KINA SECURITIES LIMITED
AND ITS SUBSIDIARIES

CONDENSED INTERIM
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

CONTENTS OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

DIRECTORS' REPORT	1
INDEPENDENT AUDITOR'S REVIEW REPORT	2
DIRECTORS' DECLARATION	3
CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	4
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY	5
CONDENSED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION	6
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS	7
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS	8 – 20

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

DIRECTORS' REPORT
FOR THE HALF YEAR ENDED 30 JUNE 2017

The Directors of Kina Securities Limited and its Subsidiaries (the Group) submit herewith the condensed interim consolidated financial statements of the Group for the half year ended 30 June 2017.

Principal Activities

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

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

Accounting Policies

Details of accounting policies are shown in note 1 (c) to the accounts. There have been no changes to policies adopted at 31 December 2016.

Country of Incorporation

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

Registered Office

Its registered office is Level 9, The Tower, Douglas Street, Port Moresby, National Capital District.

Directors and Secretary

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

I. Taureka (Chairman)
S. G. Yates, Managing Director
J. Yap
D. Foster
K. Smith-Pomeroy
R. Namaliu - ceased 16 May 2017
W. Golding - ceased 16 May 2017

The company secretary was C. Chopra.

Dividends

Dividends declared and paid during the half year amounted to K16,389,324 (2016: K12,657,202).

Results

The operating profit attributable to equity holders for the half year for the Group was K3,026,228 (2016: K K20,498,970).

Signed at Port Moresby on behalf of the board on the 23rd day of August 2017.

Mr. Isikeli Taureka
Chairman

Mr. Syd Yates
Managing Director

pwc

Report on review of condensed interim consolidated financial statements

to the Directors of Kina Securities Limited

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of Kina Securities Limited as at 30 June 2017 and the related condensed interim consolidated statement of comprehensive income, condensed interim consolidated statement of changes in shareholders' equity and condensed interim consolidated statement of cash flows for the half year then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation and presentation of these condensed interim consolidated financial statements in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial statements consists of making inquiries, 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, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements of Kina Securities Limited are not prepared, in all material aspects, in accordance with International Accounting Standard 34, "Interim financial reporting'.

Restriction on distribution or use

This report is made solely to the directors of the Company, as a body. Our review work has been undertaken so that we might state to the directors those matters which we are required to state to them in our review report and for no other purpose. We do not accept or assume responsibility to anyone other than the directors of the Company, as a body, for our review work, for this report or for the conclusion we have formed.

PricewaterhouseCoopers

Stephen Beach
Partner
Registered under the Accountants Act 1996
Port Moresby
23 August 2017

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KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

DIRECTORS DECLARATION
FOR THE HALF YEAR ENDED 30 JUNE 2017

The directors declare that:

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

Signed in accordance with a resolution of the directors.

On behalf of the Directors

Director
Port Moresby

Director
Port Moresby

on the 23rd day of August 2017.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 30 JUNE 2017

	Notes	Consolidated Half year 30 June 2017 Unaudited	2016 Unaudited
Continuing Operations		K	K
Interest income		47,786,650	35,324,509
Interest expense		(14,207,079)	(4,087,356)
Net interest income	3	**33,579,571**	**31,237,153**
Fee and commission income		13,297,161	15,476,467
Fee and commission expense		(30,976)	(38,526)
Net fee and commission income	4	**13,266,185**	**15,437,941**
Foreign exchange income		1,879,534	12,936,730
Dividend income		92,002	74,109
Net gains/(losses) from financial assets through profit and loss		35,712	500,454
Other operating income		202,134	1,513,324
Operating income before impairment losses and operating expenses		**49,055,138**	**61,699,711**
Impairment losses	5	(1,327,575)	(2,531,197)
Lease termination payment expense	6	(7,000,000)	-
Other operating expenses	7	(33,242,380)	(29,800,138)
Profit before tax		**7,485,183**	**29,368,376**
Income tax expense	8	(4,458,955)	(8,869,406)
Net profit for the period		**3,026,228**	**20,498,970**
Other comprehensive income		-	-
Total comprehensive income for the period		**3,026,228**	**20,498,970**

	2017	2016
Earnings per share - basic & diluted (toea) (Note 19 (b))	**1.8**	**12.5**

The notes on pages 8 to 20 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 2017

Consolidated	Attributable to the equity holders of the Group				
	Share Capital	Capital Reserve	Share based payment Reserve	Retained Earnings	Total
	K	K	K	K	K
Balance as at 31 December 2015 (audited)	141,797,464	49,050	460,379	102,158,936	244,465,829
Profit for the period	-	-	-	20,498,970	20,498,970
Other comprehensive income	-	-	-	-	-
Contributions by and distribution to owners					
Employee share scheme	-	-	430,375	-	430,375
Dividend paid	-	-	-	(12,657,202)	(12,657,202)
Balance as at 30 June 2016 (unaudited)	**141,797,464**	**49,050**	**890,754**	**110,000,704**	**252,737,972**
Profit for the period	-	-	-	20,476,845	20,476,845
Other comprehensive income	-	-	-	-	-
Contributions by and distribution to owners					
Employee share scheme	208,000	-	464,779	-	672,779
Dividend paid	-	-	-	(16,017,759)	(16,017,759)
Balance as at 31 December 2016 (audited)	**142,005,464**	**49,050**	**1,355,533**	**114,459,790**	**257,869,837**
Profit for the period	-	-	-	3,026,228	3,026,228
Other comprehensive income	-	-	-	-	-
Contributions by and distribution to owners					
Employee share scheme	-	-	-	-	-
Dividend paid	-	-	-	(16,389,324)	(16,389,324)
Balance as at 30 June 2017 (unaudited)	**142,005,464**	**49,050**	**1,355,533**	**101,096,694**	**244,506,741**

The notes on pages 8 to 20 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 2017

	Notes	Consolidated 30-Jun 2017 Unaudited	31-Dec 2016 Audited
		K	K
Assets			
Cash and due from banks	9	79,838,223	148,019,915
Central bank bills	10	176,872,920	208,095,202
Regulatory deposits	11	96,397,500	96,013,000
Financial assets at fair value through profit or loss	12	4,677,369	4,641,657
Loans and advances to customers	13	685,370,259	605,112,099
Investments in government inscribed stocks	14	79,719,415	64,328,380
Current income tax assets		4,830,517	2,452,386
Deferred tax assets		6,434,229	6,290,872
Property and equipment	15	30,331,443	24,019,327
Goodwill		92,785,855	92,785,855
Intangible assets	16	5,178,017	5,958,869
Other assets		5,709,529	8,029,866
		1,268,145,276	1,265,747,428
Liabilities			
Due to other banks		639,825	142,943
Due to customers	17	964,790,442	958,608,911
Current income tax liabilities		2,770,976	1,457,086
Deferred income tax liabilities		94,891	310,165
Employee provisions		3,406,954	3,276,594
Other liabilities	18	51,935,447	44,081,892
		1,023,638,535	1,007,877,591
Net assets		244,506,741	257,869,837
Shareholders' equity			
Issued and fully paid ordinary shares	19a	142,005,464	142,005,464
Capital reserve		49,050	49,050
Share-based payment reserve	19c	1,355,533	1,355,533
Retained earnings		101,096,694	114,459,790
Total equity		244,506,741	257,869,837

The notes on pages 8 to 20 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. Syd Yates
Managing Director

on the 23rd day of August 2017.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 30 JUNE 2017

	Notes	Consolidated Half year ended 30 June 2017 Unaudited	2016 Unaudited
		K	K
Cash flows from operating activities			
Interest received		**47,395,615**	35,300,844
Interest paid		**(6,885,833)**	(5,041,143)
Dividend received		**92,002**	74,109
Fee, commission and other income received		**14,072,362**	24,857,537
Fee and commission expense paid		**(30,976)**	(38,527)
Net trading and other operating income received		**202,134**	1,971,278
Recoveries on loans previously written-off		**1,104,333**	433,859
Cash payments to employees and suppliers		**(31,305,390)**	(18,999,910)
Lease termination payment	6	**(7,000,000)**	-
Income tax paid		**(5,881,827)**	(3,658,196)
Cash flows from operating profits before changes in operating assets and liabilities		**11,762,421**	34,899,851
Changes in operating assets and liabilities:			
- net increase in regulatory deposits		**(384,500)**	(11,697,000)
- net increase in loans and advances to customers		**(81,585,735)**	(63,578,841)
- net increase in other assets		**2,320,337**	(5,705,061)
- net increase/(decrease) in due to customers		**6,181,531**	(48,646,101)
- net decrease in due to other banks		**496,882**	(849,523)
- net increase/(decrease) in other liabilities		**532,309**	3,800,919
Net cash flows from operating activities		**(60,676,755)**	(91,775,756)
Cash flows from investing activities			
Purchase of property, equipment and software		**(7,613,148)**	(1,831,358)
Proceeds from sale of property and equipment		**1,500**	42,500
Purchase of investment securities		**(11,777,718)**	(33,757,268)
Net cash flows from investing activities		**(19,389,366)**	(35,546,126)
Cash flows from financing activities			
Dividend payment		**(16,389,324)**	(12,657,202)
Net cash outflows from financing activities		**(16,389,324)**	(12,657,202)
Net increase/(decrease) in cash and cash equivalents		**(96,455,445)**	(139,979,084)
Effect of changes in the foreign exchange rates on cash and cash equivalents		**273,753**	334,291
Cash and cash equivalents at 1 January 2017 (1 January 2016)		**178,019,915**	235,251,147
Cash and cash equivalents at 30 June 2017 (30 June 2016)		**81,838,223**	95,606,354
Net cash generated during the six months ended 31 December 2016		**-**	82,413,561
Cash and cash equivalents at end of period		**81,838,223**	**178,019,915**

The notes on pages 8 to 20 are an integral part of these condensed interim consolidated financial statements.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

1. Significant accounting policies

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

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

a) Statement of compliance

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

These condensed interim consolidated financial statements have been reviewed, not audited. They were approved for issue by the Board of Directors on 22 August 2017.

b) Basis of presentation

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

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

c) Accounting policies and disclosures

The accounting policies and methods of computation adopted are consistent with those adopted and disclosed in the Group's annual financial report for the year ended 31 December 2016. These accounting policies are consistent with International Financial Reporting Standards.

Amendments to IFRS effective for the financial year ending 31 December 2017 are not expected to have a material impact on the group financial statements.

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 2016.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

3. Net interest income

	Consolidated	
	Half year ended 30 June	
	2017	2016
	Unaudited	Unaudited
	K	K
Interest income		
Cash and short-term funds	6,737,074	5,590,119
Investment in government inscribed stocks	3,176,356	2,957,555
Loans and advances to customers	37,873,220	26,776,835
	47,786,650	35,324,509
Interest expense		
Banks and customers	(14,207,079)	(4,087,356)
Net interest income	33,579,571	31,237,153

4. Net fee and commission income

	Consolidated	
	Half year ended 30 June	
	2017	2016
	Unaudited	Unaudited
	K	K
Fee and commission income		
Credit related fees and commission	3,764,297	5,844,056
Investment and portfolio management	4,568,942	4,202,081
Fund administration	4,025,931	5,017,472
Shares brokerage	316,099	234,005
Corporate service fee	-	-
Other fees	621,892	178,853
	13,297,161	15,476,467
Fee and commission expense		
Fees and commission	(30,976)	(38,526)
Net fee and commission income	13,266,185	15,437,941

5. Impairment losses

	Consolidated	
	Half year ended 30 June	
	2017	2016
	Unaudited	Unaudited
	K	K
Individually assessed	710,125	1,536,815
Collective allowance	617,450	994,382
	1,327,575	2,531,197

6. Lease termination payment expense

The one-off lease termination expense related to an agreement for the Group to re-locate to a new building. The arrangement was entered into prior to Kina's plans to list on the ASX. The Board has taken the decision to terminate the arrangement and for the Group to remain in its present location, The Tower, as a re-location no longer aligned with its future business direction or represented the best value for the company.

7. Other operating expense

	Consolidated Half year ended 30 June	
	2017 Unaudited	2016 Unaudited
	K	K
Staff costs	16,111,434	14,605,597
Administrative expenses	6,821,237	5,947,064
Operating lease	2,701,725	2,263,448
Software maintenance and support charges	1,218,541	1,602,121
Depreciation (note 14)	1,296,636	1,479,444
Amortisation of intangible assets (note 15)	780,852	817,306
Auditor's remuneration	257,980	179,129
Tax and other fees	50,285	16,708
Other	4,003,690	2,889,321
	33,242,380	29,800,138

As at 30 June 2017 the Group had 300 (2016: 248) 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 due from banks

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Cash on hand	2,486,622	2,228,441
Exchange settlement account (Bank of Papua New Guinea)	46,073,027	69,851,663
Due from other banks	31,278,574	75,939,811
	79,838,223	148,019,915

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

10. Central bank bills

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Central bank bills	176,872,920	208,095,202

Central bank bills are debt securities issued by the Bank of Papua New Guinea. Central bank bills at 30 June 2017 amounting to K 2,000,000 (2016: K 30,000,000) with maturity term of one to three months from the date of purchase are classified as cash equivalents in the consolidated statement of cash flows.

11. Regulatory deposits

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Regulatory deposits	96,397,500	96,013,000

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

12. Financial assets at fair value through profit or loss

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

13. Loans and advances to customers

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Loans to individuals	148,933,118	134,388,116
Loans to corporate entities	549,055,283	482,714,042
Gross loans and advances to customers	697,988,401	617,102,158
Allowances for losses	(12,618,142)	(11,990,059)
	685,370,259	605,112,099

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

13. Loans and advances to customers (continued)

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

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Overdrafts	64,469,836	60,899,437
Property mortgage	548,034,916	471,417,274
Asset financing	13,577,561	13,118,532
Insurance premium funding	2,747,457	613,986
Business and other loans	69,158,631	71,052,929
	697,988,401	617,102,158

Movements in allowance for losses are as follows:

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Individually assessed		
Balances at beginning of period	4,033,856	3,437,245
Impairment losses	710,125	3,798,641
Bad debts written off	(1,803,825)	(16,778)
Transfer from/(to) specific	-	(3,185,252)
Recoveries	1,104,333	-
Balances at end of period	4,044,489	4,033,856
Collectively assessed		
Balances at beginning of period	7,956,203	5,296,477
Impairment losses	617,450	(1,011,613)
Transfer to/(from) general provision	-	3,185,252
Bad debts written off	-	(552,344)
Recoveries	-	1,038,431
Balances at end of period	8,573,653	7,956,203
Balance at the end of the period	12,618,142	11,990,059

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

14. Investments in government inscribed stocks

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Government inscribed stocks principal balance	78,000,000	63,000,000
Unamortized premium and discount	166,535	249,355
Accrued interest	1,552,880	1,079,025
	79,719,415	64,328,380

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

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Balance at beginning of the period	64,328,380	64,134,508
Additions	15,000,000	-
Accrued interest	473,854	183,166
Amortized premium and discount	(82,819)	10,706
Balance at the end of the period	79,719,415	64,328,380

Investments in government inscribed stocks are measured at amortized cost.

15. Property and equipment

Consolidated	Furniture & Fittings	Building improvements	Motor Vehicles	Office Equipment	Land & Building	Work in Progress	Total
	K	K	K	K	K		K
At 31 December 2016							
Cost	1,075,951	7,689,902	3,177,668	12,904,891	11,746,010	4,384,816	40,979,238
Accumulated depreciation	(746,554)	(3,644,472)	(2,410,275)	(10,049,964)	(108,646)	-	(16,959,911)
Net book value	**329,397**	**4,045,430**	**767,393**	**2,854,927**	**11,637,364**	**4,384,816**	**24,019,327**
Half year ended 30 June 2017							
Opening net book value	329,397	4,045,430	767,393	2,854,927	11,637,364	4,384,816	24,019,327
Additions	46,598	-	-	819,398	-	6,747,152	7,613,148
Disposals	-	-	-	(4,396)	-	-	(4,396)
Depreciation	(62,800)	(335,235)	(258,098)	(586,626)	(53,877)	-	(1,296,636)
Closing net book value	**313,195**	**3,710,195**	**509,295**	**3,083,303**	**11,583,487**	**11,131,968**	**30,331,443**
At 30 June 2017							
Cost	1,122,549	7,689,902	3,177,668	13,719,893	11,746,010	11,131,968	48,587,990
Accumulated depreciation	(809,354)	(3,979,707)	(2,668,373)	(10,636,590)	(162,523)	-	(18,256,547)
Net book value	**313,195**	**3,710,195**	**509,295**	**3,083,303**	**11,583,487**	**11,131,968**	**30,331,443**

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

16. Intangible assets

Consolidated	Software	Customer deposits relationship	Total
	K	K	K
Cost			
Balance 31 December 2016	4,064,200	3,780,000	7,844,200
Additions	-	-	-
Balance 30 June 2017	**4,064,200**	**3,780,000**	**7,844,200**
Accumulated amortisation			
Balance 31 December 2016	(940,331)	(945,000)	(1,885,331)
Charges during the period	(402,852)	(378,000)	(780,852)
Balance 30 June 2017	**(1,343,183)**	**(1,323,000)**	**(2,666,183)**
Book value 30 June 2017	**2,721,017**	**2,457,000**	**5,178,017**
Book value 31 December 2016	**3,123,869**	**2,835,000**	**5,958,869**

Customer deposits relationship was recognised when Maybank (PNG) Limited was acquired on 30 September 2015. The value of the customer deposits relationship was derived on the present value of the expected benefit from existing funds coming from depositors. A pre-tax discount rate of 11.2% was used in the valuation consistent with the impairment testing performed for goodwill. The intangible asset was estimated to have a useful life of five years based on the expected length of the customer deposits relationship.

17. Due to customers

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Corporate customers	**947,261,032**	934,957,697
Retail customers	**17,529,410**	23,651,214
	964,790,442	958,608,911

18. Other liabilities

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Bank cheques	**6,485,851**	5,304,422
Deposits against guarantee	**8,339,599**	10,332,804
Creditors	**1,994,984**	2,690,590
Unearned commission income	**1,023,130**	1,044,624
Accruals and other liabilities	**34,091,883**	24,709,452
	51,935,447	44,081,892

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

19. Issued and paid ordinary shares

a. Share capital
The Company does not have authorized capital and all ordinary shares have no par value.

	Number of shares	Share capital
Ordinary shares		
Balance at 31 December 2016	163,893,253	142,005,464
Balance at 30 June 2017	**163,893,253**	**142,005,464**

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

	Consolidated	
	30 June 2017 Unaudited	30 June 2016 Unaudited
Net profit attributable to shareholders	**3,026,228**	20,498,970
Weighted average number of ordinary shares basic earnings	**163,893,253**	163,793,253
Weighted average number of ordinary shares diluted earnings	**164,606,691**	164,221,499
Basic and diluted earnings /per share (in toea)	**1.8**	12.5

c. Share-based payment reserve

In July 2015, after the Company was listed on the Australian Stock Exchange and Port Moresby Stock Exchange, Kina established various incentive arrangements to assist in the attraction, motivation and retention of management and its employees. Share options were granted to the Chief Executive Officer (CEO) and other senior executive employees. These included short term incentive plan (STI Plan), long term incentive plan (LTI Plan) and retention plan (RI Plan). The share based payment expense recognized for the period ended 30 June 2017 is Knil (2016: 430,375). 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 had deposits in the Company on normal terms and conditions. Brokerage rates for buying and selling shares for the Senior Management and staff are discounted.

No key management personnel have any outstanding loans due to the Group.

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

20. Related party transactions (continued)

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

	30 June 2017 Unaudited	30 June 2016 Unaudited
Salary	3,287,020	2,647,603
Benefits	1,505,682	1,364,290
Total	**4,792,702**	**4,011,893**

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 balance sheet. The Group is also engaged in investing client monies. A corresponding liability in respect of these monies is also excluded from the balance sheet. Investments under trust at balance sheet are:

	Consolidated	
	30 June 2017 Unaudited	31 December 2016 Audited
	K	K
Shares clients funds	2,064,541	925,265
	2,064,541	925,265

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

22. Segment reporting

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

	Banking & Finance	Wealth Management	Corporate	Total
	PGK'000	PGK'000	PGK'000	PGK'000
Interest income	47,743	43	1	47,787
Interest expense	(14,207)	-	-	(14,207)
Foreign exchange income	1,674	151	55	1,880
Fee and commission income	3,764	8,911	(31)	12,644
Other revenue	49	771	132	952
Total external income	**39,022**	**9,876**	**156**	**49,055**
Other operating expenses	(12,648)	(4,678)	(20,837)	(38,164)
Provision for impairment	(1,037)	(291)	-	(1,328)
Depreciation and amortisation	(1,082)	-	(996)	(2,079)
Total external expenses	**(14,767)**	**(4,969)**	**(21,834)**	**(41,570)**
Profit before inter-segment revenue and expenses	24,255	4,908	(21,677)	7,485
Inter-segment income	1,607	341	15,711	17,658
Inter-segment expenses	(15,171)	(2,146)	(342)	(17,658)
Profit before tax	**10,691**	**3,103**	**(6,308)**	**7,485**
Income tax expense	(3,176)	(908)	(374)	(4,459)
Profit after tax	**7,515**	**2,194**	**(6,683)**	**3,026**
Total assets	1,122,801	15,462	129,882	1,268,145
Total assets include:				
Additions to non-current assets	3,808	3,546	259	7,613
Total liabilities	1,013,583	3,959	6,097	1,023,638

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

22. Segment reporting (continued)

The segment information provided to the Chief Executive Officer for the reportable segments for the period ended 30 June 2016 is as follows:

	Banking & Finance	Wealth Management	Corporate	Total
	K '000	K '000	K '000	K '000
Interest income	35,222	301	(1,193)	34,330
Interest expense	(4,087)	-	-	(4,087)
Foreign exchange income	12,359	616	(39)	12,936
Fee and commission income	3,444	9,394	3,595	16,433
Other revenue	50	652	1,386	2,088
Total external income	**46,988**	**10,963**	**3,749**	**61,700**
Other operating expenses	(13,693)	(4,379)	(9,810)	(27,882)
Provision for impairment	(2,434)	(103)	6	(2,531)
Depreciation and amortisation	(956)	-	(963)	(1,919)
Total external expenses	**(17,083)**	**(4,482)**	**(10,767)**	**(32,332)**
Profit before inter-segment revenue and expenses	29,905	6,481	(7,018)	29,368
Inter-segment income	995	200	10,934	12,129
Inter-segment expenses	(9,998)	(1,719)	(412)	(12,129)
Profit before tax	**20,902**	**4,962**	**3,504**	**29,368**
Income tax expense	(6,271)	(1,313)	(1,285)	(8,869)
Profit after tax	**14,631**	**3,649**	**2,219**	**20,499**
Total assets	814,191	10,678	139,813	964,682
Total assets include:				
Additions to non-current assets	1,646	-	186	1,832
Total liabilities	702,200	3,136	6,604	711,940

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 2017, 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 liabilities

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

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.

	Consolidated	
	30 June 2017	31 December 2016
	Unaudited	Audited
	K	K
Documentary letters of credit	-	1,864,990
Performance guarantee	37,403,298	34,937,710
Other contingent liabilities	-	3,075,101
	37,403,298	39,877,801

24. Capital commitments

There was no commitment under contracts for capital expenditure at balance date.

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 30 June 2017.

Assets	**Level 1** K	**Level 2** K	**Level 3** K	**Total** K
Financial assets at fair value through profit or loss				
Investment in shares - Listed	4,615,782	-	-	4,615,782
Investment in shares - Unlisted	-	-	61,587	61,587
Total assets	**4,615,782**	-	**61,587**	**4,677,369**

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

KINA SECURITIES LIMITED AND ITS SUBSIDIARIES

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

25. Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

Assets	Level 1 K	Level 2 K	Level 3 K	Total K
Financial assets at fair value through profit or loss				
Investment in shares – Listed	4,580,070	-	-	4,580,070
Investment in shares – Unlisted	-	-	61,587	61,587
Total assets	4,580,070	-	61,587	4,641,657

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 2016. There have been no 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

There are no events after the balance date that require adjustment to or disclosure in the financial statements.