Kina Securities Limited
2019 Half Year Results

Incorporating the requirements of Appendix 4D

ASX Appendix 4D

For the Half Year to 30 June 2019

Results for announcement to the market

Comparisons of current year to 30 June 2019 are with the prior comparative period (pcp) of half year to 30 June 2018

Report for the half year ended 30 June 2019

Revenue from ordinary activities (PGK Millions)	**83.7**	**Up 7%**
Net Profit After Tax for the period Attributable to equity holders (PGK Millions)	**23.6**	**Up 14%**

Dividends distributions (Final dividend)

- unfranked (AUD cents per share)	**4.0 cents**
- unfranked (PGK toea per share)	**10.0 toea**

The Directors have declared an interim dividend for June 2019 based on the Net Profit After Tax attributable to equity holders of PGK23.6m for the first half to 30 June 2019. This is compared to PGK20.6m for the same period to 30 June 2018. As the completion of the transformative ANZ acquisition is scheduled for the second half in 2019, and while the Directors do not expect any unforeseen costs, they have adopted a prudent and conservative course in maintaining the 1H dividend at the same level as pcp.

The interim dividend is converted based on an exchange rate: 1 PGK = 0.4000 AUD

Record date for determining entitlements to the dividend – 29th August 2019

The financial information as reported in respective tables to this report, for the half year ended 30 June 2019 and the comparative period 30 June 2018 are unaudited. The comparative figures for the full year ended 31 December 2018 and 31 December 2017 are based on audited financial figures.

This report should be read in conjunction with the unaudited Interim Consolidated Financial Statements for the half year ended 30 June 2019 in Section 2.

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

Directors

The Directors present this report together with the consolidated financial report for the half year ended 30 June 2019.

Directors:

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

Isikeli Taureka, Chairman

Gregory Pawson, CEO and Managing Director

Andrew Carriline

Paul Hutchinson

Karen Smith-Pomeroy

Jane Thomason

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

Chetan Chopra

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1. Results Overview

Kina maintains growth into 2019

Results Highlights

	Half Year Ended					
	Jun-19	Dec-18	Jun-18	Dec-17	Jun-17	Change % Jun19 vs Jun18
Statutory NPAT from ordinary activities (PGK m)	23.6	27.5	20.6	20.0	3.0	14%
Revenue (PGK m)	83.7	83.6	78.1	62.5	49.1	7%
FX Revenue (PGK m)	18.7	20.1	14.1	5.3	1.9	33%
Loan impairment expense (PGK m)	2.1	0.7	4.3	2.0	1.3	(53%)
Cost to income ratio (%)*	57.1	50.2	58.2	54.9	67.8	(2%)
Net interest margin (%)**	7.0	7.6	8.1	7.6	7.3	(14%)
Return on Equity (%)**	17.5	18.3	16.1	8.9	8.0	9%
Earnings per Share (PNG Toea)	14.4	16.7	12.6	12.2	1.8	14%
Dividend (PGK Toea per share)	10.0	12.1	10.0	10.0	5.0	0%
Dividend (AUD Cents per share)	4.0	5.0	4.0	4.0	2.0	0%
Deposit Growth (PGK m)	1,418.0	1,316.0	1,098.0	1,019.0	965.0	29%
Net loans and advances (PGK m)	865.8	851.7	785.9	732.3	684.7	10%
Capital adequacy (T1+T2) (%)	29.8	28.9	29.0	28.0	28.0	3%

**Cost to income ratio for 2017 does not include the one-off lease termination payment expense and impairment expense*
***Annualised figures*

Operating performance and earnings

Kina Securities Limited (KSL, Kina, or the Company) has reported statutory Net Profit After Tax of PGK 23.6m for the half year to June 2019 (1H 2019). The half year results show a 14% uplift compared to the half year to June 2018 (1H 2018).

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

Directors have declared an interim dividend of AUD 4.0 cents per share / PGK10.0 toea per share. This compares with AUD 4.0 cents and PGK 10 toea declared for the comparative half year to June 2018.

The company's organic growth strategy continues to gain momentum, and the transformative program of integrating ANZ PNG's Retail, SME and Commercial business is on track for completion late September 2019.

The underlying financial performance was largely driven by an uplift in foreign exchange (FX) earnings from an increase in market share. Loan growth compared to previous comparative period was 10%. While loan growth since December 2018 is lower than anticipated at 2%, settlements in July and a strong forward pipeline restored confidence in achieving the planned growth of 20% for the full year.

The Group's cost to income ratio continues to be managed with a disciplined approach to both operating and capital expenditure in accordance with the organic growth strategy and the capability build out for the ANZ acquisition. An increase in staff costs was incurred in line with the organisational restructure required to deliver business post the acquisition.

Key features of the result

Kina maintained growth across all of its organic businesses while achieving the integration milestones critical to the acquisition of the ANZ Retail, Commercial and SME business. Key highlights of the 1H 2019 (compared to 1H 2018) financial results include:

- Foreign Exchange (FX) growth increased by 33% to PGK 18.7m compared to 1H 2018. This was underpinned by an increase in overall market volumes of 22% (primarily due to Bank of PNG interventions) and an improved market share position
- A decline in the Group Cost to Income ratio to 57% compared to 58% in the same period last year
- Higher than expected repayments slowed the loan growth to 2% as at 30 June 2019. However this was restored to expected full year plan after record loan settlements for July 2019
- Deposit growth grew by 29% compared to 1H 2018 with a focus on low cost working capital deposits through the refreshed launch of an innovative digital cash management account
- Continued momentum in new customer growth up 15% to 23,788 boosted by an enhanced digital online offer and service differentiation
- Consistently maintained credit risk management with Total Provisions as a % of GLA at 2.2%. Loan impairment expense remained low at 0.23% of Gross Loans and Advances (GLA) and Total Arrears of 2.2%
- Kina Funds Management achieved revenue of PGK 5.6m for the half year, commensurate with a lift in total funds under management of PGK600m to PGK 8.1 b.
- Kina's legacy Funds Administration Division also recorded growth in profit as a result of completing the transition of operations for PNG's second largest provident fund NASFUND, and a subsequent increase in member numbers to 766,782.

There were several important strategic and organisation structure initiatives delivered in 1H 2019 that included:

Organic (core business)

- Implementing a new business operating model, achieving a more concentrated management focus on key segments for growth, including personal banking, business banking and investment management, corporate cash and foreign exchange
- Strengthening of talent with critical senior level appointments in business development and relationship management
- Refreshing transactional banking, cash management and home loan offers incorporating online origination
- Achieving an uplift of 30% growth in customer online transactions
- Implementing a Group-wide digital sales lead management system and tracking capability
- First bank to connect to the Bank of PNG's new national payments system (NPS) which gives Kina the ability to accept full interchange with all PNG domestic banks
- Comprehensive public relations and branding campaign launched to build market awareness toward completion of ANZ acquisition.

Digital

- Digital by Design is at the centre of the Group's strategy and involves the delivery of several key e-commerce programs that will transform the organisation and improve cost efficiency
- The continued significant technology build over 1H 2019 will enable a market leading and differentiated service proposition for the target customer segments of Retail, SME and Commercial
- Our online banking, account and loan origination has been greatly enhanced with the launch of CLASS (Consumer Loan Application and Settlement System)
- Most new technology solutions are either currently live or are scheduled to go live prior to the transition of the ANZ business in September

- We have created a Transformation Function which is responsible for the development and ownership of the Group's 5 year strategic plan. This includes the appointment of a Chief Digital Officer to lead the growth and future development of the Group's digital channels.

Integration

- Overall the program continues to track well and according to plan. Completion (Legal Day 1) is scheduled for late September 2019
- The acquisition is transformative with key strategic benefits including a national branch footprint, large national ATM fleet and POS network, USSD mobile banking platform (Kina Connect) and 320 additional highly skilled and experienced staff with a 96% sign-on rate achieved
- The financial benefits include increased scale in customer numbers, footings and market share. This also delivers a much broader product and service capability and offering, and a large low cost deposit base
- Two new data centres have received certification, Visa scheme certification for issuing and acquiring has been completed, and EMV chip debit and credit cards are now in production
- Program to embed cultural change is progressing well and incorporates ANZ staff transitioning to Kina Bank with the acquisition.

Asset Quality

Overall asset quality remains sound, with a loan impairment and write-off expense of PGK 1.3m for the half year and +90 day arrears levels at less than 2.5% of gross loans. The provision level is equivalent to 2.18% of Gross Loans and Advances.

Kina continues to maintain strong credit quality across the loan book and a continued disciplined approach to our lending standards. This is reflected in the low levels of impairment.

The application of accounting practices and policies in our provisioning approach continues to be prudent. The Group applies the IFRS 9 Financial Instruments and the related consequential amendments to other accounting standards. Kina uses an 'Expected Credit Loss' (ECL) model. The model requires the Group to account for ECLs and changes in those ECLs at each reporting date, to reflect changes in credit risk since initial recognition of the financial assets. Management uses an internal risk grading model that takes into account quantitative as well as qualitative factors in risk grading the individual exposures, with each grade having an associated loss given default.

The loan provision balance as at 30 June 2019 was PGK 19.3m. A coverage ratio of 100% was maintained on loans in arrears greater than 90 days.

Operating Expenses

The Cost to Income ratio reduced to 57% against 1H 2018 as a consequence of both increased income and managed costs. Operating expenses grew by 5% to PGK47.9m but was supported by a growth in Operating Income of 7% compared to the same period last year.

The increase in operating expenses is in line with Kina's capability and capacity build strategy and in preparation for the delivery of key integration projects required to complete the acquisition of ANZ PNG's Retail, SME and Commercial businesses.

Staff costs remain the largest component of operating expenses at PGK 24.3m, which represents 50% of total costs. The company continues to invest and build its Strategy, Digital and ICT capability, Risk Management frameworks and customer facing distribution channels while at the same time gaining synergies from the consolidation of middle and back office functions across the Group. Licencing fees, communications (including internet and network charges), marketing and brand, integration expenses and additional depreciation on completed capital projects form the main administration costs. With the implementation of IFRS 16 – leases, related costs that have impacted the half year balances have contributed to the 5% increase in occupancy costs against 1H 2018.

Underlying Capital

The underlying capital of the banking business remains strong, with regulatory capital (T1+T2) at 30% of risk weighted assets (RWA), compared with a regulatory minimum of 12%. The surplus capital will be utilised to acquire the ANZ retail and SME business. At settlement of the transaction, regulatory capital is expected to stabilise at around 17%.

Economic Outlook

Prime Minister James Marape was sworn in as Prime Minister in May. The transition to the new government was smooth and uneventful but led to some uncertainty on policy. Mr Marape announced new objectives for the government: developing a solid manufacturing base; improving security; and ensuring PNG receives its fair share of benefits from natural resources. His announcements received a mixed reaction from business pending more detail.

The new government's economic update in July painted a disappointing picture of the fiscal situation. Government revenue is circa PGK 2 billion (AUD 841.25 million) short of budget targets, largely because of lower-than-expected receipts from taxation and dividends from state-owned enterprises. The shortfall is significant when considering it is over 12% of the government's budgeted PGK 16.13 billion (AUD 6.78 billion) for 2019 expenditure.

Much needs to be done on both the revenue and expense sides of the ledger with policy initiatives forthcoming. One conclusion is that the country will need to close the gap with further debt issuance. A likely outcome is a combination of further foreign currency and local currency debt being issued. We anticipate that this will put a floor under interest rates for the medium term, with some risk of a reversal of recent declines in bond yields.

A key hindrance to domestic economic performance was the consistent low prices on the world market for PNG's major exports. Global over-supply of coffee meant that one of PNG's major cash crops provided reduced earnings to local coffee exporters. The US-China trade dispute has compounded downward pressure on energy prices resulting from reduced demand and in particular lowered prices for PNG's gas exports.

In contrast the Brent oil price has improved with a 19.2% increase over the period. The steady price gains for oil has been supported by intervention from OPEC and its non-member allies. Also, tensions in the Middle East threatening supply lines have helped boost oil prices to some extent. Being an economy that relies heavily on export receipts from its primary resources, PNG has certainly felt the impact of global economic conditions.

PNG remains in a finely balanced position with respect to currency availability. Currency reserves are at 6.7 months total import cover, which is a reasonable position. However, if commodity prices remain weak for an extended period it may threaten to remove one of the supports to foreign exchange flows into the country. The improved foreign exchange situation has come with some depletion of liquidity. It enabled companies to make overseas payments to suppliers and to repatriate profits that were held onshore due to foreign exchange constraints, back to investors and shareholders. We expect this tightening of liquidity to be another reason why there will be pressure on domestic government borrowings and interest rates.

1.1 Disclosure and context

Financial reporting

The statutory result for the six months to June 2019 was a consolidated Net Profit After Tax of PGK23.6m. This included results from the combined operations of Kina Securities Limited and its subsidiaries.

The results presented in this report have been presented on a statutory basis.

Future performance. Forward looking statements

The information in this document is for general information only. To the extent that certain statements contained in this document may constitute "forward-looking statements" or statements about "future matters", the information reflects Kina's intent, belief or expectations at the date of this document. Subject to any continuing obligations under applicable law or any relevant listing rules of the Australian Securities Exchange or PNGX (formerly POMSOX), Kina disclaims any obligation or undertaking to disseminate any updates or revisions to this information over time. Any forward-looking statements, including projections, guidance on future revenues, earnings and estimates, are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Kina's actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

Rounding

All amounts in this report have been rounded to the nearest million Kina (PGK) (PNG currency) unless otherwise stated.

1.2 Profit results for the half year ended to June 2019

1.2.1 Statutory results

Figures in PGK'000's	Half Year Ended Jun-19	Dec-18	Jun-18	Dec-17	Jun-17	Change (%)vs Jun18
Continuing Operations						
Interest income on investments	13,569	13,049	9,232	9,900	9,913	47%
Interest income on loans	47,408	47,226	43,301	41,662	37,873	9%
Interest expense	(15,246)	(14,331)	(10,901)	(12,632)	(14,207)	40%
Net interest income	45,731	45,944	41,632	38,929	33,580	10%
Fee and commission income	18,807	18,186	18,215	17,188	13,297	3%
Fee and commission expense	(51)	(33)	(17)	(21)	(31)	200%
Net fee and commission income	18,756	18,153	18,198	17,167	13,266	3%
Foreign exchange income	18,688	20,134	14,067	5,344	1,880	33%
Dividend income	115	221	106	265	92	8%
Net (losses)/gain from financial assets through profit and loss	70	95	11	(41)	36	536%
Other operating income	340	(962)	4,051	791	202	(92%)
Non-interest income	37,969	37,641	36,433	23,526	15,476	4%
Operating income before impairment losses and operating expenses	**83,700**	**83,585**	**78,065**	**62,455**	**49,056**	7%
Impairment losses	(2,051)	(734)	(4,336)	(1,989)	(1,328)	(53%)
Lease termination payment expense	-	-	-	-	(7,000)	0%
Other operating expenses	(47,798)	(41,965)	(45,412)	(34,313)	(33,242)	5%
Profit before tax	33,851	40,886	28,317	26,153	7,486	20%
Income tax expense	(10,237)	(13,434)	(7,676)	(6,169)	(4,459)	33%
Net Profit for the half year attributable to the equity holder of the Company	**23,614**	**27,452**	**20,641**	**19,984**	**3,027**	14%
Other comprehensive income						
Total comprehensive income for the half year attributable to the equity holder of the Company	**23,614**	**27,452**	**20,641**	**19,984**	**3,027**	14%

The above information has been extracted from the interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2019 or calculated by reference to the audited 31 December 2018 annual financial statements and the 30 June 2018 half year reviewed financial statements.

1.2.2 Dividends

	Jun-19	Dec-18	Jun-18	Dec-17	Jun-17	Dec-16
Earnings per share (PGK toea)	14.4	16.7	12.6	12.2	1.8	12.5
Earnings per share (AUD cents)	5.8	6.7	4.8	4.6	0.7	5.4
Dividend per share (PGK toea)	10.0	12.1	10.0	10.0	5.0	10.0
Dividends per share (AUD cents)	4.0	5.0	4.0	4.0	2.0	4.0

1.2.3 Lending

PGK Millions	Half Year Ended					
	Jun-19	**Dec-18**	**Jun-18**	**Dec-17**	**Jun-17**	**Change (%) vs Dec-18**
Overdraft	56	61	44	73	64	(8%)
Term Loans	565	588	557	484	478	(4%)
Investment Property Loan	69	42	28	21	1	65%
Asset Financing	21	22	21	17	13	(6%)
Housing Loan	137	119	118	117	113	15%
Esi loan	37	38	37	33	28	(2%)
Gross	885	870	805	745	697	2%
Provision	(19)	(18)	(19)	(13)	(13)	6%
Total	**866**	**852**	**786**	**732**	**684**	**2%**

Net loan book grew by 10% compared to the same period of 1H 2018.

The growth since December 2018 was lower than expected at 2%. Growth was impacted by some early settlements and repayment of loans. The appointment of the new government in early 2019 also impacted customer business decision making which resulted in delays in submissions, approvals and drawdowns of loan applications. A total of K33.6m loans approved in May and June 2019 were drawn in July 2019 resulting in K57.9m drawdowns being delayed to 31 July 2019. This would equate to a loan growth of 10% on a normalised basis of approvals in H1 2019. This growth is in line with the planned growth position as of 30 June 2019. The pipeline has remained strong.

In line with the current strategy to grow home lending, the Housing loan portfolio grew by 15%. This was supported by a strong interest rate driven home loan campaign. This positions Kina bank for strong portfolio growth in this segment in H2 2019.

Risk concentration within the customer loans by nature of activities remains similar as below:

	Jun-19		Dec-18	
	PGK million	% of total loans	PGK million	% of total loans
Agriculture, Forestry & Fishing	13.7	1.5%	11.8	1.4%
Mining	4.6	0.5%	4.1	0.00
Manufacturing	4.3	0.5%	3.8	0.4%
Electrical, Gas & Water	0.6	0.1%	0.7	0.00
Building and Construction	70.2	7.9%	72.7	8.4%
Wholesale & Retail	144.8	16.4%	154.8	17.8%
Hotel & Restaurants	83.3	9.4%	84.0	9.7%
Transport & Storage	8.8	1.0%	5.0	0.6%
Post and Telecommunications	-	-	-	-
Financial Intermediation	13.5	1.5%	14.7	1.7%
Real Estate/Renting/Business Services	260.5	29.4%	248.6	28.6%
Equipment Hire	3.7	0.4%	1.4	0.2%
Other Business	22.9	2.6%	21.8	2.5%
Personal Banking	254.2	28.7%	246.7	28.4%
Total	**885.1**	**100.0%**	870.1	**100.0%**

1.2.4 Funding

PGK Millions	Half Year Ended					
	Jun-19	Dec-18	Jun-18	Dec-17	Jun-17	Change (%) vs Dec-18
On Call	872	759	437	412	377	15%
1 month	124	99	111	109	96	25%
2 months	48	95	76	97	140	(49%)
3 months	92	64	89	46	71	44%
6 months	130	200	282	226	182	(35%)
12 months	100	95	94	92	93	5%
24 months	52	4	9	32	6	1200%
Total	**1,418**	**1,316**	**1,098**	**1,014**	**965**	**8%**

Deposits grew by 29% compared with the same comparative period in 1H 2018. This is part of the strategic shift to low cost on call funds rather than high cost term deposits. The Cash Management Accounts (CMA) have delivered the largest increase driven mainly by a pricing strategy. The strategy did however result in some movement of existing Current and Savings Accounts to CMA funding.

Since December 2018, Deposits grew by 8% in line with expectations for the period.

PGK Millions	Half Year Ended					
	Jun-19	Dec-18	Jun-18	Dec-17	Jun-17	Change (%)
Fixed Term	585	650	661	602	585	(10%)
Cash Management Accounts	456	251	103	93	60	82%
Current Accounts	357	396	316	298	302	(10%)
Savings Accounts	20	19	17	21	18	5%
Total	**1,418**	**1,316**	**1,098**	**1,014**	**965**	8%

The loan to deposit ratio of 61% is within the internal target range set by the Board.

As noted above, the Bank's focus on strengthening funding has been achieved through competitive pricing. The increase in funding places the Bank's funding and liquidity risk in a healthy position exceeding the cash buffer against internal benchmarking by 129%.

1.2.5 Net interest margin

PGK Million	Half Year Ended					
	Jun-19	Dec-18	Jun-18	Dec-17	Jun-17	Change vs Jun-18
Net interest income	45.7	46.0	41.6	38.9	33.6	9.9
Average interest earning assets	1,324.9	1,158.4	1,029.4	955.4	928.0	28.7
Average yield on interest earning assets (%)	9.3	9.8	10.2	10.4	10.3	(8.8)
Average interest bearing liabilities	1,354.6	1,148.0	1,045.5	962.6	941.0	29.6
Average cost on interest bearing liabilities (%)	2.3	2.2	2.1	2.8	3.0	9.5
Interest spread (%)	7.0	7.6	8.1	7.6	7.3	(13.6)
Net interest margin	7.0	7.6	8.1	7.6	7.3	(13.6)

Net interest margin (NIM) for the 1H 2019 was 7% compared to 8.1% in 1H 2018. This remains within the guidance range set at the beginning of the year of between 6 - 8%. The results reflect movements in the average yield on interest earning assets and cost of funds largely due to competitive pricing. This is explained in the Table above.

Average interest earning assets grew by 14% to PGK1.3 billion. While this reflects a growth on the asset base, the yield spread on product type between loans and investments averaged to 9.3% from 9.8% in the last half year reflecting a mix of repricing of the loan book and maturity profile of investments.

The growth in average interest bearing deposits is a result of the banks funding strategy which represents an increase largely in cash management accounts (as depicted in section 1.2.4) which has resulted in an increase cost of funds.

1.2.6 Non-interest income

PGK Millions	Half Year Ended					Change (%) vs Jun-18
	Jun-19	Dec-18	Jun-18	Dec-17	Jun-17	
Banking						
Foreign exchange income	19.0	20.1	14.4	5.4	1.7	32%
Fees and commissions	4.4	3.7	4.7	4.5	3.8	(6%)
Other	0.2	(1.1)	0.1	0.3	-	100%
Total	23.6	22.7	19.2	10.2	5.5	23%
Wealth Management						
Fund Administration	8.9	8.2	8.0	7.8	4.0	11%
Investment Management	5.1	4.7	4.1	4.7	4.6	24%
Shares	0.2	0.5	0.4	0.1	0.3	(50%)
Other	0.3	0.7	2.0	0.4	0.8	(85%)
Total	14.5	14.1	14.5	13.0	9.7	0%
Other						
Other	(0.1)	1.1	2.5	0.3	0.3	(104%)
Total	(0.1)	1.1	2.5	0.3	0.3	(104%)
Total	38.0	37.9	36.2	23.5	15.5	5%

Increase in non-interest income in the banking business was driven by FX trading as a result of continued correspondent banking relationship and focus on engagement with key exporter customers. New to bank exporter customers have also been acquired reflecting Kina's improved capability in this market

Bank Fees and Commissions Income results were impacted due to changes in accounting methodology to align with accounting standards.

Total fees from Wealth operations was consistent against last year. Overall, the performance of the stock broking business together with other income offset the growth recorded for the fund administration and investment management business.

1.2.7 Operating expenses

Total operating costs for H1 2019 were PGK47.9m, an increase of 5% compared to H1 2018 with cost to income ratio at 57% compared to 58% same period last year largely driven by stronger revenue growth.

Management has maintained a disciplined approach to both operating and capital expenditure in accordance with the organic growth strategy and the capacity build for the ANZ acquisition. An increase in staff costs was incurred in line with organisation structure required to deliver business post the integration and acquisition. Senior level appointments have been made in the banking operations while occupancy costs were impacted with the first time application of IFRS16 – Leases.

Figures in PGK Million	Half Year Ended					
	Jun-19	Dec-18	Jun-18	Dec-17	Jun-17	Change (%) vs Jun-18
Administration	11.7	7.0	12.9	8.6	8.8	(9%)
Staff	24.3	21.3	23.5	19.3	16.1	3%
Occupancy	6.9	7.2	6.6	5.0	4.8	5%
Other Operating expenses	1.6	2.5	1.3	1.8	1.3	23%
Board of Directors cost	0.8	0.9	0.8	(0.1)	1.5	0%
Acquisition/Integration	2.3	2.9	-	(0.3)	0.3	0%
Investor Relationship	0.2	0.2	0.3	0.1	0.4	(33%)
	47.8	**42.0**	**45.4**	**34.5**	**33.2**	**5%**

1.2.8 Asset quality and loan impairment

Figures in PGK Million	Half Year							
	Jun-19	% of GLA	Dec18	% of GLA	Jun18	% of GLA	Dec17	% of GLA
Loan impairment expense	2.1	0.23%	0.8	0.09%	4.3	0.54%	2.0	0.27%
Non-performing loans and loans in arrears	19.3	2.18%	17.7	2.18%	14.8	2.08%	11.6	3.32%
- 90 day arrears	7.6	0.86%	5.5	0.63%	8.1	1.01%	10.1	1.35%
- Gross non-performing loans (> 180 days)	11.7	1.32%	12.2	1.40%	6.7	0.83%	1.5	0.21%
Total provision	19.3	2.18%	18.4	2.11%	19.3	2.39%	13.3	1.79%

Loan impairment expense remained sound at PGK2.1m or 0.23% of GLA. The decrease as a percentage of GLA to the prior corresponding period is due to the adjustment of impairment expenses as required by the adoption of IFRS9 in the H1 2018. Total Provisions increased marginally to K19.3 in line with growth of the portfolio. The company continues to reflect model risk and economic risk overlays in the overall level of provisioning.

Home loan and business loans arrears increased slightly from 2H 2018 on the back of an increasing competitive environment and consequently limited income growth. The Bank has sufficient collateral in place.

An analysis of the loan portfolio and provision based on risk grade as required by IFRS 9 expected credit loss (ECL) model is set out below:

Loans and advances to customers at amortised cost	Half-Year Ended 30 June 2019			
	Stage 1 12-month ECL K'000	Stage 2 Lifetime ECL K'000	Stage 3 Lifetime ECL K'000	Total K'000
Grade A - B: Low to fair risk	-	-	-	-
Grade C - D: Moderate and acceptable risk	817,861	33,823	575	852,259
Grade E: Watchlist / special mention	3,204	1,667	0	4,871
Grade F: Substandard	618	9,774	222	10,614
Grade G: Doubtful	1	3,445	210	3,656
Grade H: Loss	-	-	4,939	4,939
Not graded	6,187	26	2,541	8,754
Total Gross Carrying Amount	**827,871**	**48,735**	**8,487**	**885,093**
Loss allowance	-9,680	-4,151	-5,456	-19,287
Carrying amount	**818,191**	**44,584**	**3,031**	**865,806**

Kina continues to look at its accounting practices and continues to be prudent in our provisioning approach. The Group applies the IFRS 9 Financial Instruments and the related consequential amendments to other accounting standards. Kina utilises an ‘Expected Credit Loss’ (ECL) model. The model requires the Group to account for ECLs and changes in those ECLs at each reporting date, to reflect changes in credit risk since initial recognition of the financial assets. Management uses an internal risk grading model that takes into account quantitative as well as qualitative factors in risk grading the individual exposures, with each grade having an associated loss given default.

1.2.9 Capital adequacy

BPNG prudential standard 1/2003 Capital Adequacy prescribes ranges of overall capital adequacy ratios and leverage capital ratios to measure whether a bank is adequately capitalised. Kina exceeds the existing BPNG prudential capital adequacy requirements and qualifies as ‘well capitalised’ as at 30 June 2019, 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-19	31-Dec-18	30-Jun-18	31-Dec-17	30-Jun-17
PGK'million					
RWA	**1,014**	**980**	**883**	**816**	**766**
Capital: T1	269	234	232	198	198
Capital: T2	33	49	26	32	17
Capital: T1 + T2	302	283	258	230	215
Capital adequacy Ratio: T1	27%	24%	26%	24%	26%
Capital adequacy: T2	3%	5%	3%	4%	2%
Capital adequacy: T1 + T2	30%	29%	29%	28%	28%
Leverage Ratio	15%	14%	16%	16%	16%

Capital ratios at the end of June 2019 remained strong, with combined T1 and T2 capital equal to 30% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. The bank also has a strong leverage ratio of 15%. Reduction in this period is due to an increase in core capital and total assets. 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.

Capital Adequacy is maintained at levels that would enable Kina to act early on any strong relevant growth opportunities arising in PNG. With the acquisition of ANZ progressing towards closure in September 2019, Capital Adequacy is expected to stabilise at 17%. This is still in excess of the BPNG Prudential requirements of 12% for a well-capitalised bank.

Given strong ongoing growth opportunities and further investment into new technology initiatives aligned to the acquisition of ANZ, it is the Boards intention to maintain its conservative capital position.

2. Consolidated Financial Statements

2.1 Statement of Comprehensive Income – consolidated

Figures in PGK'000's	Half Year Ended					Change (%) Jun19 vs Jun18
	30-Jun-19	31-Dec-18	30-Jun-18	31-Dec-17	30-Jun-17	
Continuing Operations						
Interest income on investments	13,569	13,049	9,232	9,900	9,913	47%
Interest income on loans	47,408	47,226	43,301	41,662	37,873	9%
Interest expense	(15,246)	(14,331)	(10,901)	(12,632)	(14,207)	40%
Net interest income	45,731	45,944	41,632	38,929	33,580	10%
Fee and commission income	18,807	18,186	18,215	17,188	13,297	3%
Fee and commission expense	(51)	(33)	(17)	(21)	(31)	200%
Net fee and commission income	18,756	18,153	18,198	17,167	13,266	3%
Foreign exchange income	18,688	20,134	14,067	5,344	1,880	33%
Dividend income	115	221	106	265	92	8%
Net (losses)/gain from financial assets through profit and loss	70	95	11	(41)	36	536%
Other operating income	340	(962)	4,051	791	202	(92%)
Non-interest income	37,969	37,641	36,433	23,526	15,476	4%
Operating income before impairment losses and operating expenses	**83,700**	**83,585**	**78,065**	**62,455**	**49,056**	7%
Impairment losses	(2,051)	(734)	(4,336)	(1,989)	(1,328)	(53%)
Lease termination payment expense	-	-	-	-	(7,000)	0%
Other operating expenses	(47,798)	(41,965)	(45,412)	(34,313)	(33,242)	5%
Profit before tax	33,851	40,886	28,317	26,153	7,486	20%
Income tax expense	(10,237)	(13,434)	(7,676)	(6,169)	(4,459)	33%
Net Profit for the half year attributable to the equity holder of the Company	**23,614**	**27,452**	**20,641**	**19,984**	**3,027**	14%
Other comprehensive income						
Total comprehensive income for the half year attributable to the equity holder of the Company	**23,614**	**27,452**	**20,641**	**19,984**	**3,027**	14%

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2019.

2.2 Statement of financial position – consolidated

	30-Jun-19 PGK'000	31-Dec-18 PGK'000	30-Jun-18 PGK'000	31-Dec-17 PGK'000	30-Jun-17 PGK'000
Assets					
Cash and due from banks	121,340	85,638	87,775	47,514	79,838
Central bank bills	414,747	396,154	180,931	190,869	176,873
Regulatory deposits	139,938	137,494	109,620	106,823	96,398
Financial assets at fair value through profit and loss	4,977	4,907	4,813	4,637	4,677
Loans and advances to customers	865,806	851,663	785,901	732,707	685,370
Investments in government inscribed stocks	34,324	34,195	78,826	79,878	79,719
Current income tax assets	-	-	-	-	4,831
Deferred tax assets	10,278	7,193	8,443	4,526	6,434
Property, plant and equipment	45,551	12,108	19,827	27,470	30,331
Goodwill	92,786	92,786	92,786	92,786	92,786
Intangible assets	37,439	26,432	12,021	13,546	5,178
Other assets	10,357	13,424	22,995	14,392	5,710
Total Assets	**1,777,543**	**1,661,994**	**1,403,938**	**1,315,148**	**1,268,145**
Liabilities					
Due to other banks	(78)	(25,065)	(638)	(638)	(640)
Due to customers	(1,417,959)	(1,315,460)	(1,097,785)	(1,019,325)	(964,790)
Current income tax liabilities	(12,722)	(8,154)	(5,754)	(635)	(2,771)
Deferred income tax liabilities	-	-	-	-	(95)
Employee provisions	(4,924)	(6,251)	(6,078)	(4,353)	(3,407)
Other liabilities	(70,006)	(37,795)	(36,389)	(33,495)	(51,935)
Total Liabilities	**(1,505,689)**	**(1,392,725)**	**(1,146,644)**	**(1,058,446)**	**(1,023,638)**
Net Assets	**271,854**	**269,269**	**257,294**	**256,702**	**244,507**
Share capital and reserves					
Issued and fully paid ordinary shares	(142,213)	(142,213)	(142,213)	(142,213)	(142,005)
Capital reserve	-	-	-	(49)	(49)
Share-based payment reserve	(2,821)	(2,651)	(1,712)	(1,558)	(1,356)
Retained earnings	(126,820)	(124,405)	(113,369)	(112,882)	(101,097)
Total capital and reserves	**(271,854)**	**(269,269)**	**(257,294)**	**(256,702)**	**(244,507)**

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2019.

2.3 Statement of changes in equity – consolidated

	Share Capital PGK'000	Capital Reserve PGK'000	Share based payment Reserve PGK'000	Retained Earnings PGK'000	Total PGK'000
Balance as at 31 December 2017	**142,213**	**-**	**1,558**	**112,931**	**256,702**
Effect of adoption of IFRS 9 Financial Instruments	-	-	-	(3,820)	(3,820)
Balance as at 1 January 2018	**142,213**	**-**	**1,558**	**109,111**	**252,882**
Profit for the period	-	-	-	20,641	20,641
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme	-	-	154	-	154
Dividend paid	-	-	-	(16,383)	(16,383)
Balance as at 30 June 2018	**142,213**	**-**	**1,712**	**113,369**	**257,294**
Profit for the period	-	-	-	27,452	27,452
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme - vested rights	-	-	(423)	-	(423)
Employee share scheme - value of employee services		-	1,362	-	1,362
Dividend paid	-	-	-	(16,416)	(16,416)
Balance as at 31 December 2018	**142,213**	**-**	**2,651**	**124,405**	**269,269**
Effect of change in accounting policy - IFRS 16				(1,290)	(1,290)
Balance as at 01 January 2018	**142,213**	**-**	**2,651**	**123,115**	**267,979**
Profit for the period	-	-	-	23,614	23,614
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme - vested rights	-	-	(109)	-	(109)
Employee share scheme - value of employee services	-	-	279	-	279
Dividend paid	-	-	-	(19,909)	(19,909)
Balance as at 30 June 2019	**142,213**	**-**	**2,821**	**126,820**	**271,854**

The above information has been extracted from the unaudited interim year consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2019.

2.4 Statement of Cashflow – consolidated

	30-Jun-19 PGK'000	31-Dec-18 PGK'000	30-Jun-18 PGK'000	31-Dec-17 PGK'000	30-Jun-17 PGK'000
Cash flows from operating activities					
Interest received	60,973	112,691	52,474	98,799	47,396
Interest paid	(17,092)	(23,525)	(10,049)	(26,822)	(6,886)
Dividend received	115	327	106	357	92
Fee, commission and other income received	38,432	68,174	24,132	35,066	14,072
Fee and commission expense paid	(51)	(50)	(17)	(52)	(31)
Net trading and other operating income received	411	3,195	1,375	988	202
Recoveries on loans previously written-off	1,991	1,725	770	2,016	1,104
Cash payments to employees and suppliers	(83,741)	(98,032)	(32,289)	(64,320)	(31,305)
Lease termination payment	-	-	-	(7,000)	(7,000)
Income tax paid	(4,794)	(13,561)	(4,999)	(7,694)	(5,882)
Cash flows from operating profits before changes in operating assets	**(3,756)**	**50,944**	**31,503**	**31,338**	**11,762**
Changes in operating assets and liabilities:					
- net increase in regulatory deposits	(2,444)	(30,671)	(2,797)	(10,810)	(385)
- net increase in loans and advances to customers	(17,067)	(118,579)	(53,195)	(126,422)	(81,586)
- net increase in other assets	2,100	763	(8,604)	(6,602)	2,320
- net increase/ (decrease) in due to customers	88,063	293,027	78,460	46,765	6,182
- net decrease in due to other banks	(10,708)	21,145	-	3,408	497
- net increase/ (decrease) in other liabilities	34,057	2,593	2,895	(272)	532
Net cash flows from operating activities	**90,245**	**219,222**	**48,262**	**(62,595)**	**(60,678)**
Cash flows from investing activities					
Purchase of property, equipment and software	(16,085)	(14,999)	(2,946)	(15,702)	(7,613)
Proceeds from sale of property and equipment	16	19,912	-	-	2
Purchase of investment securities	(33,722)	(139,602)	8,674	26,676	(11,778)
Net cash flows from investing activities	**(49,791)**	**(134,689)**	**5,728**	**10,974**	**(19,389)**
Cash flows from financing activities					
Dividend payment	(19,909)	(32,799)	(16,384)	(24,589)	(16,389)
Net cash flow from financing activities	**(19,909)**	**(32,799)**	**(16,384)**	**(24,589)**	**(16,389)**
Net increase/ (decrease) in cash and cash equivalents	**20,545**	**51,734**	**37,606**	**(76,210)**	**(96,456)**
Effect of changes in the foreign exchange rates on cash and cash equivalents	157	6,391	454	704	274
Cash and cash equivalents at beginning of period	**160,638**	**102,513**	**102,513**	**178,020**	**178,020**
Cash and cash equivalents at the end of the period	**181,340**	**160,638**	**140,573**	**102,514**	**81,838**

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year ended 30 June 2019.

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 consolidated financial statements for the half year ended 30 June 2019 are consistent with those used in preparing the 31 December 2018 financial statements of the Group.

2.6 Non-cash financing and investing activities

There are no financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flow.

2.7 Reconciliation of cash and cash equivalents

	30 Jun 2018 PGK'000	31 Dec 2018 PGK'000
Cash and due from other banks	**121,340**	85,638
Central bank bills (maturity less than 3 months)	**60,000**	75,000
Total cash at the end of the period	**181,340**	160,638

2.8 Ratios

	30-Jun-19	31-Dec-18	30-Jun-18	31-Dec-17	30-Jun-17
Profit before tax / Operating Income					
Consolidated profit from ordinary activities before tax as a percentage of revenue	40.4%	48.9%	36.30%	41. 9%	15. 3%
Profit after tax / equity interests					
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	8.70%	10.20%	8.00%	7.80%	1.20%

**Ratios presented above are for the respective 6 months*

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-19	31-Dec-18	30-Jun-18	31-Dec-17	30-Jun-17
Calculation of the following in accordance with IAS33					
(a) Basic EPS	14.4	16.7	12.6	12.2	1.8
(b) Diluted EPS	14.3	16.5	12.5	12.2	1.8
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	163,993,253	163,993,253	163,993,253	163,993,253	163,893,253

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

2.10 NTA backing

	30-Jun-19 PGK	31-Dec-18 PGK	30-Jun-18 PGK	31-Dec-17 PGK	30-Jun-17 PGK
Net tangible asset backing per ordinary share	1.09	1.08	1.00	0.92	0.89

2.11 Details of aggregate share of profits (losses) of associated entity

The company has no significant investment in associates. There are also no material interests in entities that are not controlled entities.

2.12 Issued Shares

The total number of shares at 30 June 2019 was 163,993,253 (31 December 2018: 163,993,253)

	Total Number Ordinary shares	Number Quoted Ordinary shares
Changes during the year ended 31 December 2018		
Opening Balance of number of shares	163,993,253	163,993,253
Increase through issue of shares 2019	-	-
Total	**163,993,253**	**163,993,253**

2.13 Segment Reporting

30-Jun-19	Banking PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
Total external income	70,121	14,510	(931)	83,700
Total external expenses	(24,560)	(5,916)	(19,373)	(49,849)
Profit before inter-segment revenue and expenses	**45,561**	**8,594**	**(20,304)**	**33,851**
Inter-segment income	959	447	20,361	21,767
Inter-segment expenses	(17,561)	(3,308)	(898)	(21,767)
Profit before tax	**28,959**	**5,733**	**(841)**	**33,851**
Income tax expense	(8,717)	(1,667)	147	(10,237)
Profit after tax	**20,242**	**4,066**	**(694)**	**23,614**
Segment Assets	1,621,552	17,003	138,988	1,777,543
Segment Liabilities	(1,489,112)	(2,528)	(14,049)	(1,505,689)
Net assets	**132,440**	**14,475**	**124,939**	**271,854**
Capital expenditure	14,202	-	1,883	16,085
Depreciation	(2,402)	-	(2,924)	(5,326)

30-Jun-18	Banking PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
Total external income	60,817	14,019	3,229	78,065
Total external expenses	(24,828)	(8,513)	(16,407)	(49,748)
Profit before inter-segment revenue and expenses	**35,989**	**5,506**	**(13,178)**	**28,317**
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**	**28,317**
Income tax expense	(6,547)	(885)	(244)	(7,676)
Profit after tax	**15,292**	**1,815**	**3,534**	**20,641**
Segment assets	1,245,509	23,023	135,406	1,403,938
Segment liabilities	(1,131,780)	(4,585)	(10,278)	(1,146,643)
Net assets	**113,729**	**18,438**	**125,128**	**257,295**
Capital expenditure	2,718	-	11,477	14,195
Depreciation	(1,725)	-	(1,645)	(3,370)

2.14 Comparison of profits

	30-Jun-19 PGK'000	31-Dec-18 PGK'000	31-Dec-17 PGK'000
First Half Year			
Consolidated profit from continuing operations after tax attributable to members reported for the first half year	23,614	20,641	3,027
Second Half Year			
Consolidated profit from continuing operations after tax attributable to members reported for the second half year	N/A	27,452	19,984

2.15 Contingent liabilities

The company is a party to a number of litigations. The consolidated financial statements include provision for any losses where there is reasonable expectation that the litigations will result in a loss to the company. 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 2019 these totalled PGK 69.8m (31 December 2018: PGK 45.9m).

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 PNGX.

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

2. This report, and the accounts upon which the report is based (if separate), use the same accounting policies

3. This report gives a true and fair view of the matters disclosed (see note 2)

4. This report is based on accounts to which one of the following applies.

	The accounts have been audited
X	**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.