to the dividend – 30 August 2017

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

This report should be read in conjunction with the Interim Consolidated Financial Statements for the half year ended 30 June 2017 in Section 2.

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

## Directors

The directors present this report together with the consolidated financial report for the half-year ended 30 June 2017.

Directors:

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

Isikeli Taureka, Chairman

Syd Yates, Managing Director

Jim Yap

David Foster

Karen Smith-Pomeroy

Sir Rabbie Namaliu

Ceased – 16 May 2017

Wayne Golding

Ceased - 16 May 2017

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 2017 .....	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.....	12
1.2.7 Operating expenses .....	13
1.2.8 Asset quality and loan impairment.....	13
1.2.9 Capital adequacy .....	14
2. Consolidated Financial Statements.....	15
2.1 Statement of Comprehensive Income – consolidated .....	15
2.2 Statement of financial position - consolidated.....	16
2.3 Statement of changes in equity – consolidated.....	17
2.4 Statement of Cashflows – consolidated.....	18
2.5 Basis of preparation.....	19
2.6 Non-cash financing and investing activities .....	19
2.7 Reconciliation of cash and cash equivalents.....	19
2.8 Ratios.....	19
2.9 Earnings Per Share .....	20
2.10 NTA backing.....	20
2.11 Control gained over entities having material effect .....	20
2.12 Dividends .....	20
2.13 Details of aggregate share of profits (losses) of associated entity.....	21
2.14 Issued Shares.....	21
2.15 Segment Reporting .....	21
2.16 Comparison of half year profits.....	22
2.17 Contingent liabilities .....	22
3. Compliance Statement .....	23

# 1. Results Overview

## Kina Securities delivers profit, dividend and key projects

### Results Highlights

	30 Jun 2017	31 Dec 2016	30 Jun 2016
Statutory Net Profit After Tax from ordinary activities (PGK m)	3.0	20.5	20.5
Underlying Net Profit After Tax	10.0	20.5	20.5
Net interest margin (%)	7.3%	8.7%	9.4%
Cost to income ratio (%)	68%*	47%	48%
Loan impairment expense	1.3	0.3	2.5
Capital adequacy (T1+T2) (%)	28%	30%	31%
Net loans and advances (PGK m)	685.4	605.1	437.2
Return on Equity (Annualised) (%)	8.0%**	15.8%	16.2%
Dividend (PGK Toea per share)	5.0	10.0	9.8
Dividend (AUD Cents per share)	2.00	3.95	4.09

\*Cost to income ratio does not include the one-off lease termination payment expense

\*\*Return on equity calculated based on estimated annualised underlying profit

### Operating performance and earnings

Kina Securities Limited (KSL) has reported statutory profit of PGK3.0m and an underlying profit of PGK10.0m for the June 2017 half year.

The statutory profit has been calculated in accordance with International Financial Reporting Standards and reflects a lease termination expense of PGK7.0m.

The underlying net profit represents the statutory profit as adjusted in order to present a figure which reflects the Directors' assessment of the results of the ongoing business activities of the Group, in accordance with ASIC Regulatory Guide 230 and the AICD/Finsia principles for reporting underlying profit.

The reconciliation between the statutory net profit and the underlying net profit is presented below. This reconciliation has not been audited or reviewed by the Groups' auditor.

	Half year 30 Jun 2017	Half year 31 Dec 2016	Half year 30 Jun 2016
Statutory net profit from ordinary activities (PGK m)	3.0	20.5	20.5
Lease termination payment expense	7.0	-	-
Tax effect of above adjustment	-	-	-
Underlying net profit	10.0	20.5	20.5

Directors have declared an interim dividend of AUD cents 2.0 / PGK Toea 5.0 per share.

The financial result compares with a profit of PGK20.5m in the corresponding six months to June 2016 (H1 2016) and PGK20.5m in the half year to December 2016 (H2 2016). The drop in earnings has largely been attributed to lower income from foreign currency trading as a result of the withdrawal of Kina's USD correspondent banking partner in FY 2016.

The one-off lease termination expense related to an agreement for the Group to re-locate to a new building. The arrangement was entered into prior to Kina's plans to list on the ASX. The Board has taken the decision to

terminate the arrangement and for the Group to remain in its present location, The Tower, as a re-location no longer aligned with its future business direction or represented the best value for the company. The Board has followed the required treatment under accounting standards in recognising the lease termination expense at this time.

However, Kina is presently in discussions with its landlord regarding the renewal of its current lease, with a view to negotiating terms which will recover the termination expense over the term of the new lease.

Kina continued to grow all of its businesses, excluding the impact of the decline in FX income.

After the reporting period, Kina has delivered on a number of key projects including the agreement to establish a new USD correspondent banking arrangement with leading ASEAN bank, CIMB Bank, and the Nasfund Funds Under Administration transaction.

The performance of these arrangements should generate additional revenues in the second half and provide confidence in Kina's ability to deliver on its strategies in the future.

## Operational highlights

The following operational highlights contributed to the results for H1 2017:

- Grew loan market share from 3.7% in H1 2016 to 5.6% at the end of H1 2017
- Achieved 57% growth in loans compared with June 2016 including 13% growth in H1 2017
- Lending growth has been moderated in H1 2017 to keep loan to deposit ratio within target range of 60-70%
- Delivered a 13.8% increase in Business lending and Personal lending growth of 10.1%, with total loans now recorded at PGK 685m
- The realignment of customer deposit base from high cost to low cost was a priority for H1 2017. This was to ensure the cost of funds remains within 2-3% for the year and will continue to be the focus in H2 2017
- Increased the number of transactional accounts by 10% with the number of Term Deposits remaining stable
- Opening the new Vision City retail outlet in May 2017 which has generated growth of new to bank customers.
- Successfully delivered agreement to become PNG's first bank to sign a trade finance agreement with the Asian Development Bank (ADB). The deal will assist Kina's local importing and exporting business customers by providing access to ADB's Trade Finance Program (TFP).

## Kina Bank

Kina Bank recorded net interest income of PGK33.6m for the half year, up 7% from H1 2016. This was achieved by driving loan book growth while ensuring careful management of cost of funds and yield on interest earning assets.

Total Non-interest income was impacted in H1 2017 after the withdrawal of the bank's previous USD correspondent banking partner in FY2016. As advised to the market in May 2017, the impact in H1 2017 is K 10.7m. The acquisition of a new correspondent banking partner will assist in returning foreign exchange income to normal levels in H2 2017 and beyond.

In H1 2017, bank fees and commissions income grew by 9%, reflecting growth in lending and retail customer segments. This assisted in cushioning the impact from the drop in foreign exchange income.

## Wealth Management

The Wealth Management division delivered growth in the funds management, stockbroking and trustee businesses. However, foreign exchange income (realised and unrealised) adversely impacted the division's net profit for the current year.

The division contributed PGK2.2m to the H1 2017 result, compared with PGK3.6m in H1 2016 primarily due to currency revaluation losses and higher initial staffing costs for the forthcoming Nasfund project. The success of Kina's Funds Administration service in signing the agreement to provide services to PNG's largest superannuation fund, Nasfund was a highlight for the division in H1 2017. This agreement went live in August 2017 and this contract is expected to increase revenue by PGK3.6m by end of H2 2017.

Importantly, this contract will lift Kina's funds under administration to PGK4b to PGK10b. This means Kina has the opportunity to offer targeted wealth management and banking products to a customer base in excess of 700,000 superannuation members.

### Asset quality

Overall asset quality remains sound. The loan impairment expense decreased to PGK1.3m in H1 2017, from PGK2.5m in H1 2016. Loan Impairment expense as a proportion of Gross Loans and Advances (GLA) remained low at 0.2%. Gross non-performing loans or loans greater than 180 days were just PGK2.8m, equal to 0.4% of GLA.

The Coverage ratio stands at 115% as at 30 June 2017 and is at similar levels to June 2016. Kina adopts the industry standard methodology of measuring loan loss provision cover against the balance of greater than 90 days impaired balances.

### Operating Expenses

Operating expenses from ordinary activities for H1 2017, excluding the one-off lease termination payment expense, grew by 12% compared to H1 2016 reflecting the growth in core business. Overall costs were managed and staffing costs remain at 47% of total costs and business operating costs including IT spend remain at 25% of total cost.

Cost to income ratio in H1 2017, excluding the one off lease termination expense, was 67%, up from 48% in H1 2016. The increase in the cost to income ratio was largely due to a drop in foreign exchange income. If the FX income had been as in previous year, the ratio would have been similar to H1 2016.

### Capital

The capital of the business remains strong, with regulatory capital (T1+T2) at 28% of risk weighted assets (RWA), compared with a regulatory required minimum of 12%.

### Outlook

PNG's economy appears to be undergoing a recovery in 2017 following a period of slow expansion. This has been reflected in the positive sentiment of C-suite executives polled in the Oxford Business Group's inaugural *OBG Business Barometer: PNG CEO Survey* released in July 2017. More than 60% of survey respondents have positive or very positive expectations for business conditions. OBG said some weak headline numbers, depreciation of the kina and a shortage of US dollars have slowed imports and led to pockets of local strength. The Group also reported robust activity in the small and medium-sized enterprise segment.

According to the Asian Development Bank, the PNG economy is expected to grow by 2.5% in 2017 and, with the hosting of the Asia-Pacific Economic Cooperation Leaders' Meeting, by 2.8% in 2018.

Despite some challenges in PNG's operating environment, improving economic conditions and business sentiment provide a more favourable backdrop for Kina's operations.

In a country such as PNG with a geographically dispersed population, technology is opening up new opportunities for businesses to provide services to customers.

For Kina, technology is the key to providing simpler, more affordable and easier to access products and the Group continues to focus on its technology transformation.

### Key strategic priorities

Kina set a number of key operational priorities for the year in January 2017. The Board and management continued to pursue these priorities including:

- Completing the bank's technology transformation. This includes expanding Kina's suite of personal and business banking products and services such as mobile applications for retail customers and mobile applications and internet banking for corporate clients
- Continuing to provide increased convenience for our customers by pursuing options to launch new branches in strategic locations within PNG
- Ongoing delivery of profitable, quality lending growth

- Achieving continued growth in the low cost deposit base
- Maintaining a strong prudential position and conservative capital adequacy
- Maintain a net interest margin in target range of 7-9%
- Ongoing focus on reducing the cost to income ratio in a target range of 45%-50% in the medium term, by efficient cost control and growing other income streams.
- Leveraging key superannuation fund relationships to facilitate cross-selling opportunities. The ability to leverage PNG's three largest superannuation funds provides a significant database of large and affluent members which can be offered a suite of Banking and Wealth products and services.

## 1.1 Disclosure and context

### Financial reporting

The statutory result for the six months to June 2017 was a consolidated adjusted net profit after tax of PGK3.0m. 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 or POMSx, 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 (PNG currency) unless otherwise stated.



## 1.2 Profit results for the Half Year to June 2017

### 1.2.1 Statutory results

	30 Jun 2017 PGK '000	31 Dec 2016 PGK '000	30 Jun 2016 PGK '000	% Change vs Jun 2016
<b>Continuing operations</b>				
Interest income	47,787	41,943	35,325	35%
Interest expense	(14,207)	(8,053)	(4,087)	248%
Net interest income	33,580	33,891	31,237	7%
Fee and commission income	13,297	13,357	15,476	(14%)
Fee and commission expense	(31)	(30)	(39)	(20%)
Net fee and commission income	13,266	13,326	15,438	(14%)
Foreign exchange income	1,880	7,642	12,937	(85%)
Dividend income	92	37	74	24%
Net (losses)/gain from financial assets through profit and loss	36	87	500	(93%)
Other operating income	202	292	1,513	(87%)
<b>Operating income before impairment losses and operating expenses</b>	<b>49,055</b>	<b>55,275</b>	<b>61,700</b>	<b>(20%)</b>
Impairment losses	(1,328)	(256)	(2,531)	(47%)
Lease termination payment expense	(7,000)	0	0	0%
Other operating expenses	(33,242)	(25,817)	(29,800)	12%
Profit before tax	7,485	29,202	29,368	(75%)
Income tax expense	(4,459)	(8,725)	(8,869)	(50%)
<b>Net Profit for the half year attributable to the equity holder of the Company</b>	<b>3,026</b>	<b>20,477</b>	<b>20,499</b>	<b>(85%)</b>
Other comprehensive income	0	0	0	0%
<b>Total comprehensive income for the half year attributable to the equity holder of the Company</b>	<b>3,026</b>	<b>20,477</b>	<b>20,499</b>	<b>(85%)</b>

The above information has been extracted from the interim consolidated financial statements of Kina Securities Limited for the Half Year Ended 30 June 2017 or calculated by reference to the audited 31 December 2016 annual financial statements and the 30 June 2016 half year financial statements.

### 1.2.2 Dividends

	30 Jun 2017	31 Dec 2016	30 Jun 2016
Earnings per share (PNG Toea)	1.8*	12.5	12.5
Earnings per share (A cents)	0.7*	5.4	5.1
Dividends per share (A cents)	2.00**	3.95	4.09

\*Calculation of EPS based on statutory profit as shown in table above. Using underlying profit, EPS will equate to PGK 6.1 toea and AUD 2.4 cents.

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

### 1.2.3 Lending

	30 Jun 2017	31 Dec 2016	30 Jun 2016
	PGK million	PGK million	PGK million
Overdraft	64	61	69
Term Loans	479	411	241
Asset Financing	13	13	15
Housing Loan	113	105	102
Esi loan	28	27	24
Gross	698	617	451
Provision	(13)	(12)	(14)
<b>Total</b>	<b>685</b>	<b>605</b>	<b>437</b>

Loan book grew by 13% in H1 2017 whilst on a twelve month comparative basis, loan book grew by 57% in H1 2016. Loan growth was slower in H1 2017 largely due to the rebalancing of loan growth to ensure growth reflects Kina's funding profile in addition to external factors impacting businesses in general. The 2017 National General Elections and lower commodity prices were key factors impacting aggregate credit growth in H1 2017.

Loan provisioning has slightly decreased compared to the prior period despite a growth in the loan book driven by stringent credit control measures now in place.

Despite considerable competition in the market, Kina grew its loan market share<sup>1</sup> from 3.7% in H1 2016 to 5.6% at the end of H1 2017. Competition in the market was strong for the home loans and investment property loan products.

Kina also revamped its suite of lending products to be more responsive to market demand and pricing in H1 2017. A novated lease product was introduced at the beginning of 2017 to enhance the asset financing portfolio. This product has gained good market traction with 138% growth since 31 December 2016 and has countered the drop in equipment financing owing to the downturn in economic activity. An Owner Occupied investment Property Loan product was also launched in May 2017 and has gained good growth momentum.

In H1 2017, Kina introduced a diverse range of lending facilities suitable to the PNG market. 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

	30 Jun 2017	31 Dec 2016	30 Jun 2016
	PGK million	PGK million	PGK million
On Call	377	397	350
1 month	96	89	62
2 months	140	105	30
3 months	71	72	71
6 months	182	289	40
12 months	93	2	77
24 months	6	4	4
<b>Total</b>	<b>965</b>	<b>958</b>	<b>634</b>

<sup>1</sup> Market data sourced from Bank of Papua New Guinea DMBD Aggregate for all commercial Banks as at 30 June 2017

Growth in deposits was slow in H1 2017 compared to a 52% growth in H2 2016. The lower 1% growth experienced in H1 2017 was attributed to a change in Kina's appetite for raising high cost deposits. This compared with H2 2016 when growth was achieved through higher interest rates on the back of an aggressive loan growth campaign in that period.

Kina reviewed its funding strategy in H1 2017 in order to focus on low cost funding rather than reliance on high cost funds. Kina worked on a number of initiatives to reduce the cost of funds while maintaining the bank's strong liquidity profile. A new Cash Management Product with tiered interest to a maximum of 1.5% was introduced in H1 2017. Maturing terms deposits were repriced at lower rates with shorter tenures.

At the end of H1 2017, the funding strategy has made significant progress in achieving its main objective to change the trend from high cost to low cost funds. A key factors that impacted on Kina's ability to raise low cost funds in H1 2017 was the upgrade of internal technological requirements to offer flexible banking channels is still in progress. This, coupled with lack of foreign currency also impacted ability to attract low cost funding. The aggregate impact of these conditions resulted in flat growth in funding, and the bank's loans to deposit ratio ("LDR") moving from 63% in H2 2016 to 70% in H1 2017.

A significant upgrade to the main core banking system is currently underway and is expected to be implemented in September 2017. This will enable Kina to provide customers with a range of flexible banking channels to make banking simpler, easier and in real time. The core banking system upgrade will give Kina an improved, up-to-date platform for transaction flow.

Management has also finalised an agreement with CIMB to act as Kina's USD correspondent bank. This will support stable growth in cheque and transaction accounts as customers maintain funds with Kina rather than moving to other banks to convert to foreign currency.

### 1.2.5 Net interest margin

	30 Jun 2017	31 Dec 2016	30 Jun 2016
Net interest income	33.6	33.9	31.2
Average interest earning assets	928	782	668.0
Average yield on interest earning assets	10.3%	10.7%	10.6%
Average interest bearing liabilities	941	797	659.0
Average cost of funds	3.0%	2.1%	2.6%
Interest spread	7.3%	8.6%	8.0%
Net interest margin	7.3%	8.7%	9.4%

Net interest margin ("NIM") in 1H2017 was 140 bps lower than H1 2016, reflecting the higher cost of funds, coupled with the impact of competitive pricing on term loans.

Cost of funds increased by 40bps in H1 2017 compared to H1 2016 as a result of high cost deposits raised towards the end of H2 2016.

The weighting on both average interest earning assets and average interest bearing liabilities largely skewed towards H1 2017 due to significant growth in the latter part of H2 2016, diluting NIM in H1 2017.

Investments made in high yield government bonds in H2 2016 produced good results that contributed towards improving the yield curve. The yield on government bonds averaged between 6.0% and 10.8% in H1 2017. While these yields were attractive, Kina continued to prioritise funding for loan growth with any excess liquidity invested in government bonds.

In order to cushion the impact of the increase in interest costs, the funding strategy was adjusted at the beginning of H1 2017 and key initiatives were implemented to reduce reliance on high cost deposits to fund growth.

In line with the focus on improving NIM, the Kina Indicator Lending Rate (ILR) was also increased by 45 bps in the second quarter of 2017.

## 1.2.6 Non-interest income

	30 Jun 2017 PGK million	31 Dec 2016 PGK million	30 Jun 2016 PGK million
<b>Banking</b>			
Foreign exchange income	1.7	8.2	12.4
Fees and commissions	3.8	4.1	3.4
Other*	0.0	0.1	0.0
<b>Total</b>	<b>5.5</b>	<b>12.3</b>	<b>15.9</b>
<b>Wealth Management</b>			
Foreign exchange income	0.1	(0.1)	0.0
Fund Administration	4.0	3.7	5.0
Investment Management	4.6	4.4	4.2
Shares	0.3	0.2	0.2
Other**	0.7	0.8	0.8
<b>Total</b>	<b>9.8</b>	<b>8.9</b>	<b>10.3</b>
<b>Other</b>			
Foreign exchange income	0.1	(0.2)	0.6
Fees and commissions****	-	0.4	2.4
Other***	0.2	(0.1)	1.4
<b>Total</b>	<b>0.2</b>	<b>0.1</b>	<b>4.4</b>
<b>Total</b>	<b>15.5</b>	<b>21.4</b>	<b>30.5</b>

\* Includes other income on insurance

\*\* Includes recharges on fund administration services, investment management services and unrealised foreign exchange gains and losses

\*\*\* Includes unrealised foreign exchange gains/losses

\*\*\*\* The K2.8m in the fees and commission under others sector pertains to the commission incurred from the acquisition of the former May Bank. K2.4m was realised as at June 2016 and K0.4m in July 2016.

In H1 2017, Foreign Exchange Income was significantly impacted by challenges associated with securing a USD corresponding bank, which have now been addressed. Foreign exchange income dropped by 86.3% compared to H1 2016. There were however, limited trading activities within the last six months as Kina continued the process to identify a USD corresponding banking arrangement to boost trading activities and foreign exchange revenue.

Fees and Commissions Income grew by 11% in H1 2017 in comparison with H1 2016, however growth versus H2 2016 was lower by 7.3%. No new fees were introduced in H1 2017. Performance in fees income was largely attributed to growth in lending and retail customer portfolios.

Wealth Management income totalled PGK9.8m. This includes income of PGK4.0m from Funds Administration, PGK4.6m from Funds Management and PGK1.2m from share trading and other operations.

Funds Under Management increased 9% over the year to PGK6.6b, due to growth in member contributions, as well as positive investment returns.

Funds Under Administration increased by 6.3% to PGK6.0b and member numbers increased by 4.4% to 177,323 during the first half year. Efficiency was improved by streamlining administration work practices and increasing use of the technology platform supporting our funds administration business. Contracts to provide funds administration services to our two major clients were renewed for extended periods.

## 1.2.7 Operating expenses

Total operating costs for the H1 2017, excluding the one-off lease termination cost was PGK33.2 m, which is 12% higher than H1 2016.

	30 Jun 2017	31 Dec 2016	30 Jun 2016	% Change vs Jun 2016	
	PGK million	PGK million	PGK million	PGK million	%
Administration	8.8	6.6	8.2	0.6	8%
Staff	16.1	13.8	14.6	1.5	10%
Occupancy	4.8	3.5	4.7	0.2	4%
Other Operating expenses	1.3	1.0	0.7	0.6	90%
Board of Directors cost	1.5	0.6	1.1	0.4	33%
Acquisition/Integration	0.3	0.0	0.2	0.1	43%
Investor Relationship	0.4	0.3	0.3	0.0	11%
	<b>33.2</b>	<b>25.8</b>	<b>29.8</b>	<b>3.4</b>	<b>12%</b>

The underlying costs increase was mainly attributed to staff and administration costs associated with planned business growth in 2017. There were increases in staff costs associated with the new Nasfund FUA contract, as well as resourcing and bridging capability in the banking operations.

Additional IT and software costs in relation to licences and maintenance of software critical to business continuity contributed to increases in administration costs.

The cost to income ratio for H1 2017 stands at 68% against 48% in H1 2016. This is primarily due to lower revenues in the first half of 2017. This is expected to decrease by the end of 2017 as FX revenues and interest income revenues based on business growth will be earned in the second half.

## 1.2.8 Asset quality and loan impairment

	30 Jun 2017		31 Dec 2016		30 Jun 2016	
	PGK million	% of GLA	PGK million	% of GLA	PGK million	% of GLA
Loan impairment expense	1.3	0.2%	0.3	0.5%	2.5	0.6%
Total of non-performing and loans in arrears	29.2	4.2%	35.2	5.7%	24.1	5.4%
60 day arrears	18.7	2.7%	30.2	4.9%	10.2	2.3%
90 day arrears	7.7	1.1%	3.0	0.5%	7.9	1.8%
Gross non-performing loans (> 180 days)	2.8	0.4%	2.0	0.3%	6.0	1.3%
Total provision	12.6	1.8%	12.0	1.9%	13.6	3.0%

Overall asset quality remains sound, with a loan impairment expense of PGK1.3m for the half year, equivalent to 0.2% of gross loans and advances. The low level of impairments reflects the disciplined lending standards and sound quality of loans in the Kina book.

The 90 days arrears increased from PGK3.0m to PGK7.7m in H1 2017 from H2 2016. This represents an increase of PGK4.7m largely from two customers, which was subsequently rectified.

Kina continues to be prudent in its levels of provisions. Total provisions are equivalent to 1.8% of gross loans and advances, which compares with the minimum statutory requirement (Bank of BPNG compliance requirements) of 1.47%, including specific provisioning.

Kina adopts the industry standard methodology of measuring loan loss provision cover against the balance of greater than 90 days impaired balances. Coverage ratio stands at 115% as at 30 June 2017.

## 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 2017, 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-17	FY16	FY15
<b>PGK million</b>			
<b>Risk Weighted Assets</b>	<b>766</b>	<b>679</b>	<b>507</b>
Capital: T1	198	166	170
Capital: T2	17	40	20
Capital: T1 + T2	215	206	190
Capital adequacy Ratio: T1	26%	24%	36%
Capital adequacy: T2	2%	6%	4%
Capital adequacy: T1 + T2	28%	30%	38%
Leverage Ratio	8.2%	8.5%	17.8%

Capital ratios at the end of June 2017 remained strong, with combined T1 and T2 capital equal to 28% 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. The Bank also has a strong leverage ratio of 8.2%.

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.

Given strong ongoing growth opportunities and further investment into new technology initiatives in 2017, it is the Board's intention to maintain its conservative capital position.

## 2. Consolidated Financial Statements

### 2.1 Statement of Comprehensive Income – consolidated

	30 Jun 2017 PGK '000	31 Dec 2016 PGK '000	30 Jun 2016 PGK '000	% Change vs Jun 2016
<b>Continuing Operations</b>				
Interest income	47,787	41,943	35,325	35%
Interest expense	(14,207)	(8,053)	(4,087)	248%
Net interest income	33,580	33,891	31,237	7%
Fee and commission income	13,297	13,357	15,476	(14%)
Fee and commission expense	(31)	(30)	(39)	(20%)
Net fee and commission income	13,266	13,326	15,438	(14%)
Foreign exchange income	1,880	7,642	12,937	(85%)
Dividend income	92	37	74	24%
Net (losses)/gain from financial assets through profit and loss	36	87	500	(93%)
Other operating income	202	292	1,513	(87%)
<b>Operating income before impairment losses and operating expenses</b>	<b>49,055</b>	<b>55,275</b>	<b>61,700</b>	<b>(20%)</b>
Impairment losses	(1,328)	(256)	(2,531)	(47%)
Lease termination payment expense	(7,000)	0	0	0%
Other operating expenses	(33,242)	(25,817)	(29,800)	12%
Profit before tax	7,485	29,202	29,368	(75%)
Income tax expense	(4,459)	(8,725)	(8,869)	(50%)
<b>Net Profit for the half year attributable to the equity holder of the Company</b>	<b>3,026</b>	<b>20,477</b>	<b>20,499</b>	<b>(85%)</b>
Other comprehensive income	0	0	0	0%
<b>Total comprehensive income for the half year attributable to the equity holder of the Company</b>	<b>3,026</b>	<b>20,477</b>	<b>20,499</b>	<b>(85%)</b>

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2017.

## 2.2 Statement of financial position - consolidated

	30 Jun 2017	31 Dec 2016
	PGK'000	PGK'000
<b>Assets</b>		
Cash and due from banks	79,838	148,020
Central bank bills	176,873	208,095
Regulatory deposits	96,398	96,013
Financial assets at fair value through profit and loss	4,677	4,642
Loans and advances to customers	685,370	605,112
Investments in government inscribed stocks	79,719	64,328
Current income tax assets	4,831	2,452
Deferred tax assets	6,434	6,291
Property, plant and equipment	30,331	24,019
Goodwill	92,786	92,786
Intangible assets	5,178	5,959
Other assets	5,710	8,030
<b>Total Assets</b>	<b>1,268,145</b>	<b>1,265,747</b>
<b>Liabilities</b>		
Due to other banks	(640)	(143)
Due to customers	(964,790)	(958,609)
Current income tax liabilities	(2,771)	(1,457)
Deferred income tax liabilities	(95)	(310)
Employee provisions	(3,407)	(3,277)
Other liabilities	(51,935)	(44,082)
<b>Total Liabilities</b>	<b>(1,023,638)</b>	<b>(1,007,878)</b>
<b>Net Assets</b>	<b>244,507</b>	<b>257,870</b>
<b>Share capital and reserves</b>		
Issued and fully paid ordinary shares	(142,005)	(142,005)
Capital reserve	(49)	(49)
Share-based payment reserve	(1,356)	(1,356)
Retained earnings	(101,097)	(114,460)
<b>Total capital and reserves</b>	<b>(244,507)</b>	<b>(257,870)</b>

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2017.



## 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
<b>Balance as at 31 December 2015</b>	<b>141,797</b>	<b>49</b>	<b>460</b>	<b>102,159</b>	<b>244,466</b>
Profit for the period	-	-	-	20,499	20,499
Other comprehensive income	-	-	-	-	-
<i>Contributions by and distributions to owners</i>					
Employee share scheme	-	-	430	-	430
Dividend paid	-	-	-	(12,657)	(12,657)
<b>Balance as at 30 June 2016</b>	<b>141,797</b>	<b>49</b>	<b>891</b>	<b>110,001</b>	<b>252,738</b>
Profit for the period	-	-	-	20,477	20,477
Other comprehensive income	-	-	-	-	-
<i>Contributions by and distributions to owners</i>					
Employee share scheme	208	-	465	-	673
Dividend paid	-	-	-	(16,018)	(16,018)
<b>Balance as at 31 December 2016</b>	<b>142,005</b>	<b>49</b>	<b>1,356</b>	<b>114,460</b>	<b>257,870</b>
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)
<b>Balance as at 30 June 2017</b>	<b>142,005</b>	<b>49</b>	<b>1,356</b>	<b>101,097</b>	<b>244,507</b>

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2017.

## 2.4 Statement of Cashflows – consolidated

	30 Jun 2017 PGK'000	31 Dec 2016 PGK'000	30 Jun 2016 PGK'000
<b>Cash flows from operating activities</b>			
Interest received	47,396	42,016	35,301
Interest paid	(6,886)	(3,823)	(5,041)
Dividend received	92	37	74
Fee, commission and other income received	14,072	21,784	24,858
Fee and commission expense paid	(31)	(30)	(39)
Net trading and other operating income received	202	46	1,971
Recoveries on loans previously written-off	1,104	602	434
Cash payments to employees and suppliers	(31,305)	(37,793)	(19,000)
Lease termination payment	(7,000)	-	-
Income tax paid	(5,882)	(17,070)	(3,658)
<b>Cash flows from operating profits before changes in operating assets</b>	<b>11,762</b>	<b>5,770</b>	<b>34,900</b>
<b>Changes in operating assets and liabilities:</b>			
- net increase in regulatory deposits	(385)	(38,826)	(11,697)
- net increase in loans and advances to customers	(81,586)	(166,015)	(63,579)
- net increase in other assets	2,320	6,921	(5,705)
- net increase/ (decrease) in due to customers	6,182	324,442	(48,646)
- net decrease in due to other banks	497	(736)	(850)
- net increase/ (decrease) in other liabilities	532	(7,164)	3,800
<b>Net cash flows from operating activities</b>	<b>(60,674)</b>	<b>124,392</b>	<b>(91,777)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, equipment and software	(7,613)	(4,936)	(1,839)
Proceeds from sale of property and equipment	2	50	43
Purchase of investment securities	(11,778)	(20,526)	(33,749)
<b>Net cash flows from investing activities</b>	<b>(19,389)</b>	<b>(25,412)</b>	<b>(35,545)</b>
<b>Cash flows from financing activities</b>			
Dividend payment	(16,389)	(16,018)	(12,657)
<b>Net cash flow from financing activities</b>	<b>(16,389)</b>	<b>(16,018)</b>	<b>(12,657)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>(96,455)</b>	<b>82,962</b>	<b>(139,979)</b>
Effect of changes in the foreign exchange rates on cash and cash equivalents	274	(548)	334
<b>Cash and cash equivalents at beginning of period</b>	<b>178,020</b>	<b>95,606</b>	<b>235,251</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>81,838</b>	<b>178,020</b>	<b>95,606</b>

\*Total cash and cash equivalents as presented here has been agreed to the December 2016 audited financial statement. Difference of PGK932k (December 2016 4E = PGK178,952k) relates to account reclassification.

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2017.

The net decrease in cash and cash equivalents reflects the funding of growth of the loan book and the adherence to the dividend distribution policy. The Board and management regularly review the cashflow statement to ensure adequate funding of both loan growth and capital investment into new and contemporary technologies.

## 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 2017 are consistent with those used in preparing the 31 December 2016 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 2017 PGK '000	31 Dec 2016 PGK '000	30 Jun 2016 PGK '000
Cash and due from other banks	79,838	148,020	95,606
Central bank bills	2,000	30,000	-
<b>Total cash at the end of the period</b>	<b>81,838</b>	<b>178,020</b>	<b>95,606</b>

## 2.8 Ratios

	30 Jun 2017 PGK '000	31 Dec 2016 PGK '000	30 Jun 2016 PGK '000
<b>Profit before tax/ Operating Income</b>			
Consolidated profit from ordinary activities before tax as a percentage of revenue (For the half year period)	15.3%	52.8%	47.6%
<b>Profit after tax/ Equity Interests</b>			
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable) - Annualised	2.5%	15.9%	16.2%

## 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 2017	31 Dec 2016	30 Jun 2016
<b>Calculation of the following in accordance with IAS33</b>			
( a ) Basic EPS	1.8*	25.0	12.5
( b ) Diluted EPS	1.8*	25.0	12.5
( c ) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	163,893,253	163,893,253	163,793,253

\*EPS in table above based on statutory profit. Using underlying profit, EPS will equate to PGK 6.1 toea.

The movement in issued capital is the issue in August 2016 of 100,000 shares that have vested under the performance rights agreements.

## 2.10 NTA backing

	30 Jun 2017 PGK	31 Dec 2016 PGK	30 Jun 2016 PGK
Net tangible asset backing per ordinary share	0.89	0.97	0.95

## 2.11 Control gained over entities having material effect

### Acquisition of the Maybank Group operations

On 30 September 2015, Kina Group, through Kina Ventures Limited (a 100% owned subsidiary of Kina Securities Limited) acquired all of the shares in Maybank (PNG) Limited and Maybank Property (PNG) Limited. The total purchase consideration paid was PGK 348.7m. Information in respect of this was provided in the Appendix 4E and annual financial statements as at 31 December 2015. As disclosed in the 2015 Annual Report, in Note 32(i), certain adjustments to the purchase consideration were to be finalised in 2016 based on a Completion Audit conducted by the independent accountants.

In accordance with the Completion Audit Side Agreement dated 6 June 2016, the Completion Audit adjustments were reviewed in September 2016 and reconciled balances were settled. This resulted in an adjustment to the carrying value of goodwill by an increase of PGK2.4m. This is now reflected in Note 2.2.

## 2.12 Dividends

Directors have declared an interim dividend of AUD2.00 cents/PGK5.00 Toea per share for the period to H1 2017.

## 2.13 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.

## 2.14 Issued Shares

The total number of shares at 30 June 2017 was 163,893,253 (31 December 2016: 163,893,253, 30 June 2016: 163,793,253)

	Total Number Ordinary shares	Number Quoted Ordinary shares	Issue Price per Security (toea)	Amount Paid up Per Security (toea)
<b><u>Changes during the half year ended 30 June 2017</u></b>				
Opening Balance of number of shares	163,893,253	163,893,253		
Increase through issue of shares	-	-		
<b>Total</b>	<b>163,893,253</b>	<b>163,893,253</b>		

## 2.15 Segment Reporting

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

	Banking & Finance	Wealth Management	Corporate	Total
	PGK'000	PGK'000	PGK'000	PGK'000
<b>30 June 2016</b>				
Total external income	46,988	10,963	3,749	61,700
Total external expenses	(17,083)	(4,482)	(10,767)	(32,332)
<b>Profit before inter-segment revenue and expenses</b>	<b>29,905</b>	<b>6,481</b>	<b>(7,018)</b>	<b>29,368</b>
Inter-segment income	995	200	10,934	12,129
Inter-segment expenses	(9,998)	(1,719)	(412)	(12,129)
<b>Profit before tax</b>	<b>20,902</b>	<b>4,962</b>	<b>3,504</b>	<b>29,368</b>
Income tax expense	(6,271)	(1,313)	(1,285)	(8,869)
<b>Profit after tax</b>	<b>14,631</b>	<b>3,649</b>	<b>2,219</b>	<b>20,499</b>
Segment assets	814,191	10,678	139,813	964,682
Segment liabilities	702,200	3,136	6,604	711,940
<b>Net assets</b>	<b>111,991</b>	<b>7,542</b>	<b>133,209</b>	<b>252,742</b>
Capital expenditure	1,646	0	186	1,832
Depreciation	(956)	0	(963)	(1,919)

## 2.16 Comparison of half year profits

	30 June 2017 PGK '000	2016 PGK '000
Consolidated profit from continuing operations after tax attributable to members reported for the first half year	3,026	20,499
Consolidated profit from continuing operations after tax attributable to members reported for the second half year		20,477

## 2.17 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 2017 these totalled PGK 37.4m (31 December 2016: PGK 39.9m).

### 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.