



DEFENCE FORCE RETIREMENT BENEFIT FUND

# Annual Report 2016



# Contents

Vision & Mission Statement	1
Chairman's Statement	2
Chief Executive Officer's Report	4
Fund Manager's Report	6
Fund Administrator's Statement	7
Board of Trustees	8
The Fund	10
Licensed Corporate Trustee	10
Corporate Governance Disclosure Statement	11
The Trustee	11
Shareholder Information	11
The Board	11
Audit Risk & Compliance Committee	12
Remuneration & Nomination Committee	12
Investment Committee	12
External Board Positions and Disclosure	13
Independent Professional Advice	15
Code of Conduct and Ethical Standards	15
Fund Administration	15
Investment Management	15
Employee Remuneration	15
Regulatory Supervision by Bank of Papua New Guinea	15
Independent Auditor	15
Management Expense Ratio	15
Staff Employment Policy	15
Investment Highlights	16
Highlights of 2016	20
Toea Homes Limited	21
Financial Statements	22
Trustee and Management Statement	23
Directors' Report	24
Independent Auditor's Report	25
Statement of Changes in Net Assets	26
Statement of Comprehensive Income and Changes in Net Assets	27
Statement of Cash Flows	28
Notes to the Financial Statements	29-44
Corporate Directory	45



# 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

On behalf of the Board of Directors of Comrade Trustee Services Limited (CTSL), it gives me great pleasure to present to you the 2016 Annual Report for the Defence Force Retirement Benefit Fund (DFRBF).

## Highlights for the past financial year

2016 was the first year of implementation of the Fund's revised 5 year corporate plan (2016 – 2020). A key objective of this plan was the completion of the Fund Review exercise as requested by members of the Fund.

The year was therefore one of transformation for the Fund, which saw the successful implementation of the legislative changes introduced by the PNG Defence Force Task Force and approved by National Parliament in 2015. Up to 95% of the Fund's contributing members took part in the Fund Review exercise and elected to transfer from the Defined Benefit Scheme into the new Accumulation Scheme.

The transformation process was quite challenging involving many stakeholders, changes and the introduction of new systems, processes and functions unique to the Accumulation scheme. Most of these changes have been successfully introduced during 2016, with the exception of a few that were carried over into 2017. For members, this change saw the calculation of their retirement benefits under the provisions of the Superannuation (General Provisions) Act. The State's Unfunded Liability position became crystalized as part of this transfer process for members and equated to over K219 million.

The Toea Homes Limited development project at Taurama also saw the continued development of the members housing scheme project. During the year, all land development and service works were completed to allow for registered Land allotments and titles to be issued and the construction phase of houses to commence in 2017.

## Financial results

Despite the resources, focus and attention being placed on the members transfer process, the Fund managed to achieve a Net Surplus after Tax of K55.48 million and its Net Assets increased by 12.03% to K516.61 million. The increased net income for the year was a result of higher dividend income receipts and favourable valuation gains on key investment assets. The Fund achieved a Rate of Return on its investments of 12.03% in comparison to 2.94% in 2015 and a lower Management Expense Ratio (MER) of 2.19% for 2016 than in 2015 (2.94%).

Based on these favourable financial results for the year, the Board approved and declared an Interest Crediting Rate of 17.8% for distribution to all contributing members of both schemes for 2016.

For the Fund's Pension members, the Board approved an apportionment of K36.1 million from net profits into Retained Earnings to continue funding the pension scheme.

## Milestones

The strong financial results mark the achievement of another key milestone for the Fund as 2016 will be recorded as the year that the Fund's Net Assets value exceeded the half a billion kina mark. The year is also a special one for the Fund, as this is when the Fund introduced an additional retirement benefit scheme, effectively making DFRBF a Dual Scheme Fund, the only one in PNG and one of only a few in the Pacific region.

## Future Prospects

With these changes come the challenges of ensuring that the Fund continues to be prudently managed. The PNG economy is forecast to grow by 2.8% in 2017, reflecting expectations of continuing low commodity prices during the year. The PNG National Elections will provide some stimulus to the economy, but on the whole, domestic investment market opportunities and returns will be quite low.

The Board is fully aware of these challenging times ahead particularly with the Fund's Investments and will continue to chart the course that ensures members Funds are prudently managed and continue to grow while being preserved, with continued delivery of efficient and effective services to all members. The Board is working with management and the Investment Managers on suitable investment strategies and plans for the different schemes.

Of significant importance to the Board moving forward, is the managing of the Funds Unfunded Liability position with the State. The Board will continue to work together with Management, the PNG Defence Force and the State to manage this liability position so that members are not unnecessarily inconvenienced.

The Board will also work with management to ensure that all requirements of the new Accumulation scheme are provided for and addressed for members. The Fund's Investment Strategies and Policies will be reviewed to ensure that they meet requirements of both schemes.

The Board is also committed towards the successful delivery of the first houses for Toea Homes that will be constructed and sold to members at the Taurama Toea Homes Estate during 2017.

## Acknowledgements

On behalf of the Board, I would to thank the Commander of the PNG Defence Force - Brigadier General Gilbert Toropo, the PNGDF Fund Review Team, all members of the Fund, the Department of Treasury, the Department of Finance, Bank of PNG, CTSL Management and Staff, Kina Bank and all other key service providers of the Fund for all your efforts and support provided during 2016 that have contributed towards the achievement of these positive results.

I look forward to your continued service and support during 2017 as we work towards enhancing returns and services to the Fund members.

Yours faithfully



**Moses Koiri**  
Chairman





# Chief Executive Officer's Report



## Dear Members

The 2016 year has once again been a year of milestone achievements for the Defence Force Retirement Benefit Fund (DFRBF). With the implementation of the Fund Review resolutions from the amendments introduced to the DFRBF Act, no longer is the Fund just a Defined Benefit scheme Fund, but is now a Dual scheme Fund following the election by over 95% of the contributing members to transfer into the new Accumulation scheme in July 2016.

The Fund continued its good financial performance from 2015 posting a net surplus after tax of K55.48 million for the year, which is a 24% increase compared to a net surplus after tax of K44.71 million in 2015. The higher net surplus was a result of increased dividend income, net gains on the value of financial assets and investment properties and lower operational expenses. The Fund also achieved a Management Expense Ratio (MER) of 2.2%, slightly lower than the 2.3% for 2015. Other key highlights during the year included the following.

Summary of Key Performance Indicators:

	2016	2015
Net Asset Value	516,615,170	461,133,310
Net Surplus (after tax)	55,481,860	13,359,632
Rate of Return	12.03%	2.94%
MER	2.19%	2.29%
Interest Crediting Rate	17.8%	2.94%
CPI Indexation rate	6.8%	5.8%
Total Active Membership	3,354	3,293
Total Pensioners	1,754	1,764
Total Members contribution received	5,914,969	4,852,366
Total Benefits paid	20,704,748	17,048,290

Other key highlights during the year included:

- Members home ownership scheme & commercial developments-** The Fund through its 100% owned subsidiary Toea Homes Limited completed civil works for the Taurama residential developments for the members housing scheme. A total of 150 house are to be built in stage 1 which will begin in 2017. Civil works for the commercial precinct that will host a variety of amenities including a service station, shopping centres and other service centres will also be completed during 2017.
- Strong Stakeholder relationships** – The successful introduction of the new Accumulation scheme and facilitation of the members transfer is a testimony of the close relationship and cooperation that is maintained with the Department of Treasury, Bank of PNG and the PNGDF hierarchy to serve our members interests.
- Our People** – The full complement of the Fund's Board and Management Team under its revised organizational structure has provided the Fund with the capacity required to implement the Fund's Strategic objectives and Business Plans and achieve the results that it has been able to achieve.
- Five year strategic plan (2016 -2020)** – 2016 was the first year of implementation of the revised 5 year strategic plan. A key objective of this plan was to achieve K0.50 billion in net assets, which was achieved in 2016. Another key objective of the strategic plan was to achieve an annual rate of return for members of CPI plus 2%, which was achieved with the crediting of 17.8% interest credited to member accounts.
- Fund Review** – the Fund successfully completed implementation of the Fund Review changes enacted in Parliament effective 1st January 2016 with the transfer of 95% of the contributing members into the new accumulation scheme. This followed extensive awareness road shows conducted at all Barracks and deployment locations.

## Fund Investments

The Fund's investments continued to be managed strategically to achieve the ongoing growth return through a balanced portfolio of both growth and income assets following the asset allocation of 80% Domestic and 20% International investments.

The strategic Asset Allocation for the period was as follows:-

Asset Class	Portfolio Value (Kina)	Percentage Holdings	Neutral Allocation %
Cash	24,201,417	4.70%	5%
Fixed Interest	36,112,602	7.02%	15%
Equity	266,756,053	51.85%	50%
Property	155,473,000	30.22%	10%
International	31,911,254	6.20%	20%
<b>TOTAL</b>	<b>514,454,326</b>	<b>100.00%</b>	<b>100%</b>

Source: CTSL

Other investment highlights for 2016 included:-

- The Fund received the transfer of commercial land from Toea Homes Limited in consideration for funds used to develop the members housing scheme at Taurama totalling K41.97 million while the value of all other properties increased in value compared to 2015 by K2.8 million.
- The BSP share price continued to appreciate in value during 2016, closing at K9.00 per share with a valuation gain of K21.7 million for the year.
- Overseas held cash and listed equity stock investments also appreciated with the depreciation of the Kina against the USD by 5.3% and AUD by 4.6%.

## Fund Membership

2016 saw a major change in the Fund's membership. All new members who joined the PNGDF and DFRBF during 2016 joined the new Accumulation Scheme, while existing contributing members were given the option to decide which scheme they wanted their retirement savings to be managed under. Up to 95% of these members elected to transfer and join the new Accumulation scheme.

The Fund's net active membership grew by 61 members or 2% during the year, bringing the total number of contributing members of the Fund to 3,354. Of this total, 3,073 were members of the Accumulation scheme while 281 were members who chose to remain in the Defined Benefit scheme.

Total benefit payments made in 2016 to members of both schemes was K5.2 million. Benefit payments made to members of the Defined Benefit scheme totaled K1.38 million with a total of K0.75 million paid as refunds and K0.62 million paid as commutation payments. For the Accumulation scheme, a total of K3.79 million of benefits was paid to members.

A total amount of K16.9 million was received as contributions from active contributing members of both schemes. Members of the Defined Benefit scheme contributed K12.71 million while members of the Accumulation scheme contributed K4.19 million.

The total number of active pension members also decreased by 1% during the year to 1,754. This was a result of a combination of the pension suspension exercise and normal aging. A total of K15.54 million was paid out as pension benefits during 2016. The State liability owing on the pension payments at the end of 2016 totaled K9.84 million.

## Governance, Risk and Compliance

During 2016, the Fund has worked hard to ensure it has remained compliant with the Superannuation industry Prudential Standards. The Bank of Papua New Guinea arranged for an IT Systems Review and Audit and conducted a Board Governance and Performance Review of CTSL. The review reports confirmed the Fund's continuing compliance with the regulations and provided feedback on areas for further strengthening and enhancing strong Governance practices.

An area that the Fund will be focusing more resources and attention towards addressing during 2017, is the State's Unfunded Liability position. As at the end of 2016, a total of K219 million was outstanding and due from the State as its 8.4% employer contribution plus interest owing to members of the Accumulation scheme.

## Fund Outlook

2016 was a historic year for the fund with the introduction of the Dual retirement schemes and the transfer of 95% of the Fund's members into the new Accumulation scheme. The Fund also exceeded the K0.50 billion net assets mark. The Fund continued its strong financial performance which was achieved during a period of slowing economic growth and signs of economic turbulence and uncertainty ahead.

The Trustee Management with the leadership and guidance of the Board, will continue to prudently manage the Fund assets to ensure preservation of member's savings for the two schemes while continuing to generate real returns for members. 2017 will see the roll out of the first Toea Homes houses for members and the introduction of more products and services with increased interaction and electronic access and distribution of information to members.

We look forward with much optimism to provide more positive and prosperous outcomes during the year ahead, as we position the Fund to take advantage of new opportunities arising, managing the challenges while ensuring that we work together with all key stakeholders to achieve optimum outcomes and results for our members.



**John Auna**  
Acting Chief Executive Officer

## Fund Manager's Report 2016

2016 was another year of moderate yet positive results starting off poorly with sell off in risk assets and drop in oil prices and uncertainty regarding China's policy stance. Then came the shocking news of UK vote to leave the EU and the results of the US presidential elections which triggered more volatility in the markets. 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 the Fund's principal investment objective of optimizing the real rate of return of the Fund, whilst maintaining risk to an appropriate level for the purpose of providing for members' retirement income.

Global growth remained subdued for various reasons which shift by region. The United States, economy continued to improve leading to a second rate hike at the end of the year, although there is much to speculate regarding how the Trump administration plans to lead the country. Geopolitical events such as Brexit and civil war in Syria continue to affect investor attitude toward certain regions and asset classes. Overall, expect to see low global growth in the coming year as most risks to growth projections remain.

Domestic economic growth result was less than half the initial Budget expectation at 2.0% reflecting continued struggle to manage national debt and expenditure efficiently when revenue projections were unrealistically optimistic. Imbalance between supply of foreign currency and import demand continued to affect the PNG Kina, maintaining its downward trajectory throughout the year.

Against this backdrop, the Fund recorded an investment return of 10.5%, primarily attributed to the improved performance of key investment assets which included Bank South Pacific Limited and Oil Search Limited. This contributed to the growth of the Fund's Net Asset Value to K516.6m (2015: K461.1m).

Major developments for the year included the transfer of up to 95% of the Fund's existing members from the Defined Benefits Scheme to the Defined Accumulation Scheme; the receipt of land titles for the Toea Homes Housing Project and the introduction of LIM led Director Training sessions.

During the year, the Trustee worked closely with the LIM to ensure compliance with Prudential Standards 1/2014 in particular the regular review of ASF investments. And for the first time since the introduction of this standard, the LIM completed and submitted the review of all the ASF's investments by the third quarter of 2016. The LIM also conducted a review of the Fund's investment strategy with focus on providing more liquidity to meet the ongoing requirements of its members.

Going forward, the Trustee and LIM will work towards aligning the Fund with the guidelines of investment practice with objectives of both a defined and accumulated benefit.

We would like to thank the Trustee, Management and Staff of CTSL in 2016, and look forward to working together towards achieving the Fund's goals & objectives for the best interests of its members.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Deepak Gupta", written over a white background.

**Deepak Gupta**

Executive General Manager - Wealth

together it's possible

Level 9, Deloitte Tower  
Douglas Street PO Box 1141  
Port Moresby NCD 121  
PAPUA NEW GUINEA

**Telephone** +675 308 3800  
**Facsimile** +675 308 3899  
**Email** [kina@kina.com.pg](mailto:kina@kina.com.pg)  
**Swift** KINIPGPG  
[www.kina.com.pg](http://www.kina.com.pg)



## Fund Administrator's Statement

2016 was another year of our continuous positive partnership with Comrade Trustee Services Limited as we set goals to improve our administration services to provide superior customer service to the members of the fund. One of the key areas we focused on was enhancing the user experience with our imaging and workflow (Case360) system at the Trustee's member services department which enable its staff to efficiently service the members. This change provided greater visibility to the staff and the ability to see the progress of every work or request that was sent to Kina for processing through the system. Therefore, it is our pleasure to advise that we have managed to keep our service levels above 98% in the 2016 year.

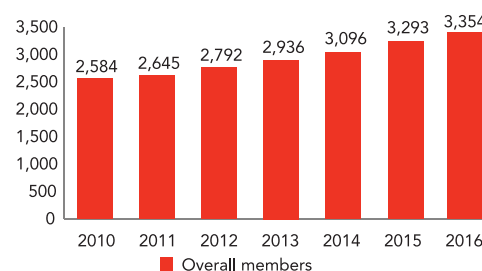
Other significant events included the upgrading of the core Acurity system to the latest version (version 16), successfully allocating the 17.8% declared interest rate to both Defined Benefit and Accumulation members and setting up of the 1.2% interim interest rate for the first time since Kina became the fund administrator. More than K708,000.00 and K34.93 million were distributed to the members of the Defined Benefit and the Accumulation scheme, respectively. On another note, the annual CPI increment of 5% for pension saw an increase in pension members' fortnightly pay to cater for the increasing cost of living today.

Another significant event we participated in was the roadshow initiated by the Trustee, making awareness and promoting superannuation benefits and the differences between a Defined Benefit Fund and Accumulation Fund to all the Defence Force personnel throughout the country which resulted in over 95% of the members opting to transfer to the accumulation scheme.

Our staffs are important part of our success and we are committed to help them develop and grow as we continue to invest in them to gain the necessary qualification and skills to ensure superior customer service is provided. We are pleased to also announce that our senior manager, Ms Sharon Punau was the first Papua New Guinean to have successfully completed the Diploma in Superannuation course with the Association of Superannuation Funds of Australia (ASFA)

### MEMBERSHIP

Overall fund membership grew by 1.85% to 3,354 as at 31 December 2016, consisting of 281 members in the Defined Benefit scheme and 3,073 members who opted to transfer their superannuation savings to the new Accumulation scheme on 1 July 2016. As expected, overall fund membership is growing at a gradually slow rate. 45% of the total membership is made up of soldiers who have been serving for more than 20 years, 6% between 10 and 19 years of service and 49% less than 10 years of service. The Accumulation scheme membership is expected to continue growing but the Defined Benefit scheme members will eventually reduce as they expect to become pension members if they clock in 20 years of service or more.



### CONTRIBUTIONS

Superannuation contributions totalling up to K7.96 million were received by the fund as at 31 December 2016. This is 89.14% more than total contributions (K4.21 million) received in year 2015. It was made up of K3.22 million for the Accumulation scheme members and K4.74 million for the Defined Benefit scheme members. Housing advance repayments totalling up to K136,000.00 was also received.

Contribution Type	2010	2011	2012	2013	2014	2015	2016
Super Contribution	2,686,219	2,734,140	3,246,804	3,541,948	4,074,836	4,213,314	7,969,332
Housing Repayments	119,120	124,280	127,400	146,060	153,795	128,810	136,000

### BENEFIT PAYMENTS

Benefit payments totalling up to K5.22 million were paid out to 50 exiting members in 2016. More than K1.91 million was paid out to thirty-seven (37) Defined Benefit members and K3.30 million to thirteen (13) Accumulation members. 8 of the 37 Defined Benefit members automatically joined the pension after serving the force for 20 years and above.

### PENSION

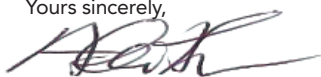
As for the pension benefits, more than K15.35 million were paid out to 1,371 active pensioners in 2016. More than K9.21 million represents the 60% liability paid to the members by the fund on behalf of the government while K6.14 million represents the 40% fund portion. The average fortnightly pension pay per pensioner also increased to K430.00 when annual CPI increment of 5% was applied on 1st January 2016.

### 2017 FORECAST

We are committed to continue investing in technology to improve our administration services and support the objectives and performance of the fund and its members. This commitment is in line with our primary focus to develop end-to-end process improvement and other technology initiatives to provide the world class service, such as (i) the Acurity Online service for the accumulation scheme members to access their superannuation savings via the internet by using a smart phone or a computer and (ii) a new reporting function that will display biographical member data in the Imaging and Workflow (Case360) system.

We look forward to continue improving to be the best administration service provider, and most importantly, continue supporting Comrade Trustee Services Limited to exceed the expectations of its members in the years to come.

Yours sincerely,



Adam Fenech  
General Manager  
Kina Investment & Superannuation Services

together it's possible

Level 9, Deloitte Tower  
Douglas Street PO Box 1141  
Port Moresby NCD 121  
PAPUA NEW GUINEA

Telephone +675 308 3800  
Facsimile +675 308 3899  
Email [kina@kina.com.pg](mailto:kina@kina.com.pg)  
Swift KINIPGPG  
[www.kina.com.pg](http://www.kina.com.pg)

# 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 experience in both the private and public sectors.

Currently he is the principal partner in the Commercial Advisory section of Albatross Law Services Limited. He has a 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 various 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 the contributory 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 organisation 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 Distinguished Military Service medal in February 2006 and the Member of British Empire (MBE) medal in June 2013 by the Governor General of PNG for his services to the PNGDF and the country.



## **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 as 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 Pefer 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.



## **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 a diverse 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 a 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 in a lot 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.



#### **Captain (Navy) Philip P.K. Polewara – Non Independent Director**

Captain Philip Polewara was appointed to the Board on 24th June 2016 and represents the contributory members of the Fund on the Board. Captain Polewara graduated from the PNGDF Defense Forces Academy in 1986 as an Army Second Lieutenant, he then underwent conversion in 1987 to become a Naval Officer.

Captain Polewara has served as a Naval Officer in various capacities on Landing Craft Heavy (LCH) and Fast Patrol Boats as a Navigating Officer and Executive Officer.

His operational experiences include the command of various Naval Units from 1992 to 2002, including security operations during the Bougainville crisis. He also served as an exchange officer with the Royal Australian Navy on HMAS Brunei in 1989.

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

His civilian achievements include a Bachelor's Degree in Business Majoring in Public Policy from the University of Papua New Guinea, and a Master of Liberal Arts majoring in International Relations from Salve Regina University in New Port, Rhode Island, United States.



#### **George B. Uware – Independent Director**

George Uware was appointed to the Board as an Independent Director on 24th June 2016. Mr. Uware has extensive experience in the field of finance and wealth management.

He holds a Bachelor's Degree in Accountancy from the University of Technology, Lae, a Certificate in International Banking and Finance from the University of Hawaii and a Certificate of International Business from the International Training Centre, Tokyo Japan.

In his professional career Mr. Uware has held numerous senior management roles in the private sector. Mr. Uware was the inaugural Chief Executive Officer of Comrade Trustee Services, a role in which he served from 2003 to 2011. Prior to this role, he was the acting General Manager and the Executive Manager – Corporate Administration for the DFRBF. Prior to his engagement with the DFRBF and subsequently CTSL, Mr. Uware was the General Manager of the PSA Savings and Loans Society.



# The Fund

---

The Fund is an established authorised Superannuation Fund (ASF) pursuant to Section 8 of the 'Superannuation General Provisions Act 2000' (SGP Act) with a current active contributor base of 3,354 and 1,754 pensioners as at 31st December 2016.

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 SGP Act allows access to retirement savings before retirement for purposes related to housing.

## Licensed Corporate Trustee

---

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

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



# 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:-

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

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 GP 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 GP 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 GP 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 eight Directors, three of whom represent members of the Fund and five 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.

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

# 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 2016 are as follows:-

Name of Director	Fee Received*	Board Status	Date of Appointment/Resignation	Board	Attendance of Meetings		
					Audit Risk & Compliance Committee	Remuneration & Nominations Committee	Investments Committee
Moses Koiri (Chairman)	98,023	Current	20/04/2012	7/7		2/4	3/4
Colonel Fred Aikung, OBE (Rtd)	63,702	Current	1/01/2015	7/7		4/4	
Colonel Raymond Numa, DMS, MBE	63,702	Current	31/10/2014	6/7			4/4
Colonel Mark Goina, DMS, MBE	21,234	Resigned	10/06/2016	2/7	3/4		
Michael Varapik	75,285	Current	11/11/2011	7/7	4/4	4/4	
Taunao Vai	69,493	Current	1/09/2014	6/7		4/4	
Paul Nindipa	75,285	Current	1/01/2015	7/7	4/4		4/4
George Uware	35,392	Current	10/06/2016	2/7	3/4		2/4
Captain (N) Philip Polewara, DMS, MBE	33,090	Current	10/06/2016	2/7	3/4		

\*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 2016 included:-

Name of the Committee	Committee Status
Michael Varapik	Chairman
Paul Nindipa	Member
Captain (N) Philip Polewara, DMS, MBE	Member
George Uware	Member

## 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 2016 included:-

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

## Investments Committee

The Committee had full membership and held three meetings during the year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibility to provide oversight for the investments of the fund, in line with the investment strategy and policy. The Committee shall provide reports and make recommendations to the Board on matters pertaining to the Fund's investments. Members of this committee as at 31 December 2016 included:-

Name of the Committee	Committee Status
Paul Nindipa	Chairman
Moses Koiri	Member
Colonel Raymond Numa, DMS, MBE	Member
George Uware	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 recorded the following relevant interest.

NAME	NATURE OF INTEREST	INTEREST
Moses Koiri	Chairman / Shareholder	Comrade Trustee Services Limited
	Director	Orekana Enterprise Limited
	Director	Kurada No. 24 Limited
	Member	PNG Institute of Directors
	Member	Bougainville Copper Foundation Limited
	Member	Investment Committee
	Member	Remuneration and Nomination Committee
	Partner / Employee	Albatross Law
	Director	Albatross Law Services Limited
	Member	PNG Law Society Inc
	Shareholder	Kina Asset Management
	Shareholder	Oil Search Limited
	Director	Toyota Tsusho (PNG) Limited
	Director	TISA Community Finance
Paul Nindipa	Director	Comrade Trustee Services Limited
	Chairman	Investment Committee
	Member	Audit, Risk & Compliance Committee (ARC)
	Partner	NKA Chartered Accountants
	Member / Auditor	PNG Institute of Directors
	Member / Director	Certified Practising Accountant (CPA PNG)
	Member / Director	Accountants Registration Board (ARB)
	Treasurer	Centre for Environmental Law & Community Rights (CELCOR)
	Director	Aus PNG Mining Limited
	Director	UDP PNG Pty Ltd
	Shareholder / Director	Alhambra Limited
	Shareholder / Director	NKA Management Limited
	Shareholder / Director	NKA Holdings Limited
	Shareholder / Director	HFB Limited
	Director	Milvik AB (PNG) Limited
	Director	National Roads Authority (NRA)
	Director	Tourism Promotion Authority (TPA)
Michael Varapik	Director	Comrade Trustee Services Limited
	Member	Remuneration and Nomination Committee (RAN)
	Chairman	Audit, Risk & Compliance Committee (ARC)
	Member	PNG Institute of Directors
	Director	Toea Homes Limited
	Director	Brian Bell & Company Limited
	Shareholder	Credit Corporation PNG Limited
Taunao Vai	Director	Comrade Trustee Services Limited
	Chairman	Remuneration and Nomination Committee (RAN)
	Member	PNG Institute of Directors
	Director	H&E Stevedores Limited
	Shareholder / Secretary	Laurabada No. 02 Limited
	Director	Laurabada No. 02 Limited
Col. Raymond Numa, OBE, DMS	Employee	PNG Defence Force
	Director / Shareholder	Comrade Trustee Services Limited
	Member	PNG Institute of Directors
	Member	Investment Committee
	Related Party / Contributor	DFRBF

# Corporate Governance

## External Board Positions and Disclosures *continued*

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

Col. Fred Aikung, OBE, (Rtd)	Director / Shareholder Related Party / Pensioner Member Member	Comrade Trustee Services Limited DFRBF Remuneration and Nomination Committee PNG Institute of Directors
Capt (N) Philip Polewara, DMS, MBE	Employee Director / Shareholder Related Party / Contributor Member Shareholder Shareholder Shareholder	PNG Defence Force Comrade Trustee Services Limited DFRBF Audit, Risk & Compliance Committee Kina Securities Limited Supurva Healthcare Group Inc (In USA) First Colombia Gold Corporation (In USA)
George B. Uware	Director Member Member	Comrade Trustee Services Limited Audit, Risk & Compliance Committee Investment Committee
Richard Sinamoi	Employee Secretary / Public Officer Related Party Member Member Director Director Shareholder Director Shareholder	Comrade Trustee Services Limited Comrade Trustee Services Limited Nambawan Super Limited PNG Institute of Directors Association of Superannuation PNG Paradise Foods Limited PNG Microfinance Limited Credit Corporation PNG Limited Toea Homes Limited Kina Securities Limited
Raicie M. Guillermo	Employee Member Member Shareholder	Comrade Trustee Services Limited PNG Institute of Directors FINSIA Kina Securities Limited
Beama Wape	Employee Member	Comrade Trustee Services Limited PNG Institute of Directors
John Auna	Employee Member Member	Comrade Trustee Services Limited PNG Institute of Directors Certified Practicing Accountant (CPA) PNG

## 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 lapsed and is 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 lapsed and is under review for renewal.

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

## Employee Remuneration

Please refer to Notes 19 and 21.3 and 21.4 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.

## Independent Auditor

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

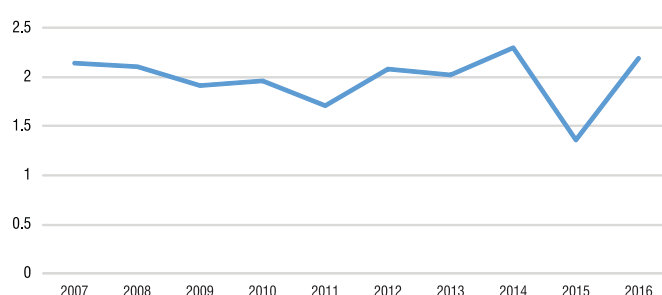
Auditor	2010 K	2011 K	2012 K	2013 K	2014 K	2015 K
Deloitte Touche Tohmatsu	126,000	134,000	138,600	125,000	125,000	132,500
Partner In-charge	Z. Theron	P. Barber	P. Barber	Z. Theron	Z. Theron	Z. Theron

Auditor	2016 K
Ernst & Young	125,000
Partner In-charge	M. Nair

The auditor's appointment is for 12 months at the expiry of renewal this in the with current practice. 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 35 staff employed by the company during the year (2015: 32).



# Investment Highlights

“It was another challenging year for PNG Super”

## Economy

Our domestic economy continued its slow pace of growth into the year 2016. The Final Budget Outcome putting GDP growth at just 2.0%, from 11.8% in 2015.

On a macro level, reduced trade flows, lower levels of foreign direct investment (FDI), and subsequently increased unemployment weakened overall consumer demand.

Inflationary pressures were somewhat unabated despite some relief from lower transportation costs. Imported inflation further suppressing the consumer's purchasing power; the depreciation of the Kina increasing the price of imported goods and services.

Into a more well-documented issue, business houses struggled to maintain operations as the foreign currency (FX) shortage continued. Downsizing and FX loans provided respite for some, however the impact on profits was more than visible.

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

For investors, like ourselves, the longer-term investment horizon holds some optimism. Major projects like the Papua LNG and Wafi-Golpu appear to be gaining momentum and are expected to assist in addressing some of the highlighted issues.

## At a Glance

FUND SIZE	RATE OF RETURN
K516.6m	7.3% p.a
in Net Assets as at 31-Dec-16	Over the last 10 years
MEMBERSHIP	CREDITING RATE
3,293	17.8%
Members across both schemes	For the Year 2016

## The Fund

In spite of the difficult circumstances, we managed to generate a generous investment return of 17.8% (8.9% annualized) for the year 2017.

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

## Strategy

Whilst these investments have certainly paid dividends over the years, we will continue to redistribute these gains into projects like Toea Homes and other attractive alternatives to ensure that we continue to grow whilst increasing the overall level of diversification of the Fund.



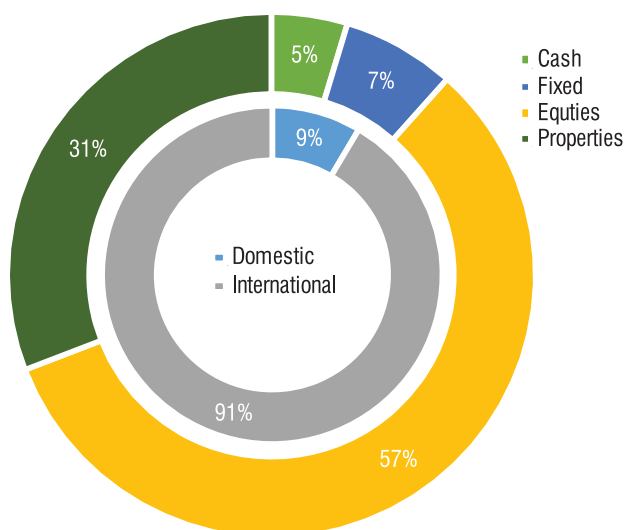
## Investment Portfolio

Asset Classification	Portfolio Value (Kina)		Percentage Holdings		Allocation	Neutral Allocation*
	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-15	31-Dec-16	31-Dec-16
Domestic						
Cash	11,837,380	8,092,849	2.3%	1.9%	2.3%	3.0%
Fixed	36,112,602	40,932,474	7.0%	9.5%	7.0%	22.0%
Equities	266,756,054	228,728,966	51.4%	53.0%	51.4%	33.0%
Properties	159,973,000	118,216,854	30.8%	27.4%	30.8%	22.0%
Domestic Total	474,679,036	395,971,143	91.5%	91.7%	91.5%	80.0%
International						
Cash	12,366,615	6,101,788	2.4%	1.4%	2.4%	1.0%
Fixed	0	0	0.0%	0.0%	0.0%	2.0%
Equities	31,911,256	29,849,152	6.1%	6.9%	6.1%	17.0%
International Total	44,277,871	35,950,940	8.5%	8.3%	8.5%	20.0%
Total Portfolio Value	518,956,907	431,922,083	100.0%	100.0%	100.0%	100.0%

\*Dual listed stock classified under international equities

The total gross value of investment portfolio of the Fund as at 31st December 2016 stands at 514,454,326.

## Portfolio at a Glance



## Major Investments

Investments	Asset Class	Exposure
Bank South Pacific	Listed Equities	25.07%
Taurama Commerical	Properties	9.58%
Defens Haus	Properties	8.83%
SP Brewery Limited	Unlisted Equities	7.66%
Governement Inscribed Stock	Fixed Income	6.96%

\* The Strategic Asset Allocation is subject to change upon review and acceptance of the revised Investment Strategy

\*\* The Trustee has provided an Exposure Exit Plan and Request for Exemption to the Bank of Papua New Guinea for assets exceeding the single asset exposure limit as required by the Prudential Standards

## Equity Transaction

Name of Entity	Transaction Type	Classification	Settlement Date	Number of Shares	Amount (Kina)
Oil Search Limited	Share Sale	Equity	Various	-293,263	-5,100,898
Oil Search Limited	Share purchased	Equity	Various	100,000	1,560,679
Taurama Commercial Precinct	Capital expenditure	Properties	Various		41,965,103
Woolworths Limited	Share Sale	Equity	2/09/2014	-16,000	-1,343,093

# Investment Highlights

## Equities

		2016	2015
Domestic	GICS Sectors	K	K
Listed			
Bank South Pacific	Financials	130,104,468	108,420,390
City Pharmacy	Consumer Staples	2,576,921	3,427,305
Oil Search	Energy	18,228,668	19,125,887
Kina Asset Management Ltd	Financials	5,263,246	4,612,123
Credit Corporation	Financials	3,956,433	4,685,249
Newcrest Mining Ltd	Materials	1,410,822	862,367
Kina Bank	Financials	12,740,943	12,682,846
Total Domestic Listed		174,281,501	153,816,166
BPT(PNG) Ltd	Consumer Discretionary	5,755,421	5,043,024
Westpac Bank Ltd (WPC)	Financials	543,440	576,820
Paradise Foods Ltd	Consumer Staples	24,320,250	28,849,500
Post Courier	Consumer Discretionary	1,298,639	1,326,364
South Pacific Brewery	Consumer Discretionary	39,768,760	39,117,092
Toea Homes Limited	Real Estate	20,788,043	0
Total Domestic Unlisted		92,474,553	74,912,800
Total Domestic Equity Portfolio		266,756,054	228,728,966
International			
Listed			
ANZ Banking Group	Financials	2,119,368	1,857,048
BHP Billiton	Materials	1,687,738	1,147,917
Bank of Queensland	Financials	3,230,564	3,620,723
Commonwealth Bank	Financials	2,182,736	2,161,945
Telstra	Telecommunications	2,368,788	2,486,702
Total International Listed		11,589,194	11,274,335
Unlisted			
Vanguard International Shares Indexed Fund	Financials	20,322,062	18,574,817
Total International Unlisted		20,322,062	18,574,817
Total International Equity Portfolio		31,911,256	29,849,152
Total Equity Portfolio		298,667,310	258,578,118

## Properties

Properties	Type	2016	2015	Movement
		K	K	K
Defens Haus	Commercial	45,819,000	47,515,000	-1,696,000
Comrade Haus	Commercial	18,800,000	17,628,220	1,171,780
Stop N Shop	Commercial	8,109,000	7,839,000	270,000
Latitude 9	Residential	14,820,000	20,108,634	-5,288,634
Ela Makana 2	Residential	12,300,000	13,348,000	-1,048,000
	Residential	4,500,000	4,500,000	0
Ela Makana 1	Land Bank	5,885,000	7,278,000	-1,393,000
Taurama Commercial	Land Bank	49,740,000	0	49,740,000
<b>Total Properties</b>		<b>159,973,000</b>	<b>118,216,854</b>	<b>41,756,146</b>

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

## Cash & Fixed

Cash	Institution	2016	2015
		K	K
<b>Cash on hand</b>		700	700
Interest Bearing*			
ANZ	Commercial Bank	44,281	44,610
Kina Bank	Commercial Bank	5,006,195	0
Bank South Pacific	Commercial Bank	3,783,921	3,693,249
Credit Corp PNG Ltd	Financial Institution	3,002,282	3,595,128
Kina Finance Limited**	Financial Institution	0	100,000
First Investment Finance Limited	Financial Institution	0	659,862
<b>Total IBD</b>		<b>11,837,380</b>	<b>8,092,849</b>
<b>On call***</b>			
Bank of Queensland	Commercial Bank	9,070,420	3,014,167
Credit Suisse	Custodian	3,296,195	3,087,621
<b>Total On Call</b>		<b>12,366,615</b>	<b>6,101,788</b>
<b>Total Cash</b>		<b>24,204,695</b>	<b>8,093,549</b>
<b>Fixed Interest</b>			
Government Inscribed Stock****	BPNG	36,112,602	40,932,474
<b>Total Fixed Interest</b>		<b>36,112,602</b>	<b>40,932,474</b>
<b>Total Cash &amp; Fixed</b>		<b>60,317,297</b>	<b>49,026,023</b>

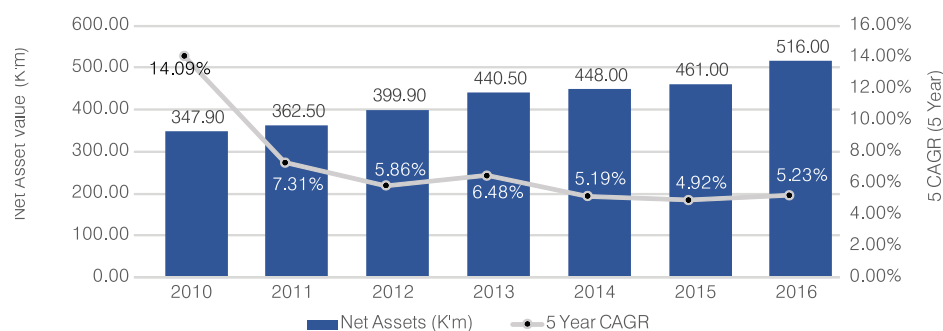
\* Interest Bearing Deposits with a term of less than 90 days

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

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

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

## Net Asset Value



## Comparative Statistical Summary

		2010	2011	2013	2014	2015	2016
<b>NET FUND ASSETS</b>							
Net assets	K(m)	362.5	399.9	440.5	447.8	461.1	516.6
Net asset growth	%	4	10.31	10	1.34	2.98	12.03
Reserve <sup>4</sup>	K(m)	4.519	0.283	0.765	1.4	0.0	6.3
<b>NET SURPLUS</b>							
Net surplus after tax	K(m)	10	37.1	39.7	5.9	42.3	55.5
<b>EXPENSES</b>							
Benefits	K(m)	9.2	10.6	9.1	20.1	17.0	20.7
Trustee administration	K(m)	4	5.5	6.3	7.8	4.0	11.1
Fund administration	K(m)	0.291	0.434	0.518	0.6	0.6	0.8
Investment management	K(m)	1.4	2	1.776	1.9	2.0	2.0
Management expense ratio	%	1.71	2.08	2.02	2.30	1.36	2.19
<b>INCOME</b>							
Investment income	K(m)	20.1	47.5	20.1	20.3	54.2	73.1
Contributions							
State share	K(m)	5.1	5.9	4.8	12.0	10.1	11.0
Members	K(m)	2.7	3.2	3.4	4.1	4.9	5.9



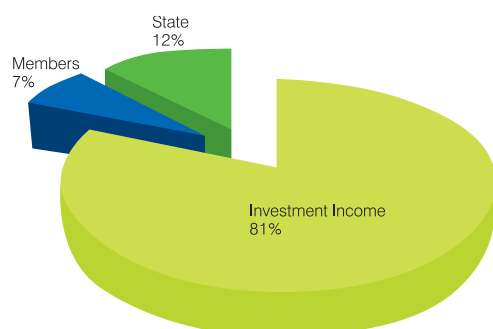
# Highlights of 2016

## Summary of Key Results

	2016	2015
Summary of Key Results	K	K
Net surplus (after tax)	55,481,860	13,359,632
Total Fund net assets	516,615,170	461,133,310
Total benefits paid	20,704,748	17,048,290
Interest crediting rate	17.8%	2.94%
CPI indexation rate	6.8%	5.8%
Management Expense Ratio	2.19%	2.29%

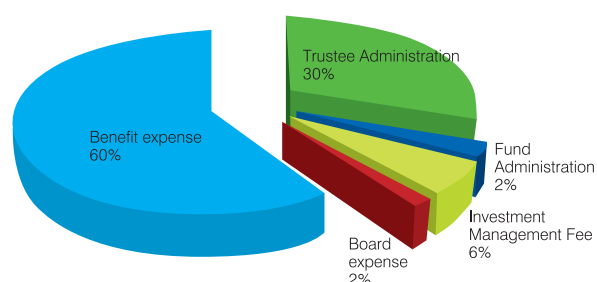
## Income Summary

Income Summary	K
Investment Income	73,155,467
Contribution	
. Members	5,914,969
. State	10,991,235
Other Income	3,325
<b>Total</b>	<b>90,064,996</b>



## Expenditure Summary

Expenditure	K
Trustee Administration	10,498,741
Fund Administration	826,554
Investment Management Fee	1,990,608
Board expense	562,484
Benefit expense	20,704,748
<b>Total Expenditures</b>	<b>34,583,135</b>



## Summary of results under each schemes

	Consolidated	Define Benefits	Accumulation Benefits
	K	K	K
<b>Income Summary</b>			
Investment Income	73,155,467	45,283,234	27,872,233
Other Income	3,325	2,058	1,267
Contribution Income	16,906,205	4,192,214	12,713,991
<b>Total</b>	<b>90,064,997</b>	<b>49,477,506</b>	<b>40,587,491</b>
<b>Expenditure Summary</b>			
Trustee, Fund Investment and Administration and Tax Expenses	13,878,388	5,411,910	8,466,478
Benefits Paid	20,704,748	3,785,766	16,918,982
<b>Total Expenditures</b>	<b>34,583,136</b>	<b>9,197,676</b>	<b>25,385,460</b>
<b>Net surplus after tax</b>	<b>55,481,861</b>	<b>40,279,830</b>	<b>15,202,031</b>
<b>Funds Net Assets</b>	<b>516,615,170</b>	<b>310,336,533</b>	<b>206,278,637</b>

# Toea Homes Limited

---

## Housing Scheme

Defence Force Retirement Benefit Fund home ownership scheme is designed to provide affordable durable quality homes to eligible members of the Fund. The scheme is being operated by Toea Homes Limited, which is 100% owned subsidiary of Comrade Trustee Services Limited.

## Our Vision & Mission:

“To ensure that every member of the PNG Defence Force upon eligibility is provided with the opportunity to secure a home”

## Construction Stage 1

With Stage One civil works completed, the construction of the first five houses at Taurama has commenced (refer image 2.0). It is expected that the balance of Stage One houses will be built over 2017.

## Future Developments

Upcoming stages of the Taurama Estate will comprise an approximate 400 additional homes and will be delivered over the coming years.

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

## Applications

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

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



Image 1 - Stage One Residential

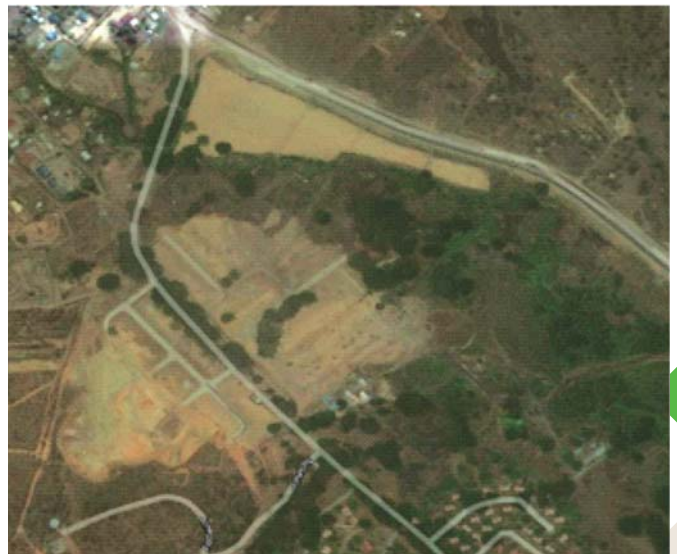


Image 2 - Taurama Precinct (aerial view)

# Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## Contents

TRUSTEE'S DECLARATION TO MEMBERS	23
MANAGEMENT'S STATEMENT	23
DIRECTORS' REPORT	24
INDEPENDENT AUDIT'S REPORT	25
STATEMENT OF NET ASSETS	26
STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN NET ASSETS	27
STATEMENT OF CASH FLOWS	28
NOTES TO THE FINANCIAL STATEMENTS	29–44

# Trustee's Declaration to Members

FOR THE YEAR ENDED 31ST DECEMBER 2016

In our opinion, as Trustee of Defence Force Retirement Benefit Fund ("the Fund"), the accompanying financial statements of the Fund which is comprised of statement of net assets as at 31 December 2016, statement of comprehensive income and 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 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000, 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 are 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 30th day of March 2017.

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 2016

In our opinion, as Management of the Trustee who manages the Defence Force Retirement Benefit Fund ("the Fund"), the accompanying financial statements of the Fund which is comprised of statement of net assets as at 31 December 2016, statement of comprehensive income and 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 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000, 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 are 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 30th day of March 2017.

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

  
John Auna  
Acting Chief Executive Officer

  
Raicie Guillermo  
Executive Manager – Finance and Investments



# Directors' Report

FOR THE YEAR ENDED 31ST DECEMBER 2016

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 2016. 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, retired 29 April 2016.
Mr. Michael Varapik	Non-Executive – appointed as at 11 November 2011
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
Captain Philip Polewara	Non-Executive – appointed as at 24 June 2016
Mr. George Uware	Non-Executive – appointed as at 24 June 2016

## Trustee Secretary

The Company Secretary as at 31 December 2016 was Mr. Richard Sinamoi.

## Review of operations

The Fund reported a net surplus after income tax but before other comprehensive income of K55,481,860 (2015: K42,318,562) and change in net assets for the year of K55,481,860 (2015: K13,359,632).

## Changes in state of affairs

During the financial year, existing members elected to transfer out of the Defined Benefit scheme into the Defined Accumulation Scheme. From the existing 3,266 plus members, 2,979 joined the Defined Accumulation Scheme in June 2016.

As a result, there were financial impact in terms of liquidity, accounting and reporting of each scheme's performance. These are disclosed in the notes to the financials.

## 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 21.4 to the financial statements.

## Remuneration above K100,000 per annum

The number of employees or former employees, not being directors of the Trustee, whose total remuneration and the value of other benefits received, exceeded K100,000, falls within each relevant K100,000 band are disclosed in Note 21.3.

## Donations

No donations were made during the current year, (2015: nil).

## Independent audit report

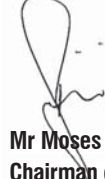
The financial statements have been audited by Ernst and Young and should be read in conjunction with the Independent Auditor's report on pages 25. Fees paid to external audit services are disclosed in Note 19.1 to the financial statements.

## 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

Dated at Port Moresby 30th March 2017



Mr Michael Varapik  
Director



Ernst & Young  
Level 4, ADF Haus,  
Musgrave Street, Port Moresby  
PO Box 1380 Port Moresby 121  
National Capital District  
Papua New Guinea

Tel: +675 305 4100  
Fax: +675 305 4199  
www.ey.com/au

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Defence Force Retirement Benefit Fund (the Fund), which comprises the statement of net assets as at 31 December 2016, statement of comprehensive income and changes in net assets and the statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies.

### Trustee's responsibility for the Financial Statements

The directors of the Comrade Trustee Services Limited (the Trustee) being the Fund's Trustee, are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefit Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea, and for such internal controls as the Trustee determines are necessary to enable the preparation of the financial statements 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 statements 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements of the Fund presents fairly, in all material respects, the Fund's financial position as at 31 December 2016 and of its financial performance for the years then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefit Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

### Report on other legal and regulatory requirements

We confirm in relation to our audit of the financial statements for the years ended 31 December 2016:

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

Ernst & Young

Madhu Nair

Partner

Registered under the Accountants Act 1996

Port Moresby

31 March 2017

# Statement of Net Assets

FOR THE YEAR ENDED 31ST DECEMBER 2016

		2016	2015
	Note	K	K
<b>Assets</b>			
Cash and cash equivalents	8	24,201,417	14,195,337
Loans to members and others	9	13,048,555	11,684,491
Financial assets:			
At fair value through profit or loss	10.1	298,667,307	258,578,117
Held to maturity	10.2	36,112,602	40,932,474
Investment properties	11	155,473,000	118,216,854
Property and equipment		3,449,667	3,667,733
Non-current asset held for sale	11	4,500,000	-
Other assets	12	4,902,473	19,644,466
Current tax assets		526,523	2,018,080
Deferred tax assets	13.3	196,076	224,746
<b>Total assets</b>		<b>541,077,620</b>	<b>469,162,298</b>
<b>Liabilities</b>			
Employee provisions		931,519	662,547
Deferred tax liabilities	13.3	1,064,316	3,288,826
Related party payables	21.1	16,978,483	
Other liabilities		5,488,132	4,077,615
<b>Total liabilities</b>		<b>24,462,450</b>	<b>8,028,988</b>
<b>Net assets available to pay benefits</b>	14	<b>516,615,170</b>	<b>461,133,310</b>

See accompanying notes to the financial statements



# Statement of Comprehensive Income and Changes in Net Assets

FOR THE YEAR ENDED 31ST DECEMBER 2016

		2016	2015
	Note	K	K
<b>Revenue</b>			
<b>Investment revenue</b>			
Interest income	15	5,410,429	4,611,111
Dividends		18,325,389	29,232,492
Property income net of property expenses	16	6,949,957	2,005,393
Change in fair value on investments properties	11	(1,167,380)	(13,937,820)
Change in fair value of financial assets	10.3	42,885,025	5,994,068
Gain on sale of financial assets	17	752,047	26,332,542
<b>Net investment revenue</b>		<b>73,155,467</b>	<b>54,237,786</b>
<b>Contribution revenue</b>			
Contribution received from members		5,914,969	4,852,366
State share of contributions towards benefits paid – defined benefit scheme	18	9,841,669	10,104,567
State share of contributions on accumulation scheme		1,149,566	-
<b>Total contribution revenue</b>	14.1	<b>16,906,204</b>	<b>14,956,933</b>
Other revenue		3,325	566,805
<b>Total revenue</b>		<b>90,064,996</b>	<b>69,761,524</b>
<b>Expenses and benefits paid</b>			
Benefits paid	18	20,704,748	17,048,290
Trustee administration expenses	19	10,683,264	3,968,523
Fund administration and investment management fees	20	2,817,162	2,621,936
<b>Expenses and benefits paid</b>		<b>34,205,174</b>	<b>23,638,749</b>
<b>Net surplus before income tax</b>		<b>55,859,821</b>	<b>46,122,775</b>
Income tax expense	13.1	377,961	3,804,213
<b>Net surplus after income tax but before other comprehensive income</b>		<b>55,481,860</b>	<b>42,318,562</b>
<b>Other comprehensive income</b>			
<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	14	-	(28,958,930)
<b>Change in net assets for the year</b>		<b>55,481,860</b>	<b>13,359,632</b>
<b>Net assets available to pay benefits at the beginning of the year</b>		<b>461,133,310</b>	<b>447,773,678</b>
<b>Net assets available to pay benefits at the end of the year</b>	14	<b>516,615,170</b>	<b>461,133,310</b>

See accompanying notes to the financial statements

# Statement of Cash Flows

FOR THE YEAR ENDED 31ST DECEMBER 2016

	2016	2015
Note	K	K
<b>Cash flows from operating activities</b>		
Interest received	5,098,593	3,977,212
Dividend received	29,872,773	21,164,284
Property income received	6,381,795	5,947,958
Contributions received from members	5,914,969	4,852,366
Benefits paid	(20,704,748)	(17,048,290)
Cash receipt of state share of benefits	9,627,171	7,333,833
Cash payment to employees and suppliers	(11,226,698)	(12,470,193)
Advances to Toea Homes Limited	(22,068,812)	(2,978,430)
Income taxes paid	-	(598,411)
<b>Net cash flows from operating activities</b>	<b>2,895,043</b>	<b>10,180,329</b>
<b>Cash flows from investing activities</b>		
Proceeds from maturity of treasury bills	5,000,000	1,932,490
Purchase of property and equipment	(510,759)	(3,042,261)
Proceeds from sale of property and equipment	40,000	-
Purchase of investment properties	(958,423)	(10,789,687)
Purchase of listed shares	(1,560,680)	(12,508,223)
Proceeds from sale of listed shares	5,100,899	11,407,566
<b>Net cash flows from (used in) investing activities</b>	<b>7,111,037</b>	<b>(13,000,115)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>10,006,080</b>	<b>(2,819,786)</b>
Cash and cash equivalents at the beginning of the year	14,195,337	17,015,123
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<b>14,195,337</b>

See accompanying notes to the financial statements

## 1. 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 was a Defined Benefit Fund until November 2015, when Parliament passed another bill allowing members to choose between the existing Defined Benefit and the newly established Accumulation Benefits. This has effectively changed the Fund from being a Defined Benefit Fund to be a hybrid Fund with both Defined and Accumulation Schemes as at 01 January 2016.

The Trustee at balance sheet date is Comrade Trustee Services Limited ("CTSL" or "Trustee"). CTSL is licensed by the Bank of Papua New Guinea as the corporate Trustee for the DFRBF. As the licensed corporate Trustee it has ultimate legal responsibility for the prudent management and preservation of the Fund subject to the requirements of the Superannuation Act 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 2016 was:

	Accumulation Benefit Members	Define Benefit Members	Total
Contributors	3,073	281	3,354
Pensioners	-	1,754	1,754

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, Comrade Place  
Off Frangipani Street, Hohola  
Port Moresby, National Capital District  
Papua New Guinea

## 2. Significant accounting policies

### 2.1 Statement of compliance

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

### 2.2 Basis of preparation

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

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

The principal accounting policies are set out below.

## 2.3 Summary of significant accounting policies

### a. Revenue recognition

Income is 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

##### 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.

##### 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).

##### 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.

##### 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

##### Member contributions

Contributions received from members are recognised upon receipt.

##### State share contribution

##### Defined benefit scheme

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

##### Accumulation scheme

Employer contributions include 8.4% of gross salary which are recognised upon receipt.

### b. Taxes

#### Current income tax

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

Current income tax relating to items 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.



## 2. Significant accounting policies (continued)

### 2.3 Summary of significant accounting policies (continued)

#### 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.

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.

### c. Property and equipment

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

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

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

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

### d. Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. Land and buildings, classified as investment property, are valued at 31 December 2016. 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
LJ Hooker	Defens Haus, Stop & Shop, Latitude 9, Ela Makana 1 & 2 and Comrade Haus
Savills Valuation Pty Ltd	Lawes Road

### e. Noncurrent asset held for sale

The Fund classifies non-current assets (or disposal group) as held for sale if their carrying amounts will be principally recovered through sale rather than through continuing use. Such non-current assets (or disposal group) held for sale is measured at the lower of their carrying amount and fair value less cost to sell.

The criteria for held for sale classification is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

## f. Financial assets

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

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices are classified as FVTPL.

Investments valued as at 31 December 2016 as follows:

- i. Listed shares are valued at 31 December 2016 at last sale price on that date (applying the bid rate). Foreign currency Off-shore investments are converted using the ANZ Bank exchange rate. The rate used as at valuation date was AUD 0.4306 and USD 0.3150.
- ii. Unlisted shares are independently valued as at 31 December 2016 as adopted by the Board. This valuation was performed by Pertuso 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.
- iii. The net movement on revaluation is reflected in the statement of changes in net assets.

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

AFS financial assets are recognised at fair value based on 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.

### 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.

## g. 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.

## h. 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.

## i. Foreign currency

### Functional presentation currency

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

### Transactions and balances

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

## j. Changes in accounting policies and comparatives

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

## k. 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.

## 2. Significant accounting policies (continued)

### 2.3 Summary of significant accounting policies (continued)

#### i. 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.

#### m. Goods and services tax

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

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

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

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

#### n. 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.

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

The accounting policies adopted are consistent with those of the previous financial year, except in the current year, the Fund adopted all new and revised IFRS, amendments to existing International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) Interpretation that are effective for annual periods beginning on or after 1 January 2016. The adoption of these standards did not have any effect on the financial performance or position of the Fund.

### IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Fund is an existing IFRS preparer and does not have qualified regulatory deferral accounts, therefore this standard does not apply.

### Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the

activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Fund as there has been no interest acquired in a joint operation during the period.

### Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Fund, given that it has not used a revenue-based method to depreciate its non-current assets.

### Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are applied retrospectively and do not have any impact on the Fund as it does not have any bearer plants.

### Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments do not have any impact on the Fund's financial statements.

### Annual Improvements 2012-2014 Cycle

These improvements include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations  
Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.
- IFRS 7 Financial Instruments: Disclosures  
(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) **Applicability of the amendments to IFRS 7 to condensed interim financial statements**

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

• **IAS 19 Employee Benefits**

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

• **IAS 34 Interim Financial Reporting**

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively. These amendments do not have any impact on the Fund.

## Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the Fund.

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

The amendments address issues that have arisen in applying the investment entities exception under

IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

## Standards Issued but not yet Effective

The Fund will adopt, where applicable, the following standards, amendments to existing standards and interpretations when these

become effective. Except as otherwise indicated, the Fund does not expect the adoption of these new standards and interpretations to have a significant impact on its financial statements:

Description	Effective for annual periods beginning on or after
IAS 7 Disclosure Initiative – Amendments to IAS 7	1 January 2017
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12	1 January 2017
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4	1 January 2018
IFRS 16 Leases	1 January 2019

The Fund continues to assess the impact of the foregoing new and amended accounting standards and interpretations effective subsequent to 2016 on the Fund's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the Fund's financial statements when these amendments are adopted.

## 4. Funding arrangements

### Defined benefit scheme

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

### Accumulation scheme

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

## 5. Liability for accrued benefits under Defined Benefit

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 and no assumptions are made regarding new entrants. Detailed discussion of the review is provided in the actuarial report dated 2 November 2015. The 2016 actuarial report will come out after the audit and will reflect the changes which took place in July under the two new schemes. The below numbers are based on 2014 audited financials.

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

Investment Yield	8%
Salary Increase	8%
Pension Increase	5%
Crediting rate	8%
Pension Commutation	50%



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## 5. Liability for accrued benefits under Defined Benefit *(continued)*

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:

	2014	2012
	K	K
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:

	2014	2012
	K	K
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.

## 6. Liability for accrued benefits under Accumulation Benefit

The total net asset transferred to the new scheme after the election was K183,410,599 from the 2015 audited balance of K461,133,310.

Under the Accumulation Benefits, the liability of the Fund is limited only to the 6% members' contributions, any interest the fund credited to the members plus the enhancement value transferred to the member at the time the member chose to leave the Defined Benefit Scheme and joined the Accumulation Benefit Scheme.

The 8.4% employer contribution will only be due for payment by the Fund when the state, being the employer, settles its share of the liability.

## 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.

### Receivable from the State

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

- (1) State's share of the accumulation member exit payments
- (2) State's share of the defined benefits member payments including the fortnightly pensions.
- (3) Interest accrued on the outstanding payments.

Management continuously assesses the recoverability of these receivables considering the nature of the debt, past history, likelihood of settlement and any relevant information available to management.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

As at 31 December 2016, the State owes the Fund K11.3 million (Refer to Note 9) in respect of State's share of Defined Benefit members' payments made by the Fund. The Fund has been meeting the Defined Benefit member exit payments and pensions on behalf of the State when a member serving under 20 years retires and exists the Fund or move on to the Pension for a member over 20 years. The Fund recognises this as a receivable only when the Fund invoices the State for these payments. All outstanding payments in respect of these invoices attract a penalty interest of 5% plus the treasury bill rate as at the end of each month.

Directors consider the State's share of exit payments receivable to be fully recoverable.

In the Accumulation Benefits Scheme, the State has an unrecognised liability to members of K219 million (but not the Fund) arising from unfunded members contribution calculated by the actuary and forms part of the enhancement values to members joining the Accumulation Scheme. This liability will become due by the State as members retire. The Fund is not obliged to pay these liabilities and accordingly, is not an asset and liability of the Fund. As at 31 December 2016, the State's liability arising from Accumulation Benefits members exiting stands at K3.48 million.

## 8. Cash and cash equivalents

	2016	2015
Notes	K	K
Cash on hand	700	700
Cash in banks	3,828,203	3,737,859
Term deposits with original maturity less than 90 days	20,372,514	10,456,778
	24,201,417	14,195,337

## 9. Loans to members and others

Housing advance	1,722,620	1,579,924
State's share on benefits paid	11,325,935	10,104,567
	13,048,555	11,684,491

## 10. Financial assets

### 10.1 Financial assets at fair value through profit or loss

Listed shares	23.1	206,192,754	183,665,317
Unlisted shares	23.2	92,474,553	74,912,800
		298,667,307	258,578,117

### 10.2 Held-to-maturity financial assets

Government inscribed stocks	23.3	36,112,602	40,932,474
-----------------------------	------	------------	------------

Government inscribed stock are fair valued and carried at mark to market. 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.

### 10.3 Change in fair value of financial assets

The amount comprises of:

Net fair valuation gain for listed financial assets at fair value through profit or loss	25,323,272	4,245,118
Net fair valuation gain for unlisted financial assets at fair value through profit or loss	17,561,753	1,748,950
Total	42,885,025	5,994,068

## 11. Investment properties

Balance at beginning of financial year	118,216,854	93,249,601
Additions *	42,923,526	38,905,073
Net loss from fair value adjustments	(1,167,380)	(13,937,820)
Reclassification Lawes road to non-current asset held for sale	(4,500,000)	-
Balance at end of financial year	155,473,000	118,216,854

The fair value of the Fund's investment property as at 31 December 2016 has been arrived by considering valuation analysis carried out by LJ Hooker which is an unrelated entity to the Trustee, along with recomputation of valuations using inputs from various other sources.

The 2016 investment property additions include K41.9 million which relates to the land acquired from Toea Homes Limited (Refer Note 21.1).

Noncurrent asset held for sale

In 2016, "Lawes Road Apartments" with a carrying value of K4.5 million has been reclassified from Investment property to "Noncurrent assets held for sale" under the statement of net assets. This property is jointly owned by the Fund to the extent of 50% along with Nambawan Super Limited ("NSL"). On 22 February 2016, NSL executed a sale agreement with Chesterfield Investments Limited for the sale of this property at an agreed price of K9 million. Whilst, the sale agreement has been executed, the Fund is still awaiting for documents from the Department of Lands to finalise the transfer of the property.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## 12. Other assets

	2016	2015
	K	K
GST tax receivable*	2,393,153	1,334,577
Debtors – Corporate	950,804	382,642
Accrued interests		
Term deposits and GIS	724,124	1,197,559
State share	785,272	478,384
Prepayments	49,891	19,617
Sundry debtors	20,823	16,283,771
Total	4,924,066	19,696,550
Less: specific allowance for losses	(21,593)	(52,084)
	4,902,473	19,644,466

\*GST Receivable recognised in 2016 is K1,058,576 while the balance was a carried forward from prior years.

## 13. Income taxes

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

Tax expense comprises:

Adjustments recognised in the current year in relation to the current tax of prior year	2,727,183	-
Deferred tax expense relating to origination and reversal of temporary differences	(2,349,222)	3,804,213
Income tax expense (benefit)	377,961	3,804,213

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

Net surplus before income tax	55,859,821	46,122,775
Income tax expense calculated at 25%	13,964,955	11,530,694
Tax effect of permanent differences	(10,094,383)	(5,718,169)
Dividends rebate	(6,219,794)	(2,008,312)
Adjustments recognised in the current year in relation to the current tax of prior year	2,727,183	-
	377,961	3,804,213

### 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			
<b>2016 Temporary difference</b>			
Accruals	65,402	(40,780)	24,622
Other assets	11,454	(7,623)	3,831
Employee benefits	147,890	19,733	167,623
	224,746	(28,670)	196,076
<b>2015 Temporary difference</b>			
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
(b) Deferred tax liabilities			
<b>2016 Temporary difference</b>			
Dividend receivable	2,892,052	(2,886,846)	5,206
Interest receivable	299,390	77,959	377,349
Prepaid insurance	1,722	(176)	1,546
Rental debtors	95,660	142,041	237,701
Depreciation (differences between tax and accounting value)	-	442,514	442,514
	3,288,824	(2,224,508)	1,064,316
<b>2015 Temporary difference</b>			
Rent 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	1,932,657	3,288,824

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## 14. Net assets available to pay benefits

### 14.1 Statement of Members Funds

(a) Members funds	2016		2015
	Notes	K	K
<b>(i) - Defined Benefit</b>			
Balance at beginning of year		461,133,310	447,773,678
Reclassification after election by Members		(183,410,599)	-
Operating results (Note 14.2)		36,818,813	15,450,989
Net assets Available to pay Defined Benefits		314,541,524	463,224,667
Contributions received		12,713,991	14,956,933
Benefits paid	18.1	(16,918,982)	(17,048,290)
Net assets Available to pay Defined Benefits at the end of the year		310,336,533	461,133,310
<b>(ii) - Accumulation Benefit</b>			
Balance at beginning of year		-	-
Reclassification after election by Members		183,410,599	-
Operating results (Note 14.2)		22,461,590	-
Net assets Available to pay Accumulation Benefits		205,872,189	-
Contributions received		4,192,214	-
Benefits paid	18.1	(3,785,766)	-
Net assets Available to pay Accumulation Benefits at the end of the year		206,278,637	-
Comprising of:			
Members Accounts		183,817,047	-
Interest allocation		16,210,019	-
Total Members Accounts		200,027,066	-
Reserve*		6,251,571	-
Total Accumulation Members Funds		206,278,637	-
* The amounts held in the above reserve account are unallocated benefits for the members. These reserves may be allocated to the members at the discretion of the Trustee after considering the necessary prudential and statutory requirements.			
<b>(iii) - Total Members Funds</b>			
Defined Benefits		310,336,533	461,133,310
Accumulation Benefits		206,278,637	-
Total Members Funds		516,615,170	461,133,310

The net members Funds at the end of 2015 was K461,133,310. In June 2016, the Fund members elected to choose between either the Accumulation or Defined Benefit schemes. As part of this exercise, the Fund's Actuary derived a formula to determine the transfer enhancement value as a one off increment that was to be credited to the members balance in addition to the their 6% employee contributions plus interest for those members who had elected to join the accumulation scheme. The enhancement transfer value was a calculation of what would have been received as interest by the member over the years if that member contributed under an Accumulation scheme.

The final transfer calculations determined by the Fund Managers using the formula recommended by the Actuary are as per the table below:

Members 6%	K35,573,517
Members interest	K39,554,646
Enhancement	K108,282,436
Total	K183,410,599

This now leaves a Net Asset balance of K277,722,711 available to pay benefits for the members of the Defined Benefit Scheme.

These two figures, K183,410,599 and K277,722,711, representing the Accumulation scheme and the Defined Benefit scheme respectively, only reflect the value of members account balances attributed to each scheme. The process of segregating the actual assets between each scheme will take a few years to implement and in line with the Funds Investment strategies and the liquidity requirements for each scheme.

### (b) Investment revaluation reserve

Balance at beginning of year	-	28,958,930
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)	-	-
Net assets available to pay benefits	516,615,170	461,133,310



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## 14. Net assets available to pay benefits (continued)

### 14.2 Apportioning of Net Operating Surplus

The Fund's Actuary was also requested to assist with determining the accounting apportionment ratio as the basis for allocating costs and revenue from investment operations as well as the administrative costs to determine the net operating surplus under each scheme.

For the purpose of the apportioning exercise, the only direct costs traced back to each scheme relate to the Fund Administration Fees for each scheme and the Fund review costs of the accumulation scheme incurred during the election process, while the rest of the costs and revenue items were apportioned based on the ratio determined by the Actuary as 61.9% for Defined Benefit and 38.10% for the Accumulation Benefit schemes respectively.

	Total	Accumulation Benefit	Defined Benefit
	K	K	K
<b>Income</b>			
Direct income	-	-	-
Income based on apportioning ratio	73,158,791	27,873,500	45,285,291
	73,158,791	27,873,500	45,285,291
<b>Expenses</b>			
Direct expenses	1,536,024	709,469	826,555
Expenses based on apportioning ratio	12,342,364	4,702,441	7,639,923
	13,878,388	5,411,910	8,466,478
<b>Net operating income from operations</b>	59,280,403	22,461,590	36,818,813
Accounting apportioning ratios	100%	38.10%	61.90%

## 15. Interest income

	2016	2015
Notes	K	K
Interest income is earned from the following assets:		
Financial assets that are held-to-maturity	4,620,845	4,280,828
Cash and short term funds	789,584	269,139
Treasury and Central bills	-	61,144
	5,410,429	4,611,111

## 16. Property income

Interest income is earned from the following assets:

Rent	10,222,159	4,277,789
Less: - Agent management expense	(95,115)	(121,563)
- Other property expenses	(3,177,086)	(2,150,833)
	6,949,957	2,005,393

## 17. Gain on sale of financial assets

Gain on sale of listed investments	752,047	2,162,607
Loss on acquisition	-	(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 (Note 14)	-	28,958,930
	752,047	26,332,542

## 18. State share of contributions towards benefits paid

### 18.1 Defined Benefit Scheme

Pension and back pension	15,542,404	14,835,617
Refunds	753,006	268,220
Gratuities	6,510	8,500
Lump sum	617,062	1,935,953
	14.1	16,918,982
Less : State share of contributions towards benefits paid	(9,841,669)	(10,104,567)
Net benefits paid	7,077,313	6,943,724

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## 18. State share of contributions towards benefits paid *(continued)*

18.2 Defined Accumulation Scheme	2016		2015
	Notes	K	K
Normal benefits paid		3,773,402	-
Unemployment benefits paid		12,364	-
Net benefits paid	14.1	3,785,766	-
<b>18.3 Total Benefits paid</b>			
Defined Benefit Scheme	18.1	16,918,982	17,048,290
Defined Accumulation Scheme	18.2	3,785,766	-
Total		20,704,748	17,048,290

## 19. Trustee administration expenses

Staff expenses (Note 19.1)	3,950,707	2,068,468
Other administrative expenses (Note 19.2)	2,606,275	2,460,998
Operating lease	1,394,910	183,750
Depreciation	726,796	410,441
Software cost	8,465	16,964
GST expense	-	10,495
Impairment losses	-	62,526
Other (see below*)	1,996,111	(1,245,120)
	10,683,264	3,968,522

\* For 2015, this mainly relates to release of excess accruals, provisions including bad debt provision relating to prior years that are no longer required. For 2016, this pertains to costs incurred related to the accumulation scheme review exercise which include among others, travel costs, accommodation and advertising expenses.

### 19.1 Staff expenses

Staff expenses can be analysed as below. As at 31 December 2016, the Trustee Company had 30 employees (2015: 32).

Salaries and wages	2,420,675	1,904,528
Sacrifice - Accommodation	807,236	731,742
Sacrifice - Vehicle	147,960	136,740
Insurance - medical	86,091	41,294
Training	38,060	21,592
Sacrifice - School fee	20,140	67,436
Sacrifice - Airfare	10,970	29,023
Other (see below*)	419,575	(863,887)
	3,950,707	2,068,468

\* For 2015, this mainly relates to release of excess provisions for employee long service leave relating to prior years no longer required. For 2016, this pertains to staff amenities, annual leave and long service leave.

### 19.2 Other administrative expenses can be analysed as follows:

Board of trustee expenses	562,484	433,936
Insurance	273,353	223,012
Internet service provider	148,950	59,258
Advertising	107,189	59,057
Professional fees:		
External audit services	134,053	132,500
Tax	11,050	11,050
Medical	-	700
Consulting	138,244	221,431
Legal	119,178	20,739
Other	230,255	398,980
Printing and stationery	89,321	82,816
Telephone	84,168	78,940
License fee	44,544	177,091
Sundry expenses	663,486	561,488
	2,606,275	2,460,998

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## 20. Fund administration and investment management fees

	2016	2015
	K	K
Financial assets that are held-to-maturity	826,554	639,797
Treasury and Central bills	1,990,608	1,982,139
	2,817,162	2,621,936

## 21. Related party transactions

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

### 21.1 Toea Homes Limited

Toea Homes Limited (THL) is a 100% subsidiary of the Fund and was formed as a vehicle company to manage the current home ownership scheme of the Fund. THL owns a land which was surveyed and identified as a commercial precinct to cater for business amenities (such as super market, fuel service station, fast food, etc.) to service the home estate, as well as to derive an investment income. This commercial precinct is further divided into four smaller allotments. During the year, THL transferred ownership of the titles of these four smaller allotments to CTSL, in consideration for funds of K41.9 million to develop current construction stages of the home ownership scheme. The Fund engaged LJ Hooker, to conduct a fair market valuation of the commercial land which was valued at K45.82 million, resulting in a gain of K3.8 million to the Fund.

As a result of these transactions, the following balances are outstanding as at the end of the year:	2016	2015
	K	K
Related party payables to THL	16,978,483	-

### 21.2 Key management personnel remuneration specified in aggregate in the year 2016

Salary	1,279,251	902,824
Non-monetary (i)	661,395	43,065
Superannuation		
- Employer	103,034	142,448
Related party payables to THL	2,043,680	1,088,337

(i) In prior years, non-monetary benefits relates to value of assessable benefits charged for salary tax purposes on housing and motor vehicles provided to key management. In 2016, this now reflects the actual housing and motor vehicle allowances paid to suppliers as benefits to employees.

### 21.3 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:

	2016	2015
K100,000 – K200,000	5	2
K200,001 – K400,000	3	2
K400,001 – K600,000	-	-
K600,001 – K1,000,000	-	-
K1,000,001 – K1,500,000	1	1

### 21.4 Board of Directors remuneration during the year

	2016	2015
	K	K
Board remuneration	535,206	530,541

#### Board of Directors comprised of the following individuals:

Mr Moses Koiri	Col Mark Goina (Retired in April 2016)	Mr Paul Nindipa	Mr George Uware (Joined in June 2016)
Mr Michael Varapik	Col Raymond Numa	Mr Taunao Vai	Capt Philip Polewara (Joined in June 2016)

### 21.5 Other party related transactions

In 2015, 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, respectively. Related fees paid are disclosed in Note 20.

During the financial year, the Fund earned interest on term deposits of K76,487 (2015: K88,271) 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 2016, term deposits placed with Kina Finance Limited amounted to K4,006,195 (2015: K100,000). In 2016, the Fund also received dividends amounting to K963,122.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## 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).

### 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:

	2016	2015
	K	K
<i>At fair value through profit or loss</i>		
Listed securities	64,291,686	49,837,405
Monetary financial assets (cash and cash equivalents)	12,366,606	6,101,788
<b>Total</b>	<b>76,658,292</b>	<b>55,939,193</b>

### 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
<b>31 December 2016</b>						
<b>Assets</b>						
Cash and cash equivalents	1.06%	24,201,417	-	-	-	24,201,417
Loans to members and others	4.42%	-	13,048,555	-	-	13,048,555
Financial assets:						
FVTPL					298,667,307	298,667,307
Held-to-maturity	10.45%	3,019,794	10,324,241	22,768,567	-	36,112,602
Other assets		-	-	-	4,902,473	4,902,473
<b>Liabilities</b>						
Employee Provisions					(931,519)	931,519
Other liabilities		-	-	-	(5,488,132)	(5,488,132)
<b>Liquidity and interest sensitivity gap</b>		<b>27,221,211</b>	<b>23,372,796</b>	<b>22,768,567</b>	<b>287,345,183</b>	<b>335,125,769</b>



# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## 22. Financial risk management (continued)

	Weighted average interest rate	Up to 1 Year	1-5 Years	Over 5 Years	Non-interest Bearing	Total
		K	K	K	K	K
<b>31 December 2015</b>						
<b>Assets</b>						
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
<b>Liabilities</b>						
Employee provisions					(662,547)	(662,547)
Other liabilities					(2,743,038)	(2,743,038)
<b>Liquidity and interest sensitivity gap</b>		<b>14,195,337</b>	<b>27,262,676</b>	<b>25,354,288</b>	<b>273,482,423</b>	<b>340,294,724</b>

### 22.5 Foreign currency exchange risk

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

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

	2016	2015
	K	K
<b>Currency</b>		
AUD	9,070,420	3,014,167
USD	3,296,195	3,087,621
	<b>12,366,615</b>	<b>6,101,788</b>

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 K31,594 (2015: K61,107)

### 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.

#### (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.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## 22. Financial risk management (continued)

	Level 1	Level 2	Level 3	Total
	K	K	K	K
<b>31 December 2016</b>				
At fair value through profit or loss	206,192,754	92,474,553	-	298,667,307
Government inscribed stocks	36,112,602	-	-	36,112,602
<b>Total</b>	<b>242,305,356</b>	<b>92,474,553</b>	<b>-</b>	<b>334,779,909</b>
<b>31 December 2015</b>				
At fair value through profit or loss	183,665,317	74,912,800	-	258,578,117
Government inscribed stocks	40,932,474	-	-	40,932,474
<b>Total</b>	<b>224,597,791</b>	<b>74,912,800</b>	<b>-</b>	<b>299,510,591</b>

### 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:

	2016	2015
	K	K
<i>At fair value through profit or loss</i>		
Listed securities in PNG	141,901,068	133,827,912
Listed securities in Australia	64,291,687	49,837,405
<b>Total</b>	<b>206,192,755</b>	<b>183,665,317</b>

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 K2,050,749 (2015: K1,836,653).

## 23. Detailed listing of financial assets held by the Fund

### 23.1 Listed shares

	31 December 2016				31 December 2015	
	Market Price	Units	Market Value	Shareholding	Market Value	Shareholding
Companies	K		31/12/2016 Kina	as a % of net assets of the Fund	31/12/2015 Kina	as a % of net assets of the Fund
Bank South Pacific	8.97	14,456,052	130,104,467	25.80%	108,420,390	23.51%
Bank of Queensland	25.51	117,193	3,230,564	0.59%	3,620,723	0.79%
City Pharmacy	1.14	2,576,921	2,576,921	0.58%	3,427,305	0.74%
Oil Search Ltd	16.24	1,094,737	18,228,668	3.54%	19,125,887	4.15%
Kina Asset Management Ltd	0.96	5,426,027	5,263,246	1.04%	4,612,123	1.00%
Credit Corporation	1.90	2,082,333	3,956,433	0.79%	4,685,249	1.02%
New Britain Palm Oil	56.27	29,000	-	0.32%	-	0.00%
BHP Billiton Ltd	67.93	30,000	1,687,738	0.41%	1,147,917	0.25%
ANZ Banking Group	12.15	200,000	2,119,368	0.48%	1,857,048	0.40%
Telstra Corporation	179.00	11,405	2,368,788	0.41%	2,486,702	0.54%
Commonwealth Bank of Australia	55.02	30,000	2,182,736	0.33%	2,161,945	0.47%
Newcrest Mining Ltd	4.41	4,427,809	1,410,822	3.89%	862,367	0.19%
Vanguard International Shares Index Fund	2.51	5,250,000	20,322,060	2.62%	18,574,816	4.03%
Kina Securities Ltd	25.51	117,193	12,740,943	0.59%	12,682,845	2.75%
			<b>206,192,754</b>		<b>183,665,317</b>	

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2016

## 23. Detailed listing of financial assets held by the Fund (continued)

### Movements during year

Companies	Beginning Balance	Buy	Sell	Gain/(Loss) in Fair Value	Ending Balance
	K	K	K	K	K
Bank of South Pacific	108,420,390			21,684,078	130,104,467
Bank of Queensland	3,620,723			(390,159)	3,230,564
City Pharmacy Limited	3,427,305			(850,384)	2,576,921
Oil Search	19,125,887	1,560,680	(4,356,516)	1,898,617	18,228,668
Kina Asset Management Limited	4,612,123			651,123	5,263,246
Credit Corporation Ltd.	4,685,249			(728,817)	3,956,433
BHP Billiton Limited	1,147,917			539,821	1,687,738
ANZ Banking Group	1,857,048			262,320	2,119,368
Telstra Corporation Ltd.	2,486,702			(117,914)	2,368,788
Commonwealth Bank of Australia	2,161,945			20,791	2,182,736
Newcrest Mining Limited	862,367			548,455	1,410,822
Vanguard International Shares Index Fund	18,574,816			1,747,244	20,322,060
Kina Securities Ltd	12,682,846			58,097	12,740,943
<b>Total</b>	<b>183,665,317</b>	<b>1,560,680</b>	<b>(4,356,516)</b>	<b>25,323,272</b>	<b>206,192,754</b>

### 23.1 Listed shares

Companies	31 December 2016				31 December 2015	
	Market Price	Units	Market Value	Shareholding	Market Value	Shareholding
	K		31/12/2016 Kina	as a % of net assets of the Fund	31/12/2015 Kina	as a % of net assets of the Fund
BPT(PNG) Ltd	58.33	98,670	5,755,421	1.11%	5,043,024	1.09%
Westpac Bank Ltd (WPC)	271.72	2,000	543,440	0.10%	576,820	0.13%
Paradise Foods Ltd	108.09	225,000	24,320,250	4.68%	28,849,500	6.26%
Post Courier	11.71	110,900	1,298,639	0.25%	1,326,364	0.29%
South Pacific Brewery	70.18	566,668	39,768,760	7.66%	39,117,092	8.48%
Toea Homes Limited (Note 21.1)			20,788,043	3.99%	-	-
<b>TOTAL</b>			<b>92,474,553</b>	<b>17.79%</b>	<b>74,912,800</b>	<b>16.25%</b>

## 24. Audit fees

The independent external audit firm is Ernst and Young. 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 2016 (2015: Nil). There was no future expenditure or capital commitments as at 31 December 2016 (2015: Nil).

## 26. Events after balance sheet date

There were no events that occurred after 31 December 2016, 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.

The Fund's Commercial Property, Stop and Shop Boroko, which is part of a chain of shops located at Tabari Place, Boroko was one of the buildings that nearly caught fire on the 23rd & 24th of March 2017. The Stop and Shop property, however, has a resistant barrier wall which saved the building. The impact on the Fund's Property appears to be minimal at this stage, however, the Fund has requested for an official review and assessment report to be completed by a qualified professional structural engineer.

## 27. Approval of financial statements

The financial statements were approved by the Trustee's Board and authorised for issue on 30 March 2017.

# Corporate directory

---

## Licensed Trustee:

---

Comrade Trustee Services Limited  
Level 1, Comrade Haus, Off Frangipani Street, Hohola  
PO Box 497, PORT MORESBY, NCD  
Papua New Guinea  
Telephone: +675 320 3455  
Facsimile: +675 321 5840  
Toll free: 180 1007  
Email: [info@ctsl.com.pg](mailto:info@ctsl.com.pg)  
Website: [www.ctsl.com.pg](http://www.ctsl.com.pg)

## Management:

---

Richard Sinamoi – Chief Executive Officer  
Raicie M. Guillermo – Executive Manager Finance & Investments  
John Auna – Executive Manager Member Services & Talents  
Beama Wape – Executive Manager Governance & ICT

## Banker:

---

Bank South Pacific  
Port Moresby Branch  
PO Box 78  
Port Moresby, NCD  
Telephone: +675 321 1999  
Facsimile: +675 321 1954

## Actuary:

---

Alan Haintz, B.Sc. FFA, FIAA, FAICD  
Financial Synergy  
Level 46, The Tower  
360 Elizabeth Street  
Melbourne, Victoria 3000  
Email: [actuary@finsyn.com.au](mailto:actuary@finsyn.com.au)

## Independent External Auditor:

---

Ernst & Young  
Level 4, ADF Haus, Musgrave Street, Port Moresby  
PO Box 1380, Port Moresby 121, NCD, Papua New Guinea  
Telephone: +675 305 4100  
Facsimile: +675 305 4199  
[www.ey.com/au](http://www.ey.com/au)

## Fund Administrator:

---

Kina Superannuation Services Limited  
Level 2, Deloitte Tower  
PO Box 1141, Port Moresby, NCD  
Telephone: +675 308 3888  
Facsimile: +675 308 3899

## Investment Manager:

---

Kina Funds Management Limited  
Level 9, Deloitte Tower  
PO Box 1141, Port Moresby, NCD  
Telephone: +675 308 3888  
Facsimile: +675 308 3899

## Lawyers:

---

Gaden Lawyers  
Level 12, Pacific Place  
Corner Musgrave Street & Champion Parade  
Port Moresby, NCD 121  
Telephone: +675 321 1033  
Facsimile: +675 321 1885  
Website: [www.gadens.com.pg](http://www.gadens.com.pg)

## Tax Agent:

---

DFK Mayberry Chartered Accountants  
Level 5, Defens Haus, Cnr Champion Parade & Hunter Street  
PO Box 1829, Port Moresby, NCD, Papua New Guinea  
Telephone: +675 320 1988  
Facsimile: +675 321 7548  
Mobile: +675 7539 5498





Level 1, Comrade Haus,  
Off Frangipani Street, Hohola  
PO Box 497, PORT MORESBY, NCD  
Papua New Guinea  
Telephone: +675 320 3455  
Facsimile: +675 321 5840  
Email: [info@ctsl.com.pg](mailto:info@ctsl.com.pg)  
Website: [www.ctsl.com.pg](http://www.ctsl.com.pg)