

27 August 2020

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Sydney NSW 2000  
Australia

PNGX Markets  
Harbourside West Building  
Unit 1B.02, Level 1, Stanley Esplanade  
Down Town, Port Moresby 121  
Papua New Guinea

## BY ELECTRONIC LODGEMENT

### Amended Consolidated Financial Statements - Half-Year Ended 30 June 2020

Please find attached for release to the market, an amended *Consolidated Financial Statements for the Half-Year ended 30 June 2020*, which corrects details (as highlighted) of the "Additional ECL Recognised" with regard to "Loans and advances to customers at amortised cost", in the table on page 13 in Note 6.1 *Movement in expected credit loss ("ECL") by class of financial instrument*, from the version lodged earlier today.

-ENDS-

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

*For further information:*

**Greg Pawson**

Chief Executive Officer and Managing Director  
Email: [greg.pawson@kinabank.com.pg](mailto:greg.pawson@kinabank.com.pg)

**Chetan Chopra**

Chief Financial Officer and Company Secretary  
Email: [Chetan.chopra@kinabank.com.pg](mailto:Chetan.chopra@kinabank.com.pg)

**KINA SECURITIES LIMITED  
AND ITS SUBSIDIARIES**

**CONDENSED INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 30 JUNE 2020**

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**

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CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE HALF YEAR ENDED 30 JUNE 2020**

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## **KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**

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### **DIRECTORS' REPORT**

#### **FOR THE HALF YEAR ENDED 30 JUNE 2020**

The Directors of Kina Securities Limited (the **Company**, or **Bank**) and its Subsidiaries (the **Group**) submit herewith the condensed interim consolidated financial statements of the Group for the half year ended 30 June 2020.

#### **Principal Activities**

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

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

#### **Accounting Policies**

Details of accounting policies are shown in note 1 (c) to the accounts.

#### **Country of Incorporation**

The Company was incorporated in Papua New Guinea on 14 October 1985 and has its principal place of business in Port Moresby, Papua New Guinea.

#### **Registered Office**

Its registered office is Level 9, Kina Haus, Douglas Street, Port Moresby, National Capital District, 121, Papua New Guinea.

#### **Directors and Secretary**

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

I. Taureka, Chairman	A Carriline
G. Pawson, Managing Director & Chief Executive Officer	P. Hutchinson
K. Smith-Pomeroy	J. Thomason

The company secretary is C. Chopra.

#### **Dividends**

Dividends declared for the half year amounted to K 17,574,714 (and paid for the half year ended 31 December 2019 amounted to K16,399,325).

#### **Results**

The operating profit attributable to equity holders for the half year for the Group was K 29,291,189 (2019: K 23,614,000).

#### **Impact of COVID-19**

The COVID-19 outbreak has 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 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.

## **KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**

### **DIRECTORS' REPORT**

#### **FOR THE HALF YEAR ENDED 30 JUNE 2020**

The Bank of PNG 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.

As at 30 June 2020, COVID-19 has not had a material impact on the financial position of the 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 and the Group does not believe that these requests suggest a significant deterioration in credit quality. The Bank's liquidity and capital requirements remain above regulatory required minimum levels.

#### **Sale of Esiloan portfolio**

On 30 June 2020, Kina divested Esiloan portfolio to Nationwide Microbank Limited (MiBank) for an amount of PGK 32.5 million. The transaction was in line with the strategic partnership announced between Kina and MiBank in August 2019 to provide greater financial inclusion and provision of micro-finance to customers.

#### **Regulatory matters**

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 Prudential Standards 1/2003 – Capital Adequacy. The amalgamation has been progressed for regulatory approval.

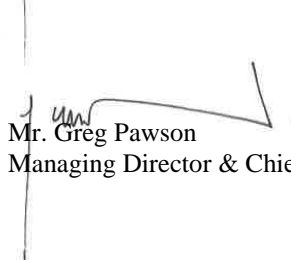
#### **Events subsequent to reporting date**

Details of events subsequent to reporting date are outlined in note 28 in this Financial report on page 31.

Signed at Port Moresby on behalf of the board on the 27<sup>th</sup> day of August 2020.



Mr. Isikeli Taureka  
Chairman



Mr. Greg Pawson  
Managing Director & Chief Executive Officer

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**INDEPENDENT AUDITOR'S REVIEW REPORT**  
**FOR THE HALF YEAR ENDED 30 JUNE 2020**

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**Deloitte.**

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

We have reviewed the accompanying half-year financial report of Kina Securities Limited ("the Company"), which comprises the condensed interim consolidated statement of financial position as at 30 June 2020, and the condensed interim consolidated statement of comprehensive income, the condensed interim consolidated statement of cash flows and the condensed interim consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 5 to 31.

*Directors' Responsibility for the Half-Year Financial Report*

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

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Papua New Guinea Companies Act 1997* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and its performance for the half-year ended on that date; and complying with International Accounting Standard 34 *Interim Financial Reporting* and the *Papua New Guinea Companies Act 1997*. As the auditor of Kina Securities Limited, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

*Conclusion*

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the half-year ended on that date; and



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

*Other Information*

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

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "D. Rodgers".

David Rodgers  
Partner  
Chartered Accountants  
Registered Company Auditor in Australia  
Brisbane, 27 August 2020

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "B. Lee".

Benjamin Lee  
Partner  
Chartered Accountants  
Registered under the Accountants Act, 1996  
Port Moresby, 27 August 2020

## **KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**

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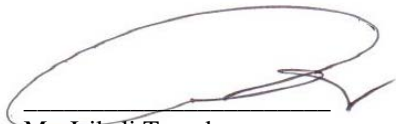
### **DIRECTORS' DECLARATION FOR THE HALF YEAR ENDED 30 JUNE 2020**

The directors declare that:

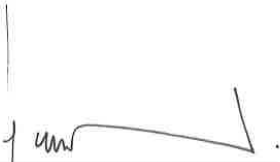
- in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
- in the directors' opinion, the attached condensed interim consolidated financial statements and notes thereto give a true and fair view of the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

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Mr. Isikeli Taureka  
Chairman  
Port Moresby



Mr. Greg Pawson  
Managing Director & Chief Executive Officer  
Port Moresby

on the 27<sup>th</sup> day of August 2020.



**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE**  
**INCOME FOR THE HALF YEAR ENDED 30 JUNE 2020**

	Notes	Consolidated	
		2020	2019
		Unaudited	Unaudited
<b>Continuing operations</b>		<b>K'000</b>	<b>K'000</b>
Interest income		95,896	60,977
Interest expense		(15,479)	(15,246)
Net interest income	3	80,417	45,731
Fee and commission income		36,861	18,807
Fee and commission expense		(68)	(51)
Net fee and commission income	4	36,793	18,756
Foreign exchange income		28,498	18,688
Dividend income		7	115
Net gain from financial assets through profit and loss		25	70
Other operating income	5	3,437	340
<b>Operating income before impairment losses and operating expenses</b>		<b>149,177</b>	<b>83,700</b>
Expected credit losses on financial instruments at amortised cost	6	(10,395)	(2,051)
Other operating expenses	7	(96,771)	(47,798)
<b>Profit before tax</b>		<b>42,011</b>	<b>33,851</b>
Income tax expense	8	(12,720)	(10,237)
<b>Net Profit for the period</b>		<b>29,291</b>	<b>23,614</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>29,291</b>	<b>23,614</b>

	2020	2019
Earnings per share - basic (toea) (Note 19 (b))	16.8	14.4
Earnings per share - diluted (toea) (Note 19 (b))	16.7	14.3

*The notes on pages 10 to 31 are an integral part of these condensed interim consolidated financial statements.*

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN**  
**SHAREHOLDERS' EQUITY FOR THE HALF YEAR ENDED 30 JUNE 2020**

Consolidated Attributable to the equity holders of the Group	Share Capital	Share Based Payment Reserve	Retained Earnings	Total
	K'000	K'000	K'000	K'000
<b>Balance as at 31 December 2018</b>	<b>142,213</b>	<b>2,651</b>	<b>124,405</b>	<b>269,269</b>
Effect of adoption of IFRS 16 <i>Leases</i>			(725)	(725)
<b>Balance as at 1 January 2019</b>	<b>142,213</b>	<b>2,651</b>	<b>123,680</b>	<b>268,544</b>
Profit for the period	-	-	23,614	23,614
Employee share scheme – vested rights	-	(109)	-	(109)
Employee share scheme – value of employee services	-	279	-	279
Dividend paid	-	-	(19,909)	(19,909)
<b>Balance as at 30 June 2019</b>	<b>142,213</b>	<b>2,821</b>	<b>127,385</b>	<b>272,419</b>
Profit for the period			37,257	37,257
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
<b>Balance as at 31 December 2019</b>	<b>176,970</b>	<b>2,063</b>	<b>148,243</b>	<b>327,276</b>
Profit for the period			29,291	29,291
Employee share scheme – vested rights		(1,024)		(1,024)
Employee share scheme – value of employee services		2,137		2,137
Dividend paid			(27,177)	(27,175)
<b>Balance as at 30 June 2020</b>	<b>176,970</b>	<b>3,176</b>	<b>150,359</b>	<b>330,503</b>


*The notes on pages 10 to 31 are an integral part of these condensed interim consolidated financial statements.*

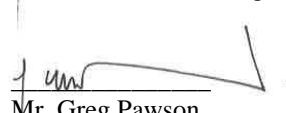
**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2020**

	Notes	Consolidated	
		30 June 2020 Unaudited K'000	31 December 2019 Audited K'000
<b>Assets</b>			
Cash and due from banks	9	304,774	269,702
Treasury and Central bank bills	10	682,158	722,090
Regulatory deposits	11	175,360	249,713
Financial assets at fair value through profit and loss	12	7,661	7,635
Loans and advances to customers	13	1,420,583	1,401,433
Investments in government inscribed stocks	14	114,169	34,003
Current income tax assets		493	810
Deferred tax assets		12,307	10,491
Property, plant and equipment	15	88,987	96,922
Goodwill	16	92,786	92,786
Intangible assets	16	46,688	49,247
Other assets	18	59,210	62,703
<b>Total Assets</b>		<b>3,005,174</b>	<b>2,997,535</b>
<b>Liabilities</b>			
Due to other banks		22	22
Due to customers	17	2,525,390	2,460,967
Current income tax liabilities		12,576	4,506
Employee provisions		9,183	9,068
Lease Liabilities		50,410	54,958
Other liabilities	18	77,090	140,738
<b>Total Liabilities</b>		<b>2,674,671</b>	<b>2,670,259</b>
<b>Net Assets</b>		<b>330,503</b>	<b>327,276</b>
<b>Shareholders' Equity</b>			
Issued and fully paid ordinary shares	19a	176,970	176,970
Share-based payment reserve		3,176	2,063
Retained earnings		150,357	148,243
<b>Total Equity</b>		<b>330,503</b>	<b>327,276</b>

*The notes on pages 10 to 31 are an integral part of these condensed interim consolidated financial statements.*

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

  
 Mr. Isikeli Taureka  
 Chairman

  
 Mr. Greg Pawson  
 Managing Director & Chief Executive Officer

on the 27<sup>th</sup> day of August 2020.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 30 JUNE 2020**

	Notes	Consolidated	
		30 June 2020 Unaudited K'000	30 June 2019 Unaudited K'000
<b>Cash flows from operating activities</b>			
Interest received		99,550	60,973
Interest paid		(14,348)	(17,092)
Dividend received		7	115
Fee, commission and other income received		65,715	38,432
Fee and commission expense paid		(68)	(51)
Net trading and other operating income received		3,462	411
Recoveries on loans previously written-off		1,287	1,991
Cash payments to employees and suppliers		(84,710)	(83,741)
Income tax paid		(8,191)	(4,794)
<b>Cash flows from operating profits before changes in operating assets</b>		<b>62,705</b>	<b>(3,756)</b>
<b>Changes in operating assets and liabilities:</b>			
- net increase in regulatory deposits	10	74,353	(2,444)
- net increase in loans and advances to customers	12	(24,446)	(17,067)
- net decrease/ (increase) in other assets	17	1,751	2,100
- net increase/ (decrease) in due to customers	16	49,911	88,063
- net decrease in due to other banks		13,864	(10,708)
- net increase in other liabilities	17	(69,327)	34,057
<b>Net cash flows from operating activities</b>		<b>108,810</b>	<b>90,245</b>
<b>Cash flows from investing activities</b>			
Payments for purchase of property, equipment and software		(6,991)	(16,085)
Proceeds from sale of property and equipment		16	16
Net movement in investment securities		(40,234)	(33,722)
<b>Net cash flows from investing activities</b>		<b>(47,209)</b>	<b>(49,791)</b>
<b>Cash flows from financing activities</b>			
Dividend payment		(27,177)	(19,909)
<b>Net cash flow from financing activities</b>		<b>(27,177)</b>	<b>(19,909)</b>
<b>Net increase in cash and cash equivalents</b>		<b>34,424</b>	<b>20,545</b>
Effect of changes in the foreign exchange rates on cash and cash equivalents		648	157
<b>Cash and cash equivalents at 1 January 2020 (1 January 2019)</b>		<b>269,702</b>	<b>160,638</b>
<b>Cash and cash equivalents at 30 June 2020 (30 June 2019)</b>		<b>304,774</b>	<b>181,340</b>
<b>Net cash generated during the six months ended 31 December 2019</b>		<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period 30 June 2020 (31 December 2019)</b>	<b>8</b>	<b>304,774</b>	<b>181,340</b>

The notes on pages 10 to 31 are an integral part of these condensed interim consolidated financial statements.

# **KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**

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## **NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2020**

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### **1. Significant accounting policies**

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

The company is listed on the Port Moresby Stock Exchange (**PNGX**) and the Australian Securities Exchange (**ASX**). The address of its operational office is Level 9, Kina Haus, Douglas Street, Port Moresby, National Capital District, 121, Papua New Guinea

#### a) Statement of compliance

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

These condensed interim consolidated financial statements have been reviewed, not audited. They were approved for issue by the Board of Directors on 27 August 2020.

#### b) Basis of presentation

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

#### c) Impact of COVID-19

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 government's fiscal and monetary operations. 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 attempting to mitigating the above risks, the government and prudential regulators have had to offer support and change monetary policies to adapt to the current market environment. The impact of these still remain uncertain.

#### Consideration of the financial statements and further disclosures

The Group has carefully considered the impact of COVID-19 in preparing its condensed interim financial statements for the period ended 30 June 2020. The key impacts on the financial statements, including the application of critical estimates and judgements are as follows:

##### *Loans and advances to customers*

The Group has introduced repayment deferral measures for customers impacted by COVID-19 for retail and small business customers. The repayment deferral arrangements were deemed continuations of customers' existing loans and were therefore accounted for as non-substantial loan modifications.

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 30 JUNE 2020**

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**1. Significant accounting policies (continued)**

*Provision for impairment*

In March 2020, the IASB published *IFRS 9 and COVID-19*, a document which highlights the requirements within *IFRS 9 Financial Instruments* relevant to the impact of COVID-19 on the recognition of expected credit losses. The publication reinforces the fact that IFRS 9 does not provide a mechanistic approach in accounting for impairment provisions.

In assessing forecast conditions, the Group has incorporated the effects of COVID-19 and government support measures on a reasonable and supportable basis. The IFRS 9 impairment methodology, and the definition of default have remained consistent with prior periods.

The circumstances are unique in that many of the deferred loans were performing prior to COVID-19, and either continue to perform, or have genuine prospects of recovery once government restrictions are eased. COVID-19 repayment deferrals were not borrower specific, but rather addressed to broad ranges of customers, and have therefore not been classified automatically as Stage 2 loans.

*Assessment of impairment of non-current assets*

The Group assessed goodwill for indicators of impairment. Severe disruptions to the airline, travel and tourism sector caused by international travel restrictions were the primary impacts in the PNG market and the Group considered the impacts on the businesses dealings in these sectors. The Group also considered whether volume of relief requests indicated a significant change in expectations on future profitability and concluded that given current information the likelihood is remote and there were no impairment indicators

d) Accounting policies and disclosures

The accounting policies and methods of computation adopted are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 31 December 2019. The accounting policies are consistent with International Financial Reporting Standards.

**2. Critical accounting estimates and judgments**

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

In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019 except as disclosed otherwise. Key estimates used in preparation of consolidated financial statements for the year ended 31 December 2019 and this interim financial information are as follows:

- Significant increase in credit risk;
- Recognition of deferred tax asset for carried forward tax losses;
- Estimated allowance for loans and advances to customers;
- Estimated goodwill impairment; and
- Estimated useful life of intangible asset;

**KINA SECURITIES LIMITED AND ITS SUBSIDIARIES**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 30 JUNE 2020**

**3. Net interest income**

	<b>Consolidated</b>	
	<b>30 June 2020 Unaudited K'000</b>	<b>30 June 2019 Unaudited K'000</b>
<b>Interest income</b>		
Cash and short-term funds	24,048	12,032
Investment in government inscribed stocks	2,405	1,537
Loans and advances to customers	69,443	47,408
	<b>95,896</b>	<b>60,977</b>
<b>Interest expense</b>		
Banks and customers	(15,479)	(15,246)
<b>Net interest income</b>	<b>80,417</b>	<b>45,731</b>

**4. Net fee and commission income**

	<b>Consolidated</b>	
	<b>30 June 2020 Unaudited K'000</b>	<b>30 June 2019 Unaudited K'000</b>
<b>At a point in time</b>		
Investment and portfolio management	4,504	5,122
Fund administration	9,751	8,875
Shares brokerage	307	216
Loan fees and bank commissions	20,017	3,085
Other fees (net of expense)	39	145
<b>Over time</b>		
Loan fees and bank commissions	2,175	1,313
<b>Net fee and commission income</b>	<b>36,793</b>	<b>18,756</b>

**5. Other operating income**

	<b>Consolidated</b>	
	<b>30 June 2020 Unaudited K'000</b>	<b>30 June 2019 Unaudited K'000</b>
Gain on sale (Esiloan portfolio)	3,025	-
Other income	412	340
<b>Other Operating Income</b>	<b>3,437</b>	<b>340</b>

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**6. Expected credit losses on financial instruments at amortised cost**

**6.1 Movement in expected credit loss (“ECL”) by class of financial instrument**

Table below summarises the movement in expected credit loss (ECL) during the period by class of financial assets on which ECL has been recognised:

	<b>Balance at 1 January 2020</b>	<b>Additional ECL recognised</b>	<b>Write-offs</b>	<b>Bad debt recoveries</b>	<b>Balance at 30 June 2020</b>
<b>Loss allowance by classes</b>	<b>K’000</b>	<b>K’000</b>	<b>K’000</b>	<b>K’000</b>	<b>K’000</b>
Loans and advances to customers at amortised cost	20,525	8,377	(4,979)	1,287	25,210
Investments in government inscribed stocks at amortised cost	489	1,193	(13)	-	1,669
Other financial assets	4,038	-	-	-	4,038
<b>Total</b>	<b>25,052</b>	<b>9,570</b>	<b>(4,992)</b>	<b>1,287</b>	<b>30,917</b>

**6.2 Movement in expected credit loss by stage**

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL. On the basis of whether there is a significant increase in credit risk, the Group classifies the exposures into following stages:

- Stage 1** These exposures are regarded as performing loans and lower loss rates are applied in determining the ECL representing ECL equivalent to 12 months expected losses.
- Stage 2** Exposures are classified as Stage 2 if credit rating has worsened since initial recognition or if facility is overdue by specified number of days.
- Stage 3** Stage 3 exposures are considered in default in accordance with the definition of default above.

The table below analyses the movement of the loss allowance during the period per class of assets except for those where there have been no significant movement in the ECL since prior year or where no ECL is recognised.

In relation to investment in government inscribed stocks and other financial assets, there have been no significant movements in the ECL during the period. ECL is managed every month by both the Credit and Risk & Finance departments. The monthly arrears report and required Loan Loss provision is calculated. We believe the current provision levels adequately capture any potential risk arising out of normal business and COVID-19 related events and actions.



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**6.2 Movement in expected credit loss by stage (continued)**

Loss allowance – Loans and advances to customers at amortised cost	30 June 2020			POCI	Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
	K'000	K'000	K'000	K'000	K'000
<b>Gross carrying amount as at 01 January</b>	12,102	6,698	1,725	-	20,525
Changes in the gross carrying amount					
- Transfer to stage 1	(527)	777	(250)	-	-
- Transfer to stage 2	(466)	511	(46)	-	-
- Transfer to stage 3	-	(258)	258	-	-
Write-offs	-	(1,628)	(2,193)	-	(3,822)
New financial assets originated or purchased	3,081	10,008	1,301	-	14,389
Financial assets that have been derecognised	(2,354)	(2,980)	(547)	-	(5,881)
<b>Gross carrying amount as at 30 June</b>	<b>11,836</b>	<b>13,128</b>	<b>248</b>	<b>-</b>	<b>25,210</b>

Loss allowance – Loans and advances to customers at amortised cost	31 December 2019			POCI	Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL		
	K'000	K'000	K'000	K'000	K'000
<b>Gross carrying amount as at 01 January</b>	11,012	9,786	(2,347)	-	18,451
Changes in the gross carrying amount					
- Transfer to stage 1	86	(86)	-	-	-
- Transfer to stage 2	(477)	477	-	-	-
- Transfer to stage 3	(5)	(106)	111	-	-
Write-offs	-	(2,599)	(1,282)	-	(3,881)
New financial assets originated or purchased	6,363	1,382	6,582	-	14,327
Financial assets that have been derecognised	(4,877)	(2,156)	(1,339)	-	(8,372)
<b>Gross carrying amount as at 31 December</b>	<b>12,102</b>	<b>6,698</b>	<b>1,725</b>	<b>-</b>	<b>20,525</b>

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**6.3 Movement in gross carrying amounts of financial assets at amortised cost**

Loans and advances to customers at amortised cost	30 June 2020				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	K'000	K'000	K'000	K'000	K'000
<b>Gross carrying amount as at 01 January</b>	1,324,738	73,818	7,894	15,508	1,421,958
Changes in the gross carrying amount					
- Transfer to stage 1	20,933	(14,170)	(6,763)	-	-
- Transfer to stage 2	(68,103)	68,814	(711)	-	-
- Transfer to stage 3	(2,179)	(11,473)	13,652	-	-
Write-offs	-	(1,628)	(2,193)	-	(3,822)
New financial assets originated or purchased	252,230	71,174	34,136	-	357,540
Financial assets that have been derecognised	(216,093)	(84,964)	(26,930)	(1,895)	(329,883)
<b>Gross carrying amount as at 30 June</b>	<b>1,311,526</b>	<b>101,571</b>	<b>19,084</b>	<b>13,613</b>	<b>1,445,792</b>

Loans and advances to customers at amortised cost	31 December 2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	K'000	K'000	K'000	K'000	K'000
<b>Gross carrying amount as at 01 January</b>	836,048	28,413	5,653	-	870,114
Changes in the gross carrying amount					
- Transfer to stage 1	6,654	(6,654)	-	-	-
- Transfer to stage 2	(35,188)	35,188	-	-	-
- Transfer to stage 3	(1,014)	(944)	1,958	-	-
Write-offs	-	(2,599)	(1,284)	-	(3,883)
New financial assets originated or purchased	799,200	30,677	6,220	15,508	851,605
Financial assets that have been derecognised	(280,962)	(10,263)	(4,653)	-	(295,878)
<b>Gross carrying amount as at 31 December</b>	<b>1,324,738</b>	<b>73,818</b>	<b>7,894</b>	<b>15,508</b>	<b>1,421,958</b>

In relation to investment in government inscribed stocks and other financial assets which continue to be classified as Stage 1, there has been no significant movements in the carrying amount during the period.

An analysis of the Group's **credit risk exposure per class of financial asset, internal rating and "stage"** without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed respectively.

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**6.3 Movement in gross carrying amounts of financial assets at amortised cost (continued)**

	30 June 2020			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Cash and due from banks at amortised cost</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Grades A-B: Low to fair risk	304,774	-	-	304,774
<b>Total gross carrying amount</b>	<b>304,774</b>	<b>-</b>	<b>-</b>	<b>304,774</b>
Loss allowance	-	-	-	-
<b>Net carrying amount</b>	<b>304,774</b>	<b>-</b>	<b>-</b>	<b>304,774</b>

	31 December 2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Cash and due from banks at amortised cost</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Grades A-B: Low to fair risk	269,702	-	-	269,702
<b>Total gross carrying amount</b>	<b>269,702</b>	<b>-</b>	<b>-</b>	<b>269,702</b>
Loss allowance	-	-	-	-
<b>Net carrying amount</b>	<b>269,702</b>	<b>-</b>	<b>-</b>	<b>269,702</b>

	30 June 2020			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Treasury and central bank bills at amortised cost</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Grades A-B: Low to fair risk	682,158	-	-	682,158
<b>Total gross carrying amount</b>	<b>682,158</b>	<b>-</b>	<b>-</b>	<b>682,158</b>
Loss allowance	-	-	-	-
<b>Carrying amount</b>	<b>682,158</b>	<b>-</b>	<b>-</b>	<b>682,158</b>

	31 December 2019			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Treasury and central bank bills at amortised cost</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Grades A-B: Low to fair risk	722,090	-	-	722,090
<b>Total gross carrying amount</b>	<b>722,090</b>	<b>-</b>	<b>-</b>	<b>722,090</b>
Loss allowance	-	-	-	-
<b>Carrying amount</b>	<b>722,090</b>	<b>-</b>	<b>-</b>	<b>722,090</b>

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**6.3 Movement in gross carrying amounts of financial assets at amortised cost (continued)**

Regulatory deposits at amortised cost	30 June 2020			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	175,360	-	-	175,360
<b>Total gross carrying amount</b>	<b>175,360</b>	<b>-</b>	<b>-</b>	<b>175,360</b>
Loss allowance	-	-	-	-
<b>Carrying amount</b>	<b>175,360</b>	<b>-</b>	<b>-</b>	<b>175,360</b>

Regulatory deposits at amortised cost	31 December 2019			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	249,713	-	-	249,713
<b>Total gross carrying amount</b>	<b>249,713</b>	<b>-</b>	<b>-</b>	<b>249,713</b>
Loss allowance	-	-	-	-
<b>Carrying amount</b>	<b>249,713</b>	<b>-</b>	<b>-</b>	<b>249,713</b>

Loans and advances to customers at amortised cost	30 June 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	K'000	K'000	K'000	K'000	K'000
Grade C - D: Moderate and acceptable risk	1,280,226	40,122	2,382	-	1,322,730
Grade E: Watchlist / special mention	19,589	23,591	121	-	43,301
Grade F: Substandard	11,849	28,362	1,326	-	41,537
Grade G: Doubtful	5	8,304	508	-	8,816
Grade H: Loss	-	-	15,794	13,613	29,407
<b>Total Gross Carrying Amount</b>	<b>1,311,669</b>	<b>100,379</b>	<b>20,131</b>	<b>13,613</b>	<b>1,445,792</b>
Loss allowance	(11,836)	(10,933)	(2,441)	-	(25,210)
<b>Carrying amount</b>	<b>1,299,832</b>	<b>89,446</b>	<b>17,690</b>	<b>13,613</b>	<b>1,420,583</b>

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**6.3 Movement in gross carrying amounts of financial assets at amortised cost (continued)**

	31 December 2019				Total K'000
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI K'000	
	K'000	K'000	K'000	K'000	
<b>Loans and advances to customers at amortised cost</b>					
Grade C - D: Moderate and acceptable risk	1,293,933	47,121	57	-	1,341,111
Grade E: Watchlist / special mention	23,580	7,220	-	-	30,800
Grade F: Substandard	5,854	17,098	857	-	23,809
Grade G: Doubtful	1,371	2,379	569	-	4,319
Grade H: Loss	-	-	6,411	15,508	21,919
<b>Total Gross Carrying Amount</b>	<b>1,324,738</b>	<b>73,818</b>	<b>7,894</b>	<b>15,508</b>	<b>1,421,958</b>
Loss allowance	(12,102)	(6,699)	(1,724)	-	(20,525)
<b>Carrying amount</b>	<b>1,312,636</b>	<b>67,119</b>	<b>6,170</b>	<b>15,508</b>	<b>1,401,433</b>

	30 June 2020			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	K'000	K'000	K'000	K'000
<b>Investments in government inscribed stocks at amortised cost</b>				
Grades A-B: Low to fair risk	115,838	-	-	115,838
<b>Total gross carrying amount</b>	<b>115,838</b>	<b>-</b>	<b>-</b>	<b>115,838</b>
Loss allowance	(1,669)	-	-	(1,669)
<b>Carrying amount</b>	<b>114,169</b>	<b>-</b>	<b>-</b>	<b>114,169</b>

	31 December 2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	K'000	K'000	K'000	K'000
<b>Investments in government inscribed stocks at amortised cost</b>				
Grades A-B: Low to fair risk	34,492	-	-	34,492
<b>Total gross carrying amount</b>	<b>34,492</b>	<b>-</b>	<b>-</b>	<b>34,492</b>
Loss allowance	(489)	-	-	(489)
<b>Carrying amount</b>	<b>34,003</b>	<b>-</b>	<b>-</b>	<b>34,003</b>

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**6.3 Movement in gross carrying amounts of financial assets at amortised cost (continued)**

Bank guarantees	30 June 2020			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	74,399	-	-	74,399
<b>Maximum exposure to credit risk</b>	<b>74,399</b>	-	-	<b>74,399</b>
Loss allowance	-	-	-	-

Bank guarantees	31 December 2019			Total
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	
	K'000	K'000	K'000	K'000
Grades A-B: Low to fair risk	70,375	-	-	70,375
<b>Maximum exposure to credit risk</b>	<b>70,375</b>	-	-	<b>70,375</b>
Loss allowance	-	-	-	-

**6.4 Days past due status of loans and advances**

The table below provides an analysis of the gross carrying amount of loans and advances to customers by **past due status**.

	Consolidated			
	30 June 2020		31 December 2019	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
	K'000	K'000	K'000	K'000
<b>Loans and advances to customers</b>				
0-29 days	1,287,086	14,287	1,307,764	14,378
30-59 days	3,791	70	22,082	330
60-89 days	884	131	8,763	28
90-180 days	88,284	4,307	47,012	4,582
More than 181 days	65,748	6,414	36,337	1,207
<b>Total</b>	<b>1,445,792</b>	<b>25,210</b>	<b>1,421,958</b>	<b>20,525</b>

**6.5 Credit quality of financial assets at amortised cost**

The Group uses credit risk grades as a primary input into the determination of whether there has been a significant increase in credit risk in addition to information on days past due. The following table provides how each credit grade is defined and its mapping to external credit rating:

Credit risk grades	S&P rating	Description
A	A's	Low risk. Minimum total assets of +K2,000 m and very strong repayment capacity.
B	B's	Low to fair risk Minimum total assets of +K1,000 m and strong repayment capacity.
C	B's	Moderate risk Minimum total assets of +K100 – K200 m and sound repayment capacity.
D	unrated	Acceptable risk. Sound financial history demonstrating surplus repayment capacity.
E	unrated	Watch list/special mention. Credit weaknesses are evident and repayment capacity is jeopardised.
F	unrated	Substandard
G	unrated	Doubtful

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**7. Other operating expense**

	<b>Consolidated</b>	
	<b>30 June 2020 Unaudited</b>	<b>30 June 2019 Unaudited</b>
	<b>K'000</b>	<b>K'000</b>
Staff costs	42,903	24,277
Administrative expenses	24,541	10,655
Depreciation and amortisation (note 14 & 15)	17,470	5,327
Software maintenance and support charges	1,540	921
Auditor's remuneration	613	310
Other expenses	9,703	6,308
	<b>96,771</b>	<b>47,798</b>

Other Expenses include finance cost arising as a result of unwinding of lease liabilities and lease rentals on short-term leases amounting to K2,002,492 and K3,718,794 respectively. As at 30 June 2020 the Group had 708 (2019: 740) employees.

**8. Income tax**

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

**9. Cash and cash equivalents**

	<b>Consolidated</b>	
	<b>30 June 2020 Unaudited</b>	<b>31 December 2019 Audited</b>
	<b>K'000</b>	<b>K'000</b>
Cash on hand	92,330	82,413
Exchange Settlement Account	103,077	58,314
Placements with other banks	59,367	128,975
<b>Cash and due from banks</b>	<b>254,774</b>	<b>269,702</b>
Central bank bills (note 9)	50,000	-
<b>Cash and cash equivalents</b>	<b>304,774</b>	<b>269,702</b>

**10. Treasury and Central bank bills**

	<b>Consolidated</b>	
	<b>30 June 2020 Unaudited</b>	<b>31 December 2019 Audited</b>
	<b>K'000</b>	<b>K'000</b>
Treasury bills*	695,000	755,000
Central bank bills*	-	-
Unearned discount	(12,842)	(32,910)
	<b>732,158</b>	<b>722,090</b>

\*Treasury bills with maturity dates of less than 90 days at reporting date and Central Bank bills are part of the cash and cash equivalents.

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**11. Regulatory deposits**

	<b>Consolidated</b>	
	<b>30 June 2020 Unaudited</b>	<b>31 December 2019 Audited</b>
	<b>K'000</b>	<b>K'000</b>
Regulatory deposits	175,360	249,713

Bank of Papua New Guinea requires a minimum cash reserve requirement of 7% against the average deposit liabilities.

**12. Financial assets at fair value through profit or loss**

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

**13. Loans and advances to customers**

	<b>Consolidated</b>	
	<b>30 June 2020 Unaudited</b>	<b>31 December 2019 Audited</b>
	<b>K'000</b>	<b>K'000</b>
Loans to individuals	596,854	621,881
Loan to corporate entities	848,939	800,077
Gross loans and advances to customers	1,445,793	1,421,958
Expected credit losses	(25,210)	(20,525)
	<b>1,420,583</b>	<b>1,401,433</b>

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

	<b>Consolidated</b>	
	<b>30 June 2020 Unaudited</b>	<b>31 December 2019 Audited</b>
	<b>K'000</b>	<b>K'000</b>
Overdrafts	63,761	68,273
Property mortgage	436,151	320,658
Asset financing	14,555	20,056
Insurance premium funding	176	2,289
Business and other loans	931,149	1,010,682
	<b>1,445,792</b>	<b>1,421,958</b>



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**14. Investments in government inscribed stocks**

	<b>Consolidated</b>	
	<b>30 June 2020</b>	31 December 2019
	<b>Unaudited</b>	Audited
	<b>K'000</b>	K'000
GIS principal	<b>118,000</b>	33,000
Unamortised premium	<b>370</b>	437
Unamortised discount	<b>(5,146)</b>	(8)
Accrued interest	<b>2,614</b>	1,063
	<b>115,838</b>	34,492
Expected credit losses	<b>(1,669)</b>	(489)
	<b>114,169</b>	34,003

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

	<b>Consolidated</b>	
	<b>30 June 2020</b>	31 December 2019
	<b>Unaudited</b>	Audited
	<b>K'000</b>	K'000
Balance at beginning of year	<b>34,003</b>	34,195
Additions/(Maturities)	<b>85,000</b>	-
Accrued interest	<b>1,551</b>	(433)
Amortised premium / (discount)	<b>(5,205)</b>	(70)
Expected credit loss (recognised) / reversed during the period	<b>(1,180)</b>	311
	<b>114,169</b>	34,003

Investments in government inscribed stocks are measured at amortised cost.

**15. Property and equipment**

	<b>Note</b>	<b>30 June</b>	<b>31 December</b>
		<b>2020</b>	<b>2019</b>
		<b>K'000</b>	<b>K'000</b>
Property and equipment owned	<b>14.1</b>	41,637	43,977
Right of use assets	<b>14.2</b>	47,350	- 52,945
		<b>88,987</b>	<b>96,922</b>

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**15.1 Property and equipment owned**

Consolidated	Furniture & Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Right-of-use assets	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
<b>Cost</b>								
<b>Balance 31 December 2018</b>	1,238	7,334	4,174	16,699	2,129	2,320	-	33,894
IFRS 16 transition impact on the opening balance	-	-	-	-	-	-	24,381	24,381
Additions	3,620	10,524	1,949	21,420	-	-	38,418	75,931
Disposals	(48)	(2,419)	(338)	(214)	-	-	-	(3,019)
Transfer in (out)	-	2,246	-	74	-	(2,320)	-	-
<b>Balance 31 December 2019</b>	<b>4,810</b>	<b>17,685</b>	<b>5,785</b>	<b>37,979</b>	<b>2,129</b>	<b>-</b>	<b>62,799</b>	<b>131,187</b>
Additions	-	21	970	1,291	-	11	-	2,293
Disposals	-	-	-	-	-	-	-	-
Transfer in (out)	-	-	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-	-	-
<b>Balance 30 June 2020</b>	<b>4,810</b>	<b>17,706</b>	<b>6,755</b>	<b>39,270</b>	<b>2,129</b>	<b>11</b>	<b>62,799</b>	<b>133,481</b>
<b>Accumulated depreciation</b>								
<b>Balance 31 December 2018</b>	(1,013)	(4,148)	(3,170)	(13,455)	-	-	-	(21,786)
IFRS 16 transition impact on the opening balance	-	-	-	-	-	-	(3,149)	(3,149)
Charge during the year	(437)	(832)	(882)	(2,641)	-	-	(6,705)	(11,497)
Disposals	48	1,582	338	199	-	-	-	2,167
<b>Balance 31 December 2019</b>	<b>(1,402)</b>	<b>(3,398)</b>	<b>(3,714)</b>	<b>(15,897)</b>	<b>-</b>	<b>-</b>	<b>(9,854)</b>	<b>(34,265)</b>
Charge during the year	(566)	(1,156)	(476)	(2,436)	-	-	(5,595)	(10,229)
Disposals	-	-	-	-	-	-	-	-
<b>Balance 30 June 2020</b>	<b>(1,968)</b>	<b>(4,554)</b>	<b>(4,190)</b>	<b>(18,333)</b>	<b>-</b>	<b>-</b>	<b>(15,449)</b>	<b>(44,494)</b>
<b>Book value 30 June 2020</b>	<b>2,842</b>	<b>13,152</b>	<b>2,565</b>	<b>20,937</b>	<b>2,129</b>	<b>11</b>	<b>47,350</b>	<b>88,987</b>
<b>Book value 31 December 2019</b>	<b>3,408</b>	<b>14,287</b>	<b>2,071</b>	<b>22,082</b>	<b>2,129</b>	<b>-</b>	<b>52,945</b>	<b>96,922</b>

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Details of associated lease liabilities recognised in respect of the right of use assets are presented below:

*Lease liabilities*

	30 June 2020 K'000	31 December 2020 K'000
<b>Maturity analysis – contractual undiscounted cash flows</b>		
Less than one year	12,399	13,163
One to five years	32,826	35,603
More than five years	19,542	22,544
<b>Total undiscounted lease liabilities at 30 June 2020</b>	<b>64,767</b>	<b>71,310</b>
<b>Lease liabilities included in statement of financial position at 30 June 2020</b>		
Current	11,989	9,319
Non-current	38,427	45,639
	<b>50,416</b>	<b>54,958</b>
<b>Amounts recognised in statement of comprehensive income</b>		
Interest on lease liabilities	2,001	2,583
Expense relating to short-term leases	5,595	5,746
	<b>7,596</b>	<b>8,329</b>
<b>Amounts recognised in statement of cash flows</b>		
Total cash outflow for leases	<b>2,734</b>	<b>7,796</b>

Total cash flows for leases is recorded under Cash payments to employees and suppliers in the statement of cash flows

**16. Intangible assets**

Consolidated	Software	Customer deposits relationship	Work in progress	Total
	K'000	K'000	K'000	K'000
<b>Cost</b>				
<b>Balance 31 December 2018</b>	<b>13,345</b>	<b>3,780</b>	<b>16,014</b>	<b>33,139</b>
Additions	7,700	18,688	322	26,710
Transfer in (out)	16,476	-	(14,834)	1,642
<b>Balance 31 December 2019</b>	<b>37,521</b>	<b>22,468</b>	<b>1,502</b>	<b>61,491</b>
Additions	88	-	4,595	4,683
Transfer in (out)	-	-	-	-
<b>Balance 30 June 2020</b>	<b>37,609</b>	<b>22,468</b>	<b>6,096</b>	<b>66,173</b>
<b>Accumulated amortisation</b>				
<b>Balance 31 December 2018</b>	<b>(4,250)</b>	<b>(2,457)</b>	<b>-</b>	<b>(6,707)</b>
Charges during the period	(3,110)	(2,427)	-	(5,537)
<b>Balance 31 December 2019</b>	<b>(7,360)</b>	<b>(4,884)</b>	<b>-</b>	<b>(12,244)</b>
<b>Balance 30 June 2020</b>	<b>(11,143)</b>	<b>(8,343)</b>	<b>-</b>	<b>(19,486)</b>
<b>Book value 30 June 2020</b>	<b>26,466</b>	<b>14,124</b>	<b>6,096</b>	<b>46,687</b>
Book value 31 December 2019	30,161	17,584	1,502	49,247

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**16. Intangible assets (continued)**

Customer deposits relationship was recognised when Maybank (PNG) Limited was acquired on 30 September 2015 and the ANZ SME and Retail Business acquisition on 23 September 2019. The value was derived on the present value of the expected benefit from existing funds coming from depositors. The intangible asset was estimated to have a useful life of five years based on the expected length of the customer deposits relationship.

The value of work in progress additions relate to software system upgrades and new software system implementation to support the acquisition of ANZ.

On 30 September 2015, the Group, through Kina Ventures Limited, a 100% owned subsidiary of Kina Securities Limited, acquired all of the shares in Maybank (PNG) Limited and Maybank Property (PNG). Maybank (PNG) and Maybank Property (PNG) are the PNG subsidiaries of Malaysia’s largest bank. The acquisition strengthened Kina Bank’s investment in PNG as it was an excellent fit for its then expansion program.

The goodwill arising on this acquisition was recorded at K92,786,000. The goodwill was attributable to Maybank (PNG) Limited’s strong position and synergies expected to arise after the Group’s acquisition of the new subsidiary. None of the goodwill is expected to be deductible for tax purposes.

**17. Due to customers**

	<b>Consolidated</b>	
	<b>30 June</b>	31
	<b>2020 Unaudited</b>	December
		2019
		Audited
	<b>K’000</b>	K’000
Corporate customers	<b>1,646,162</b>	1,624,450
Retail customers	<b>879,228</b>	836,517
	<b>2,525,390</b>	2,460,967

**18. Other Assets and Other Liabilities**

	<b>Consolidated</b>	
	<b>30 June 2020</b>	31 December
	<b>Unaudited</b>	2019
	<b>K’000</b>	Audited
	<b>K’000</b>	K’000
Prepayments	<b>2,485</b>	6,241
Security deposits and bonds	<b>5,254</b>	5,292
Other debtors	<b>55,509</b>	55,208
<b>Total Other Assets</b>	<b>63,248</b>	66,741
<b>Less: expected credit loss</b>	<b>(4,038)</b>	(4,038)
<b>Total Other Assets</b>	<b>59,210</b>	62,703

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**18. Other Assets and Other Liabilities (continued)**

Movement of expected credit loss on other assets is as follows;

	Consolidated	
	30 June 2020	31 December 2019
	Unaudited	Audited
	K'000	K'000
Balance at beginning of year	4,038	4,038
Reversal during the year	-	-
Balance at end of the year	4,038	4,038

	Consolidated	
	30 June 2020	31 December 2019
	Unaudited	Audited
	K'000	K'000
Accruals	12,296	12,694
Unclaimed money and stale cheques	7,336	8,166
Bankers cheques	18,611	46716
Accounts payable	4,056	4,996
Unearned commission	1,229	1,309
Other liabilities	33,562	66857
<b>Total Other Liabilities</b>	<b>77,090</b>	<b>140,738</b>

**19. Issued and paid ordinary shares**

**a. Share capital**

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

	Number of shares	Share capital
	'000	K'000
Ordinary shares		
Balance at 31 December 2019	174,745	176,970
<b>Balance at 30 June 2020</b>	<b>174,745</b>	<b>176,970</b>

**b. Earnings per share (EPS)**

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

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**19. Issued and paid ordinary shares (continued)**

	<b>Consolidated</b>	
	<b>30 June</b>	30 June
	<b>2020</b>	2019
	<b>Unaudited</b>	Unaudited
Net profit attributable to shareholders	<b>29,291</b>	23,614
Weighted average number of ordinary shares basic earnings	<b>174,745</b>	163,993
Weighted average number of ordinary shares diluted earnings	<b>175,859</b>	165,073
Basic earnings per share (in toea)	<b>16.8</b>	14.4
Diluted earnings per share (in toea)	<b>16.7</b>	14.3

**c. Share-based payment reserve**

In July 2015, after the Company was listed on the Australian Securities Exchange and Port Moresby Stock Exchange, Kina established various incentive arrangements to assist in the attraction, motivation and retention of management and its employees. Share options were granted to the Managing Director & Chief Executive Officer (“**CEO**”) and other senior executive employees. These included a short term incentive plan (“**STI Plan**”), long term incentive plan (“**LTI Plan**”) and retention plan (“**RI Plan**”), established under the *Kina Performance Rights Equity Incentive Plan*. The share based payment expense recognised for the period ended 30 June 2020 is K 2,137,118 (2019: K 2,883,120). Current provision in the reserve account is sufficient.

**20. Related party transactions**

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

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

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

Total remunerations (including benefits) paid to key management personnel during the period:

	<b>Consolidated</b>	
	<b>30 June</b>	30 June
	<b>2020</b>	2019
	<b>Unaudited</b>	Unaudited
	<b>K'000</b>	K'000
Salary	<b>3,896</b>	3,781
Benefits	<b>967</b>	1,396
	<b>4,862</b>	5,177

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**21. Investment under trust**

The Group acts as trustee holding or placing of assets on behalf of superannuation funds and individuals. These assets are not assets of the Group and, therefore, are not included in its Consolidated Statement of Financial Position (**balance sheet**). The Group is also engaged in investing client monies. A corresponding liability in respect of these monies is also excluded from the balance sheet. Investments under trust at balance sheet are:

	<b>Consolidated</b>	
	<b>30 June 2020 Unaudited K'000</b>	<b>31 December 2019 Audited K'000</b>
Clients funds held for shares trading	3,947	4,869
	<b>3,947</b>	<b>4,869</b>

**22. Segment reporting**

The segment information provided to the Managing Director and Chief Executive Officer for the reportable segments for the period ended 30 June 2020 is as follows:

	<b>Wealth</b>			<b>Total</b>
	<b>Banking</b>	<b>Management</b>	<b>Corporate</b>	
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Interest income	96,992	(3)	(1,094)	95,896
Interest expense	(15,152)	-	(327)	(15,479)
Foreign exchange income	25,665	61	2,772	28,498
Fee and commission income	22,261	14,288	245	36,793
Other revenue	3,138	35	296	3,469
<b>Total external income</b>	<b>132,905</b>	<b>14,382</b>	<b>1,891</b>	<b>149,178</b>
Other operating expenses	(62,399)	(4,971)	(11,930)	(79,301)
Provision for impairment	(9,973)	(419)	(3)	(10,395)
Depreciation and amortisation	(14,043)	-	(3,428)	(17,470)
<b>Total external expenses</b>	<b>(86,415)</b>	<b>(5,391)</b>	<b>(15,360)</b>	<b>(107,167)</b>
<b>Profit before inter-segment revenue and expenses</b>	<b>46,490</b>	<b>8,991</b>	<b>(13,469)</b>	<b>42,011</b>
Inter-segment income	5,885	-	16,854	22,739
Inter-segment expenses	(20,395)	(2,169)	(175)	(22,739)
<b>Profit before tax</b>	<b>31,980</b>	<b>6,822</b>	<b>3,210</b>	<b>42,011</b>
Income tax expense	(9,651)	(2,040)	(1,029)	(12,720)
<b>Profit after tax</b>	<b>22,328</b>	<b>4,782</b>	<b>2,181</b>	<b>29,291</b>
Total assets	2,841,075	12,684	151,417	3,005,176
Total liabilities	(2,651,013)	(2,932)	(20,725)	(2,674,670)

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**22. Segment reporting (continued)**

The segment information provided to the Managing Director and Chief Executive Officer for the reportable segments for the period ended 30 June 2019 is as follows:

	<b>Banking</b>	<b>Wealth Management</b>	<b>Corporate</b>	<b>Total</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Interest income	60,957	5	15	60,977
Interest expense	(14,390)	-	(856)	(15,246)
Foreign exchange income	19,029	(5)	(336)	18,688
Fee and commission income	4,398	14,187	171	18,756
Other revenue	127	323	75	525
<b>Total external income</b>	<b>70,121</b>	<b>14,510</b>	<b>(931)</b>	<b>83,700</b>
Other operating expenses	(19,911)	(6,112)	(16,447)	(42,470)
Provision for impairment	(2,247)	196	-	(2,051)
<b>22. Segment reporting (continued)</b>				
Depreciation and amortisation	(2,402)	-	(2,926)	(5,328)
<b>Total external expenses</b>	<b>(24,560)</b>	<b>(5,916)</b>	<b>(19,373)</b>	<b>(49,849)</b>
<b>Profit before inter-segment revenue and expenses</b>	<b>45,561</b>	<b>8,594</b>	<b>(20,304)</b>	<b>33,851</b>
Inter-segment income	959	447	20,361	21,767
Inter-segment expenses	(17,561)	(3,308)	(898)	(21,767)
<b>Profit before tax</b>	<b>28,959</b>	<b>5,733</b>	<b>(841)</b>	<b>33,851</b>
Income tax expense	(8,717)	(1,667)	147	(10,237)
<b>Profit after tax</b>	<b>20,242</b>	<b>4,066</b>	<b>(694)</b>	<b>23,614</b>
Total assets	1,621,552	17,003	138,988	1,777,543
Total liabilities	(1,489,112)	(2,528)	(14,049)	(1,505,689)

**23. Contingent liabilities**

***Litigations and claims***

Contingent liabilities exist in respect of actual and potential claims and proceedings that have not been determined. An assessment of the Group's likely loss has been made on a case by case basis for the purposes of the financial statements and specific provisions are made where appropriate. As at 30 June 2020, the Group is a party to some litigation before the courts, however, management does not believe these will result in any material loss to the Group. There was no litigation matter of a material nature that is not already provided for in the consolidated financial statements

***Other contingent liabilities***

The Bank guarantees the performance of customers by issuing guarantees to third parties. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers, therefore these transactions are subject to the same credit origination, portfolio maintenance and collateral requirements applied



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**23. Contingent liabilities (continued)**

to customers applying for loans. As the facilities may expire without being drawn upon, the notional amount does not necessarily reflect future cash requirements. The credit risk of these facilities may be less than the notional amount but as it cannot be accurately determined, the credit risk has been taken as the contract notional amount.

	<b>Consolidated</b>	
	<b>30 June 2020</b>	31 December 2019
	<b>Unaudited</b>	Audited
	<b>K'000</b>	K'000
Performance Guarantee	<b>74,399</b>	70,375

**24. Capital commitments**

There was a total of K 2,805,209 relating to commitments under contracts for capital expenditure at reporting date (31 December 2019: K4,802,205).

**25. Fair value estimation**

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at;

**30 June 2020**

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Financial assets at fair value through profit or loss				
- Investment in shares – Listed	4,859	-	-	4,859
- Investment in shares – Unlisted	-	-	2,637	2,637
- Investment in convertible notes – Unlisted	-	-	165	165
<b>Total assets</b>	<b>4,859</b>	<b>-</b>	<b>2,802</b>	<b>7,661</b>

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**25. Fair value estimation (continued)**

31 December 2019

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
Financial assets at fair value through profit or loss				
- Investment in shares – Listed	4,834	-	-	4,834
- Investment in shares – Unlisted	-	-	2,636	2,636
- Investment in convertible notes – Unlisted	-	-	165	165
<b>Total assets</b>	<b>4,834</b>	<b>-</b>	<b>2,801</b>	<b>7,635</b>

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

**26. Financial risk factors**

The Group's activities expose it to variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The condensed interim financial statements do not include all the financial risk management information and disclosure required in the annual financial statements. They should be read in conjunction with the Group's annual financial statements at 31 December 2019. There have not been any material changes in the risk management department or in any risk management policies since the year end.

**27. Liquidity risk**

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

**28. Events after the balance sheet date**

Subsequent to the financial reporting date, the directors declared a dividend of AUD 4 cents / PGK 10 toea per share (K17.5 million). payable to stockholders on 2 October 2020.

Kina's corporate restructuring is expected to be completed at the end of August 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 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.

There remains significant uncertainty on how the COVID-19 pandemic will evolve in future. Considerations on the impact and duration of the pandemic is still uncertain and will need to be assessed on an ongoing basis. In accordance with *IAS 10 Events after the Reporting Date*, the Group considered whether events after the reporting date confirmed conditions existing before the reporting date. The outbreak of COVID-19 brought financial difficulties to some sectors and the economy as a whole. Kina took various measures to provide relief to existing customers including reducing the currency overdraft rates by 2% per annum to support business cash flows and continues to do so.