

# ASX/PNGX announcement



27 August 2021

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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 2021*.

-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)

## 2021 Half Year Results

Incorporating the requirements of Appendix 4D



# ASX Appendix 4D

## For the Half Year ended 30 June 2021

### Results for announcement to the market

Comparisons of the current half year results to 30 June 2021 (**1H21, reporting period**) are with the half year to 30 June 2020 (**1H20, previous corresponding period (PCP)**).

PGK'000	Half Year Ended					Jun21 vs Jun20
	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	
Revenue from ordinary activities	155,739	165,617	149,177	121,866	83,700	4%
Profit from ordinary activities	56,613	67,895	42,011	48,841	33,851	35%
Net Profit after tax attributable to equity holders	39,752	46,683	29,291	37,256	23,614	36%
Net Tangible Assets per security (PGK)	1.65	1.69	1.36	1.34	1.09	

#### Dividends distributions (Interim dividend)

- unfranked (AUD cents per share)	3.00 cents
- unfranked (PGK toea per share)	8.25 toea

The Directors have declared an interim unfranked dividend for the reporting period based on the Net Profit After Tax (**NPAT**) attributable to equity holders for the half year of PGK 39.8 million. This is compared to PGK 29.3 million for the PCP.

The interim dividend is converted based on an exchange rate: 1 PGK = 0.3636 AUD.

The Record date for determining entitlements to the dividend is 2 September 2021.

The financial information contained in this report for the half year ended 30 June 2021 and the comparative period 30 June 2020 are unaudited. The comparative figures for the full year ended 31 December 2020 and 31 December 2019 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 2021 in Section 2.

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

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# 1. Results Overview

## Growth momentum maintained into FY 2021

### Key results

	Half Year Ended					Change % Jun21 vs Jun20
	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	
Statutory NPAT from ordinary activities (PGK m)	39.8	46.7	29.3	37.3	23.6	36%
Revenue (PGK m)	155.7	165.6	149.2	121.9	83.7	4%
FX Revenue (PGK m)	29.2	26.7	28.5	23.3	18.7	3%
Loan impairment expense (PGK m)	4.4	11.6	10.4	3.5	2.1	(58%)
Cost to income ratio (%)	60.9	52.0	64.9	57.0	57.1	(6%)
Net interest margin (%)	7.0	7.5	7.0	8.8	7.0	0%
Return on Equity (%)	13.9	16.8	17.8	20.4	17.5	(22%)
Earnings per Share (PNG Toea)*	13.9	20.5	16.8	21.3	14.4	(17%)
Dividend (PGK Toea per share)	8.25	16.9	10.0	15.5	10.0	(17%)
Dividend (AUD Cents per share)	3.00	6.0	4.0	6.4	4.0	(25%)**
Deposit Growth (PGK m)	2,773.0	2,560.7	2,525.4	2,480.0	1,418.0	8%
Net loans and advances (PGK m)	1,758.8	1,614.7	1,420.6	1,401.5	865.8	9%
Capital adequacy (T1+T2) (%)	23.3	25.4	21.9	21.5	29.8	(8%)

\* EPS reduction in 1H21 is due to the capital raise in 2H20. 2H20 period has been restated to adjust for the impact of 'weighted average' number of shares on issue in accordance with IAS 33.

\*\* Impact of foreign exchange rate

### 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 39.8 million for the half year to 30 June 2021. This represents an uplift of 36% compared to the PCP.

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

The Board has declared an unfranked interim dividend for 1H21 of AUD 3.00 cents per share / PGK 8.25 toea per share. This compares to AUD 4.0 cents per share / PGK 10.0 toea in the PCP.

Kina has delivered on its commitment to increase transactional volumes through Kina's new digital platforms. This has contributed to the overall uplift in fees and commissions income by 10% against the PCP. The revenue growth benefits realised from in-branch-focus, digital on boarding and targeted marketing, supported by a focus on merchant relationship management were key to these results. This, together with continued stable foreign exchange (FX) trading income, increase in the loan book, investment in high yielding government securities and lower cost of funds has contributed positively to the overall performance.

Kina maintained continued focus on the cost of operations post the ANZ acquisition to deliver expense reductions. This has resulted in a reduced cost to income ratio of 60.9% compared to the PCP of 64.9%. This is a positive result noting there have been increased costs associated with customer and employee safety and well-being given the effects of the COVID-19 Pandemic.

## Key features of the result

The key features of 1H21 result are:

- Increase in NPAT by 36% to PGK 39.8 million against the PCP.
- Net Interest Income increased by 6% to PGK 85.4 million compared to PGK 80.4 million in the PCP. This was achieved through growth in the existing loan book, investment in high yielding government instruments and lower interest expense (against total deposits) compared to the PCP.
- Foreign Exchange (**FX**) grew by 3% supported by inflows from new to business commodity exporters onboarded in the first half. Overall performance however has been impacted by reduced PNG trade patterns brought about by COVID-19.
- Fees and Commissions increased by 10% against the PCP to PGK 40.4 million primarily by continued development and build out of the Kina Bank channel network. Organic growth and digital expansion has resulted in an increment of 66% in digital and channel fees against the PCP. The revenue sources and details are explained in the table in section 1.2.6.
- Cost to income ratio reduced to 60.9% compared to 64.9% in the PCP. This outcome was attributable to prudent cost control measures.
- Reduction in impairment cost against the PCP to K4.4 million. The lower impairment in the current year is a reflection of continued application of robust loan and asset quality measures.
- Kina's Funds Administration business continued to achieve growth recording NPAT of PGK 4.5 million, which reflects a 27% improvement compared to PCP. This is consistent with revenues arising from increased funds under administration and growth in member numbers compared to the PCP.
- Funds Management NPAT increased to PGK 2.3 million, representing over 50% growth against the PCP, backed by an increased asset management base.

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

- Restructured the indicator lending rate (**ILR**). This market leading move introduces more transparency of loan costs and brings the ILR into line with international better practice.
- Continued digital enhancements to reshape the customer experience. In 1H21, Kina launched self-registration for mobile banking, same day Visa card issuance, introduction of free in-branch internet banking with KIOSKS, upgrades to internet banking for salary payments and inter-bank and international transfers, and next phase e-commerce enhancements.
- Launched Kina Everyday, a fee free transactional product with a digital-channels focus. The new product is part of Kina's simplification initiative that consolidates and modernises the products that were integrated during the ANZ PNG acquisition. It ensures Kina positions a comprehensive retail offering that meets the needs of all customer segments.
- Signed a memorandum of understanding between Kina Investment and Superannuation Services and Nambawan Super, one of PNG's major superannuation funds, to continue the provision of strategic services
- Launched the first in a new suite of SME products and services as part of Kina's commitment to this sector including a best-in-market concessional interest rate loan, with further product releases scheduled for 2H21. The bank also sponsored the Annual SME Week Conference hosted by the Prime Minister.
- Partnered with the country's first mortgage broker to simplify the home lending application process and improve access for customers.
- Appointed a Chief of Staff, a new executive role focussing on the delivery of strategic priorities. The appointment shows Kina's continued commitment to promoting women in leadership.
- Expanded Kina's sustainability initiatives with sponsorship of local charities like the Kokoda Track Foundation and Links of Hope, both in support of youth education. The Bank is also providing frontline COVID-19 health workers with essential goods and supplies.

## Asset Quality

Asset quality is measured using the Expected Credit Loss (**ECL**) approach which measures and recognises impairment losses on financial assets measured at amortised cost.

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 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. Given the economic challenges associated with COVID-19, monitoring of asset quality remains heightened and will continue to be a key area of management focus. The overall level of non-performing loans (**NPL**) has improved compared to the PCP. Section 1.2.8 provides additional explanation.

## Operating Expenses

In line with Kina's capability build-out strategy, some administrative expenses have increased compared to the PCP. These include procurement of additional licenses and software support costs to build digital systems that deliver increased customer reach. Technology related costs are being judiciously managed to achieve an acceptable balance between achieving operational efficiency to support current and future growth.

Kina incurred increased security expenses associated with COVID-19 initiatives ensuring employee safety during the current pandemic environment. Kina also incurred increased costs to support continued secure transit of cash to the provinces and branches across PNG. In line with the launching of new digital products and channels, costs in marketing and advertising tied to the digital channel campaigns were also incurred, supported by demonstrated returns and increased income.

Donations increased against the PCP as Kina continues to build its social responsibility strategy. Donations during 1H21 were to support the Flexible Open Distance Education (FODE) as part of Kokoda Track Foundation's (KTF) education improvement initiatives and to the Link's of Hope, an organisation supporting the well-being of children impacted by HIV/AIDS.

The higher costs in administrative expenses were offset by lower staff and other operating expenses resulting in overall lower operating costs in 1H21 compared to PCP. Staff costs, which contribute 42% of total operating costs, saw a reduction in the current period largely on the back of a reduced headcount compared to the PCP as a consequence of sale of the Esiloans business in PCP.

The resultant impact to the cost to income ratio despite the impact of COVID related costs is a reduction from 64.9% in 1H20 to 60.9% in 1H21. This is similar to earlier years where H1 costs are typically higher. Targeted management actions are in place to drive continued improvement in the second half of 2021.

## Underlying Capital

The underlying capital of the banking business is strong, with regulatory capital (T1+T2) at 23.3% of risk weighted assets (**RWA**). Regulatory minimum is 12%.

In the prior year, Kina successfully completed two strategic initiatives relevant to simplifying its structure and increasing the Banks capital base. These included the simplification of its corporate structure resulting in the amalgamation of Kina Bank Limited (**KBL**) and two interceding holding companies, Kina Ventures Limited (**KVL**) and Kina Properties Limited (**KPL**) into Kina Securities Limited (**KSL**), and completion of a Non-Renounceable Rights Issue (**ANREO**) that further strengthened its capital base and regulatory ratios.

The higher capital base positions the Group well for further growth opportunities.



## Acquisition of Westpac Pacific

On 7 December 2020, the Group announced the proposed acquisition of Westpac's Pacific businesses in PNG and Fiji.

Following the announcement, the Group has taken progressive steps in informing the Regulators (Independent Consumer and Competition Commission (the **ICCC**), the Bank of Papua New Guinea (the **BPNG**) in PNG, the Fijian Competition & Consumer Commissions (the **FCCC**) and the Reserve Bank of Fiji (the **RBF**) (collectively referred to as the **Regulators**) of its intention to acquire Westpac Pacific and have submitted the required applications to the regulators for determination.

In PNG, and in line with the first stage of the regulatory assessment process, the Group has received a draft determination from the ICCC on 22 July 2021 advising that the ICCC is yet to be completely satisfied that the proposed acquisition will not, or will not likely have the effect of substantially lessening the competition in the Papua New Guinea.

As part of the second stage of the regulatory assessment process to determine the final outcome, on 11 August 2021, Kina and Westpac presented their arguments against the ICCC draft determination along with comments and submissions from other relevant stakeholders in a pre-decision conference held in Port Moresby, Papua New Guinea. The matter is pending final regulatory decision. Kina duly informed the ASX and the PNGX of this on 16<sup>th</sup> August 2021.

Kina and Westpac continue to be committed to this transaction and believes that the transaction will deliver a number of significant and substantial public benefits.

Kina's intention is to maintain Westpac PNG's commercial banking licence and operate the acquired business under a new, independent brand. The new brand will effectively continue the Westpac business but under a new name.

A key rationale for the acquisition is the addition of large commercial and institutional banking markets to the portfolio of products of the group.

In Fiji, the FCCC and the RBF have granted conditional approval to Kina's application to conduct business in Fiji as a commercial bank. The acquisition of Westpac Fiji will be completed through Kina's wholly owned subsidiary Kina Securities (Fiji) Pte Limited (**KSF**).

The acquisition metrics as announced earlier are below:

	Kina Group	Westpac PNG	Westpac Fiji	Kina Group Proforma	% change
Customers	165,000	367,255	318,968	851,223	415.90%
Deposits (PGK)	2.52 bn	2.57 bn	2.94 bn (1.82bn FJD)	8.03 bn	218%
Loans (PGK)	1.42 bn	1.45 bn	2.47 bn (1.53 bn FJD)	5.34 bn	275.60%
Employees	700	469	584	1,753	150.50%
Branches	17	15	16	48	182.30%
ATMs	80	65	76	221	176.30%
EFTPOS terminals	2,500	3,400	2,800	8,700	71.30%



## Economic Outlook

The COVID-19 pandemic took a significant toll on the PNG economy in 2020. In its 2021 March Monetary policy statement, the Bank of Papua New Guinea (**BPNG**) estimated - 3.0% growth in the gross domestic product (**GDP**) in 2020. The Department of Treasury's (**DoT**) Final Budget Outcome of 2020 also reported nominal GDP contracting from PGK 84.2 billion to PGK81.6 billion. Against this economic contraction last year, both the Asian Development Bank (**ADB**) and the International Monetary Fund (**IMF**) estimate that real GDP will grow in 2021 by 2.5% and 3.5%, respectively, in 2021. The outlook has also been supported by the Government's commitment to re-open operations at the Porgera Gold Mine, as well as the signing of the fiscal stability agreement with France's Total to develop the Papua LNG project.

The Government's fiscal response to the pandemic during the past 18 months has been unprecedented for PNG, as with most other economies. The 2020 Final Budget Outcome reported a budget deficit of PGK7.3 billion, or 8.9% of GDP, which was 10% higher than the originally forecasted deficit in the 2020 Supplementary Budget. Total 2020 Expenditure (PGK19.4 billion) and Revenue (PGK12.1 billion) both increased by 7.8% and 6.5% against the 2020 Supplementary Budget. The slight increase in revenue was attributed to tax collection reforms to encourage compliance through more simplified tax lodgement processes. In terms of the Government's total debt stock, this increased from 40.0% in 2019 to 49.2% in 2020, which is still within the Government's debt ceiling borrow up to 60% of debt-to-GDP.

The BPNG's major monetary stance last year to stimulate activity and increase money supply was to reduce the overnight cash rate by 200 basis points from 5.0% to 3.0% in April 2020. Despite historical systemic issues which have muted policy rate transmission into market rates, major financial institutions lowered interest rates and provided temporary loan repayment deferrals to support borrowers. In June this year, Kina Bank became the first PNG commercial bank to reduce its Indicator Lending Rate (ILR) for lending to businesses from around 11.0% to 6.25%. The ILR in PNG is the predominant reference rate offered by banks on loans to businesses, as it reflects the cost of funds and doing business for a bank.

The Government also continued its 'COVID stimulus' program during the first half of this year with the issuance of a PGK1.1 billion bond in June. Foreign currency availability continues to decline, with BPNG intervening in the market at a pace of about PGK100 million per month. The Government also continues to pursue structural reforms, particularly in the financial sector. In June, Treasurer Ian Ling-Stuckey announced that there would also be a review of the Central Banking Act. The purpose of the review will be to 'modernise the bank and the Act in line with international developments and make it more responsive to prevailing circumstances, while preserving its independence'. The Treasurer highlighted some key areas of the Act to be reviewed include the governance arrangements to be in line with international norms. Under the current Act, only the BPNG Governor can make decisions on monetary policy and financial sector regulations. The review is expected to be completed by November this year, and will be chaired by former Chief Secretary to Government, Robert Igara. Other members include former Central Bank Governor, Sir Wilson Kamit and Australian development economist, Professor Stephen Howes.

The major resource projects including Papua LNG, P'nyang and Wafi-Golpu which are currently being negotiated will be the major economic drivers for capital investment in the medium-term. Policy-based financing from external development partners including the World Bank and the ADB will also provide much needed stimulus, particularly in the infrastructure and health sector to support the COVID recovery. The recent announcement of PNG's credit rating downgrade by Moody's from 'B2 - stable' to 'B2 - negative' may delay the finalisation of the financing arrangements for these initiatives.

In the immediate term, Government forecasts a rebound in the non-resource sector GDP to climb between 2.2% to 3.5%. This also considers the traditional stimulus into the economy during a pre-election year as PNG heads into the 2022 National Elections.

## 1.1 Disclosure and Context

### Financial reporting

The statutory result for the six months to 30 June 2021 was an unaudited consolidated Net Profit After Tax of PGK39.8m. This includes 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 half year-ended 30 June 2021

### 1.2.1 Statutory Results

Figures in PGK'000	Half Year Ended					Change (%) Jun21 vs Jun20
	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	
<b>Continuing Operations</b>						
Interest income on investments	28,502	27,473	26,453	22,560	13,569	8%
Interest income on loans	71,134	76,318	69,443	62,944	47,408	2%
Interest expense	(14,193)	(14,485)	(15,479)	(16,655)	(15,246)	(8%)
<b>Net interest income</b>	<b>85,443</b>	<b>89,306</b>	<b>80,417</b>	<b>68,850</b>	<b>45,731</b>	<b>6%</b>
Fee and commission income	40,371	39,491	36,861	29,071	18,807	10%
Fee and commission expense	(7)	(66)	(68)	(42)	(51)	(90%)
<b>Net fee and commission income</b>	<b>40,364</b>	<b>39,425</b>	<b>36,793</b>	<b>29,029</b>	<b>18,756</b>	<b>10%</b>
Foreign exchange income	29,246	26,741	28,498	23,268	18,688	3%
Dividend income	128	129	7	242	115	1729%
Net (losses)/gain from financial assets through profit and loss	394	2,485	25	83	70	1476%
Other operating income	164	7,531	3,437	394	340	(95%)
<b>Non-interest income</b>	<b>70,296</b>	<b>76,311</b>	<b>68,760</b>	<b>53,016</b>	<b>37,969</b>	<b>2%</b>
<b>Operating income before impairment losses and operating expenses</b>	<b>155,739</b>	<b>165,617</b>	<b>149,177</b>	<b>121,866</b>	<b>83,700</b>	<b>4%</b>
Impairment losses	(4,358)	(11,623)	(10,395)	(3,595)	(2,051)	(58%)
Other operating expenses	(94,768)	(86,099)	(96,771)	(69,430)	(47,798)	(2%)
<b>Profit before tax</b>	<b>56,613</b>	<b>67,895</b>	<b>42,011</b>	<b>48,841</b>	<b>33,851</b>	<b>35%</b>
Income tax expense	(16,861)	(21,212)	(12,720)	(11,585)	(10,237)	33%
<b>Net Profit for the half year attributable to the equity holder of the Company</b>	<b>39,752</b>	<b>46,683</b>	<b>29,291</b>	<b>37,256</b>	<b>23,614</b>	<b>36%</b>
Other comprehensive income	-	-	-	-	-	0%
<b>Total comprehensive income for the half year attributable to the equity holder of the Company</b>	<b>39,752</b>	<b>46,683</b>	<b>29,291</b>	<b>37,256</b>	<b>23,614</b>	<b>36%</b>

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year-ended 30 June 2021, and where applicable, calculated by reference to the 31 December 2020 annual financial statements and the 30 June 2020 half year reviewed financial statements.

### 1.2.2 Dividends

	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19
Earnings per share (PNG Toea)	13.9	20.5	16.8	21.3	14.4
Earnings per share (A cents)	5.1	7.3	6.8	8.8	5.8
Dividend per share (PGK toea)	8.25	16.9	10.0	15.5	10.0
Dividends per share (A cents)	3.00	6.0	4.0	6.4	4.0

## 1.2.3 Lending

PGK Millions	Half Year Ended					Change (%) vs Dec20
	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	
Overdraft	79.7	80.7	63.8	68.2	55.9	(1%)
Term Loans	1,183.5	1,058.5	922.3	880.9	564.9	12%
Investment Property Loan	98.6	94.5	95.6	87.0	69.3	4%
Asset Financing	23.0	21.7	16.1	19.8	20.6	6%
Housing Loan	409.0	389.5	340.6	320.6	137.0	5%
Esi loan	-	-	-	37.5	37.4	0%
Credit Cards	3.2	5.1	7.4	8.0	-	(37%)
<b>Gross</b>	<b>1,797.0</b>	<b>1,650.0</b>	<b>1,445.8</b>	<b>1,422.0</b>	<b>885.1</b>	<b>9%</b>
Provision	(38.2)	(35.3)	(25.2)	(20.5)	(19.3)	8%
<b>Total</b>	<b>1,758.8</b>	<b>1,614.7</b>	<b>1,420.6</b>	<b>1,401.5</b>	<b>865.8</b>	<b>9%</b>

Lending performance remains strong against the PCP. Term, Home and Investment Property Loans portfolios grew by PGK149 m, representing 10% growth on the PCP with term loans contributing more than 85% of book growth. This is off the back of the strong service proposition provided by Kina Bank combined with our strategy to provide for deeper relationships with customers. During the period Kina Bank successfully onboarded a number of new relationships including various large local corporates. Momentum into the second half of the financial year remains strong with over PGK300 million of approved loans pending drawdown at 30 June 2021. This positions the business well for the second half.

Risk concentration by sector is shown in the table below.

	Jun-21		Dec-20	
	PGK million	% of total loans	PGK million	% of total loans
Agriculture, Forestry & Fishing	23.1	1.3%	13.8	0.8%
Mining	15.8	0.9%	14.5	0.9%
Manufacturing	22.3	1.2%	16.8	1.0%
Electrical, Gas & Water	7.7	0.4%	7.5	0.5%
Building and Construction	108.6	6.0%	105.6	6.4%
Wholesale & Retail	434.5	24.2%	379.9	23.0%
Hotel & Restaurants	100.9	5.6%	104.9	6.4%
Transport & Storage	19.0	1.1%	12.6	0.8%
Financial Intermediation	9.4	0.5%	14.3	0.9%
Real Estate/Renting/Business Services	357.3	19.9%	329.8	20.0%
Equipment Hire	23.7	1.3%	23.0	1.4%
Other Business	155.4	8.6%	109.9	6.7%
Personal Banking	519.3	28.9%	517.4	31.4%
<b>Total</b>	<b>1,797.0</b>	<b>100.0%</b>	<b>1,650.0</b>	<b>100.0%</b>

Net lending after provisions as at 30 June 2021 reflects a 9% growth against 31 December 2020. Provisions are further explained in Section 1.2.8 - Asset Quality and Loan Impairment.

## 1.2.4 Funding

PGK Millions	Half Year Ended					
	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	Change (%) vs Dec-20
Fixed Term	763.2	720.7	591.0	556.4	584.7	5.9%
Cash Management Accounts	544.4	510.2	587.1	543.8	455.6	6.7%
Current Accounts	1,139.0	1,008.1	1,055.2	1,068.1	357.5	13.0%
Savings Accounts	326.4	321.7	292.1	292.8	20.2	1.5%
<b>Total</b>	<b>2,773.0</b>	<b>2,560.7</b>	<b>2,525.4</b>	<b>2,461.1</b>	<b>1,418.0</b>	<b>8.3%</b>

Deposits grew by 8.3% against December 2020 largely attributed to increase in current accounts. The growth in current accounts reflects increased operational deposits owing to Kina's improved transactional product offering including corporate online, payroll processing and an enhanced personal banking platform.

PGK Millions	Half Year Ended					
	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	Change (%) vs Dec-20
On Call	2,021.7	1,840.0	1,964.4	1,950.9	872.3	9.9%
1 month	218.4	147.6	137.2	106.9	124.0	47.8%
2 months	81.1	81.6	75.3	58.2	48.1	(6.7%)
3 months	154.3	310.5	64.3	112.3	91.6	(49.0%)
6 months	140.1	31.8	84.0	80.1	129.6	344.3%
12 months	145.1	129.4	178.1	86.7	100.5	12.2%
24 months	12.3	19.8	22.1	66.0	51.9	(37.9%)
<b>Total</b>	<b>2,773.0</b>	<b>2,560.7</b>	<b>2,525.4</b>	<b>2,461.1</b>	<b>1,418.0</b>	<b>8.3%</b>

The Loan to Deposit Ratio (LDR) of 63% is within the internal target range set by the Board.

## 1.2.5 Net Interest Margin

PGK Millions	Half Year Ended					
	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	Change vs Jun-20
Net interest income	85.4	89.30	80.4	68.8	45.7	75.9
Average interest earning assets	2,518.0	2,328.2	2,287.9	1,771.0	1,324.9	72.7
Average yield on interest earning assets (%)	7.9	8.6	8.4	10.6	9.3	(9.7)
Average interest bearing liabilities	2,730.6	2,371.6	2,211.3	1,742.0	1,354.6	63.2
Average cost on interest bearing liabilities (%)	0.9	1.1	1.4	1.8	2.3	(39.1)
Interest spread (%)	7.0	7.5	7.0	8.8	7.0	-
Net interest margin	7.0	7.5	7.0	8.8	7.0	-

Net interest margin (NIM) for 1H 2021 was consistent with the PCP. Repricing of the loan portfolio on targeted products, and the reduction of ILR to increase accessibility and affordability for customers and to gain competitive market positioning has seen the average yield drop against the PCP.

Against the PCP, interest spread was maintained at 7% enabled by the drop on average cost of interest bearing liabilities largely due to a high low-cost deposit base, repricing of deposits on maturity and lower rates on new funds.

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

## 1.2.6 Non-Interest Income

PGK Millions	Half Year Ended					Change (%) vs Jun-20
	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	
<b>Banking</b>						
Foreign exchange income	29.5	29.5	25.7	23.0	19.0	15%
Fees and commissions*	24.8	23.6	22.5	14.4	4.4	10%
Other	0.5	8.1	3.1	0.2	0.2	(84%)
<b>Total</b>	<b>54.8</b>	<b>61.2</b>	<b>51.3</b>	<b>37.6</b>	<b>23.6</b>	<b>7%</b>
<b>Wealth Management</b>						
Fund Administration	10.4	9.9	9.8	9.4	8.9	6%
Investment Management	4.8	4.8	4.5	5.0	5.1	7%
Shares	0.6	0.9	0.3	0.7	0.2	100%
Other	(0.3)	2.8	(0.2)	0.0	0.3	50%
<b>Total</b>	<b>15.5</b>	<b>18.4</b>	<b>14.4</b>	<b>15.1</b>	<b>14.5</b>	<b>8%</b>
<b>Other</b>						
Other	-	(3.3)	3.1	0.3	(0.1)	(100%)
<b>Total</b>	<b>-</b>	<b>(3.3)</b>	<b>3.1</b>	<b>0.3</b>	<b>(0.1)</b>	<b>(100%)</b>
<b>Total</b>	<b>70.3</b>	<b>76.3</b>	<b>68.8</b>	<b>53.0</b>	<b>38.0</b>	<b>2%</b>

\*see further analysis below

Overall non-interest income growth was 2% against the PCP. Total core banking and wealth income was up 7% offset by the one-off gain on sale on disposal of the esiloan portfolio in 1H20.

As earlier noted, the drive to increase transactional volumes via Kina's digital platform is seeing revenue growth across all digital channels showing an increase of 66% against PCP within digital channels. While overall fees and commissions increase do not now include fees from the esiloan portfolio recorded during 1H20, the revenues from digital channels are more than covering this gap.

Revenues from the wealth business also show growth against the PCP on the back of increased funds under administration, increased member numbers and a higher asset management base in the fund management business.

The table below shows the increase in fees and commissions (banking) against the PCP.

Banking – PGK'000	Jun-21	Jun-20	Change (PGK)	Change (%)
Merchant fees	5,683.1	2,792.9	2,890.2	103%
VISA Fees	2,866.9	2,407.4	459.5	19%
Mobile Banking fees	731.8	507.0	224.8	44%
Internet Banking fees	264.6	37.8	226.8	0%
<b>Total digital</b>	<b>9,546.4</b>	<b>5,745.1</b>	<b>3,801.3</b>	<b>66%</b>
Bank fees and commission income	10,967.4	10,640.9	326.5	3%
Loan fees	1,748.6	3,918.9	(2,170.3)	(55%)
ATM fees	2,564.6	2,207.1	357.5	16%
<b>Total other</b>	<b>15,280.6</b>	<b>16,766.9</b>	<b>(1,486.3)</b>	<b>(9%)</b>
<b>Total fees and commissions</b>	<b>24,827.0</b>	<b>22,512.0</b>	<b>2,315.0</b>	<b>10%</b>

## 1.2.7 Operating Expenses

Total operating cost at 1H21 was PGK 94.8 million, an overall decrease of 2% against PCP which drove cost to income ratio down to 60.9% compared to 64.9% in the PCP.

Staff, administrative and occupancy costs contributed 42%, 30% and 24% respectively to total operating costs for the first half year.

Within operating expenses, administrative costs saw an increase against the PCP. Security costs, licensing and software support charges saw an upward trend as the Group continued to ensure staff and customer safety due to COVID-19 and as the Group continued its investment and build out of its 2025 Strategy. The Group also increased its commitment to social and community development through a program of donations as outlined earlier.

Operating expenses also included procurement of required licenses, support and development of software systems to bolster changes and upgrades to the technology build out to facilitate a wider reach for customer facing distribution channels. Resources were directed to improve and expand Kina's ICT capabilities in mandated areas of cybersecurity, disaster recovery and infrastructure redundancy. The Group also incurred costs on technology support of business continuity contingencies to support remote and safe working, increase storage and computing capacity, enhance applications performance and improve network and internet communications.

The increase in administrative costs were offset by lower staff costs and other operating expenses. Reduction in staff costs were largely due to a reduction in headcount at 1H21 compared to 1H20 resulting in lower spend on salaries, accommodation, insurance, medical and insurance costs.

Figures in PGK Millions	Half Year Ended					Change (%) vs Jun-20
	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	
Administration	28.8	26.5	26.7	16.6	11.7	8%
Staff	39.8	32.3	42.9	34.1	24.3	(7%)
Occupancy	22.5	21.8	22.6	14.8	6.9	(0%)
Other Operating expenses	1.8	4.0	3.2	2.0	1.6	(44%)
Board of Directors cost	1.1	0.6	0.8	0.8	0.8	38%
Acquisition/Integration	-	0.5	0.3	0.8	2.3	(100%)
Investor Relationship	0.8	0.4	0.3	0.4	0.2	167%
	<b>94.8</b>	<b>86.1</b>	<b>96.8</b>	<b>69.5</b>	<b>47.8</b>	<b>(2%)</b>

## 1.2.8 Asset Quality and Loan Impairment

In line with the IFRS 9 Accounting and Reporting requirements, Kina adopts 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'. The model operates on the principles of assessment of Probability of Default and the Loss Given Default. Default stages are applied depending on the aging and/or any change in the risk grade since origination. The Loss Given default is a consequence of security and collateral held by the Bank. Further, the total level of provisions held includes an allowance for model and economic risk. Kina continues to monitor its systems and processes to maintain strong credit quality across the loan book and a continued disciplined approach to the application of the Group's lending standards.



## Asset Quality

Figures in PGK Million	Half Year							
	Jun21	% of GLA	Dec20	% of GLA	Jun20	% of GLA	Dec19	% of GLA
Loan impairment expense	4.4	0.24%	11.6	0.70%	9.2	0.64%	3.5	0.25%
Non-performing loans and loans in arrears	162.1	9.02%	161.7	9.80%	154.0	10.65%	73.0	5.13%
- 90 day arrears	46.3	2.58%	60.3	3.65%	88.3	6.11%	46.3	3.26%
- Gross non-performing loans (> 180 days)	115.8	6.44%	101.4	6.15%	65.7	4.54%	26.7	1.88%
Total provision	38.2	2.13%	35.3	2.14%	25.2	1.74%	20.5	1.44%

## Loan Impairment expense

Figures in PGK'000					Change	
	Jun-21	Jun-20	Jun-21	Jun-20	(PGK)	%
Provision on loans			4,232.5	8,794.0	(4,561.5)	(51.9%)
Provision expense	2,697.8	5,102.0				
Net write-offs	1,534.7	3,692.0				
Trade Debtors			122.0	422.0	(300.0)	(71.1%)
<b>Total impairment (loans &amp; advances)</b>			<b>4,354.5</b>	<b>9,216.0</b>	<b>(4,861.5)</b>	<b>(52.8%)</b>
<b>Provision on GIS*</b>			<b>3.5</b>	<b>1,179.0</b>	<b>(1,175.5)</b>	<b>(99.7%)</b>
<b>Total Impairment Expense</b>			<b>4,358.0</b>	<b>10,395.0</b>	<b>(6,037.0)</b>	<b>(58.1%)</b>

\* see note below on GIS

Impairment expense on loans and advances totalled K4.4m as at 1H21. The reduction against the PCP reflects a lower write-off rate compared to the prior year on the back of a more robust monitoring system and a lower provision largely as a result of improvements to loan account management and reduction in overall non-performing loans (NPL).

The reduction in total NPL as a percentage of gross loans and advances is a result of a more robust and disciplined process employed in maintaining strong credit quality across the loan book. Collaboration within internal stakeholders was key in ensuring uniform understanding across the various business units involved in the provisioning process. This saw regular updates to the model outputs highlighting accounts for focus and clear actions required by respective teams to ensure any deterioration was appropriately managed.

Management has increased focus on 180+ days NPL. The pandemic has impacted cashflows due to job losses, lower rental income, deferred government payments and slowed the recovery actions due to protracted closure of the courts. Kina has in place a number of workouts with individual impacted customers and property sales in the near future including loan restructures with retail clients which will reduce NPL levels. The loan book remains well secured and there is no material degradation of collateral values.

Total provision as a percentage of gross loans remains consistent with 2H20. It has increased to PGK38.2 m in line with loan growth. This indicates that the credit quality considerations including write-offs are adequate.

An analysis of the loan portfolio and provision based on risk grades is set out as follows:

Loans and advances to customers at amortised cost: PGK'm	Stage 1 12 Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total Jun 2021	Total Dec 2020
Grade A-D: Low to fair risk	1,562.3	41.9	0.7	-	1,604.9	1,486.6
Grade E: Monitoring	-	27.5	-	-	27.5	24.6
Grade F: Substandard	-	36.9	-	-	36.9	36.6
Grade G: Doubtful	-	59.0	13.6	-	72.6	59.2
Grade H: Impaired	-	-	39.9	14.7	54.6	43.0
Not Graded	-	-	0.5	-	0.5	-
<b>Total Gross Carrying Amount</b>	<b>1,562.3</b>	<b>165.3</b>	<b>54.7</b>	<b>14.7</b>	<b>1,797.0</b>	<b>1,650.0</b>
Loss allowance	(14.1)	(19.5)	(4.6)	-	(38.2)	(35.3)
<b>Carrying Amount</b>	<b>1,548.2</b>	<b>145.8</b>	<b>50.1</b>	<b>14.7</b>	<b>1,758.8</b>	<b>1,614.7</b>

In accordance with the Risk grading policy and process, Kina credit and risk regularly assess the risk grades of each loan. 90.1% of the loan book is assessed as Low to Fair Risk (Grade A-D). The level of impaired loans remains at 3% largely due to the loans acquired from ANZ. These remain a focus area of work where Kina is working with these customers to reduce likely impairment.

### Investments

In FY2020, as part of BPNG's market 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 was 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 in the prior year. The impact to the P&L in the prior year was PGK 1.2 million (see table under Loans section above). Reassessment of impairment on this shows minimal increase in the current year.

### 1.2.9 Capital Adequacy

BPNG Prudential Standard 1/2003 *Capital Adequacy* prescribes ranges of overall capital adequacy ratios and leverage capital ratios to measure whether a bank is adequately capitalised. Kina exceeds the existing BPNG prudential capital adequacy requirements and qualifies as 'well capitalised' as at 30 June 2021.

Kina is an authorised institution licensed by the BPNG to accept or collect deposits from the public and lend to the public, and is required to comply with the prudential standards issued by BPNG. The reported ratios are at the consolidated level of the Group.

Regulatory Capital Ratios	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19
<b>PGK'million</b>					
<b>RWA</b>	<b>1,806.8</b>	<b>1,670.1</b>	<b>1,566.3</b>	<b>1,598.2</b>	<b>1,014.0</b>
Capital: T1	358.1	371.0	301.1	252.6	269.0
Capital: T2	62.3	58.3	41.9	70.9	33.0
Capital: T1 + T2	420.4	429.3	343.0	323.5	302.0
Capital adequacy Ratio: T1	19.8%	22.2%	19.2%	15.8%	26.5%
Capital adequacy: T2	3.4%	3.5%	2.7%	4.4%	3.3%
Capital adequacy: T1 + T2	23.3%	25.4%	21.9%	20.2%	29.8%
Leverage Ratio	10.4%	11.2%	10.1%	8.5%	15.0%

Capital ratios at the end of June 2021 remained above BPNG's requirement, with combined tier 1 (T1) and T2 capital equal to 23.3% of Risk-Weighted Assets, compared with the regulatory minimum of 12%. The Bank also has maintained leverage ratio at 10.4%, above BPNG's minimum requirement of 6%. The higher capital ratios places the Bank in a good position to deal with growth initiatives into the future.

The objective of Kina's Capital Management Plan is to maintain a strong, profitable financial risk profile and capacity to meet financial commitments. Capital adequacy and liquidity ratios are monitored against internal targets and triggers that are set over and above minimum capital requirements set by the Board. These are reviewed on a monthly basis by the Asset and Liability Committee.

## 2. Consolidated Financial Statements

### 2.1 Statement of Comprehensive Income - consolidated

Figures in PGK'000's	Half Year Ended					Change (%) Jun21 vs Jun20
	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19	
<b>Continuing Operations</b>						
Interest income on investments	28,502	27,473	26,453	22,560	13,569	8%
Interest income on loans	71,134	76,318	69,443	62,944	47,408	2%
Interest expense	(14,193)	(14,485)	(15,479)	(16,655)	(15,246)	(8%)
<b>Net interest income</b>	<b>85,443</b>	<b>89,306</b>	<b>80,417</b>	<b>68,850</b>	<b>45,731</b>	<b>6%</b>
Fee and commission income	40,371	39,491	36,861	29,071	18,807	10%
Fee and commission expense	(7)	(66)	(68)	(42)	(51)	(90%)
<b>Net fee and commission income</b>	<b>40,364</b>	<b>39,425</b>	<b>36,793</b>	<b>29,029</b>	<b>18,756</b>	<b>10%</b>
Foreign exchange income	29,246	26,741	28,498	23,268	18,688	3%
Dividend income	128	129	7	242	115	1729%
Net (losses)/gain from financial assets through profit and loss	394	2,485	25	83	70	1476%
Other operating income	164	7,531	3,437	394	340	(95%)
<b>Non-interest income</b>	<b>70,296</b>	<b>76,311</b>	<b>68,760</b>	<b>53,016</b>	<b>37,969</b>	<b>2%</b>
<b>Operating income before impairment losses and operating expenses</b>	<b>155,739</b>	<b>165,617</b>	<b>149,177</b>	<b>121,866</b>	<b>83,700</b>	<b>4%</b>
Impairment losses	(4,358)	(11,623)	(10,395)	(3,595)	(2,051)	(58%)
Other operating expenses	(94,768)	(86,099)	(96,771)	(69,430)	(47,798)	(2%)
<b>Profit before tax</b>	<b>56,613</b>	<b>67,895</b>	<b>42,011</b>	<b>48,841</b>	<b>33,851</b>	<b>35%</b>
Income tax expense	(16,861)	(21,212)	(12,720)	(11,585)	(10,237)	33%
<b>Net Profit for the half year attributable to the equity holder of the Company</b>	<b>39,752</b>	<b>46,683</b>	<b>29,291</b>	<b>37,256</b>	<b>23,614</b>	<b>36%</b>
Other comprehensive income	-	-	-	-	-	0%
<b>Total comprehensive income for the half year attributable to the equity holder of the Company</b>	<b>39,752</b>	<b>46,683</b>	<b>29,291</b>	<b>37,256</b>	<b>23,614</b>	<b>36%</b>

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year-ended 30 June 2021, and where applicable, calculated by reference to the 31 December 2020 audited financial statements and the 30 June 2020 half year reviewed financial statements.

## 2.2 Statement of financial position - consolidated

	Jun-21 PGK'000	Dec-20 PGK'000	Jun-20 PGK'000	Dec-19 PGK'000	Jun-19 PGK'000
<b>Assets</b>					
Cash and due from banks	434,679	335,147	304,774	269,702	121,340
Central bank bills	626,369	647,874	682,158	722,090	414,747
Regulatory deposits	191,312	185,711	175,360	249,713	139,938
Financial assets at fair value through profit and loss	11,229	10,682	7,661	7,635	4,977
Loans and advances to customers	1,758,775	1,614,731	1,420,583	1,401,433	865,806
Investments in government inscribed stocks	114,755	114,519	114,169	34,003	34,324
Current income tax assets	1	83	493	810	947
Deferred tax assets	16,648	16,482	12,307	10,491	10,278
Property, plant and equipment	89,300	86,274	88,987	96,922	45,551
Goodwill	92,786	92,786	92,786	92,786	92,786
Intangible assets	52,405	49,449	46,688	49,247	37,439
Other assets	144,187	145,813	59,208	62,703	10,357
<b>Total Assets</b>	<b>3,532,446</b>	<b>3,299,551</b>	<b>3,005,174</b>	<b>2,997,535</b>	<b>1,778,490</b>
<b>Liabilities</b>					
Due to other banks	(4,674)	(5,385)	(22)	(22)	(78)
Due to customers	(2,772,983)	(2,560,715)	(2,525,390)	(2,460,967)	(1,417,959)
Current income tax liabilities	(17,421)	(4,966)	(12,576)	(4,506)	(13,669)
Employee provisions	(10,959)	(11,538)	(9,183)	(9,068)	(4,924)
Lease Liabilities	(48,403)	(47,342)	(50,410)	(54,958)	(33,930)
Other liabilities	(110,863)	(92,571)	(77,090)	(140,738)	(36,076)
<b>Total Liabilities</b>	<b>(2,965,303)</b>	<b>(2,722,517)</b>	<b>(2,674,671)</b>	<b>(2,670,259)</b>	<b>(1,506,636)</b>
<b>Net Assets</b>	<b>567,143</b>	<b>577,034</b>	<b>330,503</b>	<b>327,276</b>	<b>271,854</b>
<b>Share capital and reserves</b>					
Issued and fully paid ordinary shares	(394,693)	(394,693)	(176,970)	(176,970)	(142,213)
Share-based payment reserve	(1,491)	(2,774)	(3,176)	(2,063)	(2,821)
Retained earnings	(170,959)	(179,567)	(150,357)	(148,243)	(126,820)
<b>Total capital and reserves</b>	<b>(567,143)</b>	<b>(577,034)</b>	<b>(330,503)</b>	<b>(327,276)</b>	<b>(271,854)</b>

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year-ended 30 June 2021, and where applicable, calculated by reference to the 31 December 2020 audited financial statements and the 30 June 2020 half year reviewed financial statements.

## 2.3 Statement of changes in equity - consolidated

	Share Capital	Capital Reserve	Share based payment Reserve	Retained Earnings	Total
	PGK'000	PGK'000	PGK'000	PGK'000	PGK'000
<b>Balance as at 31 December 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
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)
<b>Balance as at 30 June 2020</b>	<b>176,970</b>	-	<b>3,176</b>	<b>150,357</b>	<b>330,503</b>
Profit for the period	-	-	-	46,683	46,683
Additional shares issued	217,723	-	-	-	217,723
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme - vested rights	-	-	(1,607)	-	(1,607)
Employee share scheme - value of employee services	-	-	1,205	-	1,205
Dividend paid	-	-	-	(17,473)	(17,473)
<b>Balance as at 31 December 2020</b>	<b>394,693</b>	-	<b>2,774</b>	<b>179,567</b>	<b>577,034</b>
Profit for the period	-	-	-	39,752	39,752
Additional shares issued	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Contributions by and distributions to owners	-	-	-	-	-
Employee share scheme - vested rights	-	-	(3,379)	-	(3,379)
Employee share scheme - value of employee services	-	-	2,096	-	2,096
Dividend paid	-	-	-	(48,360)	(48,360)
<b>Balance as at 30 June 2021</b>	<b>394,693</b>	-	<b>1,491</b>	<b>170,959</b>	<b>567,143</b>

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the half year-ended 30 June 2021, and where applicable, calculated by reference to the 31 December 2020 audited financial statements and the 30 June 2020 half year reviewed financial statements.

## 2.4 Statement of Cashflow - consolidated

	Jun-21 PGK'000	Dec-20 PGK'000	Jun-20 PGK'000	Dec-19 PGK'000	Jun-19 PGK'000
<b>Cash flows from operating activities</b>					
Interest received	99,270	202,364	99,550	146,984	60,973
Interest paid	(19,185)	(27,376)	(14,348)	(32,835)	(17,092)
Foreign exchange gain	29,246	55,239	28,498	41,956	18,688
Dividend received	128	136	7	357	115
Fee, commission and other income received	39,871	78,271	37,217	50,531	19,744
Fee and commission expense paid	(7)	(134)	(68)	(93)	(51)
Net trading and other operating income received	544	13,256	3,462	887	411
Recoveries on loans previously written-off	1,080	1,943	1,287	2,076	1,991
Cash payments to employees and suppliers	(83,870)	(169,183)	(84,710)	(110,059)	(50,031)
Effect of change in accounting policy (IFRS 16)	-	-	-	-	(33,710)
Income tax paid	(4,488)	(36,195)	(8,191)	(30,628)	(4,794)
<b>Cash flows from operating profits before changes in operating assets</b>	<b>62,589</b>	<b>118,321</b>	<b>62,704</b>	<b>69,176</b>	<b>(3,756)</b>
<b>Changes in operating assets and liabilities:</b>					
- net increase in regulatory deposits	(5,601)	64,002	74,353	(112,218)	(2,444)
- net increase in loans and advances to customers	(144,624)	(217,160)	(24,446)	(225,415)	(17,066)
- net increase in other assets	1,752	(82,487)	1,751	(41,844)	2,100
- net increase/ (decrease) in due to customers	212,268	99,748	49,911	96,872	88,063
- net decrease in due to other banks	(820)	4,814	13,864	(27,558)	(10,708)
- net increase/ (decrease) in other liabilities	18,698	(60,110)	(69,327)	103,677	34,057
<b>Net cash flows from operating activities</b>	<b>144,262</b>	<b>(72,872)</b>	<b>108,810</b>	<b>(137,310)</b>	<b>90,246</b>
<b>Cash flows from investing activities</b>					
Purchase of property, equipment and software	(17,455)	(22,924)	(6,991)	(39,005)	(16,085)
Proceeds from sale of property and equipment	14	264	16	16	16
Purchase of investment securities	(44,039)	52,355	(40,234)	(403,319)	(33,722)
Net cash acquired on business combination	-	-	-	687,718	-
<b>Net cash flows from investing activities</b>	<b>(61,480)</b>	<b>29,695</b>	<b>(47,209)</b>	<b>245,410</b>	<b>(49,791)</b>
<b>Cash flows from financing activities</b>					
Dividend payment	(48,360)	(44,650)	(27,177)	(36,308)	(19,909)
Proceeds from the issuance of share capital, net of transaction costs	-	217,723	-	34,757	-
<b>Net cash flow from financing activities</b>	<b>(48,360)</b>	<b>173,073</b>	<b>(27,177)</b>	<b>(1,551)</b>	<b>(19,909)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>34,422</b>	<b>129,896</b>	<b>34,424</b>	<b>106,549</b>	<b>20,546</b>
Effect of changes in the foreign exchange rates on cash and cash equivalents	110	549	648	2,515	157
<b>Cash and cash equivalents at beginning of period</b>	<b>400,147</b>	<b>269,702</b>	<b>269,702</b>	<b>160,638</b>	<b>160,638</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>434,679</b>	<b>400,147</b>	<b>304,774</b>	<b>269,702</b>	<b>181,341</b>

The above information has been extracted from the unaudited interim consolidated financial statements of Kina Securities Limited for the year-ended 30 June 2021, and where applicable, calculated by reference to the 31 December 2020 audited financial statements and the 30 June 2020 half year reviewed financial statements.



## 2.5 Basis of Preparation

The accounting policies, estimation methods and measurement basis used in the preparation of the consolidated financial statements for the half year ended 30 June 2021 are consistent with those used in preparing the 31 December 2020 financial statements of the Group.

## 2.6 Non-Cash Financing and Investing Activities

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

## 2.7 Reconciliation of Cash and Cash Equivalents

	Jun-21 PGK'000	Dec-20 PGK'000
Cash and due from other banks	434,679	335,147
Central bank bills (maturity less than 3 months)		65,000
<b>Total cash at the end of the period</b>	<b>434,679</b>	<b>400,147</b>

## 2.8 Ratios

	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19
<b>Profit before tax / Operating Income</b>					
Consolidated profit from ordinary activities before tax as a percentage of revenue	36.4%	41.0%	28.2%	40.1%	40.4%
<b>Profit after tax / equity interests</b>					
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable)	7.0%	8.1%	8.9%	11.4%	8.7%

## 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;

	Jun-21	Dec-20	Jun-20	Dec-19	Jun-19
Calculation of the following in accordance with IAS33					
(a) Basic EPS	13.9	20.5	16.8	21.5	14.4
(b) Diluted EPS	13.8	20.4	16.7	21.4	14.3
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS ('000)	286,936	230,841*	169,369*	174,745	163,993

\* Weighted average calculated as the average of shares outstanding at the beginning of the reporting period and at the end of the reporting period.

## 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 2021 was 286,935,900 (31 December 2020: 286,935,900, 30 June 2020: 174,745,169).

Issued Ordinary Shares	Total Number	Number Quoted
	Ordinary shares	Ordinary shares
Changes during the period ended 30 June 2021		
Opening Balance of number of shares 30 June 2020	174,745,169	174,745,169
Increase through issue of shares	112,190,731	112,190,731
<b>Closing Balance of number of shares 30 June 2021</b>	<b>286,935,900</b>	<b>286,935,900</b>

## 2.12 Segment Reporting

	Banking & Finance	Wealth Management	Total
30 June 2021	PGK'000	PGK'000	PGK'000
Total external income	140,213	15,526	155,739
Total external expense	(94,932)	(4,194)	(99,126)
<b>Profit before inter-segment revenue and expenses</b>	<b>45,281</b>	<b>11,332</b>	<b>56,613</b>
Inter-segment income	1,777	-	1,777
Inter-segment expense	(21)	(1,756)	(1,777)
<b>Profit before tax</b>	<b>47,037</b>	<b>9,576</b>	<b>56,613</b>
Income tax expense	(14,153)	(2,708)	(16,861)
<b>Profit after tax</b>	<b>32,884</b>	<b>6,868</b>	<b>39,752</b>
Segment assets	<b>3,514,614</b>	<b>17,832</b>	<b>3,532,446</b>
Segment liabilities	<b>(2,936,336)</b>	<b>(28,967)</b>	<b>(2,965,303)</b>
<b>Net assets</b>	<b>578,278</b>	<b>(11,135)</b>	<b>567,143</b>
Capital expenditure	17,455	-	17,455
Depreciation	(17,119)	-	(17,119)

	Banking & Finance (Restated)	Wealth Management	Total
30 June 2020	PGK'000	PGK'000	PGK'000
Total external income	134,796	14,382	149,178
Total external expense	(101,776)	(5,391)	(107,167)
<b>Profit before inter-segment revenue and expenses</b>	<b>33,020</b>	<b>8,991</b>	<b>42,011</b>
Inter-segment income	22,739	-	22,739
Inter-segment expense	(20,570)	(2,169)	(22,739)
<b>Profit before tax</b>	<b>35,189</b>	<b>6,822</b>	<b>42,011</b>
Income tax expense	(10,680)	(2,040)	(12,720)
<b>Profit after tax</b>	<b>24,509</b>	<b>4,782</b>	<b>29,291</b>
Segment assets	2,992,492	12,684	3,005,176
Segment liabilities	(2,671,739)	(2,932)	(2,674,671)
<b>Net assets</b>	<b>320,753</b>	<b>9,752</b>	<b>330,505</b>
Capital expenditure	6,991	-	6,991
Depreciation	(17,471)	-	(17,471)

Prior year comparatives under "Banking & Finance" have been restated to reflect the effect of amalgamation during 2H20.

## 2.13 Comparison of Profits

	<b>HY Jun-21 PGK'000</b>	<b>FY Dec-20 PGK'000</b>	<b>FY Dec-19 PGK'000</b>
<b>First Half Year</b>			
Consolidated profit from continuing operations after tax attributable to members reported for the period	39,752	29,291	23,614
<b>Second Half Year</b>			
Consolidated profit from continuing operations after tax attributable to members reported for the period	N/A	46,683	37,257
<b>Total</b>	<b>39,752</b>	<b>75,974</b>	<b>60,871</b>

## 2.14 Contingent Liabilities

The Company is a party to a number of litigations as at 30 June 2021. 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.

Kina guarantees the performance of customers by issuing bank guarantees to third parties. As at 30 June 2021, these totalled PGK 64.4 million (31 December 2020: PGK 88.7 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**

**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.