



# **DEFENCE FORCE RETIREMENT BENEFITS FUND**

# 2009

annual report

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## Defence Force Retirement Benefits Fund

### 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 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 which encourages innovation and diligence amongst staff and rewards them through:-

#### OUR CORPORATE VALUE

**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**



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# Defence Force Retirement Benefits Fund

## Chairman's Statement

Dear Members,

I am honoured once again to report to you the results of the Fund's operation for 2009. The financial results are summarized below:

	2009	2008
Net surplus	K20,830,954	K39,078,810
Net Fund assets	K321,613,390	K300,395,476
MER	1.92%	2.11%

Although there was a reduction in the net surplus for the year compared to 2008, the fact that a surplus was realized was a significant achievement in itself. This is especially so at a time when economies around the world and in the region declined into negative territory and continue to be adversely affected by the impact of the global financial crisis.

Indications are that the worst is over and that we should see some improvements in 2010 onwards. This is reflected by the Bank of PNG forecast for real GDP growth to be 8% in 2010 (2009 – 4.5%). The PNG economy is expected to experience strong economic growth in 2010 following the commencement of the LNG project and global economic recovery. This presents the Board with both major challenges and opportunities which it will work towards resolving and consequently achieving the best possible results for the Fund going forward.

As a result of this continued growth, it is my pleasure to report that the Net Assets of the Fund has continued to grow to K321,613,390 as at the end of 2009. The Board will continue to exercise prudence and good judgment in the management of the Fund to ensure its further growth and preservation to fulfill its purpose of funding the members' pension entitlements now and in the future.

### Pension Benefits:

The Board, in addition to the indexation of 4% for 2009 has approved, based on the recommendation of the actuary, the following benefits to be passed on to pensioners this year:-

- 4% interim CPI indexation for 2010 paid in January 2010; and,
- 2% final CPI indexation to be paid retrospective to 1st January 2010.

### Risk Management:

Risk management is an inherent and on-going part of the Board's duty which is made much more essential by the rapidly changing economic and business environment in which we operate. In recognizing the importance that risk management plays in the investment and preservation of the Fund, the Board will be reviewing the risk management strategy later in 2010 to ensure that all material risks that can potentially have adverse impact on Fund performance are identified and appropriate strategies developed to manage such risks and reduce consequences to acceptable limits.

The Board continues to monitor the Fund's exposure in domestic equities, primarily in Bank South Pacific and Credit Corporation Limited with the view to re-balancing exposure when opportunities arise. Board has adopted a strategy to progressively reduce the Fund's exposure in these companies over a five year period to levels considered prudent. Such strategy is considered essential to avoid adversely affecting share price and consequently the value of the Fund's holdings in these companies.

### Moving Forward:

Following the survey and member awareness conducted in 2009, the Board has taken note of the emerging preference expressed by a section of the Fund membership, particularly the younger members, to contribute to an "accumulation" scheme as opposed to a pension scheme. After the survey results have been considered, the Board will commission a detailed review later in 2010 of all relevant Acts governing the establishment and operation of the Fund, including consultation with the Bank of PNG, Treasury Department, the Defence Force and other appropriate government agencies. The findings from this review will guide the Board in developing the necessary strategies to determine the direction the Fund will take in accommodating the changing circumstances of the PNG Defence Force and the members' expectations.

Board cautions members however to note that any change or changes to the form and structure of the Fund must necessarily be sanctioned by legislative amendments, after an exhaustive review and consultation process, to various Acts – notably the Defence Act, the DFRB Act and the Superannuation Act, including appropriate changes to the Manual of Personnel Administration. Such matters take time and except for the review and recommendations which the Board will undertake, are beyond the sphere of control or responsibility of the Board and may take several



## Defence Force Retirement Benefits Fund

years to be realized. However, it is the Board's intention to carry out this review and implement any changes that are recommended in a timely and orderly manner, and without undue inconvenience or disruption to payment of benefits to members who choose to continue their membership with this Fund as a pension scheme.

In concluding, I take this opportunity to recognize, acknowledge and extend my gratitude to Messrs Brian Hull and Johnson Kalo who resigned from the Board towards the end of 2009 for their wise counsel, guidance and contribution that helped form the foundation for the success that the Fund enjoys today.

Finally, I would also like to take this opportunity to thank the remaining Directors, management, staff and all other persons or entities whose unfailing dedication, commitment, perseverance and hard work have contributed towards the realization of an exceptional outcome for the Fund in 2009.

**Chris Alu**  
**Chairman**

12th May 2010.



## Defence Force Retirement Benefits Fund

### The Fund

The Defence Force Retirement Benefits Fund (DFRBF), as of 1st January 2003 is established pursuant to Section 8 of the Superannuation (General Provisions) Act 2000.

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.

DFRBF is a defined benefits fund. This means that benefits are usually determined by a formula provided in the enabling legislation and paid as a fortnightly pension, after allowing for commutation, for the remaining life of the member after retirement. In the event of the demise of the pensioner, 5/8's of the pension is paid to the widow until such time she remarries or dies. Since members benefits are determined by a formula, rather than reflecting what is in the members' individual accounts, the money 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 every two years. The most recent actuarial review was undertaken for the period ended 31st December 2008. The next actuarial evaluation will be undertaken for the period ending on 31st December 2010 in early 2011 and details of which will be reported to members in the subsequent financial year.





## Defence Force Retirement Benefits Fund

### 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 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.

At the time of writing there were two vacancies on the Board with the resignation by the following independent directors:-

- a) Mr. Brian Hull - 30th September 2009
- b) Mr. Johnson Kalo - 16th October 2009

Board is in the process of finding replacement directors to fill the vacancies in due course.



(Standing left to right) – K Posman, J Kalo, Capt Tom Ur, OBE, Col. D. Takendu, OBE (Rtd),  
Seated: C. Alu, B. Hull, (Insert Capt M Aleale)

## Defence Force Retirement Benefits Fund

### Board of Trustees



**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 24 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 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, Queenscliffe, 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.



## Defence Force Retirement Benefits Fund



**Captain Alois Tom Ur, MBE (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 has had considerable hands on experience in all facets of naval duties including attachments in the United States and Australian navies.

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 and a Masters Degree from Deakin University in Melbourne and is a member of the PNG Institute of Directors.



**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 expanded 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.

Mr. Kalo resigned from the board on 16th October 2009

## Defence Force Retirement Benefits Fund



**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.

Mr. Hull resigned from the Board on 30th September 2009.



**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 Tharwell 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.



## Defence Force Retirement Benefits Fund



**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 of the Defence Force to the 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.



# Defence Force Retirement Benefits Fund

## 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:-

Name of Shareholder	Class of Shares	No of Shares	Value	Special Notes
Commodore Peter Ilau, DMS, MBE	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 (Rtd)	Ordinary	1	K1.00	Share held in trust for members
Capt Max Aleale, DMS	Ordinary	1	K1.00	Share held in trust for members
Capt Ur Tom, OBE	Ordinary	1	K1.00	Share held in trust for members
Total		5	K5.00	

Commodore Peter Ilau's term as Commander of the PNG Defence Force expired in January 2010 and Brigadier General Francis Agwi appointed as the new Commander. Accordingly, documentation is being prepared to reflect this change.

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.



## Defence Force Retirement Benefits Fund

### 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.

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 for three further terms subject however to any restrictions contained in the Company Constitution and Central Bank approval. Two Directors retired during the year.

All Board and Committee meeting 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 2008 are as follows:-

Name of Director	Fee Received*	Board Status	Date of Appointment/ Resignation	Attendance of Meetings		
				Board	Audit Committee	Appointments Committee
Chris Alu (Chairman)	K34,400	Current	19/12/02	9/10	1/1	-
Col D. Takendu, OBE (Rtd)	K28,125	Current	19/12/02	9/10	-	-
Capt (N) Max Aleale, DMS	K24,175	Current	29/09/07	8/10	-	-
Capt (N) Tom Ur, OBE	K31,875	Current	02/01/02	10/10	1/1	-
Brian Hull	K21,850	Resigned	30/09/09	7/7	-	-
Johnson Kalo	K11,350	Resigned	16/10/09	4/7	1/1	-
Kisakiu Posman	K23,825	Current	04/06/04	7/10	1/1	-

\* Fees shown above are before tax.

The Board complied with its approved Calendar of meetings planed for the year. In addition to the four scheduled meetings, the Board met a further six times during the year in order to address matters noted by the Bank of PNG during its prudential review of the Fund in April 2009 and which the Bank directed various remedial action to be taken.

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 once during the year. Since the Board increased the frequency of its meetings to address the issues raised by the Bank of PNG, there was no need to convene the Audit Committee meetings as the matters for discussion were dealt with directly by the Board. 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, review of the actuarial report, 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	Resigned 30th September 2009
Captain Tom Ur	-	Member	
Johnson Kalo	-	Member	Resigned 16th October 2009
Kisakiu Posman	-	Member	

To ensure the independence of the Audit Committee and to embrace best practice in corporate governance, Mr. Chris Alu resigned as Chairman of the Committee on the date indicated above. The vacancies resulting from Messrs Alu and Kalo's resignations will be filled in due course.

## Defence Force Retirement Benefits Fund

### Appointments & Remuneration Committee

The Committee did not meet during the year, as all matters normally dealt with by this Committee were addressed directly by the Board. 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	Resigned 30th September 2009
Kisakiu Posman	-	Member	
Captain Max Aleale	-	Member	

### External Board Positions

As at 31st December 2009, 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
Richard Sinamoi	Director	Pacific Capital Ltd
	Director	Paradise Foods Ltd
	Director	Kina Asset Management 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 current engagement of KISSL is for a term of three (3) years which will expire on 31st December 2011. At least three months prior to the expiry of contract, the Board will commence the tender process to determine a successor.

### 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 will expire on 31st December 2011. At least three months prior to the expiry of the contract, the Board will invite tenders to determine a successor.

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.

### Employee Remuneration

Please refer to Notes 10.1 and 23.1 and 23.2 of the Notes to the Financial Statements for details.



## Defence Force Retirement Benefits Fund

### 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 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. The last prudential review of the Fund was undertaken in April 2009.

### Independent Auditor

The current independent auditor is Deloitte Touche Tohmatsu 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:

Auditor	2005	2006	2007	2008	2009
Deloitte Touche Tohmatsu	K93,000	K117,664	K135,076	K133,737	K150,500
Partner In-charge	P. Barber	S. Theron	S. Theron	S. Theron	S. Theron

The auditor's appointment is for 12 months at the expiry of which further engagement is determined by tender. To ensure independence and avoid conflicts of interest the auditor is prohibited from any accounting assignments or valuation of Fund assets and liabilities.

### 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 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 MER for the Fund for the last five years is shown below.



\_ MER for 2008 restated after adjustments to Hunter Ltd value, previously stated as 2.20%.

## Defence Force Retirement Benefits Fund

### 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 – 2008).

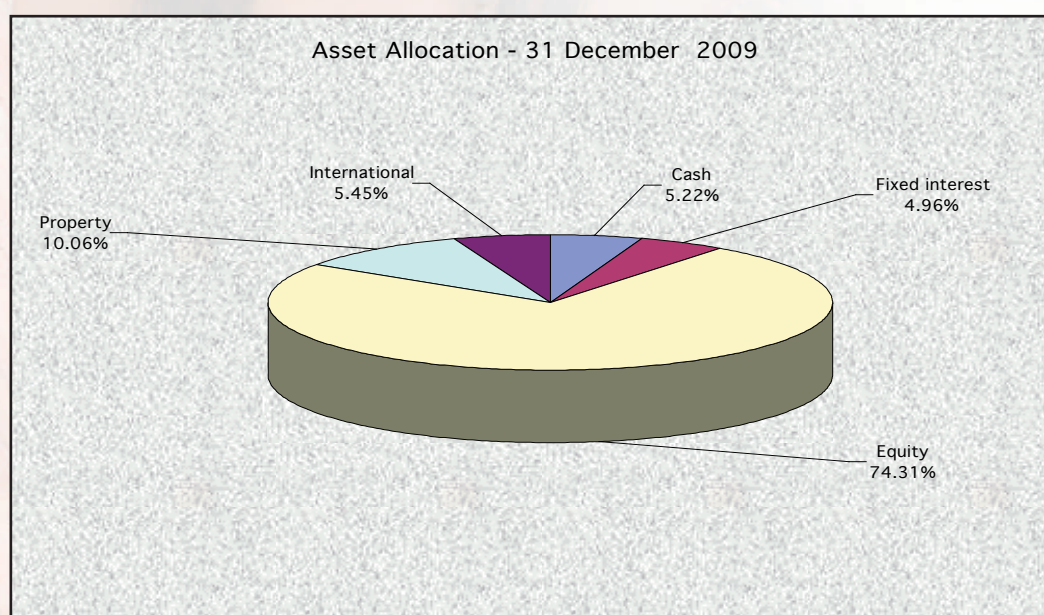
### Investment transactions (excluding cash and treasury notes)

Name of Entity	Transaction Type	Classification	Settlement Date	Number of Shares	Amount
Bank South Pacific	Share sale	Equity	Various	(259,437)	(K202,038)
Oil Search	Share purchase	Equity	23-Oct-09	300,000	K4,618,998
RCY	Share sale	Equity	31-Dec-09	(336,082)	(K149,459)

### Investment Portfolio

The composition of the investment portfolio and asset allocation as at 31st December 2009 relative to the prior year is summarized as follows:

Asset	Portfolio Value Classification		Percentage Holdings (Kina)		Neutral Allocation (%)	Sector Range % Low – High
	31- Dec-09	31-Dec-08	31-Dec-09	31-Dec-08	31- Dec-09	31-Dec-09
Cash	K16,602,013	K11,880,675	5.22%	4.21%	5%	0-10%
Fixed interest	K15,748,919	K16,065,389	4.96%	5.69%	15%	10-30%
Equity	K236,149,206	K215,019,610	74.31%	76.18%	50%	40-60%
Property	K31,985,094	K24,511,913	10.06%	8.68%	10%	5-20%
International	K17,318,534	K14,758,327	5.45%	5.23%	20%	10-30%
TOTAL	K317,803,766	K282,235,914	100.00%	100.00%	100%	





## Defence Force Retirement Benefits Fund

### Equity Portfolio - PNG

Company Name	Total Market Value (Kina)	
	31- Dec-09	31-Dec-08
<b>Listed</b>		
. Bank South Pacific Ltd	K132,385,581	K152,887,035
. Credit Corporation Ltd	K4,769,493	K6,736,572
. Highlands Pacific Ltd	K2,322,694	K391,942
. Kina Asset Management Ltd	K8,339,400	K8,929,800
. Marengo Mining Ltd	K26,458	K10,600
. New Britain Palm Oil Ltd	K4,240,015	K2,924,148
. Oil Search Ltd	K33,289,755	K17,002,348
<b>Sub-total</b>	<b>K185,373,396</b>	<b>K188,882,445</b>
<b>Unlisted</b>		
. BPT PNG Ltd (Toyota Tsusho)	K2,000,041	K1,480,050
. Hunter Ltd	K18,879,980	K2,457,143
. Paradise Foods Ltd	K16,200,000	K13,506,637
. Pacific Balanced Fund	K316,383	K316,383
. Post Courier Ltd	K1,377,378	K443,600
. South Pacific Brewery Ltd	K12,002,028	K7,933,352
<b>Sub-total</b>	<b>K50,775,810</b>	<b>K26,137,165</b>
<b>Total</b>	<b>K236,149,206</b>	<b>K215,019,610</b>

### Cash Portfolio

Name of Financial Institution	Amount (Kina)		
	International Kina	PNG Kina	31- Dec-09 Total
<b>Cash on hand</b>			
. Petty cash	0	K700	K700
<b>Sub-total</b>	<b>0</b>	<b>K700</b>	<b>K700</b>
<b>Interest Bearing Deposits (&lt; 90 days)</b>			
. Adelaide Bank	-	-	-
. ANZ – Investment account	-	K6,377	K6,377
. Bank of Queensland	K3,468,091	-	K3,468,091
. BSP – Main account	-	K67,549	K67,549
. BSP – Benefits account	-	K93,525	K93,525
. BSP – Management account	-	K94,385	K94,385
. BSP – Housing account	-	K26,762	K26,762
<b>Sub-total</b>	<b>K3,468,091</b>	<b>K289,298</b>	<b>K3,757,389</b>
<b>On-call</b>			
. ANZ Bank	-	K5,579,335	K5,579,335
. Kina Finance Ltd	-	K4,203,794	K4,203,794
. First Investment Finance Ltd	-	K6,529,586	K6,529,586
. PNG Home Finance Ltd	-	K1,191,042	K1,191,042
<b>Sub-total</b>	<b>-</b>	<b>K16,312,715</b>	<b>K16,312,715</b>
<b>Total Cash &amp; IBD's &lt; 90 days</b>	<b>K3,468,091</b>	<b>K16,602,713</b>	<b>K20,070,804</b>

## Defence Force Retirement Benefits Fund

### Fixed Interest Portfolio

Description	Serial No	Maturity Date	Coupon Rate	Face Value 31-Dec-09	Settlement Value 31-Dec-09
Government Inscribed Stock	SI5112016 (G26)	15/11/2016	9%	K4,000,000	K4,261,484
	SI5112021 (G27)	15/11/2021	12%	K3,000,000	K3,345,881
	SI5112021 (G25)	15/11/2021	12%	K1,000,000	K1,001,504
	SI5112016 (G28)	15/11/2016	9%	K1,000,000	K1,003,688
	SI5112023 (G37)	15/11/2023	12%	K2,000,000	K2,203,968
	SI5112023 (G38)	15/11/2023	12%	K1,000,000	K1,066,550
	SI5112018 (G39)	15/11/2018	9%	K333,000	K334,794
	SI5112011 (G40)	15/11/2011	6%	K571,000	K564,688
<b>Sub-total – GIS</b>				<b>K12,904,000</b>	<b>K13,782,557</b>
Term Deposit > 90 days - PNGHF Members Housing Advance				-	K625,951
				-	K1,340,411
<b>Total Fixed Interest</b>					<b>K15,748,919</b>

### Property Portfolio

Property		Market Value (Kina)	
Name	Description	31- Dec-09	31-Dec-08
PNG			
1. Harbour City Development	Section 44, Lot 16, Harbour City, Konedobu, NCD	K397,090	K382,000
2. Defense Haus, Hunter Ltd	Section 03, Lot 18-20, Hunter St., Port Moresby, NCD	K5,837,300	K4,953,200
3. Latitude 9 Apartments	Section 42, Lot 01, Ogoa St., Granville, NCD	K14,976,000	K10,708,000
4. Lawes Road Apartments (50%)	Section 07, Lot 24, Lawes Rd., Granville, NCD	K 5,256,705	K5,276,623
5. Stop & Shop Building	Section 14, Lot 11 & 12, Angau Dr., Boroko, NCD	K5,518,000	K3,192,000
<b>Sub- Total</b>		<b>K31,985,095</b>	<b>K24,511,913</b>
International			
1. Canberra house, ACT, Australia	36 Gadali Crescent, Ngunnawal, ACT, 2913, Aust	K 1,167,904	K1,170,182
<b>Sub-total</b>		<b>K1,167,904</b>	<b>K1,170,182</b>
<b>Total Property</b>		<b>K33,152,999</b>	<b>K25,682,095</b>



## Defence Force Retirement Benefits Fund

### International Portfolio

Asset Classification	Market Value (Kina)	
	31 - Dec-09	31 - Dec-08
<b>Equity</b>		
<b>Listed</b>		
. ANZ Bank Ltd	K1,647,624	K854,667
. Alco Max Securities & Mortgage Trust	-	K9,316
. Alpha Collateralized Debt Obligation	K69,611	K61,487
. BHP Billiton Ltd	K3,105,137	K1,701,509
. Commonwealth Bank of Australia	K1,316,611	K538,476
. Macquarie Infrastructure Group	K192,271	K191,168
. Southern Cross Media Group	K347,456	K135,551
. Mahogany Capital Ltd	K360,058	K279,486
. Multiplex Sites Trust	K516,083	K97,820
. RiverCity Motorway	-	K106,454
. Telstra Corporation	K3,079,261	K2,668,939
<b>Sub-total</b>	<b>K10,634,112</b>	<b>K6,644,873</b>
<b>Unlisted</b>		
. ABN AMRO Social Infrastructure Trust	K972,752	K909,308
. AMP Capital China Fund	K340,561	K308,998
<b>Sub-total</b>	<b>K1,313,313</b>	<b>K1,218,306</b>
<b>Total Equity</b>	<b>K11,947,425</b>	<b>K7,863,179</b>
<b>Cash</b>		
. Bank of Queensland	K3,468,091	K2,048,135
. Adelaide Bank	-	K2,941,717
. Commonwealth Bank	-	K735,114
<b>Sub-total</b>	<b>K3,468,091</b>	<b>K5,724,966</b>
<b>Property</b>		
. Canberra, ACT, House	K1,167,904	K1,170,182
<b>Fixed Interest</b>		
. Commonwealth Bank of Australia	K735,114	-
<b>Total International</b>	<b>K17,318,534</b>	<b>K14,758,327</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 3 years
Government securities	- At purchase price/face value

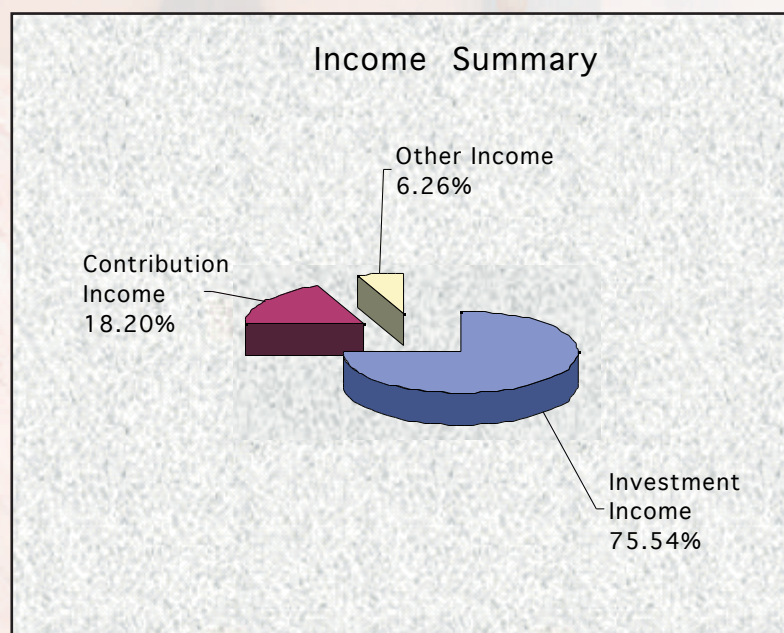
# Defence Force Retirement Benefits Fund

## Summary of Key Results -2009

	2009	2008
• Net surplus (after tax)	K20,830,954	K39,078,810
• Total Fund net assets	K321,613,390	K300,395,476
• Total benefits paid	K7,441,632	K10,489,919
• Interest crediting rate	0%	12.99%
• CPI indexation rate	6%	4%
• MER <sup>2</sup>	1.92%	2.11%

<sup>1</sup> Total CPI of 6% for 2009 was determined as the sum of 4% interim indexation plus 2% final indexation after actuarial recommendation and paid in 2010.

<sup>2</sup> MER for 2008 restated to reflect adjustment to Hunter Ltd, initially stated at 2.20%

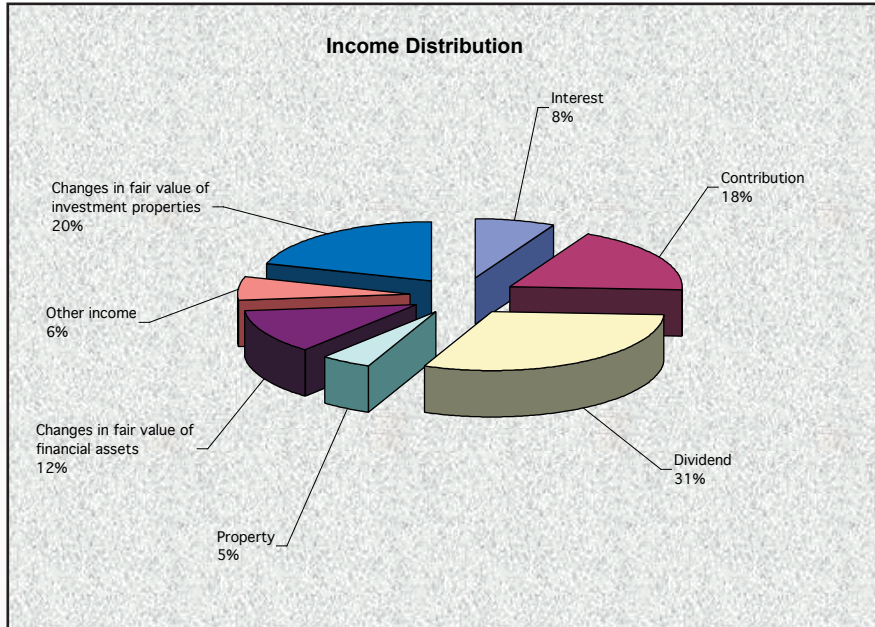


## Income Summary

• Investment income	K26,481,711
• Contribution from Members	K 1,966,662
State	K 4,413,357
• Other income	K 2,195,892
<b>Total</b>	<b>K 35,057,622</b>



## Defence Force Retirement Benefits Fund

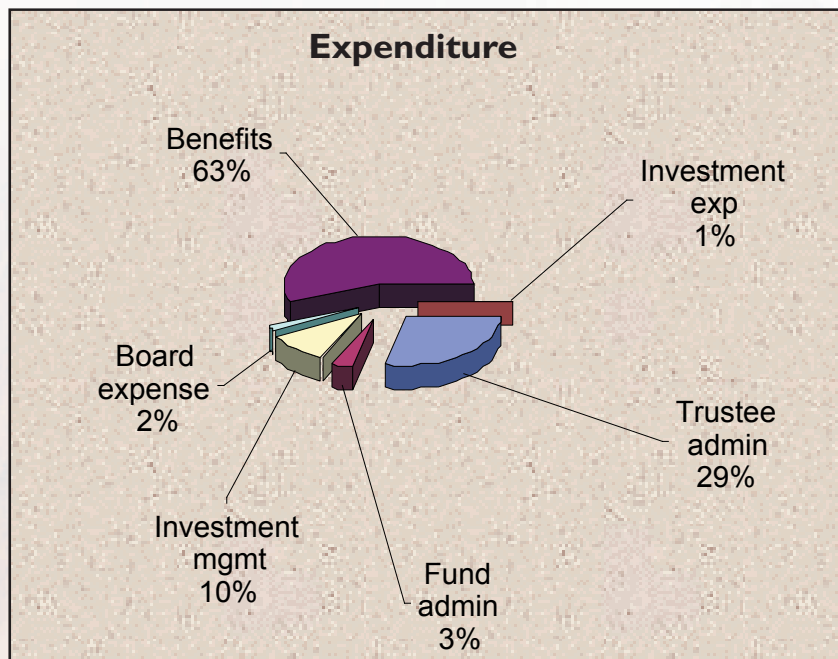


### Income Distribution

• Interest	K 2,642,120
• Other income	K 2,195,892
• Contribution	K 6,380,019
• Dividend	K 10,756,790
• Property	K 1,658,948
• Changes in fair value of financial assets	K 4,306,341
• Changes in Fair value of investment properties	K 7,117,512

**Total Income** **K35,057,622**

## Defence Force Retirement Benefits Fund



### Expenditure (Kina)

• Trustee admin	K 3,857,059
• Fund admin	K 458,642
• Invest mgmt	K 1,412,215
• Board exp	K 240,294
• Investment exp	K 79,913

Mgmt Expense K 6,048,123

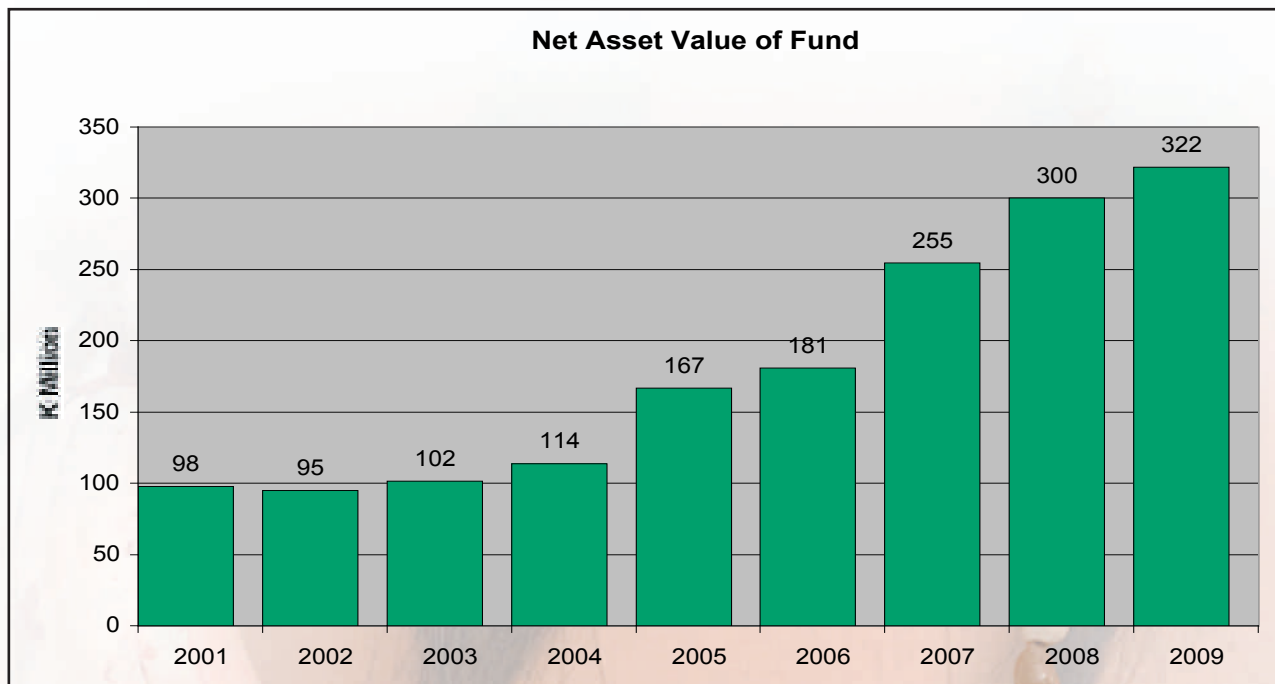
• Benefits K7,441,632

**Total Expense K13,489,755**



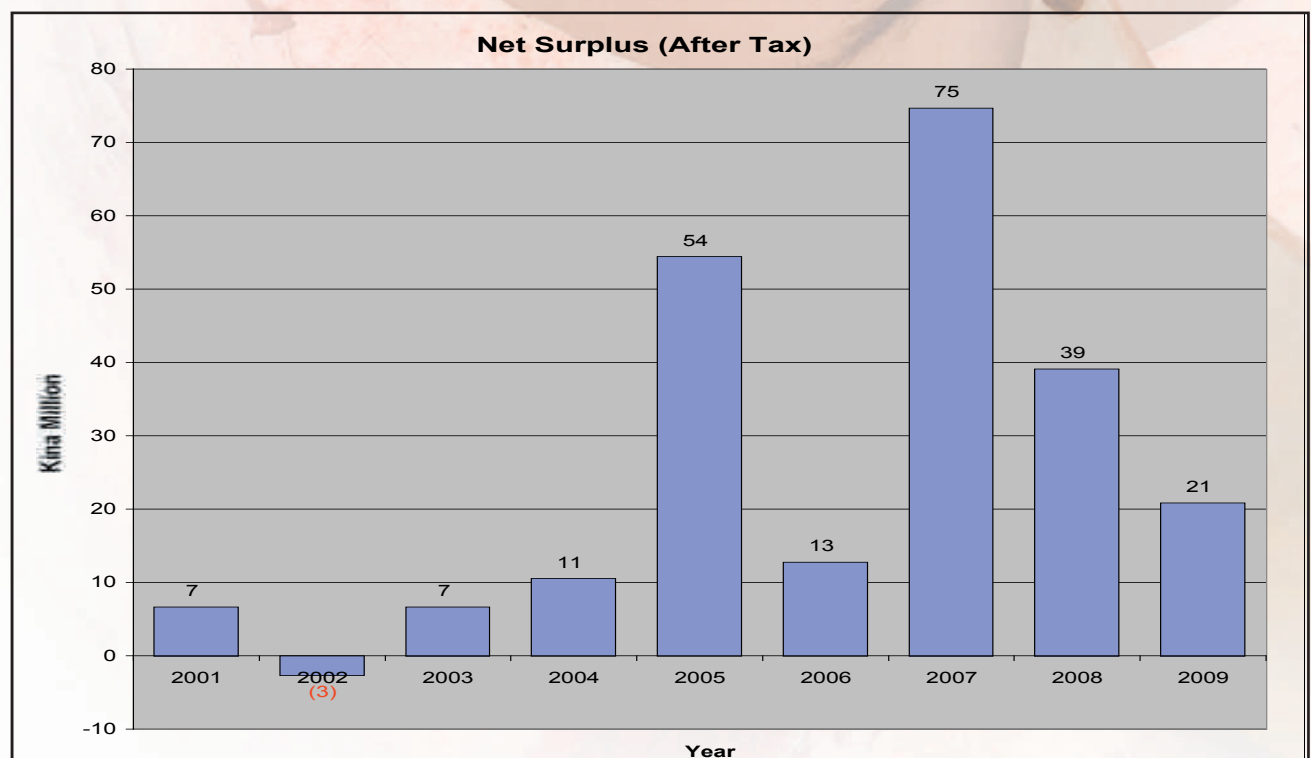
## Defence Force Retirement Benefits Fund

### Fund Highlights at a Glance



Note: Net assets for 2008 restated.

The above bar graph shows that the fund has grown steadily from K98.0 million in 2001 to K321,613,390 as at 31st December 2009. Despite the adverse consequences of the financial crisis which have already had a detrimental impact on Fund operations to date, your trustee will endeavour to ensure the sound custody, investment and preservation of the funds entrusted to its care with the aim of assuring members financial security at retirement.



Except for 2002 when a loss of approximately K3.0 million was sustained the above graph illustrates that overall, net surplus after tax has grown during the 9 year period under review.

Comparative Statistical Summary

# Defence Force Retirement Benefits Fund

## Financial Statements for the Year Ended 31st December 2009

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## Defence Force Retirement Benefits Fund

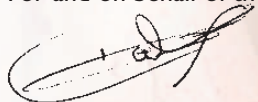
### Trustee Statement

In the opinion of the Trustee for the Defence Force Retirement Benefits Fund ("the Fund") the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flows and Notes to the financial statements for the year ended 31 December 2009 and has been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

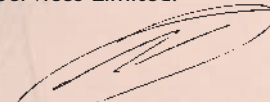
- a) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- b) no circumstances have arisen which would render any amount in the statements misleading;
- c) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due; and
- d) the Fund has complied with the reporting requirements as prescribed by the Superannuation (General Provisions) Act 2000 and as required by Bank of Papua New Guinea Prudential Standards 3/2008 and 5/2008.

Dated at Port Moresby this 30th day of March 2010.

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



Chris Alu  
Chairman of the Board of Trustee



Captain (N) Alois Ur Tom OBE  
Director

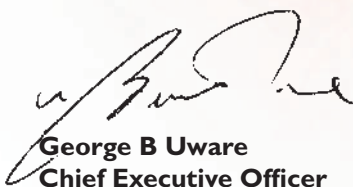
### Management Statement

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 31 December 2009 and has been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

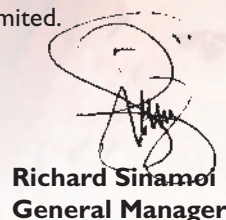
- 1) the result of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character;
- 2) no circumstances have arisen which would render any amount in the statements misleading;
- 3) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due; and
- 4) the Fund has complied with the reporting requirements as prescribed by the Superannuation (General Provisions) Act 2000 and as required by Bank of PNG Prudential Standards 3/2008 and 5/2008.

Dated at Port Moresby this 30th day of March 2010.

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



George B Uware  
Chief Executive Officer



Richard Sinamoi  
General Manager

# Defence Force Retirement Benefits Fund

## Directors' Report

The directors of Comrade Trustee Services Limited submit herewith the annual financial report of the Fund for the financial year ended 31 December 2009. In order to comply with the provisions of the Companies Act 1997 and 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:

<b>Name</b>	<b>Executive/non-executive director</b>
Mr Chris Alu	Non Executive -Chairman of the Board of Trustees
Captain (N) Alois Ur Tom, OBE	Non Executive
Mr Johnson Kalo	Non Executive
Col David Takendu, OBE (Rtd)	Non Executive
Captain (N) Max Aleale, DMS	Non Executive
Mr Brian Hull	Non Executive
Mr Kisakiu Posman	Non Executive

The above named directors held office during and since the end of the financial year except:

Mr Johnson Kalo	Resigned 16 October 2009
Mr Brian Hull	Resigned 30 September 2009

### Trustee Secretary

The company secretary is Mr Richard Sinamoi.

### Review of operations

The Fund reported a net surplus of K20,830,954 (2008: K39,078,810 [restated]) after income tax expense of K736,913 (2008: benefit of K2,276,054 [restated]).

### Changes in state of affairs

During the financial year there was no significant change in the principal activities or state of affairs of the Fund other than that referred to in the financial statements or notes thereto.

### Change in accounting policies

No changes in accounting policies occurred during the current year.

### Entries in the interest register

There were no entries in the interest register made during the year.

### Directors' remuneration

Remuneration paid to directors has been disclosed in note 23.3 to the financial statements.

### Remuneration above K100,000 per annum

The number of employees or former employees, not being directors of the Trustee company, whose total remuneration and the value of other benefits received, exceeded K100,000, falls within each relevant K50,000 band are disclosed in note 23.2.

### Donations

No donations were made during the current year.



## Defence Force Retirement Benefits Fund

### Independent audit report

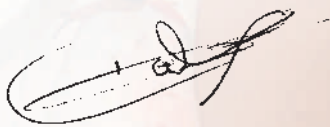
The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent audit report on pages 4 and 5. Fees paid for audit services are disclosed in note 10.2 to the financial statements.

### Subsequent events

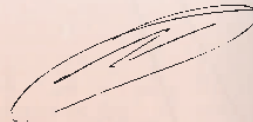
There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Fund, the results of those operations, or the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

Signed in accordance with a resolution of the directors.

On behalf of the Directors



**Mr Chris Alu**  
**Chairman of the Board of Trustees**



**Captain (N) Alois Ur Tom OBE**  
**Director**

Port Moresby 30th March 2010

# Defence Force Retirement Benefits Fund

## Independent Audit Report



Deloitte Touche Tohmatsu

Deloitte Tower, Level 12  
Douglas Street  
Port Moresby  
PO Box 1275 Port Moresby  
National Capital District  
Papua New Guinea

Tel: +675 308 7000  
Fax: +675 308 7001  
[www.deloitte.com/pg](http://www.deloitte.com/pg)

### Independent audit report to the members of Defence Force Retirement Benefits Fund

We have audited the accompanying financial statements of the Defence Force Retirement Benefits Fund, which comprise the statement of net assets as at 31 December 2009, and the statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies, other explanatory notes and the directors' declaration.

#### 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, Superannuation (General Provisions) Act 2000, Prudential Standards issued by the Bank of Papua New Guinea and Companies Act 1997. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, 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 misstatement.

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.



## Defence Force Retirement Benefits Fund

### Independent Audit Report

Defence Force Retirement Benefits Fund  
Independent audit report

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#### Opinion

In our opinion,

- (a) the financial statements of the Defence Force Retirement Benefits Fund give a true and fair view of the Fund's financial position as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000, Prudential Standards issued by the Bank of Papua New Guinea and Companies Act 1997; and
- (b) proper accounting records have been kept.

#### Other Information

We have no interest in the Fund or any relationship other than of auditors of the Fund.

Port Moresby, this 30<sup>th</sup> day of March 2010

*Deloitte Touche Tohmatsu*  
DELOITTE TOUCHE TOHMATSU

*Suzaan Theron*  
By: Suzaan Theron

Partner

Registered under the Accountants Act 1996

# Defence Force Retirement Benefits Fund

## Statement of Changes in Net Assets for the year ended 31 December 2009

	Notes	2009 K	2008 K
<b>Revenue</b>			
<b>Investment Revenue</b>			
Interest income 6	2,642,120	2,776,251	
Dividends	10,756,790	7,118,279	
Property income	7	1,658,948	1,199,242
Change in fair value of investment properties	16	7,117,512	6,551,247
Change in fair value of financial assets		4,306,341	18,020,103
Gain on sale on financial assets		226,881	9,730,898
Direct investment expense		(79,913)	(163,850)
Net Investment Revenue		26,628,679	45,232,170
<b>Contribution Revenue</b>			
Contributions received from members		1,966,662	1,939,048
State share of contribution	9	4,413,357	6,726,234
Total Contribution Revenue		6,380,019	8,665,282
Other Revenue (expense)	8	1,969,011	(781,031)
Total Revenue		34,977,709	53,116,421
<b>Less: Expenses and benefits paid</b>			
• Benefits paid	9	7,441,632	10,489,919
• Trustee administration expenses	10	4,097,353	4,042,345
• Fund investment and administration expenses	11	1,870,857	1,781,401
Total expenses and benefits paid		13,409,842	16,313,665
Change in net assets before income tax		21,567,867	36,802,756
Income tax expense/(benefit)	12	736,913	(2,276,054)
<b>Change in net assets after income tax</b>		<b>20,830,954</b>	<b>39,078,810</b>
Changes in revaluation reserve	15.2	386,960	9,821,000
<b>Net assets available to pay benefits at beginning of the year</b>		<b>300,395,476</b>	<b>251,495,666</b>
<b>Net assets available to pay benefits at end of the year 21</b>		<b>321,613,390</b>	<b>300,395,476</b>

See accompanying notes to the financial statements



## Defence Force Retirement Benefits Fund

### Statement of Net Assets at 31 December 2009

	Notes	2009 K	2008 K
<b>Assets</b>			
Cash and cash equivalents	13	20,805,216	16,871,229
Loans to members and others	14	1,340,411	2,169,051
Current income tax receivable		1,366,981	1,493,948
Deferred income tax assets	12	444,139	356,449
Financial assets			
Fair value through profit and loss	15.1	229,216,718	220,425,650
Available for sale	15.2	18,879,980	18,493,020
Held to maturity	15.3	14,409,508	16,592,940
Investment properties	16	33,152,999	25,682,095
Property and equipment	17	595,382	306,317
Other assets	18	5,848,814	1,896,594
		<b>302,103,401</b>	<b>304,287,293</b>
<b>Liabilities</b>			
Employee provisions	19	818,782	702,901
Deferred income tax liabilities	12	1,054,708	726,290
Other liabilities	20	2,573,268	2,462,626
		<b>4,446,758</b>	<b>3,891,817</b>
Net assets available to pay benefits	21	<b>321,613,390</b>	<b>300,395,476</b>

See accompanying notes to the financial statements

## Defence Force Retirement Benefits Fund

### Statement of Cash Flows for the year ended 31 December 2009

	Note	2009 Kina	2008 Kina
<b>Cash flows from operating activities</b>			
Interest received		1,880,283	1,822,425
Dividend received		10,756,790	7,888,279
Property income received		(13,868)	1,023,772
Contributions received from the members		1,966,662	1,939,048
Benefits paid -including state share		(7,441,632)	(10,489,919)
Cash receipt of state share (benefits)		8,266,884	4,594,086
Other operating income received		—	18,509
Cash payment to employees & suppliers		(5,432,579)	(5,292,425)
Income taxes paid		(369,216)	(392,968)
Cash flows from operating profits before changes in operating assets & liabilities		9,613,324	1,110,807
<b>Changes in operating assets &amp; liabilities:</b>			
Net increase in loans to members and others		(227,441)	(116,559)
Net decrease (increase) in other assets		(2,436,681)	1,189,315
Net increase in other liabilities		(59,579)	(302,748)
Net Cash provided by operating activities		6,889,623	1,880,815
<b>Cash flows from investing activities</b>			
Proceeds from maturity of term deposits		109,162	—
Placement of treasury bills - net		—	795,262
Purchase of financial assets held-to-maturity		—	(3,904,000)
Proceeds on maturity of financial assets held-to-maturity		2,000,000	9,026,777
Purchase of property & equipment		(431,365)	(76,395)
Purchase of investment properties		(375,588)	(947,522)
Purchase of listed shares		(4,618,998)	(14,317,841)
Proceeds from sale of listed shares		361,153	11,407,598
Net Cash used in investing activities		(2,955,636)	(1,983,879)
Net increase in cash & cash equivalents		3,933,987	3,864,694
Cash and cash equivalents at beginning of year		16,871,229	13,006,535
Cash and cash equivalents at end of year	13	20,805,216	16,871,229

See accompanying notes to the financial statements



# Defence Force Retirement Benefits Fund

## 1. Significant accounting policies

### 1.1 Statement of compliance

The financial statements have been prepared in accordance with the Superannuation (General Provisions) Act 2000, International Financial Reporting Standards ("IFRS") and the prudential standards issued by the Bank of Papua New Guinea.

### 1.2 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.

In accordance with the Board's policy, the Fund's investment should be revalued annually.

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.

The principal accounting policies are set out below.

### 1.3 Revenue recognition

Income is recognised on an accrual basis except for interest income from Member Housing Assistant ("MHA"), which are brought to account when received.

#### Investment Revenue

#### 1.3.1 Interest revenue

Interest income is recognised 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 time 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.

#### 1.3.2 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 measured reliably).

#### 1.3.3 Property rental income

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct cost 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.

#### 1.3.4 Movement in fair market value of investments

Changes in fair market value of investments are recognised as income and are determined between 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).

## Defence Force Retirement Benefits Fund

### Contribution Revenue

#### 1.3.5 Member contributions

Contributions received from members are recognised upon receipt.

#### 1.3.6 State share of contribution

Contributions from the Papua New Guinea government are recognised upon receipt.

#### 1.4 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.

#### 1.5 Property, plant and equipment

Property, plant 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 vehicle	30%
Office equipment	20%
Renovation	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.

#### 1.6 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 are valued at 31 December 2009. This valuation was performed by registered valuer, The Professional Valuer of PNG Limited. 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.



## Defence Force Retirement Benefits Fund

### 1.7 Financial assets

The Fund classifies its financial assets into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) 'available-for-sale' (AFS) and held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Financial assets 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 FVTPL.

Investments are valued as at 31 December 2009 as follows:

- i. Listed shares are valued at 31 December 2009 at last sale price on that date. Off-shore investments are converted using the ANZ Bank exchange rate. The rate used AUD0.4166.
- ii. Unlisted shares are independently valued as at 31 December 2009 as adopted by the Board. This valuation was performed by Pertusio Capital Partners Limited 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. The net movement on revaluation is reflected in the statement of changes in net assets.

Financial assets at FVTPL are subsequently re-measured at fair value based on quoted bid prices. Gains or losses arising from changes in the fair value of securities classified as FVTPL are recognised in the statement of changes in net assets in the period in which they arise.

AFS financial assets are recognised at fair value based on an independent valuation. Gains or losses arising from the change in the fair value are recognised in the investment revaluation reserve.

Held-to-maturity investments are non derivative 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.

### 1.8 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 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.

### 1.9 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.

## Defence Force Retirement Benefits Fund

### 1.10 Foreign currency

#### 1.10.1 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.

#### 1.10.2 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 statement of changes in net assets.

### 1.11 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 policies in the current year.

### 1.12 Employee benefits

A liability is recognised 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 recognised 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 recognised in respect of employee benefits which are not expected to be settled 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 are expensed when incurred.

### 1.13 Provisions

Provisions are recognised 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 recognised 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 recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## Defence Force Retirement Benefits Fund

### 1.14 Goods and services tax

Revenues, expenses and assets are recognised 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 recognised 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 recognised 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.

### 1.15 Payables

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

## 2. Description of the Fund

Defence Force Retirement Benefits Fund (the "Fund") was established under the Defence Force Retirement Benefit Fund Act, Chapter 79 (DFRBF Act), however as of 1 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 31 December 2002.

DFRBF is a defined benefit fund. The Trustee at balance date is Comrade Trustee Services Limited (CTSL). 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 requirement of the Superannuation Act 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 2009 was:

Pensioners	2,263
Current members	2,582
	<u>4,845</u>

Both fund administration and investment management functions are delegated to and performed by Kina Investment & Superannuation Services Limited (KISS) and Kina Funds Management Limited (KFM) in compliance with the Superannuation Act 2000. The engagement of KISS and KFM is for a term of three years. The current engagement was renewed effective 1 January 2009 for a further term.

The principal place of business of the Fund is:

Comrade Trustee Services Limited  
Level 6, Defens Haus  
Corner Hunter Street & Champion Parade,  
Port Moresby, National Capital District  
Papua New Guinea



## Defence Force Retirement Benefits Fund

### 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 as at 31 December 2008. The actuarial investigation uses an aggregate costing method, whereby the discounted values of future benefits are compared with the net fund of the assets 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 dated 2 March 2010.

Significant assumptions used applied in the actuarial report are as follow:

Investment Yield	8%
Salary Increase	6%
Pension Increase	4%
Crediting rate	8%
Pension Commutation	50%

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

	<b>31 December 2009 Kina</b>	<b>31 December 2008 Kina</b>
Liability for accrued benefits	<b>49,194,000</b>	30,780,000
Net value of assets	<b>250,305,000</b>	157,199,000

Although the actuarial report is prepared as at 31 December 2008, 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 2010.

Accrued benefits were previously valued as part of a comprehensive review undertaken as at 31 December 2008.

## Defence Force Retirement Benefits Fund

### 5. Critical accounting estimates and judgements

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 Fund 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:

	Notes	2009 K	2008 K
<b>a) Allowance for losses</b>			
Other assets		271,701	191,788
<b>6. Interest income</b>			
This account consists of:			
Cash and short term funds		1,148,985	844,899
Loans and advances		74,517	136,778
Treasury bills		—	40,910
Financial assets			
Available for sale		51,866	222,104
Held-to-maturity		1,366,752	1,531,560
		<u>2,642,120</u>	<u>2,776,251</u>
<b>7. Property income</b>			
Rent		2,268,757	1,823,368
Less: Other management expense		(609,809)	(624,126)
		<u>1,658,948</u>	<u>1,199,242</u>
<b>8. Other investment income (expenses)</b>			
Gain/(loss) from foreign exchange		1,969,011	(799,540)
Others		—	18,509
		<u>1,969,011</u>	<u>(781,031)</u>

# Defence Force Retirement Benefits Fund

## 9. Benefits

	Notes	2009 K	2008 K
Pension and back pension		7,210,403	9,638,376
Refunds		264,636	442,707
Gratuities		6,520	9,460
Lump sum		(39,927)	399,376
		7,441,632	10,489,919
Less : State share		(4,413,357)	(6,726,234)
Net benefit paid		3,028,275	3,763,685

As discussed in note 3, in accordance with Part IV of the DFRBF Act the employer (the "State") contribution is 60% of pension benefits.

## 10. Trustee administration expenses

Staff expenses	10.1	2,032,684	2,071,803
Other administrative expenses	10.2	1,165,197	1,145,768
Depreciation		142,301	116,001
Software cost		78,047	150
Operating lease		233,062	211,327
GST expense		315,755	289,412
Other		130,307	207,884
		4,097,353	4,042,345

### 10.1 Staff expenses

Salaries and wages		1,193,656	1,383,880
Superannuation contributions		172,233	123,611
Staff accommodation		452,923	405,623
Travel and accommodation		41,437	41,223
Training		8,030	19,461
School fee allowances		95,396	77,940
Other		69,009	20,064
	10	2,032,684	2,071,802

As at 31 December 2009 the Fund had 21 (2008: 21) employees.



## Defence Force Retirement Benefits Fund

### 10.2 Other administrative expenses

	Notes	2009 K	2008 K
Advertising		51,680	46,908
Board of Trustee expenses		240,294	239,173
Internet service provider		56,898	38,213
License fee		163,954	163,771
Printing and stationery		164,241	82,916
Professional fees			
Audit services		150,500	106,259
Legal		36,669	107,858
Consulting		6,560	88,066
Telephone		95,698	94,427
Insurance		81,776	79,936
Business travel		60,299	31,214
Sundry expenses		56,628	67,027
	10	<u>1,165,197</u>	<u>1,145,768</u>

### 11. Fund investment and administration expenses

Fund administration fee	450,106	371,832
Investment management fee	1,412,215	1,408,102
Benefits payment fee	8,536	1,467
	<u>1,870,857</u>	<u>1,781,401</u>

### 12. Income taxes

#### 12.1 Income tax recognised in profit or loss

Tax expense comprises:

Current tax expense in respect of the current year	582,235	(2,033,462)
Deferred tax expense relating to the origination and reversal of temporary differences	240,728	(1,304,559)
Over/(under) provision in prior year	(86,050)	1,061,967
	<u>736,913</u>	<u>(2,276,054)</u>

# Defence Force Retirement Benefits Fund

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

	Notes	2009 K	2008 K
Profit from continuing operations		21,567,870	36,802,756
Income tax expense calculated at 25%		5,391,968	9,200,689
Tax effect of permanent differences		(2,446,125)	(10,852,120)
Dividends rebate		(2,122,880)	(1,686,590)
(Over)/under provision in prior year		(86,050)	1,061,967
		<u>736,913</u>	<u>(2,276,054)</u>

## 12.3 Deferred tax balances

### (a) Deferred tax assets

	Opening balance K	Recognised in Surplus K	Closing balance K
<b>2009</b>			
Temporary difference			
Accruals and allowances	149,295	35,494	184,789
Other assets	47,947	19,978	67,925
Employee benefits	159,207	32,218	191,425
	<u>356,449</u>	<u>87,690</u>	<u>444,139</u>
<b>2008</b>			
Temporary difference			
Accruals and allowances	111,412	37,883	149,295
Other assets	6,984	40,963	47,947
Employee benefits	113,942	45,265	159,207
	<u>232,338</u>	<u>124,111</u>	<u>356,449</u>

### (b) Deferred tax liabilities

	Opening balance K	Recognised in Surplus K	Closing balance K
<b>2009</b>			
Rent receivable	49,058	(41,892)	7,166
Interest receivable	373,245	(56,186)	317,059
Prepaid insurance	9,802	(2,124)	7,678
Depreciation (differences between tax and accounting value)	294,185	15,915	310,100
Other assets	–	412,705	412,705
	<u>726,290</u>	<u>328,418</u>	<u>1,054,708</u>

## Defence Force Retirement Benefits Fund

	Opening balance	Recognised in Surplus	Closing balance
	K	K	K
<b>2008</b>			
Rent receivable	51,748	(2,690)	49,058
Interest receivable	297,548	75,697	373,245
Prepaid insurance	8,417	1,385	9,802
Depreciation (differences between tax and accounting value)	1,551,551	(1,257,366)	294,185
Gains from foreign exchange translation	(2,526)	2,526	–
	<u>1,906,738</u>	<u>(1,180,448)</u>	<u>726,290</u>

### 13. Cash and cash equivalents

	Notes	2009 K	2008 K
Cash on hand		700	700
Cash in banks		288,597	307,312
Term deposits – less than 90 days		20,515,919	16,563,217
		<u>20,805,216</u>	<u>16,871,229</u>

### 14. Loans to members and others

Members			
Tertiary education scheme		1,917	1,917
Housing advance		1,338,494	1,111,054
		<u>1,340,411</u>	<u>1,112,971</u>
Others			
State share		–	1,056,080
		<u>1,340,411</u>	<u>2,169,051</u>

Loans are at fixed rates. The aggregate amount of non-performing loans on which interest was not being accrued amounted to nil (2008: nil) as at 31 December 2009.



# Defence Force Retirement Benefits Fund

## 15. Financial assets

### 15.1 Financial assets at FVTPL

	Notes	2009 K	2008 K
Listed shares	25	196,007,505	195,527,319
Unlisted shares	25	33,209,213	24,898,328
		229,216,718	220,425,647

### 15.2 Available-for-sale financial assets

Balance at beginning of year (as originally reported)	–	2,457,143
Change in fair value of AFS financial asset	–	6,214,880
Balance at beginning of year, restated (i)	18,493,020	8,672,023
Change in fair value of AFS financial asset	386,960	9,821,000
Balance at end of year	18,879,980	18,493,023

#### (i) Prior year restatement

The investment in Hunter Limited has been designated by the Fund as AFS financial asset. Under this designation, the investment must be reported on a fair value basis in accordance with IAS 39: Financial Instrument – Recognition and Measurement. The investment in Hunter, as originally reported in the 2008 financial statements was carried at a cost basis. In this regard, the 2008 financial statements were restated in order to comply with the provisions of IAS 39. The effects of the restatement were:

- An investments revaluation reserve was set up and an amount of K 6,214,880 was recognised in this reserve account. The amount was attributable to the change in fair value of the investment in Hunter Ltd for the 2007 financial year.
- The investment revaluation reserve was increased by K 9,821,000 in the 2008 financial year. This increase was due to the change in fair value of the investment in Hunter Ltd.

### 15.3 Held-to-maturity financial assets

Government securities	13,783,557	15,857,826
Term deposits – more than 90 days	625,951	735,114
	14,409,508	16,592,940

Government securities are investment in government inscribed stock carried at amortised cost. These deposits are held to their maturity which varies between 2011 and 2023. Details of the government inscribed stock are set out in Note 26.

## Defence Force Retirement Benefits Fund

### 16. Investment properties

	Notes	2009 K	2008 K
Balance at beginning of financial year		25,682,095	18,209,269
Additions from subsequent expenditure		353,392	921,579
Net gain/(loss) from fair value adjustments		7,117,512	6,551,247
Balance at end of financial year		<u>33,152,999</u>	<u>25,682,095</u>

The fair value of the Fund's investment property at 31 December 2009 (31 December 2008) has been arrived at on the basis of a valuation carried out at that date by The Professional Valuers of PNG Limited, independent valuers that are not related to the Trustee.

### 17. Property and equipment

	Motor Vehicle K	Furniture and Fitting K	Other equipment K	Renovation K	Software K	Total K
<b>Cost</b>						
Balance at 1 January 2009	77,272	526,826	297,274	331,420	73,970	1,306,762
Additions	–	–	30,733	372,418	28,213	431,364
<b>Balance at 31 December 2009</b>	<b>77,272</b>	<b>526,826</b>	<b>328,007</b>	<b>703,838</b>	<b>102,183</b>	<b>1,738,126</b>
<b>Accumulated depreciation</b>						
Balance at 1 January 2009	53,636	518,192	191,043	165,517	72,056	1,000,444
Charged during year	17,727	2,412	46,387	68,835	6,939	142,300
<b>Balance at 31 December 2009</b>	<b>71,363</b>	<b>520,604</b>	<b>237,430</b>	<b>234,352</b>	<b>78,995</b>	<b>1,142,744</b>
<b>Net book value at 31 December 2009</b>	<b>5,909</b>	<b>6,222</b>	<b>90,577</b>	<b>469,486</b>	<b>23,188</b>	<b>595,382</b>
Net book value at 31 December 2008	23,636	8,634	106,231	165,902	1,914	306,317

# Defence Force Retirement Benefits Fund

## 18. Other assets

	Notes	2009 K	2008 K
Prepayments		72,604	54,444
Debtors - Corporate		2,969,284	1,273,863
Security deposits		43,363	35,180
Accrued interests			
Term deposits		227,324	140,043
State share		271,701	191,793
Financial assets			
Held-to-maturity		159,526	172,734
GST Receivable		—	220,330
Sundry debtors		2,376,713	
Total		6,120,515	2,088,387
Less: specific allowance for losses		(271,701)	(191,788)
		5,848,814	1,896,599

Movements in specific allowance for losses are as follows:

Balance at beginning of year	191,788	27,938
Impairment losses during the year	79,913	163,850
Balance at end of year	271,701	191,788

## 19. Employee provisions

Balance at beginning of year	702,901	455,767
Charged to profit & loss	115,881	247,904
Utilized during the year	—	(770)
Balance at end of year	818,782	702,901
Represented by		
Short term provisions	264,037	187,572
Long term provisions	554,745	515,329
	818,782	702,901

## 20. Other liabilities

Creditors	556,263	428,090
Government - retrenchment (i)	1,177,811	1,322,285
Unclaimed monies (ii)	99,384	114,825
Accruals	739,810	597,426
	2,573,268	2,462,626



## Defence Force Retirement Benefits Fund

- (i) The balance represents the difference between the State share (60%) of the contribution received by the Fund and the payment made to members who were retrenched in 2006.

Pending on further instructions from the State, the Fund will either remit the remaining balance to the State or apply this amount against future member retrenchments.

- (ii) The balance represents outstanding unclaimed benefit payments by members that were processed in prior years.

### 21. Net assets available to pay benefits

Net assets available to pay benefits comprise:

	Notes	2009 K	2008 K
(a) Members funds			
Balance at beginning of year		284,359,596	245,280,786
Surplus for the year		20,830,954	39,078,810
		<u>305,190,550</u>	<u>284,359,596</u>
(b) Investment revaluation reserve			
Balance at beginning of year (as originally reported)		—	—
Change in fair value of AFS financial asset		—	6,214,880
Balance at beginning of year		16,035,880	6,214,880
Change in fair value of AFS financial asset	15.2	386,960	9,821,000
		<u>16,422,840</u>	<u>16,035,880</u>
Net assets available to pay benefits		<u>321,613,390</u>	<u>300,395,476</u>

### 22. Notes to the statement of cash flows

For the purposes of the cash flow statement, cash includes cash on hand, on call deposits with banks and placement in banks with less than 90 days maturity. (see note 13)

## Defence Force Retirement Benefits Fund

### 23. 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.

#### 23.1 Key management personnel remuneration specified in aggregate in the year 2009:

	2009 K	2008 K
Salary	531,784	511,000
Bonus	–	99,519
Non-monetary (i)	16,576	17,280
Superannuation	59,657	60,000
Prescribed Benefit	84,000	411,720
	692,017	1,099,519

(i) Non-monetary benefits relates to value of assessable benefits charged for salary tax purposes on housing and motor vehicles provided to key management.

#### 23.2 Above K100,000 per annum

The number of employees or former employees, not being directors of the Trustee company, whose total remuneration and the value of other benefits received, exceeded K100,000 per annum are as follows:

	2009	2008
K501,000 – K550,000	2	2

#### 23.3 Board of Directors remuneration aggregate in the year 2009:

	2009 K	2008 K
Stipend	68,000	75,165
Sitting fees	107,600	92,150
	175,600	167,315

### 24. 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.

## Defence Force Retirement Benefits Fund

### 24.1 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 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 of a mix of pension commutation and a fortnightly pension payable through out the life-time of the member.

### 24.2 Government security risk

The Fund has a significant exposure to the state through its holding of government securities.

### 24.3 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. The Fund's investments in foreign jurisdiction has been primarily in Australia to the value of K52,957,508 (2008: K32,163,295). Country risk is assessed on a scale of low-medium-high.

### 24.4 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 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.

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

	Weighted average interest rate K	Up to 1 Year K	1-5 Years K	Over 5 Years K	Non-interest Bearing K	Total K
<b>December 2009</b>						
<b>Assets</b>						
Cash and cash equivalents	5.32%	20,805,216	–	–	–	20,805,216
Loans to members and others	8.00%	–	1,340,411	–	–	1,340,411
Current income tax receivable		–	–	–	1,183,950	1,183,950
<b>Financial assets</b>						
FVTPL					229,216,718	229,216,718
Available-for-sale		–	–	–	18,879,980	18,879,980
Held-to-maturity	9.10%	–	625,951	13,783,557	–	14,409,508
Other assets		–	–	–	5,848,815	5,848,815
<b>Liabilities</b>						
Other liabilities		–	–	–	2,573,268	2,573,268
<b>Interest sensitivity gap</b>		<b>20,805,216</b>	<b>1,966,362</b>	<b>13,783,557</b>	<b>257,702,731</b>	<b>294,257,866</b>



## Defence Force Retirement Benefits Fund

	Weighted average interest Rate	Up to 1 Year K	1-5 Years K	Over 5 Years K	Non-interest Bearing K	Total K
<b>31 December 2008</b>						
<b>Assets</b>						
Cash and cash equivalents	5.69%	16,871,229	735,114	—	—	17,606,343
Loans to members and others	8.00%	1,056,081	1,112,970	—	—	2,169,051
Current income tax receivable		—	—	—	1,493,943	1,493,943
Financial assets						
FVTPL		—	—	—	220,425,647	220,425,647
Available-for-sale		—	—	—	18,493,023	18,493,023
Held-to-maturity	9.10%	—	1,903,551	14,689,389	—	16,592,940
Other assets		—	—	—	1,896,599	1,896,599
<b>Liabilities</b>						
Other liabilities		—	—	—	2,462,626	2,462,626
<b>Interest sensitivity gap</b>		<b>17,927,310</b>	<b>3,751,635</b>	<b>14,689,389</b>	<b>244,771,838</b>	<b>281,140,172</b>

### 24.5 Foreign Currency 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 summarizes Fund's exposure to currency risks, concentration of assets and liabilities:

	2009 K	2008 K
Australian currency		
Assets	51,789,604	30,993,113

### 24.6 Foreign currency sensitivity analysis

The Fund is mainly exposed to the Australian dollar.

The following table details the Fund's sensitivity to a 2% increase and decrease in the Kina against the Australian dollar. 2% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 2% change in foreign currency rates. The sensitivity analysis includes deposits and investments where the denominations are in Australian dollar. A positive number below indicates an increase in profit and other equity where the Kina strengthens 2% against Australian dollar. For a 2% weakening of the Kina against the Australian dollar, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	2009 K	2008 K
Surplus/(Deficit)	(903,897)	483,015

## Defence Force Retirement Benefits Fund

### 24.7 Fair values of financial assets and liabilities

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

	Carrying Value		Fair Value	
	2009 K	2008 K	2009 K	2008 K
<b>Assets</b>				
Cash from other banks	20,805,216	16,871,229	20,805,216	16,871,229
Loans receivable	1,340,411	2,169,051	1,340,411	2,169,051
Current income tax receivable	1,366,981	1,493,943	1,366,981	1,493,943
Deferred income tax assets	444,139	356,449	444,139	356,449
Financial assets				
FVTPL	229,216,718	220,425,650	229,216,718	220,425,650
Available-for-sale	18,879,980	18,493,020	18,879,980	18,493,020
Held-to-maturity	14,409,508	16,592,940	14,409,508	16,592,940
Investment properties	33,152,999	25,682,095	33,152,999	25,682,095
Property and equipment	595,382	306,317	595,382	306,317
Other assets	5,848,815	1,896,599	5,848,815	1,896,599
	<u>302,103,402</u>	<u>304,287,293</u>	<u>302,103,402</u>	<u>304,287,293</u>
<b>Liabilities</b>				
Deferred income tax liabilities	818,782	726,290	818,782	726,290
Employee provisions	1,053,987	702,901	1,053,987	702,901
Other liabilities	2,573,268	2,462,626	2,573,268	2,462,626
	<u>4,446,038</u>	<u>3,891,817</u>	<u>4,446,038</u>	<u>3,891,817</u>
<b>Net</b>	<u>321,613,390</u>	<u>300,395,476</u>	<u>321,613,390</u>	<u>300,395,476</u>

#### 24.7.1 Cash and cash equivalents

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.

#### 24.7.2 Loans and advances to customers

Loan and advances are net of allowance for losses.

#### 24.7.3 Investment securities

In 2009, investment securities include financial assets at FVTPL, available-for-sale and held-to-maturity which are now measured at fair value based on a market prices or broker/dealer price quotations.

### 24.8 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.

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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:

	2009		2008	
Assets	K	%	K	%
Cash and cash equivalents	20,805,216	6.55%	16,871,229	5.62%
Loans to members and others	1,340,411	0.42%	2,169,051	0.72%
Financial assets				
FVTPL	229,216,718	72.12%	220,425,650	73.42%
Available –for-sale	18,879,980	5.94%	18,493,020	6.16%
Held-to-maturity	14,409,508	4.53%	16,592,940	5.53%
Investment properties	33,152,999	10.43%	25,682,095	8.55%
	<u>317,804,832</u>	<u>100%</u>	<u>300,233,985</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.

### 24.9 Equity price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If the equity price had been higher/lower, the net surplus for the year ended 31 December 2009 would increase/decrease by K3.91 million as a result in the changes in fair market value of listed shares classified as at FVPTL.



## Defence Force Retirement Benefits Fund

### 25. Detailed Listing of Financial assets held by the Fund

#### 25.1 Listed shares

Companies	31 December 2009				31 December 2008	
	Market Price K	Unit	Market Value K	Shareholding as a % of net assets of the Fund	Market Value 31/12/2008 Kina	Shareholding as a % of net assets of the Fund
Bank South Pacific	0.85	155,747,742	132,385,581	41.16%	152,887,035	53.77%
Oil Search 14.71	2,262,400	33,289,755	10.35%	17,002,348	8.98%	
Kina Asset Management Ltd	1.13	7,380,000	8,339,400	2.59%	8,929,800	3.14%
Credit Corporation	1.77	2,694,629	4,769,493	1.48%	6,736,572	2.37%
New Britain Palm Oil	17.40	243,679	4,240,015	1.32%	2,924,148	1.03%
BHP Billiton Ltd	103.50	30,000	3,105,137	0.97%	1,701,509	0.60%
Highlands Pacific	0.83	2,804,737	2,322,694	0.72%	391,942	0.14%
Telstra 3 <T3>	8.23	204,000	1,679,597	0.52%	1,455,785	0.51%
ANZ Banking	54.92	30,000	1,647,624	0.51%	854,667	0.30%
Telstra Corporation	8.23	170,000	1,399,664	0.44%	1,213,154	0.43%
Commonwealth Bank of Australia	131.66	10,000	1,316,611	0.41%	538,476	0.19%
Multiplex Sites Trust	206.43	2,500	516,079	0.16%	97,820	0.03%
Southern Cross Media Group	4.63	75,000	347,456	0.11%	135,551	0.05%
Mahogany Capital Ltd	144.02	2,500	360,058	0.11%	279,486	0.10%
Macquarie Infrastructure Group	3.20	60,000	192,271	0.06%	191,168	0.07%
Alpha Collateralised Debt Obligation	34.81	2,000	69,611	0.02%	61,487	0.02%
Marengo Mining Ltd	0.37	71,112	26,458	0.01%		10,600
River City Motorway Group	—	—	—	—	106,455	0.04%
Allco Max Securities & Mortgage	—	—	—	—	9,316	0.01%
		<u>196,007,504</u>		<u>195,527,319</u>		

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### 25.2 Unlisted shares

Companies	31 December 2009				31 December 2008	
	Market Price K	Units	Market Value K	Shareholding as a % of net assets of the Fund	Market Value K	Shareholding as a % of net assets of the Fund
BPT(PNG) Ltd	20.27	98,670	2,000,041	0.62%	1,480,050	0.49%
Arnott's Biscuit	72.00	225,000	16,200,000	5.04%	13,506,637	4.50%
Post Courier	12.42	110,900	1,377,378	0.43%	443,600	0.15%
South Pacific Brewery	21.18	566,668	12,002,028	3.73%	7,933,352	2.64%
Pacific Balanced Fund (ICPNG)	5.60	56,497	316,383	0.10%	316,383	0.11%
ABN AMRO Social Infrastructure	1.95	500,000	972,752	0.30%	909,308	0.30%
AMP Capital China	2.28	149,250	340,631	0.11%	308,998	0.10%
Financial assets at FVTPL			<u>33,209,213</u>		<u>24,898,328</u>	
Hunter		70	<u>18,879,980</u>	5.87%	<u>18,493,020</u>	6.16%
AFS financial assets			<u>18,879,980</u>		<u>18,493,020</u>	

### 26. List of Investment Securities held – to – maturity (Government Inscribed Stock)

Serial Number	Settlement Date	Maturity Date	Coupon Rate	Face Value 31/12/2009 K	Face Value 31/12/2008 K
S15112009	17/11/2006	15/11/2009	5.00%	-	1,000,000
S15112016	17/11/2006	15/11/2016	9.00%	4,000,000	4,000,000
S15112021	17/11/2006	15/11/2021	12.00%	3,000,000	3,000,000
S15112009	15/12/2006	15/11/2009	5.00%	-	1,000,000
S15112021	15/12/2006	15/11/2021	12.00%	1,000,000	1,000,000
S15112016	12/01/2007	15/11/2016	9.00%	1,000,000	1,000,000
S15112023 (G37)	11/04/2008	15/11/2023	12.00%	2,000,000	2,000,000
S15112023 (G38)	16/05/2008	15/11/2023	12.00%	1,000,000	1,000,000
S15112018 (G39)	15/05/2008	15/11/2018	9.00%	333,000	333,000
S15112011 (G40)	11/07/2008	15/11/2011	6.00%	571,000	571,000
<b>TOTAL INSCRIBED STOCK</b>				<u><b>12,904,000</b></u>	<u><b>14,904,000</b></u>

### 27. Audit Fees

The auditor is Deloitte Touche Tohmatsu. The audit fees paid for the audit of the consolidated financial statements are disclosed in note 10.2.

### 28. Subsequent events

Subsequent to balance date, the Fund's investment in Bank South Pacific (significant exposure) share price has decreased from K0.85 per share to K0.71 per share at 25 March 2010. This has potentially resulted in a decrease of K21.80 million to the total investment value at year end.

Other than noted above, there are no matter 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.

## Defence Force Retirement Benefits Fund

### Corporate Directory

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**Management:**

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



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