

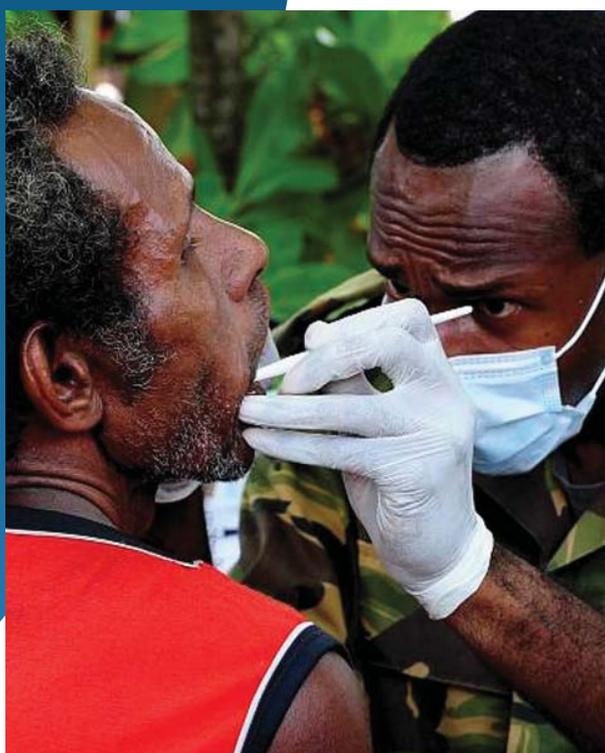
# 2014 ANNUAL REPORT

DEFENCE FORCE RETIREMENT BENEFIT FUND



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# Vision & Mission Statement

The vision of the company is:-

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

And the mission is:-

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

## Corporate Values

The achievement of our mission statement requires all Directors and employees of CTSL and our core service providers to adhere to our corporate values. These values require CTSL to operate in accordance with the highest professional and ethical standards in all our relationships with members, suppliers, and the community in which we operate.

The values provide a platform for the company to nurture and promote a corporate climate which encourages innovation and diligence among staff and rewards them through:-

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

Built on our corporate values of:-

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



# Chairman's Statement



## Dear Members

It gives me great pleasure on behalf of the CTSL Board to welcome new members who have joined the Fund during the year and also to provide to you an over view of the Fund's performance as at the year ended 31st December 2014.

At the beginning of the year the Fund was in a position provided for a one-off 100% increment for its pensioners.

However 2014 was a turbulent year for international financial stability and was a challenging year for our administration but saw the Fund perform positively for the year and it had a net surplus after tax of K5.9m ending year.

Despite the challenges in 2014 the CTSL Board is pleased to announce an interest crediting rate of 1.65% to be effected in 2015.

The ending of the LNG construction phase of this project there has been a rippling effect on the economic activities domestically within PNG. As a result this saw a reduction in the value of assets and therefore a reduction in dividends of those investments which the Fund had had interest in.

CTSL as a Superannuation Fund has grown since its inception and has done quite well with its diversification of its investments in growing the fund for its members. Thus the ratio of membership to its net assets is quite significant as compared to the other funds which remain encouraging

The current membership is at 4,932 made up of 3,096 current serving members and 1,826 pensioners and is expected to increase as the Government's objective stated in the PNG Defence Force White Paper is to increase the size of the PNG Defence Force to 5,000 by 2017 this would increase the membership of the Fund and also with a gradual increase of the pensioners as well with the retirement of older serving members.

Your fund will continue to diversify its investments to grow the fund, mitigate concentration of its investments and also look into new opportunities. We intend to be proactive and positive in ensuring that we pursue the best advice and opportunities in the current global economic conditions.

Thus agreements with the service providers Fund Investment Manager and Fund Administration Manager will both expire in June of 2015 the Fund will go out to test the market to ensure that the fund will get the best possible service for both the Investments and Member Services.

The Review of the Fund is in its middle stages with the submission of the review now vested with the PNG Defence Force Review Committee and the PNG Defence Force Council. The submission will go through a review by the Bank of Papua New Guinea,

the Treasury Department then sponsored by the respective ministers responsible for the Treasury Department and the PNG Defence Force before parliament. The Fund remains steadfast to implement the Review of the Fund once enacted by Parliament.

The Board Members are committed to efficiently serving you the members ensuring that the funds are transparently and prudentially managed. 2014 saw a gradual change to the members of the Board with an increase to the number of board members from seven (7) to eight (8) members and the retirement of five (5) members done in line with the regulatory Prudential Standard 7/2012. The selection of the new board members have gone through a strict, transparent and independent recruitment process involving external independent advice with PricewaterhouseCoopers and finally were vetted by the Bank of Papua New Guinea's fit and proper assessment.

The Board remains committed to ensuring compliances with the regulatory and statutory requirements, working closely with the Bank of Papua New Guinea thus CTSL was fully compliant with the Prudential Standard 7/2014 as the required date of 31 December 2014.

Good corporate governance has been the pillar of the Fund and the Board will continue to see this through and pass onto the new Board Members. The Fund is very conscious of the risk factors and remains vigilant to mitigating the possibilities of any threats.

The New Year 2015 will see the beginning of a new era and innovation with new concept of a home ownership scheme for you the members of this Fund under the 100% owned CTSL subsidiary Toea Homes Ltd.

This concept will differ from other home ownership schemes and the first of its kind in Papua New Guinea.

This concept will start on portion 2934 before the Taurama Barracks which will be developed in stages then this concept would be extended out to other centres like Lae and Wewak.

The Board will ensure sound custody, investment and preservation of the funds entrusted under its care and ensuring it continues to be prosperous, assuring members' financial security at retirement. We look forward to the challenges ahead to safe guard and grow the funds further in the year to come.

A handwritten signature in blue ink, appearing to read 'Chris Alu', with some decorative flourishes.

**Chris Alu**  
Chairman



# CEO's Report



## Dear Members

Throughout the global financial world, 2014 has been a challenging year as economies continue to battle financial challenge. For us in PNG we have seen the end of the PNG LNG construction phase and the major spending associated with the infrastructure programmes and this has resulted in a reduction in the opportunities in the financial and properties investments sectors within our nation which have now slowed down. Nevertheless, your Fund has continued to grow through the support and guidance of the Board, Management and staff of Comrade Trustees Services Limited within the investment strategy guidelines employed by the board.

PNG faces a number of challenges within the global context but continues to attract international support and interest, while investors in historic markets, especially in the northern hemisphere countries, continue to adversely impose on short term and medium recovery. The problems of the global financial crisis still are impacting on international investment and financial trading.

On behalf of the management of the fund, the strategy used to achieve this ongoing growth return is through a balanced portfolio of both growth and income assets, with a target allocation of 80% domestic and 20% international. We continue to manage our exposure in Bank South Pacific Limited which accounts for 23% of the total assets of the Fund down from 27% in 2013.

The Fund maintains its sell position and continues to do so as opportunities become available on the market.

The results of the Fund are summarised as follows:

	2014	2013
Net Asset Value	447,773,678	440,504,514
Net Surplus (after tax)	5,882,675	39,783,219
Total Benefits paid	20,102,153	9,113,404
Rate of Return	1.65%	10.13%
MER	2.30%	2.02%
Interest Crediting Rate	1.65%	10%
CPI Indexation rate	5%	5%
Total Active Membership	3,096	2,936
Total Pensioners	1,841	1,836
Total Members contribution received	4,067,073	3,490,477

## Investments

The adverse impact of the ongoing global investment uncertainty is reflected in the investment reports. Despite continuing in achieving a surplus, there was a dramatic drop in returns in the current year under review, reflecting the savage impact and lack of confidence in the global markets which have continued to have an adverse impact on investment planning.

It is therefore important to note that DFRBF still generated a net profit/surplus of K5.88m during the 2014 financial year. But unfortunately, this is a considerable decrease of 85.21% compared to the prior year result, which recorded K39.78m profit/surplus. This result has been impacted by a decrease in investment revenue of K20.32m in 2014, compared to K52.16m in 2013.

The major contributing factor in the decrease in investment revenue and consequently net profit/surplus was the drop in the fair value of the fund's property and financial assets by K 31.3m (61.05%) with a combined loss on valuation of K8.16m compared to a gain of K23.15m in 2013.

As a consequence, dividends from investee companies were also down by 14.63% to K19.52million from K22.88million in 2013, a fall of K3.35m.

Members should note that this was not a reflection of the performance of the entire investee companies' portfolio but a reflection on Hunter Ltd's 2013 dividend payout of K8.6m from profits accumulated over the years compared to a year's dividend of only K3.5million in 2014.

Interest Income increased by K2.07m to K4.76m from K2.69. This is mainly from the increased placements of cash in Government Inscribed Stock whereas interests from other term deposits were not attractive during the year.

Despite a tough financial year, the Fund recorded a slight asset growth of 1.65% compared to 10.14% growth in 2013. Management Expense Ratio (MER) has increased by 0.28% to 2.30% from 2.06% in 2013. This is a result of costs incurred for the Fund to be fully compliant to Prudential Standard 7/2012 (PS 7/2012) issued by the regulator. This includes the appointment of the consultant, appointment and functioning of the internal auditor as required by PS 7/2012.

## The Membership

Amongst critical areas of focus under the 2010 – 2015 Corporate Strategy was the ongoing Fund Review and the outcome of the forum ensured further depth dialogue surrounding the financial and social implications of the proposed changes to member benefits between the Actuary, Bank of Papua New Guinea, Department of Treasury and PNG Defence Force. The PNG Defence Force through its Review Team has taken carriage and responsibility with progressing further these changes through the relevant ministries of Defence and Treasury to further the course before parliament.

The Fund's pensioners received a one-off incremental to their fortnightly upon advice from the Fund's Actuary. These improvements increased the average pension by 100%.

The challenges for the year included minimising the Fund's level of unclaimed monies within contributor and pensioner categories. Efforts with this resulted in decreasing contributor inactive accounts to 5% and suspended pensioner accounts to 6% of total membership.

Payment requests in general were acceptable as core processes supporting timely benefit payments were managed well and in line with the approved Service Level Agreement (SLA).

The scope of improvements for service included Board and Management's decision for the Member Service Office to manage dual service points for convenience of members upon completion of the Fund's new Head Office (Comrade Haus) at Hohola. This is expected to be implemented by mid 2015.

The overall membership of the fund continued to increase in both contributor and pensioner categories. By the close of the year, the number of contributors' increased by 160 which attributed to the 2014 intakes bringing the total number of contributors to 3096 while pensioners increased to 1841 from 1836.

There were 68 benefit payments made to members during the year of which 53 were refunds totalling K385,215 and 15 of them being commutation of pensions totalling K872,331

At year end a total of K20,102,153 were paid out in pensions inclusive of the Government shares. This is an average fortnightly pension of K682, 326. All pensions increased by a further 5% for 2014 through the annual pension indexation process.

## Governance, Risk and Compliance

In 2014 Comrade Trustee Services Limited was fully compliant with the regulatory requirements of the Bank of Papua New Guinea Prudential Standard 7/2012 Corporate Governance. This is a continuation of its well established good governance and prudential management. This has seen the creation of a Governance, Risk and Compliance section ensuring the Fund stays abreast with changes and development with regulatory requirements and is vigilant with risk factors to mitigation such treats.

In 2015 the Bank of Papua New Guinea will release two new Prudential Standards 1/2014 Authorised Superannuation Fund Investments and 8/2014 Risk Management. The Bank will conduct an Asset Verification exercise in the first quarter of the year. The Fund will remain to be observant to possible and new risk areas and will remain compliant with the regulatory and full compliance with its statutory obligations.

## Summary

Despite the challenging year in 2014, the Fund remains optimistic about it's future growth. The diversification of the Fund's assets safe guards the fund itself from investment risks ensuring stable growth to levels which best serves the members. The Fund is being managed prudentially with tighter control of its operational expenses in accordance and subjected to regulatory requirements whilst ensuring the returns are being maximised.

The fund remains optimistic, steadfast and ready to facilitate the constitutional changes enacted by Parliament in anticipation of the pursuit of the PNGDF Review Team whom have taken carriage of the Fund Review.

Member Service operations were satisfactory and progressed towards achieving its strategic goals and remain hopeful and optimistic that 2015 will offer some form of absolution. In the interim, the Fund has positioned itself strategically to support the PNGDF review team facilitate proposed changes for members once all process requirements are achieved.

We trust that 2015 will be a new dawn for the Fund with the implementation of a unique home ownership scheme project for its eligible members and will be the first of its kind in Papua New Guinea. Initial stages of this project will be near the Taurama Barracks, Port Moresby and the success of it will extended to other military bases throughout Papua New Guinea.



**Richard Sinamoi**  
Chief Executive Officer



**COMRADE TRUSTEE SERVICES LIMITED TRUSTEE FOR DFRBF ANNUAL INVESTMENT REPORT 2014**

The global growth in 2014 was lower than expected, moving up a mere 2.6% from 2.5% in the previous year. This was a reflection of divergent growth trends in major economies. While the US seemed to pick up momentum, the same could not be said for other economies especially Europe, Japan and China. The main factors behind this sluggish growth were accommodative monetary policies, weak commodity prices and lower trade activity.

On the domestic front, PNG real GDP growth in 2014 was stronger at 8.4% compared to 5.5% in the previous year, noting the earlier than expected commencement of production and export of Liquefied Natural Gas (LNG) while inflation trended upwards in 2014, the levels are considered manageable.

It was also the second year of expansionary fiscal policy, entailing another budget deficit that was financed from domestic sources. Continued high economic growth and increased government spending contributed to high import demand and the depreciation of the Kina exchange rate. In light of these uneven economic trends, the Fund returned a positive performance in 2014 achieving an investment gain of K7.7m through the year which represents a return of 4.5% [excluding Trustee expenses]. This contributed to the total Fund value reaching K434.6m for the year. The positive performance in 2014 was primarily attributed to dividend and interest income received from listed equities and fixed income investments.

Major investment highlights for the year included the ongoing construction of the new head office – Comrade Haus in Hohola. The new head office is completed with ongoing fit outs still under way with the Fund scheduled to move into the building in June 2015. In 2014, the Fund also acquired K26.0m worth of Government Inscribed Stock due to better yield offered.

Other activities included the commencement of the Toea Homes project near Taurama Barracks with work already under way on the proposed project site.

The year in review saw the Trustee appoint 5 new Board of Directors and the appointment of a new Investment Committee. This saw the Fund review and adopt the investment policy statement as it sought to realign the Fund’s portfolio with its investment strategy, current market conditions and the relevant Prudential Standards.

The Fund and Kina Funds Management (KFM) continue working together to meet compliance requirements with regulations to ensure targeted returns can be achieved within a manageable risk margin.

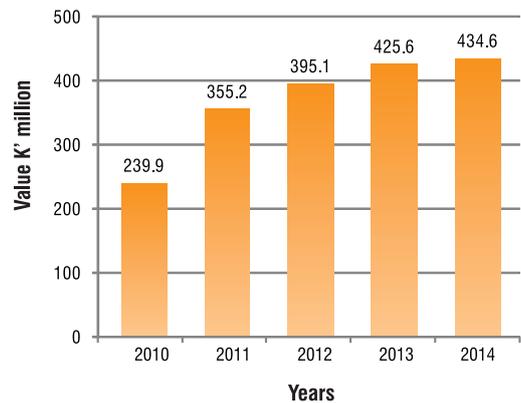
KFM would like to thank the Trustee, the Management and Staff of CTSL for making 2014 another successful year and we look forward to working together towards achieving the Fund’s goals and objectives for the benefits of the members of the Fund in 2015.

Yours Sincerely,

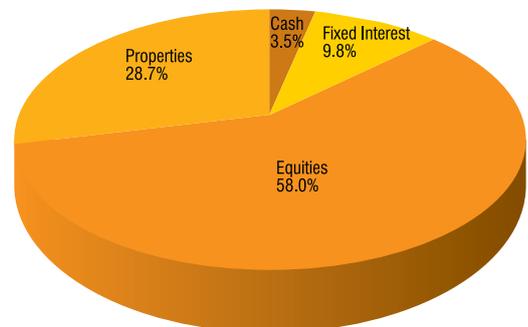
**Victor Shubin**

General Manager, Kina Funds Management Limited

**DFRBF Investment Portfolio Value**



**DFRBF Investment Portfolio**



Value at 31/12/14 - 434.6 million



**COMRADE TRUSTEE SERVICES LIMITED FOR DFRBF FUND ADMINISTRATION REPORT 2014**

2014 was an exciting year focused on delivering superior customer service through our people and technology initiatives. It was a year that saw a 5% CPI adjustment as well as a one-off 100% increment for the pensioners, and a 1.65% interest that saw over K1.16 million credited across all eligible superannuation members.

Having highly skilled staff plays a critical role in us being able to deliver world class service to DFRB members. I am therefore very pleased to advise that during the year all our Fund Administrators successfully completed formal qualifications from the Association of Superannuation Funds of Australia (ASFA). ASFA is both the peak industry DFRBF body representing all superannuation funds in Australia as well as being recognised as a global leader in providing superannuation training. This shows our team commitment to ensuring we maintain the highest possible standards in the industry.

In addition, we continue to roll out a wide range of technology and process improvement initiatives aimed at enhancing the member experience. Amongst our highlights to date is the ability for members to provide voluntary contributions to boost their superannuation savings, the production of member ID cards to better protect members against fraud, and the update of our member database to enable us to service members faster.

**MEMBERSHIP**

During the year we welcomed 517 new members to the Fund increasing membership by 5.45%. This is higher than the average rate over the last 5 years which is 3.72%. Pension membership also grew slightly in 2014 and has experienced an average growth rate of 0.62% over the past 5 years.

**CONTRIBUTIONS**

K4.07 million in superannuation contributions were made by the members in 2014 representing a 15% increase when compared to K3.5 million in 2013. With the introduction of voluntary contributions it is anticipated that contributions will gain rise in 2015 and the years to come.

**BENEFIT PAYMENTS**

Overall payments made during the year totalled K20,092,453. This is an increase of 99% from the K10,085,041 in total payments processed during 2013. These consisted of 56 exit payments amounting to K588,148. 16 commutation payments amounting to K909,456 and an average of 1841 fortnightly transactions for pension amounting to K18,594,849.

**SUPER AND PENSION MEMBER ID CARDS**

A total of 947 superannuation and pension ID cards were processed in 2014. We hope this number will increase significantly during 2015 and would encourage all members to visit the CTSL office to collect their membership ID cards.

**2015 FORECAST**

We anticipate that 2015 will be a year of growth both in terms of membership numbers and total funds under Administration, and a year of even greater focus on customer service. We are proud of our long standing and robust partnership with CTSL and our joint focus on helping members achieve their important retirement goals. As your Fund Administrator we are passionate about delivering you an efficient and high quality service each and every day and we will continue to strive for excellence in everything we do.

Yours sincerely

**ADAM FENECH**

General Manager

Kina Investment & Superannuation Services Limited



# Board of Trustees



**Chris Alu – Chairman – Independent Director (retired 31 December 2014)**

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

Mr Alu was re-elected as the Chairman of the Board.

Mr Alu has 25 years of extensive private and public sector experience and brings with him invaluable accounting experience to the Board.

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

He resigned as Chairman of Unitech Development & Consultancy Limited – the business arm of the University of Technology and as a member of Council of the University of Technology in 2010. He is also President of Christian Leaders Training College of Papua New Guinea and President of the Fellowship of Companies for Christ International, PNG Chapter. He is also involved with many charity groups and considers this as his contribution towards the less fortunate in society.

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

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**Colonel David L.Y. Takendu, OBE, BE (Civil), psc (Aust), psc (Indon), jssc (Aust) (Rtd.) (retired 31 December 2014)**

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

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

He represents pensioners on the Fund Board.

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

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

He speaks Bahasa Indonesia fluently.

He is a member of the PNG Institute of Directors.

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**Captain Alois Ur Tom, OBE, DMS (Navy) (retired 29 November 2014)**

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

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

Captain Tom is the Chairman of Defence Housing and Director of Toea Homes Limited.

Captain Ur Tom has had considerable hands on experience in all facets of naval duties including attachments in the United States and Australia navies.

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



**Kisakiu Posman | Independent Director (retired 30 July 2014)**

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

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

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

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

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

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



**Captain (Navy) Max Sundie Aleale OBE, DMS (retired 30 October 2014)**

Captain Aleale was appointed to the Board on 29 September 2006 and represents the Contributing Members of the Fund. Captain Aleale has served in various capacities throughout the PNGDF at tactical and operational level including Command of seagoing vessels and a major shore establishment. At the strategic level he served as Director and Chief of Operations of the PNGDF and therefore brings to the Board extensive hands on work experience in all aspects of military operations, planning, training, administration and management.

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

As Director of CTSL, he has attended various Director courses and conferences to broaden his perspective on the superannuation industry and add value on the Board.

Captain Aleale is a member of the PNG Institute of Directors.



**Michael Varapik | Independent Director**

An accountant by profession, Mr Michael Varapik was appointed to the Board of CTSL in November 2011 as an Independent Director. Mr Varapik is 60 years old and has extensive management, financial, operations and marketing experience spanning over 35 years in both the private and public sectors.

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

Mr Varapik was a Director of Origin Energy (PNG) Ltd since 2004 and retired in February 2014 after 10 years.

He is also a Professional Member of the PNG Institute of Directors.

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



**Moses Koiri | Independent Director**

Appointed to the Board on 20th April 2013 as an Independent Director. Mr. Moses Koiri has over 15 years of senior management in both the private and public sectors.

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

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

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

# The Fund

The Fund is an established authorised Superannuation Fund (ASF) pursuant to Section 8 of the SGP Act with a current active contributor base of 2,936 and 1,836 pensioners as at 31st December 2014.

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

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

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

Because of the uncertainties in relation to the extent of liabilities carried by the Fund and State, an actuarial evaluation is required to be undertaken periodically (every two years), the purpose of the actuarial evaluation is to determine among other things, the financial viability of the Fund and its ability to meet and sustain future pension payments to members. The next actuarial evaluation will be undertaken for the period ending on 31st December 2014 in early 2015 and details of which will be reported to members in the subsequent financial year.

# Licensed Corporate Trustee

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

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

# Corporate Governance

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

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

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

## The Trustee

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

## Shareholder Information

There are five shareholders who each hold one ordinary share “in trust” on behalf of the members of the Fund. These shares attach no beneficial rights to the shareholder, except to ensure compliance with the Companies Act 1997 and the Superannuation Act and are transferable, in the case of the Commander of the Defence Force to his successor and in the case of the other shareholders when they cease to be

Directors of the company to their successors. Shareholders of the company as at the year-end are as follows:-

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

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

## The Board

Comrade Trustee Services Limited is managed under the direction of the Board of Directors. The Board has the ultimate legal responsibility for the prudent management of the Fund, and subject to the requirements of the Superannuation Act 2000

and the governing rules of the Fund has the power, authority and discretion generally to do all such acts as it considers necessary or expedient for the sound management, maintenance, investment and preservation of the Fund.

The Board comprises seven Directors, three of whom represent members of the Fund and four independent Directors. Strict appointments criteria, including a “fit and proper” test ensures that persons appointed to the Board are legally eligible and possess skills, knowledge, experience or expertise in the management of commercial entities and whose inclusion on the board will add value and enhance corporate governance. Board appointments are subject to Bank of Papua New Guinea approval. Directors hold office for a term of three years, at the expiry of which they are eligible to nominate for re-election subject, however, to any restrictions contained in the company constitution and Central Bank approval. No Directors retired during the year.

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

Name of Shareholder	Class of Shares	No of Shares	Value (K)	Special Notes
Brigadier General Francis Agwi	Ordinary	1	K1.00	Share held in trust for members
Chris Alu	Ordinary	1	K1.00	Share held in trust for members
Col D. Takendu, OBE (Rtd)	Ordinary	1	K1.00	Share held in trust for members
Capt Max Aleale, DMS	Ordinary	1	K1.00	Share held in trust for members
Capt Tom Ur, OBE	Ordinary	1	K1.00	Share held in trust for members
<b>Total</b>		<b>5</b>	<b>K5.00</b>	

# Corporate Governance

The names of members of the Board at the date of this report, including their remuneration, status on the Board and information relating to their attendance at meetings for the 12 months to 31st December 2014 are as follows:-

Name of Director	Fee Received*	Board Status	Date of Appointment	Board	Audit Risk & Compliance Committee	Attendance of Meetings	
						Remuneration & Nominations Committee	Investments Committee
Chris Alu (Chairman)	77,077	Retired as at 31/12/2014	19/12/2002	7/7	-	-	-
Col D. Takendu, OBE (Rtd)	51,638	Retired as at 31/12/2014	19/12/2002	5/7	-	1/2	-
Capt (N) Max Aleale, DMS	43,032	Retired as at 30/10/2014	29/09/2007	5/7	-	1/2	1/1
Capt (N) Alois Ur Tom, OBE	43,032	Retired as at 30/11/2014	1/02/2002	5/7	2/2	-	-
Kisakiu Posman	30,122	Retired as at 30/07/2014	6/04/2004	0/7	-	-	-
Michael Varapik	51,638	Current	11/11/2011	7/7	2/2	1/2	-
Moses Koiri	51,638	Current	20/04/2013	6/7	-	2/2	1/1
John Auna	21,516	New	1/07/2014	3/7	-	-	1/1
Taunao Vai	11,980	New	1/08/2014				
Col R. Numa	5,579	New	31/10/2014				
Col M. Goina	2,837	New	1/12/2014				

\*Fees shown above are before tax

\*\*Includes 4 ordinary and 3 special board meetings

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

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

## Audit & Compliance Committee

The Committee had full membership and held two meetings during the year. The role of the Committee includes review of the Fund's financial statements, review of audit reports, review of the company's accounting policies, review of internal control systems and procedures including risk assessment and management strategies, review of the actuarial report, tenders, annual budgets, investment policy and guidelines and related matters. Members of this committee as at 31 December 2014:-

Name of the Committee	Committee Status
Michael Varapik	Chairman
Colonel Mark Goina	Member
Moses Koiri	Member

## Remuneration & Nominations Committee

The Committee had full membership and held two 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 2014:-

Name of Directors	Committee Status
Taunao Vai	Chairman
Colonel Raymond Numa	Member
Colonel David Takendu OBE (Rtd)	Member

## Investments Committee

This is a new committee set up in 2014 as required by Prudential Standard 7/2012. The Committee had full membership and held one meeting during the year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibility to provide oversight for the investment of the fund, in line with the investment strategy and policy. The Committee shall provide reports and make recommendations to the Board on matters pertaining to the Fund's investments. Members of this committee as at 31 December 2014:-

Name of Directors	Committee Status
John Auna	Chairman
Moses Koiri	Member
Colonel Mark Goina	Member

## External Board Positions and Disclosures

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

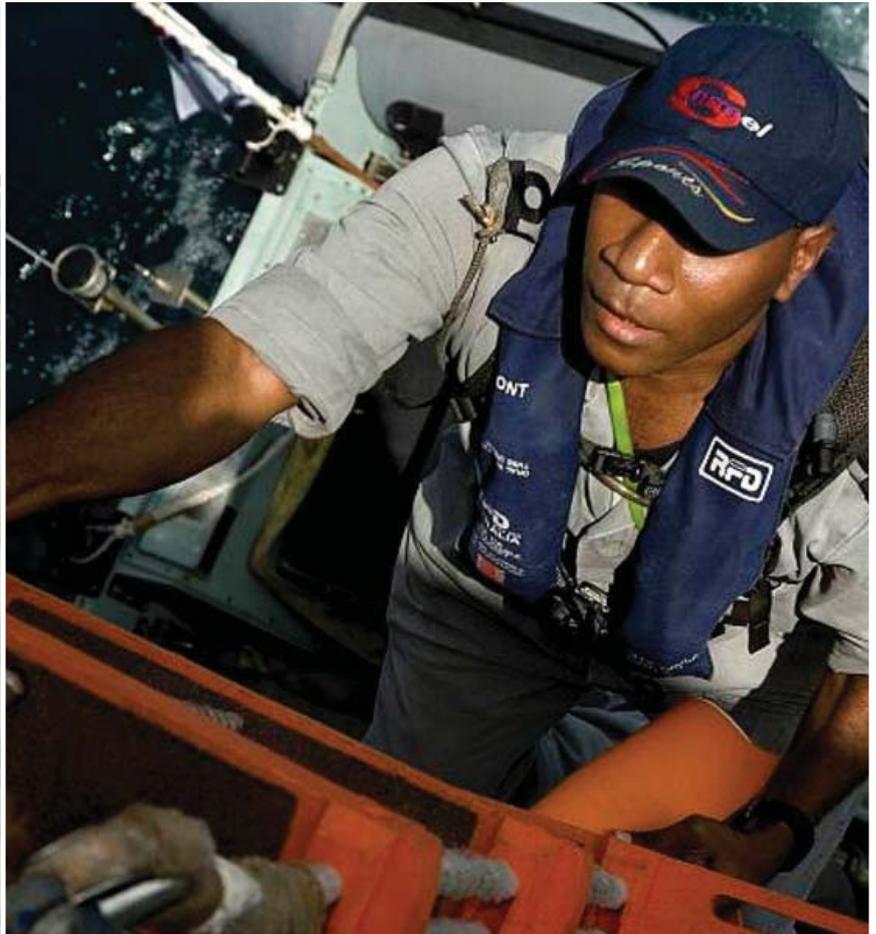
NAME	NATURE OF INTEREST	INTEREST
Chris Alu (Retired 31/12/14)	Shareholder/Director Shareholder/Chairman Chairman Member	Ebony Marketing Limited Comrade Trustee Services Limited Toea Homes Limited PNG Institute of Directors
Colonel David Takendu, OBE (Rtd) (Retired 31/12/14)	Shareholder/Director/Pensioner Member Member	Comrade Trustee Services Limited Remuneration & Nomination PNG Institute of Directors
Captain Alois Ur Tom, OBE DMS (Navy) (Retired 30/11/14)	Shareholder/Director/Contributor Chairman Director Member Employee	Comrade Trustee Services Limited Hunter Limited Toea Homes Limited PNG Institute of Directors PNG Defence Force
Kisakiu Posman (Retired 30/07/14)	Director Employee Member Member	Comrade Trustee Services Limited Posman Kua Aisi Lawyers PNG Law Society Inc PNG Institute of Directors
Captain Max Aleale, OBE, DMS (Navy) (Retired 30/10/14)	Shareholder/Director/Contributor Shareholder Shareholder Member	Comrade Trustee Services Limited Credit Corporation Kina Asset Management Limited PNG Institute of Directors
Michael Varapik	Director Director Member	Comrade Trustee Services Limited Toea Homes Limited PNG Institute of Directors
Moses Koiri	Director Shareholder Shareholder Director Director Director Director Member Member Member Partner/Employee	Comrade Trustee Services Limited Kina Asset Management Limited Oil Search Limited Orekana Enterprise Limited Kurada No.24 Limited Toyota Tsusho (PNG) Limited Albatross Law Services Limited Bougainville Copper Foundation Limited PNG Law Society Inc PNG Institute of Directors Albatross Law
John Auna (Appointed 01/07/14)	Director Director Director Associate Member Associate Member	Comrade Trustee Services Limited JPA Limited Bougainville Information Technology Ser Limited Certified Practicing Accountant PNG PNG Institute of Directors
Taunao Vai (Appointed 01/08/14)	Director Shareholder/Director/Secretary Director/Member Director Director	Comrade Trustee Services Limited Lauradaba No. 2 Limited PNG Institute of Directors H&E Stevedores Limited Laba Holdings Limited
Colonel Raymon Numa (Appointed 01/11/14)	Director Member	Comrade Trustee Services Limited PNG Institute of Directors
Colonel Mark Goina DMS, OBE (Appointed 01/12/14)	Director Member	Comrade Trustee Services Limited PNG Institute of Directors

# Corporate Governance

## External Board Positions and Disclosures continued....

NAME	NATURE OF INTEREST	INTEREST
Richard Sinamoi	Company Secretary/Chief Executive Officer Shareholder Director Director Director Related Party Member Member	Comrade Trustee Services Limited Credit Corporation Paradise Foods Limited PNG Microfinance Limited Toea Homes Limited Nambawan Super Limited Association of Superannuation Funds PNG PNG Institute of Directors
Danny Herepe	Executive Manager Finance & Investments Company Secretary Member Member Member Member	Comrade Trustee Services Limited Toea Homes Limited PNG Institute of Directors Certified Practising Accountant PNG Institute of Internal Auditors – PNG Transparency International (PNG) Inc
Chris Sariman	Executive Manager Member Services Member	Comrade Trustee Services Limited PNG Institute of Directors

Employees of the company appointed to the Boards of subsidiary companies in which CTSL has controlling interest are not paid any fees



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

## Code of Conduct and Ethical Standards

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

## Fund Administration

The fund administration function is outsourced to Kina Investment & Superannuation Services Limited (KISSL) in compliance with the Superannuation Act 2000. The current engagement of KISSL is for a term of three (3) years which will expire on 30th June 2015. At least three (3) months prior to the expiry of the contract, the Board will invite tenders to determine a successor. The contract was renewed on the 31st July 2013, after the six months extension lapsed on the 30th June 2013.

## Investment Management

The Investment Management function is outsourced to Kina Funds Management Limited (KFML) in compliance with the Superannuation Act 2000. The current engagement of KFML is for a term of three (3) years which will expire on 30th June 2015. At least three (3) months prior to the expiry of the contract, the Board will invite tenders to determine a successor. The contract was renewed on the 31st July 2013, after the six months extension lapsed on the 30th June 2013.

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

## Employee Remuneration

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

## Regulatory Supervision by Bank of Papua New Guinea

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

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

## Independent Auditor

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

Auditor	2009	2010	2011	2012	2013	2014
Deloitte Touche Tohmatsu	150,500	126,000	134,000	138,600	125,000	125,000
Partner In-charge	Z.Thearon	Z.Thearon	P.Barber	P.Barber	Z.Thearon	Z.Thearon

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

## Management Expense Ratio

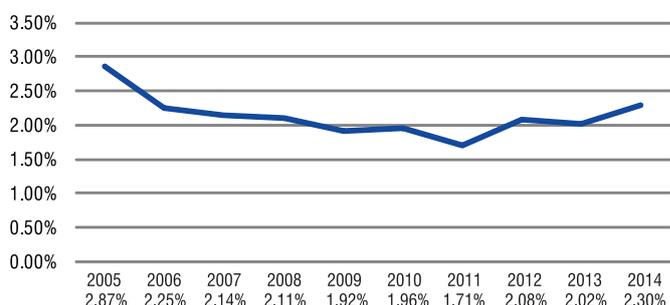
Management expense ratio (MER) is an underlying key financial performance indicator used to measure the performance of the Fund relative to industry standards and also to assist identifying adverse deviation and take corrective action. The MER is determined by taking the sum of all expenses of the Fund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

Increase in MER for 2014 resulted from costs incurred for the Fund to be fully compliant to Prudential Standard 7/2012.

These include payment for internal audit fees and consultancy service fees.

## Staff Employment Policy

### Management Expense Ratio



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 29 staff employed by the company during the year (2013: 27).

# Corporate Governance

## Investment transactions (excluding cash and treasury notes)

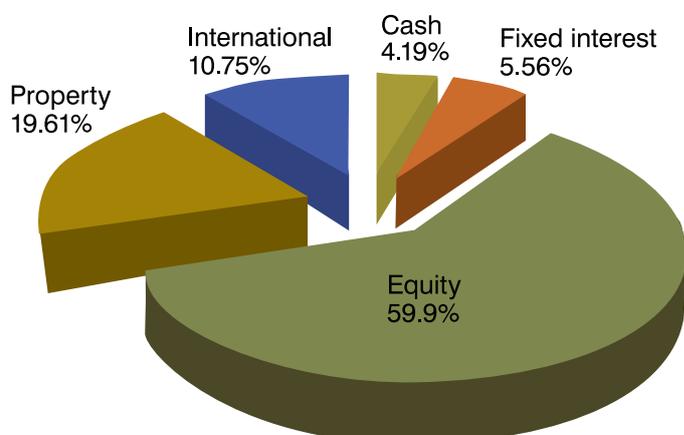
Name of Entity	Transaction Type	Classification	Settlement Date	Number of Shares	Amount (Kina)
Credit Corporation Limited	Share Sale	Equity	11/03/14	(900,000)	(2,334,150)
City Pharmacy Limited	Share Purchase	Equity	11/08/14	2,424,242	4,007,999
Commonwealth Bank of Australia	Share Sale	Equity	02/04/14	(10,000)	(1,956,691)
BHP Limited	Share Sale	Equity	04/04/14	(14,000)	(1,285,972)
CSL Limited	Share Sale	Equity	02/04/14	(14,000)	(1,066,134)
Telstra Limited	Share Sale	Equity	11/04/14	(100,000)	(1,304,037)
Bank of Queensland Limited	Share Sale	Equity	11/04/14	(20,000)	(658,321)
Oil Search Limited	Share Sale	Equity	Various	(193,000)	(4,255,278)
Bank of Queensland	Share Purchase	Equity	09/05/14	12,123	343,314
Oil Search Limited	Share Sale	Equity	Various	313,121	5,779,320
Highlands Pacific Limited	Share Sale	Equity	Various	(2,804,737)	(301,407)
Marengo Mining Limited	Share Sale	Equity	Various	(2,700,000)	(80,445)
Kina Asset Management Limited	Share Sale	Equity	27/08/14	(1,153,973)	(1,243,175)
Section 35, Lot 41 Hohola	Capital Expenses	Property	Various	NA	27,268,000
Toea Homes Limited	Capital Expense	Property	Various	NA	567,416

## Investment Performance Highlights

The composition of the investment portfolio and asset allocation as at 31st December 2014 relative to the prior year is summarised as follows:

Asset Classification	Portfolio Value (Kina)		Percentage Holdings		Neutral Allocation %	Sector Range %
	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13	31-Dec-14	31-Dec-13
Cash	10,645,639	17,987,794	2.44%	4.19%	5%	0-10%
Fixed interest	44,133,078	23,843,141	10.12%	5.56%	15%	10-30%
Equity	254,418,473	256,984,112	58.34%	59.90%	50%	40-60%
Property	93,249,600	84,121,837	21.38%	19.61%	10%	5-20%
International	33,667,255	46,112,884	7.72%	10.75%	20%	10-30%
TOTAL	436,114,044	429,049,768	100.00%	100.00%	100%	100%

The total gross value of investment portfolio of the Fund as at 31st December 2014 stands at K429,049,768.



## Domestic Equity Portfolio

Company Name	Total Market Value	
	2014 K	2013 K
<b>Listed</b>		
Bank South Pacific	103,216,211	115,361,178
City Pharmacy	3,710,766	299,251
Oil Search	20,301,160	19,677,206
Kina Asset Management Ltd	6,226,027	8,118,000
Credit Corporation	5,414,066	7,455,832
New Britain Palm Oil	10,268,648	5,924,220
Highlands Pacific		385,119
Marengo Mining Ltd	701,675	91,165
Sub - total	149,838,553	157,311,971
<b>Unlisted</b>		
BPT(PNG) Ltd	4,836,803	4,475,671
Westpac Bank Ltd (WPC)	577,400	580,200
Arnott's Biscuit	27,742,500	33,772,500
Post Courier	963,721	641,002
South Pacific Brewery	39,043,425	30,175,071
Hunter	31,416,070	30,029,580
Sub - total	104,579,920	99,674,024
<b>TOTAL</b>	<b>254,418,473</b>	<b>256,985,995</b>

## Cash Portfolio

Bank Name	31-Dec-14	31-Dec-13
	K	K
<b>Cash on hand</b>		
Petty Cash	700	700
<b>Sub-total</b>	<b>700</b>	<b>700</b>
<b>Interest Bearing Deposits (&lt;90 days)</b>		
ANZ Investment Account	10,310	10,500
Westpac Bank	51	3,711,144
Credit Corp PNG Ltd	2,866,653	4,562,706
Kina Finance Limited	4,103,368	4,155,699
First Investment Finance Limited	3,000,000	1,797,400
BSP - Main Account	97,839	165,955
BSP - Benefi Account	244,764	183,073
BSP - Management Account	59,937	203,322
BSP - Housing Account	262,017	404,105
<b>Sub-total</b>	<b>10,644,939</b>	<b>15,193,904</b>
<b>On call</b>		
Bank of Queensland		
Credit Suisse		
<b>Sub - total</b>	<b>0</b>	<b>0</b>
<b>TOTAL CASH</b>	<b>10,644,939</b>	<b>15,194,604</b>

# Corporate Governance

## Fixed Interest Portfolio

Description	Serial No	Maturity Date	Coupon Rate	Face Value	
				31/12/2014	31/12/2013
Government Inscribed Stock	S15112016 (G26)	11/15/2016	9%	4,078,553	4,120,410
	S15112021 (G27)	11/15/2021	12%	3,212,287	3,243,145
	S15112021 (G25)	11/15/2021	12%	1,004,472	1,005,122
	S15112016 (G28)	11/15/2016	9%	1,002,707	1,004,149
	S15112023 (G37)	11/15/2023	12%	2,139,220	2,154,898
	S15112023 (G38)	11/15/2023	12%	1,046,804	1,052,075
	S15112018(G39)	11/15/2018	9%	334,691	335,127
	S15022017 (G41)	11/15/2017	9%	2,069,901	2,102,738
	S15052029(G42)	5/11/2019	11%	1,546,634	1,557,299
	S15052029(G43)	5/11/2029	11%	1,042,855	1,045,835
	S15052024(G44)	8/15/2024	9.50%	2,112,493	
	S15052020(G45)	5/15/2020	8.00%	993,504	
	S15052020(G46)	5/15/2020	12.00%	1,003,575	
	S15052031(G47)	5/15/2031	12.00%	977,103	
	S15052031(G48)	5/15/2031	12.00%	953,300	
	S15052027(G49)	5/15/2027	10.50%	921,427	
	S15012017(G50)	1/15/2017	6.00%	996,574	
	S15082024(G51)	8/15/2024	9.50%	899,094	
	S15052027(G52)	5/15/2027	10.50%	960,846	
	S15052020(G53)	5/15/2020	8.00%	922,116	
	S15052020(G54)	5/15/2020	8.00%	885,687	
	S15052020(G55)	5/15/2020	8.00%	1,746,311	
	S15052020(G56)	8/15/2024	9.50%	1,693,297	
	S15052027(G58)	5/15/2024	10.50%	1,582,548	
	S15052031(G57)	5/15/2031	12.00%	1,719,459	
	S15052031(G59)	5/15/2031	12.00%	1,619,722	
	S15052031(G60)	5/15/2031	12.00%	1,684,598	
	S15052027(G61)	5/15/2027	10.50%	837,136	
	S15052027(G62)	5/15/2027	10.50%	827,453	
Sub - total - GIS				40,814,367	17,620,798
Treasury Bills - Bank of PNG				1,887,720	972,360
Central Bills - Bank of PNG				0	3,957,894
Members Housing Advance				1,430,991	1,292,089
Sub - total				3,318,711	6,222,343
Total Fixed Interest				44,133,078	23,843,141

## Property Portfolio

Property Name	Description	Market Value	
		31-Dec-14	31-Dec-13
		K	K
1. Defense Haus, Hunter Ltd	Section 03, Lot 18-20, Hunter St., Port Moresby, NCD	8,667,400	8,491,000
2. Latitude 9 Apartments	Section 42, Lot 01, Ogoa St., Granville, NCD	23,505,000	23,296,000
3. Lawes Road Apartments (50%)	Section 07, Lot 24, Lawes Rd., Granville, NCD	4,861,200	6,076,500
4. Stop & Shop Building	Section 14, Lot 11 & 12, Angau Dr., Boroko, NCD	7,698,000	7,772,276
5. ElaMakana	Section 34, Lot 34, ElaMakana, Granville, NCD	7,239,000	7,313,500
6. Comrade Haus	Section 35, Lot 41, Hohola, Port Moresby, NCD	27,268,000	17,239,561
7. ElaMakana 2 Apartment	Section 34, Lot 30, ElaMakana, Granville, NCD	14,011,000	13,933,000
Sub- Total		93,249,600	84,121,837
<b>International</b>			
1. Canberra house, ACT, Australia	36 Gadali Crescent, Ngunnawal, ACT, 2913, Aust	-	-
Sub-total		-	-
<b>Total Property</b>		93,249,600	84,121,837

## International Portfolio

Asset Classification	Market Value	
	2014 K	2013 K
<b>Equity</b>		
Listed		
Bank of Queensland	3,065,745	3,284,637
BHP Billiton Ltd	1,829,317	3,677,141
Telstra 3 <T3>	2,564,433	3,545,301
ANZ Banking	2,067,655	2,176,477
Commonwealth Bank of Australia	2,098,020	3,748,585
Newcast Mining Ltd	701,675	526,730
Vanguard International Shares Index Fund	16,858,198	15,131,794
CSL Limited	0	931,367
<b>Sub - total</b>	<b>29,185,043</b>	<b>33,022,032</b>
<b>Cash</b>		
Bank of Queensland	3,876,131	8,193,910
Credit Suisse	606,081	4,896,942
<b>Sub - total</b>	<b>4,482,212</b>	<b>13,090,852</b>
<b>TOTAL</b>	<b>33,667,255</b>	<b>46,112,884</b>

## Valuation methodology

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

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



# Highlights of 2014

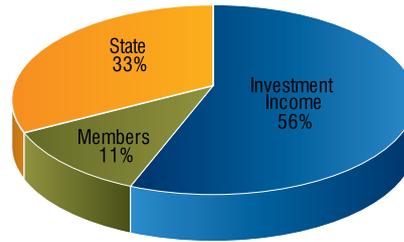


## Summary of Key Results

Summary of Key Results	2014	2013
	K	K
Net surplus (after tax)	5,882,674	39,783,219
Total Fund net assets	447,773,678	440,504,514
Total benefits paid	20,102,153	9,113,404
Interest crediting rate	1.65%	10%
CPI indexation rate	5%	5%
Management Expense Ratio	2.30%	2.02%

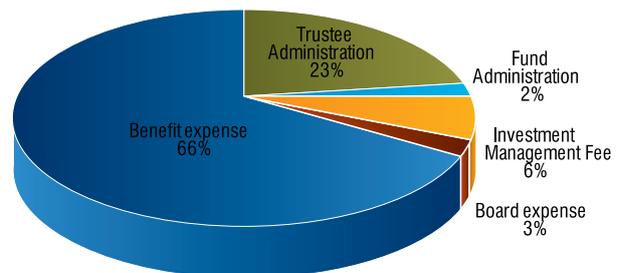
## Income Summary

Income Summary	K
Investment Income	20,316,811
Contribution	
- Members	4,067,073
- State	11,977,129
Other Income	
<b>Total</b>	<b>36,361,013</b>



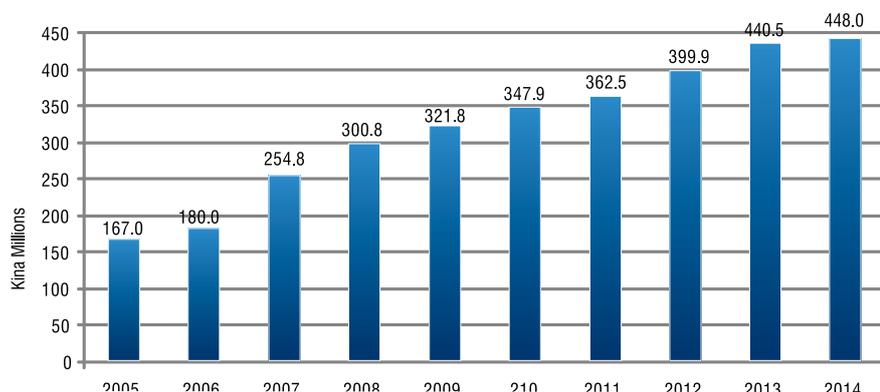
## Expenditure Summary

Expenditure	K
Trustee Administration	7,010,052
Fund Administration	567,456
Investment Management Fee	1,905,514
Board expense	781,343
Benefit expense	20,102,153
<b>Total Expenditures</b>	<b>30,366,518</b>



# Fund Highlights at a Glance

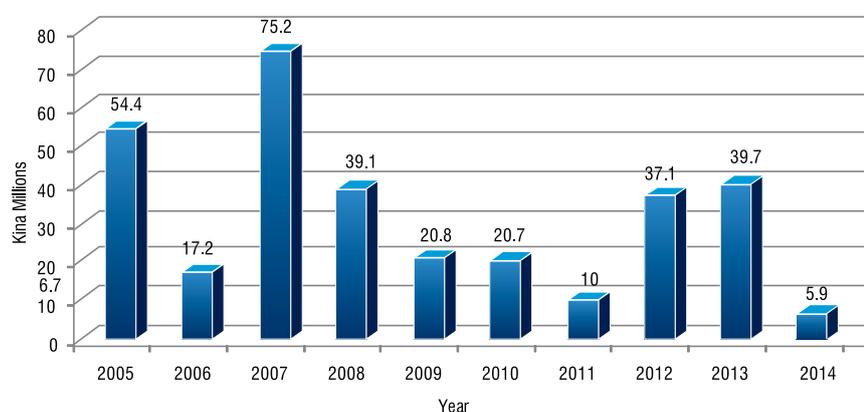
## Net Asset Value of Fund



Note: Net assets for 2008 restated.

The above bar graph shows that the fund has grown steadily from K167.0 million in 2005 to K447.8 million as at 31st December 2014. Despite the adverse consequences of the financial crisis which have already had a detrimental impact on Fund operations to date, your trustee will endeavour to ensure the sound custody, investment and preservation of the funds entrusted to its care with the aim of assuring members financial security at retirement.

## Net Surplus (After Tax)



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

## Comparative Statistical Summary

		2008	2009	2010	2011	2012	2013	2014
<b>NET FUND ASSETS</b>								
Net assets	K(m)	300.0	321.8	347.9	362.5	399.9	440.5	447.8
Net asset growth	%	17.01	6.93	6.47	4.00	10.31	10.00	1.65
Reserve <sup>4</sup>	K(m)	9.821	0.387	5.580	4.519	0.283	0.765	1.386
<b>NET SURPLUS</b>								
Net surplus after tax	K(m)	39.1	20.8	20.7	10.0	37.1	39.7	5.9
<b>EXPENSES</b>								
Benefits	K(m)	10.5	7.4	7.7	9.2	10.6	9.1	20.1
Trustee administration	K(m)	4.0	4.1	4.5	4.0	5.5	6.3	7.7
Fund administration	K(m)	0.371	0.450	0.330	0.291	0.434	0.518	0.567
Investment management	K(m)	1.400	1.400	1.600	1.400	2.000	1.776	1.905
Management expense ratio	%	2.11	1.92	1.96	1.71	2.08	2.02	2.30
<b>INCOME</b>								
Investment income	K(m)	45.2	26.6	28.6	20.1	47.5	52.1	20.3
Contributions								
State share	K(m)	6.7	4.4	4.5	5.1	5.9	4.8	11.9
Members	K(m)	1.9	1.9	2.9	2.7	3.2	3.4	4.0

# Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

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# Trustee Statement

FOR THE YEAR ENDED 31ST DECEMBER 2014

In the opinion of the Trustee for the Defence Force Retirement Benefits Fund ("the Fund") the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flows and Notes to the financial statements for the year ended 31 December 2014 has been properly drawn up and show the true state of affairs of the Fund as at the date. We are of the opinion that:

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

Dated at Port Moresby this 24th day of March 2015.

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



**Chris Alu**

Chairman of the Board of Trustee



**Michael Varapik**

Director

# Management Statement

FOR THE YEAR ENDED 31ST DECEMBER 2014

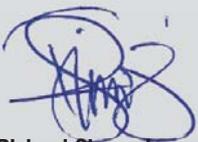
In our opinion the accompanying Statement of Changes in Net Assets, Statement of Net Assets, Statement of Cash Flow and Notes to the financial statements for the year ended 31 December 2014 has been properly drawn up and show the true state of affairs of the Fund as at the date.

We are of the opinion that:

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

Dated at Port Moresby this 24th day of March 2015.

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



**Richard Sinamoi**

Chief Executive Officer



**Danny Herepe**

Executive Manager Finance and Administration

# Directors' Report

FOR THE YEAR ENDED 31ST DECEMBER 2014

The directors of Comrade Trustee Services Limited submit herewith the annual financial report of the Fund for the financial year ended 31 December 2014. In order to comply with the provisions of the Companies Act 1997 and Superannuation (General Provisions) Act 2000, the directors report as follows:

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

Name	Executive/non-executive director
Mr Chris Alu	Non-Executive – Chairman (retired 31 December 2014)
Colonel David Takendu, OBE (Rtd)	Non-Executive – Director (retired 31 December 2014)
Captain Alois Ur Tom, OBE DMS (Navy)	Non-Executive – Director (retired 30 November 2014)
Mr Kisakiu Posman	Non-Executive – Director (retired 30 July 2014)
Captain Max Aleale, OBE, DMS (Navy)	Non-Executive – Director (retired 30 October 2014)
Mr Michael Varapik	Non-Executive – Director
Mr Moses Koiri	Non-Executive – Director
Mr John Auna	Non-Executive – Director (appointed 1 July 2014)
Mr Taunao Vai	Non-Executive – Director (appointed 31 July 2014)
Colonel Raymon Numa	Non-Executive – Director (appointed 31 October 2014)
Colonel Mark Goina DMS, OBE	Non-Executive – Director (appointed 1 December 2014)

## Trustee Secretary

The company secretary is Mr Richard Sinamoi.

## Review of operations

The Fund reported a net surplus of K5,882,675(2013: K39,783,218) after income tax benefit of K9,774 (2013:K1,030,964).

## Changes in state of affairs

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

## Change in accounting policies

No changes in accounting policies occurred during the current year.

## Entries in the interest register

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

## Directors' remuneration

Remuneration paid to directors has been disclosed in note 24.3 to the financial statements.

## Remuneration above K200,000 per annum

The number of employees or former employees, not being directors of the Trustee company, whose total remuneration and the value of other benefits received, exceeded K200,000, falls within each relevant K200,000 band are disclosed in note 24.2.

## Donations

No donations were made during the current year, (2013 : NIL).

## Independent audit report

The financial statements have been audited by Deloitte Touche Tohmatsu and should be read in conjunction with the independent audit report on pages 4 and 5. Fees paid for audit services are disclosed in note 11.2 to the financial statements.

## Subsequent events

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

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Chris Alu

Chairman of the Board of Trustees



Michael Varapik

Director

Dated at Port Moresby 24th March 2015

# INDEPENDENT AUDIT REPORT

FOR THE YEAR ENDED 31ST DECEMBER 2014



Deloitte Touche Tohmatsu

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

Tel: +675 308 7000

Fax: +675 308 7001

[www.deloitte.com/pg](http://www.deloitte.com/pg)

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

We have audited the accompanying financial statements of the Defence Force Retirement Benefit Fund, which comprise the statement of changes in net assets as at 31 December 2014, and the statement of net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Financial Report

The directors of the Trustee are responsible for the preparation and true and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the Companies Act 1997, and the Superannuation (General Provisions) Act 2000 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the fund's preparation of the financial report that gives a true and fair view, 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Defence Force Retirement Benefit Fund as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Report on Other Legal and Regulatory Requirements

The financial report of the Defence Force Retirement Benefit Fund is in accordance with the Companies Act 1997 and proper accounting records have been kept by the Fund. The fund is in compliance with the Superannuation (General Provisions) Act 2000.

During the year ended 31 December 2014 we provided accounting advice to the Defence Force Retirement Benefit Fund, in relation to Toea Homes.

DELOITTE TOUCHE TOHMATSU

Suzaan Theron

Registered under the Accountants Act 1996

Partner

Port Moresby, 26th day of March, 2014

# Statement of Changes in Net Assets

FOR THE YEAR ENDED 31ST DECEMBER 2014

		2014	2013
	Note	K	K
<b>Revenue</b>			
<b>Investment Revenue</b>			
Interest income	7	4,762,015	2,694,051
Dividends		19,527,771	22,875,142
Property income	8	2,806,884	2,695,889
Change in fair value of investment properties	17	(2,545,758)	4,011,594
Change in fair value of financial assets		(5,615,076)	19,139,334
Gain on sale on financial assets		1,380,974	742,434
<b>Net Investment Revenue</b>		<b>20,316,811</b>	<b>52,158,443</b>
<b>Contribution Revenue</b>			
Contributions received from members		4,067,073	3,490,477
State share of contribution	10	11,977,129	4,875,085
<b>Total Contribution Revenue</b>		<b>16,044,202</b>	<b>8,365,562</b>
Other Revenue (expense)	9	(121,595)	(4,009,488)
<b>Total Revenue</b>		<b>36,239,418</b>	<b>56,514,517</b>
<b>Less: Expenses and benefits paid</b>			
Benefits paid	10	20,102,153	9,113,404
Trustee administration expenses	11	7,791,395	6,354,531
Fund investment and administration expenses	12	2,472,970	2,294,327
<b>Total expenses and benefits paid</b>		<b>30,366,518</b>	<b>17,762,262</b>
<b>Change in net assets before income tax</b>		<b>5,872,900</b>	<b>38,752,255</b>
Income tax expense/(benefit)	13	(9,774)	(1,030,964)
<b>Change in net assets after income tax</b>		<b>5,882,674</b>	<b>39,783,219</b>
Changes in revaluation reserve	16.2	1,386,490	765,590
Net assets available to pay benefits at beginning of the year		440,504,514	399,955,705
<b>Net assets available to pay benefits at end of the year</b>	<b>22</b>	<b>447,773,678</b>	<b>440,504,514</b>

See accompanying notes to the financial statements

# Statement of Net Assets

FOR THE YEAR ENDED 31ST DECEMBER 2014

		2014	2013
	Note	K	K
<b>Assets</b>			
Cash and cash equivalents	14	17,015,123	33,284,423
Loans to members and others	15	4,871,604	1,239,421
Current income tax receivable/(payable)		2,269,062	1,666,683
Deferred income tax assets	13.3	2,107,985	2,351,222
Financial assets:			
Fair value through profit and loss	16.1	251,485,771	259,978,448
Available for sale	16.2	31,416,070	30,029,580
Held to maturity	16.3	40,814,367	17,620,798
Investment properties	17	93,249,601	83,743,023
Property and equipment	18	456,681	413,601
Other assets	19	9,347,861	15,449,858
		453,034,124	445,777,057
<b>Liabilities</b>			
Employee provisions	20	1,540,119	1,350,131
Deferred income tax liabilities	13.3	1,356,167	1,609,178
Other liabilities	21	2,364,160	2,313,234
		5,260,446	5,272,543
<b>Net assets available to pay benefits</b>	22	447,773,678	440,504,514

See accompanying notes to the financial statements

# Statement of Cash Flows

FOR THE YEAR ENDED 31ST DECEMBER 2014

	2014	2013
Note	K	K
<b>Cash flows from operating activities</b>		
Interest received	3,928,633	2,693,460
Dividend received	16,027,771	22,875,142
Property income received	4,215,673	986,625
Contributions received from the members	4,067,073	3,490,477
Benefits paid -including state share	(20,102,153)	(9,113,404)
Cash receipt of state share (benefits)	4,761,707	7,592,657
Cash payment to employees & suppliers	(9,373,674)	(8,080,477)
Income taxes paid	(602,379)	(365,272)
<b>Cash flows from operating profits before changes in operating assets &amp; liabilities</b>	<b>2,922,652</b>	<b>20,079,208</b>
Changes in operating assets & liabilities:		
Net increase in loans to members and others	(3,632,183)	55,822
Net decrease (increase) in other assets	4,511,723	(8,379,694)
Net increase in other liabilities	(50,929)	185,916
<b>Net Cash provided by operating activities</b>	<b>3,751,263</b>	<b>11,941,252</b>
<b>Cash flows from investing activities</b>		
Proceeds from maturity of treasury bills	(10,609,457)	(4,930,254)
Purchase of property & equipment	(236,374)	(101,711)
Purchase of investment properties	(12,052,336)	(18,206,264)
Purchase of listed shares	(10,252,312)	(8,818,599)
Proceeds from sale of listed shares	13,129,916	6,599,990
<b>Net Cash used in investing activities</b>	<b>(20,020,563)</b>	<b>(25,456,838)</b>
Net increase(decrease) in cash & cash equivalents	(16,269,300)	(13,515,588)
Cash and cash equivalents at beginning of year	33,284,423	46,800,011
<b>Cash and cash equivalents at end of year</b>	<b>14 17,015,123</b>	<b>33,284,423</b>

See accompanying notes to the financial statements

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 1. Significant accounting policies

### 1.1 Statement of compliance

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

### 1.2 Basis of preparation

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

The principal accounting policies are set out below.

### 1.3 Revenue recognition

Income is recognised on an accrual basis except for interest income from Member Housing Assistant ("MHA"), which are brought to account when received. There won't be any exception as of the 2015 financial year as the Board has resolved not to charge interest on Members Housing advances.

#### Investment Revenue

#### 1.3.1 Interest revenue

Interest income is recognised when it is probable that the economic benefits will flow to the Fund and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### 1.3.2 Dividend revenue

Dividend revenue from investments is 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 measured reliably).

#### 1.3.3 Property rental income

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

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

Changes in fair market value of investments are recognised as income and are determined between the difference between the fair market value at year end or consideration received (if sold during the year) and the fair market value as at the prior year end or cost (if the investment was acquired during the period).

#### Contribution Revenue

#### 1.3.5 Member contributions

Contributions received from members are recognised upon receipt.

#### 1.3.6 State share of contribution

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

## 1.4 Taxes

### 1.4.1 Current income tax

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

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

### 1.4.2 Deferred tax

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

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

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

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

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

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

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

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 1. Significant accounting policies (continued)

### 1.4 Taxes (continued)

#### 1.4.2 Deferred tax (continued)

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

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

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

### 1.5 Property, plant and equipment

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

Furniture and fittings	15%
Motor vehicle	30%
Office equipment	20%
Renovation	10%
Software	33%

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

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

### 1.6 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. Land and buildings, classified as investment property, are valued at 31 December 2013. The valuations were performed by the following registered valuers;

Registered Valuer	Properties
The Professional Valuer of PNG Ltd	Hunter Ltd, Stop & Shop, Latitude 9, Ela Makana 1 & 2 and Comrade Haus
Savills (Australia)	Lawes Road

The valuation reports indicate that several methods have been considered for the valuation process and includes: capitalisation method, summation method and discounted cash flow method.

### 1.7 Financial assets

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

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

- Listed shares are valued at 31 December 2014 at last sale price on that date (applying the bid rate). Foreign currency Off-shore investments are converted using the ANZ Bank exchange rate. The rate used as at valuation date was AUD0.4656.
- Unlisted shares are independently valued as at 31 December 2014 as adopted by the Board. This valuation was performed by Niugini Capital Limited as an independent professional valuer. The methodology used in the analysis was a combination of future maintainable earnings, dividend yields and discounted cash flows of assets, as appropriate.
- The net movement on revaluation is reflected in the statement of changes in net assets.

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

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

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

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

#### 1.7.1 Impairment of financial assets

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

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

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

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

## 1.8 Loans and impairment losses

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

Loans originated by the Fund by providing money directly to the borrower are recognised as loans originated by the Fund and are carried at cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by references to market prices at origination date. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

## 1.9 Cash and cash equivalents

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

## 1.10 Foreign currency

### 1.10.1 Functional presentation currency

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

### 1.10.2 Transactions and balances

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

## 1.11 Changes in accounting policies and comparatives

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

## 1.12 Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled wholly within 12 months are measured as the present value of the estimated future cash outflows to be made by the Fund in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

## 1.13 Provisions

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## 1.14 Goods and services tax

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

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

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

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

## 1.15 Payables

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

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

### 2.1 Amendments to IFRSs and the new Interpretation that is mandatorily effective for the current year

In the current year, the Fund has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting period that begins on or after 1 January 2014.

#### Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The Fund has applied the amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purposes of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

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

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Fund is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Fund's financial statements.

### Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The Fund has applied the amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IAS 32 clarify the meaning of 'currently has a legally enforceable right of set-off' and simultaneous realisation and settlement'.

The amendments have been applied retrospectively. The Fund does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Fund's financial statements. The Fund has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has had no impact on the amounts recognised in the Fund's financial statements.

### Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The Fund has applied the amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets for the first time in the current year. The amendments to IAS 36 remove the requirement to disclose the recoverable amounts of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments has had no material impact on the disclosures in the Fund's financial statements.

### Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The Fund has applied the amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Fund does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the Fund's financial statements.

### IFRIC 21 Levies

The Fund has applied IFRIC 21 Levies for the first time in the current year. IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation.

The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

IFRIC 21 has been applied retrospectively. The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the Fund's financial statements.

## 2.2 New and revised IFRSs in issue but not yet effective

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

- **IFRS 9** Financial Instruments – effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
- **IFRS 15** Revenue from Contracts with Customers - effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
- **Amendments to IFRS 11** Accounting for Acquisitions of Interest in Joint Operations - effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- **Amendments to IAS 16 and IAS 38** Clarification of Acceptable Methods of Depreciation and Amortisation - effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- **Amendments to IAS 16 and IAS 41** Agriculture: Bearer Plants - effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
- **Amendments to AIS 19** Defined Benefits Plans: Employee Contributions - effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.
- **Amendments to IFRSs** Annual Improvements to IFRSs 2010-2012 Cycle - effective for annual periods beginning on or after 1 January 2015, with limited exceptions. Earlier application permitted.
- **Amendments to IFRSs** Annual Improvements to IFRSs 2011-2013 Cycle - effective for annual periods beginning on or after 1 January 2015, earlier application permitted.

## 3. Description of the Fund

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

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

The Fund is operated for the purpose of providing to members of the Defence Force on retirement and to their families in the event of death and for related purposes. The objective of the Trustee is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable.

Total membership for the Fund as at 31 December 2014 was:

Pensioners	1,841
Current members	2,942
	4,783

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 3. Description of the Fund

Both fund administration and investment management functions are delegated to and performed by Kina Investment & Superannuation Services Limited (KISS) and Kina Funds Management Limited (KFM) in compliance with the Superannuation Act 2000. The engagement of KISS and KFM is for a term of three years. The contract was renewed on 31st July 2012 for a further term, after the six (6) months extension lapsed on the 30th June 2012.

The principal place of business of the Fund is:

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

## 4. Funding arrangements

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

## 5. Liability for accrued benefits

The liability for accrued benefits for Defined Benefit Division Members has been determined on the basis of the present value of the expected future payments that arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to the expected future salary levels and by application of the market-based, risk-adjusted discount rate and relevant actuarial assumptions.

The actuary undertook the valuation of accrued benefits for Defined Benefit as part of an actuarial review as at 31 December 2012. The actuarial investigation uses an aggregate costing method, whereby the discounted values of future benefits are compared with the net fund of the assets plus the discounted value of contributions paid by the existing members only and no assumptions are made regarding new entrants.

Detailed discussion of the review is provided in the actuarial report dated 9 December 2013.

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

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

Accrued benefits were valued as part of a comprehensive review undertaken as at 31 December 2012 as follows:

	2012	2010
Note	K	K
Liability for accrued benefits	103,782,000	61,595,000
Net value of assets	335,019,000	289,721,000

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

	2014	2013
Note	K	K
Liability for vested benefits	96,047,000	61,595,000
Net value of assets	335,019,000	289,721,000

Although the actuarial report is prepared as at 31 December 2012, 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 2016 for the three years ending on 31st December 2015.

## 6. Critical accounting estimates and judgements

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

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

### Valuation of investment property

The Fund has adopted the fair value approach in determining the carrying value of its investment properties. While the Fund has opted to rely on independent appraisers' advice to determine the fair value of its investment properties, such fair value was determined based on recent prices of similar properties, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices. The amounts and timing of recorded changes in fair value for any period would differ if the Fund made different judgments and estimates or utilised different basis for determining fair value.

### Valuation of financial assets and liabilities

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 7. Interest income

Interest income from:

	2014	2013
Note	K	K
Cash and short term funds	718,162	950,894
Treasury and Central bills	196,346	200,217
Held-to-maturity financial asset	3,847,507	1,542,939
	<b>4,762,015</b>	<b>2,694,051</b>

## 8. Property income

Rent	4,133,128	3,287,662
Less: - Agent management expense	(124,723)	(213,643)
- Other property expenses	(1,201,521)	(378,130)
	<b>2,806,884</b>	<b>2,695,889</b>

## 9. Other investment income (expenses)

Gain/(loss) from foreign exchange	(417,845)	(4,065,281)
Doubtful debts	-	-
Others	296,250	55,793
	<b>(121,595)</b>	<b>(4,009,488)</b>

## 10. Benefits

Pension and back pension	18,594,849	8,651,526
Refunds	588,148	197,449
Gratuities	9,700	5,860
Lump sum	909,456	258,570
	<b>20,102,153</b>	<b>9,113,404</b>
Less : State share	(11,977,129)	(4,875,085)
Net benefit paid	<b>8,125,024</b>	<b>4,238,320</b>

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

## 11. Trustee administration expenses

Staff expenses	11.1	2,645,335	2,269,918
Other administrative expenses	11.2	2,320,765	1,926,992
Depreciation		166,828	172,439
Software cost		-	4,134
Operating lease		450,364	459,822
GST expense		1,527,992	1,088,752
Other		161,424	432,475
Impairment losses		518,687	-
		<b>7,791,395</b>	<b>6,354,531</b>

### 11.1 Staff expenses

Salaries and wages	1,574,900	1,295,026	
Sacrifice - Accommodation	658,723	627,102	
Sacrifice - Airfare	30,371	38,421	
Sacrifice - School fee	80,138	55,350	
Sacrifice - Vehicle	147,960	143,630	
Training	5,450	52,669	
Insurance - medical	69,034	57,477	
Other	78,760	243	
	11	<b>2,645,335</b>	<b>2,269,918</b>

As at 31 December 2014 the Fund had 29 (2013: 27) employees.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 11. Trustee administration expenses (continued)

### 11.2 Other administrative expenses

		2014	2013
	Note	K	K
Advertising		108,779	189,805
Board of Trustee expenses		781,343	401,324
Internet service provider		24,764	20,339
License fee		156,293	222,050
Printing and stationery		59,071	23,072
Professional fees:			
Audit services– external& internal		301,769	125,000
Tax		25,900	10,600
Medical		-	190
Other		147,140	158,917
Consulting		295,420	315,300
Legal		5,977	18,653
Telephone		60,646	72,166
Insurance		32,461	73,429
Sundry expenses		321,202	296,147
	11	2,320,765	1,926,992

## 12. Fund investment and administration expenses

Fund administration fee		567,456	518,320
Investment management fee		1,905,514	1,776,006
Benefits payment fee		-	-
		2,472,970	2,294,327

## 13. Income taxes

### 13.1 Income tax recognised in profit or loss

Tax expense comprises:			
Current tax expense in respect of the current year		4,280,987	4,927,859
Deferred tax expense relating to the origination and reversal of temporary differences		(4,394,338)	(3,470,044)
Over/(under) provision in prior year		103,577	(2,488,779)
		(9,774)	(1,030,963)

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

Profit from continuing operations		7,273,570	39,696,245
Income tax expense calculated at 25%		1,818,393	9,924,061
Tax effect of permanent differences		2,462,594	(4,996,202)
Dividends rebate		(4,394,338)	(3,470,044)
(Over)/under provision in prior year		103,577	(2,488,779)
		(9,774)	(1,030,964)

### 13.3 Deferred tax balances

(a) Deferred tax assets	Opening balance	Recognised in Surplus	Closing balance
	K	K	K
<b>2014</b>			
Temporary difference			
Accruals and allowances	309,427	(100,614)	208,813
Other assets	-	-	-
Employee benefits	332,810	52,220	385,030
Depreciation (differences between tax and accounting value)	1,708,985	(194,843)	1,514,142
	2,351,222	(243,237)	2,107,985
<b>2013</b>			
Temporary difference			
Accruals and allowances	331,275	(21,848)	309,427
Employee benefits	316,327	16,483	332,810
Depreciation (differences between tax and accounting value)	1,965,224	(256,239)	1,708,985
	2,612,826	(261,604)	2,351,222

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 13. Income taxes (continued)

### 13.3 Deferred tax balances

#### (b) Deferred tax liabilities

	Opening balance	Recognised in Surplus	Closing balance
	K	K	K
<b>2014</b>			
Interest receivable	346,695	(61,122)	285,573
Prepaid insurance	20,391	(20,391)	-
Other assets	1,242,092	(171,498)	1,070,594
	1,609,178	(253,011)	1,356,167
<b>2013</b>			
Rent receivable	-	-	-
Interest receivable	337,869	8,826	346,695
Prepaid insurance	4,175	16,216	20,391
Depreciation (differences between tax and accounting value)	-	-	-
Other assets	70,921	1,171,171	1,242,092
	412,965	1,196,213	1,609,178

## 14. Cash and cash equivalents

	Note	2014 K	2013 K
Cash on hand		700	700
Cash in banks		674,419	962,972
Term deposits – less than 90 days		16,340,004	28,290,161
		17,015,123	29,253,833
Placement with other banks – more than 90 days		-	4,030,590
		17,015,123	33,284,423

## 15. Loans to members and others

### Members

Tertiary education scheme	1,917	1,917
Housing advance	1,430,991	1,292,089
	1,432,908	1,294,006
State share benefits	3,438,696	(54,585)
	4,871,604	1,239,421

Interest free housing loans/advances to members of the Fund. The aggregate amount of non-performing loans on which interest was not being accrued amounted to nil (2013: nil) as at 31 December 2014.

## 16. Financial assets

### 16.1 Financial assets at FVTPL

Listed shares	25	178,321,921	190,334,004
Unlisted shares	25	73,163,850	69,644,444
		251,485,771	259,978,448

### 16.2 Available-for-sale financial assets

Balance at beginning of year		30,029,580	29,263,990
Change in fair value of AFS financial asset		1,386,490	765,590
Balance at end of year		31,416,070	30,029,580

### 16.3 Held-to-maturity financial assets

Government securities		40,814,367	17,620,798
		40,814,367	17,620,798

Government securities are investment in government inscribed stock carried at amortised cost. These deposits are held to their maturity which varies between 2016 and 2031. Details of the government inscribed stock are set out in Note 27.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 17. Investment properties

	2014	2013
Note	K	K
Balance at beginning of financial year	83,743,023	60,816,622
Purchase of investment property	274,414	10,516,792
Work In Progress – now complete buildings	11,777,922	8,398,015
Net gain/(loss) from fair value adjustments	(2,545,758)	4,011,594
<b>Balance at end of financial year</b>	<b>93,249,601</b>	<b>83,743,023</b>

The fair value of the Fund's investment property at 31 December 2014 has been arrived at on the basis of a valuation carried out at that date by The Professional Valuers of PNG Limited, independent registered valuer that is not related to the Trustee.

In the prior year, although there was uncertainty in the recognition and recording of the Fund's 50% share of the Lawes Road Apartments as there was dispute over the title, the asset was recorded in the Fund's financial statements, at K4,861,200(2013 : K6,076,500). Due to the uncertainty, no share of net income had been recognised by the Fund since 2003 due to the absence of information regarding the quantum and uncertainty regarding its realisation.

In the current year, the Fund's share of net income from the property that had not been recognised by the Fund from 2003 to 2013, have now been received and recorded in the Fund's accounts. The Fund's share of rental income from January 2014 to September 2014 have also been received and recorded in the accounts.

## 18. Property and equipment

	Motor Vehicle	Furniture and Fitting	Other equipment	Renovation	Software	Total
	K	K	K	K	K	K
<b>Cost</b>						
Balance at 1 January 2014	100,082	527,952	586,475	703,839	233,076	2,151,423
Additions	76,924	230	153,392	-	5,828	236,374
Disposal	-	-	(85,047)	-	-	(85,047)
<b>Balance at 31 December 2014</b>	<b>177,006</b>	<b>528,182</b>	<b>654,820</b>	<b>703,839</b>	<b>238,904</b>	<b>2,302,750</b>
<b>Accumulated depreciation</b>						
Balance at 1 January 2014	76,786	526,939	473,431	496,469	164,196	1,734,113
Charged during year	28,549	189	53,345	48,033	36,630	166,746
Disposal	-	-	(54,790)	-	-	(54,790)
<b>Balance at 31 December 2014</b>	<b>105,335</b>	<b>527,128</b>	<b>471,986</b>	<b>544,503</b>	<b>200,826</b>	<b>1,846,069</b>
<b>Net book value at 31 December 2014</b>	<b>71,671</b>	<b>1,054</b>	<b>182,834</b>	<b>159,336</b>	<b>38,078</b>	<b>456,681</b>
<b>Net book value at 31 December 2013</b>	<b>23,296</b>	<b>1,014</b>	<b>113,042</b>	<b>207,370</b>	<b>68,879</b>	<b>413,601</b>

## 19. Other assets

	2014	2013
	K	K
Prepayments	151,070	218,213
Debtors – Corporate	4,916,578	6,673,887
Security deposits	35,326	11,077
Accrued interests		
Term deposits	352,479	299,061
Treasury Bills	57,912	26,799
State share	135,966	-
Financial assets		
Held-to-maturity	731,900	273,123
Sundry debtors	4,055,238	8,517,621
<b>Total</b>	<b>10,436,469</b>	<b>16,019,780</b>
Less: specific allowance for losses	(1,088,608)	(569,921)
	<b>9,347,861</b>	<b>15,449,859</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 20. Employee provisions

	2014	2013
Note	K	K
Balance at beginning of year	1,350,131	1,265,307
Charged to profit & loss	189,988	84,824
Balance at end of year	1,540,119	1,350,131
Represented by:		
Short term provisions	663,779	521,540
Long term provisions	876,340	828,591
	1,540,119	1,350,131

## 21. Other liabilities

Creditors	962,885	918,939
Government - retrenchment (i)	498,642	498,642
Unclaimed monies (ii)	17,764	17,899
Accruals	884,868	877,751
	2,364,160	2,313,230

- (i) The balance represents the difference between the State share (60%) of the contribution received by the Fund and the payment made to members who were retrenched in 2006.  
Pending further instructions from the State, the Fund will either remit the remaining balance to the State or apply this amount against future member retrenchments.
- (ii) The balance represents outstanding unclaimed benefit payments by members that were processed in prior years.

## 22. Net assets available to pay benefits

Net assets available to pay benefits comprise:

<b>(a) Members funds</b>		
Balance at beginning of year	412,932,074	373,148,855
Surplus for the year	5,882,674	39,783,219
	418,814,748	412,932,074
<b>(b) Investment revaluation reserve</b>		
Balance at beginning of year	27,572,440	26,806,850
Change in fair value of AFS financial asset	1,386,490	765,590
	28,958,930	27,572,440
Net assets available to pay benefits	447,773,678	440,504,514

## 23. Notes to the statement of cash flows

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

## 24. 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.

### 24.1 Key management personnel remuneration specified in aggregate in the year 2014:

Salary	770,835	758,540
Non-monetary (i)	35,230	35,230
Superannuation;		
- Employee	87,314	78,353
- Employer	122,239	109,693
	1,015,618	981,816

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 24. Related party transactions *(continued)*

### 24.2 Above K200,000 per annum

The number of employees or former employees, not being directors of the Trustee company, whose total remuneration and the value of other benefits received, exceeded K200,000 per annum are as follows:

	2014	2013
K200,000 – K400,000	2	2
K401,000 – K600,000	-	-
K601,000 – K800,000		
K801,000 – K1,000,000	-	-
K1,001,000 – K1,200,000	1	1

### 24.3 Board of Directors remuneration aggregate in the year 2014:

Mr Chris Alu	
Captain (N) Alois Ur Tom, OBE	Mr Kisakiu Posman
Col David Takendu, OBE (Rtd)	Mr Michael Varapik
Captain (N) Max Aleale, DMS	Mr Moses Koiri

	2014	2013
	K	K
<b>Stipend</b>	781,343	327,248
	781,343	327,248

## 25. Financial risk management

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

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

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

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

### 25.1 Liquidity risk

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

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

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

### 25.2 Government security risk

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

### 25.3 Country risk

To the extent that the Fund holds funds in foreign jurisdiction, a variety of risk may arise in addition to foreign exchange risk – such as changes in local economic condition, local regulatory requirements or non-transparent governance arrangements. The Fund's investments in foreign jurisdiction has been primarily in Australia to the value of K66,266,376(2013: K66,266,376). Country risk is assessed on a scale of low-medium-high.

### 25.4 Interest rate risk

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

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

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 25. Financial risk management (continued)

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

	Weighted average interest rate	Up to 1 Year K	1-5 Years K	Over 5 Years K	Non-interest Bearing K	Total K
<b>31 December 2014</b>						
<b>Assets</b>						
Cash and cash equivalents	2.31%	17,015,123		–	–	17,015,123
Loans to members and others	8.00%	–	4,871,604	–	–	4,871,604
Financial assets						
FVTPL		–	–	–	251,485,771	251,485,771
Available-for-sale		–	–	–	31,416,070	31,416,070
Held-to-maturity	10.24%	–	10,029,060	30,785,307	–	40,814,367
Other assets		–	–	–	9,362,034	9,362,034
<b>Liabilities</b>						
Other liabilities		–	–	–	2,364,160	2,364,160
Current income tax payable		–	–	–	2,269,062	2,269,062
<b>Interest sensitivity gap</b>		<b>17,015,123</b>	<b>14,900,664</b>	<b>30,785,307</b>	<b>296,897,098</b>	<b>359,598,192</b>
<b>31 December 2013</b>						
<b>Assets</b>						
Cash and cash equivalents	1.74%	33,284,423		–	–	33,284,423
Loans to members and others	8.00%	–	1,239,421	–	–	1,239,421
Current income tax receivable						
Financial assets						
FVTPL		–	–	–	30,029,580	30,029,580
Available-for-sale	9.35%	–	–	17,620,798	–	17,620,798
Held-to-maturity		–	–	–	15,449,858	15,449,858
Other assets						
<b>Liabilities</b>						
Other liabilities		–	–	–	2,313,234	2,313,234
Other liabilities		–	–	–	1,666,683	1,666,683
<b>Interest sensitivity gap</b>		<b>33,284,423</b>	<b>1,239,421</b>	<b>17,620,798</b>	<b>309,437,804</b>	<b>361,582,446</b>

### 25.5 Foreign Currency exchange risk

The Fund holds assets denominated in currencies other than Kina, the functional currency. The Fund is therefore exposed to currency risk, as the value of the securities, and the dividends earned denominated in other currencies will fluctuate due to changes in exchange rates.

The table below summarises Fund's exposure to currency risks, concentration of assets and liabilities:

	2014 K	2013 K
<b>Australian currency</b>		
Assets	56,340,812	66,266,376

### 25.6 Foreign currency sensitivity analysis

The Fund is mainly exposed to the Australian dollar.

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

	2014 K	2013 K
<b>Surplus/(Deficit)</b>	<b>1,104,722</b>	<b>1,299,341</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

## 25. Financial risk management (continued)

### 25.7 Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Fund's balance sheet at their fair value. The directors consider that the carrying amounts of financial assets and liabilities recognised in the financial statements approximate their fair values.

	Carrying Value		Fair Value	
	2014	2013	2014	2013
	K	K	K	K
<b>Assets</b>				
Loans receivable	4,871,604	1,239,421	4,871,604	1,239,421
Property and equipment	456,681	413,601	456,681	413,601
<b>Net</b>	<b>5,328,285</b>	<b>1,653,022</b>	<b>5,328,285</b>	<b>1,653,022</b>

#### 25.7.1 Loans and advances to customers

Loan and advances are net of allowance for losses.

### 25.8 Credit risk

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

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

Assets	2014		2013	
	K	%	K	%
<b>Cash and cash equivalents</b>	17,015,123	3.88%	33,284,423	7.82%
Loans to members and others	4,871,604	1.11%	1,239,421	0.29%
Financial assets:				
FVTPL	251,485,771	57.31%	259,978,448	61.04%
Available –for-sale	31,416,070	7.16%	30,029,580	7.05%
Held-to-maturity	40,814,367	9.30%	17,620,798	4.14%
Investment properties	93,249,600	21.24%	83,743,023	19.66%
	<b>438,852,534</b>	<b>100%</b>	<b>425,895,693</b>	<b>100%</b>

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

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

### 25.9 Equity price sensitivity analysis

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

If the equity price had been higher/lower, the net surplus for the year ended 31 December 2014 would increase/decrease by K3.3 million as a result in the changes in fair market value of listed shares classified as at FVPTL.

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

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

### 26.1 Listed shares

Companies	31 December 2014				31 December 2013	
	Market Price K	Units	Market Value 31/12/2014 Kina	Shareholding as a % of net assets of the Fund	Market Value 31/12/2013 Kina	Shareholding as a % of net assets of the Fund
Bank South Pacific	7.14	14,456,052	103,216,211	23.05%	115,361,178	26.12%
Bank of Queensland	26.16	117,193	3,065,745	0.68%	3,284,637	0.74%
City Pharmacy	1.44	2,576,921	3,710,766	0.83%	299,251	0.07%
Oil Search	16.95	1,198,000	20,301,160	4.53%	19,677,206	4.46%
Kina Asset Management Ltd	1.00	6,226,027	6,226,027	1.39%	8,118,000	1.84%
Credit Corporation	2.60	2,082,333	5,414,066	1.21%	7,455,832	1.69%
New Britain Palm Oil	26.00	394,948	10,268,648	2.29%	5,924,220	1.34%
BHP Billiton Ltd	63.08	29,000	1,829,317	0.41%	3,677,141	0.83%
Highlands Pacific	0.13	-	-	-	385,119	0.09%
Telstra Corporation	12.82	200,000	2,564,433	0.57%	3,545,301	0.80%
ANZ Banking	68.92	30,000	2,067,655	0.46%	2,176,477	0.49%
Commonwealth Bank of Australia	183.96	11,405	2,098,020	0.47%	3,748,585	0.85%
Marengo Mining Ltd	0.02	-	-	-	91,165	0.02%
Newcrest Mining Ltd	23.39	30,000	701,675	0.16%	526,730	0.12%
Vanguard International Shares Index Fund	3.81	4,427,809	16,858,198	3.76%	15,131,794	3.43%
CSL Limited	195.09	-	-	-	931,367	0.21%
			178,321,921		190,334,003	

### 26.2 Unlisted shares

Companies	31 December 2014				31 December 2013	
	Market Price K	Units	Market Value 31/12/2014 Kina	Shareholding as a % of net assets of the Fund	Market Value 31/12/2013 Kina	Shareholding as a % of net assets of the Fund
BPT(PNG) Ltd	49.02	98,670	4,836,803	1.08%	4,475,671	1.01%
Westpac Bank Ltd (WPC)	288.70	2,000	577,400	0.13%	580,000	0.13%
Paradise Foods Ltd	123.30	225,000	27,742,500	6.20%	33,772,500	7.65%
Post Courier	8.69	110,900	963,721	0.22%	641,002	0.15%
South Pacific Brewery	68.90	566,668	39,043,425	8.72%	30,175,071	6.83%
<b>Financial assets at FVTPL</b>			73,163,850		69,644,444	
Hunter	448,801	70	31,416,070	7.02%	30,029,580	6.80%
<b>AFS financial assets</b>			31,416,070		30,029,580	

# Notes to the Financial Statements

FOR THE YEAR ENDED 31ST DECEMBER 2014

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

Serial Number	Settlement Date	Maturity Date	Coupon Rate	Face Value	Face Value
				31/12/2014 K	31/12/2013 K
S15112016(G26)	17/11/2006	15/11/2016	9.00%	4,078,553	4,120,410
S15112021(G27)	17/11/2006	15/11/2021	12.00%	3,212,287	3,243,145
S15112021(G25)	15/12/2006	15/11/2021	12.00%	1,004,472	1,005,122
S15112016(G28)	12/01/2007	15/11/2016	9.00%	1,002,707	1,004,149
S15112023 (G37)	11/04/2008	15/11/2023	12.00%	2,139,220	2,154,898
S15112023 (G38)	16/05/2008	15/11/2023	12.00%	1,046,804	1,052,075
S15112018 (G39)	16/05/2008	15/11/2018	9.00%	334,691	335,127
S15112017 (G41)	23/09/2011	15/02/2017	9.00%	2,069,901	2,102,738
S15052029(G42)	23/08/2013	15/05/2019	11.00%	1,546,634	1,557,299
S15052029(G43)	18/10/2013	15/05/2029	11.00%	1,042,855	1,045,835
S15052024(G44)	24/01/2014	15/08/2024	9.50%	2,112,493	-
S15052020(G45)	21/03/2014	15/05/2020	8.00%	993,504	-
S15052020(G46)	21/03/2014	15/05/2020	12.00%	1,003,575	-
S15052031(G47)	17/04/2014	15/05/2031	12.00%	977,103	-
S15052031(G48)	17/04/2014	15/05/2031	12.00%	953,300	-
S15052027(G49)	17/04/2014	15/05/2027	10.50%	921,427	-
S15012017(G50)	17/04/2014	15/01/2017	6.00%	996,574	-
S15082024(G51)	17/04/2014	15/08/2024	9.50%	899,094	-
S15052027(G52)	17/04/2014	15/05/2027	10.50%	960,846	-
S15052020(G53)	23/05/2014	15/05/2020	8.00%	922,116	-
S15052020(G54)	23/05/2014	15/05/2020	8.00%	885,687	-
S15052020(G55)	20/06/2014	15/05/2020	8.00%	1,746,311	-
S15052020(G56)	20/06/2014	15/08/2024	9.50%	1,693,298	-
S15052027(G57)	20/06/2014	15/05/2024	10.50%	1,582,548	-
S15052031(G58)	20/06/2014	15/05/2031	12.00%	1,719,459	-
S15052031(G59)	20/06/2014	15/05/2031	12.00%	1,619,722	-
S15052031(G60)	18/07/2014	15/05/2031	12.00%	1,684,598	-
S15052027(G61)	22/08/2014	15/05/2027	10.50%	837,136	-
S15052027(G62)	22/08/2014	15/05/2027	10.50%	827,453	-
<b>TOTAL INSCRIBED STOCK</b>				<b>40,814,367</b>	<b>17,620,798</b>

## 28. Audit Fees

The auditor is Deloitte Touche Tohmatsu. The audit fees paid for the audit of the financial statements are disclosed in note 11.2.

## 29. Subsequent Events

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

# Corporate directory

## Licensed Trustee:

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Comrade Trustee Services Limited  
Level 6, Defens Haus  
Corner Hunter Street & Champion Parade,  
PO Box 497, PORT MORESBY, NCD  
Papua New Guinea  
Telephone: +675 320 3455  
Facsimile: +675 321 5840  
Toll free: 180 1007  
Email: [info@ctsl.com.pg](mailto:info@ctsl.com.pg)  
Website: [www.ctsl.com.pg](http://www.ctsl.com.pg)

## Management:

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Richard Sinamoi – Chief Executive Officer  
Danny Herepe - Executive Manager Finance and Administration  
Chris Sariman – Executive Manager Member Services

## Banker:

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

## Actuary:

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

## Independent External Auditor:

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Deloitte Touche Tohmatsu  
Level 12, Deloitte Tower, Douglas Street  
PO Box 1275, Port Moresby, NCD  
Telephone: +675 308 7000  
Facsimile: +675 308 7001

## Fund Administrator:

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

## Investment Manager:

---

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

## Lawyers:

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

## Tax Agent:

---

JAJ & Associates  
Public Accountants & Business Consultants  
PO Box 6428 Boroko, NCD  
Ruta Place, Gordons, Port Moresby, NCD  
Telephone: +675 323 8958  
Mobile: +675 768 61189  
Facsimile: +675 323 8958





Level 6, Defens Haus,  
Corner Champion Parade & Hunter Street  
PO Box 497, PORT MORESBY, NCD  
Papua New Guinea  
Telephone: +675 320 3455  
Facsimile: +675 321 5840  
Email: [info@ctsl.com.pg](mailto:info@ctsl.com.pg)  
Website: [www.ctsl.com.pg](http://www.ctsl.com.pg)