KINA SECURITIES LIMITED
AND ITS SUBSIDIARIES

CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2018

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 2018

The Directors of Kina Securities Limited and its Subsidiaries (the Group) submit herewith the condensed interim consolidated financial statements of the Group for the half year ended 30 June 2018.

Principal Activities

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

Country of Incorporation

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

Registered Office

Its registered office is Level 9, Kina Haus, 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:

I. Taureka, Chairman
G. Pawson, Managing Director – appointed 1 January 2018
J. Yap
K. Smith-Pomeroy
Jane Thomason – appointed 23 May 2018
D. Foster – retired 23 May 2018
S.Yates – retired 31 December 2017

The company secretary was C. Chopra.

Dividends

Dividends declared and paid during the half year amounted to K16,512,800 (2017: K16,389,324).

Results

The operating profit attributable to equity holders for the half year for the Group was K20,642,004 (2017: K 3,026,228).

Signed at Port Moresby on behalf of the board on the 24th day of August 2018.

Mr. Isikeli Taureka
Chairman

Mr. Greg Pawson
Managing Director

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

We have reviewed the accompanying half-year financial report of Kina Securities Limited ("the Company"), which comprises the condensed interim consolidated statement of financial position as at 30 June 2018, and the condensed interim consolidated statement of comprehensive income, the condensed interim consolidated statement of cash flows and the condensed interim consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 4 to 25.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with International Financial Reporting Standards and the *Papua New Guinea Companies Act 1997* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Papua New Guinea Companies Act 1997* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with International Accounting Standard 34 *Interim Financial Reporting* and the *Papua New Guinea Companies Act 1997.* As the auditor of Kina Securities Limited, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report 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, we have not become aware of any matter that makes us believe that the half-year financial report of Kina Securities Limited is not in accordance with the *Papua New Guinea Companies Act 1997*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the half-year ended on that date; and

(b) complying with International Accounting Standard 34 *Interim Financial Reporting* and the *Papua New Guinea Companies Act 1997.*

Other Information

We have no interest in the Company or any relationship other than that of the auditor of the Company.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

David Rodgers
Partner
Chartered Accountants
Registered Company Auditor in Australia
Brisbane, 24 August 2018

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Benjamin Lee
Partner
Chartered Accountants
Registered under the Accountants Act, 1996
Port Moresby, 24 August 2018

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 30 JUNE 2018

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 condensed 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 24th day of August 2018.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2018

	Notes	Consolidated Half Year 30 June 2018 Unaudited	2017 Unaudited
Continuing operations		**K'000**	K'000
Interest income		**52,533**	47,787
Interest expense		**(10,901)**	(14,207)
Net interest income	3	**41,632**	33,580
Fee and commission income		**18,215**	13,297
Fee and commission expense		**(17)**	(31)
Net fee and commission income	4	**18,198**	13,266
Foreign exchange income		**14,067**	1,880
Dividend income		**106**	92
Net (losses)/gain from financial assets through profit and loss		**11**	36
Other operating income		**4,051**	202
Operating income before impairment losses and operating expenses		**78,065**	49,056
Impairment losses	5	**(4,336)**	(1,328)
Lease termination payment expense		**-**	(7,000)
Other operating expenses	6	**(45,412)**	(33,242)
Profit before tax		**28,318**	7,485
Income tax expense	7	**(7,676)**	(4,459)
Net Profit for the period		**20,642**	3,026
Other comprehensive income		**-**	-
Total comprehensive income for the period		**20,642**	3,026

	2018	**2017**
Earnings per share - basic (toea) (Note 18 (b))	**12.6**	**1.8**
Earnings per share - diluted (toea) (Note 18 (b))	**12.5**	**1.8**

The notes on pages 9 to 25 are an integral part of these condensed interim consolidated financial statements.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2018

Consolidated | **Attributable to the equity holders of the Group**

	Share Capital	Share Based Payment Reserve	Retained Earnings	Total
	K'000	K'000	K'000	K'000
Balance as at 31 December 2015 (audited)	**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 (unaudited)	**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 (audited)	**142,005**	**1,356**	**114,509**	**257,870**
Profit for the period	-	-	3,026	3,026
Other comprehensive income	-	-	-	-
Contributions by and distributions to owners	-	-	-	-
Employee share scheme	-	-	-	-
Dividend paid	-	-	(16,389)	(16,389)
Balance as at 30 June 2017 (unaudited)	**142,005**	**1,356**	**101,146**	**244,507**
Profit for the period	-	-	19,985	19,985
Other comprehensive income	-	-	-	-
Contributions by and distributions to owners	-	-	-	-
Employee share scheme	208	202	-	410
Dividend paid	-	-	(8,200)	(8,200)
Balance as at 31 December 2017 (audited)	**142,213**	**1,558**	**112,931**	**256,702**
Profit for the period	-	-	20,642	20,642
Other comprehensive income	-	-	-	-
Contributions by and distributions to owners	-	-	-	-
Employee share scheme	-	154	-	154
Dividend paid	-	-	(16,384)	(16,384)
IFRS 9 adoption adjustment (note 1d)	-	-	(3,820)	(3,820)
Balance as at 30 June 2018 (unaudited)	**142,213**	**1,712**	**113,369**	**257,294**

The notes on pages 9 to 25 are an integral part of these condensed interim consolidated financial statements.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Notes	Consolidated 30 June 2018 Unaudited	31 December 2017 Audited
		K'000	K'000
Assets			
Cash and due from banks	**8**	**87,775**	47,514
Treasury and Central bank bills	**9**	**180,931**	190,869
Regulatory deposits	**10**	**109,620**	106,823
Financial assets at fair value through profit and loss	**11**	**4,813**	4,637
Loans and advances to customers	**12**	**785,901**	732,707
Investments in government inscribed stocks	**13**	**78,826**	79,878
Deferred tax assets		**8,442**	4,526
Property, plant and equipment	**14**	**19,827**	27,830
Goodwill	**15**	**92,786**	92,786
Intangible assets	**15**	**12,021**	13,187
Other assets	**17**	**22,995**	14,391
Total Assets		**1,403,938**	1,315,148
Liabilities			
Due to other banks		**(638)**	(638)
Due to customers	**16**	**(1,097,785)**	(1,019,325)
Current income tax liabilities		**(5,754)**	(635)
Employee provisions		**(6,078)**	(4,353)
Other liabilities	**17**	**(36,388)**	(33,495)
Total Liabilities		**(1,146,643)**	(1,058,446)
Net Assets		**257,294**	256.702
Shareholder's Equity			
Issued and fully paid ordinary shares	**18**	**(142,213)**	(142,213)
Share-based payment reserve		**(1,712)**	(1,558)
Retained earnings		**(113,369)**	(112,931)
Total Equity		**(257,294)**	(256,702)

The notes on pages 9 to 25 are an integral part of these condensed interim consolidated financial statements.

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

Mr. Isikeli Taureka
Chairman

Mr. Greg Pawson
Managing Director

on the 24th day of August 2018.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2018

	Notes	Consolidated **30 June 2018 Unaudited**	 31 June 2017 Unaudited
		K'000	K'000
Cash flows from operating activities			
Interest received		**52,474**	47,396
Interest paid		**(10,049)**	(6,886)
Dividend received		**106**	92
Fee, commission and other income received		**24,132**	14,072
Fee and commission expense paid		**(17)**	(31)
Net trading and other operating income received		**1,375**	202
Recoveries on loans previously written-off		**770**	1,104
Cash payments to employees and suppliers		**(32,289)**	(31,305)
Lease termination payment		**-**	(7,000)
Income tax paid		**(4,999)**	(5,882)
Cash flows from operating profits before changes in operating assets		**31,503**	11,762
Changes in operating assets and liabilities:			
- net increase in regulatory deposits	**10**	**(2,797)**	(385)
- net increase in loans and advances to customers	**12**	**(53,195)**	(81,586)
- net increase in other assets	**17**	**(8,604)**	2,320
- net increase/ (decrease) in due to customers	**16**	**78,460**	6,182
- net decrease in due to other banks		**-**	497
- net increase/ (decrease) in other liabilities	**17**	**2,895**	532
Net cash flows from operating activities		**48,262**	(60,678)
Cash flows from investing activities			
Purchase of property, equipment and software		**(2,945)**	(7,613)
Proceeds from sale of property and equipment		**-**	2
Net movement in investment securities		**8,674**	(11,778)
Net cash flows from investing activities		**5,729**	(19,389)
Cash flows from financing activities			
Dividend payment		**(16,384)**	(16,389)
Net cash flow from financing activities		**(16,384)**	(16,389)
Net increase/ (decrease) in cash and cash equivalents		**37,606**	(96,456)
Effect of changes in the foreign exchange rates on cash and cash equivalents		**454**	274
Cash and cash equivalents at 01 January 2018 (01 January 2017)		**102,515**	178,020
Cash and cash equivalents at 30 June 2018 (30 June 2017)		**140,575**	81,838
Net cash generated during the six months ended 31 December 2017		**-**	20,677
Cash and cash equivalents at the end of the period	**8,9**	**140,575**	102,515

The notes on pages 9 to 25 are an integral part of these condensed interim consolidated financial statements.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2018

1. Significant accounting policies

The company and its subsidiaries are incorporated in Papua New Guinea. The group business activities include banking services, provision of share brokerage, fund administration, investment management services, asset financing, and provision of personal and commercial loans, money market operations and corporate advice.

The company is listed on the Port Moresby Stock Exchange and Australia Stock Exchange. The address of its operational office is Level 9, Kina Haus, Douglas Street, Port Moresby, NCD.

a) Statement of compliance

These condensed 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 condensed interim consolidated financial statements have been reviewed, not audited. They were approved for issue by the Board of Directors on 26 August 2018.

b) Basis of presentation

These condensed 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.

Effective 1 July 2016, Kina Bank Limited amalgamated with Kina Finance Limited (KFL) and PNG Home Finance Company Limited (PNGHF) and is now known as Kina Bank Limited. Accordingly, financial performance of those entities are included in Kina Bank Limited's financial statements, and consolidated into the Groups financial statements.

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 2017 with the exceptions of the impacts of adopting IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers as described in 1d. The accounting policies are consistent with International Financial Reporting Standards.

d) Application of new and revised International Financial Reporting Standards

IFRS 9 – Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised) and the related consequential amendments to other Accounting Standards for the first time. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) impairment for financial assets and 3) general hedge accounting. Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. The Group has not restated prior periods as a result of adoption of IFRS 9 and has recognised any difference between the previous carrying amount and carrying amount at 01 January 2018 in the retained earnings.

Classification and measurement

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost
- Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income (FVTOCI)
- All other debt investments and equity investments are subsequently measured at fair value through profit or loss (FVTPL).

The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding;
- Financial assets that were measured at FVTPL under IAS 39 continue to be measured as such under IFRS 9.

None of the other reclassifications of financial assets have had any impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income for either period.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses (‘ECL’) on i) debt investments subsequently measured at amortised cost or at FVTOCI, ii) lease receivables, iii) contract assets and iv) loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12m ECL. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The additional credit loss allowance of K5.4m as at 1 January 2018 representing K4.2m on loans and advances to customers and K1.3m on investment in government inscribed stocks net of related deferred tax impact of K1.6m resulting in net decrease in retained earnings of K3.8m as at 1 January 2018. The application of IFRS 9 has resulted in additional loss allowance of K0.1m recognised in current period.

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to each financial asset.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

Financial impact of initial application of IFRS 9

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 9 for the current period.

	Half year ended 30 June 2018
	K'000
Increase in Impairment losses – Loans and receivables	(1,290)
Decrease in Impairment losses – Investments in government inscribed stocks	102
Total effect on profit for the period	**(1,188)**
Decrease in Loans and receivables	(6,043)
Decrease in Investments in government inscribed stocks	(1,112)
Increase in Deferred tax asset	2,146
Total effect on net assets	**(5,008)**
Decrease in Retained Earnings	(3,820)
Decrease in profit for the period – Loans and receivables	(1,290)
Increase in profit for the period – Investments in government inscribed stocks	102
Total effect on equity	**(5,008)**

Impact on earnings per share

The changes in accounting policies as a result of adopting IFRS 9 affected only the Group's results from continuing operations. To the extent that those changes have had an impact on results reported for 2018, they have had an impact on the amounts reported for earnings per share.

	K'000
Decrease in profit for the year	**1,188**
Decrease in basic earnings per share	**NIL**
Decrease in diluted earnings per share	**NIL**

IFRS 15 – Revenue from Contracts with Customers

The Group has applied IFRS 15 – *Revenue from Contracts with Customers* (as amended) for the first time in the current period. IFRS 15 introduces 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15.C5(a), and (b), or for modified contracts in IFRS 15.C5(c) but using the expedient in IFRS 15.C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the data of initial application, i.e. 1 January 2018.

Apart from providing more extensive disclosures on the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. Significant revenue streams of the Group falling within the scope of IFRS 15 are explained below;

(a) Investment and portfolio management
The Group manages investments for a number of superannuation funds and corporate clients. These services are provided by the Group on monthly basis and therefore billed accordingly. Revenue is recognised as and when the bill is raised i.e. when performance obligation is satisfied. There has been no adjustment to the current revenue recognition methodology of the Group as a result of adoption of IFRS 15.

(b) Fund administration
The Group earns a fee through administration of funds for its customers based on the fee rates agreed under the terms of the contract. The services are billed to customers on monthly basis at which point revenue is recognised, i.e. at the time when performance obligation is satisfied. There has been no adjustment to the current revenue recognition methodology of the Group as a result of adoption of IFRS 15.

(c) Share brokerage
The Group generates share brokerage from trading services for customers on Port Moresby Stock Exchange ("POMSOX") and Australian Stock Exchange ("ASX"). Revenue is recognised upon settlement of the trade which is commensurate with when the performance obligation is satisfied. There has been no adjustment to the current revenue recognition methodology of the Group as a result of adoption of IFRS 15.

(d) Loan fee and bank commission

The Group charges various loan fees and commissions to its customers from time to time from loan initiation to final settlement. Revenue is recognised when services promised under the contract are rendered and performance obligations are satisfied. There has been no adjustment to the current revenue recognition methodology of the Group as a result of adoption of IFRS 15.

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 2017.

3. Net interest income

	Consolidated	
	30 June 2018 Unaudited	30 June 2017 Unaudited
	K'000	K'000
Interest income		
Cash and short-term funds	**5,611**	6,737
Investment in government inscribed stocks	**3,621**	3,176
Loans and advances to customers	**43,301**	37,873
	52,533	47,787
Interest expense		
Banks and customers	**(10,901)**	(14,207)
Net interest income	**41,632**	33,580

4. Net fee and commission income

	Consolidated	
	30 June 2018 Unaudited	30 June 2017 Unaudited
	K'000	K'000
At a point in time		
Investment and portfolio management	**4,145**	4,569
Fund administration	**7,976**	4,026
Shares brokerage	**383**	316
Loan fees and bank commissions	**3,705**	2,975
Other fees (net of expense)	**1,007**	591

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2018

Over time		
Loan fees and bank commissions	**982**	789
Net fee and commission income	**18,198**	13,266

5. Impairment losses

	Consolidated	
	30 June 2018 Unaudited	30 June 2017 Unaudited
	K'000	K'000
Individually assessed	**4,384**	710
Collective allowance	**(48)**	618
	4,336	1,328

Increase in impairment losses is a result of the application of IFRS9.

6. Other operating expense

	Consolidated	
	30 June 2018 Unaudited	30 June 2017 Unaudited
	K'000	K'000
Staff costs	**23,464**	16,111
Administrative expenses	**9,347**	6,821
Operating lease	**2,848**	2,701
Depreciation and amortization (note 14 & 15)	**3,370**	2,078
Software maintenance and support charges	**1,297**	1.219
Auditor's remuneration	**432**	258
Other expenses	**4,654**	4,054
	45,412	33,242

As at 30 June 2018 the Group had 351 (2017: 300) employees.

7. Income tax

Income tax is recognised based on management estimate of the effective annual income tax rate expected for the full financial year adjusted for the estimated non-deductible and taxable items during the period.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2018

8. Cash and cash equivalents

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Cash on hand	**5,671**	5,370
Exchange Settlement Account	**29,712**	17,903
Loans and advances to other banks	**52,392**	24,241
Cash and due from banks	**87,775**	47,514
Central bank bills (note 9)	**52,800**	55,000
Cash and cash equivalents	**140,575**	102,514

9. Treasury and Central bank bills

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Treasury bills	**133,000**	142,000
Central bank bills	**52,800**	55,000
Unearned discount	**(4,869)**	(6,131)
	180,931	190,869

Central bank bills are part of the cash and cash equivalents.

10. Regulatory deposits

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Regulatory deposits	109,620	106,823

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

11. Financial assets at fair value through profit or loss

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

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12. Loans and advances to customers

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Loans to individuals	**191,932**	179,554
Loan to corporate entities	**613,250**	566,482
Gross loans and advances to customers	**805,182**	746,036
Allowances for losses	**(19,281)**	(13,329)
	785,901	732,707

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

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Overdrafts	**43,949**	73,162
Property mortgage	**117,628**	117,370
Asset financing	**21,391**	17,534
Insurance premium funding	**612**	1,671
Business and other loans	**621,602**	536,299
	805,182	746,036

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Movements in allowance for losses are as follows:

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Collectively assessed		
Balance at beginning of year	**10,528**	7,955
Impairment losses (reversals) during the year	**(48)**	857
Loans written off, net of other adjustments	**0**	(3)
Transfers (from/to) collective	**0**	1,719
Recoveries	**0**	0
Balance at end of year	**10,480**	10,528
Individually assessed		
Balance at beginning of year	**2,801**	4,034
Impairment losses during the year	**4,485**	2,460
Loans written off	**(3,406)**	(3,990)
Recoveries	**721**	2,016
Transfers (from/to) individual	**0**	(1,719)
IFRS9 adoption adjustment	**4,200**	0
Balance at end of year	**8,801**	2,801
Total	**19,281**	13,329

13. Investments in government inscribed stocks

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
GIS principal	**78,000**	78,000
Unamortised premium	**642**	709
Unamortised discount	**(227)**	(418)
Accrued interest	**1,523**	1,587
Expected credit loss (IFRS9 adoption adjustment) – note 1d	**(1,112)**	-
	78,826	79,878

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

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Balance at beginning of year	**79,878**	64,328
Additions	**0**	15,000
Accrued interest	**122**	42
Amortized premium	**(63)**	508
Expected credit loss (IFRS9 adoption adjustment) – note 1d	**(1,122)**	
	78,826	79,878

Investments in government inscribed stocks are measured at amortized cost.

14. Property and equipment

Consolidated	Furniture &Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Cost							
Balance 31 December 2015	**1,061**	**7,450**	**3,137**	**12,047**	**11,746**	**-**	**35,441**
Additions	15	239	646	858	-	4,384	6,142
Disposals	-	-	-	-	-	-	-
Balance 31 December 2016	**1,076**	**7,689**	**3,783**	**12,905**	**11,746**	**4,384**	**41,583**
Additions	47	2,165	337	2,820	-	1,407	6,776
Disposals	-	-	-	(4)	-	-	(4)
Balance 31 December 2017	**1,123**	**9,854**	**4,120**	**15,721**	**11,746**	**5,791**	**48,355**
Additions	98	46	662	465	-	1,774	3,045
Disposals	-	-	-	-	(9,617)	-	(9,617)
Balance 30 June 2018	**1,221**	**9,900**	**4,782**	**16,186**	**2,129**	**7,565**	**41,783**
Accumulated depreciation							
Balance 31 December 2015	**(621)**	**(2,962)**	**(2,370)**	**(8,593)**	-	-	**(14,546)**
Charge during the year	(126)	(682)	(645)	(1,456)	(109)	-	(3,018)
Disposals	-	-	-	-	-	-	-
Balance 31 December 2016	**(747)**	**(3,644)**	**(3,015)**	**(10,049)**	**(109)**	**-**	**(17,564)**
Charge during the year	(129)	(908)	(413)	(1,403)	(109)	-	(2,962)
Disposals	-	-	-	1	-	-	1
Balance 31 December 2017	**(876)**	**(4,552)**	**(3,428)**	**(11,451)**	**(218)**	**-**	**(20,525)**
Charge during the year	(69)	(529)	(214)	(837)	(54)	-	(1,703)
Disposals	-	-	-	-	272	-	272
Balance 30 June 2018	**(945)**	**(5,081)**	**(3,642)**	**(12,288)**	-	-	**(21,956)**
Book value 30 June 2018	**276**	**4,819**	**1,140**	**3,898**	**2,129**	**7,565**	**19,827**
Book value 31 December 2017	247	5,302	692	4,270	11,528	5,791	27,830
Book value 31 December 2016	329	4,045	768	2,856	11,637	4,384	24,019

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15. Intangible assets

Consolidated	Software	Customer deposits relationship	Total
	K'000	K'000	K'000
Cost			
Balance 31 December 2015	**3,432**	**3,780**	**7,212**
Additions	632	-	632
Disposals	-	-	-
Balance 31 December 2016	**4,064**	**3,780**	**7,844**
Additions	8,929	-	8,929
Disposals	-	-	-
Balance 31 December 2017	**12,993**	**3,780**	**16,773**
Additions	501	-	501
Disposals	-	-	-
Balance 30 June 2018	**13,494**	**3,780**	**17,274**
Accumulated amortisation			
Balance 31 December 2015	**(159)**	**(189)**	**(348)**
Charges during the year	(781)	(756)	(1,537)
Disposals	-	-	-
Balance 31 December 2016	**(940)**	**(945)**	**(1,885)**
Charges during the year	(945)	(756)	(1,701)
Disposals	-	-	-
Balance 31 December 2017	**(1,885)**	**(1,701)**	**(3,586)**
Charges during the year	(1,289)	(378)	(1,667)
Disposals	-	-	-
Balance 30 June 2018	**(3,174)**	**(2,079)**	**(5,253)**
Book value 30 June 2018	**10,320**	**1,701**	**12,021**
Book value 31 December 2017	11,108	2,079	13,187
Book value 31 December 2016	3,124	2,835	5,959

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. The intangible asset was estimated to have a useful life of five years based on the expected length of the customer deposits relationship. On the other hand, goodwill was not impaired based on the test made.

16. Due to customers

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Corporate customers	**977,231**	905,834
Retail customers	**120,554**	113,491
	1,097,785	1,019,325

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2018

17. Other Assets and Other Liabilities

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Prepayments and other debtors	**21,938**	13,400
Tax receivable	**995**	991
Other assets	**62**	-
Total Other Assets	**22,995**	14.391

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Accruals	**12,321**	12,939
Unclaimed money and stale cheques	**3,704**	3,965
Bankers cheques	**6,153**	2,382
Accounts payable	**4,030**	4,532
Unearned commission	**1,013**	1,092
Other liabilities	**9,167**	8,585
Total Other Liabilities	**36,388**	33,495

18. 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**
		K'000
Ordinary shares		
Balance at 31 December 2017	163,993	142,213
Balance at 30 June 2018	**163,993**	**142,213**

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2018

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 it does not have any material impact on the EPS calculation. Consequently, basic earnings per ordinary share equals diluted earnings per share.

	Consolidated	
	30 June 2018 Unaudited	30 June 2017 Unaudited
Net profit attributable to shareholders	**20,642**	3,026
Weighted average number of ordinary shares basic earnings	**163,993**	163,893
Weighted average number of ordinary shares diluted earnings	**164,810**	164,607
Basic earnings per share (in toea)	**12.6**	1.8
Diluted earnings per share (in toea)	**12.5**	1.8

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 2018 is K 615,992.33 (2017: Knil). Current provision in the reserve account is sufficient.

19. 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

	Consolidated	
	30 June 2018 Unaudited	30 June 2017 Unaudited
	K'000	K'000
Salary	**3,167**	3,287
Benefits	**1,202**	1,506
	4,368	4,793

20. Investment under trust

The Group acts as trustee holding or placing of assets on behalf of superannuation funds and individuals. 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 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Shares clients funds	**29,924**	925
	29,924	925

21. Segment reporting

The segment information provided to the Chief Executive Officer for the reportable segments for the period ended 30 June 2018 is as follows:

	Banking & Finance	**Wealth Management**	**Corporate**	**Total**
	K'000	**K'000**	**K'000**	**K'000**
Interest income	52,504	5	24	52,533
Interest expense	(10,901)	-	-	(10,901)
Foreign exchange income	14,424	(38)	(319)	14,067
Fee and commission income	4,687	13,521	(10)	18,198
Other revenue	103	531	3,534	4,168
Total external income	**60,816**	**14,019**	**3,230**	**78,065**
Other operating expenses	(18,676)	(8,604)	(14,762)	(42,042)
Provision for impairment	(4,427)	91	-	(4,336)
Depreciation and amortisation	(1,725)	-	(1,645)	(3,370)
Total external expenses	**(24,828)**	**(8,513)**	**(16,407)**	**(49,748)**
Profit before inter-segment revenue and expenses	**35,989**	**5,506**	**(13,178)**	**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	**21,839**	**2,700**	**3,778**	**28,318**
Income tax expense	(6,547)	(885)	(244)	(7,676)
Profit after tax	**15,292**	**1,815**	**3,534**	**20,642**

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Total assets	1,245,509	23,024	135,405	1,403,938
Total liabilities	(1,131,780)	(4,585)	(10,277)	(1,146,643)

21. Segment reporting (continued)

The segment information provided to the Chief Executive Officer for the reportable segments for the period ended 30 June 2017 is as follows:

	Banking & Finance	Wealth Management	Corporate	Total
	K'000	**K'000**	**K'000**	**K'000**
Interest income	47,743	43	1	47,787
Interest expense	(14,207)	-	-	(14,207)
Foreign exchange income	1,674	151	55	1,880
Fee and commission income	3,764	8,911	(31)	12,644
Other revenue	49	771	132	952
Total external income	**39,022**	**9,876**	**156**	**49,055**
Other operating expenses	(12,648)	(4,678)	(20,837)	(38,164)
Provision for impairment	(1,037)	(291)	-	(1,328)
Depreciation and amortisation	(1,082)	-	(996)	(2,079)
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**
Total assets	1,122,801	15,462	129,882	1,268,145
Total liabilities	(1,013,583)	(3,959)	(6,097)	(1,023,638)

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 2018, 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 contingent 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.

	Consolidated	
	30 June 2018 Unaudited	31 December 2017 Audited
	K'000	K'000
Performance Guarantee	**34,481**	36,793

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 2018.

Assets	**Level 1 K'000**	**Level 2 K'000**	**Level 3 K'000**	**Total K'000**
Financial assets at fair value through profit or loss				
Investment in shares – Listed	4,587	-	-	4,587
Investment in shares – Unlisted	-	-	226	226
Total assets	4,587	-	226	4,813

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

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25. Financial risk factors

The group's activities expose it to variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed interim financial statements do not include all the financial risk management information and disclosure required in the annual financial statements. They should be read in conjunction with the group's annual financial statements at 31 December 2017. There have been no material changes in the risk management department or in any risk management policies since the year end.

26. Liquidity risk

Compared to year-end, there was no material change in the contractual undiscounted cash flows for financial liabilities.

27. Events after the balance sheet date

The acquisition of ANZ PNG's retail, commercial and SME banking businesses is expected to be completed in late 2019. It involves deposits and loans from retail customers (including credit cards), commercial and SME, 15 branches and offices, ATMs and EFTPOS terminals and relevant employees.