

2015 ANNUAL REPORT



DEFENCE FORCE RETIREMENT BENEFIT FUND



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Vision & Mission Statement

The vision of the company is:-

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

And the mission is:-

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

Corporate Values

The achievement of our mission statement requires all Directors and employees of 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 among staff and rewards them through:-

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

Built on our corporate values of:-

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



Chairman's Statement



Dear Members

I am delighted to present to you my first report as Chairman of the Comrade Trustee Services Limited (CTSL) Board of Trustees for the Defence Force Retirement Benefit Fund (DFRBF and/or The Fund). 2015 has been an exciting year as the global economic conditions continue to have a significant influence on Commodity Prices and Financial markets, especially as the PNG Kina continues to face downward pressure because of the global uncertainties and PNG maintains a high import demand which has an adverse impact on the supply of foreign currency.

The Fund was able to achieve a net asset value of K461.1 million up from K447.8 million the previous year and was able to record an after tax net surplus of K42.3 million compared to K5.9 million in 2014. This has been the result of increased dividend receipts, higher fixed income investment returns and favourable valuation gains on key assets.

I invite members to refer to the Fund Manager's report which shows that while they reported the year as being one of the most challenging on record, they also see an atmosphere of "optimism" ahead, with investors looking forward, moving into a period of new found stability and growth. The licensed investment manager makes the point that in spite of the strained economic conditions, your Fund managed to report a very positive return.

I also welcome the 309 new recruits in the PNG Defence Force who have joined the Fund over the course of the year, bringing the total membership to 3,293 as at 31 December 2015 compared to 3,096 as at 31 December 2014. Membership is growing in conjunction with the Defence Force's manpower plan and recruitment policy. The full details on membership are outlined in the Fund Administrator's Statement.

In last year's report we highlighted that The Fund Review process was in its middle stages and that the Fund Review Team expected the review submission to be debated and enacted in the nation's Parliament during 2015. I am pleased to confirm that the enactment of the Fund Review changes was approved in November 2015 and the approved Fund Review changes will be implemented in 2016. This means that a new Accumulation superannuation scheme will commence operations under the Fund from 1st January 2016 and our members will have the opportunity of choosing which superannuation scheme they would like to have their retirement savings managed.

The Fund has completed some of its major property development projects during 2015 coinciding with the regulatory reforms. Our new headquarters (Comrade Haus) for the Trustee has been completed and the Fund is now able to provide members with a more accessible and pleasant location with better amenities and services for members.

The members' Home Ownership Scheme through the 100% owned subsidiary (Toea Homes Limited) continued to be progressed and gained momentum during 2015, with the official ground-breaking ceremony and the completion of early earthworks requirements to set the foundations for the construction of the planned buildings and operations. This planned 'retirement village' concept will be a significant tangible contribution to the members of the Fund, especially those who have served and contributed to our Defence Force for a long period of time.

Your Board also welcomed new directors who were appointed from January 1, 2015, Mr. Paul Nindipa as an independent director and retired Colonel Fred Aikung, who will be the Pensioner representative on the Board.

The Board's continued primary objective is to work for the benefit of all members, conscious of the global economic challenges which prompts us to be diligent and cost-efficient in looking after your Fund.

Finally, on behalf of your Board I thank each and every employee of CTSL led by the Chief Executive Officer Mr. Richard Sinamoi for their commitment and dedication in their respective roles towards the ongoing success of the Fund. We all have been ably supported in our roles by all our service providers.

Moses Koiri
Chairman



Chief Executive Officer's Report



Dear Members

The year in review has been quite historic for the operations of the Defence Force Retirement Benefit Fund (DFRBF) with many positive internal achievements and members can be reassured that the operations of their Fund continues to progress despite the adverse global and domestic economic conditions.

As the members will see the Fund generated a net surplus of K42.3 million, an outstanding growth compared to a net surplus of K5.9 million in 2014. The growth in net surplus was mainly attributed by the following: (1) Increased dividend income received from investee companies; (2) Net gain on the value of financial assets & investment properties; (3) Controlled operational expenses – The Fund maintained a Management Expense Ratio (MER) of 1.36% better than the previous year.

The result of the Fund are summarised as follows:

	2015	2014
Net Asset Value	461,133,310	447,773,678
Net Surplus (after tax)	42,318,562	5,882,675
Total Benefits paid	17,048,290	20,102,153
Rate of Return	2.94%	1.65%
Management Expense Ratio	1.36%	2.30%
Interest Crediting Rate	2.94%	1.65%
CPI Indexation rate	6.4%	6.6%
Total Active Membership	3,293	3,096
Total Pensioners	1,764	1,841
Total Members contribution received	4,852,366	4,067,073

Other key highlights during the year included:

- **Fund Review** - commencing implementation of operation of the new guidelines following the Fund Review and amendments to the DFRBF Act. Which was enacted through the PNG Parliament during the November Budget Session of 2015. Allowing existing contributors to either elect to transfer to the Accumulation Fund or choose to remain in the Defined Benefit Fund. The current contributors would have to make these choices in the new year before the 1st of July 2016. This amendment will effectively close the pension scheme to all new members enlisting in the PNGDF from 1 January 2016.
- **Members home ownership scheme** - the Fund through its 100% owned subsidiary Toea Homes Limited (THL) has started the development of stage one of the members home ownership scheme near the Taurama Barracks. Stage one will consist of around 500 allotments with phase one comprising 150 homes to be available by the fourth quarter of 2016 and through to 2017, comprising three, four and five bedroom houses.

This scheme will be extended to other military bases throughout Papua New Guinea. The home ownership scheme through the special purpose vehicle company THL will ensure that the homes are durable, are of good quality and affordable to eligible members.

- **New Head Office** - This year has seen us take up residence at the newly constructed building (Comrade Haus). This will be the main office for the trustee with the executive management and Board located on level 1 and a new look member services office on the ground floor. The design and layout is intended to provide members with a comfortable environment to deliver improved services.
- **Five year strategic plan (2016 -2020)** – The Board and management reviewed and re-aligned the five year strategic plan at the end of 2015, to cater for changes and the challenges ahead with having both a Defined Benefit scheme and Accumulation scheme under the one Fund.
- **Closely working with Government Departments** - We continue to maintain our close cooperation with the Department of Treasury and the PNGDF hierarchy to improve collection and payment of ongoing contributions and pension payments.

Investments

The Fund maintains its strategic asset allocation of 80% Domestic and 20% International to achieve the ongoing growth return through a balanced portfolio of both growth and income assets.

Strategic Asset Allocation for the period is as follows:

Asset Class	Value 2015	2015 %	Target Allocation %	Sector Range % Low - High
Cash	8,093,549	1.9	3	0-5
Fixed Interest	42,512,397	9.8	22	10-36
Equity	196,057,867	45.2	33	18-62
Property	118,216,854	27.3	22	10-35
International	68,622,038	15.8	20	5-30
Total	433,502,705	100.00	100	100

Other investment highlights in 2015

- Continue to manage and monitor the significant exposure particularly in Bank South of Pacific Limited of 23% of the net assets. The Fund maintain its sell position and continues to do so as opportunities become available on the market.
- Purchased 5.25 million shares of Kina Securities Ltd at IPO.
- Acquired outstanding 30% interest in the investee company Hunter Limited resulting in a 100%, shareholding. Following the settlement of the purchase, Hunter Limited was merged with the assets of the Fund.

The Membership

2016 will bring about new challenges for the Fund none more so than with the enactment of the amendment to DFRBF Act introducing the accumulations scheme. The members will be making an important choice to either join the accumulation scheme or remain in the defined benefit scheme. We will be working closely with all stakeholders including the Department of Treasury, PNG Defence Force, Bank of Papua New Guinea, Fund Administrator, Fund Investment Managers and the Fund's Actuary to ensure smooth transition of members making those important choices.

The Fund membership has grown by 6% with the recruitment of 309 new recruits in 2015, which brings the total contributing members of the Fund to 3,293. Total superannuation savings contribution by members' including accumulated interest grew to over K75 million at the end of the year.

We also saw a decrease in active pensioners by 4% this year from 2014. This was a result of a combination of the pension suspension exercise and normal aging. Pensioners during the year received an interim CPI increase of 5% a total of K14.92 million was paid out as pension benefits during 2015. The State liability owing on the pension payments at the end of 2015 totalled K10.58 million.

Benefit payments made in 2015 totalled K2.11 million with a total of K0.38 million paid as refunds and K1.73 million paid as commutation payments. Part of the payments were for 74 exiting members from the Defence Force who had served more than 20 years.

Governance, Risk and Compliance

This year the regulator Bank of Papua New Guinea (BPNG) introduced two new Prudential Standards 1/2015 Authorised Superannuation Fund Investments and Prudential Standard 8/2015 Risk Management for compliance and the Fund had completed all requirements by the end of 2015 to be fully compliant with the standards issued.

The BPNG also conducted an Assets Verification Exercise which included the review of the Insurance cover for the fund assets. Such reviews are conducted by the BPNG to assist the Fund in ensuring that all processes in the acquisition, management and disposal of assets are done within the proper processes and procedures according to the set policies, procedures and regulation guidelines thus mitigation any risks and conducting business in the best interest of the members.

The Fund has taken into consideration the findings and recommendations of the Asset Verification Exercise and have set targets to ensure adherence to the recommendations in 2016.

In the New Year the trustee will be expanding the Governance, Risk and Compliance Section with the recruitment of new staff to ensure regular monitoring and implementation of the recommendations along with compliance to the Prudential Standards.

For purposes of ensuring the operations and processes of each function within the Fund are tested the Fund has outsourced the internal audit function to PricewaterhouseCoopers, this year they completed function test of Investment processes as final part of the Fund's three year Internal Audit plan and intention to continue for another three year plan from 2016 in accordance with the regulators recommendations.

Summary

The year 2015 was an exciting year for DFRBF as the ongoing global and domestic economic uncertainty continued to impact nations throughout the world the positive performance indicates that the Fund continues its sound operations with a competitive current growth rate in the global environment.

The Board and Management are committed will continue to maintain its strategic approach to be progressive in its investment recommendations, but conscious of the need to control risk. The Fund has had a historic experience of dramatic growth in participating sound positive opportunities as they become available and this will continue be the strategy moving forward of the back of comprehensive research and business case development.

We are very conscious of the need to continue the responsible management and the expectations of members following the changes to the legislation. Members can be assured that we will continue to keep them fully aware of the essential data with periodic member awareness drives. In this I cautioned members that past performance is not an indication of future performance, but with sounds strategies, a competent board and dedicated team at CTSL along with the support of our administration and fund managers, we have a team that will work to grow your retirement savings and improve the delivery of benefits.

We look forward to the coming year as we are well positioned to participate in new opportunities, together you will prosper.



Richard Sinamoi
Chief Executive Officer

Fund Manager's Report 2015

The year was as challenging as we've ever seen, with the divergence of major global economies providing impetus for what has been a most volatile investment environment. Nevertheless, there is always optimism; looking forward, moving into a period of new found stability and growth; unlocking the value of all investments and achieving investment objectives.

Global growth was again sluggish in light of the continuance of divergent trends amongst the world's major economies. The United States, for the first time in seven years lifted their benchmark interest rate after vast improvements in economic conditions supported a tightening of Monetary Policy. The Chinese maintained a gradual deceleration of the pace of economic growth as the rest of the world tried to circumvent the contagion of economic stagnancy.

The domestic economy was again reflective of a country highly leveraged on its mineral wealth. Economic growth sputtered at 9.0% from initial double-digit expectations as oversupply issues purveyed commodity markets. Expansionary policies did little to counter the impact of lost revenue as public and private enterprise succumbed to the lack of fiscal capacity. The Kina continued in its downward momentum as high import demand outweighed the supply of foreign currency.

In spite of the strained economic conditions the Fund recorded an investment return of 12.5% supporting the growth of Net Asset Value to K461.1m in 2015. The performance of the Fund was primarily attributed to increased dividend receipts, fixed income investments and valuations gains on key assets.

Major Developments


The Fund advanced major property development projects and regulatory reforms during the year. Headquarters of the Trustee, Comrade Haus was completed and saw the movement of most of the administrative functions to the Hohola precinct. Toea Homes Project gained momentum with the ground-breaking and subsequent advancement of earthwork to set the foundation for the commencement of building.

2015 was also the first year operating under the guidelines of the Bank of Papua New Guinea Prudential Standards 1/2014. Under the new guidelines Kina funds Management initiated the biannual review of all investment assets and, developed the Exposure Exit Plan; a guide to illustrate the avenues to regulate the exposure of the Fund to single assets. The reforms will ensure adequate compliance with regulatory requirements and provide the trustee with a clear view of the Fund, to ensure timely and informed decision making.

Going Forward

Moving into a transitory period we will be reviewing the Investment Strategy; bringing into alignment the guidelines of investment practice with the objectives of both a defined and accumulated benefit. Though it may be at times challenging we remain confident in our capabilities and our chosen markets.

Finally we congratulate you for generating a positive result in spite of the times, and we look forward to supporting the vision of the Fund as we move into another year and onto another milestone.



Yours Sincerely,

Kina Funds Management Limited

together it's possible

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Fund Administrator's Statement

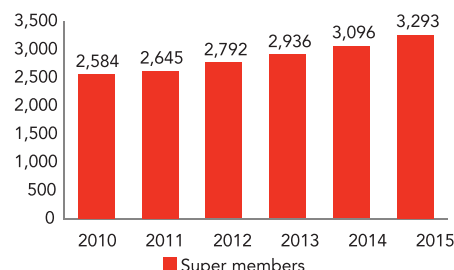
2015 was another exciting year of partnership between Comrade Trustee Services Limited and Kina Investment & Superannuation Services Limited. We were able to implement a 5% CPI adjustment and 100% increase on pension rates to provide for the increasing cost of goods and services. The efficient execution of these events was well supported by the enhanced processes we initiated during the year as the pensioners receive their benefits on time. It is also with great pleasure that we were able to achieve a 100% rating for service levels in July 2015 and maintained this same perfect rating ever since.

As your fund administrator we remain committed to continuous improvements to ensure we deliver to you superior customer service at all times. Our staff play an important part of this process and we are helping them to develop and grow by investing in them to gain the necessary qualifications, skills and experience they need to provide the superior customer service to the members of the fund. In 2015, a total of 15 staff members successfully completed the RG146 course with the Association of Superannuation Fund of Australia (ASFA) which is a certified course in Australia and the premier compliance course for the superannuation industry.

2016 will see the introduction of the new accumulation scheme and online portal. These initiatives are a major step forward for CTSL members. The accumulation fund will provide defence force personnel with more control over their superannuation, greater portability, and the potential for higher investment returns, whilst the online portal will enable members to check their superannuation accounts and makes some changes anywhere and anytime they wish. In addition to these changes we continue investing in technology to improve our administration services in line with our primary focus of delivering world class customer service through continuous improvements and innovation.

MEMBERSHIP

Fund membership grew by 6% in 2015 with 309 new recruits being admitted to Defence Force during the year. Total membership as at 31 December 2015 was 3,293 consisting of 3,166 active and 127 inactive members, compared to total membership of 3,096 as at 31 December 2014. Membership is growing at a steady rate in line with the defence force recruitment policy. Additional recruitment is expected over to coming years to cater for the 40% of members who have already been serving the nation for 20 years and above. These members will become eligible for a pension upon retirement or may elect to join the new accumulation fund. 13% of remaining membership have served between 10 and 19 years and 47% have serviced for less than 10 years.



CONTRIBUTIONS

It is encouraging to see a continuous increase in contributions paid on behalf of the members. Contributions totalling up to K4.2 million were remitted by the state which is 3% more compared to K4.07 million in 2014. The total member savings including accumulated interest was over K75 million at the end of 2015. We are certain that the introduction of the new accumulation fund and the anticipated recruitment exercise by the Defence Force will see more new members being admitted to join the force and eventually make superannuation contributions to the fund thus increase fund value in through employee and employer contributions. The following table is an illustration of how the contributions values have increased in the last five (5) years.

Contribution Type	2010	2011	2012	2013	2014	2015
Employee 6% contribution	2,686,219	2,734,140	3,246,804	3,541,948	4,074,836	4,213,314
Housing Advance Repayments	119,120	124,280	127,400	146,060	153,795	128,810

BENEFIT PAYMENTS

A total of K2.17 million in benefit payments were paid for 74 exiting members in 2015 with 28 members admitted to the pension scheme on exit after serving more than 20 years in the force.

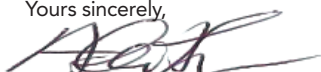
PENSION

The number of active pensioners decreased from 1,841 in December 2014 to 1,764 in December 2015. As at the end of December 2015, more than K14.92 million was paid out to active pension members. The average fortnightly pension rate per pensioner also increased to K324.00 due to the application of the 100% one-off increment and 5% CPI increase during the first half of the year.

2016 FORECAST

2016 will see the introduction of the new accumulation scheme and online portal. These initiatives are a major step forward for CTSL members. The accumulation fund will provide defence force personnel with more control over their superannuation, greater portability, and the potential for higher investment returns, whilst the online portal will enable members to check their superannuation accounts and makes some changes anywhere and anytime they wish. In addition to these changes we continue investing in technology to improve our administration services in line with our primary focus of delivering world class customer service through continuous improvements and innovation.

Yours sincerely,



Adam Fenech
General Manager
Kina Investment & Superannuation Services

together it's possible

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Board of Trustees



Moses Koiri | Chairman – Independent Director

Appointed to the Board on 20th April 2012 as an Independent Director. Mr. Koiri has over 15 years of senior management in both the private and public sectors.

Currently he is a partner in the Commercial Advisory section of Fairfax Legal. He has good understanding of corporate business culture and corporate governance and business ethics.

Mr. Koiri graduated from the University of PNG in 1979 with a Bachelors degree in Law and also graduated with a Master of Law degree from the University of Monash, Australia in 1983. Mr. Koiri has served in management capacities commencing as a Lecturer at University of PNG, then with the Bougainville Copper Mine and Private Legal firms and then became a politician in the Autonomous Region of Bougainville.

Mr Koiri is a member of the Australian Institute of Directors and a member of the PNG Institute of Directors.



Colonel Raymond Numa, DMS, MBE – Non Independent Director

Col. Numa was appointed to the Board on 31st October 2014 and represents members of the Fund on the Board. Colonel Raymond Numa was appointed Training Commander of the PNG Defence Force in 2012. Colonel Numa enlisted with the PNG Defence Force in 1977 and graduated from the Joint Services College of Papua New Guinea in June 1980 and was commissioned as a Second Lieutenant and appointed as an infantry officer.

He attained his Masters of Business Administration from the University of Papua New Guinea in 2007, a graduate in Diploma and Post Graduate in Defence Strategic Studies both in Hawaii USA and Massey New Zealand. And also Diploma in Business Management and Defence Resource Management and he is a member of the PNG Institute of Directors.

He served at the Headquarters Papua New Guinea Defence Force as Staff Officer Grade 2 Intelligence, Director of Strategic Military Intelligence, the Peacekeeping Project Officer and Staff Officer Grade 1/Chief of Staff of the Joint Force Headquarters, setting up a new organization responsible for planning, conducting and monitoring all PNGDF operations both in country and abroad.

Col. Numa performed instructional duties for eight years training PNGDF and ADF Officer Cadets both in Papua New Guinea and Australia (Royal Military College, Duntroon) and was awarded the Distinguish Military Service medal in February 2006 and the Member of British Empire (MBE) media in June 2013 by the Governor General of PNG for his services to the PNGDF and the country.



Colonel Mark Goina, DMS, OBE – Non Independent Director

Col. Mark Goina was appointed to the Board on 30th November 2014 and represents members of the Fund on the Board. Colonel Goina joined the PNG Defence Force after graduating from the PNG Defence Academy on 20th December 1985. Colonel Mark Goina was appointed Chief of Staff of the PNG Defence Force in April 2014. His current role is to provide logistics and management support to the Commander of the PNG Defence Force.

Col. Goina's operational experiences include commanding route patrols along Papua New Guinea/Republic of Indonesia International land border, Bougainville Security operations, Regional Assistance Mission to Solomon Islands, State of Emergency operations in Southern Highlands Province of Papua New Guinea and 2012 National General Election security operations in Papua New Guinea.

He graduated from the Australian Staff College in 2003, Defence Strategic Studies at the Australian Defence College in 2010, United Kingdom Cranfield University on Managing Defence in the Wider Security Context in 2008 and Asia-Pacific Centre for Security Studies, Hawaii, USA on Advance Security Cooperation in 2011.

He holds a graduate Diploma of Management in Defence Studies from Australian Defence College, Canberra, ACT, Australia and Masters in Arts in Strategic Studies from Deakin University, Geelong, Victoria, Australia.

Col. Goina is a member of the PNG Institute of Directors.



Michael Varapik – Independent Director

An accountant by profession, Mr Michael Varapik is 62 years old and has extensive management, corporate, financial, operations and marketing experience spanning over 35 years in both the private and public sectors. Mr Michael Varapik was appointed to the Board of CTSL in November 2011 as an Independent Director. He is also a Director on Toea Homes Ltd, a 100% subsidiary of CTSL. Mr Varapik also served 10 years as a Director on the Board of Origin Energy (PNG) Ltd from 2004 to 2014 when he retired.

Mr Varapik has held senior management positions in a number of corporate organisations including Air Niugini as Accounting Manager, Motor Vehicle Insurance Trust a Deputy General Manager, Copra Marketing Board of PNG as CEO, PNG Coconut Commodities Ltd as General Manager, Lower OK Tedi Investment Company Ltd as General Manager, Lihir Mining Area Landowners Association Inc as General Manager and The Alliance Management Group as National Content & Community Affairs Manager.

Mr Varapik currently provides short-term management consultancies and is actively involved with two Catholic Faith based organisations as Secretary of both the Blessed Petro To Rot Foundation Inc and the Catholic Professionals Society.

Mr Varapik holds a Bachelor of Technology in Accountancy from the PNG University of Technology, Lae in 1982, a Bachelor of Business from Deakin University Warrnambool, Australia in 1992 and a Master of Business Administration from the International Management Centres, Oxford Brookes College, University of Oxford, UK in 1999.

In 2015, the PNG Institute of Directors awarded Mr Varapik the prestigious award of Male Director of the Year 2015 for distinguished services to commerce and business as a Director on a number of corporate boards over the past 25 years and for his tireless efforts in promoting good governance at the board level and also at the workplace. Mr. Varapik is also a Professional Member of the PNG Institute of Directors.



John Auna – Independent Director (Retired 31 December 2015)

Appointed to the Board on 18th June 2014 as an Independent Director. Mr Auna has extensive management, financial, operations and marketing experiences in both private and public sectors. He holds a Bachelor of Commerce and Degree in Accountancy from Unitech, Lae in 1990, a Bachelor of Business and Degree in Accountancy from Deakin University, Warrnambool, Victoria, Australia in 1994.

He has held senior management positions in the following organisations: Nambawan Super Limited (Formerly POSF) as General Manager Member Services, Kina Investments & Superannuation Services (KISS) as Senior Manager Superannuation Services and MRL Capital Limited as Chief Financial Officer and Chief Operations Officer.

Mr. Auna is a member of the PNG Institute of Directors and a member of the Certified Practising Accountants of PNG.



Taunao Vai – Independent Director

Appointed to the Board on 01st September 2014 as an Independent Director. He holds a Bachelor of Economics from UPNG in 1978, a Master of Business Studies from Massey University in New Zealand in 1990 and Diploma in Project Management from United Kingdom in 2010.

Mr. Vai has various employment history, having commenced employment with National Planning Office in 1979 as Project Officer, Department of Trade & Industry in 1983 as Senior Projects Officer for Investments & Projects, Investment Corporation of PNG in 1985 as Senior Investment Analyst, Small Business Development Corporation in 1992 as Manager Investment & Project Analyst, PNG Institute of Banking & Business Management in 1995 as Manager Training and Education Services, United Nations Development Program in 1998 as Assistant Resident Representative (Finance & Administration), Business Consulting in 1999 as Trainer for PATTAP AusAid Programs, Port Moresby International School in 2000 as a Teacher, University of Papua New Guinea in 2003 as a Lecturer/Tutor, Bank South Pacific Ltd in 2003 as a Manager in Lending Training section, Independent Consumer & Competition Commission in 2004 as Executive Manager for Prices, Regulatory Affairs & Special Projects Division, PNG Institute of Banking & Business Management Incorporated in 2009 as Business Advisor and Business Management Consultancy in 2014 to current as Consultant.

He is a member of PNG Institute of Directors.



Paul M. Nindipa – Independent Director

Appointed to the Board on the 1 January 2015. Paul is currently a public practising accountant and is a Partner with NKA Chartered Accountants. He has over 24 year experience in various accounting, audit, taxation, receivership and liquidation areas. He is currently on the board of several foreign owned companies and also serves on certain PNG companies and state owned entities.

Paul holds a Bachelor of Commerce degree from the University of Otago, New Zealand. He is a member of the PNG Institute of Directors and is a Certified Practising Accountant (CPA) member and Council member of the Certified Practising Accountants of PNG. He also serves on the board of Accountants Registration Board (ARB) and other non-profit organisations.



Retired Colonel Fred Aikung, LSGCM, OBE – Non Independent Director

Col. Aikung was appointed to the Board on 1st January 2015, Retired Colonel Fred Aikung represents pensioners of the Fund on the Board. Colonel Aikung held the position of Chief of Logistics of the PNG Defence Force from 1994 up until his retirement in 2002. After graduating from Grade 12, he was sponsored under Royal Australian Navy at the University of Technology, Lae Morobe as a Mechanical Engineer and graduated with a Degree in 1975.

Colonel Aikung was appointed Ship Maintenance Officer with the rank of Captain in 1977 in Lombrum Naval Base Manus. He Graduated with a Diploma in Military Strategy from Melbourne Australia. Col. Aikung served in various units in the force as the Officer Commanding to the Commanding Officer of the PNGDF Maritime base in Port Moresby.

He was also involved with lots of projects in the PNGDF where he was appointed as the Project Manager for the project where the four patrol boats were built and given to PNG by Australian under Defence Co-corporation Programme.

Col. Aikung was appointed as an Acting Commander PNGDF when the Government sacked the then Commander PNGDF in 1997 during the Sandline Crisis. He is a member of the PNG Institute of Directors.

The Fund

The Fund is an established authorised Superannuation Fund (ASF) pursuant to Section 8 of the SGP Act with a current active contributor base of 3,293 and 1,764 pensioners as at 31st December 2015.

The primary objective of the Defence Force Retirement Benefits Fund (DFRBF) is to provide retirement benefits to members and their dependants upon discharge from the Defence Force or in the event of medical discharge and or death. In addition to this, the 'Superannuation General Provisions Act 2000' (SGP Act) allows access to retirement savings before retirement for purposes related to housing.

The Fund operates as a Pension Fund. The eligibility for pension benefits is usually attained after 20 years of continuous service with the Defence Force. The amount of pension is determined through a formula prescribed within Defence force Retirement Benefits Act, Chapter 76 (DFRB Act) which takes into account a member's level of salary, years of service for pension and age at retirement. In the event a contributor or pensioner becomes deceased, 5/8's (62.5%) of the pension due to the member is paid to the widow plus an additional K22.50 for each child dependent below the age of 18 years.

In order for the Fund to meet its ongoing pension liabilities sustainably, it requires three vital aspects including fortnightly contributions from members at 6% of gross salary, adequate returns from investments and a guarantee from the State to pay 60% of pension benefits when they fall due.

Because of the uncertainties in relation to the extent of liabilities carried by the Fund and State, an actuarial evaluation is required to be undertaken periodically (every two years), the purpose of the actuarial evaluation is to determine among other things, the financial viability of the Fund and its ability to meet and sustain future pension payments to members. The next actuarial evaluation will be undertaken for the period ending on 31st December 2015 in early 2015 and details of which will be reported to members in the subsequent financial year.

New Accumulation Fund

In November of the 2015 Financial Year, the Defence Force Retirement Fund Act was amended by Parliament. This has allowed the creation of an accumulation Fund within the existing Fund's structure. The accumulation Fund will come into effect from 1 January 2016 and will be mandatory for members joining the defence force on or after that date. Existing members may choose to transfer out of the Defined Benefit scheme into the accumulation Fund or choose to remain with the existing Defined Benefit scheme. This option can be exercised before 1 July 2016.

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 seven Directors, three (3) of whom are drawn from the members of the Fund and four independent Directors who collectively plan, oversee, and set corporate goals and determine the strategic direction of the Fund.

Corporate Governance

The Board is committed to upholding and implementing the principles of good corporate governance. This is considered critical as recent experiences have shown that the lack of good corporate governance has contributed directly to corporate 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:-

The rights attached 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 shareholder is entitled to receive notice of, and to attend and vote at general meetings of the company and to receive all notices, accounts and other documents required to be sent to shareholders under the company’s constitution, the Companies Act and the Superannuation Act.

The Board

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

The Board comprises 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 subject, however, to any restrictions contained in the company constitution and Central Bank approval. Mr. John Auna resigned as Director effective as at 31 December 2015.

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

Name of Shareholder	Class of Shares	No of Shares	Value (K)	Special Notes
Brigadier General Gilbert Toropo	Ordinary	1	K1.00	Share held in trust for members
Moses Koiri	Ordinary	1	K1.00	Share held in trust for members
Colonel Fred Aikung, OBE (Rtd)	Ordinary	1	K1.00	Share held in trust for members
Colonel Mark Goina DMS, OBE	Ordinary	1	K1.00	Share held in trust for members
Colonel Raymond Numa DMS, MBE	Ordinary	1	K1.00	Share held in trust for members
Total		5	K5.00	

Corporate Governance

The names of members of the Board at the date of this report, including their remuneration, status on the Board and information relating to their attendance at meetings for the 12 months to 31st December 2015 are as follows:-

Name of Director	Fee Received*	Board Status	Date of Appointment	Board	Audit Risk & Compliance Committee	Attendance of Meetings	
						Remuneration & Nominations Committee	Investments Committee
Moses Koiri (Chairman)	92,649	Current	20/04/2013	8/8		3/3	3/3
Michael Varapik	65,684	Current	11/11/2011	8/8	5/5	3/3	
John Auna	65,684	Resigned as at 31/12/2015	1/07/2014	5/8			3/3
Taunao Vai	65,684	Current	1/08/2014	8/8		3/3	
Colonel Raymond Numa MBE	60,210	Current	31/10/2014	5/8			3/3
Colonel Mark Goina MBE	60,210	Current	1/12/2014	6/8	5/5		
Paul Nindpa	60,210	Current	1/01/2015	8/8	5/5		
(Rtd) Colonel Fred Aikung	60,210	Current	1/01/2015	7/8		3/3	

*Fees shown above are before tax

**Includes 4 ordinary and 4 special board meetings

The Board complied with its approved calendar of meetings planned for the year. All meeting papers are circulated seven days in advance to all Directors. This enables adequate time to read and understand

the matters requiring Board action, thus ensuring informed decisions are made for the ultimate benefit of the Fund.

Audit & Compliance Committee

The Committee had full membership and held five meetings during the year. The role of the Committee includes review of the Fund's financial statements, review of audit reports, review of the company's accounting policies, review of internal control systems and procedures including risk assessment and management strategies, review of the actuarial report, tenders, annual budgets, investment policy and guidelines and related matters. Members of this committee as at 31 December 2015:-

Name of the Committee	Committee Status
Michael Varapik	Chairman
Colonel Mark Goina DMS, OBE	Member
Paul Nindipa	Member
John Auna	Member (resigned 31/12/15)

Remuneration & Nominations Committee

The Committee had full membership and held three meetings during the year. The role of the Committee includes succession planning, review and recommendation of candidates for Board vacancies, review of Board fees and remuneration, appointment of executive management, review of salary and remuneration including terms of employment of senior management and related matters. Members of this committee as at 31 December 2015:-

Name of the Committee	Committee Status
Taunao Vai	Chairman
Moses Koiri	Member
(Rtd) Colonel Fred Aikung OBE	Member
Michael Varapik	Member

Investments Committee

The Committee had full membership and held three meeting during the year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibility to provide oversight for the investment of the fund, in line with the investment strategy and policy. The Committee shall provide reports and make recommendations to the Board on matters pertaining to the Fund's investments. Members of this committee as at 31 December 2015:-

Name of the Committee	Committee Status
John Auna	Chairman (resigned 31/12/15)
Moses Koiri	Member
Colonel Raymond Numa	Member
Paul Nindipa	Member

External Board Positions and Disclosures

Pursuant to Section 164(1) (c) of the Companies Act 1997, Directors and Officers of Comrade Trustee Services Limited record the following relevant interest.

NAME	NATURE OF INTEREST	INTEREST
Moses Koiri	Shareholder/Chairman Member Member Partner/Employee Director Member Shareholder Shareholder Director Director Director Member	Comrade Trustee Services Limited Remuneration and Nomination Committee Investment Committee Albatross Law Albatross Law Services Limited PNG Law Society Inc Kina Asset Management Oil Search Limited Toyota Tsusho (PNG) Limited Orekana Enterprise Limited Kurada No. 24 Limited Bouganville Copper Foundation Limited
Michael Varapik	Director Chairman Member Director Member	Comrade Trustee Services Limited Audit, Risk & Compliance Committee Remuneration and Nomination Committee Toea Homes Limited PNG Institute of Directors
John Auna (resigned 31/12/15)	Director Chairman Associate Member Director Director Associate Member	Comrade Trustee Services Limited Investment Committee PNG Institute of Directors JPA Limited Bouganville Information Technology Service Ltd Certified Practising Accountant PNG
Taunao Vai	Director Chairman Board Member Director/Member Shareholder/Director/Secretary Director Director	Comrade Trustee Services Limited Remuneration and Nomination Committee PNG Cricket Board PNG Institute of Directors Laurabada No. 2 Limited H&E Stevedores Limited Laba Holdings Limited
Colonel Mark Goina DMS, OBE	Director/Shareholder Employee Member Member	Comrade Trustee Services Limited PNG Defence Force Audit, Risk & Compliance Committee PNG Institute of Directors
Colonel Raymond Numa MBE	Director/Shareholder Employee Member Member	Comrade Trustee Services Limited PNG Defence Force Investment Committee PNG Institute of Directors
Colonel Fred Aikung OBE (Rtd)	Director/Shareholder Related Party/Pensioner Member	Comrade Trustee Services Limited DFRBF PNG Institute of Directors
Paul Nindipa	Director Director Member Member Shareholder Shareholder Director	Comrade Trustee Services Limited Albatross Law Services Limited PNG Law Society Inc Change Management Committee Kina Asset Management Oil Search Limited Toyota Tsusho (PNG) Limited

Corporate Governance

External Board Positions and Disclosures continued....

NAME	NATURE OF INTEREST	INTEREST
Richard Sinamoi	Chief Executive Officer	Comrade Trustee Services Limited
	Secretary/Public Officer	Comrade Trustee Services Limited
	Related Party	Nambawan Super Limited
	Member	PNG Institute of Directors
	Member	Association of Superannuation PNG
	Director	Paradise Foods Limited
	Director	PNG Microfinance Limited
	Shareholder	Credit Corporation
	Director	Toea Homes Limited
	Shareholder	Kina Securities Limited
Danny Herepe	Executive Manager Finance & Investment	Comrade Trustee Services Limited
	Member	Certified Practicing Accountants PNG
	Member	PNG Institute of Directors
	Member	Institute of Internal Auditors – PNG Chapter
	Member	Transparency International (PNG) Inc.
Chris Sariman	Executive Manager Member Services & Talent	Comrade Trustee Services Limited
	Member	PNG Institute of Directors

Employees of the company appointed to the Boards of subsidiary companies in which CTSL has controlling interest 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 recognises and acknowledges the requirement for Directors and employees to observe and uphold the highest standards of behaviour and ethical standards in the performance of their duties.

Fund Administration

The fund administration function is outsourced to Kina Investment & Superannuation Services Limited (KISSL) in compliance with the Superannuation Act 2000. The engagement of KISS is for a term of three years. The existing contract has lapsed this financial year and under review for renewal.

Investment Management

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

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

Employee Remuneration

Please refer to Notes 11.10 and 24.1 and 24.2 of the Notes to the Financial Statements for details.

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 summarised as follows:

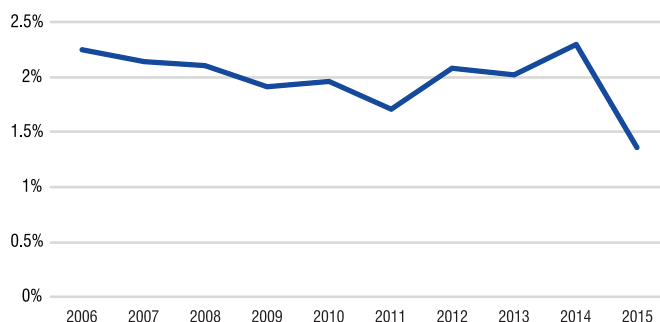
Auditor	2010 K	2011 K	2012 K	2013 K	2014 K	2015 K
Deloitte Touche Tohmatsu	126,000	134,000	138,600	125,000	125,000	132,500
Partner In-charge	Z. Theron	P. Barber	P. Barber	Z. Theron	Z. Theron	Z. Theron

The auditor's appointment is for 12 months at the expiry of which a further engagement is determined by closed tender. To ensure independence and avoid conflicts of interest the auditor is prohibited from undertaking the 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 ten years are as follows:

Management Expense Ratio



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 32 staff employed by the company during the year (2014: 29).

Corporate Governance

Investment transactions (excluding cash and treasury notes)

Name of Entity	Transaction Type	Classification	Settlement Date	Number of Shares	Amount (Kina)
Kina Asset Management Limited	Share Sale	Equity	1/04/2015	800,000	798,000
Kina Securities Limited	Share Purchase	Equity	6/07/2015	5,250,000	10,920,000
New Britain Limited	Share Sale	Equity	Various	394,948	11,430,861
Oil Search Limited	Share Sale	Equity	7/12/2015	20,000	367,512
Oil Search Limited	Share Purchase	Equity	Various	110,000	1,588,223
Hunter Limited	Share Purchase	Equity	11/08/2015	30	14,000,000
Toea Homes Limited	Capital Expenditures	Equity	Various		2,416,425

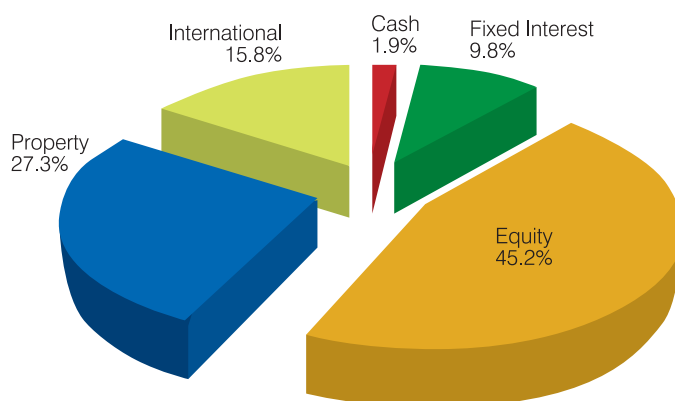
Investment Performance Highlights

The composition of the investment portfolio and asset allocation as at 31st December 2015 relative to the prior year is summarised as follows:

Asset Classification	Portfolio Value (Kina)		Percentage Holdings		Neutral Allocation %	Sector Range % Low – High
	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-15
Cash	8,093,549	10,645,639	1.9%	2.4%	3%	0-5%
Fixed Interest	42,512,397	44,133,078	9.8%	10.1%	22%	10-36%
Equity	196,057,867	223,146,990	45.2%	51.2%	33%	18-62%
Property	118,216,854	93,249,600	27.3%	21.4%	22%	10-35%
International	68,622,038	64,237,062	15.8%	14.8%	20%	5-30%
TOTAL	433,502,705	435,412,369	100.0%	100.0%	100%	100%

*Dual listed stock classified under international equities

The total gross value of investment portfolio of the Fund as at 31st December 2015 stands at 433,502,705.



Domestic Equity Portfolio

Company Name	Total Market Value	
	2015 K	2014 K
Listed		
Bank South Pacific	108,420,390	103,216,211
City Pharmacy	3,427,305	3,710,766
Kina Asset Management Ltd	4,612,123	6,226,027
Credit Corporation	4,685,249	5,414,066
Sub - total	121,145,067	118,567,070
Unlisted		
Toyota Tsusho (PNG) Ltd	5,043,024	4,836,803
Westpac Bank (PNG) Ltd	576,820	577,400
Paradise Foods Ltd	28,849,500	27,742,500
Post Courier Ltd	1,326,364	963,721
South Pacific Brewery Ltd	39,117,092	39,043,425
Hunter Ltd	-	31,416,070
Sub - total	74,912,800	104,579,920
TOTAL	196,057,867	223,146,990

Cash Portfolio

Bank Name	2015 K	2014 K
Cash on hand		
Petty Cash	700	700
Sub-total	700	700
Interest Bearing Deposits (<90 days)		
ANZ Investment Account	44,610	10,310
Westpac Bank	-	51
Credit Corp PNG Ltd	3,595,128.1	2,866,653
Kina Finance Limited	100,000	4,103,368
First Investment Finance Limited	659,862	3,000,000
BSP - Main Account	3,188,636	97,839
BSP - Beneift Account	268,172	244,764
BSP - Management Account	104,227	59,937
BSP - Housing Account	132,215	262,017
Sub-total	8,092,849	10,644,939
TOTAL CASH	8,093,549	10,645,639

Corporate Governance

Fixed Interest Portfolio

Description	Serial No	Maturity Date	Coupon Rate	Face Value	
				2015	2014
Government Inscribed Stock	S15112016 (G26)	15/11/2016	9%	4,036,696	4,078,553
	S15112021 (G27)	15/11/2021	12%	3,181,428	3,212,287
	S15112021 (G25)	15/11/2021	12%	1,003,822	1,004,472
	S15112016 (G28)	15/11/2016	9%	1,001,264	1,002,707
	S15112023 (G37)	15/11/2023	12%	2,123,541	2,139,220
	S15112023 (G38)	15/11/2023	12%	1,041,533	1,046,804
	S15112018(G39)	15/11/2018	9%	334,255	334,691
	S15022017 (G41)	15/11/2017	9%	2,037,065	2,069,901
	S15052029(G42)	11/05/2019	11%	1,535,969	1,546,634
	S15052029(G43)	11/05/2029	11%	1,039,875	1,042,855
	S15052024(G44)	15/08/2024	9.50%	2,100,811	2,112,493
	S15052020(G45)	15/05/2020	8.00%	994,712	993,504
	S15052020(G46)	15/05/2020	12.00%	1,002,910	1,003,575
	S15052031(G47)	15/05/2031	12.00%	978,501	977,103
	S15052031(G48)	15/05/2031	12.00%	956,151	953,300
	S15052027(G49)	15/05/2027	10.50%	927,775	921,427
	S15012017(G50)	15/01/2017	6.00%	998,250	996,574
	S15082024(G51)	15/08/2024	9.50%	909,572	899,094
	S15052027(G52)	15/05/2027	10.50%	964,009	960,846
	S15052020(G53)	15/05/2020	8.00%	936,605	922,116
	S15052020(G54)	15/05/2020	8.00%	906,953	885,687
	S15052020(G55)	15/05/2020	8.00%	1,793,506	1,746,311
	S15052020(G56)	15/08/2024	9.50%	1,725,146	1,693,297
	S15052027(G58)	15/05/2024	10.50%	1,736,586	1,582,548
	S15052031(G57)	15/05/2031	12.00%	1,627,062	1,719,459
	S15052031(G59)	15/05/2031	12.00%	1,642,938	1,619,722
	S15052031(G60)	15/05/2031	12.00%	1,703,853	1,684,598
	S15052027(G61)	15/05/2027	10.50%	850,294	837,136
	S15052027(G62)	15/05/2027	10.50%	841,393	827,453
Sub - total - GIS				40,932,473	40,814,367
Treasury Bills - Bank of PNG				-	1,887,720
Members Housing Advance				1,579,924	1,430,991
Sub - total				1,579,924	3,318,711
Total Fixed Interest				42,512,397	44,133,078

Property Portfolio

Property Name	Description	Market Value	
		2015 K	2014 K
1. Defense Haus, Hunter Ltd	Section 03, Lot 18-20, Hunter St., Port Moresby, NCD	47,515,000	8,667,400
2. Latitude 9 Apartments	Section 42, Lot 01, Ogoa St., Granville, NCD	20,108,634	23,505,000
3. Lawes Road Apartments (50%)	Section 07, Lot 24, Lawes Rd., Granville, NCD	4,500,000	4,861,200
4. Stop & Shop Building	Section 14, Lot 11 & 12, Angau Dr., Boroko, NCD	7,839,000	7,698,000
5. Ela Makana	Section 34, Lot 34, Ela Makana, Granville, NCD	7,278,000	7,239,000
6. Comrade Haus	Section 35, Lot 41, Hohola, Port Moresby, NCD	17,628,220	27,268,000
7. Ela Makana 2 Apartment	Section 34, Lot 30, Ela Makana, Granville, NCD	13,348,000	14,011,000
Total Property		118,216,854	93,249,600

International Portfolio

Asset Classification	Market Value	
	2015 K	2014 K
Listed Equity		
Bank of Queensland	3,620,723	3,065,745
BHP Billiton Ltd	1,147,917	1,829,317
Telstra Corporation	2,486,702	2,564,433
ANZ Banking	1,857,048	2,067,655
Commonwealth Bank of Australia	2,161,945	2,098,020
Oil Search	19,125,887	20,301,160
New Britain Palm Oil	-	10,268,648
Newcrest Mining Ltd	862,367	701,675
Kina Securities Ltd	12,682,846	-
Vanguard International Shares Index Fund	18,574,816	16,858,198
Sub - total	62,520,250	59,754,851
Cash		
Bank of Queensland	1,660,193	3,876,131
Credit Suisse	4,441,594	606,081
Sub - total	6,101,788	4,482,212
TOTAL	68,622,038	64,237,062

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 and undertaken annually
Government securities	-	At purchase price/face value

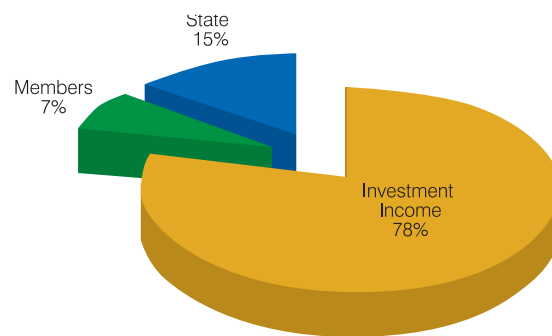
Highlights of 2015

Summary of Key Results

	2015	2014
Summary of Key Results	K	K
Net surplus (after tax)	42,318,562	5,882,675
Total Fund net assets	461,133,310	447,773,678
Total benefits paid	17,048,290	20,102,153
Interest crediting rate	2.94%	1.65%
CPI indexation rate	6.4%	6.6%
Management Expense Ratio	1.36%	2.30%

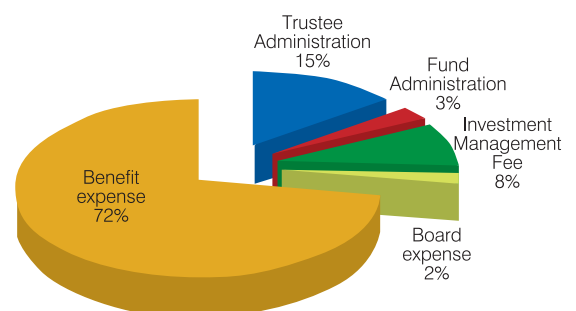
Income Summary

Income Summary	K
Investment Income	54,237,786
Contribution	
. Members	4,852,366
. State	10,104,567
Other Income	566,805
Total	69,761,524



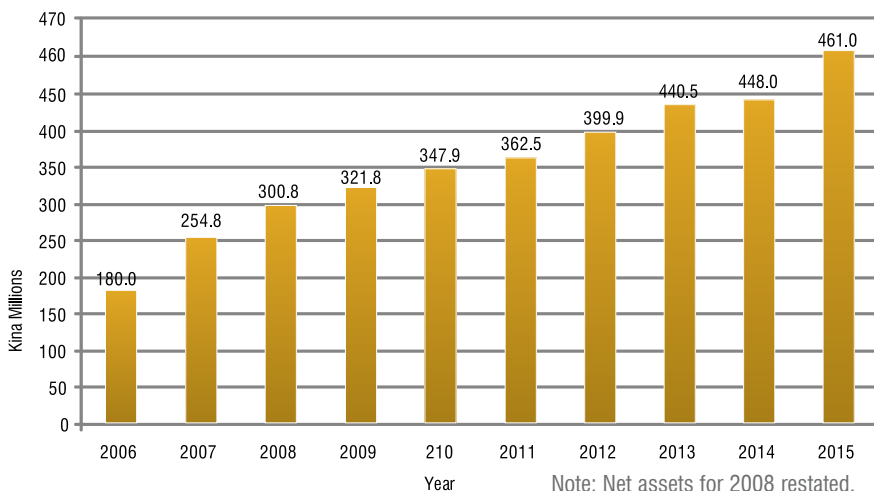
Expenditure Summary

Expenditure	K
Trustee Administration	3,534,587
Fund Administration	639,797
Investment Management Fee	1,982,139
Board expense	433,936
Benefit expense	17,048,290
Total Expenditures	23,638,748



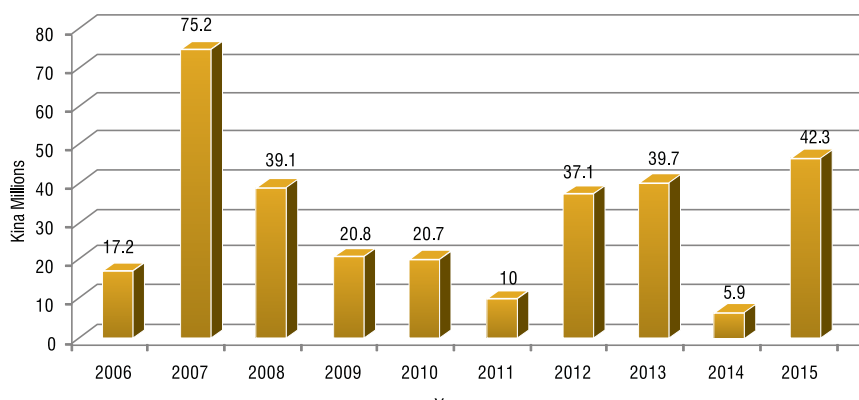
Fund Highlights at a Glance

Net Asset Value of Fund



The above bar graph shows that the fund has grown steadily from K180.0 million in 2006 to K461 million as at 31st December 2015. 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.

Net Surplus (After Tax)



The graph illustrates on overall that net surplus after tax has grown during the 10 year period under review.

Comparative Statistical Summary

		2008	2009	2010	2011	2013	2014	2015
NET FUND ASSETS								
Net assets	K(m)	321.8	347.9	362.5	399.9	440.5	447.8	461.1
Net asset growth	%	6.93	6.47	4	10.31	10	1.34	2.98
Reserve	K(m)	0.387	5.58	4.519	0.283	0.765	1.4	0.0
NET SURPLUS								
Net surplus after tax	K(m)	20.8	20.7	10	37.1	39.7	5.9	42.3
EXPENSES								
Benefits	K(m)	7.4	7.7	9.2	10.6	9.1	20.1	17.0
Trustee administration	K(m)	4.1	4.5	4	5.5	6.3	7.8	4.0
Fund administration	K(m)	0.45	0.33	0.291	0.434	0.518	0.6	0.6
Investment management	K(m)	1.4	1.6	1.4	2	1.776	1.9	2.0
Management expense ratio	%	1.92	1.96	1.71	2.08	2.02	2.30	1.36
INCOME								
Investment income	K(m)	26.6	28.6	20.1	47.5	20.1	20.3	54.2
Contributions								
State share	K(m)	4.4	4.5	5.1	5.9	4.8	12.0	10.1
Members	K(m)	1.9	2.9	2.7	3.2	3.4	4.1	4.9

Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2015

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Trustee's Declaration to Members

FOR THE YEAR ENDED 31ST DECEMBER 2015

In our opinion, as Trustee of Defence Force Retirement Benefits Fund ("the Fund"), the accompanying financial statements of the Fund which comprises of statement of net assets as at 31 December 2015, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies has been properly drawn up so as to give a true and fair view of the Fund's financial position as at 31 December 2015 and of its financial performance for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

Further, we are of the opinion that:

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

Dated at Port Moresby this 31st day of March 2016.

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


Moses Koiri
Chairman of the Board of Trustees


Michael Varapik
Director

Management Statement

FOR THE YEAR ENDED 31ST DECEMBER 2015

In our opinion, as Management of Defence Force Retirement Benefits Fund ("the Fund"), the accompanying financial statements of the Fund which comprises of statement of net assets as at 31 December 2015, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies has been properly drawn up so as to give a true and fair view of the Fund's financial position as at 31 December 2015 and of its financial performance for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

Further, we are of the opinion that:

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

Dated at Port Moresby this 31st day of March 2016.

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


Richard Sinamo
Chief Executive Officer

Directors' Report

FOR THE YEAR ENDED 31ST DECEMBER 2015

The Directors of Comrade Trustee Services Limited take the pleasure in submitting their report and the annual financial statements of the Fund for the financial year ended 31 December 2015. 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:

Name	Executive/non-executive director
Mr. Moses Koiri	Non-Executive – Trustee Board Chairman (appointed Chairman as of 1 January 2015, appointed to the board as at 20 April 2012)
Col. Raymond Numa	Non-Executive – appointed as at 31 October 2014
Col. Mark Goina	Non-Executive – appointed as at 30 November 2014
Mr. Michael Varapik	Non-Executive – appointed as at 11 November 2011
Mr. John Auna	Non-Executive – appointed as at 18 June 2014, retired 31, December 2015
Mr. Taunao Vai	Non-Executive – appointed as at 01 September 2014
Mr. Paul Nindipa	Non-Executive – appointed as at 01 January 2015
Col. Fred Aikung, (Rtd)	Non-Executive – appointed as at 01 January 2015

Trustee Secretary

The Company Secretary is Mr. Richard Sinamoi.

Review of operations

The Fund reported a net surplus after income tax but before other comprehensive income of K 42,318,562 (2014: K 5,882,674) and change in net assets for the year of K 13,359,632 (2014: K 7,269,164).

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.

Change in accounting policies

There were 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 21.3 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 K100,000 band are disclosed in note 21.2.

Donations

No donations were made during the current year, (2014: NIL).

Independent audit report


The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the Independent Auditor's report on pages 25. Fees paid for external audit services are disclosed in note 19.2 to the financial statements.

Subsequent events

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

Signed in accordance with a resolution of the Directors.

On behalf of the Directors


Mr Moses Koiri
Chairman of the Board of Trustees


Mr Michael Varapik
Director

Dated at Port Moresby 31st March 2016



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Independent Auditor's Report to the members of Defence Force Retirement Benefit Fund

We have audited the accompanying financial statements of the Defence Force Retirement Benefit Fund (the "Fund"), which comprise the statement of net assets as at 31 December 2015, the statement of changes in net assets and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Trustee Directors and Management's Responsibility for the Financial Statements

The Directors and management of the Trustee are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and the Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefits Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea, and for such internal control as the Directors and management determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, 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 report 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 the trustees and management, as well as evaluating the overall presentation of the financial report.

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

Audit Opinion

In our opinion, the financial report of the Fund presents fairly, in all material respects, the Fund's financial position as at 31 December 2015 and of its financial performance for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefits Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea

Report on Other Legal and Regulatory Requirements

- In addition, during the year ended 31 December 2015 we provided non conflicting tax and advisory services to the Fund.
- Proper accounting records have been kept by the Fund as far as appears from our examination of those records.

DELOITTE TOUCHE TOHMATSU

Suzaan Theron

Registered under the Accountants Act 1996
Partner

Port Moresby, 31st day of March, 2016

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Member of Deloitte Tohmatsu Limited

Statement of Net Assets

FOR THE YEAR ENDED 31ST DECEMBER 2015

		2015	2014
	Note	K	K
Assets			
Cash and cash equivalents	8	14,195,337	17,015,123
Loans to members and others	9	11,684,491	4,871,604
Financial assets:			
At fair value through profit or loss	10.1	258,578,117	251,485,771
Held to maturity	10.2	40,932,474	40,814,367
Available for sale	10.3	-	31,416,070
Investment properties	11	118,216,854	93,249,601
Property and equipment		3,667,733	456,681
Other assets	12	18,309,889	9,347,860
Current tax assets		2,018,080	2,269,062
Deferred tax assets	13.3	224,746	2,107,985
Total assets		467,827,721	453,034,124
Liabilities			
Employee provisions		662,547	1,540,119
Deferred tax liabilities	13.3	3,288,826	1,356,167
Other liabilities		2,743,038	2,364,160
Total liabilities		6,694,411	5,260,446
Net assets available to pay benefits	14	461,133,310	447,773,678

See accompanying notes to the financial statements

Statement of Changes in Net Assets

FOR THE YEAR ENDED 31ST DECEMBER 2015

		2015	2014
	Note	K	K
Revenue			
Investment revenue			
Interest income	15	4,611,111	4,762,015
Dividends		29,232,492	19,527,001
Property income	16	2,005,393	2,807,655
Change in fair value on investments properties	11	(13,937,820)	(2,545,758)
Change in fair value of financial assets	10.4	5,994,068	(5,615,076)
Gain on sale of financial assets	17	26,332,542	1,380,974
Net investment revenue		54,237,786	20,316,811
Contribution revenue			
Contribution received from members		4,852,366	4,067,073
State share of contributions towards benefits paid	18	10,104,567	11,977,129
Total contribution revenue		14,956,933	16,044,202
Other revenue (expense)		566,805	(121,595)
Total revenue		69,761,524	36,239,418
Expenses and benefits paid			
Benefits paid	18	17,048,290	20,102,153
Trustee administration expenses	19	3,968,523	7,791,395
Fund investment and administration expenses	20	2,621,936	2,472,970
Expenses and benefits paid		23,638,749	30,366,518
Net surplus before income tax		46,122,775	5,872,900
Income tax expense/ (benefit)	13.1	3,804,213	(9,774)
Net surplus after income tax but before other comprehensive income		42,318,562	5,882,674
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Reclassification adjustments relating to available for sale financial assets disposed of in the year	10.3,14	(28,958,930)	-
Net change in fair value of financial assets	14	-	1,386,490
Change in net assets for the year		13,359,632	7,269,164
Net assets available to pay benefits at the beginning of the year		447,773,678	440,504,514
Net assets available to pay benefits at the end of the year	14	461,133,310	447,773,678

See accompanying notes to the financial statements

Statement of Cash Flows

FOR THE YEAR ENDED 31ST DECEMBER 2015

		2015	2014
	Note	K	K
Cash flows from operating activities			
Interest received		3,977,212	3,928,633
Dividend received		21,164,284	16,027,771
Property income received		5,947,958	4,215,673
Contributions received from members		4,852,366	4,067,673
Benefits paid		(17,048,290)	(20,102,153)
Cash receipt of state share of benefits		7,480,849	4,761,707
Cash payment to employees and suppliers		(7,075,253)	(9,374,273)
Income taxes paid		(598,411)	(602,379)
Cash flows from operating activities before changes in operating assets and liabilities		18,700,715	2,922,652
Increase in loans to members and others		(147,016)	(3,632,183)
(Increase) decrease in other assets		(8,962,030)	4,511,723
Increase (decrease) in other liabilities		588,660	(50,929)
Net cash from operating activities		10,180,329	3,751,263
Cash flows from investing activities			
Proceeds (purchases) from maturity of treasury bills		1,932,490	(10,609,457)
Purchase of property and equipment		(3,042,261)	(236,374)
Purchase of investment properties		(10,789,687)	(12,052,336)
Purchase of listed shares		(12,508,223)	(10,252,312)
Proceeds from sale of listed shares		11,407,566	13,129,916
Net cash used in investing activities		(13,000,115)	(20,020,563)
Net decrease in cash and cash equivalents		(2,819,786)	(16,269,300)
Cash and cash equivalents at the beginning of the year		17,015,123	33,284,423
Cash and cash equivalents at the end of the year	8	14,195,337	17,015,123

See accompanying notes to the financial statements

1. Significant accounting policies

1.1 Statement of compliance

The financial statements of Defence Force Retirement Benefits Fund ("the Fund") have been prepared in accordance with the Superannuation (General Provisions) Act 2000, International Financial Reporting Standards ("IFRS") 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.

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

The principal accounting policies are set out below.

1.3 Revenue recognition

Income is recognised on an accrual basis except for interest income from Member Housing Assistant ("MHA"), which is brought to account when received. The Board has resolved not to charge interest on Members Housing.

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 periodic basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

1.3.2 Dividend revenue

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

1.3.3 Property rental income

Rental income from operating leases is recognised 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 recognised 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).

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 Guinean government are recognised on an accrual basis based at 60% of the benefits payments to members monthly.

1.4 Taxes

1.4.1 Current income tax

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

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

1.4.2 Deferred tax

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

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

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

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

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

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

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2015

1. Significant accounting policies (continued)

1.4 Taxes (continued)

1.4.2 Deferred tax (continued)

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

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

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

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 vehicles	30%
Office equipment	20%
Renovations	10%
Software	33%

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

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

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, classified as investment property, are valued at 31 December 2015. In determining the fair value for financial reporting purposes, reference is made to the valuations performed by registered valuers ("the valuers") whose valuation reports indicate several methods that have been considered as a part of the valuation process and include methods such as capitalisation method, summation method and discounted cash flow method.

The valuations reports provided by the valuers are considered along with an independent review and research performed by the Trustee and the Management to ensure that valuation inputs and techniques used are appropriate and are reflective of prevailing economic and market conditions and that market rentals and property costs considered for valuation purposes are assessed by reference to the rentals achieved for all lettable units and actual costs incurred in order to ensure that fair values adopted for financial reporting purposes are appropriate.

The registered valuers were:

Registered Valuer	Properties
The Professional Valuer of PNG Ltd	Defens Haus, Stop & Shop, Latitude 9, Ela Makana 1 & 2 and Comrade Haus
Savills Valuation Pty Ltd	Lawes Road

1.7 Financial assets

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 valued as at 31 December 2015 as follows:

- Listed shares are valued at 31 December 2015 at last sale price on that date (applying the bid rate). Foreign currency Off-shore investments are converted using the ANZ Bank exchange buy rate. The buy rate used as at valuation date was AUD 0.4512 and USD 0.3444
- Unlisted shares are independently valued as at 31 December 2015 as adopted by the Board. This valuation was performed by Niugini Capital Limited as an independent professional valuer. The methodology used in the analysis was a combination of future maintainable earnings, dividend yields and discounted cash flows of assets, as appropriate.
- 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 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.

1.7.1 Impairment of financial assets

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

Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and, where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between

the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as 'Credit loss expense'. Impaired debts, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to the 'Credit loss expense'. Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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.

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

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 wholly within 12 months are measured as the present value of the estimated future cash

outflows to be made by the Fund in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans 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.

1.14 Goods and services tax

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

- 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
- 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. Application of new and revised International Financial Reporting Standards (IFRSs)

In the current year, the Fund has applied a number of amendments to IFRSs and new Interpretations issued by the international Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015.

These changes had no impact on the disclosures or amounts recognised in the Fund's financial statements.

New and Revised IFRSs in issue but not yet effective

The Fund has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- **IFRS 9** Financial instruments²
- **Amendments to IFRS 11** Accounting for Acquisitions of interest in Joint Operations¹
- **Amendments to IAS 16 and IAS 38** Clarification of Acceptable Methods of Depreciation and amortisation¹
- **Amendments to IFRS 10, IFRS 12 and IAS 28** Investment Entities: Applying the Consolidation Exemption¹
- **Amendments to IFRSs** Annual Improvements to IFRSs 2012-2014 Cycle¹

1. Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

2. Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2. Application of new and revised International Financial Reporting Standards (IFRSs) *(continued)*

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

- Impairment requirements for financial assets; and
- Limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of Financial Assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Fund anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Fund's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Fund undertakes a detailed review.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition that constitutes a business as defined in IFRS 2 Business combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income taxes regarding the recognition of deferred tax at the time of acquisition and IAS 36 Impairment of assets regarding impairment testing of cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016.

The directors of the Fund anticipate that the application of IFRS 11 in the future may have a material impact on the Fund's financial statements should such transactions arise.

Amendments to IAS 16 and IAS 38 Clarification of acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based method for items of property, plant and equipment. The amendments to IAS 38 introduce a reputable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- when the intangible assets is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Fund uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the Fund believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Fund do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Fund's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exemption

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirements for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The directors of the Fund do not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS 28 will have a material impact on the Fund's financial statements as this does not impact the Fund's qualification as an investment entity.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2015

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

Annual Improvements to IFRSs 2012 - 2014 Cycle

The Annual Improvements to IFRSs 2012 - 2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The Directors of the Fund do not anticipate that the application of these amendments will have a significant impact on the Fund's financial statements.

3. Description of the Fund

Defence Force Retirement Benefits Fund (the "Fund") was established under the Defence Force Retirement Benefits Fund Act, Chapter 79 (DFRBF Act), however as of 1 January 2003 it is recognised 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 as the closing of books ending December 31 2015. The Trustee at balance sheet 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 requirements 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 2015 was:

Pensioners	1,764
Current members	3,293
	5,057

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) respectively in compliance with the Superannuation Act 2000. The engagement of KISS and KFM is for a term of three years. The existing contract has lapsed this financial year and under review for renewal.

The principal place of business of the Fund is:

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

4. 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.

5. 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 2014. 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

Accrued benefits were valued as part of a comprehensive review undertaken as at 31 December 2014 as follows:

	2014	2012
	K	K
Liability for accrued benefits	103,782,000	61,595,000
Net value of assets	335,019,000	289,721,000

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

Liability for vested benefits	111,099,000	96,047,000
Net value of assets	350,218,000	335,019,000

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

Net assets available to pay benefits	447,774,000	399,956,000
Actuarial value of pensions currently being paid	(97,556,000)	(64,937,000)
Net value of assets	350,218,000	335,019,000

Although the actuarial report is prepared as at 31 December 2014, in terms of the requirements of Section 24 of the Defence Force Retirement Benefits Act, Chapter 76, the next actuarial investigation of the fund should be carried out no later than 31 December 2018 for the three years ending on 31st December 2017.

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6. New Accumulation Super Fund

In November of the 2015 Financial Year, the Defence Force Retirement Benefit Fund Act was amended by Parliament. This has allowed the creation of an accumulation Fund within the existing Fund's structure. The accumulation Fund will come into effect from 1 January 2016 and will be mandatory for new members joining the defence force on or after that date.

Existing members may choose to transfer out of the Defined Benefit scheme into the accumulation Fund or choose to remain with the existing Defined Benefit scheme. This option can be exercised before 1 July 2016.

There is expected to be a significant financial impact in terms of liquidity, accounting and reporting of each Fund's performance and quantification of the financial impact cannot be determined or reasonably estimated at this stage and appropriate disclosures will be made for this event in the subsequent financial reporting period.

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

Valuation of investment property

The Fund has adopted the fair value approach in determining the carrying value of its investment properties. In determining the fair value for financial reporting purposes, reference is made to the valuations performed by registered valuers ("the valuers") whose valuation reports indicate several methods that have been considered as a part of the valuation process and include methods such as capitalisation method, summation method and discounted cash flow method. The valuations reports provided by the valuers are considered along with an independent review and research performed by the Trustee and the Management to ensure that valuation inputs and techniques used are appropriate and are reflective of prevailing economic and market conditions and that market rentals and property costs considered for valuation purposes are assessed by reference to the rentals achieved for all lettable units and actual costs incurred in order to ensure that fair values adopted for financial reporting purposes are appropriate.

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

Valuation of financial assets and liabilities

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

8. Cash and cash equivalents

	2015	2014
Notes	K	K
Cash on hand	700	700
Cash in banks	3,737,859	674,419
Term deposits with original maturity less than 90 days	10,456,778	16,340,004
	14,195,337	17,015,123

9. Loans to members and others

Members

Tertiary education scheme	-	1,917
Housing advance	1,579,924	1,430,991
	1,579,924	1,432,908
State share benefits	10,104,567	3,438,696
	11,684,491	4,871,604

10. Financial assets

10.1 Financial assets at fair value through profit or loss

Listed shares	23	183,665,317	178,321,921
Unlisted shares	23	74,912,800	73,163,850
		258,578,117	251,485,771

10.2 Held-to-maturity financial assets

Government inscribed stocks (GIS)	40,932,474	40,814,367
	40,932,474	40,814,367

Government inscribed stock carried at amortised cost. These deposits are held to their maturity which varies between 2016 and 2031. Details of the government inscribed stock are set out in Note 23.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2015

10. Financial assets (continued)

	2015	2014
	K	K
10.3 Available-for-sale financial assets		
Balance at beginning of year	31,416,070	30,029,580
Additions (see below)	14,000,000	-
Gain from fair value adjustment	-	1,386,490
Extinguishment of shares (see below)	(45,416,070)	-
Balance at end of year	-	31,416,070

During the year, the Fund acquired additional interest in the investee company Hunter Limited ("Hunter") to the extent of 30% resulting in increase shareholding interest in Hunter to 100%. Subsequent to this, the legal entity of Hunter was merged with the Fund resulting in transfer of net assets comprising mainly of a portion of land (30%), all of the buildings ("Defens Haus", refer note 11) and other net assets at a fair value of K 40,627,075. As a result of the merger, the legal share capital of Hunter was extinguished. The transaction resulted in a net loss on acquisition of K 4,788,995 (Note 17).

10.4 Change in fair value of financial assets

The amount comprises of:

Net fair valuation gain (loss) for listed financial assets at fair value through profit or loss	4,245,118	(9,134,481)
Net fair valuation gain for unlisted financial assets at fair value through profit or loss	1,748,950	3,519,405
Total	5,994,068	(5,615,076)

11. Investment properties

Balance at beginning of financial year	93,249,601	83,743,023
Additions (see below)	38,905,073	274,414
Work in progress	-	11,777,922
Net loss from fair value adjustments	(13,937,820)	(2,545,758)
Balance at end of financial year	118,216,854	93,249,601

The above additions includes property "Defens Haus" comprising of land and buildings acquired at fair value amounting to K 38,670,500 through 100% acquisition of an investee company named Hunter Limited that was classified as an available for sale investment (refer note 10.3). The fair value of the Fund's investment property at 31 December 2015 has been arrived by considering valuation analysis carried out at that date by The Professional Valuers of PNG Limited which is an unrelated to the Trustee along with re-computation of valuations using inputs from various other sources, independent registered valuer that is.

Also included in carrying value of investment properties as given above is a property by the name of "Lawes Road Apartments" that is jointly owned by the Fund to the extent of 50% along with Nambawan Super Limited ("NSL") with carrying value K 4.5 million. The title to the property is under dispute and management is pursuing the matter to make sure that the Fund's name appears in the property title. In spite of this, the Fund continues to receive its share of net income from the property.

12. Other assets

Prepayments	19,617	151,070
Debtors – Corporate	382,642	4,916,578
Security deposits	-	35,326
Accrued interests		
Term deposits and GIS	1,197,559	352,479
Treasury Bills	-	57,912
State share	478,384	135,966
Financial assets		
Held-to-maturity	-	731,900
Sundry debtors	16,283,771	4,055,238
Total	18,361,973	10,436,469
Less: specific allowance for losses	(52,084)	(1,088,609)
	18,309,889	9,347,860

Notes to the Financial Statements

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13. Income taxes

13.1 Income tax expense recognised in profit or loss

	2015	2014
	K	K
Tax expense comprises:		
Current tax expense	-	4,280,987
Deferred tax expense	3,804,213	(4,394,338)
Adjustments to prior year current tax	-	103,577
Income tax expense (benefit)	3,804,213	(9,774)

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

Net surplus before income tax	46,122,775	5,872,900
Income tax expense calculated at 25%	11,530,694	1,468,225
Tax effect of permanent differences	(5,718,169)	2,812,762
Dividends rebate	(2,008,312)	(4,394,338)
Adjustments to prior year current tax	-	103,577
	3,804,213	(9,774)

13.3 Deferred tax recognised during the year

	Opening balance	Recognised in statement of changes in net assets	Closing balance
	K	K	K
(a) Deferred tax assets			
2015			
<i>Temporary difference</i>			
Accruals	208,813	(143,411)	65,402
Other assets	-	11,454	11,454
Employee benefits	385,030	(237,140)	147,890
Depreciation	1,514,142	(1,514,142)	-
	2,107,985	(1,883,239)	224,746
2014			
<i>Temporary difference</i>			
Accruals and allowances	309,427	(100,614)	208,813
Employee benefits	332,810	52,220	385,030
Depreciation	1,708,985	(194,843)	1,514,142
	2,351,222	(243,237)	2,107,985
(b) Deferred tax liabilities			
2015			
<i>Temporary difference</i>			
Dividend receivable	-	2,892,052	2,892,052
Interest receivable	285,573	13,817	299,390
Prepaid insurance	-	1,722	1,722
Rental debtors	1,070,594	(974,934)	95,660
	1,356,167	1,932,659	3,288,826
2014			
Rent receivable	-	-	-
Interest receivable	346,695	(61,122)	285,573
Prepaid insurance	20,391	(20,391)	-
Rental debtors	1,242,092	(171,498)	1,070,594
	1,609,178	(253,011)	1,356,167

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14. Net assets available to pay benefits

	2015	2014
	K	K
(a) Members funds		
Balance at beginning of year	418,814,748	412,932,074
Change in net assets after income tax but before other comprehensive income	42,318,562	5,882,674
	461,133,310	418,814,748
(b) Investment revaluation reserve		
Balance at beginning of year	28,958,930	27,572,440
Reclassification adjustments relating to available for sale financial assets disposed of in the year	(28,958,930)	-
Gain from fair value adjustment (note 10.3)	-	1,386,490
	-	28,958,930
Net assets available to pay benefits	461,133,310	447,773,678

15. Interest income

Interest income is earned from the following assets:

Cash and short term funds	269,139	718,162
Treasury and Central bills	61,144	196,346
Financial assets that are held-to-maturity	4,280,828	3,847,507
	4,611,111	4,762,015

16. Property income

Interest income is earned from the following assets:

Rent	4,277,789	4,133,128
Less: - Agent management expense	(121,563)	(124,723)
- Other property expenses	(2,150,833)	(1,200,750)
	2,005,393	2,807,655

17. Gain on sale of financial assets

Gain on sale of listed investments	2,162,607	1,380,974
Loss on acquisition (see note 10.3)	(4,788,995)	-
Reclassification adjustment relating to transfer of accumulated fair value on available for sale financial assets disposed of in the year to profit or loss (see note 14)	28,958,930	-
	26,332,542	1,380,974

18. State share of contributions towards benefits paid and benefits paid

Pension and back pension	14,835,617	18,594,849
Refunds	268,220	588,148
Gratuities	8,500	9,700
Lump sum	1,935,953	909,456
	17,048,290	20,102,153
Less : State share of contributions towards benefits paid (note 3)	(10,104,567)	(11,977,129)
Net benefits paid	6,943,724	8,125,024

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2015

19. Trustee administration expenses

	2015	2014
	K	K
Staff expenses (see below)	2,068,468	2,645,335
Other administrative expenses (see below)	2,460,998	2,320,765
Depreciation	410,441	166,828
Software cost	16,964	-
Operating lease	183,750	450,364
GST expense	10,495	1,527,992
Other (see below*)	(1,245,120)	161,424
Impairment losses	62,526	518,687
	3,968,522	7,791,395

*For 2015, this mainly relates to release of excess accruals, provisions including bad debt provision relating to prior years that are no longer required.

19.1 Staff expenses can be analysed as below. As at 31 December 2015, the Trustee Company had 32 employees (2014: 29).

Salaries and wages	1,904,528	1,574,900
Sacrifice - Accommodation	731,742	658,723
Sacrifice - Airfare	29,023	30,371
Sacrifice - School fee	67,436	80,138
Sacrifice - Vehicle	136,740	147,960
Training	21,592	5,450
Insurance - medical	41,294	69,034
Other (see below*)	(863,887)	78,759
	2,068,468	2,645,335

*For 2015, this mainly relates to release of excess provisions for employee long service leave relating to prior years no longer required.

19.2 Other administrative expenses can be analysed as follows:

Advertising	59,057	108,779
Board of Trustee expenses	433,936	781,343
Internet service provider	59,258	24,764
License fee	177,091	156,293
Printing and stationery	82,816	59,071
Professional fees:		
External audit services	132,500	125,000
Tax	11,050	25,900
Medical	700	-
Other	398,980	323,909
Consulting	221,431	295,420
Legal	20,739	5,977
Telephone	78,940	60,646
Insurance	223,012	32,461
Sundry expenses	561,488	321,202
	2,460,998	2,320,765

20. Fund investment and administration expenses

Fund administration fee	639,797	567,456
Investment management fee	1,982,139	1,905,514
	2,621,936	2,472,970

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21. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

21.1 Key management personnel remuneration specified in aggregate in the year 2015

	2015	2014
	K	K
Remuneration	2,235,602	2,037,157
Superannuation - Employer	106,970	80,997
	2,342,572	2,118,154

21.2 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:

	2015	2014
K100,000 – K200,000	2	1
K200,001 – K400,000	2	2
K400,001 – K600,000	-	-
K600,001 – K1,000,000	-	-
K1,000,001 – K1,500,000	1	1

21.3 Board of Directors remuneration aggregate in the year 2015

	2015	2014
	K	K
Board remuneration	530,541	781,343
	530,541	781,343

Board of Directors comprised of the following individuals:

Mr Moses Koiri	Col Mark Goina	Mr Paul Nindipa	Mr John Auna
Mr Michael Varapik	Col Raymond Numa	Mr Taunao Vai	(Rtd) Colonel Fred Aikung

21.4 Other party related transactions

During the year the Fund acquired 5.25 million shares of Kina Securities Limited (KSL) at IPO. KSL provides Investment Management and Fund Administration services to the Fund, through its 100% owned subsidiaries Kina Funds Management Limited and Kina Investment & Superannuation Services Limited, respectively. Related fees paid are disclosed in note 20.

During the financial year the Fund earned interest on term deposits of K88,271 (2014: K78,816) from Kina Finance Limited, a finance company which has common shareholders with the Fund's investment manager, Kina Funds Management Limited. As at 31 December term deposits placed with Kina Finance Limited K100,000 (2014: K4,103,368).

The Fund holds 100% equity interests to Toea Homes Limited.

22. Financial risk management

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

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

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

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

22.1 Liquidity risk

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

The Fund holds securities that are listed on both the Port Moresby Stock Exchange and the Australian Stock Exchange. Those securities that are listed on the Australian Stock Exchange are considered readily realisable 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 throughout the life-time of the member. The Fund is not exposed to liquidity risk arising from interest bearing financial liabilities.

22.2 Government security risk

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

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22. Financial risk management (continued)

22.3 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 have been primarily in Australia as follows:

	2015	2014
	K	K
<i>At fair value through profit or loss</i>		
Listed securities	49,837,405	49,486,203
Monetary financial assets (cash and cash equivalents)	6,101,788	4,482,212
Total	55,939,193	53,968,415

22.4 Interest rate risk

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

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

	Weighted average interest rate	Up to 1 Year	1-5 Years	Over 5 Years	Non-interest Bearing	Total
		K	K	K	K	K
31 December 2015						
Assets						
Cash and cash equivalents	0.31%	14,195,337	-	-	-	14,195,337
Loans to members and others	4.42%	-	11,684,491	-	-	11,684,491
Financial assets:						
FVTPL		-	-	-	258,578,117	258,578,117
Held-to-maturity	10.31%	-	15,578,185	25,354,288	-	40,932,473
Other assets		-	-	-	18,309,891	18,309,891
Liabilities						
Employee provisions		-	-	-	(662,547)	(662,547)
Other liabilities		-	-	-	(2,743,038)	(2,743,038)
Liquidity and interest sensitivity gap		14,195,337	27,262,676	25,354,288	273,482,423	340,294,724
31 December 2014						
Assets						
Cash and cash equivalents	2.31%	17,015,123	-	-	-	17,015,123
Loans to members and others	8.00%	-	4,871,604	-	-	4,871,604
Financial assets:						
FVTPL		-	-	-	251,485,771	251,485,771
Available-for-sale		-	-	-	31,416,070	31,416,070
Held-to-maturity	10.24%	-	10,029,060	30,785,307	-	40,814,367
Other assets		-	-	-	(9,347,860)	(9,347,860)
Liabilities						
Other liabilities		-	-	-	(2,364,160)	(2,364,160)
Liquidity and interest sensitivity gap		17,015,123	14,900,664	30,785,307	271,118,921	333,890,915

22.5 Foreign currency exchange risk

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

The table below summarises Fund's exposure to currency risks.

	2015	2014
	K	K
Currency		
AUD	3,014,167	3,876,131
USD	3,087,621	606,081
	6,101,788	4,482,212

Assuming that the impact of currency fluctuation is asymmetric, a 100 basis points shift in currencies in either direction would impact the profit or loss by K 61,107 (2014: K 44,822).

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2015

22. Financial risk management (continued)

22.6 Fair values of financial assets and liabilities

(a) Fair value versus carrying values

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

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

Fair values of held to maturity financial assets 31 December 2015 was K 39,696,133 (2014: K 39,897,057). Carrying values of these financial assets at 31 December 2015 was K 40,932,474 (2014: K 40,814,367).

(b) Fair value hierarchy

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
	K	K	K	K
31 December 2015				
At fair value through profit or loss	183,665,317		74,912,800	258,578,117
Available for sale	-	-	-	-
Total	183,665,317	-	74,912,800	258,578,117
31 December 2014				
At fair value through profit or loss	178,321,921	-	73,163,850	251,485,771
Available for sale	-	-	31,416,070	31,416,070
Total	178,321,921	-	104,579,920	282,901,841

22.7 Credit risk

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

22.8 Equity price risk

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

	2015	2014
	K	K
At fair value through profit or loss		
Listed securities in PNG	133,827,912	128,835,718
Listed securities in Australia	49,837,405	49,486,203
Total	183,665,317	178,321,921

Assuming that the impact of equity price volatility is asymmetric, a shift in indices by 1% in either direction would impact the profit or loss by K1,836,653 (2014: K 1,783,219).

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2015

23. Detailed listing of financial assets held by the Fund

23.1 Listed shares

Companies	31 December 2015				31 December 2014	
	Market Price K	Units	Market Value 31/12/2015 Kina	Shareholding as a % of net assets of the Fund	Market Value 31/12/2014 Kina	Shareholding as a % of net assets of the Fund
Bank South Pacific	7.50	14,456,052	108,420,390	23.51%	103,216,211	23.05%
Bank of Queensland	30.90	117,193	3,620,723	0.79%	3,065,745	0.68%
City Pharmacy	1.33	2,576,921	3,427,305	0.74%	3,710,766	0.83%
Oil Search	14.85	1,288,000	19,125,887	4.15%	20,301,160	4.53%
Kina Asset Management Ltd	0.85	5,426,027	4,612,123	1.00%	6,226,027	1.39%
Credit Corporation	2.25	2,082,333	4,685,249	1.02%	5,414,066	1.21%
New Britain Palm Oil	-	-	-	-	10,268,648	2.29%
BHP Billiton Ltd	39.58	29,000	1,147,917	0.25%	1,829,317	0.41%
ANZ Banking	61.90	30,000	1,857,048	0.40%	2,067,655	0.46%
Telstra Corporation	12.43	200,000	2,486,702	0.54%	2,564,433	0.57%
Commonwealth Bank of Australia	189.56	11,405	2,161,945	0.47%	2,098,020	0.47%
Newcrest Mining Ltd	28.75	30,000	862,367	0.19%	701,675	0.16%
Vanguard International Shares Index Fund	4.20	4,427,809	18,574,816	4.03%	16,858,198	3.76%
Kina Securities Ltd	2.42	5,250,000	12,682,845	2.75%	-	-
			183,665,317		178,321,921	

23.2 Unlisted shares

Companies	31 December 2015				31 December 2014	
	Market Price K	Units	Market Value Kina	Shareholding as a % of net assets of the Fund	Market Value Kina	Shareholding as a % of net assets of the Fund
Toyota Tsusho Ltd	51	98,670	5,043,024	1.09%	4,836,803	1.08%
Westpac Bank (PNG) Ltd	288	2,000	576,820	0.13%	577,400	0.13%
Paradise Foods Ltd	128	225,000	28,849,500	6.26%	27,742,500	6.20%
Post Courier Ltd	12	110,900	1,326,364	0.29%	963,721	0.22%
South Pacific Brewery Ltd	69	566,668	39,117,092	8.48%	39,043,425	8.72%
Financial assets at FVTPL			74,912,800		73,163,850	
Hunter Ltd			-		31,416,070	7.02%
AFS financial assets			-		31,416,070	
TOTAL			74,912,800	16.25%	104,579,920	23.36%

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2015

23. Detailed listing of financial assets held by the Fund

23.3 Held to maturity investments

					Face Value 31/12/2015 K	Face Value 31/12/2014 K
	Serial Number	Settlement Date	Maturity Date	Coupon Rate		
1	S15112016(G26)	17/11/2006	15/11/2016	9.00%	4,036,696	4,078,553
2	S15112021(G27)	17/11/2006	15/11/2021	12.00%	3,181,428	3,212,287
3	S15112021(G25)	15/12/2006	15/11/2021	12.00%	1,003,822	1,004,472
4	S15112016(G28)	1/12/2007	15/11/2016	9.00%	1,001,264	1,002,707
5	S15112023 (G37)	4/11/2008	15/11/2023	12.00%	2,123,541	2,139,220
6	S15112023 (G38)	16/05/2008	15/11/2023	12.00%	1,041,533	1,046,804
7	S15112018 (G39)	16/05/2008	15/11/2018	9.00%	334,255	334,691
8	S15112017 (G41)	23/09/2011	15/02/2017	9.00%	2,037,065	2,069,901
9	S15052029(G42)	23/08/2013	15/05/2019	11.00%	1,535,969	1,546,634
10	S15052029(G43)	18/10/2013	15/05/2029	11.00%	1,039,875	1,042,855
11	S15052024(G44)	24/01/2014	15/08/2024	9.50%	2,100,811	2,112,493
12	S15052020(G45)	21/03/2014	15/05/2020	8.00%	994,712	993,504
13	S15052020(G46)	21/03/2014	15/05/2020	12.00%	1,002,910	1,003,575
14	S15052031(G47)	17/04/2014	15/05/2031	12.00%	978,501	977,103
15	S15052031(G48)	17/04/2014	15/05/2031	12.00%	956,151	953,300
16	S15052027(G49)	17/04/2014	15/05/2027	10.50%	927,775	921,427
17	S15012017(G50)	17/04/2014	15/01/2017	6.00%	998,250	996,574
18	S15082024(G51)	17/04/2014	15/08/2024	9.50%	909,572	899,094
19	S15052027(G52)	17/04/2014	15/05/2027	10.50%	964,009	960,846
20	S15052020(G53)	23/05/2014	15/05/2020	8.00%	936,605	922,116
21	S15052020(G54)	23/05/2014	15/05/2020	8.00%	906,953	885,687
22	S15052020(G55)	20/06/2014	15/05/2020	8.00%	1,793,506	1,746,311
23	S15052020(G56)	20/06/2014	15/08/2024	9.50%	1,725,146	1,693,297
24	S15052027(G58)	20/06/2014	15/05/2024	10.50%	1,736,586	1,582,548
25	S15052031(G57)	20/06/2014	15/05/2031	12.00%	1,627,062	1,719,459
26	S15052031(G59)	20/06/2014	15/05/2031	12.00%	1,642,938	1,619,722
27	S15052031(G60)	18/07/2014	15/05/2031	12.00%	1,703,853	1,684,598
28	S15052027(G61)	22/08/2014	15/05/2027	10.50%	850,294	837,136
29	S15052027(G62)	22/08/2014	15/05/2027	10.50%	841,393	827,453
					40,932,474	40,814,367

24. Audit fees

The independent external audit firm is Deloitte Touche Tohmatsu. The audit fees for the audit of the financial statements are disclosed in note 19.2.

25. Contingent liabilities and commitments

There were no contingent liabilities as at 31 December 2015 (2014: Nil). There was no future expenditure or capital commitments as at 31 December 2015 (2014: Nil).

26. Events after balance sheet date

There were no events that occurred after 31 December 2015, the balance sheet date, other than what has been disclosed in the notes to the financial statements, that would require an adjustment or disclosure in the financial statements.

27. Approval of financial statements

The financial statements were approved by the Trustee's Board and authorised for issue on 31 March 2016.

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