

2018 Annual Report

Comrade Trustee
Services Limited

Defence Force Retirement Benefits Fund

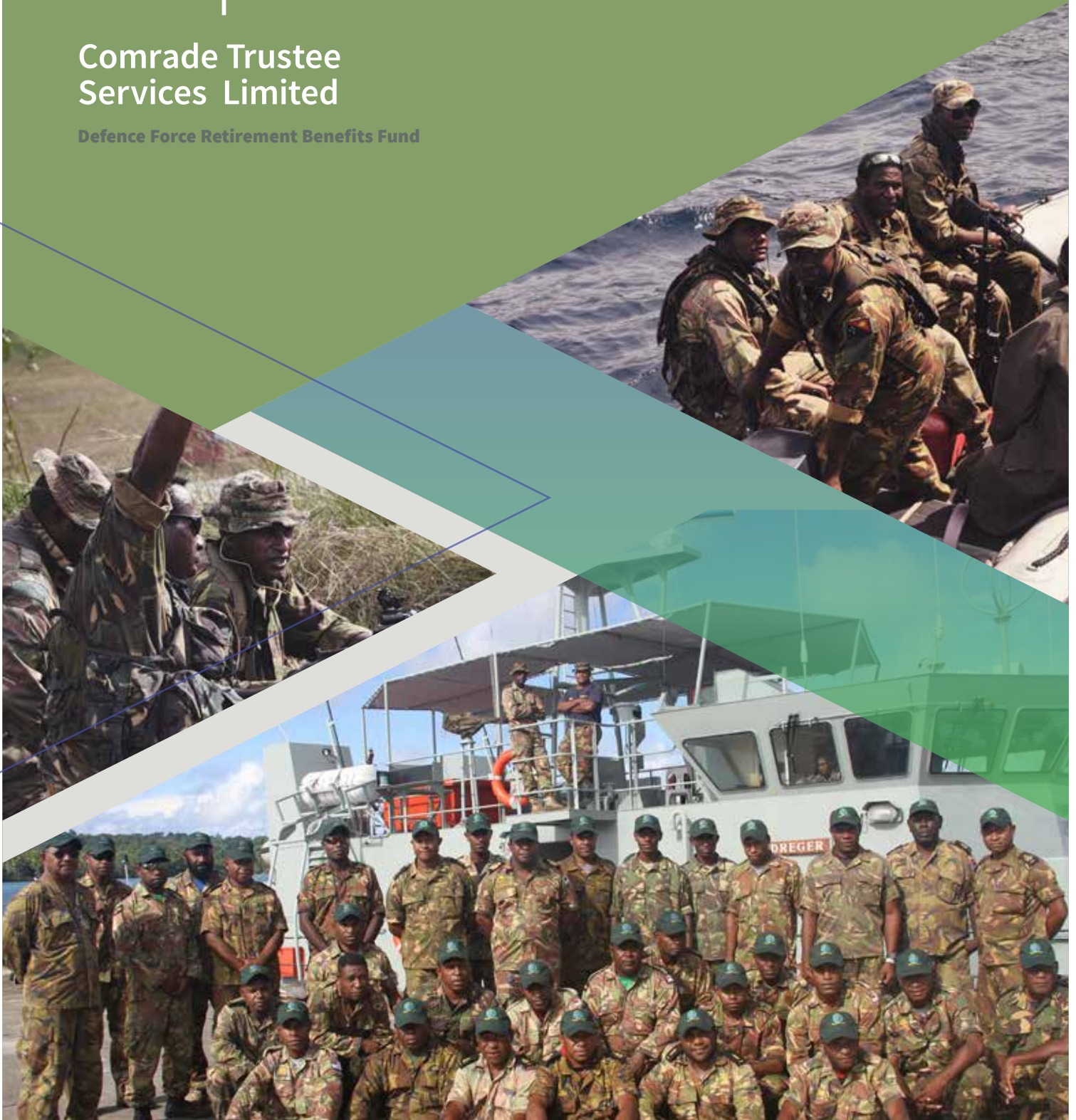


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Vision & Mission Statement

THE VISION OF THE COMPANY IS:

“To create wealth and improve the well-being of members through the prudent management of investments of the fund.”

AND THE MISSION IS:

“To continuously deliver services to meet the identified needs of the Accumulation & Defined Benefit Scheme members and to prudently manage the Fund to ensure their values are maintained and enhance.”

CORPORATE VALUES

- Act with Honesty - Operating in honesty and integrity. Demonstrates principled leadership and sound business ethics. Shows consistency among principles values and behaviours.
- Maintain Integrity - Demonstrates honest and ethical behaviour in all business transactions. Ensures that company/professional standards are maintained and being transparent in our dealings with all parties.
- Possess *Ubuntu* - Behaving well towards others and acting in ways that benefits the company. Always putting the interest of our members first.
- We will avoid drama by exhibiting civility, empathy and restraint. “I am because we are”, and also “humanity towards others”.
- Practice Excellence - Aiming continually to improve our services and efficiency levels. Pursuing an employment policy that is based on merits and does not discriminate on gender, race, religion or ethic persuasion.
- Demonstrate Leadership - Treating each other with respect and consideration and encouraging team work and cooperation. Being responsible and accountable for our actions.
- Provide Professionalism - We are capable, life-long learners, who model the competencies associated with our field, specialty or area of expertise.
- Be Committed - Builds trust with others through personal authenticity and follows through commitments. We are committed to the organisation and generally feel a connection with the organisation, feel that we fit in and, feel we understand the goals of the organisation. We tend to be more determined in our work, show relatively high productivity and more proactive in offering our support.

Chairman's Statement



Dear Members

On behalf of my colleague Directors on the Board of Comrade Trustee Services Limited (CTSL), Trustees for the Defence Force Retirement Benefit Fund (DFRBF), I am pleased to report the financial results for DFRBF for 2018.

The economy has receded since the peak witnessed in 2016, which was boosted by the construction and commercial operations of the PNG LNG Project. The result reported reflects the decline that we have all had to observe since that time. Quite simply, for most businesses worldwide, it has been a tough year.

This is the third year for the Fund operating as a dual scheme. We continue to meet the challenges presented by such a position.

The 2018 Financial Statements for DFRBF as presented in this report were audited by the Fund's Auditors, KPMG, who have provided an Unqualified Audit Opinion. The financials include restatement of accounting entries to correct the accounts for the K17m pension overpayment that occurred during 2014 through to 2017.

The 2018 results have been achieved during challenging circumstances and are lower than those of the previous two years. However, given the economic environment and conditions prevailing during 2018, in our view the results are positive for our members.

2018 HIGHLIGHTS

Operationally, the Fund achieved a number of positive outcomes during 2018, including:

- conducting member awareness sessions for both Contributing and Pension members. For pensions, representatives from the Board and Executive Management attended the awareness sessions around the Provinces for the first time
- issuing mobile phones to pensioners across the country to improve the communication channel between the Fund and pensioners
- launching a memorandum of understanding with Post PNG to provide logistical support and postal services to pensioners across the country
- securing State Share funding for Accumulation Scheme members in 2018 – K11m was secured in 2018 and used to settle exit benefits for members who exited the Fund in 2016, while K10m has been included in the 2019 GoPNG budget for settlement of State Share exit benefits for members who exited the Fund in 2017
- completion of the first 20 houses under the Toea Homes Home Ownership Scheme as well as civil works at the commercial project site.

FINANCIAL RESULTS

Financially, the Fund achieved a Net Surplus after Tax of K23.86m (2017: K47.18m Reported; K44.63m Restated), Fund Net Assets grew to K571.86m (2017: K563.79m Reported; K550.98 Restated) which is growth of 3.8% (2017: 9.62% Reported; 8.81% Restated). The Management Expense Ratio was maintained at 2.44% (2017: 2.49%).

With these pleasing results, as part of the annual review process for 2018, the Board announced approval of a Crediting Interest Rate of 5.16% for contributing members of both the Defined Benefit and Accumulation schemes.

For pensioners, the Fund credited K9m as continued funding contributions to the retained earnings of the Defined Benefit Pension Scheme.

TOEA HOMES

When looking after other people's money, we are always trying to do the right thing, and of course, there are always expectations for enhanced value and benefits. For as long as I have been with this Trustee Board, I believe we have always tried our best to ensure that the manner in which the Fund has been managed has delivered on the reasonable expectations of our members – the owners of the Fund. Try as we may, we can't please everyone.

You will recall that the Trustee embarked about six years ago, on an ambitious Housing Scheme that would provide affordable housing for many of its members. The Scheme has been under a special purpose company that is owned by the Fund – Toea Homes Limited. Housing, especially in the urban areas where most Papua New Guineans are retiring to, is a growing socio-economic challenge. The Toea Homes Housing project is an exercise to meet this challenge for as many of our members as circumstances may permit.

During the final quarter of 2018, the industry regulators, Bank of Papua New Guinea, conducted an Asset Review of the Fund. From this review, the Bank requested for an investigator to be appointed to conduct an independent review of the Toea Homes

project. The Bank's report from this investigation is still pending as at the time of releasing this report.

LOOKING AHEAD

The year ahead looks to be another challenging one, with the economic climate still very much subdued with lower economic growth forecasts, Foreign Exchange shortages and tight Government cash flow and liquidity. The Trustee Board will continue to work with Management on reviewing its Investment Strategy and Portfolio Allocations to maximise our investment returns while focusing on cost management and enhancing cash flow.

ACKNOWLEDGEMENTS

On behalf of the Board, I take this opportunity to once again thank the shareholder representative, Major General Gilbert Toropo, and his Executive Team for their continued trust and support in the Trustee. I also thank the Department of Defence and the Department of Treasury for their understanding and support towards sorting out member's unfunded liability issues.

I also thank the industry regulator, Bank of Papua New Guinea, for their continued advice and guidance for continued prudential stewardship of the Fund. I also thank Kina Bank for their continued support and services as the Fund's Investment Manager and Fund Administrator during 2018.

Finally, I also want to thank my colleagues on the Board who continue to share the load of responsibilities in providing direction and leadership for the Trustee Board. I want to thank the CTSL Management Team for their continued dedication and service to deliver to our Members.

Yours faithfully



Moses S. Koiri
Chairman



Chief Executive Officer's Report

Dear Members

The year 2018 is the third year the Defence Force Retirement Benefit Fund (DFRBF) has operated as a dual Defined Benefit and Accumulation Scheme Fund. The results for the three-year period show that the Trustee has managed to successfully introduce the new scheme while maintaining effective business and investment operations.

The year has been a challenging one for the DFRBF, with continued low economic growth and below-par economic conditions continuing from 2017, both domestically and internationally. Despite successfully hosting the Asia-Pacific Economic Cooperation (APEC) conference in 2018, this did not provide much short-term stimulus for PNG businesses generally. These unfavourable economic conditions have impacted on the Fund's return on investments for the year, as reported in this Annual Report.

The Fund's Financial Statements also required restatement as part of the Audit adjustments for 2018 to reflect the impact of changes for the K17 million pension overpayments during 2014 through to 2017. These changes are included and shown in the Financial Statements of this report as Restated numbers for 2017.

Despite achieving a lower rate of return than the previous two years, the financial results are still commendable and positive for members for 2018, compared to the performance of other related entities during the same period.

SUMMARY OF KEY PERFORMANCE INDICATORS	2018	2017 – RESTATED
Net Asset Value	571,855,627	550,983,414
Net Surplus (after tax)	23,857,942	52,251,845
Rate of Return	3.79%	8.81%
MER	2.44%	2.49%
Interest Crediting Rate	5.16%	11.43%
Consumer Price Index (CPI) Rate	4.3	5.1
Total Active Membership	3,851	3,639
Total Pensioners	1,675	1,673
Total Members Contribution received	17,357,616	16,193,850
Total Benefits paid	28,600,416	33,566,360

FUND PERFORMANCE

The Fund has been able to achieve a positive financial result for 2018, posting a net surplus after tax of K23.86 million (2017: K47.18 million Reported; K52.25 million Restated), which is a decrease of 54% from last year's result. The net surplus was again a direct result of increased dividend income from investments such as Bank of South Pacific (BSP), net gains on the value of financial assets and investment properties and lower operational costs and expenses versus budget.

The Fund's Net Assets grew by 3.8% to K571.86 million (2017: K563.79 million Reported; K550.98 million Restated). The Fund achieved a Management Expense Ratio (MER) of 2.44%, (2017: 2.49%).

Other key financial performance indicators achieved during the year included the following.

• State Unfunded Liability

The Fund's efforts to develop its relationship with the Department of Treasury and Department of Defence provided some positive outcomes during 2018, with the State providing K11 million in funding support for the settlement of Unfunded State liabilities for the Accumulation Scheme, as well as including a separate K10 million allocation in the GoPNG budget for the Accumulation Scheme in 2019.

• Members Home Ownership Scheme

The Fund was required to cease any new transactions and not enter into new commitments for the Toea Homes Member Housing Scheme, following the asset review and investigation of the project conducted by industry regulators, Bank of Papua New Guinea. At the

end of 2018, the contractors building the first 30 houses for the project had managed to complete 20 houses ready for purchase and occupation.

• Member Products and Services

The Fund introduced more products and services during 2018, with the introduction of the Postal Services memorandum of understanding (MOU) with Post PNG Post Offices around the country. The Fund also issued mobile phones to all pensioners during the Annual Awareness sessions to improve the communication channel between pensioners and the Trustee.

• Our People

Key appointments were made during 2018 for key Executive Management positions. Appointments were made for the Company Secretary, Executive Manager – Finance & Investments and the Executive Manager – Member Service & Talent. All vacant Board of Director positions were also filled during 2018 following a transparent, independent and externally managed recruitment process.

FUND INVESTMENTS

As a resource-based economy, PNG was affected by increased levels of uncertainty, fuelled by international incidents weighing on commodity prices such as increasing geopolitical tensions around the globe, the China/US Trade War, and UK's exit from the EU.

Domestically, the impact of the earthquake in the Southern Highlands, continued Foreign Exchange shortages and low stimulus from the hosting of APEC all resulted in slower economic growth in the country.

With this challenging investment environment, the Trustee continued its prudent management of the Funds investment portfolio, with the investment advisory support of its Licensed Investment Managers, Kina Funds Management (KFM). The Trustee

will be reviewing its current Investment Strategy and Strategic Asset Allocations in 2019 to meet the increasing challenges in the market and changing cash flow requirements of the dual scheme Fund.

The closing strategic Asset Allocations for 2018 were as follows:

AS AT 31 DECEMBER 2018 INVESTMENT PORTFOLIO		
ASSET CLASSIFICATION	ALLOCATION %	NEUTRAL ALLOCATION* %
Cash	6.00%	3.00%
Fixed	6.00%	22.00%
Equities	50.00%	33.00%
Properties	31.00%	22.00%
DOMESTIC TOTAL	93.00%	80.00%
Cash	3.00%	1.00%
Fixed	0.00%	2.00%
Equities	4.00%	17.00%
INTERNATIONAL TOTAL	7.00%	20.00%
TOTAL PORTFOLIO VALUE	100.00%	100.00%

FUND MEMBERSHIP

The Fund saw an increase in membership during 2018, with 212 new Accumulation Scheme members joining the Fund. Total Fund membership stood at 5,755 members, with 3,851 active members in the Accumulation Scheme, 229 members in the Defined Benefit Scheme, and 1,675 pensioners. For the first time, the Fund conducted awareness sessions for pensioners with representatives from the Board and Senior Management Team attending sessions around the provinces.

	ACCUMULATION SCHEME	DEFINED BENEFIT SCHEME	TOTAL
Contributors	3,851	229	4,080
Pensioners	0	1,675	1,675
TOTAL	3,851	1,904	5,755

Total benefit payments made in 2018 to members of both schemes was K28.6 million. Benefit payments made to members of the Defined Benefit Scheme totalled K13.23 million, with a total of K12.63 million paid as Pension and Back Pensions, K0.58 million paid as lump sums and K0.07 million paid as refunds and gratuities. For the Accumulation Scheme, a total of K15.37 million of benefits was paid to members as normal exit benefits and K0.56 million as Housing Advance benefits.

Chief Executive Officer's Report

Continued

A total amount of K25.61 million was received as contributions from active contributing members of both schemes. Members of the Accumulation Scheme contributed K7.44 million as their 6% contribution, the State contributed K9.84 million as its 8.4% contribution and K7.99 million towards its 60% share of Pensions.

FUND GOVERNANCE, RISK AND COMPLIANCE

During 2018, the Trustee continued work on ensuring that governance and compliance with industry regulations and standards were adhered to. The Bank of Papua New Guinea conducted an Asset Review of DFRBF Assets in September 2018. From this Asset Review, the Bank raised some queries concerning Toea Homes Limited, (the Fund's Home Ownership Scheme vehicle company), and requested for an investigator to be appointed to review the project.

Efforts to further develop and strengthen the business relationship and understanding with the State to address its Unfunded Liability position bore fruit during 2018. The State provided funding of K11 million to settle payments for exited members during 2018 and also allocated K16.9 million in the 2019 GoPNG budget (K10 million for the Accumulation Scheme exits and K6.9 million for the Pension Scheme reimbursements)

With the two schemes now in place, and to further strengthen the focus and attention placed on member issues moving forward, the Trustee Board adopted and appointed a new Membership Committee in 2018 to oversee member issues. This committee includes two Non-independent representative Directors who represent the Contributors and Pensioners, plus two Independent Directors. The Trustee Board also approved for the pension overpayments of K17 million to be borne by the Fund and not to be recovered from Pensioners. The Board also approved for a one-off part payment of the actuarially verified surplus for pensioners, which will be paid in 2019.

FUND OUTLOOK

Looking ahead, 2019 looks to offer similar challenges to those seen during 2018. The Trustee will continue to effectively manage the Fund's resources while pursuing opportunities to optimise investment returns and cash flow.

Prudential leadership and guidance by the Trustee Board will continue to ensure that preservation of member's savings for both schemes is maintained, while ensuring that improved products, services and positive returns are provided for members.

The completion of stage 1 of the Toea Homes Housing Scheme will see houses sold to members and the introduction of more member products and services. Additional discount services, access to Savings and Loans products and Counselling Services will be provided during 2019.

While the outlook is for more challenges, we maintain our positive and optimistic belief that the Fund will continue to perform at an optimal level, by capitalising on opportunities to further develop, grow and move forward, working together with all key stakeholders to achieve optimum outcomes and results for members during 2019.



John Auna

Chief Executive Officer

Fund Manager's Report 2018

The global economy recorded strong growth in 2017 and the first half of 2018, driven by strong employment growth in many countries which saw unemployment rates in the US, Germany, the UK and Japan fall to multi-decade lows during the year. But the global economy slowed in the second half of 2018 and that loss of momentum has continued into 2019. As a result, there was increasing volatility in financial markets in 2018 and towards the end of the year, a marked decline in asset prices. Some of these declines reflected a welcome correction from stretched valuations, but the pace of the decline, coupled with growing concern about the slowdown in the global economy, has heightened investor concerns.

A number of factors combined to weigh heavily on global economic activity towards the end of 2018: increasing geo-political tensions, including the ongoing trade war between the US and China, the world's largest economies; continuing uncertainty regarding the terms of United Kingdom's withdrawal from the European Union; rising interest rates and the withdrawal of post-GFC monetary stimulus by authorities in the US; a slowing of growth in China, as authorities clamped down on non-bank finance ('shadow banking') activities, which threatened financial stability; and closer to home, wage stagnation, falling real estate values and the fallout from the Royal Commission into the banking sector in Australia.

The global economic conditions outlined above passed directly through to weaker demand and declining prices for all major commodities, putting further pressure on resource based economies such as PNG. Economic growth in PNG in 2018 slowed to just 0.3% after the Highlands earthquake in February disrupted oil and gas production for 7 weeks. The ongoing shortage of foreign exchange continued to have an impact on business across many sectors. Demand growth was sluggish as both business and consumer confidence waned, and the long awaited APEC event in November provided only short lived stimulus to the transport and hospitality sectors of the economy.

The imbalance between the supply of foreign currency and import demand continued to affect the PNG Kina, which maintained its downward trajectory throughout the year. Against this backdrop, the Fund recorded an investment return of 12.3%, supporting the growth of Net Assets to K571.86m in 2018. The performance for the Fund was primarily attributed to increased dividend receipts, fixed income investments and valuation gains on key assets.

During the year, the Trustee worked closely with its LIM to ensure compliance with Bank of PNG Regulations and Prudential Standards (PS) and in particular, the regular review of Authorised Superannuation Fund (Fund) investments required by PS1/2014. For another year since the introduction of this standard, the Trustee's LIM had completed and submitted its review of all of the Fund's investments by the final quarter of 2018.

We would like to thank the Trustee, Management and Staff of CTSL in 2018, and look forward to working together towards achieving the Fund's goals & objectives for the best interests of its members.

A handwritten signature in black ink, appearing to read "Deepak Gupta".

Yours sincerely,
Deepak Gupta

EGM-Business Partners & Wealth

Fund Administrator's Statement

Year in review

Customer service is at the fore front of everything we do. 2018 was again another exciting year aimed at providing the best fund administration services to Comrade Trustee Services Limited (CTSL) and its members. Close consultation with CTSL focused on continuous improvement and the enhancement of our processes and systems which ensured we maintained a one day turn around on all application processing even though there was a 47% increase in volume of work (1,510 work requests) compared to the previous year (1,024 work requests). We also maintained a 99% performance rate on our Service Level Agreement, well above industry standard results.

2018 Workload

Fund Type	Category	2018
Defined Benefit Fund	Contributions	49
	Membership	18
	Payment	15
	Pension	647
Accumulation Fund	Contribution	101
	Membership	539
	Payment	141
	Total	1,510

Having skilled staff also plays a critical role in us being able to deliver world-class services. We are therefore delighted to advise that during the year all of our fund administrators were accredited with international qualifications through the Association of Superannuation Funds of Australia (ASFA), an institution recognised globally as a leader in providing superannuation training. We remain committed to helping our staff develop and grow through education and training to acquire the qualification and skills they need to service CTSL and its members.

We are committed to continue improving our fund administration services and CTSL can be assured that we have the best people in place to administer the fund.

Membership

Overall fund membership grew by 5% from 3880 at the end of December 2017 to 4080 as at 31 December 2018. Membership comprises of 229 Defined Benefit Scheme members and 3851 Accumulation Scheme members. 36% of members from both schemes have served more than 20 years while 64% have served less than 20 years.

Years of Service	No. of Members	%
More than 20 years	1,477	36%
10 years but less than 20 years	206	5%
Less than 10 years	2,397	59%
Total	4,080	

Contributions

A total of K16.1 million was received as contribution this year for both Defined Benefit Scheme and Accumulation Scheme. K15.9 million allocated to the Accumulation Scheme and K198,085.76 for the Defined Benefit Scheme. There was an increase in Voluntary Contribution to K297,160.32 compared with K33,502.62 in 2017 which is an indication that members are making a conscious choice in saving for their retirement.

Contribution Type	2012	2013	2014	2015	2016	2017	2018
Super Contribution	3,246,804	3,541,948	4,074,836	4,213,314	7,969,332	16,176,517	16,056,297.77
Housing Repayments	127,400	146,060	153,795	128,810	136,000	146,076	125,376.79

Benefit Payments

The aggregate total of benefits paid for both the Defined Benefit Scheme and Accumulation Scheme was K18.1 million. The majority of the exits were for Normal Retirement and Withdrawal worth K16.08 million. The fund also for the first time facilitated the first batch of Unfunded State Share payments (19 members) from the initial funding from the government worth K11 million.

Pension

A total of K12.9 million paid as pension in 2018: that is an average of K1.1 million paid every month for 1478. Total pension membership as at 31 December 2019 was 1,675 pensioners comprising of 1509 active pensioners and 166 suspended pensioners.

2019 and going forward

Our main focus is providing the best possible customer service. This is mainly driven by our robust technology platform. We will continue to work in partnership with Comrade Trustee Services Limited to develop products that enhance the customer experience to ensure members feel more connected to their accounts as they plan for their retirement. With a talented and dedicated team we commit ourselves to help CTSL and its members to reach new heights in the years to come.

A handwritten signature in blue ink, appearing to read "Sharon".

Sharon Punau
Head of Operations – Wealth



Board of Directors

MOSES KOIRI

CHAIRMAN

INDEPENDENT DIRECTOR



Appointed to the Board on 20 April 2012 as an Independent Director, and appointed Chairman in early February 2015. Mr Koiri has more than 15 years of senior management experience in both the private and public sectors.

Currently he is the Executive Partner of Albatross Law which is a small Commercial Advisory Law Firm based in Waigani, National Capital District.

Mr Koiri graduated from the University of PNG in 1979 with a Bachelors degree in Law and later went on to obtain a Master of Laws degree from Monash University in Victoria, Australia in 1983. Mr Koiri's experience includes serving as an academic teaching at the Law Faculty of the University of PNG. He later served in management capacities working with Bougainville Copper Limited. He has been in private legal practice since 1993, except for two years as a Minister in the inaugural Autonomous Bougainville Government in 2005–2007 and four years with the Independent Public Business Corporation (IPBC) now Kumul Consolidated Holdings Limited where he was part of the State team that assisted in bringing the PNG LNG Project into fruition.

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

COL. RAYMOND NUMA

DMS, MBE, CBE

NON-INDEPENDENT DIRECTOR



Col. Numa was appointed to the Board on 31 October 2014. He represents the contributory members of the Fund on the Board.

Col. Numa served as Chief of Staff of the PNG Defence Force (PNGDF) from 2016 to early 2018. He was awarded the Distinguished Military Service medal in 2006, an MBE in 2013 and a CBE in 2018. He enlisted with the PNGDF in 1977 and has served as Second Lieutenant and infantry officer, Staff Officer Grade 2 Intelligence, Director of Strategic Military Intelligence, and Peacekeeping Project Officer. As Staff Officer Grade 1/ Chief of Staff of the Joint Force Headquarters, he established a new organisation responsible for planning, conducting and monitoring all PNGDF operations, both in country and abroad. For eight years, he was a training instructor for PNGDF and Australian Defence Force Officer Cadets in PNG and Australia.

Col. Numa graduated from the Joint Service College of PNG in 1980. He has an MBA from the University of PNG, a Diploma and Postgraduate degree in Defence Strategic Studies from University of Hawaii (US) and Massey University (NZ), and a Diploma in Business Management and Defence Resource Management. He is a member of the PNG Institute of Directors and the Australian Institute of Company Directors.

MICHAEL J. VARAPIK

OBE

INDEPENDENT DIRECTOR



Mr Varapik was appointed to the Board on 11 November 2011. He is an accountant by profession and has had extensive management, corporate, financial, operations and marketing experience in various entities spanning more than 35 years in the private and public sectors. He is also a Director and Chairman of Toea Homes Limited, a 100% subsidiary of CTSL, as well as a Director of Credit Corporation PNG Ltd and Waigani Asset Limited.

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

A professional member of the PNG Institute of Directors, Mr Varapik received the Male Director of the Year Award in 2015. He is also a member of the Australian Institute of Company Directors. In 2018, he was recognised by Her Majesty, Queen Elizabeth II for services to corporate governance and the community and was awarded the Order of the British Empire.

GIAU DURUBA

INDEPENDENT DIRECTOR



Mr Duruba was appointed to the Board on 25 September 2017.

Mr Duruba has more than 20 years' senior management experience in the private sector, specialising in Human Resource Management. His most recently role was as the General Manager – Human Resource at Bank South Pacific Limited, a role he held for over a decade. Prior to this, he was the HR/Corporate Affairs Manager for South Pacific Brewery Limited.

Mr Duruba has a Bachelor of Economics from the University of Papua New Guinea and is a Member of the PNG Institute of Directors.

PAUL M NINDIPA

**INDEPENDENT
DIRECTOR**



Appointed to the Board on 1 January 2015, Mr Nindipa is currently a public practising accountant and is a Partner with NKA Chartered Accountants. He has more than 25 years' experience in various accounting, audit, taxation, receivership and liquidation areas. He is currently on the Board of several foreign-owned companies and also serves on certain PNG companies and state-owned entities.

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

RETIRED COL. FRED AIKUNG

LSGCM, OBE

**NON-INDEPENDENT
DIRECTOR**



Col. Aikung was appointed to the Board on 1 January 2015. He represents pensioners of the Fund on the Board. Col. Aikung served in various units in the PNG Defence Force (PNGDF) and held the position of Chief of Logistics from 1994 up until his retirement in 2002. After graduating from high school, he was sponsored by the Royal Australian Navy at the University of Technology, Lae, Morobe Province as a Mechanical Engineer, and graduated with a degree in 1975.

Col. Aikung was appointed Ship Maintenance Officer with the rank of Captain in 1977 in Lombrum Naval Base, Manus Island. He Graduated with a Diploma in Military Strategy Studies of the Centre for Defence Studies (formally the Joint Services Staff College) Canberra, Australia.

He was also Project Manager for many PNGDF projects, including for the four patrol boats that were built and given to PNG by Australia under the Defence Cooperation Program.

Col. Aikung was appointed as an Acting Commander for PNGDF during the Sandline Crisis in 1997. He is a member of the PNG Institute of Directors and the Australian Institute of Company Directors.

JOHN CHOLAI

**INDEPENDENT
DIRECTOR**



Mr Cholai was appointed to the Board on 9 November, 2018.

He spent 28 years in PNG's Aviation industry in systems engineering design, procurement, installation and commissioning of all communication, navigation and surveillance systems for all PNG airports. He also ran the Commercial Division and was Director of Civil Aviation. He joined Shell PNG in 2006 as the National Retail Manager and retained the role after divestment of the Shell business to Interoil in PNG in 2007.

In 2009, he joined Origin Energy PNG where he was Country Manager until 2012, before moving on to pursue his own business aspirations. He is currently Managing Director of Nini Holdings Ltd and Executive Director of FranklinCovey PNG Ltd. He is on the Board of Directors for BOC (PNG) Limited, Amalpack Limited and Nambawan Savings & Loans Society.

Mr Cholai has a Diploma in Telecommunications Engineering and a degree in Electrical Engineering (Telecommunications) from the University of Technology. He is a Fellow of the PNG Institution of Engineers and a member of the PNG Institute of Directors and the Australian Institute of Company Directors.

CAPT. (NAVY) PHILIP POLEWARA

DMS, MBE

**NON-INDEPENDENT
DIRECTOR**



Captain Philip Polewara was appointed to the Board on 24 June 2016 and represents the contributory members of the Fund on the Board. Captain Polewara graduated from the PNG Defence Force 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. 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 US Naval Staff College, the US Joint Forces Staff College and the US 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 PNG, and a Master of Liberal Arts majoring in International Relations from Salve Regina University in Newport, Rhode Island, US. He is a member of the PNG Institute of Directors and the Australian Institute of Company Directors.

THE FUND

The Fund is an established Authorized Superannuation Fund (ASF) pursuant to Section 8 of the Superannuation General Provisions Act 2000 (SGP Act) with a current active contributor base of 4,080 and 1,675 pensioners as at 31 December 2018.

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

LICENSED CORPORATE TRUSTEE

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

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

CORPORATE GOVERNANCE

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

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

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

The Trustee

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

Shareholder Information

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

The Board

The names of members of the Board at the date of this report, including their remuneration, status on the Board and information relating to their attendance at meetings for the 12 months to 31 December 2018 are listed in the table on the next page.

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

NAME OF SHAREHOLDER	CLASS OF SHARES	NO. OF SHARES	VALUE (K)	SPECIAL NOTES
Major General Gilbert Toropo, DMS, CBE	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, LSGCM, OBE (Rtd)	Ordinary	1	K1.00	Share held in trust for members
Colonel Raymond Numa DMS, MBE, CBE	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	

ATTENDANCE OF MEETINGS

DIRECTOR	FEE RECEIVED	BOARD STATUS	DATE OF APPOINTMENT/ RESIGNATION	BOARD MEETING	AUDIT RISK & COMPLIANCE COMMITTEE	REMUNERATION & NOMINATIONS COMMITTEE	INVESTMENT COMMITTEE	MEMBERSHIPS COMMITTEE
Moses Koiri	K132,525	Current	20/04/2012	9/10				
Colonel Fred Aikung, LSGCM, OBE (Rtd)	K101,469	Current	01/01/2015	9/10		7/7		2/2
Colonel Raymond Numa, DMS, MBE, CBE	K107,427	Current	31/10/2014	6/10			6/7	2/2
Capt (Navy) Philip Polewara, DMS, MBE	K102,885	Current	24/06/2016	8/10	6/6			
Michael Varapik, OBE*	K118,852	Current	11/11/2011	10/10	6/6	7/7	2/7	
Paul Nindipa	K81,444	Current	01/01/2015	5/10	3/6		5/7	
Joseph Hamsen	K84,437	Resigned	31/08/2017	6/10	3/6	2/7	5/7	1/2
Giau Duruba	K115,824	Current	25/09/2017	10/10		7/7		1/2
John Cholai	K15,702	Current	09/11/2018	2/10			1/7	1/2

*attendance as an alternate director

Audit Risk & Compliance Committee

The Committee had full membership and held six meetings during the year. The role of the Committee includes reviewing: the Fund's financial statements; audit reports; company's accounting policies; internal control systems and procedures (including risk assessment and management strategies); the actuarial report; tenders; annual budgets; investment policy and guidelines; and related matters. Members of this committee as at 31 December 2018 are shown at right.

Remuneration & Nominations Committee

The Committee had full membership and held seven meetings during the year. The role of the Committee includes succession planning, review and recommendation of candidates for Board vacancies, review of Board fees and remuneration, appointment of 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 2018 are shown at right.

Investment Committee

The Committee had full membership and held seven meetings during the year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibility to provide oversight for the investments of the fund, in line with the investment strategy and policy. The Committee shall provide reports and make recommendations to the Board on matters pertaining to the Fund's investments. Members of this committee as at 31 December 2018 are shown at right.

Audit Risk & Compliance Committee (ARC)

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

Remuneration & Nominations Committee (RAN)

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

Investment Committee (IC)

COMMITTEE MEMBER	COMMITTEE STATUS
Paul Nindipa	Chairman
Colonel Raymond Numa, DMS, MBE, CBE	Member
John Cholai	Member

External Board Positions and Disclosures

MEMBERSHIP COMMITTEE

The Committee had full membership and held two meetings during the year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibility to provide oversight of the membership and any related issues, enquiries or complaints on behalf of the members that should be dealt with at this committee and implement the Fund's strategic objectives, operational matters and systems relevant to delivery of member services, products and benefits. The Committee shall provide reports and make recommendations to the Board on matters pertaining to the Fund's Membership. Members of this committee as at 31 December 2018 are shown below.

Membership Committee

COMMITTEE MEMBER	COMMITTEE STATUS
John Cholai	Chairman
Giau Duruba	Member
Colonel Raymond Numa DMS, MBE, CBE	Member
Colonel Fred Aikung, LSGCM, OBE (Rtd)	Member



DIRECTOR	NATURE OF INTEREST	INTEREST
Moses Koiri	Chairman/Shareholder	Comrade Trustee Services Limited
	Director	Orekana Enterprise Limited
	Director	Kurada No. 24 Limited
	Director	Albatross Law
	Director	Toyota Tsusho (PNG) Limited
	Director	TISA Community Finance
	Member	Bougainville Copper Foundation Limited
	Member	PNG Law Society Inc.
	Member	PNG Institute of Directors
	Partner/Employee	Albatross Law Services Limited
	Shareholder	Kina Asset Management Limited
	Shareholder	Oil Search Limited
Michael Varapik, OBE	Director	Comrade Trustee Services Limited
	Chairman	Audit Risk & Compliance Committee
	Chairman	Toea Homes Limited
	Member	Remuneration & Nominations Committee
	Member	PNG Institute of Directors
	Director/Shareholder	Credit Corporation Ltd
	Director	Waigani Assets Limited
	Member	Australian Institute of Company Directors
	Alternate Member	Investment Committee
Paul Nindipa	Director	Comrade Trustee Services Limited
	Chairman	Investment Committee
	Member	Audit Risk & Compliance Committee
	Director	Aus PNG Mining Limited
	Director	Milvik AB (PNG) Limited
	Director	National Roads Authority (NRA)
	Director	Nationwide MicroBank Limited (MiBank)
	Member/Director	Certified Practising Accountant (CPA PNG)
	Member/Director	Accountants Registration Board
	Member/Auditor	PNG Institute of Directors
	Member	Australian Institute of Company Directors
	Treasurer	Centre for Environmental Law & Community Rights (CELCOR)
	Partner	NKA Chartered Accountants
	Shareholder/Director	Alhambra Limited
	Shareholder/Director	NKA Management Limited
	Alternate Member	Remuneration and Nominations Committee
	Shareholder/ Director	NKA Holdings Limited
Giau Duruba	Director	Comrade Trustee Services Limited
	Chairman	Remuneration & Nominations Committee
	Director	Nambawan Super Savings and Loan Society
	Chairman	Port Moresby International School
	Member	Anglican Church Board of Trustee
	Member	PNG Institute of Directors
	Member	Membership Committee
	Director	HG Consulting Group
	Shareholder/Director	SIDS Limited
	Shareholder	Bank South Pacific
	Employee	Comrade Trustee Services Limited
Anneka Linge	Member	Papua New Guinea Law Society
	Associate Member	PNG Institute of Directors

DIRECTOR	NATURE OF INTEREST	INTEREST
Joseph Hamsen (ceased 31 August 2018)	Director	Comrade Trustee Services Limited
	Director	Toea Homes Limited
	Member	Investment Committee
	Member	Toea Homes Limited Working Committee
	Member	Audit Risk & Compliance Committee
	Member	PNG Institute of Directors
Colonel Fred Aikung, LSGCM, OBE (Rtd)	Director /Shareholder	Comrade Trustee Services Limited
	Related Party/Pensioner	DFRBF
	Member	Remuneration & Nominations Committee
	Member	PNG Institute of Directors
	Member	Australian Institute of Company Directors
	Member	Membership Committee
Colonel Raymond Numa, DMS, MBE, CBE	Employee	PNG Defence Force
	Director/Shareholder	Comrade Trustee Services Limited
	Member	Investment Committee
	Member	PNG Institute of Directors
	Member	Australian Institute of Company Directors
	Related Party/Contributor	DFRBF
	Member	Membership Committee
Captain (N) Philip Polewara, DMS, MBE	Employee	PNG Defence Force
	Director/Shareholder	Comrade Trustee Services Limited
	Related Party/Contributor	DFRBF
	Member	Audit Risk & Compliance Committee
	Member	PNG Institute of Directors
	Member	Australian Institute of Company Directors
	Shareholder	Kina Securities Limited
	Shareholder	Supurva Healthcare Group Inc
	Shareholder	First Colombia Gold Corporation
John Auna	Employee	Comrade Trustee Services Limited
	Director/Ex-officio	Toea Homes Limited
	Member	PNG Institute of Directors
	Member	Certified Practising Accountant (CPA PNG)
Beama Wape	Employee	Comrade Trustee Services Limited
	Associate Member	PNG Institute of Directors
	Member	Certified Practicing Accountant (CPA)
John Cholai	Director	Comrade Trustee Services Limited
	Director	Amalpak
	Director	NICTA
	Director	Nambawan Supa Savings & Loans Society
	Executive Director	Franklin Covey PNG
	Chairman	Membership Committee
	Member	Investment Committee
	Director	BOC PNG Limited
	Member	PNG Institute of Directors
	Member	Australian Institute of Company Directors
Darusilla Musi	Employee	Comrade Trustee Services Limited
	Member	PNG Human Resource Institute Inc.
	Associate Member	PNG Institute of Directors
Steven Morodu	Employee	Comrade Trustee Services Limited
	Shareholder/Director	Madapai Tailoring Limited
	Shareholder/Director	Gastrade Supplies Limited
	Associate Member	PNG Institute of Directors

INDEPENDENT PROFESSIONAL ADVICE

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

Code of Conduct and Ethical Standards

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

Fund Administration

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

Investment Management

The Investment Management function is outsourced to Kina Funds Management Limited (KFML) in compliance with the Superannuation Act 2000. The engagement of KFM is for a term of 18 months. 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 21.2 and 21.3 of the Notes to the Financial Statements for details.

Regulatory Supervision by Bank of Papua New Guinea

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

Independent Auditor

The current independent auditor is KPMG 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 below:

Management Expense Ratio

Management expense ratio (MER) is an underlying key financial performance indicator used to measure the performance of the Fund relative to industry standards. It also assists in identifying adverse deviation and takes corrective action. The MER is determined by taking the sum of all expenses of the Fund as prescribed in Prudential Standard 3/2006 (excluding depreciation, direct investment expenses and pension and related benefit expenses) divided by the average net asset value of the Fund expressed as a percentage. The net asset values are based on audited accounts and, after allowing for net changes in market values, depreciation and taxation. Consequently, the MERs for the Fund for the last five years are listed in the Comparative Statistics table on page 22.

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 36 staff employed by the Company during the year (2017: 34).

	2013	2014	2015	2016	2017	2018
Auditor	Deloitte	Deloitte	Deloitte	Ernst & Young	Ernst & Young	KPMG
Partner In-charge	Z Theron	Z Theron	Z Theron	M Nair	M Nair	S Theron
Audit Fees (PGK)	125,000.00	125,000.00	132,500.00	125,000.00	125,000.00	130,000.00

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

2018 Highlights at a glance

FUND SIZE

K571.86m

Net Assets at 31-Dec-18

MEMBERSHIP

5,775 Members across both schemes

NET SURPLUS

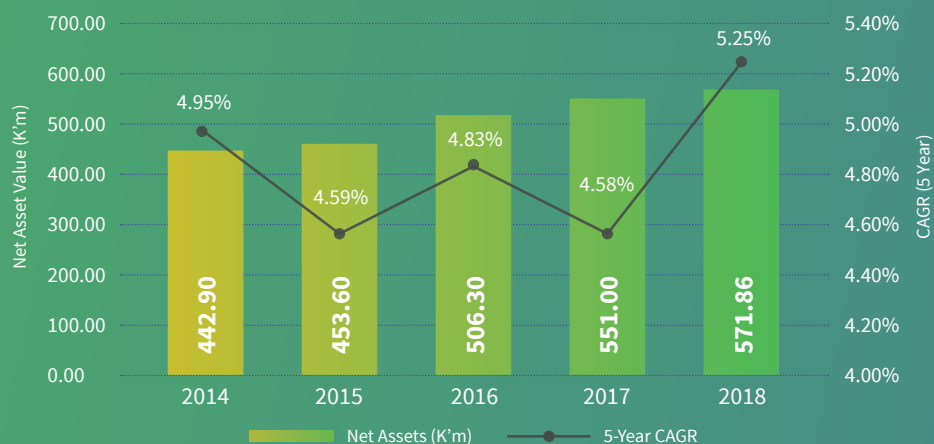
K23.86m

Net Surplus at 31-Dec-18

CREDITING RATE

5.16% For the year 2018

5-YEAR NET ASSET GROWTH



Investment Portfolio

INVESTMENT PORTFOLIO	2018	2017	ALLOCATION	NEUTRAL ALLOCATION*
Asset Classification	K	K	%	%
Domestic				
Cash	31,823,223	7,955,941	5.7%	3.0%
Fixed	34,857,341	33,005,079	6.2%	22.0%
Equities	276,701,091	284,520,245	49.6%	33.0%
Properties*	175,311,898	180,249,032	31.4%	22.0%
DOMESTIC TOTAL	518,693,553	505,730,297	92.9%	80.0%
International				
Cash	16,305,308	15,612,911	2.9%	1.0%
Fixed	0	0	0.0%	2.0%
Equities	23,260,173	27,837,972	4.2%	17.0%
INTERNATIONAL TOTAL	39,565,481	43,450,883	7.1%	20.0%
TOTAL PORTFOLIO VALUE	558,259,034	549,181,180	100.0%	100.0%

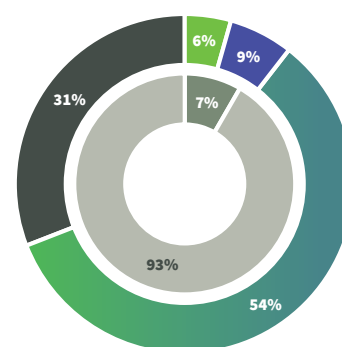
*Based on restated 2017 Property Value

MAJOR INVESTMENTS**

INVESTMENTS	ASSET CLASS	EXPOSURE
Bank South Pacific	Listed Equities	22.89%
Taurama Commercial	Properties	12.09%
Defens Haus	Properties	9.04%
SP Brewery Limited	Unlisted Equities	5.75%
Government Inscribed Stock	Fixed Income	6.24%

PORTFOLIO AT A GLANCE

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



*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.

EQUITIES PORTFOLIO Value as at 31 Dec

		2018	2017
DOMESTIC	GICS SECTORS	K	K
Listed			
Bank South Pacific	Financials	127,799,094	137,332,493
City Pharmacy	Consumer Staples	1,674,999	1,932,691
Oil Search	Energy	17,680,329	17,523,757
Kina Asset Management Ltd	Financials	5,154,726	5,154,726
Credit Corporation	Financials	2,811,150	3,435,849
Newcrest Mining Ltd	Materials	1,572,115	1,749,553
Kina Securities Ltd	Financials	7,994,809	7,716,763
TOTAL DOMESTIC LISTED		164,687,222	174,845,832
BPT (PNG) Ltd	Consumer Discretionary	7,920,734	5,519,600
Westpac Bank Ltd (WPC)	Financials	417,900	520,000
Paradise Foods Ltd	Consumer Staples	32,651,563	25,011,000
Post Courier	Consumer Discretionary	1,204,374	1,256,497
South Pacific Brewery	Consumer Discretionary	32,118,742	39,666,760
Toea Homes Limited	Real Estate	37,700,556	37,700,556
TOTAL DOMESTIC UNLISTED		112,013,869	109,674,413
TOTAL DOMESTIC EQUITY PORTFOLIO		276,701,091	284,520,245

INTERNATIONAL	GICS SECTORS	K	K
Listed			
BHP Billiton	Materials	0	2,191,490
Telstra	Telecommunications	1,370,192	1,855,354
TOTAL INTERNATIONAL LISTED		1,370,192	4,046,844
Managed Fund			
Vanguard International Shares Indexed Fund	Financials	21,889,981	23,791,128
TOTAL MANAGED FUND		21,889,981	23,791,128
TOTAL INTERNATIONAL EQUITY PORTFOLIO		23,260,173	27,837,972
TOTAL EQUITY PORTFOLIO		299,961,264	312,358,217

PROPERTIES

	2018	2017
PROPERTIES	K	K
Balance at beginning of financial year	180,249,032	159,973,000
Disposals	-4,500,000	0
Net gain from fair value adjustments	-4,058,000	4,276,000
Work in Progress - Taurama Commercial	3,620,866	16,000,032
BALANCE AT END OF FINANCIAL YEAR	175,311,898	180,249,032

CASH & FIXED INCOME

		2018	2017
CASH	INSTITUTION	K	K
Cash on hand		2,000	2,000
Cash in banks	Commercial Banks	16,716,326	5,950,277
Term Deposits with maturities less than 90 days	Commercial Bank/Custodian	31,410,205	17,612,911
TOTAL CASH		48,128,531	23,565,188
Fixed Interest			
Inscribed Stock		34,857,341	33,005,079
TOTAL FIXED INTEREST		34,857,341	33,005,079
TOTAL CASH & FIXED		82,985,872	56,570,267



COMPARATIVE STATISTICS

		2014	2015	2016	2017	2018
Net Fund Assets						
Net assets	K(m)	442.83	453.67	506.36	550.98	571.86
Net asset growth	%	0.53	2.45	11.61	8.81	3.79
Reserve	K(m)	1.39	0.00	6.30	4.57	3.30
Net Surplus						
Net surplus (after tax)	K(m)	5.75	41.93	55.01	52.25	23.86
Expenses						
Benefits	K(m)	20.10	17.05	20.70	31.80	28.60
Trustee administration	K(m)	7.79	3.97	10.67	9.71	10.27
Fund administration	K(m)	0.57	0.64	0.82	0.76	1.32
Investment management	K(m)	1.91	1.98	1.98	2.30	1.39
Management expense ratio	%	2.32	2.32	2.89	2.49	2.44
Income						
Investment income	K(m)	20.17	53.87	72.69	64.20	37.57
Contributions						
State share	K(m)	7.18	7.95	8.66	17.05	17.82
Members	K(m)	4.10	4.85	5.91	7.12	7.79

Note: * Based on restated audited financial statements for 2014 -2017

2018 RESULTS SUMMARY

	CONSOLIDATED	DEFINE BENEFITS	ACCUMULATION BENEFITS
Summary of results under each schemes	K	K	K
Income Summary			
Income	37,572,279	21,987,170	15,585,109
Contribution Income	25,614,687	8,257,071	17,357,616
TOTAL	63,186,966	30,244,241	32,942,725
Expenditure Summary			
Trustee, Fund Investment & Administration & Tax Expenses	13,714,337	8,025,584	5,688,753
Benefits Paid	28,600,416	13,234,846	15,365,570
TOTAL EXPENDITURES	42,314,753	21,260,430	21,054,323
CHANGE IN NET ASSETS	20,872,213	8,983,811	11,888,402



Defence Force Retirement Benefits Fund

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018

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TRUSTEE'S DECLARATION TO MEMBERS

For the year ended 31 December 2018

In our opinion, as Trustee of the Defence Force Retirement Benefit Fund (the "Fund"), the accompanying financial statements of the Fund which comprise of the Statement of Net Assets, the Statement of Comprehensive Income, the Statement of Changes in Net Assets, the Statement of Cash Flows, and the Notes to the financial statements, including a summary of significant accounting policies, give a true and fair view of the Fund's financial position and performance as at 31 December 2018 in accordance with International Financial Reporting Standards, the Superannuation (General Provisions) Act 2000, the Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

Further, we are of the opinion that:

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

Dated at Port Moresby this 1st day of April 2019.

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



Moses Koiri

Chairman of the Board of Trustees



Michael Varapik

Director

MANAGEMENT'S STATEMENT

For the year ended 31 December 2018

In our opinion, as management of the Trustee of the Defence Force Retirement Benefit Fund ("the Fund"), the accompanying financial statements of the Fund which comprise of the Statement of Net Assets, the Statement of Comprehensive Income, the Statement of Changes in Net Assets, the Statement of Cash Flows, and the Notes to the financial statements including a summary of significant accounting policies, give a true and fair view of the Fund's financial position and performance as at 31 December 2018 in accordance with International Financial Reporting Standards, the Superannuation (General Provisions) Act 2000, the Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

Further, we are of the opinion that:

- a) the results of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character. All significant transactions during the year have been appropriately identified and disclosed in the financial statements:
 - i. 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;
 - ii. 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
- b) Management has satisfied itself that:
 - i. key financial and operational risks have been identified and mitigating processes set in place;
 - ii. systems to control and monitor those risks have been established including adherence to prudent policies and procedures, reasonable operating limits and adequate and timely reporting processes;
 - iii. established risk management systems are operating effectively and are adequate to address the risks they are designed to control; and
 - iv. there are no apparent conflicts of interest with respect to the Fund's engagement of independent external auditor which may compromise their performance.

Dated at Port Moresby this 1st day of April 2019.

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



John Auna
Chief Executive Officer



Steven Morodu
Executive Manager – Finance & Investments

DIRECTORS' REPORT

For the year ended 31 December 2018

The Directors of Comrade Trustee Services Limited take pleasure in submitting their report and the annual financial statements of the Fund for the financial year ended 31 December 2018. In order to comply with the provisions of the Companies Act 1997 and the Superannuation (General Provisions) Act 2000, the Directors report as follows:

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

NAME	EXECUTIVE/NON-EXECUTIVE DIRECTOR
Mr Moses Koiri	Non-Executive – Trustee Board Chairman, appointed Chairman as of 1 January 2015, appointed to the Board on 20 April 2012 and reappointed 11 May 2018
Col. Raymond Numa, DMS, MBE, CBE	Non-Executive – appointed on 31 October 2014, reappointed on 11 August 2017 for his second term on Board
Mr. Michael Varapik, OBE	Non-Executive – appointed on 11 November 2011 (third term)
Mr. Paul Nindipa	Non-Executive – appointed on 1 January 2015, term expired 1 January 2018 and reappointed on 11 May 2018 for second term on Board
(Rtd) Col. Fred Aikung, LSGCM, OBE	Non-Executive – appointed on 1 January 2015 and reappointed 1 January 2018 for second term on Board
Captain Philip Polewara DMS, MBE	Non-Executive – appointed on 24 June 2016
Mr Giau Duruba	Non-Executive – appointed on 25 September 2017 (first term)
Mr. John Cholai	Non- Executive – appointed 9 November 2018 (first term)
Mr. Joseph Hamsen	Non-Executive – appointed on 11 August 2017 and resigned 31 August 2018

Trustee Secretary

The Company Secretary as at 31 December 2018 was Ms. Anneka Linge.

Review of operations

The Fund reported a net surplus after income tax but before other comprehensive income of K23,857,942 (2017: K 52,251,845 (restated)) and change in net assets for the year of K20,872,213 (2017: K 44,625,673 (restated)).

Changes in state of affairs

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

Changes in accounting policies

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

Entries in the interest register

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

Directors' remuneration

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

Donations

No donations were made during the current year (2017: Nil).

Independent audit report

The financial statements have been audited by KPMG and should be read in conjunction with the Independent Auditor's report on pages 5 and 7. Fees paid for external audit services are disclosed in Note 19.2 to the financial statements.

Subsequent events

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

Signed in accordance with a resolution of the Directors.

On behalf of the Directors,



Moses Koiri

Chairman of the Board of Trustees



Michael Varapik

Director

Dated at Port Moresby 1st April 2019



Independent Auditor's Report

To the members of the Defence Force Retirement Benefit Fund

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Defence Force Retirement Benefit Fund (the "Fund").

In our opinion the financial statements of the Fund are in accordance with the Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea, including

- giving a true and fair view of the Fund's financial position as at 31 December 2018 and of its financial performance for the year ended on that date;
- complying with the International Financial Reporting Standards;
- proper accounting records have been kept by the Fund as far as it appears from our examination of those records.

The financial statements comprise the:

- statement of net assets as at 31 December 2018;
- statement of comprehensive income, statement of changes in net assets, and statement of cash flows for the year then ended; and
- notes including a summary of significant accounting policies.

Basis of Opinion

We conducted our audit in accordance with the International Standards on Auditing. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the financial statements section of our report.

We are independent of the Company and the Group in accordance with the Companies Act 1997 and the relevant ethical requirements of CPA Papua New Guinea. We do not provide any other services to the Company and the Group. We have fulfilled our other ethical responsibilities in accordance with the ethical requirements of CPA Papua New Guinea.

We confirm that we have remained independent as required by the Companies Act 1997, during the time of our audit to the date of this Auditor's Report.

Emphasis of Matter

We draw attention to Note 27 to the financial statements which outlines a prior period error in relation to pension benefit overpayments. Due to the nature and magnitude of the prior period error, the previously issued 31 December 2017 financial statements have been restated and disclosed as comparatives in this financial report. Our opinion is not



modified in respect of this matter. The financial statements of the Fund for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 29 March 2018.

Other Information

Other Information is financial and non-financial information in the Fund's annual reporting which is provided in addition to the financial statements and the Auditor's Report. This includes, the Fund Information and Directors' Report. The Directors are responsible for the Other Information.

Our opinion on the financial statements does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Directors for the Financial Statements

The Directors of Comrade Trustee Services Limited (the "Trustee") being the Fund's trustee are responsible for:

- preparing financial statements that give a true and fair view in accordance with the International Financial Reporting Standards, the Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefits Fund Act and the Prudential Standards issued by the Bank of Papua New Guinea
- implementing necessary internal control to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error; and
- assessing the Fund's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion proper books of account have been kept by the Fund, sufficient to enable financial statements to be prepared, so far as it appears from our examination of those books; and to the best of our knowledge and according to the information and explanations given to us the financial statements give the information required by the Superannuation (General Provisions) Act 2000, Defence Force Retirement Benefits Fund Act and the Prudential Standards issued by the Bank of Papua New Guinea, in the manner so required.



Suzaan Theron
Partner
Registered under the Accountants Act 1996

Port Moresby

2 April 2019

STATEMENT OF NET ASSETS

As at 31 December 2018

	NOTE	2018 31 DEC	2017 31 DEC (RESTATED ¹)	2017 1 JAN (RESTATED ²)
		K	K	K
Assets				
Cash and cash equivalents	8	48,128,531	23,565,188	24,201,417
Amount receivable from State	9	18,485,738	12,451,331	6,510,364
Financial assets:				
At fair value through profit or loss	10.1	299,961,264	312,358,217	298,667,307
At amortised cost	10.2	34,857,341	33,005,079	36,112,602
Investment properties	11	175,311,898	180,249,032	159,973,000
Property and equipment		2,703,078	3,167,545	3,449,667
Other assets	12	8,582,111	7,904,679	4,902,473
Related party receivables	21.1	815,232	-	-
Current tax assets		1,713,220	1,117,116	526,523
DEFERRED TAX ASSETS	13.3(a)	124,743	119,531	196,076
Total assets		590,683,156	573,937,718	534,539,429
Liabilities				
Employee provisions		447,695	468,892	931,519
Deferred tax liabilities	13.3(b)	2,118,995	1,382,420	1,064,316
RELATED PARTY PAYABLES	21.1	-	4,642,891	16,978,483
OTHER LIABILITIES		16,260,839	16,460,101	9,207,370
TOTAL LIABILITIES		18,827,529	22,954,304	28,181,688
NET ASSETS AVAILABLE TO PAY BENEFITS	14	571,855,627	550,983,414	506,357,741

¹ Refer to Note 27 from pages 58 to 61. The impacts of the restatement on the 2014 to 2017 financial years are disclosed. The 2014 financials are stated as the 2015 opening balances.

² Financials indicated as at 1 January 2017 reflects the 2016 restated balances carried over into 2017 as opening balances.

Full notes to the financial statements are provided beginning page 34.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTE	2018	2017 (RESTATED ¹)
		K	K
Revenue			
Investment revenue			
Interest income	15	5,283,846	3,946,908
Dividends		23,175,650	20,941,503
Property income net of property expenses	16	4,960,475	6,245,518
Change in fair value on investment properties	11	(4,058,000)	4,276,000
Change in fair value of financial assets	10.3	6,702,669	27,737,118
Gain on sale of financial assets	17	1,850,313	1,092,474
NET INVESTMENT REVENUE		37,914,953	64,239,521
Other (expense)/income		(342,674)	1,170,557
TOTAL REVENUE		37,572,279	65,410,078
Administrative and management expenses			
Trustee administration and management expenses	19	10,273,747	9,708,165
Fund administration and investment fees	20	2,709,226	3,055,420
TOTAL ADMINISTRATIVE AND MANAGEMENT EXPENSES		12,982,973	12,763,585
NET PROFIT BEFORE INCOME TAX		24,589,306	52,646,493
Income tax expense	13.1	731,364	394,648
NET PROFIT AFTER INCOME TAX		23,857,942	52,251,845
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		23,857,942	52,251,845

¹ Refer to Note 27 from pages 58 to 61. The impacts of the restatement on the 2014 to 2017 financial years are disclosed. The 2014 financials are stated as the 2015 opening balances.

Full notes to the financial statements are provided beginning page 34.

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 December 2018

	NOTE	2018	2017 (RESTATED ¹)
		K	K
Net profit for the year available to pay benefits		23,857,942	52,251,845
Contributions from members and State	18.2	25,614,687	25,940,188
Benefits paid to members	18.1	(28,600,416)	(33,566,360)
CHANGE IN NET ASSETS FOR THE YEAR		20,872,213	44,625,673
Net assets available to pay benefits at the beginning of the year		550,983,414	506,357,741
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE YEAR		571,855,627	550,983,414

¹ Refer to Note 27 from pages 58 to 61. The impact of the restatement on the 2014 to 2017 financial years are disclosed. The 2014 financials are stated as the 2015 opening balances. Full notes to the financial statements are provided beginning page 34.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTE	2018	2017
		K	K
Cash flows from operating activities			
Interest received		5,283,846	3,876,595
Dividends received		23,175,650	20,394,233
Property income received		7,274,846	9,395,368
Contributions received from members and State		17,625,314	16,621,781
Cash receipt from the state share of benefits		4,000,000	7,304,311
Benefits paid to members		(31,824,937)	(29,662,729)
Cash payment to employees and suppliers		(15,099,116)	(15,186,697)
NET CASH FLOWS FROM OPERATING ACTIVITIES		10,435,603	12,742,862
Cash flows from investing activities			
Proceeds from maturity of treasury bills		333,000	3,303,875
Purchase of property and equipment		(428,537)	(515,082)
Proceeds from sale of property and equipment		55,000	-
Purchase of investment properties		-	-
Proceeds from sale of investment properties		4,423,279	-
Investment in Toea Homes Limited		(5,458,123)	(15,576,160)
Investment in Taurama Commercial		(3,620,866)	(16,000,032)
Purchase of listed shares		(5,328,520)	(795,358)
Proceeds from sale of listed shares		24,152,507	16,203,666
<i>Net cash flows From/(used in) investing activities</i>		14,127,740	(13,379,091)
<i>Net increase/(decrease) increase in cash and cash equivalents</i>		24,563,343	(636,229)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		23,565,188	24,201,417
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	8	48,128,531	23,565,188

¹ Prior year restatements of the financials statements due to pension overpayment do not have an impact on the cash flow.

Full notes to the financial statements are provided beginning page 34.

Notes to the financial statements

For the year ended 31 December 2018

1. DESCRIPTION OF THE FUND

Defence Force Retirement Benefits Fund (the “Fund” or “DFRBF”) was established and recognised as a Superannuation Fund on 1 January 2003 pursuant to Section 8 of the Superannuation (General Provisions) Act 2000 and governed under the Defence Force Retirement Benefits Fund Act, Chapter 79 (DFRBF Act) 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 a 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 1 January 2016.

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

The Fund is operated for the purpose of providing benefits to members of the DFRBF who are also members of the PNG 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 2018 was:

	ACCUMULATION BENEFIT MEMBERS	DEFINED BENEFIT MEMBERS	TOTAL
Contributors	3,851	229	4,080
Pensioners	-	1,675	1,675

Both fund administration and investment management functions were outsourced to and performed by Kina Investment & Superannuation Services Limited (KISS) and Kina Funds Management Limited (KFM) respectively in compliance with the Superannuation Act 2000. The engagement of KISS and KFM were for a term of one year respectively with a renewal option to be exercised in 2019.

The principal place of business of the Fund is:

Comrade Trustee Services Limited

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties 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

The Fund’s income items are recognised on an accrual basis and are presented in the Statement of Comprehensive Income.

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).

For listed equity, this is usually the ex-dividend date. For unlisted equity securities, this is usually the date on which the shareholders approve the payment of a dividend.

PROPERTY RENTAL INCOME

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

b. Taxes

The Fund is exempted from paying income taxes on capital gains and dividends. However, interest income received by the Fund is subject to interest withholding tax while rental income is fully taxable.

Income that is subject to such tax is recognised gross of the taxes and the corresponding withholding tax is recognised as tax expense.

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 amounts 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.

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 profit and loss and other comprehensive income statement 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 2018. In determining the fair value for financial reporting purposes, reference is made to the valuations performed by registered valuers ("the valuers") whose valuation reports indicate several methods that have been considered as a part of the valuation process and include methods such as capitalisation method, summation method and discounted cash flow method.

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

The registered valuers:

REGISTERED VALUER	PROPERTIES
LJ Hooker	Defens Haus, Stop & Shop, Latitude 9, Ela Makana 1 & 2, Taurama and Comrade Haus

e. Financial assets

i. Recognition and initial measurement

The Fund's financial assets are initially recognised at Fair Value Through Profit and Loss (FVTPL) on acquisition. Other Financial Assets not recognised as FVTPL are recorded at cost. The classification depends on the purpose for which the investments are acquired. Management of the Trustee of the Fund determines the classification of its investments at initial recognition.

ii. Classification and subsequent measurement

With the introduction of IFRS 9 effective January 2018, financial assets are classified under the following three categories:

- financial assets at fair value through profit or loss (FVTPL);
- financial assets at Fair Value Through Other Comprehensive Income (FVOCI) and;
- amortized cost financial assets.

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

Financial assets at fair value through profit or loss include financial assets held for trading and those assets managed for which their performance is evaluated on a fair value basis in accordance with the Fund's investment strategy.

The Fund after the introduction of IFRS 9 has maintained classifying its listed and unlisted equities under Financial Assets at Fair Value through Profit and Loss. These two-asset class basically met the "Other" business model test where they were not held for contractual cash flow or sale. The main purpose is for capital growth and dividends.

(2) Amortized cost

Financial assets held to maturity are non-derivative with fixed or determinable receipts and fixed maturities that the Fund's management has the positive intention and ability to hold to maturity. This includes government inscribed stocks (GIS).

A financial asset is measured at amortized cost if the business model requires holding assets to collect contractual cash flows and the term of contract will give rise on specified dates to cash flows that are Solely Payment of Principal & Interest (SPPI) and that it is not designated as at FVTPL.

The Funds' investment in GIS are classified as Amortized Cost as it is held to collect contractual cash flow. Upon settlement on specific dates in the future, the cashflow is "Solely Payment of Principal and Interest".

(3) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition unless the Fund were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

With this new guide, the fair value of both the listed and unlisted equities remained the same as at 1 January 2018. However, the value of GIS increased.

For a reconciliation of line items in the statement of financial position to the categories of financial instruments, as defined by IAS 39, see Note 3.1.1.

(4) Financial Liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. The Fund carries no Financial Liabilities as the Bank regulations do not allow for it.

iii. Fair value measurement

Changes in fair market value of Financial Assets and Investment properties 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).

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund measures instruments quoted in an active market at a mid-price, because this price provides a reasonable approximation of the exit price.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Unlisted shares were independently valued as at 31 December 2018 as adopted by the Board. This valuation was performed by Pertusio Capital Partners Limited as an independent professional valuer. The methodology used in the analysis was a combination of future maintainable earnings, dividend yields and discounted cash flows of assets, respectively as appropriate to the shares with the exception of Toea Homes Ltd, which is at net asset.

iv. Amortized cost measurement

The ‘amortised cost’ of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference

v. Impairment of financial assets

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

Evidence of impairment may include indications that the debtor, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial 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.

Subsequent to the introduction of IFRS 9, the Fund recognises loss allowances for Expected Credit Losses (ECLs) on financial assets measured at amortised cost.

The Fund as at balance sheet date, however, is not carrying any expected credit loss value as the Bank of PNG regulation does not allow the Fund to issue loans.

The Bank also does not allow interest-bearing deposits with Financial Institutions that are not on the Bank's approved list. This eliminates the chances of impairments for the assets held at amortised cost. In addition, the Fund has invested K35m of its K600m assets with the Bank through purchasing of the Government Inscribed Stocks. These have a high credit risk rating which further eliminates possibilities of impairments of these assets.

f. Loans and impairment losses

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

Loans originated by the Fund by providing money directly to the borrower are recognised as loans originated by the Fund and are carried at cost, which is defined as the fair value of cash consideration given to originate those loans as 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.

The Fund does not issue or take loans as per Prudential Standards issued by the regulator, the Bank of Papua New Guinea.

g. Cash and cash equivalents

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

h. Foreign currency

FUNCTIONAL PRESENTATION CURRENCY

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

TRANSACTIONS AND BALANCES

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

i. Changes in accounting policies and comparatives

Major changes to accounting policies in the current year relate to IFRS 15 and IFRS 9. While IFRS 15 had no significant impact on the Fund, the impact of IFRS 9 is provided in Note 3.1.

j. Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, including salary sacrifices, 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

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. The employees of the Trustee of the Fund do not contribute to the Fund but to a different Superannuation Fund.

k. 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.

l. 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.

m. 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 (IFRS)

The Fund has applied for the first time certain standards and amendments which were effective for annual periods beginning on or after 1 January 2018. The nature of each standard and/or amendment is described below.

3.1.1 New Accounting Standards with impact on the Fund.

The Fund has initially applied IFRS 9 from 1 January 2018. A number of other new standards were also effective from 1 January 2018 but had no material effect on the Fund's financial statements apart from IFRS 9 Financial Instruments.

Comparative information throughout these financial statements has not generally been restated to reflect the requirements of this standard as the Fund's business model has not changed which will result in material impacts and consequently

restatement of Financial Statements.

The Bank of Papua New Guinea regulation does not allow the Fund to issue loans therefore no impacts in terms of impairments to the Funds' Financial Assets.

Except for the changes below, the Fund has consistently applied the accounting policies as set out in Note 2 (e) – Financial Assets, to all periods presented in these financial statements.

The introduction of IFRS 9 allows for three principal classification categories of financial assets: measured at;

1. Amortized cost,
2. Fair Value through Other Comprehensive Income (FVOCI) and;
3. Fair Value through Profit and Loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The impact to the Fund is the reclassification of the Government Inscribe Stock from Held to Maturity to Amortized Cost.

The following table and the accompanying notes below explain the original measurement

categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the

Fund's financial assets and financial liabilities as at 1 January 2018.

Financial assets as at 1 January 2018

	ORIGINAL CLASSIFICATION UNDER IAS 39	NEW CLASSIFICATION UNDER IFRS 9	ORIGINAL CARRYING AMOUNT UNDER IAS 39	NEW CARRYING AMOUNT UNDER IFRS 9
			K	K
Financials Assets				
Listed Equities	Fair Value through Profit and Loss	Fair Value through Profit and Loss	202,683,804	202,683,804
Unlisted Equities	Fair Value through Profit and Loss	Fair Value through Profit and Loss	109,674,413	109,674,413
Government Inscribe Stock	Held to Maturity	At Amortised Cost	33,005,079	35,012,422
TOTAL FINANCIAL ASSETS			345,363,296	347,370,639

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

IN MILLIONS OF KINA	IAS 39 CARRYING AMOUNTS AT 31 DECEMBER 2017	RECLASSIFICATION	REMEASUREMENT	IFRS 9 CARRYING AMOUNTS AT 1 JANUARY 2018
Financial assets				
At Fair Value through Profit or Loss	312,358,217	-	-	312,358,217
At Amortised Cost	33,005,079	-	2,007,343	35,012,422
TOTAL FINANCIAL ASSETS	345,363,296	-	2,007,343	347,370,639

3.1.2 New Accounting Standards with no impact on the Fund

IFRS 15 REVENUE RECOGNITION

3.2 Accounting Standards and Interpretations issued with effective date of 1 January 2019

3.2.1 Standards with Potential Impact on the Fund

i. IFRS 16 Leases

The new leases standard – IFRS 16 – will require companies to bring most leases on-balance sheet from 2019. Under the new standard, companies will recognise new assets and liabilities, bringing added transparency to the balance sheet. At present, many analysts adjust financial statements to reflect lease transactions that companies hold off-balance sheet. For the first time, analysts will be able to see a company's own assessment of its lease liabilities, calculated using a prescribed methodology that all companies reporting under IFRS will be required to follow.

ii. IFRIC 23 Uncertainty over Tax Treatments

Under IFRIC 23, the key test is whether it's probable that the tax authority will accept the Fund's chosen tax treatment.

Key to the Interpretation is the assumption that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. This is an area where the new requirements bring clarity.

The uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty – either:

- the most likely amount; or
- the expected value.

The Interpretation also requires companies to reassess the judgements and estimates applied if facts and circumstances change – e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

iii. Prepayment Features with Negative Compensation (Amendments to IFRS 9)

For a debt instrument to be eligible for measurement at amortised cost or FVOCI, IFRS 9 requires its contractual cash flows to meet the SPPI criterion – i.e. the cash flows are ‘solely payments of principal and interest’.

Under IFRS 9 (as issued in 2014), a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include ‘reasonable additional compensation’ for early termination of the contract.

Some prepayment options could result in the party that triggers the early termination receiving compensation from the other party (negative compensation) – e.g. a lender could receive an amount less than the unpaid amounts of principal and interest even though the borrower chooses to prepay. In other cases, an event outside the control of both parties may cause early termination.

Applying IFRS 9 (as issued in 2014) would probably result in these instruments being measured at Fair Value Through Profit or Loss (FVTPL). The Board believes this to be inappropriate because measuring them at amortised cost, using the effective interest method, provides useful information about the amount, timing and uncertainty of their future cash flows.

The amendment removes the word ‘additional’ so that negative compensation may be regarded as ‘reasonable compensation’ irrespective of the cause of the early termination. Financial assets with these prepayment features can therefore be measured at amortised cost or at FVOCI if they meet the other relevant requirements of IFRS 9.

The amendment is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. Retrospective application is required, subject to relevant transitional reliefs. Application of the amendment may be subject to local endorsement processes.

iv. Annual Improvements to IFRS Standards 2015–2017 Cycle

As part of its process to make non-urgent but necessary amendments to IFRS, the IASB has issued the Annual Improvements to IFRS Standards 2015–2017 Cycle.

IFRS 3 BUSINESS COMBINATIONS AND IFRS 11 JOINT ARRANGEMENTS

- Clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business.
- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

IAS 12 INCOME TAXES

- Clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.

IAS 23 BORROWING COSTS

- Clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.
- As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

3.2.2 New Standards issued/amended with no immediate potential impact on the Fund

NEW STANDARDS OR AMENDMENTS	EFFECTIVE DATE
<i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)</i>	1/01/2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1/01/2019
Amendments to References to Conceptual Framework in IFRS Standards	1/01/2019

3.3.0 Standards to be issued on and after 2020

NEW STANDARDS OR AMENDMENTS	EFFECTIVE DATE
<i>Amendments to References to Conceptual Framework in IFRS Standards</i>	1/01/2020
IFRS 17 <i>Insurance Contracts</i>	1/01/2021
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	Available for optional adoption/ effective date deferred indefinitely

4. CONTRIBUTION ARRANGEMENTS

DEFINED BENEFIT SCHEME

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

ACCUMULATION SCHEME

Contributions are as per the provisions of the Superannuation Act where the employer pays 8.4% and employees 6% every pay period. Additional contribution is up to each contributing members by way of voluntary contributions.

CONTRIBUTION RECEIPTS

Member contributions

Contributions received from members are recognised on cash basis by way of bank credits from the Finance Department.

State (Employer) Contribution

Defined Benefit Scheme

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

Accumulation Scheme

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

5. LIABILITY FOR ACCRUED BENEFITS UNDER DEFINED BENEFIT

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

Significant assumptions applied in the actuarial report are as follows:

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

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

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

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

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

Net value of assets under Defined Benefit Scheme for the purposes of the above disclosure is calculated as net asset value as at balance sheet reporting date for the period of review, the actuarial value of the pensions currently paid is as follows:

	2016	2014
	K	K
Total net assets available to pay benefits	516,615,000	447,774,000
Accumulation Fund	(206,279,000)	-
Actuarial value of pensions currently being paid	5,925,000	(97,556,000)
Net value of assets under Defined Benefit	316,261,000	350,218,000

Although the actuarial report is prepared as at 31 December 2016, in terms of the requirements of Section 24 of the Defence Force Retirement Benefits Act, Chapter 76, the next actuarial investigation of the fund should be carried out no later than 31 December 2019 for the year ending 31 December 2018.

6. LIABILITY FOR ACCRUED BENEFITS UNDER ACCUMULATION SCHEME

Under the Accumulation Scheme, the Fund's liability does not include the State component of the enhancement value and interests at the time of the transfer from the Defined Benefit Scheme to the Accumulation Scheme and annual interest credited to the members annually on those balances.

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

7. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Valuation of investment properties

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

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

Valuation of financial assets and liabilities

The Fund carries most of its non-quoted financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, i.e., foreign exchange rates, interest rates, and volatility rates, the amount of changes in fair value would differ if the Fund utilised a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect profit or loss and equity. (See note 2(e)(iii)).

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. This component is not reflected in the Fund's accounting records until it is received;
2. State's share of the defined benefits member payments including the fortnightly pensions; and
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. These are then communicated at the Board level. Directors consider the State's share of exit payments receivable to be fully recoverable.

As at 31 December 2018, the State owes the Fund K18.49 million (Refer to Note 9) in respect of the State's share of Defined Benefit members' payments made by the Fund. The Fund has been meeting the Defined Benefit member exit payments and pensions on behalf of the State when a member serving under 20 years retires and exits the Fund or moves on to the Pension for a member 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 penalty interest of 5% plus the treasury bill rate as at the end of each month. This balance is after the prior year's adjustments were made to the State Share Receivables, after the correction of the pensions overpayments and the resulting overstatements in the receivables (See note 27).

In the Accumulation Benefits Scheme, the State has an unrecognised liability to members of K258 million including interest (but not the Fund) arising from the initial unfunded employer contributions calculated by the actuary and forms part of the transfer values provided to members joining the Accumulation Scheme. This liability will become due for payment by the State as and when members retire from the PNG Defence Force. The Fund is not obliged to pay these liabilities on behalf of the State.

As at 31 December 2018, the State's crystallised liability due for settlement to members who have since resigned and exited the PNG Defence Force stands at K27.48 million. This amount excludes the interest that would have been earned on these funds.

8. CASH AND CASH EQUIVALENTS

	2018	2017
NOTE	K	K
Cash on hand	2,000	2,000
Cash in banks	16,716,326	5,950,277
Term deposits with original maturity less than 90 days	31,410,205	17,612,911
	48,128,531	23,565,188

9. AMOUNTS RECEIVABLE FROM STATE

NOTE	2018	2017 (RESTATED ¹)
	K	K
Housing advance ²	-	-
State's share on benefits paid	18,485,738	12,451,331
	18,485,738	12,451,331

¹ Refer to Note 27 from pages 59 to 62. The impact of the restatement on the 2014 to 2017 financial years is disclosed. The 2014 financials are stated as the 2015 opening balances.

² Housing advance to members now reclassified to the Statement of Changes in net assets as an item under the members' benefits payments. Repayments are treated as contribution receipts.

10. FINANCIAL ASSETS

10.1 Financial assets at fair value through profit or loss

	NOTE	2018	2017
		K	K
Listed shares	23.1.1	187,947,395	202,683,804
Unlisted shares	23.1.2	112,013,869	109,674,413
		299,961,264	312,358,217

10.2 At amortised cost

		2018	2017
NOTE		K	K
Government inscribed stocks ¹	23.2	34,857,341	33,005,079

¹ Government inscribed stocks (GIS) carried at Amortised Costs in accordance with the new IFRS 9 requirements. These deposits are held to their maturity which varies between 2020 and 2031. Movements in GIS are set out in Note 23.2.

10.3 Change in fair value of financial assets

The amount comprises:

	2018	2017
	K	K
Net fair valuation gain for listed financial assets at fair value through profit or loss	4,740,155	10,537,258
Net fair valuation gain for unlisted financial assets at fair value through profit or loss	(222,747)	17,199,860
Net fair valuation gain for amortised cost assets at fair value through profit or loss	2,185,261	-
Change in fair value through profit and loss	6,702,669	27,737,118

11. INVESTMENT PROPERTIES

	2018	2017
	K	K
Balance at beginning of financial year	180,249,032	159,973,000
Disposals	(4,500,000)	-
Net gain from fair value adjustments	(4,058,000)	4,276,000
Work in Progress - Taurama Commercial	3,620,866	16,000,032
Balance at end of financial year	175,311,898	180,249,032

The fair value of the Fund's investment properties as at 31 December 2018 has been arrived at by considering valuation assessments carried out by LJ Hooker which is an unrelated entity to the Trustee, along with recomputation of valuations using inputs from various other sources.

12. OTHER ASSETS

	2018	2017 (RESTATED ¹)
	K	K
GST tax receivable ¹	6,466,503	5,313,310
Debtors – Corporate	885,623	688,313
Accrued interest:		
Term deposits and Government Inscribed Stock (GIS)	659,423	624,722
State share of defined benefits	369,376	1,231,380
Prepayments	134,646	35,726
Sundry debtors	66,540	11,228
Total	8,582,111	7,904,679
Less: specific allowance for losses	-	-
	8,582,111	7,904,679

¹GST Receivable recognised in 2018 is K1,153,193 with the balance carried forward from prior years.

13. INCOME TAXES

13.1 Income tax expense recognised in profit or loss

	2018	2017
	K	K
Comprising:		
Adjustments relating to the current tax of prior year	-	-
Deferred tax expense (benefit) relating to origination and reversal of temporary differences	731,364	394,648
Income tax expense (benefit)	731,364	394,648

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

	2018	2017
	K	K
Income Tax expense		
Profit before tax ¹	21,603,577	47,571,750
Income tax expenses calculated at 25%	5,400,894	11,892,937
Tax effect of permanent differences	169,003	(7,239,057)
Dividends rebate	(4,838,533)	(4,259,232)
Income tax expense (benefit)	731,364	394,648

¹ Profit before tax used as the base for tax calculation is arrived at per reconciliation in note 13.2.2. The base used represents the actual change in net assets for the year.

13.2.2 Profit before tax is arrived at as follows;

	2018	2017 (REPORTED)
	K	K
Profit before tax	24,589,306	53,446,573
Contribution from Members & State	25,614,687	25,940,188
Benefits Paid to members	(28,600,416)	(31,815,011)
Change in net assets	21,603,577	47,571,750

13.3 Deferred tax recognised during the year

(A) DEFERRED TAX ASSETS			
	K	K	K
2018	Opening balance	Recognised in P&L	Closing balance
Temporary difference			
Accruals	35,808	(2,704)	33,104
Employee benefits	83,723	7,916	91,639
	119,531	5,212	124,743
2017	Opening balance	Recognised in P&L	Closing balance
Temporary difference			
Accruals	24,622	11,186	35,808
Other assets	3,831	(3,831)	-
Employee benefits	167,623	(83,900)	83,723
	196,076	(76,545)	119,531

(B) DEFERRED TAX LIABILITIES			
	K	K	K
2018	Opening balance	Recognised in P&L	Closing balance
Temporary difference			
Interest receivable	462,135	687,719	1,149,854
Prepaid insurance	8,507	2,335	10,842
Rental debtors	174,885	46,521	221,406
Depreciation	736,893	-	736,893
	1,382,420	736,575	2,118,995
2017	Opening balance	Recognised in P&L	Closing balance
Temporary difference			
Dividend receivable	5,206	(5,206)	-
Interest receivable	377,349	84,786	462,135
Prepaid insurance	1,546	6,961	8,507
Rental debtors	237,701	(62,816)	174,885
Depreciation	442,514	294,379	736,893
	1,064,316	318,104	1,382,420

14. NET ASSETS AVAILABLE TO PAY BENEFITS

14.1 Statement of Members' Funds

	2018	2017 (RESTATED ¹)
MEMBERS' FUNDS	NOTE	K
(i) - Defined Benefit		
Balance at beginning of year		322,433,619
Operating results (Note 14.2)		13,961,586
Net assets Available to pay Defined Benefits		336,395,205
Contributions received	18.2	8,257,071
Benefits paid	18.1	(13,234,846)
Prior year adjustments		-
Net assets Available to pay Defined Benefits at the end of the year		331,417,430
(ii) - Accumulation Benefit		
Balance at beginning of year		228,549,795
Operating results (Note 14.2)		9,896,356
Net assets Available to pay Accumulation Benefits		238,446,151
Contributions received	18.2	17,357,616
Benefits paid	18.1	(15,365,570)
Net assets Available to pay Accumulation Benefits at the end of the year		240,438,197
Comprising of:		
Members Accounts – opening balance		223,978,799
Movements for the year		1,992,046
Interest allocation		11,165,211
Members Accounts – closing balance		237,136,056
Reserve ²		3,302,141
Total Accumulation Members Funds		240,438,197
(iii) - Total Members Funds		
Defined Benefits		331,417,430
Accumulation Benefits		240,438,197
Total Members Funds		571,855,627

¹Refer to Note 27 from pages 58 to 61. The impacts of the restatement on the 2014 to 2017 financial years are disclosed. The 2014 financials are stated as the 2015 opening balances.

²The amounts held in the above reserve account are unallocated benefits held as reserves in accordance with the Fund's Reserving Policy and Prudential Standards.

14.2. Apportioning of Net Operating Surplus

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

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

	TOTAL	ACCUMULATION BENEFIT	DEFINED BENEFIT
	K	K	K
Income	37,572,279	15,585,109	21,987,170
Expenses	(12,982,973)	(5,385,381)	(7,597,592)
Tax	(731,364)	(303,372)	(427,992)
Net operating income from operations	23,857,942	9,896,356	13,961,586
Accounting apportioning ratios	100%	41.48%	58.52%

15. INTEREST INCOME

Interest income is earned from the following assets:

	2018	2017 (RESTATED ¹)
	K	K
Financial assets at Amortised Cost	3,750,413	3,610,172
Cash and short-term funds	1,533,433	336,736
	5,283,846	3,946,908

¹Refer to Note 27 from pages 58 to 61. The impacts of the restatement on the 2014 to 2017 financial years are disclosed. The 2014 financials are stated as the 2015 opening balances.

16. PROPERTY INCOME NET OF PROPERTY EXPENSES

NOTE	2018	2017
	K	K
Rent	8,504,165	9,737,000
Less: - Agent management expense	(58,094)	(95,135)
- Other property expenses	(3,485,596)	(3,396,347)
	4,960,475	6,245,518

17. GAIN ON SALE OF FINANCIAL ASSETS

	2018	2017
	K	K
Gain on sale of listed investments	1,850,313	1,092,474

18. CONTRIBUTIONS RECEIVED AND BENEFITS PAID IN DETAIL

18.1 Benefits paid

18.1.1 Defined Benefit Scheme

	2018	2017 (RESTATED ¹)
	K	K
Pension and back pension	12,631,176	15,783,193
Refunds	68,641	283,297
Gratuities	680	3,570
Lump sum	584,147	251,350
Housing advance benefit payments	(49,798)	387,875
Total Defined Benefits Payment	13,234,846	16,709,285

18.1.2 Defined Accumulation Scheme

	2018	2017
	K	K
Normal benefits paid	14,790,018	15,570,737
Unemployment benefits paid	9,186	28,582
Other employments benefits paid	-	-
Housing advance benefit payment	566,366	1,257,756
Total Defined Accumulation Payments	15,365,570	16,857,075

18.1.3 Total benefits paid

	2018	2017
	K	K
Defined Benefit Scheme	13,234,846	16,709,285
Defined Accumulation Scheme	15,365,570	16,857,075
Total	28,600,416	33,566,360

18.2 Contributions from members and State

18.2.1 Defined Benefit Contribution

	2018	2017
	K	K
State share of contributions towards		
Defined Benefits payments	7,989,373	9,747,884
Defined Benefits Scheme members 6% contribution	267,698	(1,546)
Housing Repayments	-	-
Total Defined Benefits Contribution	8,257,071	9,746,338

18.2.2 Defined Accumulation Contribution

	2018	2017
	K	K
State 8.4% contribution to Accumulation Scheme members	9,835,852	9,069,254
Members 6% employee contributions	7,438,353	7,124,596
Housing Repayments	83,411	–
Total Defined Accumulation Contribution	17,357,616	16,193,850

18.2.3 Total Contribution

	2018	2017
	K	K
Defined Benefit Scheme	8,257,071	9,746,338
Defined Accumulation Scheme	17,357,616	16,193,850
Total Contribution Receipts	25,614,687	25,940,188

¹Refer to Note 27 from pages 58 to 61. The impacts of the restatement on the 2014 to 2017 financial years are disclosed. The 2014 financials are stated as the 2015 opening balances.

19. TRUSTEE ADMINISTRATION EXPENSES

	2018	2017
	K	K
Staff expenses (Note 19.1)	4,110,274	4,496,140
Other administrative expenses (Note 19.2)	4,015,513	3,186,592
Operating lease	1,229,319	1,230,448
Depreciation	893,005	757,481
Software cost	5,280	667
Other Trustee expenses	20,356	36,837
	10,273,747	9,708,165

19.1 Staff expenses

	2018	2017
	K	K
Salaries and wages	3,139,293	3,660,207
Sacrifice – accommodation	611,736	605,487
Sacrifice – vehicle	14,775	22,899
Insurance – medical	94,033	93,642
Training	149,533	90,127
Sacrifice – school fee	–	–
Sacrifice – airfare	90,127	–
Other*	52,337	23,778
	4,110,274	4,496,140

*As at 31 December 2018, the Trustee Company had 36 employees (2017: 34).

19.2 Other administrative expenses

Details of other administrative expenses follow:

	2018	2017
	K	K
Board of Trustee expenses	894,723	615,901
Insurance	308,241	214,094
Advertising	171,920	198,124
Internet service provider	116,917	100,942
Professional fees:		
Audit services*	207,500	132,500
Tax	11,050	42,182
Consulting	519,519	570,407
Legal	52,480	25,015
Other	38,900	40,811
Printing and stationery	114,816	178,920
Telephone	83,939	87,936
Licence fee	159,730	218,195
Sundry expenses	1,335,778	761,565
	4,015,513	3,186,592

* External Audit Service Fee is K130,000 while balance is internal audit services.

20. FUND ADMINISTRATION AND INVESTMENT MANAGEMENT FEES

	2018	2017
	K	K
Fund administration fee	1,323,858	757,504
Investment management fee	1,385,368	2,297,916
	2,709,226	3,055,420

Both the Fund administration and investment management are outsourced to Kina Group of Companies. The Fund has third-party relationship with Kina through ownership of shares. See note 21.4

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

	2018	2017
	K	K
Related party receivables (payables) from (to) THL	815,232	(4,642,891)

See full disclosure on the investigation by the regulator, the Bank of Papua New Guinea in Note 28.

21.2 Key management personnel remuneration specified in aggregate in the year 2018

	2018	2017
	K	K
Salary	1,562,460	1,554,274
Non-monetary (i)	480,886	495,008
Superannuation		
– Employer	171,641	108,791
	2,214,987	2,158,073

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

21.3 Board of Directors remuneration during the year

	2018	2017
	K	K
Board remuneration	860,565	584,679

Board of Directors is comprised of the following individuals:

- Mr Moses Koiri
- Mr Michael Varapik
- Col. Raymond Numa
- Mr Paul Nindipa
- Col. Fred Aikung
- Capt. Philip Polewara
- Mr Joe Hamsen (Resigned August 2018)
- Mr Giau Duruba
- Mr John Cholai (Joined November 2018)

21.4 Other related-party transactions

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

During the financial year, the Fund earned interest on term deposits of K 119,572.59 (2017: K8,306) 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 2018, term deposits placed with Kina Finance Limited amounted to K 15,119,667 (2017: K11,002,282). The Fund also received dividends amounting to K700,177 and capital gains of K 1,329,439.

22. FINANCIAL RISK MANAGEMENT

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

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

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

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

22.1 Liquidity risk

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

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

The liabilities of the Fund are long term in nature and are well structured in terms of benefits comprising of a mix of a 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.

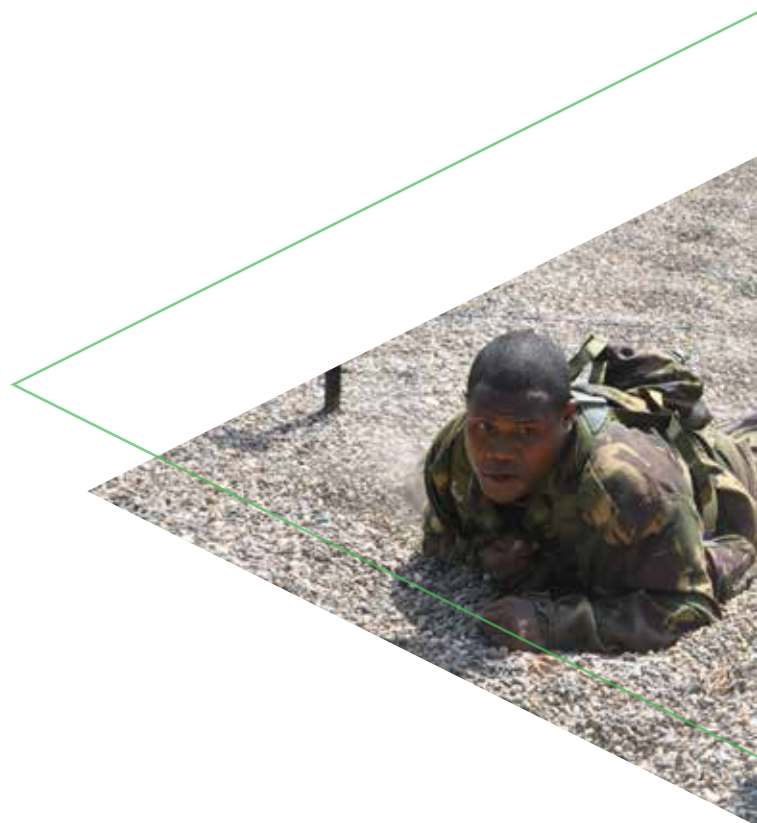
22.2 Government security risk

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

	2018	2017
	K	K
At fair value through profit or loss		
Listed securities (FVTPL)	50,507,427	54,828,045
Monetary financial assets (cash and cash equivalents)	16,305,308	15,612,911
Total	66,812,735	70,440,956



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 in the following page summarizes the Fund's exposures to interest rates risk along with discounted contractual maturity profiles of financial assets and liabilities.

	WEIGHTED AVERAGE INTEREST RATE	UP TO 1 YEAR	1-5 YEARS	OVER 5 YEARS	NON-INTEREST BEARING	TOTAL
		K	K	K	K	K
31 Dec 2018						
Assets						
Cash and cash equivalents	0.98%	48,128,531	-	-	-	48,128,531
Amount receivable from State	6.40%	-	18,485,738	-	-	18,485,738
<i>Financial assets:</i>						
FVTPL					299,961,264	299,961,264
Amortised Cost	10.70%	-	12,650,906	22,206,435	-	34,857,341
Other assets	-	-	-	-	8,582,111	8,582,111
Liabilities						
Employee provisions					(447,695)	(447,695)
Other liabilities	-	-	-	-	(16,260,839)	(16,260,839)
Liquidity and interest sensitivity gap		48,128,531	31,136,644	22,206,435	291,834,841	393,306,451
31 Dec 2017						
Assets						
Cash and cash equivalents	0.63%	23,565,188	-	-	-	23,565,188
Amount receivable from State ¹	6.30%	-	12,451,331	-	-	12,451,331
<i>Financial assets:</i>						
Fair value through profit or loss (FVTPL)					312,358,217	312,358,217
Amortised Cost	10.64%	333,445	13,240,905	19,430,729	-	33,005,079
Other assets	-	-	-	-	7,904,679	7,904,679
Liabilities						
Employee provisions					(468,892)	(468,892)
Other liabilities ²		-	-	-	(16,460,101)	(16,460,101)
Liquidity and interest sensitivity gap		23,898,633	27,477,545	19,430,729	301,548,594	372,355,501

¹Restated

²Restated

22.5 Foreign currency exchange risk

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

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

	2018	2017
	K	K
Currency		
PGK Value of overseas currency denominated in AUD	3,446,836	12,282,254
PGK Value of overseas currency denominated in USD	12,858,472	3,330,657
	16,305,308	15,612,911

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 K128,585 (2017: K52,217)

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 investments at fair value through profit or loss and available for sale investments are measured at fair value and carrying values are disclosed in the statement of net assets.

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

(b) Fair value hierarchy

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (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.

31 DECEMBER 2018	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	K	K	K	K
At fair value through profit or loss	187,947,395	-	112,013,870	299,961,265
Government inscribed stocks	-	34,857,341	-	34,857,341
TOTAL	187,947,395	34,857,341	112,013,870	334,818,606
31 DECEMBER 2017	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
At fair value through profit or loss	202,683,804	-	109,674,413	312,358,217
Government inscribed stocks	-	33,005,079	-	33,005,079
TOTAL	202,683,804	33,005,079	109,674,413	345,363,296

22.7 Credit risk

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

22.8 Equity price risk

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

	2018	2017
	K	K
At fair value through profit or loss		
Listed securities in PNG	137,439,969	147,855,760
Listed securities in Australia	50,507,426	54,828,044
Total	187,947,395	202,683,804

Assuming that the impact of equity price volatility is asymmetric, a shift in indices by 1% in either direction would impact the profit or loss by K1,879,474 (2017: K2, 050,749).

23. DETAILED LISTING OF FINANCIAL ASSETS HELD BY THE FUND

23.1 Financial assets at fair value through profit or loss

23.1.1 Listed shares

COMPANIES	MARKET VALUE 2018 K	SHAREHOLDING AS A % OF NET ASSETS OF THE FUND	MARKET VALUE 2017 K	SHAREHOLDING AS A % OF NET ASSETS OF THE FUND	MOVEMENTS K
	K	%	K	%	K
Bank South Pacific	127,799,094	21.95%	137,332,493	24.25%	(9,533,399)
City Pharmacy	1,674,999	0.29%	1,932,691	0.34%	(257,692)
Oil Search Limited	17,680,329	3.04%	17,523,757	3.09%	156,572
Kina Asset Management Ltd	5,154,726	0.89%	5,154,726	0.91%	-
Credit Corporation	2,811,150	0.48%	3,435,849	0.61%	(624,699)
BHP Billiton Ltd	-	0.00%	2,191,490	0.39%	(2,191,490)
Telstra Corporation	1,370,192	0.24%	1,855,354	0.33%	(485,162)
Newcrest Mining Ltd	1,572,115	0.27%	1,749,553	0.31%	(177,438)
Vanguard International Shares Index Fund	21,889,981	3.76%	23,791,128	4.20%	(1,901,147)
Kina Securities Ltd	7,994,809	1.37%	7,716,763	1.36%	278,046
	187,947,395		202,683,804		(14,736,409)

23.1.2 Unlisted shares

COMPANIES	MARKET VALUE 2018 K	SHAREHOLDING AS A % OF NET ASSETS OF THE FUND	MARKET VALUE 2017 K	SHAREHOLDING AS A % OF NET ASSETS OF THE FUND	MOVEMENTS K
	K	%	K	%	K
BPT(PNG) Ltd	7,920,734	1.39%	5,519,600	0.97%	2,401,135
Westpac Bank Ltd (WPC)	417,900	0.07%	520,000	0.09%	(102,100)
Paradise Foods Ltd	32,651,563	5.71%	25,011,000	4.42%	7,640,563
Post Courier	1,204,374	0.21%	1,256,497	0.22%	(52,123)
South Pacific Brewery	32,118,742	5.62%	39,666,760	7.00%	(7,548,018)
Toea Homes Limited (Note 21.1)	37,700,556	6.59%	37,700,556	6.66%	-
TOTAL	112,013,869	19.59%	109,674,413	19.37%	2,339,457

23.2 Government inscribed stocks (GIS)

	2018	2017
	K	K
Beginning balance	33,005,079	36,112,602
Maturity during the year	(333,000)	(2,929,740)
Adjustments through profit and loss	2,185,262	(177,783)
Ending balance	34,857,341	33,005,079

There are no secondary markets for the GIS. Based on history, secondary market transactions for fixed-rate instruments have been minimal and have been at the interest implicit in the instruments. As a result, there is no difference between fair value and carrying value of fixed-rate instruments.

24. AUDIT FEES

The independent external audit firm is KPMG. 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 2018 (2017: Nil). There was no future expenditure or capital commitments as at 31 December 2018 (2017: Nil).

26. EVENTS AFTER BALANCE SHEET DATE

There were no events that occurred after 31 December 2018, the balance sheet date, other than what has been disclosed in the notes to the financial statements that would require an adjustment or disclosure in the financial statements.

27. PRIOR YEAR ADJUSTMENTS

In 2017, management discovered major errors in the calculation of one-off pension rate increases and payments of fortnightly pension benefits where a number of pensioners had been inadvertently paid over and above what they were supposed to be paid. This error occurred in 2014 which resulted in overpayments over three years totaling K17.18 million. During this period, the Fund was still operating as a single scheme Fund as a Defined Benefit Pension Fund, as governed by the Defense Force Retirement Benefit Act.

The errors identified required further investigation and verification work to be conducted by an Independent Professional Accountant to establish the circumstances, nature and facts resulting in those errors occurring so that Management could present the findings and recommendations to the Board on corrective actions and measures to treat the overpayment. This process required time, therefore there was no restatements done in the Fund's financial records during 2017. However, given the fact that a significant adjustment would need to be made in the accounts in future, it was disclosed in note 7 of the 2017 Audited Financial Statements under the subheading, "Receivable from the State".

In 2014, an adjustment was made by awarding pension rate increases to members who had become pensioners during 2012 and prior, with new pension rates starting with a one-off back payment. The rates awarded were incorrect; resulting in the pensioners concerned being overpaid from 2014 through to 2017. This also effectively resulted in an overstatement of charges to the State as the State pays for 60% of the pensions.

The Board considered the Independent Professional Accountant's report and in the interest of acting in the Pensioners' best interest, decided against recovering the money overpaid from Pensioners. The Fund will therefore take up the overpayments as part of the normal pension benefit payments made at the time. As a result of this, the 60% of the overstated charges paid for the State has been borne by the Fund. This has resulted in an increase in benefits paid recorded in the Fund for each of the years from 2014 to 2017.

However, the effect on "Receivable from the State" is the area that management had to work on with the Department of Treasury in coming up with an understanding. The State Share receivable has been overstated as a result of the initial application of the wrong pension rates. The eventual agreed decision from the Department of Treasury was for the Fund to use the money they had overpaid to settle monies owing to members of the Defined Accumulation Scheme who had exited the Fund during 2016 and 2017 and were waiting for their Unfunded State Share portion to be paid to them.

The Financial impact of the abovementioned transactions are as follows:

- Reversal of K12.81m being K11.02m pension benefits paid that the State bore that has now been borne by the Fund and K1.79m Interest from the State share Receivables
- Transfer of K11.02m in cash received deducted from State share receivables from the Defined Benefit Schemes (Pensions) to the Accumulation Scheme Pension to settle the Unfunded State Share Liability component of the members' benefits payments.

These reversals have been done in accordance with IAS 8 by restating Financials starting 2014 to 2017. The impacts of the restatement are set out in the following tables. In addition, amounts previously classified as "Loans to Members and Others" in prior years have been reclassified as "Amounts receivable from State" to better reflect the nature of the asset. This classification is also reflected in the following tables.

(i) Statement of Net Assets

AS AT 1 JANUARY 2015	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
	K	K	K
Assets			
Amount receivable from State	4,871,604	(4,940,512)	(68,908)
Others	448,162,520	–	448,162,520
TOTAL ASSETS	453,034,124	(4,940,512)	448,093,612
TOTAL LIABILITIES	5,260,446	–	5,260,446
NET ASSETS AVAILABLE TO PAY BENEFITS	447,773,678	(4,940,512)	442,833,166
Net Assets Comprising:			
Members Fund	418,814,748	(4,940,512)	413,874,236
Others	28,958,930	–	28,958,930
	447,773,678	(4,940,512)	442,833,166
AS AT 31 DECEMBER 2015	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
Assets			
Amount receivable from State	11,684,491	(7,460,484)	4,224,007
Others	456,143,230	–	456,143,230
TOTAL ASSETS	467,827,721	(7,460,484)	460,367,237
TOTAL LIABILITIES	6,694,411	–	6,694,411
NET ASSETS AVAILABLE TO PAY BENEFITS	461,133,310	(7,460,484)	453,672,826
Net Assets Comprising of:			
Members Fund	461,133,310	(7,460,484)	453,672,826
Others	–	–	–
	461,133,310	(7,460,484)	453,672,826
AS AT 31 DECEMBER 2016	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
Assets			
Amount receivable from State	13,048,555	(6,538,191)	6,510,364
Others	528,029,065	–	528,029,065
TOTAL ASSETS	541,077,620	(6,538,191)	534,539,429
LIABILITIES			
Other Liabilities	5,488,132	3,719,238	9,207,370
Others	18,974,318	–	18,974,318
TOTAL LIABILITIES	24,462,450	3,719,238	28,181,688
NET ASSETS AVAILABLE TO PAY BENEFITS	516,615,170	(10,257,429)	506,357,741

AS AT 31 DECEMBER 2016	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
Net Assets Comprising of:			
Members Fund			
Defined Contribution Scheme	206,278,637	-	206,278,637
Define Benefit Scheme	310,336,533	(10,257,429)	300,079,104
Others	-	-	-
	516,615,170	(10,257,429)	506,357,741
AS AT 31 DECEMBER 2017	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
Assets			
Amount receivable from State	14,236,640	(1,785,309)	12,451,331
Others	561,486,387	-	561,486,387
TOTAL ASSETS	575,723,027	(1,785,309)	573,937,718
LIABILITIES			
Other Liabilities	5,436,552	11,023,549	16,460,101
Others	6,494,203	-	6,494,203
TOTAL LIABILITIES	11,930,755	11,023,549	22,954,304
NET ASSETS AVAILABLE TO PAY BENEFITS	563,792,272	(12,808,858)	550,983,414
Net Assets Comprising of:			
Members Fund			
Defined Contribution Scheme	228,549,795	-	228,549,795
Define Benefit Scheme	335,242,477	(12,808,858)	322,433,619
Others	-	-	-
	563,792,272	(12,808,858)	550,983,414

(ii) Statement of P&L and OCI

AS AT 31 DECEMBER 2017	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
	K	K	K
REVENUE			
Interest Income	4,746,988	(800,080)	3,946,908
Others	61,463,170	-	61,463,170
TOTAL REVENUE	66,210,158	(800,080)	65,410,078
TOTAL EXPENSES	12,763,585	-	12,763,585
NET PROFIT BEFORE INCOME TAX	53,446,573	(800,080)	52,646,493
Income tax expense	(394,648)	-	(394,648)
NET PROFIT AFTER INCOME TAX	53,051,925	(800,080)	52,251,845

(iii) Statement of Changes in net asset

AS AT 31 DECEMBER 2017	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS RESTATED
	K	K	K
Net profit for the year available to pay benefits	53,051,925	(800,080)	52,251,845
Contributions from members and State	25,940,188	–	25,940,188
Benefits paid to members	(31,815,011)	(1,751,349)	(33,566,360)
CHANGES IN NET ASSETS FOR THE YEAR	47,177,102	(2,551,429)	44,625,673
Net assets at beginning of year available to pay benefits	516,615,170	(10,257,429)	506,357,741
NET ASSETS AT END OF YEAR AVAILABLE TO PAY BENEFITS	563,792,272	(12,808,858)	550,983,414

(iv) Cash flow Statements

There are no material impacts on the total operating, investing or financing cash flows for the year ended 31 December 2017.

28. INVESTIGATION INTO TOEA HOMES LIMITED BY THE BANK OF PAPUA NEW GUINEA

Toea Homes Limited (THL) is a wholly owned subsidiary of CTSL and was formed as a vehicle to manage the CTSL Member Home Ownership Scheme. THL is focused on developing a home ownership scheme for members of the Fund. The investment in THL is recorded on a net asset basis and is carried at K37,700,556 (2017: K37,700,556). On 20 November 2018, pursuant to section 31(1) of the Superannuation (General Provisions) Act 2000, the Bank of Papua New Guinea (the Bank) appointed an independent investigator to report to the Bank on the aspects of the business of THL. Whilst the scope of the investigation is broad it will focus on the following:

- Whether the investment in THL was considered in the spirit and requirements of section 74 of the Act
- Whether the THL investment was considered in accordance with section 71 of the Act
- To review and establish whether directors have breached their duties as required of them under section 50 of the Act
- The soundness of the operations of THL to date.

As at the date of approving the financial statements of the Fund, the investigation is still ongoing with no results published. The Board does not expect the outcome of the investigation to adversely or materially impact the operations of THL or the carrying value of the investment in THL as reflected in the financial statements of the Fund.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Trustee's Board and authorised for issue on 01 April 2019.



Corporate Directory

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Management

John Auna

Chief Executive Officer

Darusilla Musi

Executive Manager Member Services
& Talent

Beama Wape

Executive Manager Governance & ICT

Steven Morodu

Executive Manager Finance
& Investments

Investment Manager

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Banker

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