



2017  
ANNUAL REPORT

**Comrade Trustee Services Limited**  
Defence Force Retirement Benefits Fund



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# Vision & Mission Statement

## THE VISION OF THE COMPANY IS:

“To achieve excellence in meeting the needs of members through efficient management of the Fund.”

## AND THE MISSION IS:

“To continuously deliver services to meet the identified needs of our members and to prudently manage the Fund to ensure its value is enhanced.”

## CORPORATE VALUES

The achievement of our mission statement requires all Directors and employees of Comrade Trustee Services Limited (CTSL) and our core service providers to adhere to our corporate values. These values require CTSL to operate in accordance with the highest professional and ethical standards in all our relationships with members, suppliers, and the community in which we operate. The values provide a platform for the company to nurture and promote a corporate climate that encourages innovation and diligence among staff and rewards them through:

- Being responsible and accountable for our actions
- Operating with honesty and integrity
- Always putting the interest of our members first
- Being transparent in our dealings with all parties
- Training and developing our employees and providing them with the necessary resources to perform to their full potential and rewarding them fairly
- Aiming continually to improve our service and efficiency levels
- Treating each other with respect and consideration and encouraging team work and cooperation
- Pursuing an employment policy that is based on merit and does not discriminate on the basis of gender, race, religion or ethnic persuasion.

## BUILT ON OUR CORPORATE VALUES OF:

- Honesty, integrity and mutual respect
- Our pursuit of excellence
- Transparency
- Accountability

# Chairman's Statement

## Dear Members

It gives me great pleasure to report to you the results of the Defence Force Retirement Benefits Fund (DFRBF) for 2017.

As you will all know, 2017 was the first full year for the DFRBF operating both as a Defined Benefit and Accumulation Scheme. The 2017 year has been a tough year for most business houses in PNG, including DFRBF. The challenging business environment and subdued economic conditions both domestically and internationally, have required the Trustee to work harder to ensure prudent management of investments and the efficient use of limited resources, while maintaining strong governance practices.

### 2017 HIGHLIGHTS

The 2017 year has seen the consolidation of the new Accumulation Scheme with the resolution of outstanding transfer issues with the Department of Defence, Department of Finance and Fund Administrators

Kina Investment Superannuation Services Limited (KISS). The members' data processing and management systems maintained by KISS in their Acurity and Case 360 systems have been upgraded to meet industry standards.

The Fund also undertook awareness sessions in 2017 for both Contributing and Pension members around the country. The Trustees' website was revamped and upgraded along with roll out and launch of the Accumulation Scheme Members Online Portal which now provides members with the ability to check their account transactions and balances themselves online.

The Board also appointed Executive Manager – Member Services and Talent, Mr. John Auna as the CEO for CTSL in September 2017 following an extensive independent recruitment process. A number of Board of Director positions also expired during the year and were filled following the same independent recruitment process.

The Toea Homes project also progressed with completion of civil works and the construction of the first lot of houses by South Pacific Homes and Australasian homes which have been assigned to members and are expected to be issued to members in 2018.

### FINANCIAL RESULTS

The Financial Statements for DFRBF were audited by the Fund's Auditors, Ernst & Young, who provided an Unqualified Audit Opinion. The 2017 results have not been as good as those for the previous year 2016, however I am pleased to advise that despite the tough economic conditions, DFRBF has still been able to post some positive results for members for 2017. These results included a Net Surplus after Tax of K47.18m (2016 – K55.48m), total Fund Net Assets of K563.79m (2016 – K516.62m), Fund Growth of 9.62% (2016 – 11.90%), Management Expense Ratio of 2.44% (2016 – 2.76%).

Following completion of the 2017 annual review process, and with these positive financial results, the Trustee Board approved for a Crediting Interest Rate for DFRBF contributing members of 11.43% for 2017. With the CPI rate for the September 2017 quarter at 5.1%, this equates to a real return to each member of 6.33%.

This interest has also been credited for the Defined Benefit Pension Scheme members into the consolidated retained earnings account for funding of ongoing pensions.

### LOOKING AHEAD

While celebrating these results with our members, I take this opportunity to also caution members not to expect such double digit returns every year. The Fund's investment returns are subject to economic and market fluctuations which are variable and cyclical in nature.

As we look ahead into 2018, we see more challenges facing the Fund with the slower economy, continuing Foreign Exchange shortages and tighter Government cashflow and liquidity. The Fund will be working on delivering more services to members of both the Accumulation and Defined Benefits schemes during 2018.

However, the Trustee will continue to work on effectively and efficiently managing the Fund through the successful implementation of its five-year Strategic Plan, while working with all stakeholders to maximize the Fund's investment returns.

### ACKNOWLEDGEMENTS

I would like to take this opportunity to thank all members for their continued support and understanding during the year while the Fund consolidated its operations with the new accumulation scheme, especially the shareholder, Commander of the PNG Defence Force Brigadier General Gilbert Toropo, Commanding Officers and Branch Heads for their continued trust and support to the Trustee, the Department of Treasury for their understanding and continued dialogue towards sorting out members' unfunded liability issues, industry regulators Bank of Papua New Guinea for their continued advice and guidance and for prudential stewardship of the Fund and Kina Bank Limited for their continued support and services as the Fund's Investment Managers and Fund Administrators during 2017.

We look forward to working with you all towards achieving more positive results for the Fund in 2018.

Yours faithfully



**Moses S. Koiri**  
Chairman



# Chief Executive Officer's Report

SUMMARY OF KEY PERFORMANCE INDICATORS	2017			2016		
	ACCUMULATION	DEFINED BENEFIT	TOTAL	ACCUMULATION	DEFINED BENEFIT	TOTAL
Net Asset Value	228,549,795	335,242,477	563,792,272	206,278,637	310,336,533	516,615,170
Net Surplus (after tax)	22,271,162	24,905,940	47,177,102	22,868,038	32,613,822	55,481,860

## Dear Members

The 2017 year has been a challenging one for your Fund, the Defence Force Retirement Benefits Fund (DFRBF). The subdued economic conditions and slowing growth and investment environment have in turn affected the Fund's investment performance and returns. Outstanding Fund Review changes from 2016 for the Accumulation Scheme required focus and attention to ensure the Fund's systems, processes and investments for the new scheme were completed during 2017.

### FUND PERFORMANCE

Despite these challenges, the Fund has been able to maintain a good financial performance for 2017 posting a net surplus after tax of K47.18 million (2016 – K55.48 million) for the year, which is a decrease of 15% compared to last year, but still a positive outcome. The net surplus was again a direct result of increased dividend income from investments such as BSP, net gains on the value of financial assets and investment properties and lower operational costs and expenses versus budget. The Fund also achieved a Management Expense Ratio (MER) of 2.4%, (2016 – 2.76%). This transpired into the following results for both the Accumulation and Defined Benefit schemes.

SUMMARY OF KEY PERFORMANCE INDICATORS	2017	2016
Rate of Return	9.13%	12.03%
MER	2.44%	2.76%
Interest Crediting Rate	11.43%	17.8%
CPI Indexation rate	5.1%	6.8%
Total Active Membership	3,880	3,354
Total Pensioners	1,673	1,754
Total Members contribution received	16,193,850	5,914,969
Total Benefits paid	31,815,011	20,704,748

#### • Five-year strategic plan (2016 – 2020)

2017 was the second year of implementation of the Fund's five-year strategic plan. A key objective of the plan is to achieve an annual rate of return for members of CPI plus 2%, which was achieved with the crediting of 11.43% interest credited to member accounts for 2017. Another key objective achieved in 2017 was the launching of the members online portal to access their accounts and statements independently via the internet.

#### • Members

The Fund saw an increase in membership with 285 new Accumulation Scheme members. Total Fund membership stood at 5,553 members, with 3,639 active members in the Accumulation scheme, 241 active members in the Defined Benefit Scheme and 1,673 pensioners. For the first time, the Fund conducted separate awareness sessions for contributor members and pensioners in most provincial locations.

#### • Members home ownership scheme

Separate awareness sessions were conducted during the year at all Barracks locations regarding the Housing Scheme to inform members about the scheme and gauge their interest and any queries or concerns. Feedback received will be taken on board to ensure areas of concern are addressed in subsequent stages of the project. With the completion of civil works, 5 of the first 30 houses in stage 1 were completed, and another 120 houses under stage 1 should commence in 2018.

#### • Strong stakeholder relationships

Better understanding of issues and areas of mutual benefit has been achieved through improved communication and dialogue been maintained with the PNGDF Hierarchy, Department of Treasury, Department of Defence, and Bank of Papua New Guinea.

#### • Our people

Key appointments were made during 2017 for vacant Executive Management positions, including the CEO position. Appointments were also made for expiring Board of Director positions, following a transparent, independent and externally managed recruitment process.

### FUND INVESTMENTS

Despite the challenging investment environment, the Fund continued to prudently manage its investment portfolio through the services of its Licensed Investment Manager, Kina Funds Management (KFM). With the introduction of the accumulation scheme, the Fund had to review its Investment Strategy and Strategic Asset Allocation to reflect the change in the Fund's liability structure. This over the short-medium term will see a gradual rebalancing of the Fund's asset allocation toward the recommended ranges.

The actual vs neutral allocations for the period were as follows:

INVESTMENT PORTFOLIO	ALLOCATION	NEUTRAL ALLOCATION*
ASSET CLASSIFICATION	%	%
Cash	1.49%	3.00%
Fixed	6.19%	22.00%
Equities	53.36%	33.00%
Properties	30.81%	22.00%
<b>DOMESTIC TOTAL</b>	<b>91.85%</b>	<b>80.00%</b>
Cash	2.93%	1.00%
Fixed	0.00%	2.00%
Equities	5.22%	17.00%
<b>INTERNATIONAL TOTAL</b>	<b>8.15%</b>	<b>20.00%</b>
<b>TOTAL PORTFOLIO VALUE</b>	<b>100.00%</b>	<b>100.00%</b>

### FUND MEMBERSHIP

2017 saw an increase in Fund Membership for the Accumulation Scheme with 285 new members joining the Fund. These new members represent new recruits joining the PNG Defence Force during the year.

	ACCUMULATION SCHEME	DEFINED BENEFIT SCHEME	TOTAL
Contributing Members	3,639	241	3,880
Pensioners	0	1,673	1,673
<b>TOTAL</b>	<b>3,639</b>	<b>1,914</b>	<b>5,553</b>



# Chief Executive Officer's Report

## Continued

With the Defined Benefit Pension Scheme, there was a decrease of 81 members representing those pensioners who have been suspended during the checklist exercise or have passed away. Ongoing from 2017, we will see the pension membership start to reduce with natural attrition.

Total benefit payments made in 2017 to members of both schemes was K31.8 million. Benefit payments made to members of the Defined Benefit Scheme totaled K16.7 million with a total of K13.82 million paid as Pension and Back Pensions, K0.54 million paid as refunds and K0.39 million paid as Housing Advance payments. For the Accumulation scheme, a total of K13.82 million of benefits was paid to members as normal exit benefits and K1.26 million as Housing Advance benefits.

A total amount of K25.9 million was received as contributions from active contributing members of both schemes. Members of the Accumulation Scheme contributed K7.12 million, the State contributed K9.1 million as its 8.4% contribution and the State contributed K9.75 million towards its 60% share of Pensions.

## FUND GOVERNANCE, RISK AND COMPLIANCE

During 2017, the Trustee has continued its focus on ensuring compliance with the Superannuation Act and industry Prudential Standards. The Bank of Papua New Guinea has continued its support in assessing Board performance and strengthening corporate governance practices. Recommendations for improvements from the assessment and prudential consultations are in the process of being implemented.

Continued focus and attention has been placed on working with the State to address its Unfunded Liability position. Although no funding was provided to settle all or part of this obligation, the dialogue and communication has resulted in improved communication and better understanding and recognition of the liability position and working on ways to settle this, once the State's budgetary position improves. As at the end of 2017, a total of K285.7 million (2016 – K219 million) inclusive of the States' 60% pension liability and accrued interest was outstanding and due from the State as funds owing to members of both the Accumulation and Pension schemes.

During 2017, the Trustee also identified a prior year pension adjustment overpayment that was erroneously made due to a administrative oversight totalling approximately K17 million and this is in the process of being addressed amicably with affected pensioners, the State and the industry regulators – Bank of Papua New Guinea.

## FUND OUTLOOK

Looking ahead, the 2018 year is already showing signs of being another challenging year for the PNG economy and investment environment with lower commodity prices, higher cost of business and the impact of continuing foreign exchange limitations.

Continued effective and efficient management of limited resources while looking for opportunities to continue optimizing investment returns, will help to yield the results necessary to sustain the positive performance of the Fund to date. Prudential leadership and guidance by the Trustee Board will also ensure that preservation of members' savings for both schemes is maintained, while ensuring that products, services and positive returns are provided to members.

2018 will also see the sale of the first 30 Toea Homes houses to members and the introduction of more member products and services. Improved communication and interaction with members regarding activities of the Fund will continue through more awareness and electronic access and distribution of information to members.

While acknowledging the tough times ahead, we maintain our positive and optimistic view for the Fund as we work on achieving efficiencies and improving products and services by working together with all our key stakeholders to achieve optimum outcomes and results for our members.



**John Auna**  
Chief Executive Officer

kina wealth



## Fund Manager's Report 2017

It has been another year of positive investment returns across major markets. This is despite a number of geopolitical risks that affected economic trade and investment market stability in 2017. This included events such as UK talks to leave the EU, political instability in the US, tensions over North Korea, and increased trade protectionism. Nevertheless, investors and investment markets remained resilient despite those events and prepared themselves for any escalation of those risks. Preparing for and maintaining risk at an appropriate level is one of the Fund's principal investment objectives aimed at optimizing returns to the Fund and to secure members' retirement income.

Global growth in 2017 was moderate, moving up 3.7% from 3.1% in the previous year. This was a reflection of major global economies moving towards early stages of synchronized growth, despite what remains a volatile investment environment. The US showed clear signs of picking up momentum and that increasing pace of growth has in turn fed through to strong earnings outcomes for listed companies which, based on the quarterly earnings results, generally outperformed analysts' expectations. This has seen positive earnings revisions that have helped to bolster the US market over the course of 2017. Other economies, especially Europe, Japan and China, showed increasing signs of stability, albeit at growth levels that remain subdued relative to their historical growth tracks.

Governments overall remain supportive of stimulating growth with accommodative monetary policies globally, and expansionary fiscal policy (eg, the tax policy changes in the US). Inflation remained subdued over most of 2017 with excess capacity in most economies, combined with ongoing tepid commodity prices, and subdued trade activity. However, towards the end of the year, it became clear that the US economy was performing strongly, and that many of the factors that have kept inflation at bay and interest rates low are starting to dissipate. 2018 will be a year where markets move from being focused on rising bond yields relative to strong earnings performances given improving economic outcomes.

On the domestic front, economic growth was lacklustre as the Government struggled to manage national debt levels and expenditure efficiency against unrealistically optimistic revenue projections. Imbalance between supply of foreign currency and import demand continued to affect the Kina, which maintained its downward trajectory throughout the year.

Against this backdrop, the Fund recorded an investment return of 8.4%, supporting the growth of Net Assets to K563.8m in 2017. The performance for the Fund was primarily attributed to increased dividend receipts, fixed income investments and valuation gains on key assets.

The Fund advanced major property development projects during the year. Civil works on Toea Homes – Commercial Precinct was completed and saw increasing interest in leasing the allotments. The Toea Homes Project gained momentum with the completion of earthworks, setting the foundation for the commencement of buildings and subsequent development of houses.

During the year, the Trustee worked closely with the Licensed Investment Manager to ensure compliance with Prudential Standards 1/2014, in particular the regular review of Authorized Superannuation Fund (ASF) investments. And, for another year since the introduction of this standard, the LIM completed and submitted the review of all the ASF's investments by the third quarter of 2017. The LIM also conducted a review of the Fund's investment strategy, with a focus on providing more liquidity to meet the ongoing requirements of its members.

We would like to thank the Trustee, Management and Staff of CTSL in 2017, and look forward to working together towards achieving the Fund's goals and objectives for the best interests of its members.

Yours sincerely,



**Deepak Gupta**



## Fund Administrator's Statement

### Kina Investment & Superannuation Services Limited

It is with great pleasure that I provide the fund administration report for the year 2017.

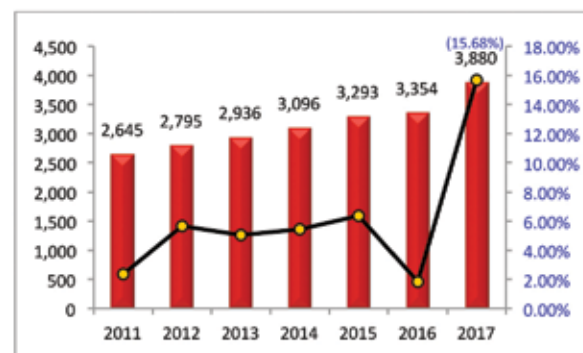
#### YEAR IN REVIEW

Our commitment to pursuing ongoing improvement with enhanced systems and ensuring superior customer service at all times was a key highlight in 2017. This was showcased through the introduction of a new member portal for accumulation fund members to have access to view their superannuation savings accounts via the internet. This service allows the members to keep close to their superannuation savings and the ability to check their savings balances anytime and anywhere.

Another key highlight was the successful crediting of the 11.43% interest for both Defined and Accumulation Benefit Fund members and successfully setting the 1.40% interim interest. The annual interest credit saw a total sum of K427,437.71 and K48,873,402.66 allocated to Defined Benefit and Accumulation Benefit members' accounts, respectively.

#### MEMBERSHIP

Overall fund membership grew by 15.68% from 3,354 (December 2016) to 3,880 as at 31 December 2017, consisting of 241 members in the Defined Benefit Scheme and 3,639 members in the Accumulation Benefit Scheme. The overall fund membership has grown at an average rate of 6% since the year 2010, although 93% of the members are in the Accumulation Scheme. The membership number in the Accumulation Scheme is expected to grow going forward considering that the Defined Benefit Scheme has ceased taking new members since the inception of the Accumulation Scheme.



#### CONTRIBUTIONS

Contributions totalling up to K16.16 million were received in 2017. A total of K15.91 million belonging to all Accumulation Scheme members was remitted, consisting of K7.07 million as member contributions and K9.07 million as employer contributions. Housing advance repayments to the value of K146,000 were received and, for the first time in the history of the Fund, 35 Accumulation Scheme members opted to make voluntary superannuation contributions between August and December 2017, totalling up to K33,502.62.

Contribution Type	2011	2012	2013	2014	2015	2016	2017
Super Contribution	2,734,140	3,246,804	3,541,948	4,074,836	4,213,314	7,969,332	16,176,517
Housing Repayments	124,280	127,400	146,060	153,795	128,810	136,000	146,076

#### BENEFIT PAYMENTS

In the Accumulation Scheme, over K11.63 million was paid out for 52 exiting members in 2017. This group of members have not been fully paid out, as the State still owes them over K10.15 million in unfunded State Share. These members will be fully paid out once the State pays the fund. Furthermore, a total of K29,586.67 was paid out on monthly unemployment benefits for five members who needed financial assistance whilst being unemployed.

For the Defined Benefit Scheme, a total of K280,097.56 was paid out for 19 exiting members in 2017, of which four members were admitted to the pension scheme on exit for serving 20 years and more in the force.

#### PENSION

More than K15.55 million was paid out as pension benefits compared to K15.35 million in 2016. The total amount consists of K6.22 million as the 40% fund portion and K9.33 million as the 60% State liability. For the whole year, about 1,427 pension members were actively receiving pension benefits at a rate of K419.23 per fortnight or K10,899.91 for the year. There were 1,501 pension members on the payroll as at 31 December 2017.

#### 2018 AND GOING FORWARD

Kina Investments and Superannuation Services Limited prides itself on supporting Comrade Trustee Services Limited by providing members with the best customer service possible as we continue to invest in our people and technology. We are committed to improving our fund administration services as we look forward to offering a mobile app service to enable Accumulation members to access their superannuation savings balance via the internet and on their mobile phones. We will also offer additional services and advice to help members keep close to their superannuation and plan for their retirement.

Adam Fenech



General Manager  
Kina Investment & Superannuation Services

# Board of Trustees



**MOSES KOIRI | CHAIRMAN**  
**Independent Director**

Appointed to the Board on 20 April 2012 as an Independent Director, and as Chairman on 1 January 2015. Mr Koiri has more than 15 years of senior management experience in the private and public sectors. He is the principal partner in the Commercial Advisory section of Albatross Law Services Limited. He has a good understanding of corporate business culture, governance and business ethics.

Mr Koiri has a Bachelors degree in Law from UPNG and a Master of Law from Monash University, Australia. He was a lecturer at UPNG and has worked in management with the Bougainville Copper Mine and various Private Legal firms. He became a politician in the Autonomous Region of Bougainville. Mr Koiri is a member of the Australian Institute of Directors and the PNG Institute of Directors.



**COLONEL RAYMOND NUMA, DMS, MBE**  
**Non-independent Director**

Appointed to the Board on 31 October 2014, Col. Numa represents the contributory members of the Fund. Col. Numa has served in the PNGDF for over 40 years and is currently PNGDF Chief of Staff.

Col. Numa has an MBA from UPNG, is a graduate of the Diploma and Post Graduate degree in Defence Strategic Studies, from Hawaii in the US and Massey in New Zealand. Col. Numa also holds a Diploma in Business Management and Defence Resource Management and is a member of the PNG Institute of Directors.



**MICHAEL VARAPIK**  
**Independent Director**

Appointed to the Board on 11 November 2011. An accountant, Mr Varapik has extensive management, corporate, financial, operations and marketing experience spanning over 35 years in the private and public sectors. He is currently a director on the Board of Toea Homes Limited, a 100% subsidiary of CTSL and People's MicroBank Limited.

Mr Varapik holds a Bachelor of Technology in Accountancy from the PNG University of Technology, a Bachelor of Business from Deakin University, Australia, and an MBA from the International Management Centres, Oxford Brookes College in the UK.

A member of the PNG Institute of Directors, Mr Varapik received their Male Director of the Year award in 2015 for distinguished services to commerce and business.



**GIAU DURUBA**  
**Independent Director**

Appointed to the Board on 25 September 2017, Mr Duruba is an Independent Director.

Mr Duruba has more than 20 years senior management experience in the private sector, specialising in human resources management. He held his most recent role for more than a decade as General Manager – Human Resources, Bank South Pacific Limited. Prior to that he was the Human Resources / Corporate Affairs Manager for South Pacific Brewery Limited.

Mr Duruba has a Bachelor of Economics from the University of Papua New Guinea.



**PAUL M NINDIPA**  
**Independent Director**

Appointed to the Board on 1 January 2015. Mr Nindipa is a Certified Practising Accountant (CPA) and a Partner with NKA Chartered Accountants. He has more than 24 years experience in various accounting, audit, taxation, receivership and liquidation areas. He is currently on the board of several foreign-owned companies and also serves on certain PNG companies and state-owned entities.

Mr Nindipa holds a Bachelor of Commerce from the University of Otago, New Zealand. He is a member of the PNG Institute of Directors and Council member of the CPAs of PNG. He also serves on the board of Accountants Registration Board (ARB) and other non-profit organizations.



**RETIRED COLONEL FRED AIKUNG, LSGCM, OBE**  
**Non Independent Director**

Appointed to the Board on 1 January 2015, Col. Aikung represents pensioners of the Fund. During his years of service, Col. Aikung has held several senior positions within the Defence Force, including Chief of Logistics, a role he held until his retirement in 2002. He was also Acting Commander of the PNGDF during the Sandline Crisis in 1997.

Col. Aikung holds a degree in Mechanical Engineering from the University of Technology, Lae and a Diploma in Military Strategy from Melbourne Australia. He is a member of the PNG Institute of Directors.



**CAPTAIN (N) PHILIP POLEWARA, DMS, MBE**  
**Non-independent Director**

Appointed to the Board on 24 June 2016 and represents the contributory members of the Fund. He served as a Naval Officer in various capacities on Landing Craft Heavy and Fast Patrol Boats as a Navigating Officer and Executive Officer. His operational experiences include the command of various Naval Units from 1992 to 2002, including security operations during the Bougainville crisis.

Captain Polewara is a graduate of the US Naval Staff College, the US Joint Forces Staff College and the US Naval Command College. He also served as an International Fellow at the Naval War College after graduating in 2013.

He has a Bachelor of Business in Public Policy from UPNG and a Master of Liberal Arts in International Relations from Salve Regina University in Newport, US.

Captain Polewara is a member of the PNG Institute of Directors.



**JOSEPH HAMSEN**  
**Independent Director**

Appointed to the Board on 11 August 2017. Mr. Hamsen is a self-employed Engineering Consultant, specialising in projects and contracts management. He is currently Principal Engineer for Contract Control Pacific.

His previous roles include General Manager for Lihir Mining Area Landowners Association. He has worked as a Principal Engineer for the Department of Education and as Program Manager in Transport Infrastructure for PNG Sustainable Infrastructure Ltd, including managing projects for roads, bridges, airstrips and ports/jetties projects within the Western Province of PNG. As a Project Manager, Project Engineer and Tax Credit Engineer, Mr Hamsen has experience in construction and upgrade projects stretching across the highlands, gulf provinces and regional PNG.

He has a Bachelor of Engineering degree in Civil Engineering from PNG Unitech in Lae, is a Registered Civil Engineer and Member of the Institute of Engineers of PNG.



THE FUND

The Fund is an established Authorized Superannuation Fund (ASF) pursuant to Section 8 of the Superannuation General Provisions Act 2000 (SGP Act) with a current active contributor base of 3,880 and 1,673 pensioners as at 31 December 2017.

The primary objective of the Defence Force Retirement Benefits Fund (DFRBF) is to provide retirement benefits to members and their dependents upon discharge from the Defence Force, or in the event of medical discharge and/or death. In addition to this, the SGP Act allows access to retirement savings before retirement for purposes related to housing.

LICENSED CORPORATE TRUSTEE

Comrade Trustee Services Limited (CTSL) has been approved by the Bank of Papua New Guinea (BPNG) as the licensed corporate trustee for the Fund. As the licensed trustee, it has ultimate legal responsibility for the prudent management of the Fund and, subject to the requirements of the Superannuation Act and the governing rules of the Fund, has the power, authority and the discretion generally to do all such acts as it considers necessary or expedient for the sound administration, maintenance, investment and preservation of the Fund.

The trustee company is administered under the direction of a Board of Directors comprising eight Directors, three of whom are drawn from the members of the Fund and five independent Directors who collectively plan, oversee and set corporate goals, and determine the strategic direction of the Fund.

NAME OF SHAREHOLDER	CLASS OF SHARES	NO. OF SHARES	VALUE (K)	SPECIAL NOTES
Brigadier General Gilbert Toropo	Ordinary	1	K1.00	Share held in trust for members
Moses Koiri	Ordinary	1	K1.00	Share held in trust for members
Colonel Fred Aikung, OBE (Rtd)	Ordinary	1	K1.00	Share held in trust for members
Colonel Raymond Numa, MBE	Ordinary	1	K1.00	Share held in trust for members
Captain (N) Philip Polewara, DMS, MBE	Ordinary	1	K1.00	Share held in trust for members
TOTAL		5	K5.00	

CORPORATE GOVERNANCE

The Board is committed to upholding and implementing the principles of good corporate governance. This is considered critical as recent experiences have shown that the lack of good corporate governance has contributed directly to corporate fraud and, in worst-case scenarios, corporate failures leading to a serious erosion of confidence in those entrusted with the responsibility of managing companies – the Directors. The enhanced accountability, transparency and integrity flowing from improved corporate governance creates value for shareholders and other stakeholders, reduces costs, increases competitiveness and restores confidence.

The Board is responsible for the corporate governance of the Fund, including its corporate planning, establishing goals for management and monitoring achievement of these goals.

This statement sets out the principle corporate governance practices and disclosures that were in operation during the year.

The Trustee

CTSL is the successor in law to the DFRBF Board and has been approved by the BPNG as the licensed trustee for the Fund. As a licensed trustee, it has ultimate legal responsibility for the prudent management of the Fund and, subject to the requirements of the Superannuation Act and the governing rules of the Fund, has the power, authority and the discretion generally to do all such acts as it considers necessary or expedient for the sound administration, maintenance, investment and preservation of the Fund.

Shareholder Information

There are five shareholders who each hold one ordinary share “in trust” on behalf of the members of the Fund. These shares attach no beneficial rights to the shareholder, except to ensure compliance with the Companies Act 1997 and the Superannuation Act, and are transferable – in the case of the Commander of the Defence Force, to his successor and, in the case of the other shareholders when they cease to be Directors of the company, to their successors. Shareholders of the company as at the year-end are listed in the table below.

The Board

The names of members of the Board at the date of this report, including their remuneration, status on the Board and information relating to their attendance at meetings for the 12 months to 31 December 2017 are listed in the table on the next page.

The Board complied with its approved calendar of meetings planned for the year. All meeting papers are circulated seven days in advance to all Directors. This enables adequate time to read and understand the matters requiring Board action, and ensures that informed decisions are made for the ultimate benefit of the Fund.

ATTENDANCE OF MEETINGS							
DIRECTOR	FEE RECEIVED	BOARD STATUS	DATE OF APPOINTMENT/ RESIGNATION	BOARD MEETING	AUDIT RISK & COMPLIANCE COMMITTEE	REMUNERATION & NOMINATIONS COMMITTEE	INVESTMENT COMMITTEE
Moses Koiri	100,168.79	Current	20/04/2012	9/9			*4/7
Colonel Fred Aikung, OBE (Rtd)	68,033.91	Current	1/1/2015	9/9		7/7	
Colonel Raymond Numa, DMS, MBE	68,033.92	Current	31/10/2014	6/9			7/7
Captain (N) Philip Polewara, DMS, MBE	68,033.92	Current	24/06/2016	9/9	6/6		
Michael Varapik	77,635.08	Current	11/11/2011	9/9	6/6	7/7	
Paul Nindipa	80,404.20	Current	1/1/2015	9/9	6/6		7/7
Joseph Hamsen	29,916.23	Current	11/8/2017	3/9	2/6		3/7
Giau Duruba	19,764.86	Current	25/09/2017	2/9		2/7	
Tauano Vai	49,613.82	Term Expired	31/08/2017	5/9		5/7	
Late George Uware	18,554.76	Resigned	30/04/2017	2/9		2/7	

\*attendance as an alternate director

Audit Risk & Compliance Committee

The Committee had full membership and held six meetings during the year. The role of the Committee includes reviewing: the Fund’s financial statements; audit reports; company’s accounting policies; internal control systems and procedures (including risk assessment and management strategies); the actuarial report; tenders; annual budgets; and related matters. Members of this committee as at 31 December 2017 are shown at right.

Remuneration & Nominations Committee

The Committee had full membership and held seven meetings during the year. The role of the Committee includes succession planning, review and recommendation of candidates for Board vacancies, review of Board fees and remuneration, appointment of Chief Executive Officer including terms of employment of senior management and related matters. Members of this committee as at 31 December 2017 are shown at right.

Investment Committee

The Committee had full membership and held seven meetings during the year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibility to provide oversight for the investments of the fund, in line with the investment strategy and policy. The Committee shall provide reports and make recommendations to the Board on matters pertaining to the Fund’s investments. Members of this committee as at 31 December 2017 are shown at right.

Audit Risk & Compliance Committee (ARC)

COMMITTEE MEMBER	COMMITTEE STATUS
Michael Varapik	Chairman
Paul Nindipa	Member
Captain (N) Philip Polewara, DMS, MBE	Member
Joseph Hamsen	Member

Remuneration & Nominations Committee (RAN)

COMMITTEE MEMBER	COMMITTEE STATUS
Giau Duruba	Chairman
Michael Varapik	Member
Colonel Fred Aikung, OBE (Rtd)	Member

Investment Committee (IC)

COMMITTEE MEMBER	COMMITTEE STATUS
Paul Nindipa	Chairman
Colonel Raymond Numa, DMS, MBE	Member
Joseph Hamsen	Member



# External Board Positions and Disclosures

DIRECTOR	NATURE OF INTEREST	INTEREST
Moses Koiri	Chairman/Shareholder	Comrade Trustee Services Limited
	Director	Orekana Enterprise Limited
	Director	Kurada No. 24 Limited
	Director	Albatross Law
	Director	Toyota Tsusho (PNG) Limited
	Director	TISA Community Finance
	Member	Bougainville Copper Foundation Limited
	Member	PNG Law Society Inc.
	Member	PNG Institute of Directors
	Partner/Employee	Albatross Law Services Limited
	Shareholder	Kina Asset Management Limited
	Shareholder	Oil Search Limited
Michael Varapik	Director	Comrade Trustee Services Limited
	Chairman	Audit Risk & Compliance Committee
	Chairman	Toea Homes Limited
	Director	Brian Bell & Company Limited
	Director	People's MicroBank
	Member	Remuneration & Nominations Committee
	Member	PNG Institute of Directors
Paul Nindipa	Shareholder	Credit Corporation PNG Limited
	Director	Comrade Trustee Services Limited
	Chairman	Investment Committee
	Member	Audit Risk & Compliance Committee
	Director	Aus PNG Mining Limited
	Director	UDP PNG Pty Ltd
	Director	Milvik AB (PNG) Limited
	Director	National Roads Authority (NRA)
	Director	Nationwide MicroBank Limited (MiBank)
	Member/Director	Certified Practising Accountant (CPA PNG)
	Member/Director	Accountants Registration Board
	Member/Auditor	PNG Institute of Directors
	Member	Australian Institute of Company Directors
	Treasurer	Centre for Environmental Law & Community Rights (CELCOR)
	Partner	NKA Chartered Accountants
	Shareholder/Director	Alhambra Limited
	Shareholder/Director	NKA Management Limited

DIRECTOR	NATURE OF INTEREST	INTEREST
Giau Duruba	Director	Comrade Trustee Services Limited
	Chairman	Remuneration & Nominations Committee
	Director	Nambawan Super Savings and Loan Society
	Chairman	Port Moresby International School
	Member	Anglican Church Board of Trustee
Joseph Hamsen	Member	PNG Institute of Directors
	Director	Comrade Trustee Services Limited
	Director	Toea Homes Limited
	Member	Investment Committee
	Member	Toea Homes Limited Working Committee
	Member	Audit Risk & Compliance Committee
Colonel Fred Aikung, OBE (Rtd)	Member	PNG Institute of Directors
	Director /Shareholder	Comrade Trustee Services Limited
	Related Party/Pensioner	DFRBF
	Member	Remuneration & Nominations Committee
	Member	PNG Institute of Directors
Colonel Raymond Numa, DMS, MBE	Member	Australian Institute of Company Directors
	Employee	PNG Defence Force
	Director/Shareholder	Comrade Trustee Services Limited
	Member	Investment Committee
	Member	PNG Institute of Directors
	Member	Australian Institute of Company Directors
Captain (N) Philip Polewara, DMS, MBE	Related Party/Contributor	DFRBF
	Employee	PNG Defence Force
	Director/Shareholder	Comrade Trustee Services Limited
	Related Party/Contributor	DFRBF
	Member	Audit Risk & Compliance Committee
	Member	PNG Institute of Directors
	Member	Australian Institute of Company Directors
	Shareholder	Kina Securities Limited
John Auna	Shareholder	Supurva Healthcare Group Inc
	Shareholder	First Colombia Gold Corporation
	Employee	Comrade Trustee Services Limited
	Director/Ex-officio	Toea Homes Limited
	Member	PNG Institute of Directors
Beama Wape	Member	Certified Practising Accountant (CPA PNG)
	Employee	Comrade Trustee Services Limited
	Member	PNG Institute of Directors
	Member	Certified Practicing Accountant (CPA)

# Investment Highlights

## ECONOMY

Our domestic economy continued its slow pace of growth from 2016 into 2017. Projections from the World Bank put GDP growth at just 2.1% in 2017, far from the double-digits observed during the “boom” years.

On a macro level, the story hasn’t been much different from the previous year, despite improved export flows and capital spend. The key impediment as highlighted by the contraction in imports has been the inability to make import payments brought on by the foreign currency (FX) shortage.

A well-documented issue itself, this has been and is likely to be the biggest hindrance to an economic recovery for a largely import-based economy.

Inflation was lower than expected at 5.1%. Imported inflation continued to feature although the impact was more muted.

The end result has again been a difficult year. For the majority of our portfolio of investments, a weaker operating environment has delivered lower income receipts, and applied more downward pressure on valuations.

For investors, like ourselves, we remain optimistic about the longer-term as major projects are progressed. A renewed focus from the State for a broad-based economy supports this optimism however as an investor this period highlights the difficulties in our market and the need for diversification.

## AT A GLANCE

### FUND SIZE

K563.8m

in Net Assets as at 31-Dec-17

### MEMBERSHIP

5,553

Members across both schemes

### INVESTMENT RETURN

10.17% p.a

Since Inception of the Accumulation Scheme

### CREDITING RATE

11.43%

For the Year 2017

## THE FUND

In spite of the difficult circumstances, we managed to generate a generous investment return of 8.4% for the year 2017.

The result was largely attributed to capital gains and dividend income from our investment in Bank of South Pacific (BSP) and a significant uplift in the valuations of the Taurama Commercial Precinct and Toea Homes Limited.

## STRATEGY

While these investments have certainly paid dividends over the years, we will continue to redistribute these gains into new and more attractive alternatives to ensure that we continue to grow while increasing the overall level of diversification of the Fund.

## INDEPENDENT PROFESSIONAL ADVICE

With the approval of the Chairman, a Director is entitled to seek independent professional legal and accounting advice at the expense of the Fund, regarding any aspect of that Director’s duties and/or issues of concern about the Fund’s operations.

## CODE OF CONDUCT AND ETHICAL STANDARDS

The Board has adopted several codes relating to the conduct of Directors, management and staff including the management of conflicts of interest and confidentiality. CTSL recognises and acknowledges the requirement for Directors and employees to observe and uphold the highest standards of behaviour and ethical standards in the performance of their duties.

## FUND ADMINISTRATION

The fund administration function is outsourced to Kina Investment & Superannuation Services Limited (KISS) in compliance with the Superannuation Act 2000. The engagement of KISS is for a term of three years

## INVESTMENT MANAGEMENT

The Investment Management function is outsourced to Kina Funds Management Limited (KFM) in compliance with the Superannuation Act 2000. The engagement of KFM is for a term of three years. The existing contract lapsed and is under review for renewal.

The licensed investment manager is required to manage the Fund’s investment portfolio in accordance with the investment policy, approved by the trustee from time to time and subject to prudential standards issued by the Bank of Papua New Guinea and the Superannuation Act.

## EMPLOYEE REMUNERATION

Please refer to Note 21.2 of the Notes to Financial Statements for details.

## REGULATORY SUPERVISION BY BANK OF PAPUA NEW GUINEA

As part of the BPNG’s regulatory supervision of the superannuation industry, the Bank undertakes, from time to time, an independent review of the operations of the Fund in addition to the independent financial audit undertaken by an auditor. The review by the BPNG is aimed at ensuring adherence to world best practice in corporate governance standards and compliance by the Trustee with the provisions of the Superannuation Act and Prudential Standards in the management of the Fund.

## INDEPENDENT AUDITOR

The current independent auditor is Ernst & Young and Board confirms compliance with Clause 9(a)(ii) of the Prudential Standard Number 5/2008 in the engagement of the auditor. Fees paid to the auditor are summarized as follows:

## MANAGEMENT EXPENSE RATIO

Management expense ratio (MER) is an underlying key financial performance indicator used to measure the performance of the Fund relative to industry standards. It also assists in identifying adverse deviation and takes corrective action. The MER is determined by taking the sum of all expenses of the Fund as prescribed in Prudential Standard 3/2006 (excluding depreciation, direct investment expenses and pension and related benefit expenses) divided by the average net asset value of the Fund expressed as a percentage. The net asset values are based on audited accounts and, after allowing for net changes in market values, depreciation and taxation. Consequently, the MERs for the Fund for the last 10 years are listed in the Comparative Statistics table on page 25.

## STAFF EMPLOYMENT POLICY

CTSL is an equal opportunity employer and does not discriminate on the basis of sex, race, colour, religion or sexual orientation. Employment is merit based. There were 34 staff employed by the Company during the year (2016:35)

	2010	2011	2012	2013	2014	2015	2016	2017
<b>Auditor</b>	Deloitte	Deloitte	Deloitte	Deloitte	Deloitte	Deloitte	Ernst & Young	Ernst & Young
<b>Partner In-charge</b>	Z Theron	P Barber	P Barber	Z Theron	Z Theron	Z Theron	M Nair	M Nair
<b>Audit Fees (PGK)</b>	126,000.00	134,000.00	138,600.00	125,000.00	125,000.00	132,500.00	125,000.00	125,000.00

The auditor’s appointment is for 12 months at the expiry of renewal. This is in line with current practice. To ensure independence and avoidance of conflict of interest the auditor is prohibited from undertaking valuation of Fund assets and liabilities.

“It was another challenging year for PNG Super”

# Investment Highlights

## Toea Homes Project



1.

### BUILDING

With the Taurama Residential Precinct Civil works completed, the construction of the first 30 houses is in progress. It is expected that these houses will be completed by the end of July 2018 (see image 1). The remaining balance of the houses (117 houses) is expected to be awarded and constructed after the first 30 houses are completed.

The Taurama Commercial Precinct civil works has been completed and it is currently at defects liability stage. The first commercial project to commence is Puma Energy Service Station and the construction works is expected to commence this year (2018).

This commercial area will eventually house a supermarket and a variety of retail shops to provide homeowners with a convenient and secure place to shop (see image 2).

### FUTURE DEVELOPMENTS

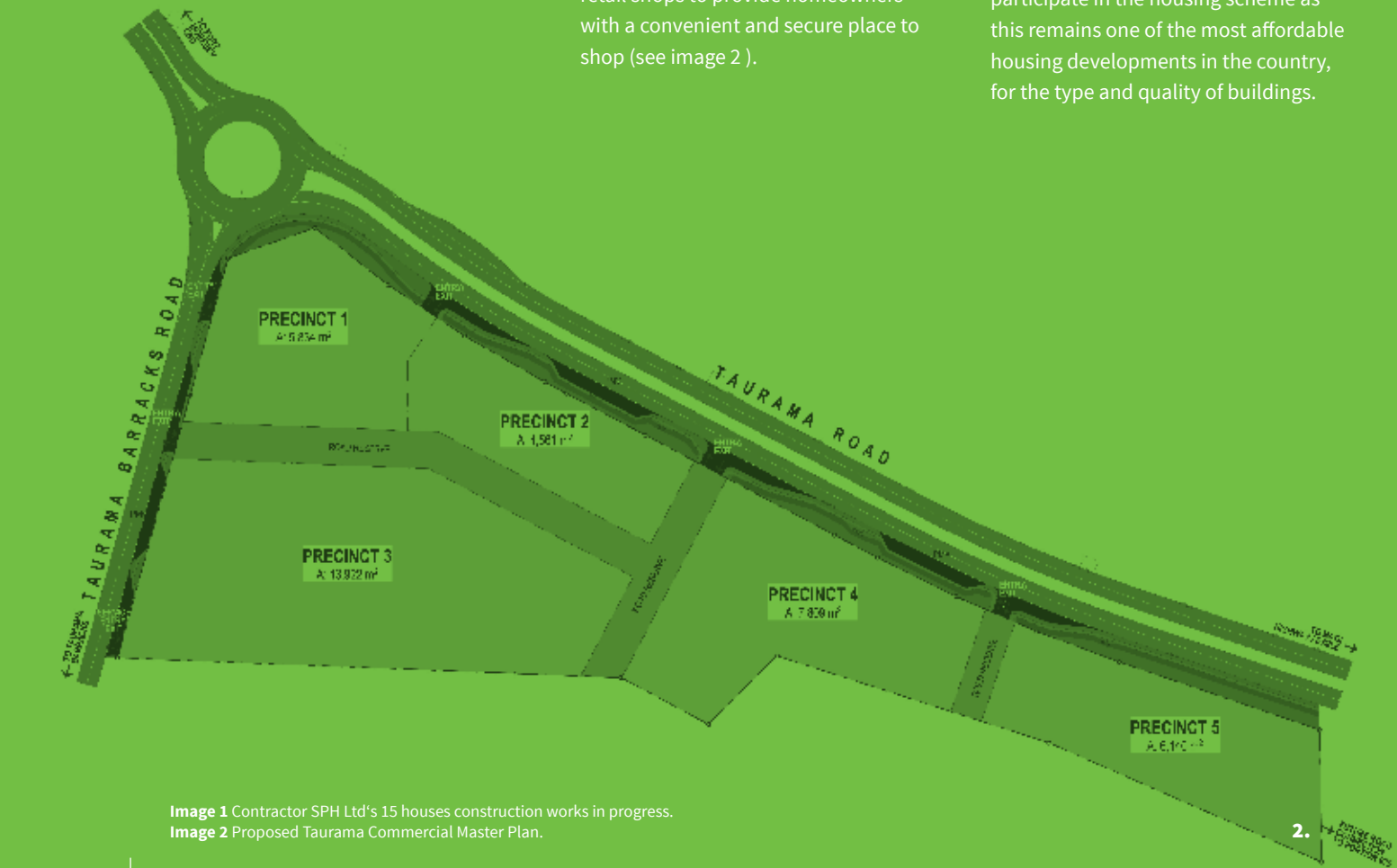
Stages Two and Three of the Taurama Estate will comprise approximately 400 additional homes and will be delivered over the coming years.

The survey of Iggam Barracks reserve land has been initiated for further development of the housing scheme. The projects will use a similar model to that of Taurama with a commercial precinct to complement the housing estate.

### APPLICATIONS

Applications are open for members. Interest was slow, but has picked up over H1 17 (first half of 2017) as the awareness drive made its way across the country.

We encourage all our members to participate in the housing scheme as this remains one of the most affordable housing developments in the country, for the type and quality of buildings.



2.

Image 1 Contractor SPH Ltd's 15 houses construction works in progress.  
Image 2 Proposed Taurama Commercial Master Plan.

# Investment Portfolio

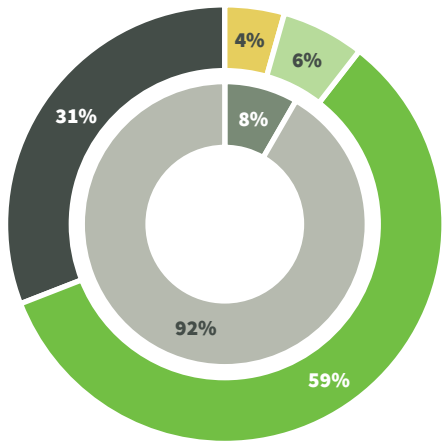
INVESTMENT PORTFOLIO	2017	2016	ALLOCATION	NEUTRAL ALLOCATION
Asset Classification	K	K	%	%
<b>Domestic</b>				
Cash	7,955,941	11,836,680	1.5%	3.0%
Fixed	33,005,079	36,112,602	6.2%	22.0%
Equities	284,520,245	266,756,054	53.4%	33.0%
Properties	164,249,000	159,973,000	30.8%	22.0%
<b>DOMESTIC TOTAL</b>	<b>489,730,265</b>	<b>474,678,336</b>	<b>91.9%</b>	<b>80.0%</b>
<b>International</b>				
Cash	15,612,911	12,366,615	2.9%	1.0%
Fixed	0	0	0.0%	2.0%
Equities	27,837,972	31,911,256	5.2%	17.0%
<b>INTERNATIONAL TOTAL</b>	<b>43,450,883</b>	<b>44,277,871</b>	<b>8.1%</b>	<b>20.0%</b>
<b>TOTAL PORTFOLIO VALUE</b>	<b>533,181,148</b>	<b>518,956,207</b>	<b>100.0%</b>	<b>100.0%</b>

### MAJOR INVESTMENTS

INVESTMENTS	ASSET CLASS	EXPOSURE
Bank South Pacific	Listed Equities	25.76%
Taurama Commercial	Properties	9.40%
Defens Haus	Properties	9.38%
SP Brewery Limited	Unlisted Equities	7.44%
Government Inscribed Stock	Fixed Income	6.19%

### PORTFOLIO AT A GLANCE

- Cash
- Fixed
- Equities
- Properties
- International
- Domestic





## EQUITIES PORTFOLIO

		2017	2016
DOMESTIC	GICS SECTORS	K	K
<b>Listed</b>			
Bank South Pacific	Financials	137,332,493	130,104,468
City Pharmacy	Consumer Staples	1,932,691	2,576,921
Oil Search	Energy	17,523,757	18,228,668
Kina Asset Management Ltd	Financials	5,154,726	5,263,246
Credit Corporation	Financials	3,435,849	3,956,433
Newcrest Mining Ltd	Materials	1,749,553	1,410,822
Kina Bank	Financials	7,716,763	12,740,943
<b>TOTAL DOMESTIC LISTED</b>		<b>174,845,832</b>	<b>174,281,501</b>
BPT (PNG) Ltd	Consumer Discretionary	5,519,600	5,755,421
Westpac Bank Ltd (WPC)	Financials	520,000	543,440
Paradise Foods Ltd	Consumer Staples	25,011,000	24,320,250
Post Courier	Consumer Discretionary	1,256,497	1,298,639
South Pacific Brewery	Consumer Discretionary	39,666,760	39,768,760
Toea Homes Limited	Real Estate	37,700,556	20,788,043
<b>TOTAL DOMESTIC UNLISTED</b>		<b>109,674,413</b>	<b>92,474,553</b>
<b>TOTAL DOMESTIC EQUITY PORTFOLIO</b>		<b>284,520,245</b>	<b>266,756,054</b>

INTERNATIONAL	GICS SECTORS	K	K
<b>Listed</b>			
ANZ Banking Group	Financials	0	2,119,368
BHP Billiton	Materials	2,191,490	1,687,738
Bank of Queensland	Financials	0	3,230,564
Commonwealth Bank	Financials	0	2,182,736
Telstra	Telecommunications	1,855,354	2,368,788
<b>TOTAL INTERNATIONAL LISTED</b>		<b>4,046,844</b>	<b>11,589,194</b>
<b>Unlisted</b>			
Vanguard International Shares Indexed Fund	Financials	23,791,128	20,322,062
<b>TOTAL INTERNATIONAL UNLISTED</b>		<b>23,791,128</b>	<b>20,322,062</b>
<b>TOTAL INTERNATIONAL EQUITY PORTFOLIO</b>		<b>27,837,972</b>	<b>31,911,256</b>
<b>TOTAL EQUITY PORTFOLIO</b>		<b>312,358,217</b>	<b>298,667,310</b>

## PROPERTIES

		2017	2016	MOVEMENT
PROPERTIES	TYPE	K	K	K
Defens Haus	Commercial	50,024,000	49,740,000	284,000
Comrade Haus	Commercial	19,514,000	18,800,000	714,000
Stop N Shop	Commercial	8,334,000	8,109,000	225,000
Latitude 9	Residential	13,470,000	14,820,000	(1,350,000)
Ela Makana 2	Residential	12,400,000	12,300,000	100,000
Lawes Road *	Residential	4,500,000	4,500,000	0
Ela Makana 1	Land Bank	5,865,000	5,885,000	(20,000)
Taurama Commercial	Land Bank	50,142,000	45,819,000	4,323,000
<b>TOTAL PROPERTIES</b>		<b>164,249,000</b>	<b>159,973,000</b>	<b>4,276,000</b>

\* Lawes Road property is classified as a non-current asset held for sale

## CASH & FIXED INCOME

		2017	2016
CASH	INSTITUTION	K	K
<b>Cash on hand</b>		<b>2,000</b>	<b>700</b>
<b>Interest Bearing*</b>			
ANZ	Commercial Bank	0.00	44,281
Kina Bank	Commercial Bank	2,005,664	5,006,195
Bank South Pacific	Commercial Bank	5,950,277	3,783,921
Credit Corp PNG Ltd	Financial Institution	0	3,002,282
<b>TOTAL IBD</b>		<b>7,955,941</b>	<b>11,836,680</b>
<b>On call***</b>			
Bank of Queensland	Commercial Bank	10,937,703	9,070,420
Credit Suisse	Custodian	4,675,208	3,296,195
<b>TOTAL ON CALL</b>		<b>15,612,911</b>	<b>12,366,615</b>
<b>TOTAL CASH</b>		<b>23,570,852</b>	<b>24,203,995</b>
<b>Fixed Interest</b>			
Inscribed Stock****	Central Bank	33,005,079	36,112,602
<b>TOTAL FIXED INTEREST</b>		<b>33,005,079</b>	<b>36,112,602</b>
<b>TOTAL CASH &amp; FIXED</b>		<b>56,575,931</b>	<b>60,316,597</b>

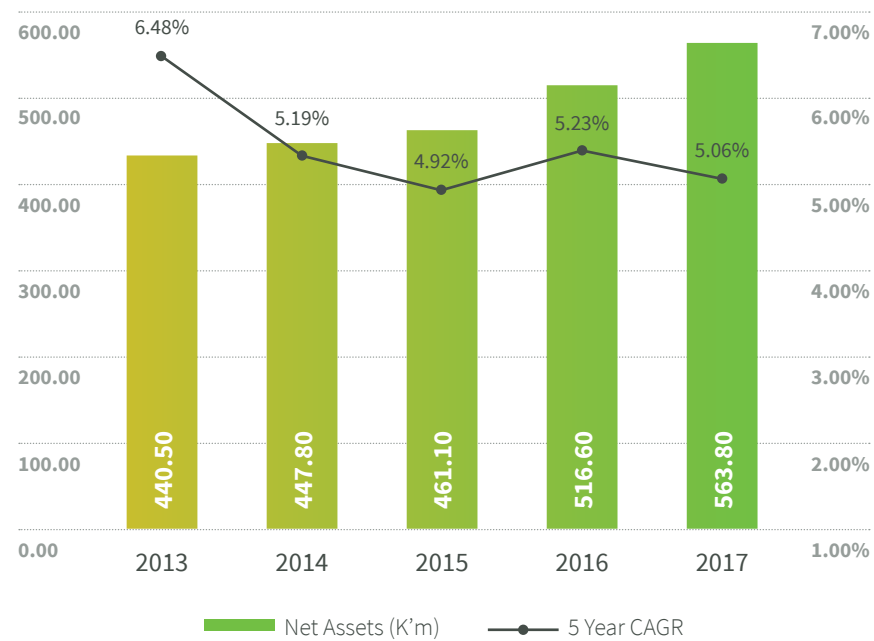
\* Interest-bearing deposits with a term of less than 90 days

\*\* Kina Finance is now known as Kina Bank subsequent to the acquisition of Maybank (PNG) Ltd

\*\*\* Foreign Currency Deposits held offshore for investment purposes

\*\*\*\* Total Value of Inscribed Stock held

### NET ASSET VALUE – 5 YEAR SUMMARY



### COMPARATIVE STATISTICS

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Net Fund Assets</b>											
Net assets	<b>K(m)</b>	300	322	348	363	400	441	447.8	461.1	516.6	563.8
Net asset growth	<b>%</b>	17	6.93	6.47	4	10.3	10	1.34	2.98	12.03	9.14
Reserve	<b>K(m)</b>	9.82	0.39	5.58	4.52	0.28	0.77	1.4	0.0	6.3	4.6
<b>Net Surplus</b>											
Net surplus after tax	<b>K(m)</b>	39.1	20.8	20.7	10	37.1	39.7	5.9	42.3	55.5	47.2
<b>Expenses</b>											
Benefits	<b>K(m)</b>	10.5	7.4	7.7	9.2	10.6	9.1	20.1	17.0	20.7	31.8
Trustee administration	<b>K(m)</b>	4	4.1	4.5	4	5.5	6.3	7.8	4.0	11.1	10.1
Fund administration	<b>K(m)</b>	0.37	0.45	0.33	0.29	0.43	0.52	0.6	0.6	0.8	0.8
Investment management	<b>K(m)</b>	1.4	1.4	1.6	1.4	2	1.78	1.9	2.0	2.0	2.3
Management expense ratio	<b>%</b>	2.11	1.92	1.96	1.71	2.08	2.02	2.30	1.36	2.19	2.44
<b>Income</b>											
Investment income	<b>K(m)</b>	45.2	26.6	28.6	20.1	47.5	20.1	20.3	54.2	73.1	65.0
<b>Contributions</b>											
State share	<b>K(m)</b>	6.7	4.4	4.5	5.1	5.9	4.8	12.0	10.1	11.0	18.8
Members	<b>K(m)</b>	1.9	1.9	2.9	2.7	3.2	3.4	4.1	4.9	5.9	7.1

### 2017 RESULTS SUMMARY

	CONSOLIDATED	DEFINE BENEFITS	ACCUMULATION BENEFITS
<b>Summary of results under each schemes</b>	<b>K</b>	<b>K</b>	<b>K</b>
<b>Income Summary</b>			
Investment Income	65,039,601	39,070,019	25,969,582
Other Income	1,170,557	703,167	467,390
Contribution Income	25,940,188	9,746,338	16,193,850
<b>TOTAL</b>	<b>92,150,346</b>	<b>49,519,523</b>	<b>42,630,823</b>
<b>Expenditure Summary</b>			
Trustee, Fund Investment & Administration & Tax Expenses	13,158,233	7,904,298	5,253,935
Benefits Paid	31,815,011	16,709,285	15,105,726
<b>TOTAL EXPENDITURES</b>	<b>44,973,244</b>	<b>24,613,583</b>	<b>20,359,661</b>
<b>NET SURPLUS</b>	<b>47,177,102</b>	<b>24,905,940</b>	<b>22,271,162</b>



# Defence Force Retirement Benefits Fund

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
**31 DECEMBER 2017**

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TRUSTEE’S DECLARATION TO MEMBERS

For the year ended 31st December 2017

In our opinion, as Trustee of the Defence Force Retirement Benefits Fund (“the Fund”), the accompanying financial statements of the Fund, which comprise the Statement of Net Assets, the Statement of Comprehensive Income, the Statement of Changes in Net Assets, the Statement of Cash Flows, and the Notes to the Financial Statements, including a summary of significant accounting policies, give a true and fair view of the Fund’s financial position and performance as at 31 December 2017 in accordance with International Financial Reporting Standards, the Superannuation (General Provisions) Act 2000, the Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

Further, we are of the opinion that:

- a) the results of the Fund’s operations for the year have not been materially affected by items, transactions or events of an abnormal character. All significant transactions during the year have been appropriately identified and disclosed in the financial statements;
- b) no circumstances have arisen which would: (i) adversely impact on the Fund’s ability to meet its payment obligations and commitments as and when they become due; and/or (ii) render any amount in the financial statements misleading;
- c) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due; and
- d) the Trustee has satisfied itself that:
  - i. key financial and operational risks have been identified and mitigating processes set in place;
  - ii. systems to control and monitor those risks have been established, including adherence to prudent policies and procedures, reasonable operating limits and adequate and timely reporting processes;
  - iii. established risk management systems are operating effectively and are adequate to address the risks they are designed to control; and
  - iv. there are no apparent conflicts of interest with respect to the Fund’s engagement of an independent external auditor which may compromise their performance.

Dated at Port Moresby this 28th day of March 2018.

For and on behalf of the Board of Comrade Trustee Services Limited.



**Michael Varapik**  
Acting Chairman of the Board of Trustees



**Colonel Raymond Numa**  
Director

MANAGEMENT’S STATEMENT

For the year ended 31st December 2017

In our opinion, as management of the Trustee of the Defence Force Retirement Benefits Fund (“the Fund”), the accompanying financial statements of the Fund, which comprise the Statement of Net Assets, the Statement of Comprehensive Income, the Statement of Changes in Net Assets, the Statement of Cash Flows, and the Notes to the Financial Statements, including a summary of significant accounting policies, give a true and fair view of the Fund’s financial position and performance as at 31 December 2017 in accordance with International Financial Reporting Standards, the Superannuation (General Provisions) Act 2000, the Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

Further, we are of the opinion that:

- a) the results of the Fund’s operations for the year have not been materially affected by items, transactions or events of an abnormal character. All significant transactions during the year have been appropriately identified and disclosed in the financial statements;
- b) no circumstances have arisen which would: (i) adversely impact on the Fund’s ability to meet its payment obligations and commitments as and when they become due; and/or (ii) render any amount in the financial statements misleading;
- c) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due; and
- d) management has satisfied itself that:
  - i. key financial and operational risks have been identified and mitigating processes set in place;
  - ii. systems to control and monitor those risks have been established, including adherence to prudent policies and procedures, reasonable operating limits and adequate and timely reporting processes;
  - iii. established risk management systems are operating effectively and are adequate to address the risks they are designed to control; and
  - iv. there are no apparent conflicts of interest with respect to the Fund’s engagement of an independent external auditor which may compromise their performance.

Dated at Port Moresby this 28th day of March 2018.

For and on behalf of the Management of Comrade Trustee Services Limited.



**John Auna**  
Chief Executive Officer



**Beama Wape**  
Executive Manager – Governance & ICT

DIRECTORS’ REPORT

For the year ended 31st December 2017

The Directors of Comrade Trustee Services Limited take pleasure in submitting their report and the annual financial statements of the Fund for the financial year ended 31 December 2017. In order to comply with the provisions of the Companies Act 1997 and the Superannuation (General Provisions) Act 2000, the Directors report as follows:

The names and particulars of the Directors and office holders of the Trustee Company during or since the end of the financial year are:

NAME	EXECUTIVE/NON-EXECUTIVE DIRECTOR
Mr Moses Koiri	Non-executive – Trustee Board Chairman (appointed Chairman as of 1 January 2015, appointed to the Board on 20 April 2012)
Col. Raymond Numa, DMS, MBE	Non-executive – appointed on 31 October 2014, term ended 31 October 2017 and reappointed same date
Mr Michael Varapik	Non-executive – appointed on 11 November 2011, term expired 11 November 2017 and reappointed 24 November 2017
Mr Taunao Vai	Non-executive – appointed on 1 September 2014, term ended 1 September 2017, thus retired
Mr Paul Nindipa	Non-executive – appointed on 1 January 2015
(Rtd) Col. Fred Aikung, LSGCM, OBE	Non-executive – appointed on 1 January 2015
Captain (N) Philip Polewara, DMS, MBE	Non-executive – appointed on 24 June 2016
Mr George Uware	Non-executive – appointed on 24 June 2016, resigned 28 February 2017
Mr Joe Hamsen	Non-executive – appointed on 11 August 2017
Mr Giau Duruba	Non-executive – appointed on 25 September 2017

Trustee Secretary

The Company Secretary as at 31 December 2017 was Mr John Auna.

Review of operations

The Fund reported a net surplus after income tax but before other comprehensive income of K53,051,925 (2016: K59,280,404) and change in net assets for the year of K47,177,102 (2016: K 55,481,860).

Changes in state of affairs

There have been no changes to the state of affairs of the Fund.

Changes in accounting policies

There were no changes in accounting policies for the current year.

Entries in the interest register

There were no entries in the interest register for the year.

Directors’ remuneration

Remuneration paid to Directors has been disclosed in Note 21.3 to the financial statements.

Donations

No donations were made during the current year (2016: Nil).

Independent auditor’s report

The financial statements have been audited by Ernst & Young and should be read in conjunction with the Independent Auditor’s report on pages 5 and 6. Fees paid for external audit services are disclosed in Note 19.2 to the financial statements.

Subsequent events

There has not been any matter or circumstance, other than that referred to in the financial statements, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Fund, the results of those operations or the state of affairs of the Fund in future financial years, that would require an adjustment or disclosure in the financial statements.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors,



Michael Varapik  
Acting Chairman of the Board of Trustees



Colonel Raymond Numa  
Director  
Dated at Port Moresby 28th March 2018.

## Independent auditor's report to the members of Defence Force Retirement Benefit Fund

### Opinion

We have audited the financial report of Defence Force Retirement Benefit Fund (the "Fund"), which comprises the statement of net assets as at 31 December 2017, the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial report of the Fund is in accordance with the International Financial Reporting Standards, Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial report in Papua New Guinea, and we have fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Report

The directors of the Comrade Trustee Services Limited (the "Trustee") being the Fund's Trustee, are responsible for the preparation of the financial report that gives a true and fair view in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea, and for such internal control as the Trustee determines are necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

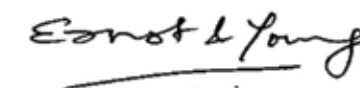
- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Report on other legal and regulatory requirements

We confirm in relation to our audit of the financial statements for the year ended 31 December 2017 that:

- a) in our opinion proper accounting records have been kept by the Fund, so far as appears from our examination of those records; and
- b) we have obtained all the information and explanations we have required.



Ernst & Young



Madhu Nair  
Partner  
Registered under the Accountants Act 1996  
Port Moresby

29 March 2018



STATEMENT OF NET ASSETS

For the year ended 31st December 2017

	NOTE	2017	2016
		K	K
<b>Assets</b>			
Cash and cash equivalents	8	23,565,188	24,201,417
Loans to members and others	9	14,236,640	13,048,555
Financial assets:			
At fair value through profit or loss	10.1	312,358,217	298,667,307
Held to maturity	10.2	33,005,079	36,112,602
Investment properties	11	180,249,032	159,973,000
Property and equipment		3,167,545	3,449,667
Other assets	12	7,904,679	4,902,473
Current tax assets		1,117,116	526,523
Deferred tax assets	13.3(a)	119,531	196,076
<b>TOTAL ASSETS</b>		<b>575,723,027</b>	<b>541,077,620</b>
<b>Liabilities</b>			
Employee provisions		468,892	931,519
Deferred tax liabilities	13.3(b)	1,382,420	1,064,316
Related party payables	21.1	4,642,891	16,978,483
Other liabilities		5,436,552	5,488,132
<b>TOTAL LIABILITIES</b>		<b>11,930,755</b>	<b>24,462,450</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	14	<b>563,792,272</b>	<b>516,615,170</b>

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st December 2017

	NOTE	2017	2016
		K	K
<b>Revenue</b>			
<i>Investment revenue</i>			
Interest income	15	4,746,988	5,410,429
Dividends		20,941,503	18,325,388
Property income net of property expenses	16	6,245,518	6,949,957
Change in fair value on investment properties	11	4,276,000	(1,167,380)
Change in fair value of financial assets	10.3	27,737,118	42,885,025
Gain on sale of financial assets	17	1,092,474	752,047
<b>NET INVESTMENT REVENUE</b>		<b>65,039,601</b>	<b>73,155,466</b>
Other revenue		1,170,557	3,325
<b>TOTAL REVENUE</b>		<b>66,210,158</b>	<b>73,158,791</b>
<b>Administrative and management expenses</b>			
Trustee administration expenses	19	9,708,165	10,683,264
Fund administration and investment management fees	20	3,055,420	2,817,162
<b>TOTAL ADMINISTRATIVE AND MANAGEMENT EXPENSES</b>		<b>12,763,585</b>	<b>13,500,426</b>
<b>NET PROFIT BEFORE INCOME TAX</b>		<b>53,446,573</b>	<b>59,658,365</b>
Income tax expense	13.1	(394,648)	(377,961)
<b>NET PROFIT AFTER INCOME TAX AND BEFORE OTHER COMPREHENSIVE INCOME</b>		<b>53,051,925</b>	<b>59,280,404</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>53,051,925</b>	<b>59,280,404</b>

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31st December 2017

NOTE	2017	2016
	K	K
Net profit for the year available to pay benefits	53,051,925	59,280,404
Contributions from members and State	18.225,940,188	16,906,204
Benefits paid to members	18.1(31,815,011)	(20,704,748)
CHANGE IN NET ASSETS FOR THE YEAR	47,177,102	55,481,860
Net assets available to pay benefits at the beginning of the year	516,615,170	461,133,310
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE YEAR	563,792,272	516,615,170

STATEMENT OF CASH FLOWS

For the year ended 31st December 2017

NOTE	2017	2016
	K	K
Cash flows from operating activities		
Interest received	3,876,595	5,098,593
Dividends received	20,394,233	29,872,773
Property income received	9,395,368	6,381,795
Contributions received from members and State	16,621,781	5,914,969
Benefits paid to members	(29,662,729)	(20,704,748)
Cash receipt from the State share of benefits	7,304,311	9,627,171
Cash payment to employees and suppliers	(15,186,697)	(11,226,698)
NET CASH FLOWS FROM OPERATING ACTIVITIES	12,742,862	24,963,855
Cash flows from investing activities		
Proceeds from maturity of Treasury bills	3,303,875	5,000,000
Purchase of property and equipment	(515,082)	(510,759)
Proceeds from sale of property and equipment	-	40,000
Purchase of investment properties	-	(958,423)
Investment in Toea Homes Limited	(15,576,160)	(22,068,812)
Investment in Taurama Commercial	(16,000,032)	-
Purchase of listed shares	(795,358)	(1,560,680)
Proceeds from sale of listed shares	16,203,666	5,100,899
NET CASH FLOWS (FROM) INVESTING ACTIVITIES	(13,379,091)	(14,957,775)
Net (decrease) increase in cash and cash equivalents	(636,229)	10,006,080
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	24,201,417	14,195,337
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	823,565,188	24,201,417

Notes to the financial statements

For the year ended 31st December 2017

1. DESCRIPTION OF THE FUND

The Defence Force Retirement Benefits Fund (the “Fund” or “DFRBF”) was established and recognized as a Superannuation Fund on 1 January 2003 pursuant to Section 8 of the Superannuation (General Provisions) Act 2000 and governed under the Defence Force Retirement Benefits Fund Act (DFRBF Act), Chapter 79, with the repeal of Section 17 of the DFRBF Act (provision through which the Fund was initially established on 31 December 2002). The DFRBF was a Defined Benefit Fund until November 2015, when Parliament passed a Bill allowing members to choose between the existing Defined Benefit and the newly established Accumulation Benefit Fund. This has effectively changed the Fund from a Defined Benefit Fund to a hybrid Fund, with both Defined and Accumulation Schemes as at 1 January 2016.

The Trustee at balance sheet date is Comrade Trustee Services Limited (“CTSL” or “Trustee”). CTSL is licensed by the Bank of Papua New Guinea as the corporate Trustee for the DFRBF. As the licensed corporate Trustee it has ultimate legal responsibility for the prudent management and preservation of the Fund, subject to the requirements of the Superannuation Act (General Provisions) 2000 and governing rules of the Fund.

The Fund is operated for the purpose of providing to members of the Defence Force on retirement, and to their families in the event of death, and for related purposes. The objective of the Trustee is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable.

Total membership for the Fund as at 31 December 2017 was:

	ACCUMULATION BENEFIT MEMBERS	DEFINED BENEFIT MEMBERS	TOTAL
Contributors	3,639	241	3,880
Pensioners	–	1,673	1,673

Both fund administration and investment management functions were outsourced to and performed by Kina Investment & Superannuation Services Limited (KISS) and Kina Funds Management Limited (KFM) respectively, in compliance with the Superannuation Act. The engagement of KISS and KFM were for a term of three years respectively. While the KISS contract was renewed for another term, the KFM contract had lapsed in 2016 and was carried forward on a month-to-month basis ending December 2017. The board appointed a new fund manager, Pac Wealth Ltd, for a term of three years, subsequent to the end of the 2017 financial year.

The principal place of business of the Fund is:

**Comrade Trustee Services Limited**  
Level 1, Comrade Haus, Comrade Place  
Off Frangipani Street, Hohola  
Port Moresby, National Capital District  
Papua New Guinea

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

The financial statements of Defence Force Retirement Benefits Fund (“the Fund”) have been prepared in accordance with the Superannuation (General Provisions) Act 2000, International Financial Reporting Standards (“IFRS”), the Companies Act 1997 and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

2.2 Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 7.

The principal accounting policies are set out below.

2.3 Summary of significant accounting policies

a. Revenue recognition

Income is recognized on an accrual basis.

Investment revenue

INTEREST REVENUE  
Interest income is recognized when it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably. Interest income is accrued on a periodic basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

DIVIDEND REVENUE

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Fund and the amount of income can be reliably measured).

PROPERTY RENTAL INCOME

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

MOVEMENT IN FAIR MARKET VALUE OF INVESTMENTS

Changes in fair market value of investments are recognized as income and are determined by the difference between the fair market value at year end or consideration received (if sold during the year) and the fair market value as at the prior year end or cost (if the investment was acquired during the period).

Contribution revenue

MEMBER CONTRIBUTIONS

Contributions received from members are recognized when actually received by way of bank credits from the Finance Department.

STATE SHARE CONTRIBUTION

Defined benefit Scheme

Contributions from the State are recognized on an accrual basis, based on 60% of the benefits payments made to pension members on a monthly basis.

Accumulation Scheme

Employer contributions of 8.4% of gross salary are recognized when actually received by way of bank credits from the Finance Department.

b. Taxes

CURRENT INCOME TAX

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Fund operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

DEFERRED TAX

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change.

The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

c. Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated on the basis of straight line to write off the cost of such assets to their residual values over their estimated useful lives as follows:

Furniture and fittings	15%
Motor vehicles	30%
Office equipment	20%
Renovations	10%
Software	33%

The asset's residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Profits or losses on disposal (being the difference between the carrying value at the time of sale or disposal and the proceeds received) are taken into account in determining operating profit for the year. Repairs and maintenance costs are charged to the statement of changes in net assets when the expenditure is incurred.

d. Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. Land and buildings, classified as investment property, are valued at 31 December 2017. In determining the fair value for financial reporting purposes, reference is made to the valuations performed by registered valuers ("the valuers") whose valuation reports indicate several methods that have been considered as a part of the valuation process and include methods such as capitalisation method, summation method and discounted cash flow method.

The valuations reports provided by the valuers are performed independently and the valuation methodology used takes into consideration the applicability of each methodology respectively, with the type of assets being valued which are reflective of prevailing economic and market conditions to ensure that the values adopted are fair and appropriate for financial reporting purposes.

The registered valuers:

REGISTERED VALUER

LJ Hooker

PROPERTIES

Defens Haus,  
Stop & Shop,  
Latitude 9,  
Ela Makana 1 & 2,  
Taurama and Comrade Haus  
Lawes Road

Savills Valuation Pty Ltd

e. Financial assets

The Fund classifies its investments in the following categories:

- (i) financial assets at fair value through profit or loss;
- (ii) available-for-sale (AFS); and
- (iii) held-to-maturity financial assets.

The classification depends on the purpose for which the investments are acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those assets managed for which their performance is evaluated on a fair value basis in accordance with the Fund's investment strategy. This includes listed and unlisted equities, Government inscribed stocks and Treasury bills.

(ii) Available for sale

Financial assets available for sale are recognized at fair value based on independent valuation. Gains or losses arising from the change in the fair value are recognized in the investment revaluation reserve.

(iii) Held to maturity

Financial assets held to maturity are non-derivative with fixed or determinable receipts and fixed maturities that the Fund's management has the positive intention and ability to hold to maturity.

Unlisted shares are independently valued as at 31 December 2017 as adopted by the Board. This valuation was performed by Pertuso Capital Partners Limited as an independent professional valuer. The methodology used in the analysis was a combination of future maintainable earnings, dividend yields and discounted cash flows of assets respectively, as appropriate to the shares.



IMPAIRMENT OF FINANCIAL ASSETS

The Fund assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss as ‘Credit loss expense’. Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Fund.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

If a previous write off is later recovered, the recovery is credited to the ‘Credit loss expense’. Interest revenue on impaired financial assets is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**f.     Loans and impairment losses**

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable.

Loans originated by the Fund by providing money directly to the borrower are recognized as loans originated by the Fund and are carried at cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by references to market prices at origination date. Third-party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

**g.     Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including, cash, Treasury bills and term deposits.

**h.     Foreign currency**

FUNCTIONAL PRESENTATION CURRENCY

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in Kina, which is the Fund’s functional and presentation currency.

TRANSACTIONS AND BALANCES

Foreign exchange transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions, and from the transaction at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of changes in net assets.

**i.     Changes in accounting policies and comparatives**

There have been no changes to accounting policies in the current year.

**j.     Employee benefits**

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognized in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not expected to be settled wholly within 12 months are measured as the present value of the estimated future cash outflows to be made by the Fund in respect of services provided by employees up to reporting date.

DEFINED CONTRIBUTION PLANS

Contributions to defined contribution superannuation plans (Nambawan Super Ltd) are expensed when incurred.

**k.     Provisions**

Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**l.     Goods and services tax**

Revenues, expenses and assets are recognized net of the amount of goods and services tax (GST), except:

- i.     where the amount of GST incurred is not recoverable from the taxation authority, it is recognized as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii.    for receivables and payables which are recognized inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**m.    Payables**

Trade payables and other accounts payable are recognized when the company becomes obliged to make future payments resulting from the purchase of goods and services.

**3.    APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)**

The Fund will apply, for the first time, certain standards and amendments which are effective for annual periods beginning on or after 1 January 2018. The nature of each standard and/or amendment is described below. The adoption of these standards and amendments has not had any significant financial impact on the financial statements.

**Accounting Standards and Interpretations issued but not yet effective**

ACCOUNTING STANDARD AND NATURE	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR FUND
<b>IFRS 9 Financial Instruments</b>	<b>01-Jan-18</b>	<b>01-Jan-18</b>

On 24 July 2014 the International Accounting Standards Board (IASB) issued the final version of IFRS 9 which replaces International Accounting Standard (IAS) 39 and includes a logical model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting.

The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and to recognize full lifetime expected losses on a more timely basis.

The IASB is yet to issue the final version of IASB 9. A revised version of IASB 9 (IASB 2013–9) was issued in December 2013 which included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. IASB 9 includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of IASB 139.

<b>IFRS 15 Revenue Recognition</b>	<b>01-Jan-18</b>	<b>01-Jan-18</b>
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The IASB has issued a new standard for the recognition of revenue. This will replace IASB 118 (which covers contracts for goods and services) and IASB 111 (which covers construction contracts). The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach, entities will recognize transitional adjustments in retained earnings on the date of initial application (eg, 1 July 2017), without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as part of the initial application.

## 4. CONTRIBUTION ARRANGEMENTS

### Defined Benefit Scheme

Contributions are made to the Fund in accordance with Part IV of the DFRBF Act at 6% of members' gross salaries for member contributions, while the employer (State) contribution is 60% of pension benefits or resignation benefits calculated based on a formula provided in the DFRBF Act on retirement of a member.

### Accumulation Scheme

Contributions are as per the provisions of the Superannuation Act where the employer pays 8.4% and employees pay 6% every pay period.

## 5. LIABILITY FOR ACCRUED BENEFITS UNDER DEFINED BENEFIT

The liability for accrued benefits for Defined Benefit Scheme Members has been determined on the basis of the present value of the expected future payments that arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to the expected future salary levels and by application of the market-based, risk-adjusted discount rate and relevant actuarial assumptions. The actuary (Haintz Actuarial Pty Ltd) undertook the valuation of accrued benefits for the Defined Benefit Scheme as part of an actuarial review as at 31 December 2016. The actuarial investigation uses an aggregate costing method, whereby the discounted values of future benefits are compared with the net assets of the Fund plus the discounted value of contributions paid by the existing members only, and no assumptions are made regarding new entrants. Detailed discussion of the review is provided in the actuarial report.

Significant assumptions applied in the actuarial report are as follows:

<b>Investment yield</b>	8%
<b>Salary increase</b>	8%
<b>Pension increase</b>	5%
<b>Crediting rate</b>	8%
<b>Pension commutation</b>	50%

Accrued benefits were valued as part of a comprehensive review undertaken as at 31 December 2016 as follows:

	2016	2014
	K	K
<b>Liability for accrued benefits</b>	<b>82,529,000</b>	117,017,000
<b>Net value of assets</b>	<b>316,261,000</b>	350,218,000

The vested benefits are calculated as the total benefits payable if every contributor to the Fund left voluntarily at the review date as follows:

	2016	2014
	K	K
<b>Liability for vested benefits</b>	<b>81,861,000</b>	111,099,000
<b>Net value of assets</b>	<b>316,261,000</b>	350,218,000

Net value of assets for the purposes of the above disclosure is calculated as net asset value as at balance sheet reporting date for the period of review less the actuarial value of the pensions currently being paid as follows:

	2016	2014
	K	K
Net assets available to pay benefits	<b>516,615,000</b>	447,774,000
Accumulation fund	<b>(206,279,000)</b>	–
Actuarial value of pensions currently being paid	<b>5,925,000</b>	(97,556,000)
<b>NET VALUE OF ASSETS</b>	<b>316,261,000</b>	350,218,000

Although the actuarial report is prepared as at 31 December 2016, in terms of the requirements of Section 24 of the Defence Force Retirement Benefits Act, Chapter 76, the next actuarial investigation of the fund should be carried out no later than 31 December 2018 for the year ending 31 December 2017.

## 6. LIABILITY FOR ACCRUED BENEFITS UNDER ACCUMULATION BENEFIT

Under the Accumulation Benefit, the Fund's liability does not include the State component of the enhancement value and interests that were credited to the members account at the time of the transfer from the Defined Benefit Scheme to the Accumulation Scheme.

The Fund is only liable to pay the 6% component of the member's contribution, the Fund's enhancement values and interest earned at the time of transfer in addition to the interest and contributions received after the transfer.

## 7. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of the statement of financial position, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

### Valuation of investment properties

The Fund has adopted the fair value approach in determining the carrying value of its investment properties. In determining the fair value for financial reporting purposes, reference is made to the valuations performed by registered valuers ("the valuers") whose valuation reports indicate several methods that have been considered as a part of the valuation process, and include methods such as capitalization method, summation method and discounted cash flow method. The valuations reports provided by the valuers are performed independently and the valuation methodology used takes into consideration the applicability of each methodology respectively, with the type of assets being valued which are reflective of prevailing economic and market conditions to ensure that the values adopted are fair and appropriate for financial reporting purposes.

The amounts and timing of recorded changes in fair value for any period would differ if the Fund made different judgments and estimates or utilized a different basis for determining fair value.

### Valuation of financial assets and liabilities

The Fund carries most of its non-quoted financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, ie, foreign exchange rates, interest rates and volatility rates, the amount of changes in fair value would differ if the Fund utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect profit or loss and equity.

### Receivable from the State

The State owes significant debts to the Fund in relation to:

- the State's share of the accumulation of member exit payments. This component is not reflected in the Fund's accounting records until it is received;
- the State's share of the defined benefits member payments, including the fortnightly pensions; and
- interest accrued on the outstanding payments.

Management continuously assesses the recoverability of these receivables considering the nature of the debt, past history, likelihood of settlement and any relevant information available to management. These are then communicated at Board level. Directors consider the State's share of exit payments receivable to be fully recoverable.

As at 31 December 2017, the State owes the Fund K14.2 million (Refer to Note 9) in respect of the State's share of Defined Benefit members' payments made by the Fund. The Fund has been meeting the Defined Benefit member exit payments and pensions on behalf of the State when a member serving under

20 years retires and exits the Fund or moves on to the Pension for a member serving over 20 years. The Fund recognizes this as a receivable only when the Fund invoices the State for these payments. All outstanding payments in respect of these invoices attract penalty interest of 5% plus the Treasury bill rate as at the end of each month.

In 2018, however, there could be possible significant accounting adjustments in relation to erroneous overpayments of pensions that would have material effects on the State's liabilities that have not been considered this financial year-end due to the requirement to further verify these adjustments.

In the Accumulation Benefit Scheme, the State has an unrecognized liability to members of K222 million (but not the Fund) arising from unfunded employer contributions calculated by the actuary and forms part of the transfer values provided to members joining the Accumulation Benefit Scheme. This liability will become due for payment by the State as members retire from the PNG Defence Force. The Fund is not obliged to pay these liabilities on behalf of the State.

As at 31 December 2017, the State's crystallized liability due for settlement to members who have since resigned and exited the PNG Defence Force stands at K14.86 million. This amount excludes the interest that would have been earned on these funds.

## 8. CASH AND CASH EQUIVALENTS

	2017	2016
	K	K
Cash on hand	<b>2,000</b>	700
Cash in banks	<b>5,950,277</b>	3,828,203
Term deposits with original maturity less than 90 days	<b>17,612,911</b>	20,372,514
	<b>23,565,188</b>	24,201,417

## 9. LOANS TO MEMBERS AND OTHERS

	2017	2016
	K	K
Housing advance*	–	1,722,620
State's share of benefits paid	<b>14,236,640</b>	11,325,935
	<b>14,236,640</b>	13,048,555

\*Housing advance to members which used to be a balance sheet item as a loan to the member in the old Defined Benefit Scheme is now reclassified to form part of the Statement of Changes in net assets as an item under the members' benefits payments. The member does not owe the Fund, but rather a benefit to him paid in advance, so the treatment is consistent with other benefits payments.

## 10. FINANCIAL ASSETS

### 10.1 At fair value through profit or loss

	NOTES	2017	2016
		K	K
Listed shares	23.1.1	202,683,804	206,192,754
Unlisted shares	23.1.2	109,674,413	92,474,553
		312,358,217	298,667,307

### 10.2 Held-to-maturity

		2017	2016
		K	K
Government inscribed stocks	23.2	33,005,079	36,112,602

Government inscribed stocks are fair valued and carried at mark to market. These deposits are held to their maturity which varies between 2018 and 2031. Details of the Government inscribed stocks are set out in Note 23.2.

### 10.3 Change in fair value

The amount comprises:

	2017	2016
	K	K
Net fair valuation gain for listed financial assets at fair value through profit or loss	10,537,258	25,323,272
Net fair valuation gain for unlisted financial assets at fair value through profit or loss	17,199,860	17,561,753
Change in fair value through profit and loss	27,737,118	42,885,025

## 11. INVESTMENT PROPERTIES

	2017	2016
	K	K
Balance at beginning of financial year	159,973,000	118,216,854
Additions	-	42,923,526
Net gain from fair value adjustments	4,276,000	(1,167,380)
Work in Progress – Taurama Commercial	16,000,032	-
Balance at end of financial year	180,249,032	159,973,000

The fair value of the Fund's investment properties as at 31 December 2017 has been arrived at by considering valuation assessments carried out by LJ Hooker, which is an unrelated entity to the Trustee, along with recomputation of valuations using inputs from various other sources.

The "Lawes Road Apartments" is jointly owned by the Fund (DFRBF) and Nambawan Super Limited ("NSL"). On 22 February 2016, NSL executed a sale agreement with Chesterfield Investments Limited for the sale of this property at an agreed price of K9 million. The actual settlement took place subsequent to the balance sheet date of 31 December 2017 after all of the documentation process was completed. DFRBF owns 50% of the property at a fair value of K4.5 million.

## 12. OTHER ASSETS

	2017	2016
	K	K
GST tax receivable*	5,313,310	2,393,153
Debtors – corporate	688,313	950,804
Accrued interest:		
Term deposits and Government inscribed stock	624,722	724,124
State share of defined benefits	1,231,380	785,272
Prepayments	35,726	49,891
Sundry debtors	11,228	20,822
<b>TOTAL</b>	<b>7,904,679</b>	<b>4,924,066</b>
Less: specific allowance for losses	-	(21,593)
	<b>7,904,679</b>	<b>4,902,473</b>

\*GST Receivable recognized in 2017 is K2,893,601 with the balance incorporating an amount carried forward from prior years.

## 13. INCOME TAXES

### 13.1 Income tax expense recognized in profit or loss

	2017	2016
TAX EXPENSE COMPRISES:	K	K
Adjustments recognized in the current year in relation to the current tax of prior year	-	2,727,183
Deferred tax expense relating to origination and reversal of temporary differences	394,648	(2,349,222)
Income tax expense	394,648	377,961

### 13.2 The tax expense for the year can be reconciled to the accounting surplus as follows:

	2017	2016
	K	K
Net surplus before income tax*	47,571,750	55,859,821
Income tax expense calculated at 25%	11,892,937	13,964,955
Tax effect of permanent differences	(7,239,057)	(10,094,383)
Dividends rebate	(4,259,232)	(6,219,794)
Adjustments recognized in the current year in relation to the current tax of prior year	-	2,727,183
	<b>394,648</b>	<b>377,961</b>

\* Net surplus before income tax

Net profit before tax	53,446,573	59,658,365
Contributions received	25,940,188	16,906,204
Benefits paid	(31,815,011)	(20,704,748)
	<b>47,571,750</b>	<b>55,859,821</b>



### 13.3 Deferred tax recognized during the year

#### (a) Deferred tax assets

	OPENING BALANCE	RECOGNIZED IN STATEMENT OF CHANGES IN NET ASSETS	CLOSING BALANCE
	K	K	K
<b>2017 Temporary difference</b>			
Accruals	24,622	11,186	35,808
Other assets	3,831	(3,831)	-
Employee benefits	167,623	(83,900)	83,723
	<b>196,076</b>	<b>(76,545)</b>	<b>119,531</b>
<b>2016 Temporary difference</b>			
Accruals	65,402	(40,780)	24,622
Other assets	11,454	(7,623)	3,831
Employee benefits	147,890	19,733	167,623
	224,746	(28,670)	196,076

#### (b) Deferred tax liabilities

	OPENING BALANCE	RECOGNIZED IN STATEMENT OF CHANGES IN NET ASSETS	CLOSING BALANCE
	K	K	K
<b>2017 Temporary difference</b>			
Dividend receivable	5,206	(5,206)	-
Interest receivable	377,349	84,786	462,135
Prepaid insurance	1,546	6,961	8,507
Rental debtors	237,701	(62,816)	174,885
Depreciation (differences between tax and accounting value)	442,514	294,379	736,893
	<b>1,064,316</b>	<b>318,104</b>	<b>1,382,420</b>
<b>2016 Temporary difference</b>			
Dividend receivable	2,892,052	(2,886,846)	5,206
Interest receivable	299,390	77,959	377,349
Prepaid insurance	1,722	(176)	1,546
Rental debtors	95,660	142,041	237,701
Depreciation (differences between tax and accounting value)	-	442,514	442,514
	3,288,824	(2,224,508)	1,064,316

### 14. NET ASSETS AVAILABLE TO PAY BENEFITS

#### 14.1 Statement of members' funds

	2017	2016
NOTE	K	K
<b>Members' funds</b>		
<b>(i) Defined Benefit</b>		
Balance at beginning of year	310,336,533	461,133,310
Reclassification after election by members	-	(183,410,599)
operating results (Note 14.2)	31,868,891	36,818,813
Net assets available to pay defined benefits	342,205,424	314,541,524
Contributions received	18.2	9,746,338
Benefits paid	18.1	(16,709,285)
Net assets available to pay defined benefits at the end of the year	335,242,477	310,336,533
<b>(ii) - Accumulation Benefit</b>		
Balance at beginning of year	206,278,637	-
Reclassification after election by members	-	183,410,599
operating results (Note 14.2)	21,183,034	22,461,590
Net assets available to pay accumulation benefits	227,461,671	205,872,189
Contributions received	18.2	16,193,850
Benefits paid	18.1	(15,105,726)
Net assets available to pay accumulation benefits at the end of the year	228,549,795	206,278,637
<b>Comprised of:</b>		
Members' accounts – opening balance	200,027,066	183,817,047
Movements for the year	1,088,124	
Interest allocation	22,863,609	16,210,019
Members' accounts – closing balance	223,978,799	200,027,066
Reserve*	4,570,996	6,251,571
Total accumulation members' funds	228,549,795	206,278,637

\*The amounts held in the above reserve account are unallocated benefits, held as reserves in accordance with the Fund's Reserving Policy and Prudential Standards.

	2017	2016
	K	K
<b>(iii) - Total members' funds</b>		
Defined benefits	335,242,477	310,336,533
Accumulation benefits	228,549,795	206,278,637
Total members' funds	563,792,272	516,615,170

#### 14.2 Apportioning of net operating surplus

The Fund's Actuary provided the accounting apportionment ratio as the basis for allocating costs and revenue from investment operations, as well as the administrative costs to determine the net operating surplus under each scheme.

The net assets under each scheme (as a percentage of the total net assets) have been used as the basis for apportioning the operating revenue, expenses and the net profit.

	TOTAL	ACCUMULATION BENEFIT	DEFINED BENEFIT
	K	K	K
Income	66,210,158	26,436,973	39,773,185
Expenses	(12,763,585)	(5,096,356)	(7,667,229)
Tax	(394,648)	(157,583)	(237,065)
Net operating income from operations	53,051,925	21,183,034	31,868,891
Accounting apportioning ratios	100%	39.93%	60.07%

### 15. INTEREST INCOME

Interest income is earned from the following assets:

	2017	2016
	K	K
Financial assets that are held-to-maturity	3,610,172	4,620,845
Cash and short-term funds	1,136,816	789,584
	4,746,988	5,410,429

### 16. PROPERTY INCOME NET OF PROPERTY EXPENSES

	2017	2016
	K	K
Rent	9,737,000	10,222,159
Less: – Agent management expense	(95,135)	(95,115)
– Other property expenses	(3,396,347)	(3,177,087)
	6,245,518	6,949,957

### 17. GAIN ON SALE OF FINANCIAL ASSETS

	2017	2016
	K	K
Gain on sale of listed investments	1,092,474	752,047

### 18. CONTRIBUTIONS RECEIVED AND BENEFITS PAID

#### 18.1 Benefits paid

##### 18.1.1 Defined Benefit Scheme

	2017	2016
	K	K
Pension and back pension	15,783,193	15,542,404
Refunds	283,297	753,006
Gratuities	3,570	6,510
Lump sum	251,350	617,062
Housing advance benefit payments	387,875	–
	16,709,285	16,918,982

##### 18.1.2 Defined Accumulation Scheme

	2017	2016
	K	K
Normal benefits paid	13,819,388	3,773,402
Unemployment benefits paid	28,582	12,364
Other employments benefits paid	–	–
Housing advance benefit payment	1,257,756	–
Net benefits paid	15,105,726	3,785,766

##### 18.1.3 Total benefits paid

	2017	2016
	K	K
Defined Benefit Scheme	16,709,285	16,918,982
Defined Accumulation Scheme	15,105,726	3,785,766
Total	31,815,011	20,704,748

## 18.2 Contributions from members and State

	2017	2016
	K	K
State share of contributions towards		
Defined Benefits payments	9,747,884	9,841,669
Defined Benefits Scheme members 6% contribution	(1,546)	2,872,321
State 8.4% contribution to Accumulation Scheme members	9,069,254	–
Members 6% employee contributions	7,124,596	4,192,214
	25,940,188	16,906,204

## 19. TRUSTEE ADMINISTRATION EXPENSES

	2017	2016
	K	K
Staff expenses (Note 19.1)	4,496,140	3,950,707
Other administrative expenses (Note 19.2)	3,186,592	2,606,275
Operating lease	1,230,448	1,394,910
Depreciation	757,481	726,796
Software cost	667	8,465
Other (see below*)	36,837	1,996,111
	9,708,165	10,683,264

\*For 2016, this mainly relates to costs incurred for the Accumulation Scheme review exercise which included (among others) travel costs, accommodation and advertising expenses and systems improvement costs.

### 19.1 Staff expenses

Staff expenses can be analysed as below. As at 31 December 2017, the Trustee Company had 34 employees (2016: 30).

	2017	2016
	K	K
Salaries and wages	3,660,207	2,420,675
Sacrifice – accommodation	605,487	807,236
Sacrifice – vehicle	22,899	147,960
Insurance – medical	93,642	86,091
Training	90,127	38,060
Sacrifice – school fee	–	20,140
Sacrifice – airfare	–	10,970
Other (see below*)	23,778	419,575
	4,496,140	3,950,707

\* For 2016, this included annual leave and long service leave for the former CEO and another manager who served more than 10 years with CTSL. This was paid out in 2017 after they finished up leaving a reduced balance at the end of 2017.

## 19.2 Other administrative expenses

Details of other administrative expenses follow:

	2017	2016
	K	K
Board of Trustee expenses	615,901	562,484
Insurance	214,094	273,353
Advertising	198,124	107,189
Internet service provider	100,942	148,950
Professional fees:		
External audit services	132,500	134,053
Tax	42,182	11,050
Consulting	570,407	138,244
Legal	25,015	119,178
Other	40,811	230,255
Printing and stationery	178,920	89,321
Telephone	87,936	84,168
Licence fee	218,195	44,544
Sundry expenses	761,565	663,486
	3,186,592	2,606,275

## 20. FUND ADMINISTRATION AND INVESTMENT MANAGEMENT FEES

	2017	2016
	K	K
Fund administration fee	757,504	826,554
Investment management fee	2,297,916	1,990,608
	3,055,420	2,817,162

## 21. 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.

### 21.1 Toea Homes Limited

Toea Homes Limited (THL) transferred land to CTSL in 2016 in exchange for money advanced to it for the development of the residential houses. At the end of 2016, CTSL owed THL K16,978,483. This was reduced by a further K12,325,592 in 2017 to K4,652,891.

As a result of these transactions, the following balances are outstanding as at the end of the year:

	2017	2016
	K	K
Related-party payables to THL	4,642,891	16,978,483



21.2 Key management personnel remuneration specified in aggregate in the year 2017

	2017	2016
	K	K
Salary	1,554,274	1,279,251
Non-monetary (i)	495,008	661,395
Superannuation		
– Employer	108,791	103,034
	2,158,073	2,043,680

(i) This reflected the actual housing and motor vehicle allowances paid to suppliers as benefits to employees.

21.3 Board of Directors remuneration during the year

	2017	2016
	K	K
Board remuneration	584,679	535,206

Board of Directors is comprised of the following individuals:

- Mr Moses Koiri
  - Mr Michael Varapik
  - Col. Raymond Numa
  - Mr Paul Nindipa
  - Col. Fred Aikung
- Mr Tauna Vai (Retired September 2017)
  - Mr George Uware (Resigned February 2017)
  - Capt. Philip Polewara (Joined in April 2017)
  - Mr Joe Hamsen (Joined in August 2017)
  - Mr Giau Duruba (Joined in September 2017)

21.4 Other related-party transactions

In 2015, the Fund acquired 5.25 million shares of Kina Securities Limited (KSL) at Initial Public Offering. KSL provides investment management and fund administration services to the Fund, through its 100% owned subsidiaries Kina Funds Management Limited and Kina Investment & Superannuation Services, respectively. Related fees paid are disclosed in Note 20.

During the financial year, the Fund earned interest on term deposits of K8,306 (2016: K76,487) from Kina Finance Limited, a finance company which has common shareholders with the Fund’s investment manager, Kina Funds Management Limited. As at 31 December 2017, term deposits placed with Kina Finance Limited amounted to K11,002,282 (2016: K4,006,195). The Fund also received dividends amounting to K1,360,685.

22. FINANCIAL RISK MANAGEMENT

The Fund’s strategy focuses on two primary objectives: to maximize long-term Fund returns and to manage and control business and investment risks. This strategy inherently requires the Fund to pursue a balanced investment strategy which seeks capital growth over the medium to long term with moderate income streams.

All investment undertaken must balance risk against returns. In other words, the investment strategy pursued must determine a mix of growth and defensive assets that best suits the needs of the members.

The Fund can achieve better returns through disciplined application of a good investment process, one that is based on the analysis of investment fundamentals followed by an assessment of relative value.

The Fund is exposed to liquidity risk, interest rate risk, foreign exchange risk, credit risk, Government security risk and country risk.

22.1 Liquidity risk

The Fund invests the majority of the assets in investments that are traded in an active market.

The Fund holds securities that are listed on both the Port Moresby Stock Exchange and the Australian Stock Exchange. Those securities that are listed on the Australian Stock Exchange are considered readily realizable while those listed on the Port Moresby Stock Exchange are not, as the potential buyers may not be readily available at the point of sale.

The liabilities of the Fund are long term in nature and are well structured in terms of benefits, comprising a mix of a pension commutation and a fortnightly pension payable throughout the lifetime of the member. The Fund is not exposed to liquidity risk arising from interest-bearing financial liabilities.

22.2 Government security risk

The Fund has a significant exposure to the State through its holding of Government inscribed stocks (Note 10.2) and through State contributions towards benefit payments (Note 9).

22.3 Country risk

To the extent that the Fund holds funds in foreign jurisdictions, a variety of risks may arise in addition to foreign exchange risk – such as changes in local economic condition, local regulatory requirements or non-transparent governance arrangements. The Fund’s investments in foreign jurisdictions have been primarily in Australia as follows:

	2017	2016
	K	K
At fair value through profit or loss		
Listed securities	54,828,045	64,291,686
Monetary financial assets (cash and cash equivalents)	15,612,911	12,366,606
Total	70,440,956	76,658,292

22.4 Interest rate risk

The majority of the Fund’s financial assets and liabilities are non-interest bearing; as a result, the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash equivalents are invested at short-term market interest rates.

The table below summarizes the Fund’s exposures to interest rates risk along with discounted contractual maturity profiles of financial assets and liabilities.

	WEIGHTED AVERAGE INTEREST RATE	UP TO 1 YEAR	1-5 YEARS	OVER 5 YEARS	NON-INTEREST BEARING	TOTAL
		K	K	K	K	K
31 Dec 2017						
<b>Assets</b>						
Cash and cash equivalents	0.63%	23,565,188	-	-	-	23,565,188
Loans to members and others	6.30%	-	14,236,640	-	-	14,236,640
<i>Financial assets:</i>						
FVTPL					312,358,217	312,358,217
Held-to-maturity	10.64%	333,445	13,240,905	19,430,729	-	33,005,079
Other assets	-	-	-	-	7,904,679	7,904,679
<b>Liabilities</b>						
Employee provisions					(468,892)	(468,892)
Other liabilities	-	-	-	-	(5,436,552)	(5,436,552)
<b>Liquidity and interest sensitivity gap</b>		<b>23,898,633</b>	<b>27,477,545</b>	<b>19,430,729</b>	<b>314,357,452</b>	<b>385,164,359</b>
31 Dec 2016						
<b>Assets</b>						
Cash and cash equivalents	1.06%	24,201,417	-	-	-	24,201,417
Loans to members and others	4.42%	-	13,048,555	-	-	13,048,555
<i>Financial assets:</i>						
Fair value through profit or loss (FVTPL)					298,667,307	298,667,307
Held-to-maturity	10.45%	3,019,794	10,324,241	22,768,567	-	36,112,602
Other assets	-	-	-	-	4,902,473	4,902,473
<b>Liabilities</b>						
Employee provisions					(931,519)	(931,519)
Other liabilities		-	-	-	(5,488,132)	(5,488,132)
<b>Liquidity and interest sensitivity gap</b>		<b>27,221,211</b>	<b>23,372,796</b>	<b>22,768,567</b>	<b>297,150,129</b>	<b>370,512,703</b>

22.5 Foreign currency exchange risk

The Fund holds monetary assets denominated in currencies other than Kina, the functional currency. The Fund is therefore exposed to currency risk, in regards to assets denominated in foreign currency due to changes in exchange rates.

The table below summarizes Fund’s exposure to currency risks.

	2017	2016
	K	K
<i>Currency</i>		
AUD	12,282,254	9,070,420
USD	3,330,657	3,296,195
	15,612,911	12,366,615

Assuming that the impact of currency fluctuation is asymmetric, a 100 basis points shift in currencies in either direction would impact on the profit or loss by K52,217 (2016: K31,594)

22.6 Fair values of financial assets and liabilities

(a) Fair value versus carrying values

Financial assets other than held to maturity investments and other assets that are carried at amortised cost comprised of investments at fair value through profit or loss and available for sale investments are measured at fair value and carrying values are disclosed in the statement of net assets.

Management and Directors are of the opinion that the fair values of the following financial assets and liabilities approximate their carrying values as these are short-dated instruments carried at amortised cost such as cash and cash equivalents, loans to members and others, and other assets and liabilities. Carrying values of the financial instruments are disclosed in the statement of net assets.

(b) Fair value hierarchy

Subsequent to initial recognition, the Fund uses the fair value hierarchy in determining the fair value of its available-for-sale financial assets, financial assets at fair value through profit and loss (“FVTPL”) and financial liabilities at FVTPL. The fair value hierarchy groups the financial instruments into Levels 1 to 3 based on the degree to which the fair value is observable.

When measuring the fair value, the Fund uses observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below presents the basis of determining the fair value of each class of the Fund’s financial instrument measured at fair value subsequent to initial recognition. There were no transfers between Level 1, Level 2 and Level 3 during the year.

Level 3 investments identified below consist of unlisted shares (Note 10.1). The unlisted shares are stated at fair value, which are based on external valuation reports provided by independent experts. The main methodologies in determining the fair value of unlisted equities are based on capitalization of earnings, capitalization of dividends, net tangible assets and discounted cash flows. It is appropriate to consider all of the above methods in arriving at a fair value.

31 DECEMBER 2017	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	K	K	K	K
FVTPL	202,683,804	–	109,674,413	312,358,217
Government inscribed stocks	33,005,079	–	–	33,005,079
<b>TOTAL</b>	<b>235,688,883</b>	<b>–</b>	<b>109,674,413</b>	<b>345,363,296</b>
FVTPL	206,192,754	–	92,474,553	298,667,307
Government inscribed stocks	36,112,602	–	–	36,112,602
<b>TOTAL</b>	<b>242,305,356</b>	<b>–</b>	<b>92,474,553</b>	<b>334,779,909</b>

22.7 Credit risk

The Fund is exposed to credit risk primarily through the balances it holds with banks, loans to members and others, investments in Government inscribed stocks and other financial assets. The maximum exposure to credit risk is limited to the extent of the carrying values of these assets which are disclosed in the statement of net assets. The Fund manages credit risk by dealing with reputed counterparties, including financial institutions and the Government, and closely monitors receivables that are past due. Impairment provision is made for losses that have been incurred on or before balance sheet date, if any.

22.8 Equity price risk

The Fund is exposed to equity price risk mainly through its investments in listed shares that are listed in the stock exchanges in PNG and in Australia. The exposure to equity price risk is as follows:

	2017	2016
	K	K
<i>At fair value through profit or loss</i>		
Listed securities in PNG	147,855,760	141,901,067
Listed securities in Australia	54,828,044	64,291,687
Total	202,683,804	206,192,754

Assuming that the impact of equity price volatility is asymmetric, a shift in indices by 1% in either direction would impact on the profit or loss by K2,050,749 (2016: K1,836,653).

23. DETAILED LISTING OF FINANCIAL ASSETS HELD BY THE FUND

23.1 Financial assets at fair value through profit or loss

23.1.1 Listed shares

COMPANIES	MARKET VALUE 2017 K	SHAREHOLDING AS A % OF NET ASSETS OF THE FUND	MARKET VALUE 2016 K	SHAREHOLDING AS A % OF NET ASSETS OF THE FUND	MOVEMENTS K
	K	%	K	%	K
Bank South Pacific	137,332,493	24.25%	130,104,467	25.80%	7,228,026
Bank of Queensland	-	0.00%	3,230,564	0.59%	(3,230,564)
City Pharmacy	1,932,691	0.34%	2,576,921	0.58%	(644,230)
Oil Search Limited	17,523,757	3.09%	18,228,668	3.54%	(704,911)
Kina Asset Management Ltd	5,154,726	0.91%	5,263,246	1.04%	(108,520)
Credit Corporation	3,435,849	0.61%	3,956,433	0.79%	(520,584)
BHP Billiton Ltd	2,191,490	0.39%	1,687,738	0.41%	503,752
ANZ Banking Group	-	0.00%	2,119,368	0.48%	(2,119,368)
Telstra Corporation	1,855,354	0.33%	2,368,788	0.41%	(513,434)
Commonwealth Bank of Australia	-	0.00%	2,182,736	0.33%	(2,182,736)
Newcrest Mining Ltd	1,749,553	0.31%	1,410,822	3.89%	338,731
Vanguard International Shares Index Fund	23,791,128	4.20%	20,322,060	2.62%	3,469,068
Kina Securities Ltd	7,716,763	1.36%	12,740,943	0.59%	(5,024,180)
	202,683,804	35.79%	206,192,754	41.07%	(3,508,950)

23.1.2 Unlisted shares

COMPANIES	MARKET VALUE 2017 K	SHAREHOLDING AS A % OF NET ASSETS OF THE FUND	MARKET VALUE 2016 K	SHAREHOLDING AS A % OF NET ASSETS OF THE FUND	MOVEMENTS K
	K	%	K	%	K
BPT(PNG) Ltd	5,519,600	0.97%	5,755,421	1.11%	(235,821)
Westpac Bank Ltd (WPC)	520,000	0.09%	543,440	0.10%	(23,440)
Paradise Foods Ltd	25,011,000	4.42%	24,320,250	4.68%	690,750
Post Courier	1,256,497	0.22%	1,298,639	0.25%	(42,142)
South Pacific Brewery	39,666,760	7.00%	39,768,760	7.66%	(102,000)
Toea Homes Limited (Note 21.1)	37,700,556	6.66%	20,788,043	3.99%	16,912,513
<b>TOTAL</b>	<b>109,674,413</b>	<b>19.37%</b>	<b>92,474,553</b>	<b>17.79%</b>	<b>17,199,860</b>



23.2 Government inscribed stocks

	2017	2016
	K	K
Beginning balance	36,112,602	40,932,474
Maturity during the year	(2,929,740)	(5,020,980)
Gain through profit and loss	(177,783)	201,108
Ending balance	33,005,079	36,112,602

24. AUDIT FEES

The independent external audit firm is Ernst & Young. The fees for the external audit of the financial statements are disclosed in Note 19.2.

25. CONTINGENT LIABILITIES AND COMMITMENTS

There were no contingent liabilities as at 31 December 2017 (2016: Nil).

There was no future expenditure or capital commitments as at 31 December 2017 (2016: Nil).

26. EVENTS AFTER BALANCE SHEET DATE

There were no events that occurred after 31 December 2017, the balance sheet date, other than what has been disclosed in the notes to the financial statements, that would require an adjustment or disclosure in the financial statements.

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Trustee's Board and authorized for issue on 28 March 2018.

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Services Limited**

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