

COMRADE TRUSTEE SERVICES LIMITED

# Annual Report 2006



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## Vision & mission statement

The vision of the company is:-

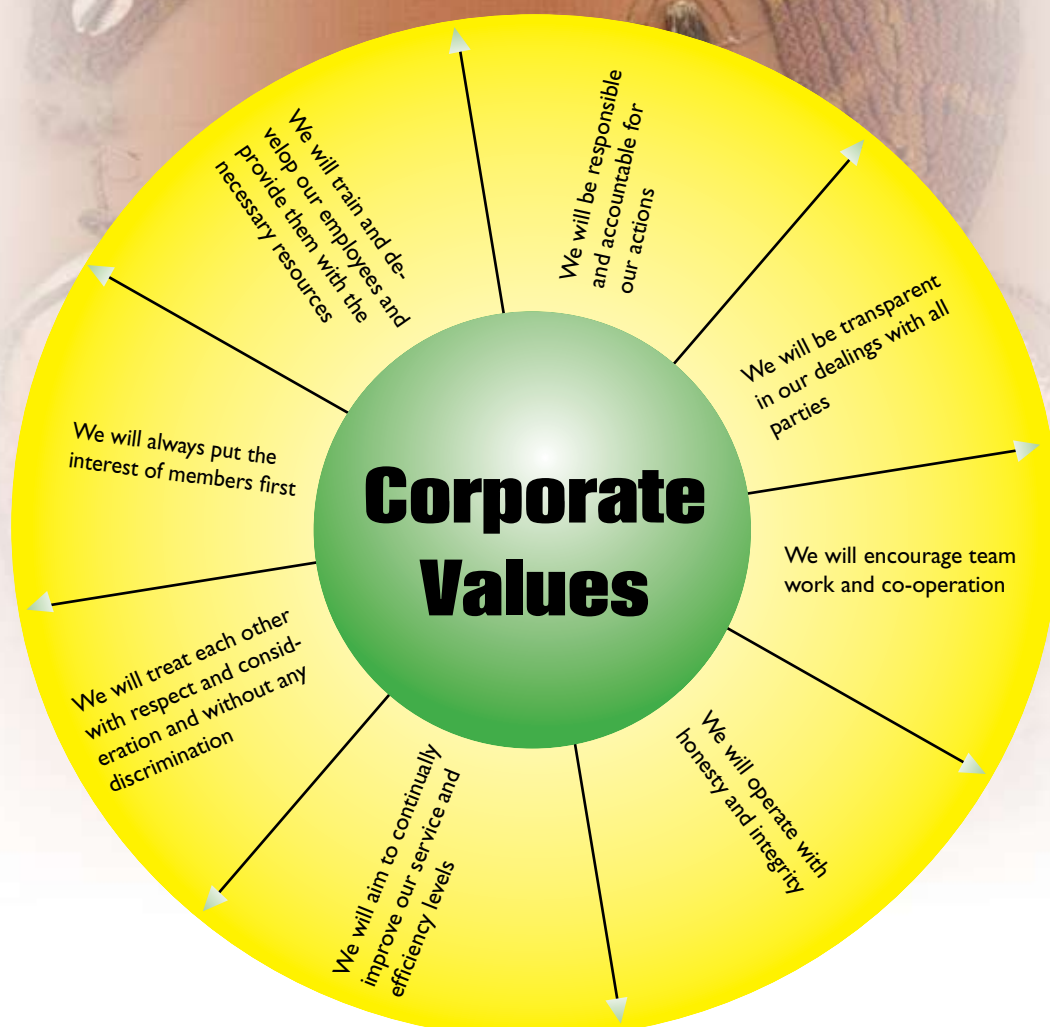
***“To become the leader in the provision of superannuation services”***

And the mission is:-

***“To strive for excellence in the provision of services and benefits to members by acknowledging that serving and satisfying their superannuation needs is the sole purpose for the fund’s existence and to prudently manage the fund to enhance its value”***

## Corporate Values

The achievement of our mission statement requires all Directors and employees of CTSL and our core service providers to adhere to our corporate values which are:-



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Annual Report for the Year Ended 31 st December 2006

## Chairman's Statement

Dear Members,

It gives me great pleasure to present the 2006 Annual Report of the Defence Force Retirement Benefits Fund which also contains the audited Financial Statements for the year ended 31 st December 2006.

I am happy to announce that the Fund enjoyed another profitable year recording a net (after tax) profit of K14,145,014 despite a difficult investment environment. Members will recall that in my report last year when the Fund realized a record net profit of K54,402,468 I warned that such exceptional result would not be guaranteed nor repeated in subsequent years.

This was due to changing economic, investment, political and other factors which all combined to determine financial outcomes and which the Board had very little control over. The Fund's financial performance when considered against such environment of low interest rates, limited investment opportunities domestically and uncertain overseas investment markets (primarily Australia) is considered to be highly satisfactory.

In addition, the Net Assets of the Fund has continued to grow from K166,636,653 in 2005 to K180,781,667 as at the end of 2006. This represents a growth rate of 8.49% over the previous year and is most commendable as this was achieved at a time when a major retrenchment exercise in the PNG Defence Force was being finalized resulting in a substantial depletion of the Fund.

Since the retrenchment exercise has had a significant impact on the Fund, the Board has engaged an actuary to undertake an actuarial evaluation of the Fund covering the period ended on 31 st December 2006 to among other matters determine the financial position of the Fund and to determine and recommend appropriate corrective action for Board consideration. Your Board has taken steps to realign the Fund's investment objectives and strategies to ensure

congruence with the overall corporate objective to enable the Fund viability to meet and sustain its statutory obligation to members.

Board is aware that with such significant reduction in members, the Fund's future profitability and growth will be dependent to a large extent on smart investments and prudent management of the investment portfolio. The Fund's investment strategy focuses on two primary objectives – to maximize long term Fund returns and to manage and control business and investment risks. This is achieved through the investment strategy which the Board has approved and is in use. This ensures that better returns are realized through a disciplined application of good investment processes – one that is based on the analysis of investment fundamentals followed by an assessment of relative value. This strategy is reviewed periodically and where necessary amended to capture changing economic and investment circumstances during each Board Meetings.

Total income earned during the year amounted to K29,520,904 out of which investment income accounted for K27,574,660 (93.41%). while income from member contribution accounted for K1,928,143 (7.01%). A significant component of investment income was attributed to share price appreciation of companies in which the Fund acquired shares such as Bank South Pacific and Oil Search Limited.

The Directors are mindful that significant achievements and growth come with associated risks and have developed risk management strategies to address these issues and ensure that any downside impacts are minimized to acceptable limits or avoided.

Your Fund has continued to enjoy a reasonable level of profitability and growth in net assets during the year, however members are advised that such achievements cannot be guaranteed and repeated in the future. Growth and profitability of the Fund is dependent principally on the investment strategies developed and pursued by the Board and investment opportunities available and ultimately the macro and micro economic environment prevailing in the country during the year.

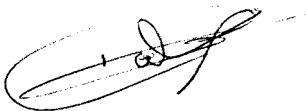


## Annual Report for the Year Ended 31 st December 2006

Your Board continued to exercise greater financial discipline resulting in the management expense ration (MER) continuing it's downwards trend to 1.94% during the year (2005 •

1.99%). The Board will continue to monitor operational expenditure to ensure that the Fund moves toward MER parity with industry average without compromising operational efficiency.

I acknowledge the commitment, hard work and determination of the Trustees, management and staff, fund administrator, investment manager, legal and business advisors, Treasury and Finance Department and Defence Department officials and all other persons whose individual and collective efforts have contributed towards the realization of an exceptional outcome for the Fund in 2006 and take this opportunity to thank you all.



Chris Alu  
Chairman  
30 th May 2007.



## Annual Report for the Year Ended 31st December 2006

### The Fund

The Defence Force Retirement Benefits Fund (DFRBF) was initially established in accordance with provisions of the Defence Force Retirement Benefits Act, Chapter 79, however as of 1st January 2003 the Fund is recognized as being established pursuant to Section 8 of the Superannuation (General Provisions) Act 2000 with the repeal of Section 17 of the DFRB Act (provision through which the Fund was initially established) on 31st December 2002.

The primary objective of the Fund is to provide benefits to members of the Defence Force on retirement and to their families in the event of death and for related purposes.

Unlike other fund operating in the country, DFRBF is a defined benefits fund. This means that benefits are usually determined by a formula provided in the enabling legislation. Since members benefits are determined by a formula, rather than reflecting what is in the members' individual accounts, the funds held in the Fund are kept as a single pool for members.

Members are required to compulsorily contribute 6% of their salary to the Fund. The employer or State share of pension contribution is not paid each fortnight as is the case with an accumulation fund. Instead the State assumes all residual pension liability after allowing for member contribution, investment income and expenses of administering the Fund.

Because of the uncertainties of the extent of residual liability assumed by the State, an actuarial evaluation is undertaken periodically. Prior to the Superannuation Act 2000 coming into effect, the actuarial evaluation of the Fund was undertaken after every three years with the last one conducted for the three years ended on 31st December 2004. Commencing 1st January 2005 the actuarial evaluation of the Fund will be undertaken after every two years in compliance with prudential requirements to determine among other things, the financial viability of the Fund and its ability to meet and sustain future pension payments to the members. The next actuarial evaluation will be undertaken for the period ending on 31st December 2006 in early 2007 and details of which will be reported to members in the subsequent financial year.





Annual Report for the Year Ended 31 st December 2006

## Licensed Corporate Trustee

In compliance with the requirements of the Superannuation (General Provisions) Act 2000, 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 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.

The trustee company is administered under the direction of a Board of Directors comprising of seven Directors, three (3) of whom are drawn from the members of the Fund and four independent Directors who collectively plan, oversee, set corporate goals and determine the strategic direction of the Fund.

## Board Of Trustees



(Standing left to right) – Capt Tom Ur, Capt M. Aleale, Col. D Takendu, K. Posman, (Seated left to right) B. Hull, C. Alu (J. Kalo - not in photograph)

## Annual Report for the Year Ended 31 st December 2006

**Chris Alu – Chairman**

Independent Director

Appointed to the Board of DFRBF (predecessor to Comrade Trustee Services Limited) as Chairman in June 2000 and served in that position until 31st December 2002, when the Board ceased to exist by operation of the Superannuation Act 2000. He was subsequently appointed to the Board upon the formation of CTSL as licensed corporate trustee to the Fund on 19th December 2002.



Mr. Alu was re-elected as the Chairman of both the Board and the Audit & Compliance Committee.

Mr. Alu has 23 years of extensive private and public sector experience and brings with him invaluable accounting experience to the Board.

Mr. Alu graduated with a degree in accounting from the PNG University of Technology in 1981 and holds a Certificate in Commercial Audits from the Darling Downs Institute of Advanced Education, Queensland, Australia.

He is also Chairman of Unitech Development & Consultancy Limited – the business arm of the University of Technology, a member of Council of the University of Technology and President of the Fellowship of Companies for Christ International, PNG Chapter. He is also involved with many charity groups and considers this as his contribution towards the less fortunate in society.

Mr. Alu is a member of the PNG Institute of Directors and was appointed pursuant to Clause 10 of the Company Constitution as an independent director.

**Colonel David L.Y. Takendu, OBE, BE (Civil), psc (Aust), psc (Indon), jssc (Aust) (Rtd.)**

Appointed to the Board of DFRBF (predecessor to Comrade Trustee Services Limited) as Deputy Chairman in June 2000 and served in that position until 31st December 2002, when the Board ceased to exist by operation of the Superannuation Act 2000. He was subsequently appointed to the Board upon the formation of CTSL as the licensed corporate trustee to the Fund on 19th December 2002.



Col Takendu joined the Australian Army, Papua New Guinea Command, in 1968 as an officer cadet and worked his way up to the rank of Colonel and held the position of Chief of Staff at the time of retirement in December 2002. He represents pensioners on the Fund Board.

He previously served on the Post and Telecommunications Board from 1990 to 1993 and more recently served as Chairman of Banora Trading Limited.

Colonel Takendu graduated from the PNG University of Technology in 1978 with a degree in Civil Engineering. During the course of his employment with the Defence Force he has also attended military staff colleges in Australia, New Zealand, Indonesia and United States notably, the Australian Staff College, Queenscliff, Victoria, in 1981, the Indonesian Military Staff College, Bandung, between 1986 and 1987, the JFK School of Government, Harvard University, Boston, Mass, USA in International Conflict Resolution Strategies, 2001 and Defence Resources Management Institute, at the US Naval Post Graduate School, Monterey, California, USA in 1991. He speaks Bahasa Indonesia fluently.

He is a member of the PNG Institute of Directors.

**Captain Alois Tom Ur, OBE (Navy)**

Appointed to the Board on 19th December 2002, Captain Tom Ur represents members of the fund on the Board.



Captain Tom Ur was appointed Chief of Staff in July 2002 and has occupied that position in the Defence Force to the present time. His primary role is to provide logistical and management support to the Commander of the PNG Defence Force.

Captain Tom Ur is a graduate of the University of PNG with a Bachelor of Commerce (Accounting) degree, a graduate Diploma in Strategic Studies from the Joint Services Staff College in Canberra and a visiting Fellow to the Royal Australian Navy's Maritime Studies Program. He also holds a graduate Certificate in Business Administration from Deakin University in Melbourne and is a member of the PNG Institute of Directors.



## Annual Report for the Year Ended 31 st December 2006

**Johnson Kalo**

Independent Director

Appointed to the Board on 7th July 2003, he is a nominee of the Bankers Association pursuant to Clause 10 of the Company Constitution. Mr. Kalo holds a degree in accounting from the PNG University of PNG.



Since his graduation in 1988, Mr. Kalo has had extensive working experience in all facets of accounting and auditing having worked with KPMG for 7 years ascending to the position of Assistant Manager at the time of leaving to take up the position of Internal Auditor with Motor Vehicles Insurance Limited in 1995. Upon the creation of Finance Pacific Limited, which eventually assumed control of MVIL and PNGBC, Mr. Kalo continued to perform accounting and auditing functions. In 2000, Mr. Kalo was appointed as Senior Accountant within the Financial Analysis Unit of the PNGBC and with the subsequent sale and merger of the bank in 2002 with Bank of South Pacific Mr. Kalo was retained as Senior Accountant and his duties expended to include new accounting and reporting challenges brought about by the merger of the two banks in the areas of integration and financial systems. In July 2006 Mr. Kalo was appointed as Chief Financial Officer to Bank South Pacific.

Mr. Kalo brings to the Board not only his accounting expertise but the added benefit of a banker's perspective to Board deliberations which will enhance corporate governance.

Mr. Kalo is an Associate Member of the PNG CPA and a member of the PNG Institute of Directors.

**Brian Hull**

Independent Director

Appointed to the Board on 7th July 2003, as a nominee of the PNG Institute of Directors pursuant to Clause 10 of the Company Constitution.



Mr. Hull served on the Board of the Bank of Papua New Guinea from October 1986 through to December 2000. Apart from Sir Henry ToRobert, Brian was the longest serving member of this board.

As Executive Chairman he founded Eda Ranu in 1996 and served in this capacity until 1998. Currently Brian Hull is Executive Chairman of Century 21 Siule Real Estate and his extensive experience in real estate and property industry

benefits the Fund significantly. This is in addition to his contribution to enhancing and strengthening corporate governance.

Brian Hull holds a Diploma from the Australian School of Pacific Administration, attended the University of Papua New Guinea and has completed various business related courses in Australia, New Zealand, Singapore, USA and Papua New Guinea. In April 2005, he participated in the inaugural International Company Directors Course conducted by the Australian Institute of Company Directors in Sydney, Australia.

Brian is currently a Fellow of the Australian Institute of Company Directors, a founding member of the PNG Institute of Directors and a founding member of the Real Estate Agents Association. He was appointed Chairman of Pacific Assurance Group in early 2006.

**Kisikiu Posman**

Independent Director

Appointed to the Board on 4th June 2004 he was nominated by the PNG Law Society pursuant to Clause 10 of the Company Constitution.



Mr. Posman graduated from the University of PNG in 1983 with a Bachelor of Law and also graduated with a Master of Law degree from the University of Ottawa, Canada in 1986.

Mr. Posman has had a varied employment history having commenced employment with Bougainville Copper Limited in 1974, then to teaching law at the University of PNG between 1983 and 1989 then to private practice. His stint in private practice started with Warner Shand Lawyers, then with Mallesons Stephen Jaques at their Sydney office for two years then with Carter Newell Lawyers in Port Moresby for a further three years.

In 1993, he left Carter Newell Lawyers to start the law firm Fiocco Posman Kua Lawyers in partnership with Messrs Rio Fiocco and Kerenga Kua. The firm has undergone significant changes since then having merged with Thirwell Aisi Lawyers and is now one of the largest national legal firms. Mr. Posman is the managing partner of the firm.

In addition to his legal background, Mr. Posman has had some prior commercial experience having served on the Boards of the Investment Corporation of PNG and Air Niugini and is also a member of Council of the Legal Training Institute, and a council member of the PNG Law Society.

Mr. Posman is a member of the PNG Law Society and the PNG Institute of Directors.

**Captain (N) Max Sundie Aleale, psc (RANC), Grad DDip SS(Canberra, DMS**

Appointed to the Board on 29 September 2006 upon the retirement of Capt R. Renagi,, Capt Aleale represents members of the Fund on the Board.



Capt Aleale was promoted on 2 May 2002 to the rank of Captain (Navy) and appointed Chief of Operations – PNG Defence Force however actually took up duties in this position on 30 June 2004. He is the principle Military Operations and Administrative adviser to the Defence Force Commander.

He is currently a member of four Senior Defence Committees and has commanded two patrol boats, a major naval base and a principle naval adviser to the Chief of Operations of the Defence Force. Captain Aleale has considerable operational, administrative and management experience.

He is a graduate of the Joint Services College, Lae, Royal Australian Naval Staff College, Sydney, Asia Pacific Centre for Security Studies, Hawaii and holds a Graduate Diploma in Strategic Studies from the Australian Defence Strategic Studies Centre in Canberra and a Fellow of the Centre.







Artist impression of Latitude 9 Apartments - one of the Fund's Investment Properties to be completed in August 2007.

## Growing and protecting member's retirement nest egg through prudent investments

### Built on our corporate values of

Honesty, integrity  
and mutual respect

Our pursuit  
of excellence

Accountability

Transparency

## Annual Report for the Year Ended 31 st December 2006

### Corporate Governance Disclosure Statement

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 frauds 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

Comrade Trustee Services Limited (CTSL) is the successor in law to the DFRBF Board and has been approved by the Bank of Papua New Guinea (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 as follows:-

<i>Name of Shareholder</i>	<i>Class of Shares</i>	<i>No of Shares</i>	<i>Value</i>	<i>Special Notes</i>
Commodore Peter Ilau, CBE	Ordinary	1	K1.00	Share held in trust for members
Chris Alu	Ordinary	1	K1.00	Share held in trust for members
Col D.Takendu, OBE (Ret)	Ordinary	1	K1.00	Share held in trust for members
Capt Max Aleale, DMS	Ordinary	1	K1.00	Share held in trust for membes
Capt Tom Ur, OBE	Ordinary	1	K1.00	Share held in trust for members
Total		5	K5.00	

The rights attaching to these shares are set out in the Constitution of the Company and in certain circumstances, are regulated by the Companies Act 1997 and the Superannuation Act 2000. There is only one class of shares and all shares have equal rights.

Each share holder is entitled to receive notice of, and to attend and vote at general meetings of the company and to receive all notices, accounts and other documents required to be sent to shareholders under the company's Constitution, the Companies Act and the Superannuation Act.

### The Board

Comrade Trustee Services Limited is managed under the direction of the Board of Directors. The Board has the ultimate legal responsibility for the prudent management of the Fund, and subject to the requirements of the Superannuation Act 2000 and the governing rules of the Fund has the power, authority and discretion generally to do all such acts as it considers necessary or expedient for the sound management, maintenance, investment and preservation of the Fund.



## Annual Report for the Year Ended 31 st December 2006

The Board comprises of seven Directors, three of whom represent members of the Fund and four independent Directors. Strict appointments criteria, including a “fit and proper” test ensures that persons appointed to the Board are legally eligible and possess skills, knowledge, experience or expertise in the management of commercial entities and whose inclusion on the board will add value and enhance corporate governance. Board appointments are subject to Bank of Papua New Guinea approval. Directors hold office for a term of three years at the expiry of which they are eligible to nominate for re-election up to a maximum of three terms subject however to any restrictions contained in the Company Constitution and Central Bank approval. During the year the following Directors retired and being eligible offered themselves for reappointment for a further term.

Captain Alois Tom Ur, OBE

2nd January 2006

Brian Hull

7th July 2006

Johnson Kalo

7th July 2006

All Board and Committee meetings are convened in Port Moresby and therefore members of the Board must be residents of the National Capital District.

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 twelve months to 31st December 2005 are as follows:-

Name of Director	Fee Received*	Board Status	Date of Appointment/ Cessation	Attendance of Meetings		
				Board	Audit Committee	Appointments Committee
Chris Alu (Chairman)	K30,000	Current	19/12/05	4/4	3/3	-
Col D.Takendu, OBE (Ret)	K19,715	Current	19/12/05	3/4	-	2/2
Capt (N) Max Aleale, DMS	K 2,500	Appointed	29/09/06	0/4	-	0/2
Capt (N) Tom Ur, OBE	K21,294	Reappointed	02/01/06	3/4	3/3	-
Brian Hull	K22,153	Reappointed	07/07/06	4/4	-	2/2
Johnson Kalo	K18,600	Reappointed	07/07/06	2/4	2/3	-
Kisakiu Posman	K21,075	Current	04/06/04	3/4	2/3	0/2

\* Fees shown above are before tax

The Board complied with its approved Calendar of meetings planed for the year. The Board formally met four times during the year and the two Committees (Audit & Compliance and Appointments & Remuneration Committees) each met two and three times respectively.

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, thus ensuing informed decisions are made for the ultimate benefit of the Fund.

### Audit & Compliance Committee

The Committee met three times during the year. The role of the Committee includes review of the Fund's financial statements, review of audit reports, review of the company's accounting policies, review of internal control systems and procedures including risk assessment and management strategies, tenders, annual budgets, investment policy and guidelines and related matters. Members of the Audit Committee at the date of this report are:-

Chris Alu	-	Chairman
Captain Tom Ur	-	Member
Johnson Kalo	-	Member
Kisakiu Posman	-	Member

## Annual Report for the Year Ended 31 st December 2006

### Appointments & Remuneration Committee

The Committee met two times 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 executive management, review of salary and remuneration including terms of employment of senior management and related matters. Members of the Appointments & Remuneration Committee at the date of this report are:-

Colonel David L.Y.Takendu, OBE (Ret)	-	Chairman
Brian Hull	-	Member
Kisakiu Posman	-	Member
Captain Max Aleale	-	Member

### External Board Positions

As at 31st December 2006, the following external Board positions were held by Directors and employees of CTSL.

Name	Position	Company
Chris Alu	Chairman	Unitech Development & Consultancy Ltd
	Member	University of Technology Council
Col David Takendu, OBE (Ret)	Director/Chairman	Banora Trading Limited
Brian Hull	Executive Chairman	Century 21, Siule Real Estate
	Chairman	Hunter Ltd
	Chairman	Pacific Assurance Group
Kisakiu Posman	Director	Banora Trading Limited
George Uware	Director	Banora Trading Limited
George Uware	Director	Hunter Limited
Richard Sinamoi	Director	Hunter Limited
Richard Sinamoi	Director	Pacific Capital Ltd

Employees of the company appointed to the Boards of subsidiary companies are not paid any fees.

### 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 recognizes 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 delegated to and performed by Kina Investment & Superannuation Services Limited (KISSL) in compliance with the Superannuation Act 2000. The engagement of KISSL is for a term of three years which expired on 31st December 2005 and Board having been satisfied with their performance resolved to extend their engagement for a further three year term commencing 1st January 2006. At least three months prior to the expiry of contract, further engagement will be determined in accordance with the terms of the contract and failing this by tender.

### Investment Management

The investment management function is delegated to and performed by Kina Funds Management Limited (KFML) in compliance with the Superannuation Act 2000. The engagement of KFML is for a term of three years which expired on 31st December 2005 and the Board having been satisfied with their performance resolved to reappoint them for a further term commencing on 1st January 2006. At least three months prior to the expiry of the contract further engagement will be determined in accordance with the terms of the contract and failing this by tender.



## Annual Report for the Year Ended 31 st December 2006

The 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.

The Fund's investment objective is to maximize returns over the medium to long term at low to moderate risk levels.

**Employee Remuneration**

During the year, the number of employees or former employees (not being Directors of the company) who received remuneration and other benefits in excess of K100,000 per annum from the company stated in bands of K10,000 and those in excess of K200,000 in bands of K50,000 are:-

	2004	2005	2006
K101,000 – K110,000	1	-	-
K111,000 – K120,000	-	-	-
K121,000 – K130,000	-	-	-
K131,000 – K140,000	-	1	-
K141,000 – K150,000	1	-	-
K151,000 – K160,000	-	-	-
K161,000 – K170,000	-	-	-
K171,000 – K180,000	-	-	-
K181,000 – K190,000	-	1	-
K191,000 – K200,000	-	-	-
K201,000 – K250,000	-	-	-
K251,000 – K300,000	-	-	-
K301,000 – K350,000	-	-	1
K351,000 – K400,000	-	-	1

The above amounts exclude performance bonus (if any) paid to employees during the year upon attainment of predetermined performance benchmarks. No bonus was paid during the year (2005 – K162,286).

**Regulatory Supervision by Bank of Papua New Guinea**

As part of the Bank of Papua New Guinea's regulatory supervision of the superannuation industry, the bank undertakes from time to time an independent audit of the Fund in addition to the independent financial audits undertaken by an auditor. The audit 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. The last review of the Fund was undertaken in May 2006.

**Independent Auditor**

Prior to 1st January 2005, the statutory audit of the Fund was undertaken by the Auditor General. Since 2005, the Trustee has engaged an independent professional auditor to undertake the audit of the Fund. The auditor's appointment is for 12 months at the expiry of which further engagement is determined by closed tender. To ensure independence and avoid conflicts of interest the auditor is prohibited from any accounting assignments or valuation of Fund assets and liabilities. In addition the Trustee has adopted a policy which allows the rotation of the auditor every three years. The current independent auditor is Deloitte Touche Tohmatsu. Fees paid to the auditor are summarized as follows:

Auditor	2003	2004	2005	2006
Auditor General	K80,000	K80,000	-	-
Deloitte Touche Tohmatsu	-	-	K93,000	K117,664

## Annual Report for the Year Ended 31 st December 2006

### 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 and also to assist identifying adverse deviation and take corrective action.

The MER is determined by taking the sum of all expenses (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.

Year	2002	2003	2004	2005	2006
Management expense ratio	3.73%	2.88%	2.39%	1.99%	1.94%



### 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 twenty one staff employed by the company during the year (21 – 2005).

### Investment transactions (excluding cash and treasury notes)

Name of Entity	Transaction Type	Classification	Settlement Date	Number of Shares	Amount
Bank South Pacific	Share sale	Equity	Various	(1,205,167,)	(K4,110,986)
Oil Search	Share purchase	Equity	18-Jan-06	100,000	K851,957
Ramu Sugar Ltd	Share sale	Equity	30-Jan-2006	(111,111)	(K275,555)
Highlands Pacific Ltd	Share purchase	Equity	08-Mar-06	750,000	K1,147,500
Durban Rooderpoort Deep Ltd	Share sale	Equity	Various dates	(70,000)	(K141,050)
Bank South Pacific	DRP	Equity	21-Jul-06	733,024	K2,360,703
River City Motorway Group	Share purchase	Equity	24-Jul-06	400,000	K432,713
Telstra 3	Share purchase	Equity	30-Oct-06	200,000	K895,587
Macquarie Media Group	Share purchase	Equity	3-Nov-06	75,000	K348,796
Ramu Sugar	Share sale	Equity	27-Dec-06	(100,000)	(K300,000)
ABN AMRO Morgan Trust	Unit purchase	Infrastructure trust	27-Dec-06	5,000	K1,105,705
Covec	Property construction	Property	Various dates	-	K5,000,000

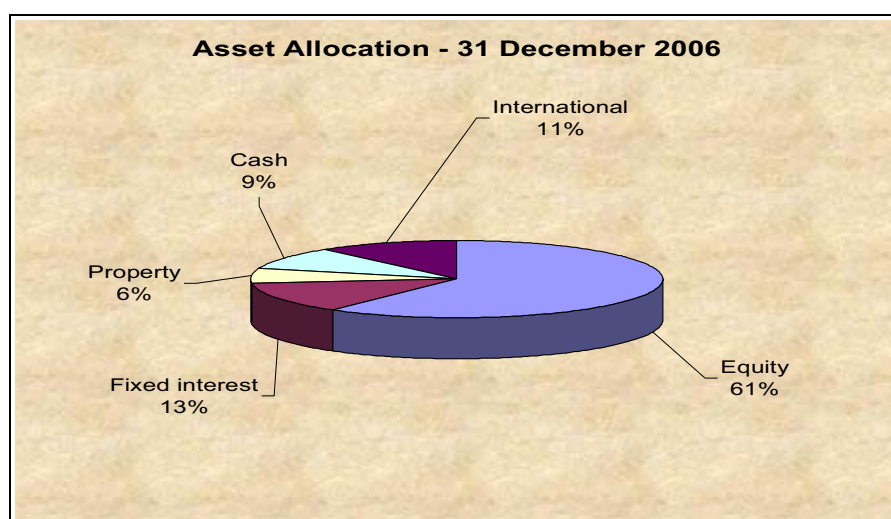


Annual Report for the Year Ended 31 st December 2006

**Investment Performance Highlights**

The composition of the investment portfolio and asset allocation as at 31st December 2006 relative to the prior year is summarized as follows:

Asset Classification	Portfolio Value (Kina)		Percentage Holdings		Neutral Allocation %	Sector Range (%) Low - High
	31- Dec-06	31-Dec-05	31-Dec-06	31-Dec-05	31- Dec-06	31-Dec-06
Cash	17,353,500	13,933,330	9.38%	8.44%	5%	0-10%
Fixed interest	24,044,607	39,383,062	12.99%	23.85%	15%	10-30%
Equity	111,669,262	95,755,029	60.34%	58.00%	50%	40-60%
Property	11,494,293	5,771,992	6.21%	3.50%	10%	5-20%
International	20,498,431	10,252,076	11.08%	6.21%	20%	10-30%
<b>TOTAL</b>	<b>185,060,093</b>	<b>165,095,489</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100%</b>	



**Valuation methodology**

The valuation methodology adopted by the Trustee is as follows:-

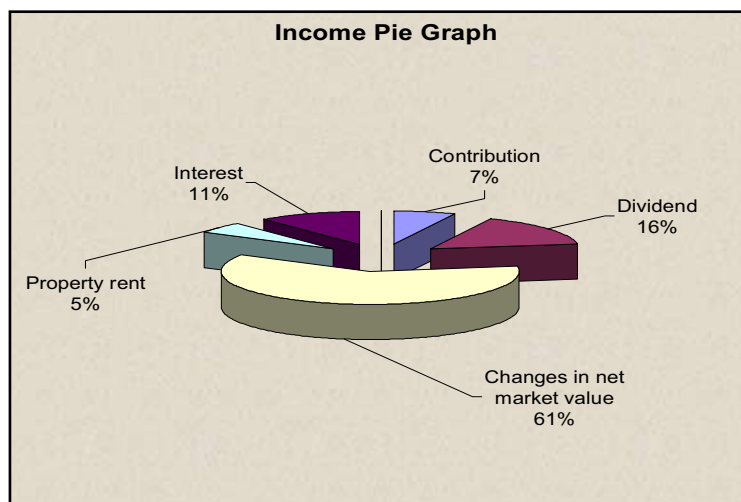
- Listed equities - Closing market price as quoted by the relevant stock exchange at balance date
- Unlisted equities - Price as determined by independent professional valuation
- Property - Value as determined by a registered property valuer & undertaken every year
- Government securities - At purchase price/face value

Annual Report for the Year Ended 31 st December 2006

## Summary of Key Results -2006

	2006	2005	Variance
• Total income	K29,520,904	K65,061,863	-K35,540,959
• Net profit (after tax)	K14,145,014	K54,402,468	-K40,257,454
• Total Fund net assets	K180,781,667	K166,636,653	+K14,145,014
• Fund Growth (%)	8.49%	48.48%	-39.99%
• Total benefits paid (net)	K8,573,818	K7,693,471	+K880,347
• Interest crediting rate	5%	5%	0%
• CPI indexation rate*	TBA	0%	0%
• MER	1.94%	1.99%	-0.05%

\* Note: Last CPI indexation of 7% approved in 2004 for 3 years ended 31 December 2003.

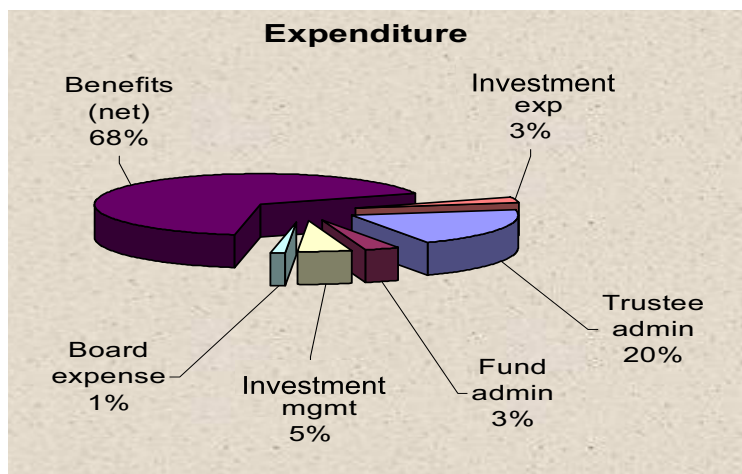


### Income Summary (Kina)

• Interest	K 3,302,725
• Sundry	K 18,101
• Contribution	K 1,928,143
• Dividend	K 4,702,448
• Property rent	K 1,584,958
• Changes in net market value	K17,984,529
<b>Total Income</b>	<b>K29,520,904</b>

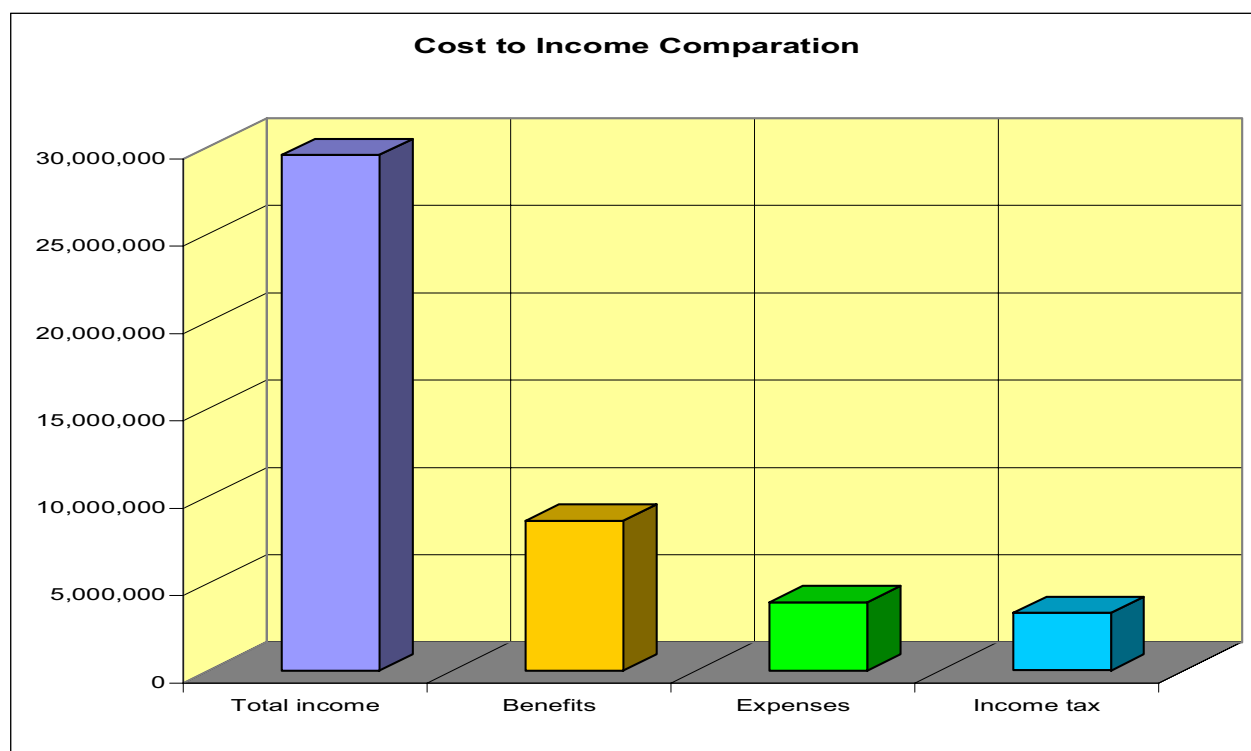


Annual Report for the Year Ended 31 st December 2006



**Expenditure (Kina)**

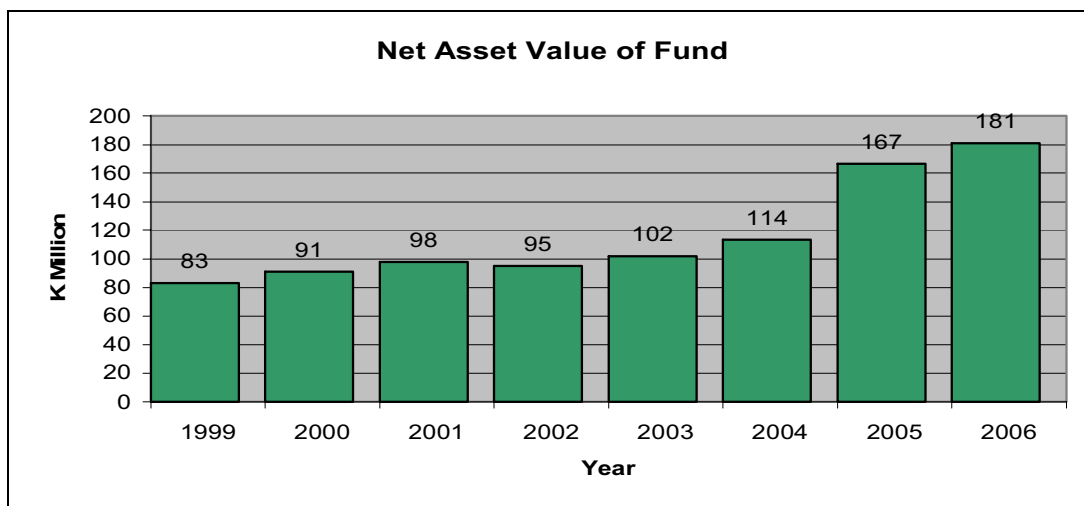
• Trustee admin	K 2,610,776
• Fund admin	K 418,775
• Investment	K 690,206
• Board exp	K 191,964
• Benefits (net)	K 8,573,818
• Investment exp	K -404,752
<hr/>	
Total Expense	K 12,080,787
<hr/>	



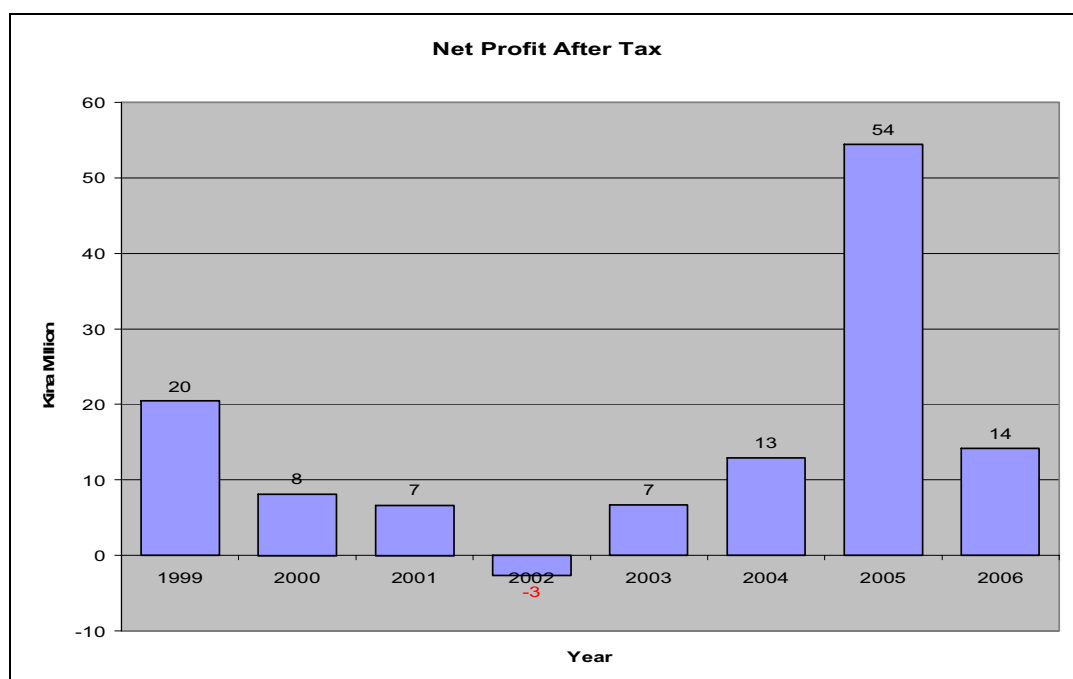
The cost to income ratio is 29.76 (2005 - 16.38%), however the trustees are confident that with improved financial discipline and greater cost efficiencies coupled with a sustained growth in investment income of at least 10% per annum this ratio is expected to reduce further to levels comparable with industry standards.

Annual Report for the Year Ended 31 st December 2006

## Fund Highlights at a Glance



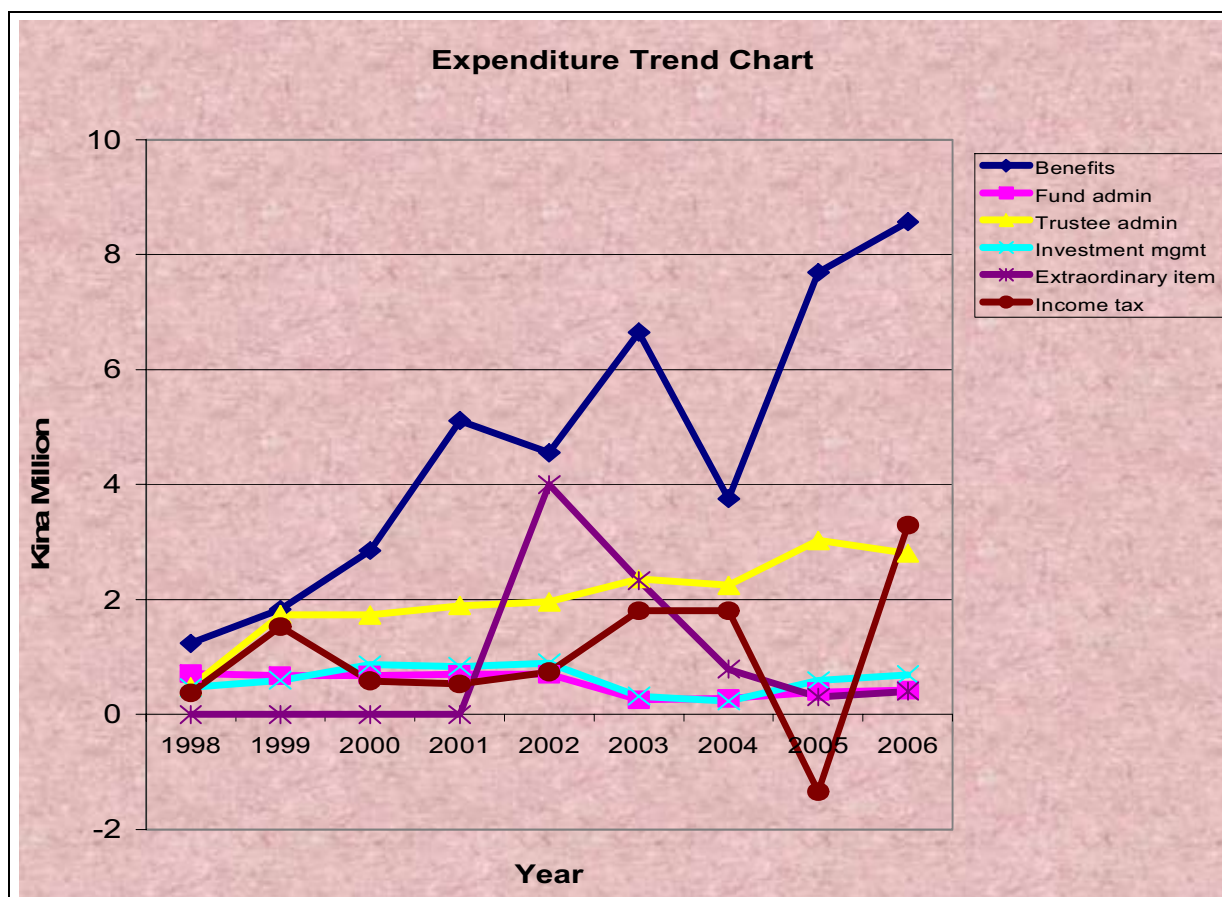
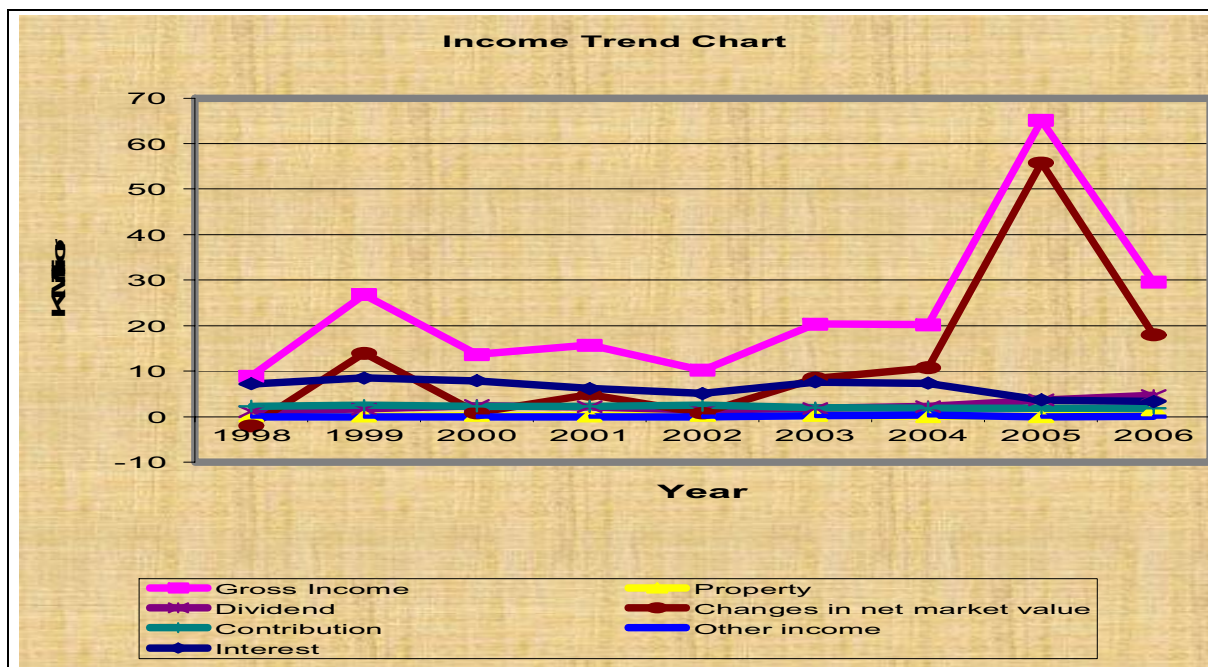
The above bar graph shows that the fund has grown steadily from K83.0 million in 1999 to K180,781,667 as at 31st December 2006. This represents an incredible growth in the net asset value of the fund by 167% since 1998. Your trustees are confident that with prudent and diligent management such growth can be sustained and therefore assuring members financial security at retirement.



Except for 2005 when the fund posted a record net profit in excess of K54.0 million and 2002 when a loss of approximately K3.0 million was sustained the above graph illustrates that overall, net profit after tax has steadily grown during the 8 year period under review and from current projections it is forecast to continue at present trend for the immediate to medium term. The trustees are confident that with careful and prudent management, fund profitability is forecast to grow.



Annual Report for the Year Ended 31 st December 2006



Financial Statements for the Year Ended 31 st December 2006

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Annual Report for the Year Ended 31st December 2006

## Declaration by the Trustees

In our opinion the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flow and Notes to the financial statements for the year ended 31st December 2006 have been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

- a) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- b) no circumstances have arisen which would render any amount in the 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.

Dated at Port Moresby this 30th day of March 2007.

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



Chris Alu  
Chairman of the Board of Trustee



Captain (N) Alois Tom Ur  
Director


## Declaration by Management

In our opinion the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flow and Notes to the financial statements for the year ended 31st December 2006 have been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

- a) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- b) no circumstances have arisen which would render any amount in the 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.

Dated at Port Moresby this 30th day of March 2007.

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



George B. Uware  
Chief Executive Officer



Richard Sinamoi  
General Manager



## Independent audit report to the members of Comrade Trustee Services Limited

### Scope

We have audited the accompanying financial statements of Comrade Trustee Services Limited, which comprise the statement of net assets as at 31 December 2006, the statement of changes in net assets and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes in order to express an opinion on them to the members of the company.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing and implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Audit Opinion

In our opinion, the financial statements of Comrade Trustee Services Limited are drawn up as required by the Companies Act, 1997 so as to give a true and fair view of the company's affairs as at 31 December 2006, and of the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice (which requires, amongst other things, compliance with International Financial Reporting Standards and Statements of Accounting Standards of the Certified Practising Accountants of Papua New Guinea) and other statutory requirements.

### Other Information

In addition to providing auditing services, we also provide Comrade Trustee Services Limited with tax agency services.

Port Moresby, this 30th day of March 2007.

A handwritten signature in dark ink, appearing to read "Suzaan".

By: Suzaan Theron  
Partner

Registered under the Accountants Act 1996

A handwritten signature in dark ink, appearing to read "Deloitte Touche Tohmatsu".



Financial Statements for the Year Ended 31 st December 2006

## STATEMENT OF CHANGES IN NET ASSETS

	Note	2006 Kina	2005 Kina
<b>REVENUE</b>			
<b>Investment income</b>			
• Interest income	6	3,302,725	3,688,479
• Property income	7	1,584,958	47,987
• Dividends	8	4,702,448	3,652,700
• Gains from changes in fair values & sale of			
Investment securities available-for-sale	21	17,984,529	55,769,471
		<u>27,574,660</u>	<u>63,158,637</u>
<b>Other income</b>	9	18,101	-
<b>Contribution income</b>			
• Contributions received from members		1,928,143	1,903,226
		<u></u>	<u></u>
<b>TOTAL</b>		29,520,904	65,061,863
<b>EXPENDITURE</b>			
<b>Benefits &amp; general administration</b>			
• Benefits (net)	10	8,573,818	7,693,471
• Fund investment & administration expenses	11	1,108,981	983,924
• Management expenses	13	2,802,740	3,024,513
		<u>12,485,539</u>	<u>11,701,908</u>
<b>Direct investment expenses</b>			
• Impairment losses	12	(404,752)	74,225
• Property valuation decrement	23	-	230,124
		<u>(404,752)</u>	<u>304,349</u>
<b>TOTAL</b>		<u>12,080,787</u>	<u>12,006,257</u>
<b>CHANGES IN NET ASSETS BEFORE TAX</b>		<u>17,440,117</u>	<u>52,055,606</u>
Income tax benefit/(expense)	16	(3,295,103)	1,346,862
<b>CHANGES IN NET ASSETS AFTER TAX</b>		<u>14,145,014</u>	<u>54,402,468</u>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE BEGINNING OF THE PERIOD</b>		<u>166,636,653</u>	<u>112,234,185</u>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE PERIOD</b>		<u>180,781,667</u> =====	<u>166,636,653</u> =====

The notes on pages 6 to 27 are an integral part of these financial statements.

Financial Statements for the Year Ended 31 st December 2006

## STATEMENT OF NET ASSETS

	Note	2006 Kina	2005 Kina
<b>ASSETS</b>			
• Cash and due from other banks	17	25,154,209	15,924,238
• Treasury bills	18	3,140,428	8,771,509
• Loans to members and others	19	1,552,631	9,052,379
• Current income tax receivable	27	786,533	661,315
• Deferred income tax assets	20	282,772	1,814,699
• Investment securities available-for-sale	21	123,179,529	103,074,363
• Investment securities held-to-maturity	22	19,980,346	21,559,174
• Investment properties	23	12,669,934	6,713,826
• Property and equipment	24	435,495	582,154
• Other assets	25	2,607,717	1,604,951
<b>TOTAL</b>		<b>189,789,594</b>	<b>169,758,608</b>
<b>LIABILITIES</b>			
• Employee provisions	26	270,465	121,897
• Deferred income tax liabilities	20(c)	1,753,850	321,070
• Other liabilities	28	6,983,612	2,678,988
<b>TOTAL</b>		<b>9,007,927</b>	<b>3,121,955</b>
<b>NET ASSETS</b>		<b>180,781,667</b> =====	<b>166,636,653</b> =====

The notes on pages 6 to 27 are an integral part of these financial statements.

Financial Statements for the Year Ended 31 st December 2006

**STATEMENT OF CASH FLOW**

	Note Kina	2006 Kina	2005
Cash flow from operating activities			
• Interest received	-	3,515,865	3,813,178
• Dividend received	-	4,493,633	3,652,700
• Property income received	-	526,048	346,777
• Other operating income received	9	18,101	-
• Cash payment to employees and suppliers	-	(2,598,860)	(3,000,228)
• Income tax paid	27	(455,613)	(1,152,018)
		<hr/> 5,499,173	<hr/> 3,660,409
Cash flows from operating profits before changes in operating assets and liabilities			
• Changes in operating assets and liabilities			
- Net decrease in loans to members and others	-	7,501,249	448,289
- Net decrease (increase) in other assets	-	11,387	50,843
- Net increase in other liabilities	-	(166,156)	346,669
		<hr/> 12,845,653	<hr/> 4,506,210
Net Cash provided by operating activities			
Cash flows from investing activities			
• Placement of term deposits (net)	-	(4,015)	114,073
• Placement of treasury bills (net)	-	5,631,081	(7,793,409)
• Purchase of investment securities held-to-maturity	-	(10,820,787)	(5,359,102)
• Proceeds on maturity of investment securities held-to-maturity	-	12,059,269	3,000,000-
• Purchase of property and equipment	14	(33,405)	(137,378)
• Proceeds from disposal of property and equipment	-	-	-
• Purchase of investment properties	-	(4,866,938)	(602,353)
• Proceeds from sale of investment properties	-	-	372,0043
• Purchase of securities	13	(7,274,997)	(16,291,374)
• Proceeds from sale of securities	13	5,154,359	21,571,799
		<hr/> (155,433)	<hr/> (5,125,739)
Net Cash used in investing activities			
Cash flows from activities with contributors			
• Contributions received from contributors	-	1,928,143	1,903,226
• Benefits paid (including state share)	10	(20,953,241)	(19,219,496)
		<hr/> (19,025,098)	<hr/> (17,219,496)
Net Cash used in activities with contributors			
Cash from activities with the State			
• Cash receipt of state share (benefits)	-	15,560,831	8,707,252
		<hr/> 9,225,954	<hr/> (9,131,772)
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of period	17	15,258,313	24,390,085
		<hr/>	<hr/>
Cash and cash equivalents at end of period	17	24,484,267	15,258,311
		<hr/> <hr/>	<hr/> <hr/>

The notes on page 6 to 27 are an integral part of these financial statements



Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

### I. Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and available-for-sale of financial assets held at fair value through profit and loss.

In accordance with the Board's policy, the Fund's investment should be revalued annually. An exception is shares, which are adjusted annually to market prices at year-end.

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 5.

#### (b) Recognition of income

Income is recognised on an accrual basis except dividend and interest income from Member Housing Assistant ("MHA") and Tertiary Education Assistant ("TEA") are brought to account when received. Prior to 2000, the interest income from MHA was deducted from the member entitlement when they were discharge from the force. However, after 2000, this interest is deducted from the loan once the loan has been released. The interest from TEA is recognised once the loan has been released.

Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection, such as when overdue by more than 30 days, or, when the borrower defaults, if earlier than 30 days. Such income is excluded from interest income until received.

Contributions from members are brought into account, as income when receivable.

Pension payment, lump sums, refund of contributions and related government contributions are brought to account as they become payable. Accrual of benefit liabilities are based on the history of payment.

Changes in net market value of investments are recognised as income in the Statement of Changes in Net Assets in the periods in which they occur. Changes in net market values are determined as the difference between the net market value at balance date or consideration received (if sold during the year) and the net market value at the previous balance date or the cost (if the investment was acquired during the year).

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

(c) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available, against which the temporary differences can be recognised.

Income tax payable on profits based on the applicable tax laws in each jurisdiction is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be recognised.

(d) Property, plant, and equipment and depreciation

Property, plant and equipment is 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:

	Used in Operations	Investment Properties
Land and buildings	Nil	Nil
Furniture and fittings	15%	11.25% to 30%
Plant and equipment	Nil	15% to 30%
Motor vehicle	30%	Nil
Office equipment	20%	Nil
Renovation	10%	Nil
Software	33%	Nil

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

Profits and 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 income statement when the expenditure is incurred.

(e) Financial assets

The Fund classified its investment securities into two categories: available-for-sale and held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices are classified as available-for-sale.

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

Investments are valued as at 31 December 2006 as follows:

- i. Listed shares are valued at 31 December 2006 at last sale price on that date. Off-shore investments are converted using the ANZ Bank exchange rate.
- ii. Unlisted shares are independently valued as at 31 December 2006 as adopted by the Board. This valuation was performed by KPMG as an independent professional valuer. The main factor used in the analysis was a combination of maintainable earnings, dividend yields and discounted cash flows of assets, as appropriate.
- iii. Land and buildings are valued at 31 December 2006. This valuation was performed by registered valuer, The Professional Valuer of PNG Limited, Ashton Brunswick and McCann Property and Planning. The valuation reports indicate that few methods have been considered for the valuation process and includes: capitalization method, summation method and discounted cash flow method.
- iv. The net movement on revaluation is reflected in the income statement

Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income statement in the period in which they arise.

Held-to-maturity investments are non derivatives financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold-to-maturity. Were the Fund to sell other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using effective interest rate method.

Interest calculated using the effective interest method is recognised in the income statement.

(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 recognised 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 are determinable by reference 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 amounts due from other banks.

(h) Foreign currency



Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

i. 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.

ii. 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 recognised in the income statement.

(i) Changes in accounting policies and comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation and accounting policies in the current year. There have been no changes to accounting policy in year 2006

### 2. OPERATION OF THE FUND

The Fund was established under the Defence Force Retirement Benefit Fund Act, Chapter 79 (DFRBF Act), however as of 1st January 2003 it is recognized as being established pursuant to Section 8 of the Superannuation (General Provisions) Act 2002 with the repeal of Section 17 of the DFRB Act (provision through which the Fund was initially established) on 31st December 2002.

The Fund is a defined benefit fund and 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.

### 3. FUNDING ARRANGEMENTS

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 employer contribution is 60% of pension benefits or resignation benefits calculated based on a formula provided in the DFRBF Act.

### 4. LIABILITY FOR ACCRUED BENEFITS

The liability for accrued benefits for Defined Benefit Division 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 undertook the valuation of accrued benefits for Defined Benefit as part of an actuarial review dated 31 December 2004. Accrued benefits were previously valued as part of a comprehensive review undertaken as at 31 December 2003.

	31 Dec 04 Kina	31 Dec 03 Kina
Liability for accrued benefits	37,565,000 =====	33,570,000 =====
Net assets available to pay benefits	79,016,000 =====	66,916,000 =====

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

### 5. 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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### Allowances for losses

	Note	2006 Kina	2005 Kina
Other assets			
- Accrued interest		27,937	434,722
- Security deposits	-	18,690	
- Advances (corporate)	-	205,251	
- Other	-	288,513	
Total	25	<u>27,937</u>	<u>947,176</u>
		=====	=====
Loan and advances	19	248,747	250,249
		=====	=====

Financial Statements for the Year Ended 31 st December 2006

**NOTES TO THE FINANCIAL STATEMENTS**

	Note	2006 Kina	2005 Kina
Investment securities available for sale			
Unlisted shares			
- Cost		6,501,519	5,776,132
- Gains from changes in fair values		15,043,323	10,316,871
<b>Total</b>	<b>21</b>	<b>21,544,756</b> =====	<b>16,093,003</b> =====
Listed shares			
- Cost		27,575,731	22,465,061
- Gains from changes in fair values		74,059,043	64,516,299
<b>Total</b>	<b>21</b>	<b>101,634,774</b> =====	<b>86,981,360</b> =====

During the year the Fund recognized gains from changes in fair values (note 21) amounted to K13,888,791 due to significant increase of fair values of listed shares.

**6. Interest income**

Cash and short term funds		854,405	194,799
Loans and advances	25	400,643	976,950
Treasury bills	25	229,660	393,830
Investment securities			
- Available-for-sale	25	114,897	141,720
- Held-to-maturity		1,703,182	1,981,178
<b>Total</b>		<b>3,302,725</b> =====	<b>3,688,479</b> =====

**7. Property income**

Rental income		853,710	613,934
Less: Impairment losses	25	-	(8,867)
Loss on disposal		-	(258,255)
Depreciation	23	(30,488)	(29,275)
Other management expenses		(357,920)	(269,550)
Valuation increment		1,119,657	0
<b>Total</b>		<b>1,584,958</b> =====	<b>47,987</b> =====



Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006 Kina	2005 Kina
8. Dividend income			
Available-for-sale securities		4,702,448	3,652,200
Total		<u>4,702,448</u> =====	<u>3,652,200</u> =====
9. Other operating income			
Commission		14,609	0
Others		3,492	0
Total		<u>18,101</u> =====	<u>0</u> =====
10. Benefits (net)			
Pension and back pension		9,119,155	6,116,839
Refunds		244,312	713,834
Gratuities		6,990	20,784
Death claims		0	10,144
Lump sum		11,582,784	12,261,121
		<u>20,953,241</u>	<u>19,122,722</u>
Less: State share		12,379,423	11,429,251
Total		<u>8,573,818</u> =====	<u>7,693,471</u> =====
11. Management fees			
Fund administration fee		411,328	386,921
Investment management fee		690,206	590,188
Benefits payment fee		7,447	6,815
Total		<u>1,108,981</u> =====	<u>983,924</u> =====

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006 Kina	2005 Kina
12. Impairment losses			
Other assets	25	404,752	74,225
Total		<u>404,752</u> =====	<u>74,225</u> =====
13. Other operating expenses			
Staff expenses	14	1,226,311	1,003,098
Administration expenses	15	813,484	962,710
Depreciation	24	180,065	170,917
Software cost		2,226	10,095
Operating lease		138,267	175,010
Loss from foreign exchange of due to other banks		199,725	508,120
Other		242,662	194,563
Total		<u>2,802,740</u> =====	<u>3,024,513</u> =====
14. Staff costs			
Salaries and wages		755,819	694,749
Superannuation contributions		56,929	23,630
Staff accommodation		264,316	146,730
Travel and accommodation		26,498	54,054
Other		122,748	83,935
Total 13		<u>1,226,311</u> =====	<u>1,003,098</u> =====

As at 31 December 2006 the Fund had 21 employees (2005 – 21).

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006 Kina	2005 Kina
<b>15. Administrative expenses</b>			
Advertising		37,351	23,933
Board of Trustee expenses		191,964	112,430
Internet service provider		25,061	29,569
License fee		707	383,233
Printing and stationery		107,222	57,831
Professional fees			
- Audit		117,664	93,484
- Legal		98,762	71,386
- Commission of Inquiry		0	(5,000)
Telephone		48,022	39,463
Other		186,731	32,982
Total	13	<u>813,484</u> =====	<u>961,710</u> =====

## 16. Income taxes benefit/(expenses)

The tax on the Fund's profit before tax differs from the amount calculated on the operating profit. The differences are reconciled as follows:

Profit before tax		17,440,117	53,055,606
Prima facie tax at 25%		<u>4,360,029</u>	<u>(13,263,902)</u>
Tax effect of permanent differences		(2,984,179)	14,610,764
Deferred taxes - prior year adjustment		1,439,236	0
Prior year adjustments		480,017	0
<b>Total</b>		<u><b>3,295,103</b></u> =====	<u><b>1,346,862</b></u> =====
Represented by:			
Deferred tax	20	2,964,713	1,326,862
Deferred tax	27	330,390	0
<b>Total</b>		<u><b>3,295,103</b></u> =====	<u><b>1,326,862</b></u> =====



Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006 Kina	2005 Kina
<b>17. Cash and due from other banks</b>			
Cash on hand		700	700
Loans and advances to other banks		677,971	316,613
Placement with other banks – less than 90 days		23,805,596	14,940,998
Included in cash and cash equivalents	29	24,484,267	15,258,311
Placement with other banks – more than 90 days		669,942	665,927
Total		<u>25,154,209</u>	<u>15,924,238</u>
<b>18. Treasury bills</b>			
Less than 90 days (included in cash & cash equivalents)		0	0
More than 90 days		3,140,428	8,771,509
Total		<u>3,140,428</u>	<u>8,771,509</u>
Treasury bills are debt securities issued by the Bank of Papua New Guinea for a term of one month, two months, three months, and six months. Bills are categorized as assets held for trading and carried at their fair value.			
<b>19. Loans to members and others</b>			
Members		782,445	740,510
Others			
- State share		80,187	2,623,371
- Burns Peak & Waigani Drive project	0	5,000,000	
- Hunter Limited		690,000	690,000
- Hombrum Piggery Limited		248,747	248,747
Gross loan and advances		<u>1,801,379</u>	<u>9,302,628</u>
Less specific allowances for losses	5 & 12	248,747	250,249
Total		<u>1,552,631</u>	<u>9,052,379</u>

Loans are fixed rates.

The aggregate amount of non-performing loans on which interest was not being accrued amounted to K690,000 as at 31 December 2006 (K690,000 at 31/12/05).

Financial Statements for the Year Ended 31<sup>st</sup> December 2006

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006 Kina	2005 Kina
<b>20. Deferred income taxes</b>			
Deferred income taxes are calculated on all temporary differences under liability method using an effective tax rate of 25% (31/12/04 - 25%).			
a) Deferred income tax assets are attributable to the following items:			
Depreciation		95,801	107,684
Accrual of audit fees		50,184	45,206
Allowances for losses			
- Loans to members and others		62,187	62,562
- Other assets		6,984	236,794
Employee provisions		67,616	30,474
Tax losses	0	1,224,833	
Gains from foreign exchange of due from other banks	0	107,147	
Total	20(c)	282,772	1,814,700
		=====	=====
b) Deferred income tax liabilities are attributable to the following items:			
Rent receivable		665	57,215
Interest receivable		276,472	244,670
Prepayments insurance		11,818	19,185
Gains from foreign exchange of valuation due from other banks		26,761	0
Depreciation (Differences between tax & carrying values)		1,438,139	0
Total	20(c)	1,753,855	321,070
		=====	=====
c) The movement on deferred income tax account is as follows:			
Balance at beginning of year		1,493,630	146,768
Income statement credit	20(d)	(2,964,713)	1,346,862
Balance at end of year		(1,471,083)	1,493,630
		=====	=====
Represented by:			
Deferred income tax assets	20(a)	282,772	1,814,700
Deferred income tax liabilities	20(b)	(1,753,855)	(321,070)
Total		1,471,083	1,493,630

Financial Statements for the Year Ended 31 st December 2006

**NOTES TO THE FINANCIAL STATEMENTS**

	<b>Note</b>	<b>2006 Kina</b>	<b>2005 Kina</b>
d) The deferred tax charges/(credits) in the income statement comprises the following temporary differences:			
Temporary differences on investment properties		1,438,060	0
Depreciation		(2,772)	(24,870)
Accrual of audit fee		(4,978)	2
Allowance for losses			
- Loans to members and others		375	0
- Other assets		229,810	(20,772)
Tax losses		1,224,833	(1,224,833)
Gains from foreign exchange of due from other banks		133,908	(107,147)
Rent receivable		(56,550)	(124,043)
Interest receivable		31,802	175,229
Prepayment insurance		7,367	10,046
Employee provision		(37,142)	(30,474)
Total	20(c) & 16	<u>(2,964,713)</u> =====	<u>(1,346,862)</u> =====

**21. Investment securities available-for-sale**

Equity securities at fair value			
- Unlisted	5	21,544,756	86,981,360
- Listed	5	101,634,774	16,093,003
Total		<u>123,179,529</u> =====	<u>103,074,363</u> =====

The movement in investment securities available-for-sale:

Balance at beginning of year		103,074,363	52,585,315
Gains from change in fair value		13,888,791	40,937,338
Purchases		7,274,997	16,291,374
Disposals		(5,154,359)	(21,571,797)
Gains on sale		4,095,738	14,832,133
Balance at end of year		<u>123,179,529</u> =====	<u>103,047,363</u> =====



Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006 Kina	2005 Kina
The movement in specific allowance for losses:			
Balance at beginning of year		0	899,492
Written-off during the year as uncollectible		0	(899,492)
Balance at end of year		<u>0</u>	<u>0</u>
		=====	=====
22. Investment securities held-to-maturity			
Debt securities			
- Principal		19,026,777	21,086,046
- Unamortized discount		(69,007)	0
- Unamortized premium		1,022,576	473,128
Total		<u>19,980,346</u>	<u>21,559,174</u>
		=====	=====
The movement in investment securities held-to-maturity:			
Balance at beginning of year		21,559,174	19,578,434
Purchases		10,820,787	5,359,102
Disposal		(12,059,269)	(3,000,000)
Amortized discount		1,634	0
Amortized premium		(341,980)	(378,362)
Total		<u>19,980,346</u>	<u>21,559,174</u>
		=====	=====

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

### 23. Investment properties

	<b>Note</b>	<b>Land &amp; Buildings</b> <i>Kina</i>	<b>Furniture Fittings</b> <i>Kina</i>	<b>Plant &amp; Equipment</b> <i>Kina</i>	<b>Total</b> <i>Kina</i>
<b>Cost</b>					
Balance at 31 December 2005		6,526,469	256,227	207,426	6,990,122
Revaluation decrement		1,119,656	0	0	1,119,656
Additions		4,799,592	36,750	30,597	4,866,937
Written-off during the year		0	0	0	0
Disposals		0	0	0	0
Balance at 31 December 2006		12,445,717	292,977	238,023	12,976,715
<b>Accumulated depreciation</b>					
Balance at 31 December 2005	0	(156,204)	(120,092)	(276,296)	
Charged during the year	7	0	(15,097)	(15,390)	(30,487)
Disposal	0	0	0	0	
Balance at 31 December 2006	0	(171,300)	(135,481)	(306,781)	
<b>Book value as at 31 December 2006</b>		<b>12,445,717</b>	<b>121,677</b>	<b>102,542</b>	<b>12,667,934</b>
<b>Book value as at 31 December 2005</b>		<b>6,526,469</b>	<b>100,023</b>	<b>87,334</b>	<b>6,713,826</b>

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

### 24. Property and equipment

	<b>Motor Vehicle</b> <i>Kina</i>	<b>Furniture &amp; Fitting</b> <i>Kina</i>	<b>Other Equipment</b> <i>Kina</i>	<b>Renovation</b> <i>Kina</i>	<b>Software</b> <i>Kina</i>	<b>Total</b> <i>Kina</i>
Cost						
Balance at 31 Dec 05	18,182	546,186	414,723	309,773	71,752	1,360,616
Additions	0	1,917	31,487	0	0	33,404
Disposal	0	(23,436)	(239,860)	0	0	(263,297)
Balance at 31 Dec 06	18,182	524,666	206,350	309,773	71,752	1,130,723
<b>Accumulated depreciation</b>						
Balance at 31 Dec 05	(10,000)	(368,605)	(302,960)	(71,690)	(25,207)	(778,462)
Charged during year	(5,455)	(78,876)	(41,077)	(30,977)	(23,677)	(180,062)
Disposal	0	23,436	239,860	0	0	263,296
<b>Balance at 31 Dec 06</b>	<b>(15,454)</b>	<b>(424,045)</b>	<b>(104,144)</b>	<b>(102,667)</b>	<b>(48,884)</b>	<b>(695,228)</b>
<b>Book value 31 Dec 06</b>	<b>2,727</b>	<b>100,620</b>	<b>102,206</b>	<b>207,106</b>	<b>22,868</b>	<b>435,495</b>
<b>Book value 31 Dec 05</b>	<b>8,182</b>	<b>177,581</b>	<b>111,763</b>	<b>238,083</b>	<b>46,545</b>	<b>582,154</b>

### 25. Other Assets

	<b>Note</b>	<b>2006 Kina</b>	<b>2005 Kina</b>
Prepayments		59,988	86,412
Advances			
- Individuals		6	6,202
- Corporate		738,300	970,494
Security deposits		21,154	47,544
Accrued interest			
- Treasury bills		16,119	10,161
- Due from other banks		20,505	7,945
- Loans	6	745,222	681,917
Investment securities			
- Held-to-maturity		271,807	264,455
- Available-for-sale		0	14,204
Others		710,351	462,791
Total		2,635,655	2,552,127
Less specific provisions for losses	5	(27,937)	(947,176)
		2,607,717	1,604,951



Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006 Kina	2005 Kina
Movements in specific allowance for losses are as follows:			
Balance at beginning of the year		947,176	864,084
Impairment losses during the year			
- Other assets and interest	12	(404,752)	74,225
- Advances	7	0	8,867
Reversals	-	(514,487)	0
Balance at end of the year		27,937	947,176
		=====	=====
<b>26. Employee provisions</b>			
Balance at beginning of the year		121,897	0
Charged to profit and loss		159,354	191,569
Utilized during the year		(10,785)	(69,752)
Balance at end of the year		270,465	121,897
		=====	=====
Represented by:			
Short term provisions		44,118	7,896
Long term provisions		226,347	114,001
Balance at end of the year		270,465	121,897
		=====	=====
<b>27. Current income tax payable</b>			
Balance at beginning of the year		(661,315)	490,703
Paid during the year		(455,613)	(1,152,018)
Current provisions	16	330,395	0
Balance at end of the year		(786,533)	(661,315)
		=====	=====
<b>28. Other liabilities</b>			
Creditors		841,341	493,788
Retrenchment benefits due		5,350,431	1,592,490
Accruals		791,840	592,710
Balance at end of the year		6,983,612	2,678,988
		=====	=====

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

	Note	2006 Kina	2005 Kina
<b>29. Cash and cash equivalents</b>			
For the purposes of the cash flow statement, cash and cash equivalents comprises the following:			
Cash and due from other banks	17	24,484,267	15,258,311
Balance at end of the year		<u>24,484,267</u> =====	<u>15,258,311</u> =====

### 30. 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.

- a) During the financial year this fund earned interest on term deposits of K11,285 (31/12/05 - K17,412) from Kina Finance Limited, a finance company which has common shareholders in Kina Securities Limited with the Fund's Investment Manager, Kina Funds Management Limited. As at 31 December 2006, the term deposit placed with Kina Finance Limited was K4,493,444 (31/12/05 - K3,420,000) and these transactions were carried out on commercial terms and market rates.
- b) At 31 December 2006, Public Officers Superannuation Fund Limited owed this Fund K623,167 (31/12/05 - K359,875).
- c) At 31 December 2006, Hunter Limited owed this Fund K1,128,248 (31/12/05 - K1,068,000) and expenses of K205,791 (31/12/05 - K96,916) paid by the Fund on behalf of Hunter Limited. This Fund owns 70% of Hunter Limited. Uncollected interest accrued on impaired loans of K690,000 amounted to K558,000 (31/12/05 - K434,722) at 31 December 2006.
- d) At 31 December 2006, Banora Trading owed the Fund K167,508 (31/12/04 - K175,968). The Fund has 100% interest in this company.
- e) Key management personnel remuneration.

Specified executives' remuneration in aggregate during the year is shown as follows:

Primary			Post Employment			Equity Options	Other Benefits	TOTAL
Salary & fees	Bonus	Non-monetary	Super	Prescribed benefits	Other			
K266,360	0	K18,751	K34,115	K75,510	0	0	0	K394,738

- f) Board of Directors' remuneration aggregate during the year is as follows:

Year	Stipend	Sitting Fees	Total
2006	K63,000	K53,019	K116,019

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

### 31. 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 trustees 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, sovereign risk and country risk.

a) Liquidity risk

The Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed of.

The Fund's listed securities are considered readily realisable, as they are listed on Port Moresby Stock Exchange Limited and Australian Stock Exchange.

The liabilities of the Fund are long term in nature and are well structured in terms of benefits comprising of a mix of pension commutation and a fortnightly pension payable through out the life-time of the member.

b) Sovereign risk

There is a history of protracted delays in government payments therefore the Fund has a big exposure to the state through its large holding of government securities.

c) Country risk

To the extent that the Fund holds funds in foreign jurisdiction, a variety of risk may arise in addition to foreign exchange risk – such as changes in local economic condition, local regulatory requirements or non-transparent governance arrangements.

d) 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 Fund is exposed to risk associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

The table below summarises the Fund's exposures to interest rates risk. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity dates:

	Up to 1 Year <i>Kina</i>	1-5 Years <i>Kina</i>	Over 5 Years <i>Kina</i>	Non Interest Bearing <i>Kina</i>	Total <i>Kina</i>
<b>31 December 2006</b>					
<b>Assets</b>					
Cash & due from other banks	24,484,267	669,942	0	0	25,154,209
Treasury bills	3,140,428	0	0	0	3,140,428
Loans to members & others	80,187	782,445	690,000	0	1,552,631
Current income tax receivable	0	0	0	786,553	786,553
Deferred income tax assets	0	0	0	282,772	282,772
Investment securities-					
- Available-for-sale	0	11,026,777	8,000,000	104,152,752	123,179,529
- Held-to-maturity	0	3,239,147	16,741,119	0	19,980,346
Investment properties	0	0	0	12,669,934	12,669,934
Property and equipment	0	0	0	435,495	435,495
Other assets	0	0	0	2,607,717	2,607,717
	<u>27,704,882</u>	<u>15,718,311</u>	<u>25,431,119</u>	<u>120,935,223</u>	<u>189,789,594</u>
<b>Liabilities</b>					
Employee provisions	0	0	0	270,465	270,465
Deferred income tax liabilities	0	0	0	1,753,850	1,753,850
Other liabilities	0	0	0	6,983,612	6,983,612
	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,007,927</u>	<u>9,007,927</u>
<b>Interest sensitivity gap</b>	<b>27,704,882</b>	<b>15,718,311</b>	<b>25,431,119</b>	<b>111,927,296</b>	<b>180,781,667</b>
	=====	=====	=====	=====	=====
<b>31 December 2005</b>					
<b>Assets</b>					
Cash & due from other banks	15,258,311	665,927	0	0	15,924,238
Treasury bills	8,771,509	0	0	0	8,771,509
Loans to members & others	7,621,869	1,430,510	0	0	9,052,379
Current income tax receivable	0	0	0	661,315	661,315
Deferred income tax assets	0	0	0	1,814,699	1,814,699
Investment securities-					
- Available-for-sale	0	1,019,666	0	102,054,697	103,074,363
- Held-to-maturity	12,532,687	9,026,487	0	0	21,559,174
Investment properties	0	0	0	6,713,826	6,713,826
Property and equipment	0	0	0	582,154	582,154
Other assets	0	0	0	1,604,951	1,604,951
	<u>44,184,376</u>	<u>12,142,590</u>	<u>0</u>	<u>113,431,642</u>	<u>169,758,608</u>
<b>Liabilities</b>					
Employee provisions	0	0	0	121,897	121,897
Deferred income tax liabilities	0	0	0	321,070	321,070
Other liabilities	0	0	0	2,678,988	2,678,988
	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,121,955</u>	<u>3,121,955</u>
<b>Interest sensitivity gap</b>	<b>44,184,376</b>	<b>12,142,590</b>	<b>0</b>	<b>110,309,687</b>	<b>166,636,653</b>
	=====	=====	=====	=====	=====



Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

e) Foreign exchange risk

The Fund holds assets denominated in currencies other than Kina, the functional currency. The Fund is therefore exposed to currency risk, as the value of the securities, and the dividends earned denominated in other currencies will fluctuate due to changes in exchange rates. The table below summarises Fund's exposure to currency risks, concentration of assets and liabilities

	Kina K	AUD K	Total K
<b>31 December 2006</b>			
<b>Assets</b>			
Cash and due from other banks	13,933,330	1,990,908	15,924,238
Treasury bills	8,771,509	0	8,771,509
Loans to members and others	9,052,379	0	9,052,379
Current income tax payable	661,315	0	661,315
Deferred income tax assets	1,814,699	0	1,814,699
Investment securities available-for-sale	95,755,029	7,319,334	103,074,363
Investment securities held-to-maturity	21,559,174	0	21,559,174
Investment properties	5,771,992	941,834	6,713,826
Other assets	1,604,951	0	1,604,951
<b>Total</b>	<b>159,506,532</b>	<b>10,252,076</b>	<b>169,758,608</b>
<b>Liabilities</b>			
Employee provisions	121,897	0	121,897
Deferred income tax liabilities	321,070	0	321,070
Other liabilities	2,678,988	0	2,678,988
<b>Total</b>	<b>3,121,955</b>	<b>0</b>	<b>3,121,955</b>
<b>Net</b>	<b>156,384,577</b>	<b>10,252,076</b>	<b>166,636,653</b>
	=====	=====	=====
<b>31 December 2005</b>			
<b>Assets</b>			
Cash and due from other banks	13,933,330	1,990,908	15,924,238
Treasury bills	8,771,509	0	8,771,509
Loans to members and others	9,052,379	0	9,052,379
Current income tax payable	661,315	0	661,315
Deferred income tax assets	1,814,699	0	1,814,699
Investment securities available-for-sale	95,755,029	7,319,334	103,074,363
Investment securities held-to-maturity	21,559,174	0	21,559,174
Investment properties	5,771,992	941,834	6,713,826
Other assets	1,604,951	0	1,604,951
<b>Total</b>	<b>159,506,532</b>	<b>10,252,076</b>	<b>169,758,608</b>
<b>Liabilities</b>			
Employee provisions	121,897	0	121,897
Deferred income tax liabilities	321,070	0	321,070
Other liabilities	2,678,988	0	2,678,988
<b>Total</b>	<b>3,121,955</b>	<b>0</b>	<b>3,121,955</b>
<b>Net</b>	<b>156,384,577</b>	<b>10,252,076</b>	<b>166,636,653</b>
	=====	=====	=====

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

f) Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Company's balance sheet at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	<b>Carrying Value</b>		<b>Fair Value</b>	
	2006 Kina	2005 Kina	2006 Kina	2005 Kina
<b>Assets</b>				
Cash from other banks	25,154,209	15,924,238	25,154,209	15,924,238
Treasury bills	3,140,428	8,771,509	3,140,428	8,771,509
Loans receivable	1,552,631	9,052,379	1,552,631	9,052,379
Current income tax receivable	786,533	661,315	786,533	661,315
Deferred income tax assets	282,772	1,814,699	282,772	1,814,699
Investment securities-				
- Available-for-sale	34,077,250	28,241,193	123,179,529	103,073,363
- Held-to-maturity	19,980,346	21,559,174	19,980,346	21,559,174
Investment properties	12,669,934	6,713,826	12,669,934	6,713,826
Property and equipment	435,495	582,154	435,495	582,154
Other assets	2,607,717	1,604,951	2,607,717	1,604,951
	<u>100,687,315</u>	<u>94,925,438</u>	<u>189,789,594</u>	<u>169,758,608</u>
<b>Liabilities</b>				
Current income tax payable	0	0	0	0
Deferred income tax liabilities	1,753,850	321,070	1,753,850	321,070
Employee provisions	270,465	121,897	270,465	121,897
Other liabilities	6,983,612	2,678,988	6,983,612	2,678,988
	<u>9,007,927</u>	<u>3,121,955</u>	<u>9,007,927</u>	<u>3,121,955</u>
	<u>91,679,388</u>	<u>91,803,483</u>	<u>180,781,667</u>	<u>166,676,653</u>
	=====	=====	=====	=====

### Cash and due from other banks

Cash and due from other banks includes inter-bank placements and items in the course of collection. The fair values of floating rate placements and overnight deposits equal their carrying amounts.

### Loans and advances to customers

Loan and advances are net of allowance for losses.

### Investment securities

In 2006, investment securities include assets available-for-sale and held-to-maturity which are now measured at fair value based on market price or broker/dealer price quotations.

Financial Statements for the Year Ended 31 st December 2006

## NOTES TO THE FINANCIAL STATEMENTS

g) Credit risk

The Fund takes exposure on credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any.

The Fund manages this risk by asset allocation over or below the preferred (neutral) position and the investment manager can take an aggressive or conservative position depending on the economic circumstances prevailing at the time. The asset allocation at balance date is as follows:

	2006		2005	
	Kina	%	Kina	%
<b>Assets</b>				
Cash from other banks	25,154,209	13%	15,924,238	10%
Treasury bills	3,140,428	2%	8,771,509	5%
Loans to members & others	1,552,631	1%	9,052,379	5%
Investment securities-				
- Available-for-sale	123,179,529	66%	103,074,363	63%
- Held-to-maturity	19,980,346	11%	21,559,174	13%
Investment properties	12,669,934	7%	6,713,826	4%
	<u>185,677,077</u>	<u>100%</u>	<u>165,095,489</u>	<u>100%</u>
	=====	=====	=====	=====

The assets allocation range defines the high and low extremes within which each assets class may move in response to changing economic conditions. By approving an asset allocation range, the Trustees still maintain ultimate control over investment policy at the micro level while the Investment Manager is given the flexibility needed at operational level to quickly respond to and take advantage of changing economic circumstances without the need to continuously revert back to the Trustees for approval.

The Investment Manager shall evaluate investment proposals to ensure viability and consistency with the approved investment strategy and prudential standards issued by Bank of Papua New Guinea from time to time.

## Corporate Directory

### Location:

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### Banker – Secondary:

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### Investment Manager:

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### Management:

George B. Uware - Chief Executive Officer  
Richard Sinamoi - General Manager