ASX/PNGX announcement

kinabank

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BY ELECTRONIC LODGEMENT

Appendix 4D - Half-Year Report

Please find attached for release to the market, Kina Securities Limited's *Appendix 4D Half-Year Report for the period ended 30 June 2020.*

-ENDS-

This Announcement was authorised for release by Kina Securities Limited's Board of Directors.

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Kina Securities Limited
(ABRN 606 168 594)

June 2020 Half Year Results

Incorporating the requirements of Appendix 4D

ASX Appendix 4D

For the Half Year ended 30 June 2020

Results for announcement to the market

Comparisons of the current year results to 30 June 2020 (**FY2020**, **1H 2020**, **reporting period**) are with the half year to 30 June 2019 (**FY2019**, **1H 2019**, **previous corresponding period**)

	Half Year Ended					Change Jun-20 vs Jun-19	
PGK'000	**Jun-20**	**Dec-19**	**Jun-19**	**Dec-18**	**Jun-18**	**K'000**	**%**
Revenue from ordinary activities	149,177	121,866	83,700	83,585	78,065	65,477	78%
Profit from ordinary activities	42,011	48,841	33,851	40,886	28,317	8,160	24%
Net profit after tax attributable to equity holders	29,291	37,256	23,614	27,452	20,641	5,677	24%
Net Tangible Assets per security (PGK)	1.36	1.34	1.09	1.08	1.00		

Dividends distributions (Interim dividend)	
- unfranked (AUD cents per share)	**4.0 cents**
- unfranked (PGK toea per share)	**10.0 toea**

The Board have declared an interim unfranked dividend for the reporting period based on the Net Profit After Tax (**NPAT**) attributable to equity holders of PGK 29.3m for the reporting period. This is compared to PGK 23.6m for the prior corresponding period.
The interim dividend is converted based on an exchange rate: 1 PGK = 0.4055 AUD.

The Record date for determining entitlements to the dividend is 2 September 2020.

The financial information as reported in respective tables to this report, for the half year ended 30 June 2020 and the comparative period 30 June 2019, are unaudited. The comparative figures for the full year ended 31 December 2019 and 31 December 2018 are based on audited financial figures.

This report should be read in conjunction with the unaudited Consolidated Financial Statements for the half year ended 30 June 2020 in Section 2.

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

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1. Results Overview

Kina delivers expected revenue and acquisition based growth into 2020

Results Highlights

	Half Year Ended					
	Jun-20	Dec-19	Jun-19	Dec-18	Jun-18	Change % Jun-20 vs Jun-19
Statutory NPAT from ordinary activities (PGK m)	29.3	37.3	23.6	27.5	20.6	24%
Revenue (PGK m)	149.2	121.9	83.7	83.6	78.1	78%
FX Revenue (PGK m)	28.5	23.3	18.7	20.1	14.1	52%
Loan impairment expense (PGK m)	10.4	3.5	2.1	0.7	4.3	395%
Cost to income ratio (%)*	64.9	57.0	57.1	50.2	58.2	14%
Net interest margin (%)	7.0	8.8	7.0	7.6	8.1	0%
Return on Equity (%)	17.8	20.4	17.5	18.3	16.1	2%
Earnings per Share (PGK Toea)	16.8	21.3	14.4	16.7	12.6	17%
Dividend (PGK Toea per share)	10.0	15.5	10.0	12.1	10.0	0%
Dividend (AUD Cents per share)	4.0	6.4	4.0	5.0	4.0	0%
Deposit Growth (PGK m) – change against Dec19	2,504.3	2,480.0	1,418.0	1,316.0	1,098.0	1%
Net loans and advances (PGK m) – change against Dec19	1,420.8	1,401.5	865.8	851.7	785.9	1%
Capital adequacy (T1+T2) (%)	21.9	21.5	29.8	28.9	29.0	2%

** The Cost to income ratio in 1H 2020 is as per budget and a consequence of front ended costs on agile strategic projects.*

Operating performance and earnings

Kina Securities Limited (**KSL, Kina, Kina Group, Bank**, the **Business** or the **Company**) has reported an unaudited statutory Net Profit After Tax of PGK 29.3m for the half year to 30 June 2020. This represents an uplift of 24% compared to the prior corresponding period.

The statutory profit has been calculated in accordance with International Financial Reporting Standards (**IFRS**).

The Board has declared an unfranked interim dividend for the first half of FY20 of AUD 4.0 cents per share / PGK 10.0 toea per share. This compares to AUD 4.0 cents per share / PGK 10.0 toea per share in the prior corresponding period.

The growth in interest income is attributable to the acquisition of the ANZ retail, commercial and Small, Medium Sized Enterprises (**SME**) business in PNG (**ANZ Acquisition**) in the second half of 2019 (**2H 2019**) and the realisation of the gains in interest income from acquired customer deposits from ANZ which were prudently invested in high yielding government securities. These were supported by continued growth in organic business over 2H 2019 with interest realisation in the first half of 2020 (**1H 2020**). Furthermore, the acqusition of low cost deposit funds from the ANZ Acquisition has seen interest expense relatively flat against 1H 2019, adding to improved net interest income in the current year.

The Company's cost to income ratio for the period has increased against the prior corresponding period as a consequence of:

- planned delivery of 6 strategic agile projects required significant front ending of costs

- an increase in staff and administrative costs as a consequence of enhancements made to business operations post the ANZ Acquisition.
- actions taken to support operations during COVID-19.
- necessary IFRS16 *Leases* (**IFRS 16**) costs.

Key features of the result

Kina delivered the planned business growth across all of its existing businesses particularly achieving the integration benefits critical to the ANZ Acquisition , and the key features of the 1H 2020 result included:

- Net Interest Income increased by 76% to PGK 80.4m compared to the prior corresponding period. This was achieved on the back of growth in the existing loan book, the ANZ Acquisition, and lower interest expense (against total deposits) compared to the prior year.
- Foreign Exchange (**FX)** growth increased by 52% to PGK 28.5m compared to 1H 2019. This was underpinned by an increase in overall market share on the back of the ANZ Acquisition, an increase in new customers and USD remittance sources from the export sector.
- Fees and Commissions increased by more than 400% to PGK 22.3m on the back of the ANZ acquisition against the prior corresponding period.
- We maintained a disciplined approach to credit risk management with Total Provisions as a % of Gross Loans and Advances (**GLA**) at 1.7% compared to 2.1% in the prior corresponding period.
- Increase in NPAT by 24% to PGK 29.3m against corresponding prior period.
- Kina's Funds Administration division recorded growth in profit by 29% to PGK 3.5m on the back of increased funds under administration and growth in member numbers compared to the prior year.

Significant progress has been made on a series of strategic initiatives that have successfully delivered growth for the business:

- Divested the Esiloans portfolio to Nationwide Microbank Limited (**MiBank**) for PGK 32.5m. The transaction is in line with the strategic partnership announced between Kina and MiBank in August 2019 to provide greater financial inclusion and improved micro-finance to customers.
- In addition, Kina completed the technology build to provide POS services and ATM interchange, central bank clearance, and debit card production to MiBank.
- New digital channels delivered strong growth with merchant POS revenue a stand-out. We rolled-out an additional 800 terminals across the country and saw the expected generation of income in fee revenue from cards, internet banking and Unstructured Supplementary Service Data (**USSD**) channels.
- Implemented a series of security enhancements including two-factor authentication for online banking, fraud monitoring and Visa 3D secure.
- Announced a major community partnership with local charity, the Kokoda Track Foundation, to co-fund a new Flexible Open Distance Education (**FODE**) centre giving students a second chance for education.
- Piloted a new approach to customer experience in our flagship branch at Harbour City that will significantly modernise banking in PNG. The 'Wantok Experience' will provide a digital concierge, digital kiosks and online onboarding throughout the branch network, further driving our strategy to be PNG's leading digital bank.
- Launched an extensive brand campaign with the appointment of three prominent PNG influencers, significantly raising the Bank's profile across the Country and in particular in the business community. A significant milestone in our corporate identity, the digital marketing strategy showcased Kina Bank's commitment to SME customers, and reached a larger audience than all traditional media channels combined.
- Continued to expand our home loan portfolio by launching a historically low fixed rate, driving increased growth and further establishing Kina Bank as the preferred home lender for Papua New Guineans.
- Continued to deliver strong culture engagement with staff. Completed the first staff engagement survey for the combined ANZ and Kina Bank team that achieved a 94% response rate. The survey showed strong underlying satisfaction for staff and their connection to the goals of the organisation. There was also a strong response to health, wellbeing and employee support especially regarding our COVID-19 staff

support package. We also released a new intranet for amplified internal communications and led with a particular focus on women in leadership.

Asset Quality

The Company utilises an internal risk grading model which takes into account quantitative and qualitative factors in grading individual exposures with each grade having an associated 'loss rate'. Default stages are applied, depending on the aging and/or any adverse change in the risk grade since origination. The total level of provision held includes an allowance for model and economic risk.

Overall asset quality remains sound. While an increase was noted in loan impairment and write-off expense, overall non-performing loans (**NPL**) have decreased significantly compared to the prior corresponding period. This is further explained in **section 1.2.9** below.

On 30 June 2020, Kina completed the divestment of its Esiloans portfolio to MiBank. The transaction sale of the PGK 32.5m loan portfolio is in line with the strategic partnership between the two institutions to provide greater financial inclusion, increased micro-finance and improved services for small and medium business. MiBank is the largest microfinance institution in the South Pacific. The Esiloans portfolio aligns with the MiBank brand and the transfer of business will assist MiBank subsidise and expand their financial inclusion programs. Customers will have access to more microfinance products and services and will benefit from MiBank's growth priorities for them. The divestment is part of the broader strategic partnership which also sees Kina provide POS services, ATM interchange, produce debit cards and offer central bank clearance for MiBank and allows Kina to direct our focus on our core target markets of retail, SME and commercial customers, in line with our ANZ Acquisition. The portfolio was sold at a premium of PGK 3.0m representing a 10% premium.

Operating Expenses

The Company continued to invest and build out its 2025 Strategy, digital and ICT capability, enhance risk management maturity and expand customer facing distribution channels. At the same time, the Business continued to achieve synergies from the consolidation of middle and back office functions across the Kina Group to support the transition of the ANZ acquired business. Licencing fees, communications (including internet and network charges), marketing and brand expenses and additional depreciation on completed capital projects form the main administration costs. The Company completed the first phase of a brand campaign including the appointment of three brand ambassadors significantly raising the Bank's profile in the business and social community across PNG.

Staff costs were the largest component of operating expenses at PGK 42.9m, representing 44.4% of total operating expenses.

Commencing in March 2020, the Kina Group took significant socially responsible actions to ensure minimal impact of COVID-19 on staff and the business. The Papua New Guinea government classified banking and financial services as essential services. Accordingly, banking and superannuation administration services have continued to function at full capacity. This required committing costs towards ensuring employee safety and measures to support health and hygiene.

The inclusion of the leases for the acquired ANZ branches has contributed to the increase in occupancy costs against 1H 2019 since the implementation of IFRS 16 from 1 January 2019.

The resultant impact is an increase in the cost to income ratio to 64.9% from 57.1% in the prior corresponding period. It should however be noted that despite the above, this is in line with the internal business plan for 1H 2020. Management had anticipated an increase in the period following the ANZ Acquisition. Management will continue to focus on this important ratio with a view to lowering it by end of FY2020 and further in FY2021.

Underlying Capital

The underlying capital of the banking business remains strong, with regulatory capital (T1+T2) at 21.9% of risk weighted assets (**RWA**), compared with a regulatory minimum of 12%. The surplus capital is available for strategic growth initiatives in the future.

Kina has commenced the simplification of its corporate structure in accordance with the announcement on 14 May 2020. The Company has received approvals from the regulator, Bank of Papua New Guinea (**BPNG**) and the Internal Revenue Commission (**IRC**). The approval from the Investment Promotion Authority (**IPA**) was pending as at 30 June 2020. As per the simplification plan, Kina Bank Limited (**KBL**) and two interceding holding companies, Kina Ventures Limited (**KVL**) and Kina Properties Limited (**KPL**) are to be amalgamated into Kina Securities Limited. The amalgamation simplifies the Kina Group's operating and capital structure. Kina Bank's capital adequacy ratio post amalgamation remains compliant with BPNG's capital adequacy requirements in accordance with Prudential Standard 1/2003 - *Capital Adequacy*.

Economic Outlook

The domestic environment sees new macroeconomic challenges that have broad implications for the financial sector and the economy as a whole. The most prominent of these is COVID-19 which presents challenges for investment, economic activity, aggregate demand, and places a strain on the PNG government's fiscal and monetary operations. Sectors primarily impacted are accommodation, tourism, transport and to a lesser degree, manufacturing. These and other sectors are reporting financial difficulties and are seeking debt relief for cash flow and loan servicing.

Financial flows into private investment have seen a marked reduction as well during the first half of 2020. This slow-down is symptomatic of the prevailing pessimism brought on by the COVID-19 downturn, combined with the cancellation or delay of major national resource projects, as well as the highly-publicised fiscal challenges that the PNG government is facing. Papua LNG, P'Nyang LNG, and Wafi-Golpu Mine have been delayed which inhibits confidence in the economic prospects of the country. These mining projects reportedly represent up to USD 31 billion investment in PNG. Furthermore, the non-renewal of the mining lease for Pogera has also dented confidence around employment and foreign exchange flows with the mine being a substantial contributor in both areas. In the broader economy, capital investment in mining-adjacent sectors and support services has slowed down due to project delays, COVID-19, and the uncertainty of PNG's economic prospects.

The PNG government had already planned for a record deficit of PGK 4.6 billion in 2020 before COVID-19, with carry-on obligations from 2019 that they intended to settle in 2020. With the advent of COVID-19, the settlement of Government liabilities and the funding of major national events like the *2020 National Population & Housing Census* have been put on hold. In order to provide assistance to the economy, the PNG government announced a PGK 5.6 billion COVID-19 economic support package, further adding to the fiscal pressures. Major components of the rescue package included PGK 1.5 billion in external financing, and PGK 2.5 billion in domestic issuances. This was in addition to tax breaks and other relief measures totalling an estimated PGK 1.6 billion. Two PNG Government Bonds were auctioned as a result: PGK 1 billion in April; and the PGK 750 million COVID Bond in May to provide funding. The PNG government has also secured USD 363.6 million in assistance through the International Monetary Fund's (**IMF**) COVID relief fund aimed at providing fiscal flexibility during the time of crisis.

From a debt-to-GDP perspective, PNG remains in a relatively good position with respect to its "balance sheet". With COVID-19 assistance, the debt-to-GDP ratio will grow from the projected level of 40% to 44% in 2020. On a relative basis, this is not a dire situation with the main issue being around ongoing revenues to ensure there is not a rapid deterioration from the forecast track. Major trading partners like Australia have forecast debt-to-GDP levels, inclusive of COVID-19 relief, that will grow from 37% in FY2019 to 60% in FY2024. New Zealand is another regional player that expects lasting effects from their fiscal response to COVID-19 with a projected 22% increase in the debt-to-GDP ratio from 36.5% in FY2019 to 58.4% in FY2021.

At the start of the second quarter, PNG's Foreign Exchange (**FX**) reserves were sufficient for 9.3 months non-mining import cover and 5.4 month of total import cover, according to the BPNG. Total outstanding orders for goods and services imports are PGK1.3 billion after the first quarter of 2020. Major inflow into the PNG FX reserves over the trailing 1-year period were primarily loans from development partners and donor agencies in the 2019 fiscal year. A budget support loan from the Australian Government last year, contributed USD 300 million to the country's reserves, while the Asian Development Bank (**ADB**) and the World Bank contributed USD 100 million and USD150 million, respectively. The IMF USD 363.6 million in June this year for COVID-19 relief also provided FX inflows.

The pandemic has discouraged international trade and exports. It will continue to play heavily into considerations on both the supply-side and the demand-side for PNG's major commodity exports while the world is pressed to adjust to the 'new normal'. The closure of Pogera Gold Mine, together with extended negotiations for P'Nyang and Wafi-Golpu, will adversely affect the reserve balance in the mid-to long-term. PNG's ability to participate in the commodity markets, particularly for cash crop farmers, will be severely limited due to the on-going global restrictions.

PNG's major mining exports like oil, liquefied natural gas (**LNG**), and copper have seen massively subdued prices in the first quarter, and have steadily regained some territory in the second quarter, however the net effect will likely result in a deficit to the country's trade balance. We are also expecting PNG's GDP to contract by -1.5% in real terms. Official statistics for inflation may also be affected as the Government heavily controlled prices since March. The government compelled retailers to fix prices of staple goods in the CPI basket and imposed outright bans on others. We anticipate that official inflation rates will be reported with little change 12-month rolling period with an expected ~3% Headline Inflation and ~2% Underlying Inflation for June 2019 to June 2020.

Unsurprisingly, PNG has been economically impacted by COVID-19. The options to address the impacts are being pursued. Further deterioration will be a direct result of how COVID-19 progresses not only domestically, but internationally, with the resultant impacts on trade. In the meantime, there remains the possibility that the delayed resource projects may come to fruition which would provide an injection of confidence and ultimately funds to assist economic prospects of the country at a crucial point.

1.1 Disclosure and Context

Financial reporting

The statutory result for the six months to 30 June 2020 was a consolidated Net Profit After Tax of PGK 29.3m. This included results from the combined operations of Kina Securities Limited and its subsidiaries.

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

Future performance. Forward looking statements

The information in this document is for general information only. To the extent that certain statements contained in this document may constitute "forward-looking statements" or statements about "future matters", the information reflects Kina's intent, belief or expectations at the date of this document. Subject to any continuing obligations under applicable law or any relevant listing rules of the Australian Securities Exchange (**ASX)** or PNG's National Stock Exchange (**PNGX**), 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's currency) unless otherwise stated.

1.2 Financial results for the year-ended 30 June 2020

1.2.1 Statutory Results

Figures in PGK'000's	Half Year Ended					Change (%) Jun20 vs Jun19
	30-Jun-20	31-Dec-19	30-Jun-19	31-Dec-18	30-Jun-18	
Continuing Operations						
Interest income on investments	26,453	22,560	13,569	13,049	9,232	95%
Interest income on loans	69,443	62,946	47,408	47,226	43,301	46%
Interest expense	(15,479)	(16,655)	(15,246)	(14,331)	(10,901)	2%
Net interest income	**80,417**	**68,851**	**45,731**	**45,944**	**41,632**	**76%**
Fee and commission income	36,861	29,071	18,807	18,186	18,215	96%
Fee and commission expense	(68)	(42)	(51)	(33)	(17)	33%
Net fee and commission income	**36,793**	**29,029**	**18,756**	**18,153**	**18,198**	**96%**
Foreign exchange income	28,498	23,268	18,688	20,134	14,067	52%
Dividend income	7	242	115	221	106	(94%)
Net (losses)/gain from financial assets through profit and loss	25	83	70	95	11	(64%)
Other operating income	3,437	394	340	(962)	4,051	911%
Non-interest income	**68,760**	**53,016**	**37,969**	**37,641**	**36,433**	**81%**
Operating income before impairment losses and operating expenses	**149,177**	**121,867**	**83,700**	**83,585**	**78,065**	**78%**
Impairment losses	(10,395)	(3,595)	(2,051)	(734)	(4,336)	407%
Other operating expenses	(96,771)	(69,430)	(47,798)	(41,965)	(45,412)	102%
Profit before tax	**42,011**	**48,842**	**33,851**	**40,886**	**28,317**	**24%**
Income tax expense	(12,720)	(11,585)	(10,237)	(13,434)	(7,676)	24%
Net Profit for the half year attributable to the equity holder of the Company	**29,291**	**37,257**	**23,614**	**27,452**	**20,641**	**24%**
Other comprehensive income						
Total comprehensive income for the half year attributable to the equity holder of the Company	**29,291**	**37,257**	**23,614**	**27,452**	**20,641**	**24%**

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year-ended 30 June 2020 and where applicable, calculated by reference to the audited 31 December 2019 annual financial statements and the 30 June 2019 half year reviewed financial statements.

1.2.2 Dividends

	Jun-20	Dec-19	Jun-19	Dec-18	Jun-18
Earnings per share (PGK toea)	16.8	21.3	14.4	16.7	12.6
Earnings per share (AUD cents)	6.8	8.8	5.8	6.7	4.8
Dividend per share (PGK toea)	10.0	15.5	10.0	12.1	10.0
Dividends per share (AUD cents)	4.0	6.4	4.0	5.0	4.0

1.2.3 Impact of Covid-19

The COVID-19 outbreak presents challenges that have broad implications for the financial sector and economy as a whole. The gradual cascading financial impact saw some sectors report financial difficulties and seek debt relief for cash flow and loan servicing. Kina took various measures to mitigate the impact of COVID-19 on its operations, considering implications for customers, suppliers and employees.

The BPNG reduced the Kina Facility Rate by 2%. Accordingly, to support all new and existing customers, Kina reduced all local currency overdraft interest rates by 2% per annum to support business cash flows. We were the only bank in PNG to pass on this reduction to customers.

For staff, we introduced a support package that included door-to-door private transport to and from work; flexible working arrangements to work from home; additional leave options; and the regular measures of advanced hygiene and social distancing. Combined, these measures ensured we were able to continue business as usual as an essential service.

As at 30 June 2020, COVID-19 has not had a material impact on the financial position of the Kina Group. The total aggregate exposure (**TAE**) of relief requests received represent only 5.7% of the Bank's total loan book of PGK 1.5 billion. The Bank's liquidity and capital requirements remain above regulatory required minimum levels.

1.2.4 Lending

PGK Millions	Jun-20	Dec-19	Jun-19	Dec-18	Jun-18	Change (%) vs Dec-19
Overdraft	63.8	68.2	55.9	61.0	44.0	(6%)
Term Loans	922.3	880.9	564.9	588.0	557.0	5%
Investment Property Loan	95.6	87.0	69.3	42.0	28.0	10%
Asset Financing	16.1	19.8	20.6	22.0	21.0	(19%)
Housing Loan	340.6	320.6	137.0	119.0	118.0	6%
Esi loan	-	37.5	37.4	38.0	37.0	(100%)
Credit Cards	7.4	8.0	-	-	-	(8%)
Gross	1,445.8	1,422.0	885.1	870.0	805.0	2%
Provision	(25.2)	(20.5)	(19.3)	(18.0)	(19.0)	23%
Total	**1,420.6**	**1,401.5**	**865.8**	**852.0**	**786.0**	**1%**

Risk concentration by sector is shown in the table below.

Risk Concentration by sector	Jun-20		Dec-19	
	PGK million	% of total loans	PGK million	% of total loans
Agriculture, Forestry & Fishing	10.0	0.7%	7.1	0.5%
Mining	19.3	1.3%	19.1	1.3%
Manufacturing	24.0	1.7%	14.9	1.0%
Electrical, Gas & Water	1.4	0.1%	1.2	0.1%
Building and Construction	101.8	7.0%	86.7	6.1%
Wholesale & Retail	419.4	29.0%	278.5	19.6%
Hotel & Restaurants	10.9	0.8%	91.7	6.4%
Transport & Storage	9.4	0.7%	8.8	0.6%
Financial Intermediation	-	0.0%	0.6	0.0%
Real Estate/Renting/Business Services	82.3	5.7%	294.2	20.7%
Equipment Hire	8.7	0.6%	10.6	0.7%
Other Business	299.3	20.7%	70.3	4.9%
Personal Banking	459.3	31.8%	538.3	37.9%
Total	**1,445.8**	**100.0%**	**1,422.0**	**100.0%**

Lending remains strong against the prior corresponding period. Growth was noted in Investment Property, Home Loan and Term loan portfolios contributing a total of PGK 70 million to the gross balance of the loan book as at 30 June 2020. This is off the back of competitive pricing across key portfolios seeing an increasing appetite in the market and which consequently positions the business well for the second half. This is supported by a strong pipeline recording PGK 200 million of loans pending drawdown as at 30 June 2020. This compares to PGK 57.8 million as at 31 December 2019.

Kina Bank also originated its first significant trade facility for a large PNG based coffee exporter with blue chip parentage. Such trade facilities are of strategic importance for Kina Bank as it brings us into an area of lending that we had not engaged in previously where exporters represent a large component of the PNG economy.

Net lending closing position of the loan book as at 30 June 2020 shows a relatively flat growth against 31 December 2019. This is in part due to the sale of the Esiloan portfolio which totalled PGK 32.5 million at disposal. The divestment is in line with the strategic partnership to provide greater financial inclusion, increased micro-finance and improved services for small and medium business.

1.2.5 Funding

PGK Millions	Half Year Ended					
	Jun-20	Dec-19	Jun-19	Dec-18	Jun-18	Change (%) vs Dec-19
On Call	1,943.2	1,950.9	872.3	759.1	437.0	(0.4%)
1 month	137.2	106.9	124.0	99.0	111.0	28.3%
2 months	75.3	58.2	48.1	94.6	76.0	29.4%
3 months	64.3	112.3	91.6	63.6	89.0	(42.7%)
6 months	84.0	80.1	129.6	199.8	282.0	4.9%
12 months	178.1	86.7	100.5	94.9	94.0	105.4%
24 months	22.2	66.0	51.9	4.4	9.0	(66.4%)
Total	**2,504.3**	**2,461.1**	**1,418.0**	**1,315.4**	**1,098.0**	**1.8%**

Deposits grew by 1.8% against December 2019. Whilst this is a minimal growth compared to December 2019, this represents stabilisation of required levels post the ANZ acquisition.
The growth this year is largely attributed to an increase in fixed term deposits and cash management accounts on the back of competitive pricing in the first quarter of FY 2020.

PGK Millions	Half Year Ended					
	Jun-20	Dec-19	Jun-19	Dec-18	Jun-18	Change (%) vs Dec-19
Fixed Term	591.0	556.4	584.7	649.6	661.2	6.2%
Cash Management Accounts	587.1	543.8	455.6	250.9	103.2	8.0%
Current Accounts	1,034.1	1,068.1	357.5	396.2	316.2	(3.2%)
Savings Accounts	292.1	292.8	20.2	18.7	17.4	(0.2%)
Total	**2,504.3**	**2,461.1**	**1,418.0**	**1,315.4**	**1,098.0**	**1.8%**

The Loan to Deposit Ratio (**LDR**) of 57% is within the internal target range set by the Board.

1.2.6 Net Interest Margin

Net interest margin (**NIM**) for 1H 2020 was flat against 1H 2019. While interest earning assets and liabilities increased against the prior corresponding period, the drop in average yield on interest earning assets and drop in cost of funds on interest bearing liabilities has neutralised growth in NIM against 1H 2019. The drop in average yield is on the back of competitive market positioning while cost of funds reduction is aligned to overall deposit strategy seeing rates drop towards the end of the first quarter of FY2020.

NIM is within guidance rate range set by the Board of 6%-8%.

PGK Million	Half Year Ended					
	Jun-20	Dec-19	Jun-19	Dec-18	Jun-18	Change vs Jun-19
Net interest income	80.4	68.8	45.7	46.0	41.6	75.9%
Average interest earning assets	2,287.9	1,771.0	1,324.9	1,158.4	1,029.4	72.7%
Average yield on interest earning assets (%)	8.4	10.6	9.3	9.8	10.2	(9.7%)
Average interest bearing liabilities	2,211.3	1,742.0	1,354.6	1,148.0	1,045.5	63.2%
Average cost on interest bearing liabilities (%)	1.4	1.8	2.3	2.2	2.1	(39.1%)
Interest spread (%)	7.0	8.8	7.0	7.6	8.1	-
Net interest margin	7.0	8.8	7.0	7.6	8.1	-

1.2.7 Non-Interest Income

PGK Millions	Half Year Ended					
	Jun-20	Dec-19	Jun-19	Dec-18	Jun-18	Change (%) vs Jun-19
Banking						
Foreign exchange income	25.7	23.0	19.0	20.1	14.4	35%
Fees and commissions	22.3	14.4	4.4	3.7	4.7	407%
Other	3.1	0.2	0.2	(1.1)	0.1	1450%
Total	51.1	37.6	23.6	22.7	19.2	117%
Wealth Management						
Fund Administration	9.8	9.4	8.9	8.2	8.0	10%
Investment Management	4.5	5.0	5.1	4.7	4.1	(12%)
Shares	0.3	0.7	0.2	0.5	0.4	50%
Other	(0.2)	0.0	0.3	0.7	2.0	(167%)
Total	14.4	15.1	14.5	14.1	14.5	(1%)
Other						
Other	3.3	0.3	(0.1)	1.1	2.5	(3400%)
Total	3.3	0.3	(0.1)	1.1	2.5	(3400%)
Total	68.8	53.0	38.0	37.9	36.2	81%

Non-interest income grew by 81% against the prior corresponding period, with 89% of this growth attributed to the Banking business.

The increase in foreign exchange income is related to the acquisition of ANZ client flow, along with new business generated from larger export clients, resulting in a PGK 6.7 million increment against the prior corresponding period. Bank fees and commission fees saw a PGK 10.3 million increase as a result of the footprint expansion post the ANZ acquisition while a further PGK 7.6 million was recorded on new fee lines in the digital banking space, also a result of footprint expansion. Further adding to this increase was the PGK 3.0 million gain on sale recognised on the disposal of the Esiloan business.

The strong performance in non interest income was delivered as a consequence of the successful implementation and realisation of revenues from new channels, cards and point of sale (**POS**) income and internet banking fees. These were critical expected gains from the ANZ Acquisition which have been delivered. Net fees and commissions increased by 96% and foreign exchange income increased by 52% against the corresponding prior period.

Post the reporting date, the Company, through its partnership with locally registered fintech start-up, NiuPay, launched an online payment solution with the PNG Government's Department of Lands and Physical Planning, as announced on 17 August 2020. Kina plans to extend the same service across other PNG Government departments which will assist in providing PNG citizens with a more accessible, affordable and efficient service. The fees derived from this service provision by Kina will further add to Kina's financial performance in 2H 2020 and into the future.

The table below shows the increase in fees and commissions against the corresponding prior year.

Banking – PGK millions	Jun-20	Jun-19	Change (PGK)	Change (%)
Bank fees and commission income	10.6	2.8	7.8	279%
Loan fees	4.1	1.6	2.5	156%
Merchant fees	2.5	-	2.5	-
VISA Fees	2.4	-	2.4	-
ATM fees	2.2	-	2.2	-
Mobile Banking fees	0.5	-	0.5	-
Total	**22.3**	**4.4**	**17.9**	**407%**

Total fees from Wealth Operations was consistent against last year. The Funds Management business recorded declined results due to contract non-renewal offsetting growth in the overall wealth business.

1.2.8 Operating Expenses

Total operating costs for 1H 2020 were PGK 96.7 million, an increase of 102% compared to the prior corresponding period with a cost to income ratio at 64.9% compared to 57.1% in the same period last year. Whilst this represents a significant increase against the prior corresponding period due to the acquisition of the ANZ business in 2H 2019, the results are within the 1H 2020 plan as expected.

Staff costs, administrative costs and occupancy costs contributed 38%, 31% and 32% respectively to the increase against the prior corresponding period. Staff and administrative cost increases are in line with the organisational restructure required to deliver business post the ANZ Acquisition. Staff costs were the largest component of operating expenses at PGK 42.9 million, representing 44.4% of total operating expenses as at 30 June 2020. The inclusion of the leases for the acquired ANZ branches, has contributed to the increase in occupancy costs against 1H 2019 since the implementation of IFRS 16 from 1 January 2019.

Licencing fees, communications (including internet and network charges), marketing and brand expenses and additional depreciation on completed capital projects, form the main administration costs. The Company continued to invest and build out its 2025 Strategy, digital and information and communication technology (**ICT**) capability, enhance risk management maturity and expand customer facing distribution channels. The company completed the first phase of a brand campaign including the appointment of three brand ambassadors significantly raising the bank's profile in the business and social community across PNG.

Figures in PGK Million	Half Year Ended					
	30-Jun-20	31-Dec-19	30-Jun-19	31-Dec-18	30-Jun-18	Change (%) vs Jun-19
Administration	26.7	16.6	11.7	7.0	12.9	128%
Staff	42.9	34.1	24.3	21.3	23.5	77%
Occupancy	22.6	14.8	6.9	7.2	6.6	228%
Other Operating expenses	3.1	2.0	1.6	2.5	1.3	94%
Board of Directors cost	0.8	0.8	0.8	0.9	0.8	0%
Acquisition/Integration	0.3	0.8	2.3	2.9	-	(87%)
Investor Relationship	0.3	0.4	0.2	0.2	0.3	50%
	96.7	**69.5**	**47.8**	**42.0**	**45.4**	**102%**

Commencing in March 2020, the organisation took significant socially responsible actions to ensure minimal impact of COVID-19 on staff and the business. The Papua New Guinea Government classified banking and financial services as essential services. Accordingly, banking and superannuation administration services have continued to function at full capacity. This required committing costs towards ensuring employee safety which included safe transportation, safe work places and practices, measures to support health and hygiene. At an operations level, the Bank increased its security support costs to ensure businesses were supported across the country, particularly the islands and highlands. This required increased costs on security around ensuring regular cash operations. To enable enhanced working from home practices, increased costs towards system and access security measures and the increased communication networks required to enable working from home were also incurred.

While the cost to income ratio has increased to 64.9%, it is related to Kina's growth strategy and capability build. Management's focus on this important ratio has not wavered.

1.2.9 Asset Quality and Loan Impairment

Loans	Half Year							
Figures in PGK Million	Jun-20	% of GLA	Dec19	% of GLA	Jun19	% of GLA	Dec18	% of GLA
Loan impairment expense	9.2	0.64%	3.5	0.24%	2.1	0.23%	0.8	0.09%
Non-performing loans and loans in arrears	10.7	0.74%	83.4	5.86%	19.3	2.18%	17.7	2.18%
- 90 day arrears	4.3	0.30%	47.0	3.31%	7.6	0.86%	5.5	0.63%
- Gross non-performing loans (> 180 days)	6.4	0.44%	36.4	2.56%	11.7	1.32%	12.2	1.40%
Total provision	25.2	1.74%	20.5	1.44%	19.3	2.18%	18.4	2.11%

The Company uses an internal risk grading model which takes into account quantitative and qualitative factors in grading individual exposures with each grade having an associated 'loss rate'. Default stages are applied depending on the aging and/or any adverse change in the risk grade since origination. The total level of provisions held includes an allowance for model and economic risk.

Loan impairment expense as a percentage of GLA increased compared to the prio corresponding period. This is largely due to actions undertaken to restore financial performance of acquired loans which commenced in 2H 2019 and additional provision required on new loans in accordance with IFRS 9 *Financial Instruments* requirements. During 1H 2020, total impairment expense using the IFRS 9 provisioning model, totaled PGK 5.1 million with net write-offs (after recoveries) totaling PGK 3.7 million. Model calculated expected credit loss (**ECL**) in 1H 2020 is off a gross loan book of PGK 1.5 billion, compared to a gross loan book of PGK 0.9 billion in 1H 2019. Total net write-offs (after adjusting for write-offs of acquired loans) as a percentage of GLA remains at 0.14% of GLA (1H 2020 and 1H 2019). An analysis of the loan impairment expense compared to the prior corresponding period is provided below:

Figures in PGK'000's	*Jun-20*	*Jun-19*	Jun-20	Jun-19	Change (PGK)	Change (%)
Provision on loans			8,794	2,372	6,422	271%
Organic	*5,102*	*1,134*				
Net write-offs	*3,692*	*1,238*				
Trade Debtors			422	(196)	618	-315%
Total Impairment (loans and advances)			9,216	2,176	7,040	324%
Provision on GIS *			1,179	(125)	1,304	-1043%
Total Loan Impairment Expense			**10,395**	**2,051**	**8,344**	**407%**

** see note below on investments*

Significant improvements were noted in non-performing loans (**NPL**). NPL as at 30 June 2020 decreased to 0.74% of GLA, compared to 5.86% as at 31 December 2019. This is a reflection of Kina's continued effort to maintain strong credit quality across the loan book and continued disciplined approach to the Group's lending standards.

An analysis of the loan portfolio and provision based on risk grade as required by IFRS 9 ECL model is set out as follows:

Loans and advances to customers at amortised cost: PGK millions	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total Jun 2020	Total Dec 2019
Grade A-D: Low to fair risk	1,280.3	40.1	2.4	-	1,322.8	1,340.9
Grade E: Monitoring	19.6	23.6	0.1	-	43.3	30.8
Grade F: Substandard	11.8	28.4	1.3	-	41.5	23.9
Grade G: Doubtful	-	8.3	0.5	-	8.8	4.4
Grade H: Impaired	-	-	15.8	13.6	29.4	22.0
Total Gross Carrying Amount	**1,311.7**	**100.4**	**20.1**	**13.6**	**1,445.8**	**1,422.0**
Loss allowance	(11.9)	(10.9)	(2.4)	-	(25.2)	(20.5)
Carrying Amount	**1,299.8**	**89.5**	**17.7**	**13.6**	**1,420.6**	**1,401.5**

Investments

Under the recent BPNG intervention and quantitative easing requirements due to COVID-19, Kina (together with other financial institutions) took on greater placements of Government Inscribed Stock (**GIS**) issued by the PNG Government. Kina took on a total of PGK 100 million with terms greater than 5 years. In accordance with IFRS 9 requirements, the Company is required to assess the ECL on these investments. Based on this requirement, total ECL calculated (taking into account probability of default (**PD**) and Loss Given Default **(LGD)**) was PGK 1.7 million. The impact to the P&L was PGK 1.2 million (see table under Loans section above).

1.2.10 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 2020.

Each "BFI Licensed AuthorisedInstitution" (**Authorised Institution**) within the Kina Group, who are licensed or authorized by the BPNG to accept or collect deposits from the public, is required to comply with prudential standards issued 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 Limited.

Regulatory Capital Ratios	30-Jun-20	31-Dec-19	30-Jun-19	31-Dec-18	30-Jun-18
PGK'million					
RWA	**1,566.3**	**1,598.2**	**1,014.0**	**980.0**	**883.0**
Capital: T1	301.1	252.6	269.0	234.4	232.0
Capital: T2	41.9	70.9	33.0	49.0	26.0
Capital: T1 + T2	343.0	323.5	302.0	283.4	258.0
Capital adequacy Ratio: T1	19.2%	15.8%	26.5%	23.9%	26.3%
Capital adequacy: T2	2.7%	4.4%	3.3%	5.0%	2.9%
Capital adequacy: T1 + T2	21.9%	20.2%	29.8%	28.9%	29.2%
Leverage Ratio	10.1%	8.5%	15.0%	13.9%	16.0%

Capital ratios at the end of June 2020 remained above BPNG's requirement, with combined tier 1 (**T1**) and T2 capital equal to 21.9% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. The Bank also has maintained leverage ratio at 10.1% above BPNG's minimum requirement of 6%.

The Bank's capital adequacy ratio is still above the minimum requirements for a well capitalised bank as set by BPNG. The reduction against 1H 2019 is due to the deployment of capital to complete the acquisition and consequent increase in risk weighted assets and total assets. Total capital adequacy ratio in 1H 2020 has seen improvement against 2H 2019 on the back of increased capital (in tier 1 and 2).

In May 2020, Kina announced a short form amalgamation which will simplify the Group's operating and capital structure. Kina Bank's capital adequacy ratio post the amalgamation of 15% remains compliant with BPNG's capital adequacy requirements in accordance with BPNG's Prudential Standard 1/2003 *Capital Adequacy*. The amalgamation has been progressed for regulatory approval.

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 Company's Asset and Liability Committee.

2. Consolidated Financial Statements

2.1 Statement of Comprehensive Income – consolidated

Figures in PGK'000's	Half Year Ended					Change (%) Jun20 vs Jun19
	30-Jun-20	31-Dec-19	30-Jun-19	31-Dec-18	30-Jun-18	
Continuing Operations						
Interest income on investments	26,453	22,560	13,569	13,049	9,232	95%
Interest income on loans	69,443	62,946	47,408	47,226	43,301	46%
Interest expense	(15,479)	(16,655)	(15,246)	(14,331)	(10,901)	2%
Net interest income	**80,417**	**68,851**	**45,731**	**45,944**	**41,632**	**76%**
Fee and commission income	36,861	29,071	18,807	18,186	18,215	96%
Fee and commission expense	(68)	(42)	(51)	(33)	(17)	33%
Net fee and commission income	**36,793**	**29,029**	**18,756**	**18,153**	**18,198**	**96%**
Foreign exchange income	28,498	23,268	18,688	20,134	14,067	52%
Dividend income	7	242	115	221	106	(94%)
Net (losses)/gain from financial assets through profit and loss	25	83	70	95	11	(64%)
Other operating income	3,437	394	340	(962)	4,051	911%
Non-interest income	**68,760**	**53,016**	**37,969**	**37,641**	**36,433**	**81%**
Operating income before impairment losses and operating expenses	**149,177**	**121,867**	**83,700**	**83,585**	**78,065**	**78%**
Impairment losses	(10,395)	(3,595)	(2,051)	(734)	(4,336)	407%
Other operating expenses	(96,771)	(69,430)	(47,798)	(41,965)	(45,412)	102%
Profit before tax	**42,011**	**48,842**	**33,851**	**40,886**	**28,317**	**24%**
Income tax expense	(12,720)	(11,585)	(10,237)	(13,434)	(7,676)	24%
Net Profit for the half year attributable to the equity holder of the Company	**29,291**	**37,257**	**23,614**	**27,452**	**20,641**	**24%**
Other comprehensive income						
Total comprehensive income for the half year attributable to the equity holder of the Company	**29,291**	**37,257**	**23,614**	**27,452**	**20,641**	**24%**

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year-ended 30 June 2020 and where applicable, calculated by reference to the audited 31 December 2019 annual financial statements and the 30 June 2019 half year reviewed financial statements.

2.2 Statement of financial position – consolidated

	30-Jun-20 PGK'000	31-Dec-19 PGK'000	30-Jun-19 PGK'000	31-Dec-18 PGK'000	30-Jun-18 PGK'000
Assets					
Cash and due from banks	304,774	269,702	121,340	85,638	87,775
Central bank bills	682,158	722,090	414,747	396,154	180,931
Regulatory deposits	175,360	249,713	139,938	137,494	109,620
Financial assets at fair value through profit and loss	7,660	7,635	4,977	4,907	4,813
Loans and advances to customers	1,420,582	1,401,433	865,806	851,663	785,901
Investments in government inscribed stocks	114,169	34,003	34,324	34,195	78,826
Current income tax assets	493	810	947	847	322
Deferred tax assets	12,307	10,491	10,278	7,193	8,443
Property, plant and equipment	88,987	96,922	45,551	12,108	19,827
Goodwill	92,786	92,786	92,786	92,786	92,786
Intangible assets	46,688	49,247	37,439	26,432	12,021
Other assets	59,210	62,703	10,357	13,424	22,995
Total Assets	**3,005,174**	**2,997,535**	**1,778,490**	**1,662,841**	**1,404,260**
Liabilities					
Due to other banks	(22)	(22)	(78)	(25,065)	(638)
Due to customers	(2,525,390)	(2,460,967)	(1,417,959)	(1,315,460)	(1,097,785)
Current income tax liabilities	(12,576)	(4,506)	(13,669)	(9,001)	(6,076)
Employee provisions	(9,183)	(9,068)	(4,924)	(6,251)	(6,078)
Lease Liabilities	(50,410)	(54,958)	(33,930)	-	-
Other liabilities	(77,090)	(140,738)	(36,076)	(37,795)	(36,389)
Total Liabilities	**(2,674,671)**	**(2,670,259)**	**(1,506,636)**	**(1,393,572)**	**(1,146,966)**
Net Assets	**330,503**	**327,276**	**271,854**	**269,269**	**257,294**
Share capital and reserves					
Issued and fully paid ordinary shares	(176,970)	(176,970)	(142,213)	(142,213)	(142,213)
Share-based payment reserve	(3,176)	(2,063)	(2,821)	(2,651)	(1,712)
Retained earnings	(150,357)	(148,243)	(126,820)	(124,405)	(113,369)
Total capital and reserves	**(330,503)**	**(327,276)**	**(271,854)**	**(269,269)**	**(257,294)**

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year-ended 30 June 2020 and where applicable, calculated by reference to the audited 31 December 2019 annual financial statements and the 30 June 2019 half year reviewed financial statements.

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 2018	**142,213**	**-**	**2,651**	**124,405**	**269,269**
Effect of change in accounting policy - IFRS 16	**-**	**-**	**-**	(725)	(725)
Balance as at 01 January 2019	**142,213**	**-**	**2,651**	**123,680**	**268,544**
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**	**127,385**	**272,419**
Profit for the period	-	-	-	37,257	37,257
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme - vested rights	-	-	(1,321)	-	(1,321)
Employee share scheme - value of employee services	-	-	563	-	563
Dividend paid	-	-	-	(16,399)	(16,399)
Issued capital	34,757	-	-	-	34,757
Balance as at 31 December 2019	**176,970**	**-**	**2,063**	**148,243**	**327,276**
Profit for the period	-	-	-	29,291	29,291
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme - vested rights	-	-	(1,024)	-	(1,024)
Employee share scheme - value of employee services	-	-	2,137	-	2,137
Dividend paid	-	-	-	(27,177)	(27,177)
Balance as at 30 June 2020	**176,970**	**-**	**3,176**	**150,357**	**330,503**

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year-ended 30 June 2020 and where applicable, calculated by reference to the audited 31 December 2019 annual financial statements and the 30 June half year reviewed financial statements.

2.4 Statement of Cashflow – consolidated

	30-Jun-20 PGK'000	31-Dec-19 PGK'000	30-Jun-19 PGK'000	31-Dec-18 PGK'000	30-Jun-18 PGK'000
Cash flows from operating activities					
Interest received	99,550	146,984	60,973	112,691	52,474
Interest paid	(14,348)	(32,835)	(17,092)	(23,525)	(10,049)
Foreign exchange gain	28,498	41,956	18,688	34,201	-
Dividend received	7	357	115	327	106
Fee, commission and other income received	37,217	50,531	19,744	33,973	24,132
Fee and commission expense paid	(68)	(93)	(51)	(50)	(17)
Net trading and other operating income received	3,462	887	411	3,195	1,375
Recoveries on loans previously written-off	1,287	2,076	1,991	1,725	770
Cash payments to employees and suppliers	(84,710)	(110,059)	(83741)	(98,033)	(32,289)
Income tax paid	(8,191)	(30,628)	(4,794)	(13,561)	(4,999)
Cash flows from operating profits before changes in operating assets	**62,704**	**69,176**	**(3,756)**	**50,943**	**31,503**
Changes in operating assets and liabilities:					
- net increase in regulatory deposits	74,353	(112,218)	(2,444)	(30,671)	(2,797)
- net increase in loans and advances to customers	(24,446)	(225,415)	(17,067)	(118,579)	(53,195)
- net increase in other assets	1,751	(41,844)	2,100	763	(8,604)
- net increase/ (decrease) in due to customers	49,911	96,872	88,063	293,027	78,460
- net decrease in due to other banks	13,864	(27,558)	(10,708)	21,145	-
- net increase/ (decrease) in other liabilities	(69,327)	103,677	34,057	2,593	2,895
Net cash flows from operating activities	**108,810**	**(137,310)**	**90,245**	**219,221**	**48,262**
Cash flows from investing activities					
Purchase of property, equipment and software	(6,991)	(39,005)	(16,085)	(14,999)	(2,946)
Proceeds from sale of property and equipment	16	16	16	19,912	-
Purchase of investment securities	(40,234)	(403,319)	(33,722)	(139,602)	8,674
Net cash acquired on business combination	-	687,718	-	-	-
Net cash flows from investing activities	**(47,209)**	**245,410**	**(49,791)**	**(134,689)**	**5,728**
Cash flows from financing activities					
Dividend payment	(27,177)	(36,308)	(19,909)	(32,799)	(16,384)
Proceeds from the issuance of share capital, net of transaction costs	-	34,757	-	-	-
Net cash flow from financing activities	**(27,177)**	**(1,551)**	**(19,909)**	**(32,799)**	**(16,384)**
Net increase/ (decrease) in cash and cash equivalents	**34,424**	**106,549**	**20,545**	**51,733**	**37,606**
Effect of changes in the foreign exchange rates on cash and cash equivalents	648	2,515	157	6,391	454
Cash and cash equivalents at beginning of period	**269,702**	**160,638**	**160,638**	**102,514**	**102,514**
Cash and cash equivalents at the end of the period	**304,774**	**269,702**	**181,340**	**160,638**	**140,574**

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year-ended 30 June 2020 and where applicable, calculated by reference to the audited 31 December 2019 annual financial statements and the 30 June half year reviewed financial statements.

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 International Accounting Standard (**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 2020 are consistent with those used in preparing the 31 December 2019 financial statements of the Kina 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 2020 PGK'000	31 Dec 2019 PGK'000
Cash and due from other banks	**254,774**	269,702
Central bank bills (maturity less than 3 months)	**50,000**	0
Total cash at the end of the period	**304,774**	269,702

2.8 Ratios

	30-Jun-20	31-Dec-19	30-Jun-19	31-Dec-18	30-Jun-18
Profit before tax / Operating Income Consolidated profit from ordinary activities before tax as a percentage of revenue	28.2%	40.1%	40.4%	48.9%	36.3%
Profit after tax / equity interests Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	8.9%	11.4%	8.7%	10.2%	8.0%

2.9 Earnings Per Share

Details of basic and diluted earnings per share (**EPS**) reported separately in accordance with IAS 33: *Earnings Per Share* are as follows;

	30-Jun-20	31-Dec-19	30-Jun-19	31-Dec-18	30-Jun-18
Calculation of the following in accordance with IAS33					
(a) Basic EPS	16.8	21.3	14.4	16.7	12.6
(b) Diluted EPS	16.7	21.2	14.3	16.5	12.5
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	174,745,169	174,745,169	163,993,253	163,993,253	163,993,253

2.10 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.

2.11 Issued Shares

The total number of shares at 30 June 2020 was 174,745,169 (31 December 2019: 174,745,169).

Issued Ordinary Shares	Total Number Ordinary shares	Number Quoted Ordinary shares
Changes during the half year ended 30 June 2020		
Opening Balance of number of shares	174,745,169	174,745,169
Increase through issue of shares 2020	-	-
Total	**174,745,169**	**174,745,169**

2.12 Segment Reporting

30 June 2020	Banking PGK'000	Wealth Management PGK'000	Corporate PGK'000	Total PGK'000
Total external income	132,905	14,382	1,891	149,178
Total external expense	(86,416)	(5,391)	(15,360)	(107,167)
Profit before inter-segment revenue and expenses	**46,489**	**8,991**	**(13,469)**	**42,011**
Inter-segment income	5,885	-	16,854	22,739
Inter-segment expense	(20,395)	(2,169)	(175)	(22,739)
Profit before tax	**31,979**	**6,822**	**3,210**	**42,011**
Income tax expense	(9,651)	(2,040)	(1,029)	(12,720)
Profit after tax	**22,328**	**4,782**	**2,181**	**29,291**
Segment assets	2,841,075	12,685	151,414	3,005,174
Segment liabilities	(2,651,014)	(2,933)	(20,724)	(2,674,671)
Net assets	**190,061**	**9,752**	**130,690**	**330,503**
Capital expenditure	6,185	-	806	6,991
Depreciation	(14,043)	-	(3,428)	(17,471)

30 June 2019	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 expense	(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 expense	(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)

2.13 Comparison of Profits

	30-Jun-20 PGK'000	31-Dec-19 PGK'000	31-Dec-18 PGK'000
First Half Year			
Consolidated profit from continuing operations after tax attributable to members reported for the full year	29,291	23,614	20,641
Second Half Year			
Consolidated profit from continuing operations after tax attributable to members reported for the full year	N/A	37,257	27,452

2.14 Contingent Liabilities

The Company is a party to a number of litigations as at 30 June 2020. 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. Ongoing litigations are not expected to result in a material loss to the Kina Group.

The Kina Group guarantees the performance of customers by issuing bank guarantees to third parties. As at 30 June 2020, these totalled PGK 74.4 million (31 December 2019: PGK 70.4 million).

3. Compliance Statement

1. This report has been prepared in accordance with Australian Accounting Standards Board (**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.