2020 Annual Report

Comrade Trustee Services Limited

Defence Force Retirement Benefits Fund

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The Statutory Manager's Statement

MAJOR HIGHLIGHTS

The coronavirus pandemic

The Year 2020 has been an eventful year, clouded with uncertainty because of the devastating impact of the coronavirus (COVID-19) pandemic. Earlier in the year medical experts around the world raced to understand more about the public health implications of COVID-19 and the urgency in the development of a suitable vaccine. At the same time, the business community began looking for solutions to protect their companies, adjust their operations, and lead their employees through an unprecedented and uncertain period.

Similar observations were noted here in Papua New Guinea, where the Government took a leading role in providing a 'stimulus package' to keep the wheels of commerce and industry going, and at the same time, protect its citizens from contracting COVID-19. Strategies in isolating and restricting border crossing and large movement of the population within the country appeared to be working in tandem with Government's aspirations.

COVID-19 has been a 'game changer' for Comrade Trustee Services Limited (CTSL). It has completely changed our mindset in how we navigate our business, and has compelled us to reset our pathway to ensure we stay ahead of the game. Agility, vigilance and the ability to be nimble were the key pillars in determining how quickly we adjusted ourselves to the 'new normal' brought about by COVID-19. Our playbook of the past is no longer relevant; we had to recalibrate and reset to ensure our new focus is relevant to the circumstances, will allow us to grow and, more importantly, to thrive as well.

The discovery of effective vaccines towards the later part of the year brought hope, and market confidence around the world is slowly being restored. The tourism and aviation industry, which were severely affected, are breathing a sigh of relief and are now pushing hard for border control measures around the world to be relaxed.

Appointment of a new Chief Executive Officer (CEO)

The first major task undertaken by the Statutory Manager was to conduct a review of the organizational structure to ensure that: there was no duplication of functions; operational decision-making processes were efficient; and staff qualifications, skills and experience matched each of their positions and job descriptions.

The outcome of the review revealed there were major deficiencies and weaknesses in the way decisions were communicated, and an absence of a two-way communication channel from senior executives to their staff. More important was the duplication of functions at the senior staff and management level and the mis-match in the skills requirement against the job specifications.

In correcting the organizational structure, relevant changes were implemented at each level, up to and including the position of CEO.

We commenced our search for a new CEO in October 2019. The recruitment process we adopted was robust and supported by a well-articulated skills matrix. After an intensive interview process, Charlie Gilichibi was selected, based on his qualifications, leadership, Information Technology and Communication (ICT) skills, experience and a deep knowledge of the superannuation industry, having worked in NASFUND and Nambawan Super in senior executive roles. More importantly was his passion to add value and make a difference to CTSL.

Our vision and values

Our values remain the same, but our approach to business has changed. At CTSL 'sustainability' is not only a key consideration in our investment processes, it is a central tenet of who we are as an institution. We view the principle of sustainability as a guiding force behind our business stewardship and governance frameworks.

Our purpose is to be a responsible corporate citizen, an employer of choice and a prudent and valued investor for our members.

Our primary objective is to create sustainable value for our members through the business activities that we are engaged in. This relies on the sustainability of our business, our communities and our world. Sustainable value for our members will be our new platform to build a strong and robust foundation for the Fund from 2021 and beyond.

Strategic Plan 2021–2025

We integrate, we advocate and we educate the importance of sustainability in our investment process and business operations, to our members, our stakeholders, our communities and our world.

Our future will mirror the successful implementation of the strategies articulated in our CTSL Strategic Plan 2021–2025 and its associated action plans. This is the sixth such document prepared to guide the future direction and development of the Fund. It builds on past successes and strengths as well as lessons learnt over the last five years. The document also provides an operational framework to allow CTSL to achieve its mandated mission and strategic objectives, consistent with domestic and global realities.

Any realistic future planning for CTSL must take into consideration the future likely impact of factors that offer opportunity for growth and those which are also likely to pose future threats to the effective and efficient operations of CTSL.

In recent years, the operating environment – both domestically and globally – has changed dramatically, becoming highly competitive and constantly changing. While this Strategic Plan attempts to anticipate various ways the markets, regulatory environment and legislative requirements may evolve over time, no plan can anticipate all possible scenarios.

The overarching strategic objective

The strategies and action plans outlined in the Strategic Plan support the aspiration of growing the Fund in alignment with CTSL's Vision and Mission, with a clear pathway in pursuit of our strategic objectives. This is summarized in the organization-wide Balanced Scorecard (BSC) for the plan period. The BSC also provides the implementation phases of each strategy and action plan and delivery timelines. It also serves as an excellent tool for monitoring progress and for purposes of review.

PERFORMANCE MANAGEMENT PROCESS

PLAN
- Identify, clarify and agree upon expectations
- Identify how results will be measured
- Agree on monitoring process
- Document the plan

MONITOR
- Monitor and evaluate progress
- Take corrective action or make changes, if required

REVIEW & EVALUATE
- Annual performance review and evaluation
- New cycle begins

We are confident that the pathway we have crafted and articulated in this document can secure CTSL's future viability and sustainability in a highly competitive and regulated environment. More importantly, we believe it will help us achieve our stated strategic objective for the planned period.

We are committed to conduct regular reviews to ensure management implement the Strategic Plan on a professional basis and in a timely fashion to deliver expected outcomes. The Strategic Plan should be viewed as dynamic in nature and practical in its application to allow CTSL flexibility and agility to adjust to the prevailing domestic and international environment. While the strategic objective to grow the Fund may appear ambitious, it is nevertheless achievable by the CEO and his management team.

The key to achieving our targeted growth in Net Asset Value (NAV) at the end of five years is to open up to new membership from other institutions. This will automatically warrant a change in the Constitution and the re-branding of CTSL. These two major factors are pre-requisites in our efforts to increase the membership mix in terms of earning capacity, and age distribution.

The state unfunded liability

Our mission this year was to convince Government that our members who comprise the Papua New Guinea Defence Force (PNGDF) entirely, are granted due recognition for their important role in the security and protection of all citizens, and in maintaining peace and harmony in the country. Our members are the first respondents who are expected to put their lives on the line in the discharge of their duties. Their responsibilities are unique to the men and women in uniform, proud members of the PNG Defence Force.

We understand the Government's financial coffers were severely impacted as COVID-19 took its toll on the economy at the beginning of the second quarter of the year. Their commitment in providing a stimulus package to keep the wheels of commerce and industry turning, the competing demand on Government purse strings, and the daily struggle to prioritize payments, is testimony to the prevailing cash position. While we acknowledge the cash position of the Government at this point in time, our members deserve priority, given the nature of the role they are engaged in.

We exhausted all avenues in pursuing the State Unfunded Liability and made little progress. We then followed an unconventional route and, with the kind assistance of the Commander of the PNGDF, we finally made a breakthrough. We received an extra K24 million which enabled us to clear all outstanding member exits for 2018 and 2019, leaving only those members who retired this year – a total of 74.

This year our collection from the State to cover obligations relating to the State unfunded liability totalled K38 million, a new milestone. This is a testimony of our relentless efforts throughout the year.

FINANCIAL PERFORMANCE

Financial outcomes for 2020

The audited financial statements of the Fund were signed off by the Statutory Manager on 31 March 2021, two months ahead of the date we achieved in FY19.

The performance of the Fund in the year under review mirrors closely our agility, resilience and nimbleness in the manner we conducted our business last year. Despite the unprecedented influence and the serious impact of COVID-19 on the domestic economy, the Fund was able to achieve new record milestones.

Several new records were achieved due to our concerted efforts and razor-sharp focus on making a difference and adding value to the Fund.

The new milestones achieved are:

1. The Fund continued to grow in FY20 and broke the K600 million mark, with the Fund size standing at K618 million at year end.
2. At the onset of COVID-19 around March 2020, our response was swift and two major activities were tightly controlled – cash flow and operating costs. Appropriate control measures were put in place to ensure conservation of cash flow, and tight operating cost control measures were also instituted. For the first time since 2016 our Management Expense Ratio dropped below 2%: we achieved 1.89%, which is a new record.
3. The approach we deployed in handling unfunded state liability changed towards the later part of the year and it paid dividends. As a result, we collected an additional K32 million over and above our normal annual allocation.
4. We achieved a reversal of the most important performance matrix that influenced the Fund's capacity for future growth. This relates to Members' Net Contributions. Since 2016, this has always been a negative cash flow. In 2020 the Fund was able to reverse this position and deliver a positive cash flow at year end.

In summary, the Net Asset Value grew by K20 million, or 3.3% compared to FY19. This growth was attributable to financial assets 'fair value' improvement. This is related to fair value improvements with Bank of South Pacific Limited (BSP) shares and favourable movements in TOEA Homes Limited land inventories. This was achieved despite the devastating impact of COVID-19 throughout the PNG economy in 2020.

Profit and Loss Account performance

Total Revenue dropped by K7.5 million or 17.1% compared to FY19 performance. This was mainly due to the reduction in dividend receipts and the major drop in property income.

In terms of Net Profit After Income Tax, we achieved K24.5 million, which is 21.6% below what we achieved in FY19, but ahead by 3.3% against FY18 performance, and approximately 9% ahead of our revised forecast.

Since the onset of COVID-19 in March 2020, we acted promptly and reviewed our cost of operations, realigned costs to the corresponding income-generating activities and took strict measures on areas where cost savings could be achieved. As a direct result, we were able to reduce our Management Expense Ratio below 2.0% for the first time since 2016. The Management Expense Ratio achieved in FY20 was 1.89%.

Based on the foregoing, the financial performance of the Fund in the period under review can be rated as relatively good, despite the impact of COVID-19.

The performance of the Fund in the year under review mirrors closely our agility, resilience and nimbleness...

CTSL Staff undergoing COVID-19 testing

TOEA Homes development full steam ahead

TOEA HOMES

TOEA Homes Limited

During the year, our sole focus and energy was to learn from the past, ensure that we do not repeat those mistakes, and put in a comprehensive sales and liquidation program aimed at completing the sales of 30 homes and the fully developed 128 allotments. While we were able to achieve our goals in sales, funding from BSP for our members and other parties was a major obstacle with a continual introduction of new conditions. We have since sought assistance from the senior BSP executives to assist us in concluding purchases that have been seriously delayed, either due to new conditions or because of the inefficiency within the banking processes.

At year end, we anticipate proceeds from the sale of 30 homes will total K13.9 million and lot sales K1.9 million. It is our hope that within the first six months of 2021 we are able to collect and bank the remaining proceeds of lot sales totalling K24.0 million.

Since August 2020 we have commenced work on Taurama Phase 2 which will provide our members with more than 250 allotments. Our civil engineers, Kramer Ausenco Limited, have been instructed to first prepare a concept plan on the remainder of the land under Portion 1035 which comprises both flat and hilly landscapes. The preparation work includes a survey to determine the contours and terrain of the landscape. This will give us enough data to ascertain our costings for the full development, and enable us to undertake a business-case analysis to ensure it meets our expectations in terms of returns and affordability.

Our approach to land development is unconventional but aimed at saving time and costs. The key goal is to reduce development time from a projected 48 months to an estimated 18 months. So, we will start by reducing the development processes from seven down to two, and ultimately to one streamlined process. Our Sales and Marketing efforts will commence with survey plans having identified lots and lot sizes prior to the commencement of civil works.

For Phase 2 we expect the civil works to take approximately 12 months. In that time our sales and marketing programs will run in parallel, and we aim to sell all available allotments prior to the completion of the civil works.

We have now convinced Kina Bank Limited (KBL) to step up their efforts in mortgage financing. KBL are now reassessing their market approach to come back to us in early 2021 to present an improved version of their plan to capitalize on this particular opportunity.

We are hopeful this will fire up the market and introduce competitive tension which will fast-track sales and ensure banks compete for our business.

FUTURE FOCUS

Progress on the Commercial Precinct

Discussions with Puma Energy PNG Ltd (Puma Energy) for the new Service Station are almost complete, with the deal achieving Internal Rate of Return quite favourable to CTSL. We are now at the closing stages of the negotiation and Puma Energy are undertaking a final review to ensure that we can offer a fixed contract to a building contractor that meets Puma Energy's and CTSL's expectations in terms of delivery schedule and quality workmanship.

With respect to the City Pharmacy Limited (CPL) facilities to be constructed on site, we have recently completed the concepts for both the Stop & Shop Supermarket and the Hardware facilities, and we have held our first meeting to provide CPL an opportunity to examine the concept in detail. We have given a timeline to CPL to complete their assessment and finalize their position so we can proceed to the costing stage and commence negotiations on a long-term lease arrangement, with rentals determined using the same model as the Service Station site.

Once an agreement is reached on the lease terms and conditions, a tender will be called for design and construction. We expect these facilities will be ready for occupation on or before the end of November 2021.

Draft Puma Energy development concept for CTSL Commercial Precinct

New partnership between CTSL and Nasfund Contributors Savings & Loans Society

The idea of forming a business relationship with Nasfund Contributors Savings & Loans society (NCSL) emerged from the continuous requests made by members during our Members Engagement Program early in 2020. As a result, we conducted our own internal desktop assessment of the Savings & Loans schemes currently in operation in PNG and NCSL stood out with the best 'value proposition' that matches the requirements of our members.

Their product offerings, delivery mechanism, logistical support and business footprint countrywide is undoubtedly their key point of difference, putting them ahead of any other competitor in this particular space. Based on these key features, we negotiated directly with NCSL to provide our members with access to their services. As a result, CTSL signed a Memorandum of Understanding (MOU) with NCSL, giving our members individual access to NCSL services, adding to the menu of products we offer our members for their benefit.

Partnership MOU signing with Nasfund Contributors Savings & Loans Society

The underpinnings of this arrangement will allow our members to access a Savings and Loan Society to: encourage our members to save more; and provide a platform to access credit and loans as the need arises, rather than relying on their retirement nest egg to fund their short-term financial needs.

CONCLUDING REMARKS

This year, the COVID-19 pandemic sent shockwaves throughout the world, creating unprecedented damage in its path, and clouding the world with the thick smoke of uncertainty.

Governments around the world responded differently in their approach and magnitude. Here in PNG, the Government took centre stage in providing a stimulus package aimed at keeping the wheels of commerce and industries moving, and in implementing necessary border controls.

At a business level, COVID-19 gave us an opportunity to reassess our preparedness to deal with future similar disruptions. Having traded ourselves out of this challenging and difficult operating environment, our approach is to remain calm and follow closely the template we have established through our experience over the last year.

ACKNOWLEDGEMENT

This year has been extremely difficult and exhausting in many ways. Without the full support and assistance of the Chief and Commander of the PNG Defence Force (PNGDF), Major General Gilbert Toropo, DMS, CBE we would be struggling to accomplish the corporate goals we aspired to achieve this year.

Most of the programs we are implementing, or are about to start, at CTSL or TOEA Homes Limited require close consultation with the Commander of the PNGDF as representative of the members. His ability to quickly understand the underpinnings of those programs and the benefits it brings to the membership was key to our progress this year.

We wish to place on record our sincere gratitude to the Government for having the foresight to contribute additional funds in terms of unfunded state liability to enable us to honour our obligations to our members. We trust that this trend will be maintained in the coming year.

We wish to also acknowledge the wisdom and guidance provided by BPNG in setting the direction that we need to follow to ensure success. Their intervention was timely and prudent. I also wish to thank all our members for their never-ending patience, and their confidence in CTSL's leadership to see us through the difficult period we successfully moved forward through this year.

To all our service providers, particularly our Licensed Investment Manager, Frontier Equities Limited and our Fund Administrator, Kina Investment and Superannuation Services Limited (KISS) – thank you for helping us navigate our way through the COVID-19 pandemic

To my hard-working team – from Chief Executive Officer, the Executive Team and all the staff, thank you all for the concerted efforts, hard work and passion that you displayed this year. The COVID-19 pandemic did not break our spirit, nor our aspiration to succeed in the most difficult and challenging period. For this I am truly thankful to you all.

Sitiveni Weleilakeba Statutory Manager

Chief Executive Officer's Report

Dear Comrades and Valued Stakeholders,

CTSL looked forward to a challenging yet fulfilling year in 2020, but not with the kind of complexity and uncertainty spurred on by a black swan event. The COVID-19 pandemic was a distraction and disrupted investment performance and operational activities for the year.

Nonetheless, CTSL adapted to a 'new normal' and ensured we kept the business of running your Fund going. I am impressed by the commitment and passion shown by our management team, all line staff and service providers. Everyone stepped up to the mark to ensure we didn't just deliver to expectations, but exceed them in areas of our operations.

In terms of your Fund's financial performance for 2020, I am pleased with our achievements:

- Crediting rate of 5% compared to 6.5% in 2019
- Gross profit of K34 million, compared to K43 million in 2019
- Net Profit After Tax (NPAT) of K25 million compared to K31.5 million in 2019
- Net Assets of K599 million to K619 million in 2020, an increase of 3% in net assets growth
- Member net cash flows of 3.39% compared to -4.7% in 2019

Under the current circumstances, CTSL believes it is appropriate not to hold any reserves to ensure that exiting members receive maximum benefits from their Fund.

CTSL achieved a decent financial result in 2020, despite the extreme downward pressures on our investment portfolios, both locally and offshore. Delivering results above inflationary levels for the past two years demonstrates the good management and leadership of the Fund.

Looking forward, CTSL's implementation of the strategy laid out by the Statutory Manager is summarized in three points:

- redefining our playing field
- reshaping our value proposition for the members and community
- retrofitting governance to the fundamental areas of our business.

CTSL aspires to be a game-changer so we can, in a secure and sound manner, continue to build member wealth and benefits. In doing so, we are mindful of balancing our members' growth aspirations with the health of the organization in terms of good corporate governance. We also aim for a progressive culture and operational efficiencies to ensure that we not only strive, but thrive in a sustainable manner.

The next section provides the Operational Report highlights for your Fund in 2020.

On behalf of the Executive Management and staff, I'd like to acknowledge the support and guidance from the Statutory Manager and all stakeholders for your support in 2020. We look forward to continuing to deliver on your aspirations of having a healthy nest egg for your retirement in 2021 and years to come.

Sincerely,

Charlie Gilichibi
Chief Executive Officer

MAJOR MILESTONE ACTIVITIES PURSUED BY YOUR TRUSTEE COMPANY IN 2021

1. Participation in the Task Force Review into Superannuation & Life Insurance. After 20 years following the major finance and superannuation sector reforms of 2000, the industry has matured to a point where such a review is necessary to pivot for future success.

2. Building a CTSL-owned fit-for-purpose Fund Administration system. Legacy tools and technology continue to impose administrative bottlenecks and inefficiencies. Having a best-of-industry technology platform will pivot the Trustee company of your Fund as an industry leader.

3. Rebranding the Trustee company, Comrade Trustee Services Ltd (CTSL), was initiated in 2020. As we work towards opening up the Fund to a wider membership, rebranding the Trustee company makes excellent business sense.

4. Opening up of the Fund's Accumulation (AC) scheme to wider membership while the Defined Benefits (DB) scheme remains closed to pension members from within the PNGDF only. The strategic intent to open up the Accumulation scheme is to bridge the negative delta between the value of incoming contributions and benefit payments made. Should the status quo be allowed to continue, at some stage in the future, it will become unsustainable for the Fund to continue as a standalone entity.

5. Transitioning to a new institutional, actuarial services provider with Mercer.

"...we didn't just deliver to expectations, but exceed them in all areas of our operations.

Operational Report

Dear Members,

For everyone, the past year has been one of challenges and adapting to changing situations at short notice. Rebooting and restructuring have become key words in the 'new normal' for most businesses. For the sustainability of your Fund, this has meant adopting new technology to help with remote working. In the post-Covid world, we will retain some of these newly adopted methods, such as videoconferencing, because they have enhanced operations. Some of our processes have become more time-efficient and the technology we have adopted has meant a positive impact on contributing to reducing our environmental impact.

Other business processes have been transformed, with improved data capability enabling speedier year-to-date reconciliations and a quicker audit timeframe. Omni-channel technology and a cloud-based platform has also given us an improved customer dashboard which has enhanced customer service and feedback. Automation of some Human Resource functions and a new online payroll system will make administration more time-efficient for our teams. We were able to continue our contact with you via nine conferences throughout the year, where our outline of anticipated future growth of the Fund was well received. Our workshop with pension representatives explored a new Annuity product for members in our review of the Defined Benefits Scheme.

In 2020 we continued to support our team with training and development to continue to meet the requirements of our regulated industry, as well as focusing on how to grow our return for members. To support the Fund's evolving needs, recruitment to a new organisational structure was a crucial part of the year's operations. Most important was the appointment of your new Chief Executive Officer, Mr Charlie Gilichibi in January 2020. Other new senior posts included ICT Officer, a crucial role in our changing times. We also opened a new branch to assist with meeting the needs of our members as well as the commercial property investment that supports your Fund's growth.

As ever, we look to portfolio diversification and a business strategy that can enhance our capability to serve you, our members, for a sustainability future.

1. REBOOTING CULTURE UNDER A 'NEW NORMAL'

WhatsApp groups: CTSL created WhatsApp discussion groups for accumulation (AC) and defined benefit (DB) members. The respective discussion groups provided an avenue for members to communicate directly among themselves, and with the Statutory Manager and management. This channel of communication enhanced the level of trust between members and the Trustee through ongoing, open and honest conversations.

Omni-channel communications: To address the administrative complexity and data silos of managing several electronic communication channels for transmission of enquiries, CTSL implemented Freshdesk, a cloud-based helpdesk platform. The digital tool converges all member enquiries through emails, webchat, Facebook, call centre lines and a dedicated WhatsApp number through a common interface. This has enhanced performance transparency and accountability with improved turnaround times.

Basecamp project management and team collaboration: Managing teams remotely and allowing effective collaboration can be a challenge. Basecamp is a very basic tool that allows employees to process tasks and collaborate. It improves streamlining of communication and performance management.

Online and geo-fencing for clock-ins and clock-outs to reduce number of surfaces being touched: CTSL incorporated a highly effective online tool into our business to reduce friction in managing time and attendance. All employees at CTSL now punch-in or punch-out from work using ClockIt, an online cloud application. The application's superior reporting and business intelligence applications has been a great addition to our business.

Online meetings: CTSL extracted maximum value from online meetings through Zoom, Google Meet and Microsoft Teams. The majority of meetings with service providers are now hosted through online virtual meeting rooms.

Staff embracing virtual meeting rooms

2. BUSINESS PROCESS TRANSFORMATION

Financial administration improvements: CTSL faced daunting challenges with its financial data processing capability up to 2019 where reconciling data was done at the backend of the year for multiple months. Fast forward to 2020, and the Trustee improved its capability by completing year-to-date reconciliations. This capability now positions the Trustee to be able to produce annual financial audits in a reasonable time following close of year-end accounts.

An omni-channel cloud-based platform was introduced: Converging the numerous electronic channels of emails, calls, WhatsApp, Facebook and Webchat into a single dashboard for customer service agents enables us to now effectively respond to member enquiries. This has seen the number of complaints and long response times resolved to a point where CTSL rarely receives complaints from members.

Human Resources Systems

The Human Resource Department (HR) aim to go paperless: In 2021, we aim to automate all HR functions through use of cloud-based online human resources systems. Automations ensure digital safekeeping of personal files and information, and ease of reference when required. It also provides a self-service avenue for employees and managers to complete required documentation at their convenience, such as completing a leave request form.

Pension payroll automation

A digital transformation: Pension payroll data and processing for 1,700 pensioners has been completed using Excel spreadsheets up until the end of 2020. This process is prone to human error unless exceptional handling and data integrity checking is incorporated. CTSL will transform this function by moving it from manual processing in spreadsheets to full automation on the Attaché payroll system from the first pay period in 2021.

Service providers

Video conferencing has a lasting positive impact: During 2020, CTSL conducted all meetings with service providers via online video conferencing. Following relaxation of COVID-19 measures, CTSL continued these arrangements because it is more time-efficient and has a positive effect on our operations as well as our contributions to reducing our environmental impact.

3. STAKEHOLDER ENGAGEMENT

Member conferences

CTSL conducted nine member conferences in 2020, covering six units in NCD, three units at Igam (Lae), one unit in Moem (Wewak) and one unit in Lombrum (Manus). The conferences were facilitated by the Statutory Manager and CEO. Topics covered included where the Fund (DFRBF) came from, where it is today and how it is being positioned for future growth and relevance.

Key enquiries from members resonated around sustainable investment returns and improved services. The conferences were well received by members.

Reviewing Defined Benefits Scheme

To explore and investigate creating an Annuity-type product for Defined Benefit (DB) members, CTSL conducted a workshop for pension representatives involving key officers representing the State from Treasury Department, actively servicing DB members, retired DB members, and CTSL representatives.

The principal understanding among stakeholder participants is that CTSL intends to reconfigure the crystalized savings sitting in the managed pool of 40% direct member contributions.

4. PEOPLE AND CULTURE

Training and development

To support our staff to serve our members exceptionally well, CTSL's priority is to provide learning and development programs for employees to enhance their skills and knowledge.

In 2020, we provided soft-skill training sessions for employees. However, as a superannuation and a regulated entity, it is important that employees are well versed in how to manage and grow members' savings while being compliant with the latest standards and regulations.

During the year, CTSL hosted two PNG Institute of Directors (PNGID) training workshops, for managers and all staff, respectively. A further training session was also hosted through the Association of Superannuation Funds PNG (ASFPNG) to improve industry-specific skills for our management team. The same ASFPNG training will be cascaded down to all line employees in 2021.

Organisational structure

In 2020, a number of were positions filled to allow CTSL to be in a better position to serve its members efficiently:

- Chief Executive Officer
- Legal Manager/Company Secretary
- Northern Region Manager
- ICT Officer

Recruitment of a new Chief Executive Officer (CEO)

The Statutory Manager recruited and appointed a new CEO, Charlie Gilichibi, in January 2020. Mr Gilichibi has experience from the two major funds, firstly as IT Manager for NASFUND from 2004 to 2013, and then as Chief Operating Officer of Nambawan Super from 2013 to 2016. Most recently he was the Chief Officer Member Services at NASFUND from 2017 to 2019. He drove notable operational improvements in the major Funds, contributing to strategic direction of fund administration. Mr Gilichibi was recruited to pivot the reconfiguration and repositioning of the Trustee company's capabilities to manage the expectations and demands of stakeholders and the regulatory environment.

PNG Institute of Directors training: L-R: Seno Wekina, CTSL Manager Legal and Company Secretary; Charlie Gilichibi, CTSL CEO; Anthony K Yauieb, Former President PNG Institute of Directors; Sitiveni Weleilakeba, CTSL Statutory Manager

Reconfiguration of the organizational structure

Based on business needs and member feedback, the Statutory Manager enhanced the organizational structure to include:

A Legal Manager and Company Secretary: Seno Wekina was recruited in August 2020 to fill this role. He brings a wealth of skills and experience, having formerly held several executive roles as Company Secretary and Chief Legal Officer at NASFUND and with other legal commercial experience. The previous position of Manager Risk and Governance was abolished.

Opening a branch in Lae: Steven Gerega, was recruited in November 2020 to fill the role of Manager Northern Region. He brings a wealth of experience and skills in managing NASFUND's accumulation scheme in different capacities. The Lae Branch will service members' superannuation needs as well as other business interests of CTSL in the Northern region. He also manages a team of three staff.

ICT Officer: This position was filled in November 2020, to support the ICT function of the Fund.

5. KEY RISKS IN BRIEF

Ageing accumulation membership

DFRBF's Accumulation scheme has 41 actively serving Defence personnel who are over the age of 60. These members have a total savings balance of K20 million. Further, the next risk demographic includes 200 members aged between 55 and 59 years, with a total savings balance of K96 million.

With no certainty of when these members will be retrenched from active service, CTSL keeps its liquidity at reasonable levels to manage the risk of matching assets against liabilities.

Portfolio diversification

Single equities and asset class exposure are two key investments risks being monitored and managed. DFRBF as a Fund has a 30% equities exposure to BSP and 45% exposure to land-denominated assets. Due to the illiquid nature of the assets, CTSL has an active assets allocation strategy in place to gradually divest and rebalance the investments portfolio.

Legacy tools and technology

Due to the monolithic, legacy nature of existing technology, CTSL is not able to automate risk and compliance processes to achieve continuous risk and control monitoring, instead of checks and assessments based on a point in time. Further, there is a degree of operational inefficiency that constrains the Fund's capability for future growth and enhancement of customer experiences.

CTSL completed a review into its operational capabilities and is in the process of designing and developing a relevant technology platform to service its needs, including putting in place continuous monitoring controls.

Succession planning

Key personnel risk is addressed with relevant training measures and delegation of authority. CTSL has a succession plan in our overall strategy, guiding how we invest in our in-house talent and leadership. While not restricted to in-house capability, our succession strategy in key roles is also positioned to discover, attract and retain high-potential candidates from outside the organization.

CTSL Members at the Goldie River Training Unit during the Annual Member Conference

Statutory Manager's Profile

Sitiveni Weleilakeba

Sitiveni Weleilakeba is a Fijian National appointed by BPNG as regulator of the superannuation industry to the position of Statutory Manager of CTSL on 29 July 2019.

Mr Weleilakeba, a Harvard Business School graduate, is a highly qualified professional with more than 30 years of experience in senior executive leadership and management roles in a wide spectrum of industries, ranging from banking and finance, retail and wholesale, supply chain management, manufacturing and property management and development.

Mr Weleilakeba came to CTSL with wealth of experience and history of a successfully corporate career in leadership positions. He played a pivotal role in the success of Fijian Holdings Group conglomerate. He was the first Chief Executive Officer, the first Managing Director and the first Group Managing Director in Fijian Holdings with a career that covered more than 25 years.

In Fiji, Mr Weleilakeba is well known in the corporate and business sectors with extensive business relationships and networks. He has unique experience in providing leadership in successfully implementing transformational changes in large corporate institutions.

Mr Weleilakeba is a highly experience chairman and director of many important boards in Fiji. He was director of Air Pacific (now Fiji Airways), Carlton Brewery, Chairman of Fiji Visitors Bureau for six years, Chairman of Airports Limited, director on most of FHL subsidiaries. Mr Weleilakeba has unique, broad and deep experience in providing tailored solutions to dislocated Superannuation Funds which require an urgent diagnostic and rehabilitation program. He has a deep knowledge of the superannuation industry in PNG. He was appointed by the Nasfund Board in consultation with BPNG and given a clear mandate to introduce major changes at Board and management level from March 2012 to May 2017.

Executive Team

Charlie Gilichibi
Chief Executive Officer

Seno Wekina
Manager Legal and Company Secretary

Mark Kanawi
Manager Investments

Matthew Kamaka
Manager Finance

Darusilla Musi
Manager Human Resource & Administration

Freddy Manihoru
Manager Member Services

Steven Gerega
Manager Northern Region

Charlie Gilichibi, Chief Executive Officer

Mr Charlie Gilichibi commenced employment with CTSL as the Chief Executive Officer on 27 January 2020, following a successful career with more than 13 years of experience in the superannuation industry. Mr Gilichibi has a Master's degree in Business Administration from the University of Papua New Guinea, a Bachelor's degree in IT from Canberra University, and a Diploma in Economics from the International Training Institute. He is a professional member of PNG Institute of Directors.

Seno Wekina, Manager Legal and Company Secretary

Mr Seno Wekina commenced employment with CTSL on 17 August 2020. Mr Wekina has more than 25 years' experience practising Law, and holds a Bachelor's degree in Law from the University of Papua New Guinea. He is a member of the PNG Institute of Directors.

Mark Kanawi, Manager Investments

Mr Mark Kanawi has a wealth of experience in the investment field, and holds a Bachelor's degree in Business & Management from the University of Papua New Guinea and is a member of the PNG Institute of Directors. He commenced his employment with CTSL on 10 April 2017.

Mathew Kamaka, Manager Finance

Mr Matthew Kamaka joined CTSL on 13 April 2015. Mr Kamaka holds a Bachelor in Commerce from the University of Papua New Guinea and has more than 14 years of experience in the finance industry. Mr Kamaka is also a member of the PNG Institute of Directors and Certified Practising Accountants PNG.

Darusilla Musi, Manager Human Resource & Administration

Ms Darusilla Musi has a wealth of more than 13 years' experience in Human Resources. Ms Musi earned a Bachelor's degree in Business & Management from the University of Papua New Guinea. She is also a member of PNG Human Resource Institute and PNG Institute of Directors. Ms. Musi commenced employment with CTSL on 12 June 2018.

Freddy Manihoru, Manager Member Services

Mr Freddy Manihoru has more than 10 years' experience in the superannuation industry. Mr Manihoru has a Bachelor Degree in Business Management from Divine Word University and is a member of the PNG Institute of Directors. He commenced employment with CTSL on 1 April 2019.

Steven Gerega, Manager Northern Region

Mr Gerega joined CTSL on 30 November 2020. He has a Bachelor Degree in Business Management from Divine Word University and more than 17 years of work experience in the superannuation industry. Mr Gerega is also a member of PNG Institute of Directors.

Fund Managers Statement

In 2020 the global economy experienced the first global pandemic in over a century. With Covid-19 cases rapidly increasing, countries took swift and drastic actions to lock down their citizens and close their borders to contain the spread of the virus. As a result of these severe, but necessary lockdowns, the world simultaneously went into the largest recession since World War II.

This unprecedented shock saw the global economy contract by over 4%, with equity markets across the world dropping up to 20% of their local index values in the month of March alone. Unemployment rates in developed countries such as the United States and Australia rapidly accelerated between March and April from 4.4% to 14.7% and from 5.4% to 11.7% respectively. Oil prices sharply declined to all-time lows at US $12/barrel. In contrast, gold, a trusted commodity, and safe haven in times of crises reached a decade high of USD 2,000/ounce.

Geopolitical issues remained a significant contributor to equity market volatility as the trade war between China and America led by former President Donald Trump and the deterioration of the Chinese-Australian relationship continued to hamper investor confidence in the region.

Papua New Guinea (PNG) was not isolated from the impacts of Covid-19 as the government adopted similar measures to that of other countries to contain the spread of the virus within our community. PNG's economy declined by 3.9% at the height of the pandemic while the government deployed a range of fiscal and monetary interventions to cushion the impacts of this seismic economic shock. Political events during the final months of the year also briefly halted the government's economic recovery strategy.

CTSL's portfolio performance faced the headwinds of 2020 compared to 2019 with investments returns impacted by the Covid-19 pandemic. The portfolio revenue fell by K7.5 million or 17.1% due to reduced dividends from equities and a subdued domestic property market impacting rental income. Despite these challenges the Net Asset Value grew by 3.3% on the back of fair value improvements in the equity's asset class. The implementation of cost rationalisation measures across the portfolio was a key focus for 2020 and will continue to be in 2021.

Whilst 2020 was plagued with adversity, it presented a platform for the Trustee and FEL to reaffirm a robust partnership as we jointly navigated the challenges that Covid-19 presented. The completion of the next five-year (2021 to 2025) Strategic Assets Allocation (SAA) in alignment with the broader Fund's Strategic Plan was a key milestone reached in 2020. This new investment framework sets a clear path forward to achieving the fund's investment objectives. As the saying goes; "in crisis, lies great opportunity", and CTSL is now well poised to take advantage of investment opportunities in 2021 with this strong investment and strategic foundations set.

Looking forward, 2021 will remain a year of uncertainty for global markets as the world undertakes the most significant and complex manufacturing and logistical exercise to produce and distribute Covid-19 vaccines to communities. The Trustee and FEL will watch eagerly to see how this will impact global markets into the future and position the Fund accordingly.

Our focus is carefully chartering the recovery in the domestic and global economy to ensure the fund is on a firm footing for future growth. Implementation of the SAA to optimise risk-adjusted investment returns for members remains our priority and compliance with the Bank of Papua New Guinea prudential standards is embedded in our day-to-day operations.

On a special note, we would like to acknowledge our service men and women who played an integral role in supporting the government's response to this deadly pandemic and we thank them immensely for their efforts in protecting our country against an unseen enemy.

Adam Kramer	Rabbie Namaliu Jr
Director	**General Manager**

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Fund Administrator's Statement

KINA INVESTMENT & SUPERANNUATION SERVICES LIMITED

2020 YEAR IN REVIEW

The year 2020 has truly been an unprecedented year in which the global pandemic has reshaped the way in which businesses and organisations do business. Especially for the superannuation industry, it has added more complexity to an already changing environment. Nevertheless, with continued strong leadership and change management processes Kina Investments and Superannuation Services Limited (KISS) remains resilient in serving the needs of the fund and its members.

Testament to our continued commitment to Comrade Trustee Services Limited (CTSL), KISS has for the fourth consecutive year maintained an above industry service rating of 99%.

Our approach has always been collaborative and this has been again displayed through the year with a couple of key activities.

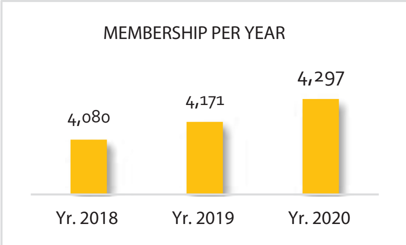
Reforms in the reconciliation process has seen positive outcomes been achieved this year with both the fund and trustee maintaining monthly reconciliations since the beginning of year. This is a commendable achievement as it has ensured accuracy of member balances at both fund and trustee level.

Data cleansing activities carried out this year has also meant accurate membership data is maintained which is vital for the fund leadership to make business decisions to take the fund forward.

This collaborative partnership will continue to be maintained for the betterment of the fund and its membership.

Fund Membership

Membership base at the end of December 2020 was 4,297 members. This consists of 193 members for Defined Benefit fund and 4,104 for Accumulation fund. Across both funds, it is noted that 32% of the total membership base are members who have served more than 20 years in the force, while the rest are under 20 years of service. This indicates that the bulk of the fund membership have the opportunity to make additional voluntary contributions towards their retirement savings.



Fund	Yr. 2018			Yr. 2019			Yr. 2020		
	Active Membership	Inactive Membership	Total	Active Membership	Inactive Membership	Total	Active Membership	Inactive Membership	Total
Accumulation	3,694	157	3,851	3,691	268	3,959	3900	204	4,104
Defined Benefit	114	115	229	106	106	212	90	103	193
Total	3,808	272	4,080	3,797	374	4,171	3,990	307	4,297

FUNDS UNDER ADMINISTRATION

Total funds under administration was K519.4 million.

Fund	Yr. 2018			Yr. 2019			Yr. 2020		
	Active Membership	Inactive Membership	Total	Active Membership	Inactive Membership	Total	Active Membership	Inactive Membership	Total
Accumulation	471,434,444	16,296,844	487,731,287	484,854,114	16,531,700	501,385,814	506,285,300	8,724,376	515,009,677
Defined Benefit	2,671,499	1,376,624	4,048,123	2,970,962	1,253,340	4,224,303	3,059,462.00	1,298,767	4,358,229.
Total	474,105,942	17,673,468	491,779,410	487,825,075	17,785,040	505,610,116	509,344,762	10,023,143	519,367,906

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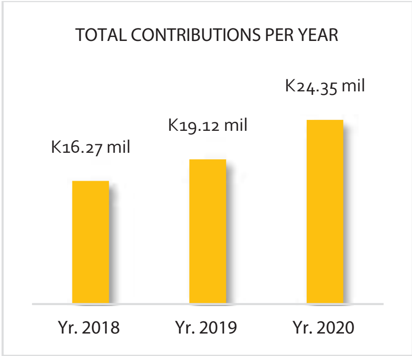
Contributions

Contributions received and allocated was K24.71 million for both Defined Benefit scheme and Accumulation scheme. Notably a significant increase in member voluntary contribution within the Accumulation scheme of K0.82 million compared to 2019 figures. A strong indication that members are taking superannuation savings seriously for a comfortable life upon retirement.

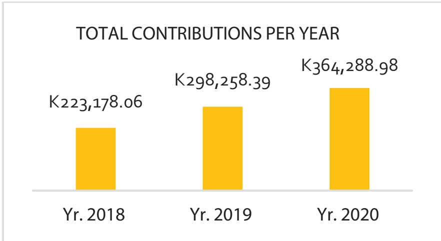
Accumulation f und

Description	2018 (PGK)	2019 (PGK)	2020 (PGK)
Member Contributions	6,479,845.35	8,010,175.81	8,795,698.29
Employer Contributions	9,033,779.29	9,888,029.02	12,270,549.38
Member Voluntary	297,160.32	912,181.84	1,727,999.14
Employer Voluntary	-	-	-
Member Salary Sacrifice	-	-	-
Housing Advance Repayment	99,270.00	124,309.00	186,796.69
Transfers from other ASF	363,093.70	185,296.19	1,369,511.63
State Share	-	-	-
Unallocated Contributions	-	-	-
Total	16,273,148.66	19,119,991.86	24,350,555.13



Defined Benefit f und

Description	2018 (PGK)	2019 (PGK)	2020 (PGK)
Member Contributions	196,391.27	255,675.26	110,148.76
Employer Contributions	680.00	410.00	211,821.49
Housing Advance Repayment	26,106.79	34,718.25	18,860.44
Member Voluntary	-	7,454.88	23,458.29
Unallocated Contributions	-	-	-
Total	223,178.06	298,258.39	364,288.98

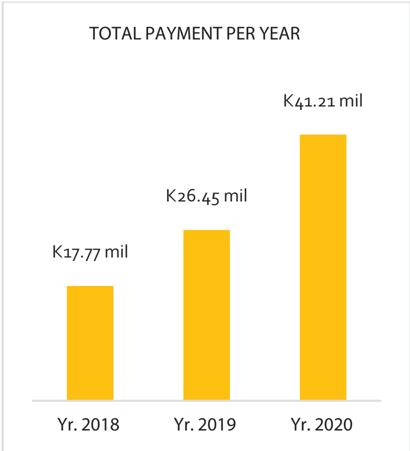


Benefit Payments

Total benefits paid in 2020 for both the Defined Benefit fund and Accumulation fund was K42.82 million: a representation of 61% increase from K26.6 million in 2019. Most of the exits were made on behalf of members who exited due to retirement age totalling up to K15 million. The fund also continued to facilitate Unfunded State Share payments during the year paying out over K21.4 million to 132 exited members upon funding from the government.

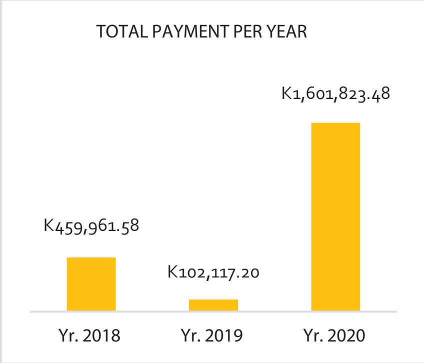
Accumulation f und

Description	Yr. 2018	Yr. 2019	Yr. 2020
Normal Retirement	8,903,205.40	12,785,025.43	15,096,009.36
State Share Payments	6,741,339.00	10,379,882.62	21,406,956.12
Medical Retirement	-	-	0.00
Death	1,502,104.73	1,802,274.92	2,143,531.34
Transfer Out (to other ASF)	-	-	176,442.51
Unemployment Benefits	38,597.04	49,122.24	16,341.76
Housing Advance Payments	269,155.90	539,048.48	1,494,231.83
Tax on Full Benefit Payment	866.28	4,720.97	882,339.55
Tax on Partial Benefit Payment	323,839.19	897,174.78	1,586.64
Total	17,779,107.54	26,457,249.44	41,217,439.11



Defined Benefit f und

Description	2018 (PGK)	2019 (PGK)	2020 (PGK)
Refund/Commutation	164,777.71	43,788.82	282,857.68
Normal	64,441.20	54,435.11	5,553.53
Medical	-	-	0.00
Death	4,064.00	-	39,862.20
Transfer Out (to other ASF)	-	-	4,025.74
Transfer Out (to DFAC)	-	-	1,249,182.00
Housing Advance Payments	219,379.92	-	15,689.76
Benefit taxed on Commutation	2,001.35	531.85	4,652.57
Benefit taxed on Full Payments	5,297.40	3,361.42	0.00
Total	459,961.58	102,117.20	1,601,823.48



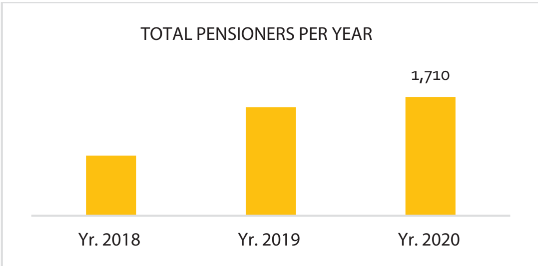
PENSION

Pension benefits of K13.6 million were paid out in 2020, a decrease of 32% compared to K17.98 million. 2019 payment was greater because of the one off pension payment. Monthly pension payments over the last two years remain consistent with an average of K1 million paid out each month.

At the close of the year, total number of pension members was 1,710 and 251 suspended pension members. This includes 514 widows and 16 child pension members.

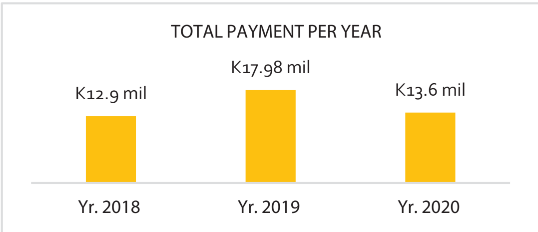
Pension statistics

Description	Yr. 2018	Yr. 2019	Yr. 2020
Normal*	1,509	1,443	1,441
Suspended*	166	260	269
Widow	497	510	516
Child	13	14	16
Age>65	961	1,044	1,056
Eligible for SMA	861	865	851
Total - from*	1,675	1,703	1,710



Pension payments

Payments	Yr. 2018	Yr. 2019	Yr. 2020
On-off Pension	-	4,374,219.09	15,945.46
Regular	12,925,182.50	13,605,813.00	13,610,892.18
Total	12,925,182.50	17,980,032.09	13,626,837.64



Looking Ahead

Our focus going forward will be to enhance our technology which is a key enabler. We plan to expand our competencies by enhancing our system capability to make access easier for CTSL and its members to manage their super savings by introducing a self-help model at both fund and customer level which will further drive a complete end to end processing.

Together it's possible!

Boge Dikana
Senior Manager, Fund Administration
Kina Investment & Superannuation Services Ltd (Licensed Fund Administrator)
'A wholly owned subsidiary of Kina Securities Limited'

Level 9, Kina Bank Haus
Douglas Street PO Box 1141
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2020 Highlights at a glance

FUND SIZE
K618m
Net Assets at 31-Dec-20

NET SURPLUS
K25.4m
Net Surplus at 31-Dec-20

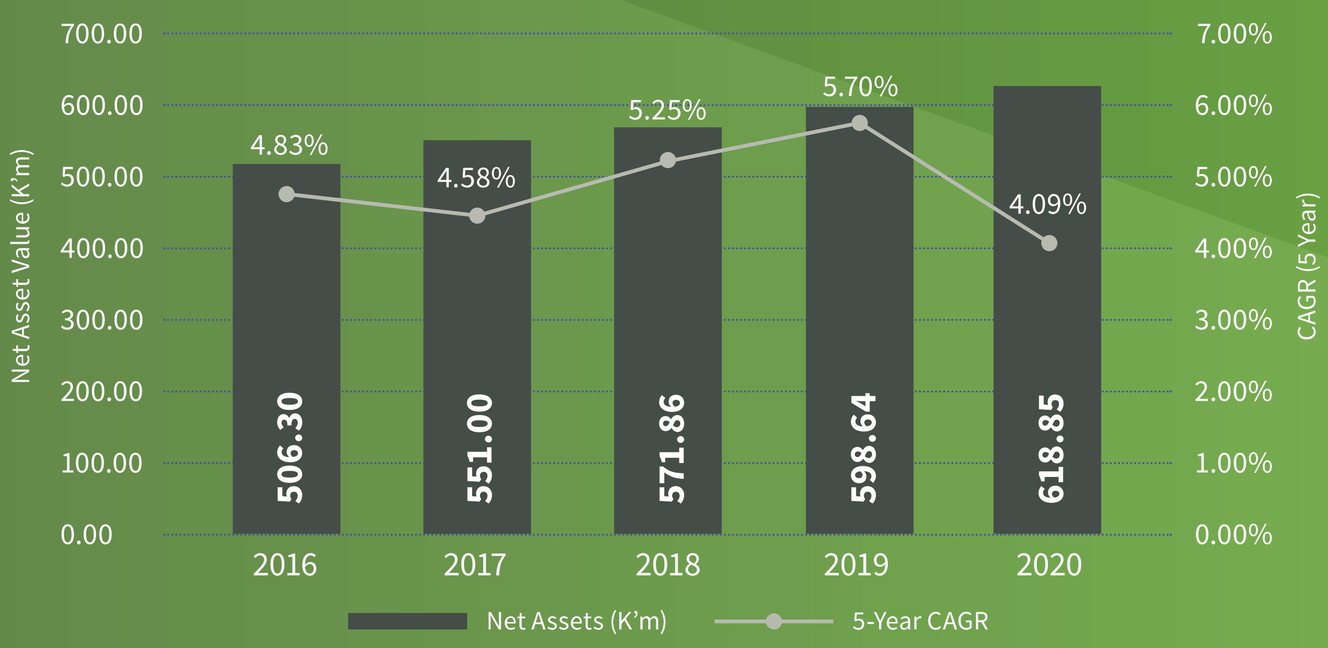
MEMBERSHIP
6,007 Members across both schemes

CREDITING RATE
5% for the year 2020

FIVE YEAR PERFORMANCE SUMMARY

Year	2016	2017	2018	2019	2020
Net Assets (K'm)	506.3	551.0	571.86	598.64	618.85
Net Asset Growth (K'm)	52.70	44.65	20.86	26.78	20.21
5 Year CAGR	4.83%	4.58%	5.25%	5.70%	4.09%

5-YEAR NET ASSET GROWTH



Investment Portfolio

Investment Portfolio	2020	2019	Allocation	Neutral Allocation*
Asset Classification	**K**	**K**	**%**	**%**
Domestic				
Cash	**47,994,584**	**41,120,903**	7.1%	3.0%
Fixed	**29,487,377**	**33,283,359**	5.7%	22.0%
Equites	**304,343,856**	**284,079,698**	48.8%	33.0%
Properties	**172,490,403**	**176,082,934**	30.3%	22.0%
DOMESTIC TOTAL	**554,316,220**	**534,566,894**	91.9%	80.0%
International				
Cash	**18,592,363**	**18,477,316**	3.2%	1.0%
Fixed	**0**	**0**	0.0%	2.0%
Equities	**30,383,846**	**28,563,272**	4.9%	17.0%
INTERNATIONAL TOTAL	**48,976,209**	**47,040,588**	8.1%	20.0%
TOTAL PORTFOLIO VALUE	**603,292,429**	**581,607,482**	100.0%	100.0%

Value as at 31-Dec

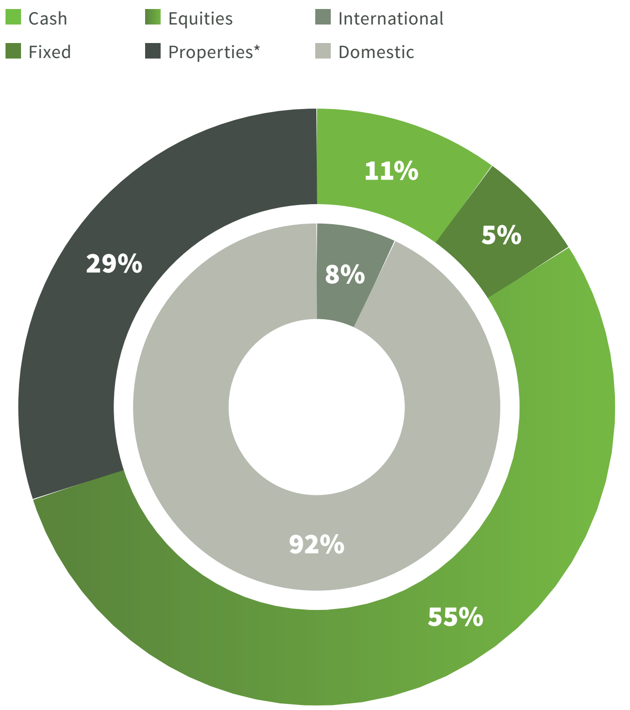
MAJOR INVESTMENTS**

Investments	Asset Class	Exposure
Bank South Pacific	Listed Equities	24.78%
Taurama Commercial	Properties	11.50%
Defens Haus	Properties	8.21%
SP Brewery Limited	Unlisted Equities	4.72%
Government Inscribed Stock	Fixed Income	4.89%

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

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

PORTFOLIO AT A GLANCE



EQUITIES PORTFOLIO

		2020	2019	Movement
Domestic	**GICS Sectors**	**K**	**K**	**%**
Listed				
Bank South Pacific	Financials	**149,472,624**	146,732,293	1.87%
City Pharmacy	Consumer Staples	**1,288,461**	2,087,306	-38.27%
Oil Search	Energy	**10,472,793**	18,063,226	-42.02%
Kina Asset Management Ltd	Financials	**4,883,424**	5,154,726	-5.26%
Credit Corporation	Financials	**3,539,966**	3,331,733	6.25%
Newcrest Mining Ltd	Materials	**2,125,309**	2,201,067	-3.44%
Kina Securities Ltd	Financials	**19,665,279**	12,651,755	55.44%
TOTAL DOMESTIC LISTEDS		**191,447,856**	190,222,106	0.64%
BPT(PNG) Ltd	Consumer Discretionary	**8,900,000**	6,348,064	40.20%
Paradise Foods Ltd	Consumer Staples	**20,241,000**	21,840,326	-7.32%
Post Courier	Consumer Discretionary	**762,000**	1,386,250	-45.03%
South Pacific Brewery	Consumer Discretionary	**28,492,000**	26,582,396	7.18%
Toea Homes Limited	Real Estate	**54,501,000**	37,700,556	44.56%
TOTAL DOMESTIC UNLISTED		**112,896,000**	93,857,592	20.28%
TOTAL DOMESTIC EQUITY PORTFOLIO		**304,343,856**	284,079,698	7.13%

International	**GICS Sectors**	**K**	**K**	**K**
Listed				
Telstra	Telecommunications	**0**	1,717,196	-100.00%
TOTAL INTERNATIONAL LISTEDS		**0**	1,717,196	-100.00%
Unlisted				
Vanguard International Shares Indexed Fund	Financials	**30,383,846**	26,846,076	13.18%
TOTAL INTERNATIONAL UNLISTED		**30,383,846**	26,846,076	13.18%
TOTAL INTERNATIONAL EQUITY PORTFOLIO		**30,383,846**	28,563,272	6.37%
TOTAL EQUITY PORTFOLIO		**334,727,702**	312,642,970	7.06%

Value as at 31-Dec

PROPERTY PORTFOLIO

		2020	2019	Movement
Properties	**Type**	**K**	**K**	**K**
Defens Haus	Commercial	**49,503,000**	50,454,000	(951,000)
Comrade Haus	Commercial	**19,500,000**	18,090,000	1,410,000
Stop N Shop	Commercial	**8,600,000**	8,560,000	40,000
Latitude 9	Residential	**9,000,000**	12,056,000	(3,056,000)
Ela Makana 2	Residential	**10,000,000**	12,718,750	(2,718,750)
Ela Makana 1	Land Bank	**6,500,000**	6,098,000	402,000
Taurama Commercial	Land Bank	**69,387,403**	68,106,184	1,281,219
TOTAL PROPERTIES		**172,490,403**	176,082,934	(3,592,531)

Value as at 31-Dec

CASH & FIXED INCOME

	2020	2019	Movement
	K	**K**	**K**
Cash			
Cash on hand	**2,000**	2,000	0
Cash in Banks	**44,148,640**	41,459,267	2,689,373
Term Deposits with maturities less than 90 days	**22,436,307**	18,136,952	4,299,355
TOTAL CASH	**66,586,947**	59,598,219	6,988,728
Fixed Interest			
Inscribed Stock	**29,487,377**	33,283,359	(3,795,982)
TOTAL FIXED INTEREST	**29,487,377**	33,283,359	(3,795,982)
TOTAL CASH & FIXED	**96,074,324**	92,881,578	3,192,746

Balance as at 31-Dec

COMPARITIVE STATISTICS

		2013	2014*	2015*	2016*	2017*	2018	2019	2020
Net Fund Assets									
Net assets*	K(m)	440.50	442.9	453.6	506.3	551.0	571.86	598.64	**618.85**
Net asset growth*	%	10.00	0.54	2.43	11.62	8.82	3.79	4.68	**20.21**
Reserve	K(m)	0.77	1.39	0.00	6.30	4.57	3.30	1.50	**0.00**
Net Surplus									
Net surplus after tax*	K(m)	39.70	5.75	41.93	55.01	52.25	23.86	31.47	**24.65**
Expenses									
Benefits	K(m)	9.10	20.10	17.05	20.70	31.80	28.60	31.73	**34.83**
Trustee administration	K(m)	6.30	7.79	3.97	10.67	9.71	10.27	12.13	**9.57**
Fund administration	K(m)	0.52	0.57	0.64	0.82	0.76	1.32	0.55	**0.80**
Investment management	K(m)	1.78	1.91	1.98	1.98	2.30	1.39	1.52	**1.30**
Management expense ratio*	%	2.02	2.32	2.32	2.89	2.49	2.44	2.55	**2.04**
Income									
Investment income*	K(m)	20.10	20.17	53.87	72.69	64.20	37.57	43.75	**36.17**
Contributions									
State share*	K(m)	4.80	7.18	7.95	8.66	17.05	17.82	19.26	**20.80**
Members	K(m)	3.40	4.10	4.85	5.91	7.12	7.79	7.81	**9.58**

*Denotes impact of the restatement of the 2014 -2017 audited financial statements.

			0.54%	2.43%	11.62%	8.82%	3.79%	4.68%	**3.38%**
Rate of Return	K(m)	3.40	1.30%	9.36%	11.46%	9.88%	4.25%	5.38%	**4.05%**

RESULT SUMMARY 2020

	Consolidated	Defined Benefits	Defined Accumulation
Summary of results under each schemes	**K**	**K**	**K**
Income Summary			
Income	36,167,485	20,094,310	16,073,175
Contribution Income	30,381,376	8,373,325	22,008,051
TOTAL	66,548,861	28,467,635	38,081,226
Expenditure Summary			
Trustee, Fund Investment and Administration and Tax Expenses	11,513,185	6,396,616	5,116,569
Benefits Paid	34,829,027	14,561,514	20,267,513
TOTAL EXPENDITURES	46,342,212	20,958,130	25,384,082
CHANGE IN NET ASSETS	20,206,649	7,509,505	12,697,144
NET SURPLUS PER FS	20,206,649	7,509,505	12,697,144
VARIANCE	-	-	-

Defence Force Retirement Benefits Fund

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2020

Contents

TRUSTEE'S DECLARATION TO MEMBERS

For the year ended 31 December 2020

In my opinion, as Trustee of the Defence Force Retirement Benefit Fund (the "Fund"), the accompanying financial statements of the Fund which comprise the Statement of Net Assets, the Statement of Comprehensive Income, the Statement of Changes in Net Assets, the Statement of Cash Flows, and the Notes to the financial statements, including a summary of significant accounting policies, give a true and fair view of the Fund's financial position and performance as at 31 December 2020 in accordance with International Financial Reporting Standards, the Superannuation (General Provisions) Act 2000, the Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

Further, I am of the opinion that:

a) the results of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal nature or character. All significant transactions during the year have been appropriately identified and disclosed in the financial statements;

b) no circumstances have arisen which would: (i) adversely impact the Fund's ability to meet its financial obligations and commitments as and when they become due and/ or (ii) render any amount in the financial statements misleading;

c) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due; and

d) The Trustee has satisfied itself that:

   i. key financial and operational risks have been identified and mitigating processes set in place;

   ii. systems to control and monitor those risks have been established, including adherence to prudent policies and procedures, reasonable operating limits and adequate and timely reporting processes;

   iii. established risk management systems are operating effectively and are adequate to address the risks they are designed to control; and

   iv. there are no apparent conflicts of interest with respect to the Fund's engagement of independent external auditors which may compromise their performance.

Sitiveni Weleilakeba
Statutory Manager

Dated at Port Moresby this 31st day of March 2021.

MANAGEMENT'S STATEMENT

For the year ended 31 December 2020

In our opinion, as management of the Trustee of the Defence Force Retirement Benefit Fund ("the Fund"), the accompanying financial statements of the Fund which comprise the Statement of Net Assets, the Statement of Comprehensive Income, the Statement of Changes in Net Assets, the Statement Of Cash Flows, and the Notes to the financial statements, including a summary of significant accounting policies, give a true and fair view of the Fund's financial position and performance as at 31 December 2020 in accordance with International Financial Reporting Standards, the Superannuation (General Provisions) Act 2000, the Defence Force Retirement Benefits Fund Act and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

Further, we are of the opinion that:

a) the results of the Fund's operations for the year have not been materially affected by items, transactions or events of an abnormal character. All significant transactions during the year have been appropriately identified and disclosed in the financial statements;

b) no circumstances have arisen which would: (i) adversely impact the Fund's ability to meet its payment obligations and commitments as and when they become due and/ or (ii) render any amount in the financial statements misleading;

c) there are no contingent liabilities that could materially affect the ability of the Fund to meet its obligations as and when they become due; and

d) Management has satisfied itself that:

   i. key financial and operational risks have been identified and mitigating processes set in place;

   ii. systems to control and monitor those risks have been established, including adherence to prudent policies and procedures, reasonable operating limits and adequate and timely reporting processes;

   iii. established risk management systems are operating effectively and are adequate to address the risks they are designed to control; and

   iv. there are no apparent conflicts of interest with respect to the Fund's engagement of independent external auditor which may compromise their performance.

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

Charlie Gilichibi
Chief Executive Officer

Matthew Kamaka
Manager, Finance

Dated at Port Moresby this 31st day of March 2021.

STATUTORY MANAGER'S REPORT

For the year ended 31 December 2020

I take pleasure in submitting this report and the annual financial statements of the Fund for the financial year ended 31 December 2020 in compliance with the provisions of the Companies Act 1997 and the Superannuation (General Provisions) Act 2000.

The Fund remained under Statutory Management for the full 2020 financial year after my appointment at the back end of 2019 as the Statutory Manager, in accordance with section 59 of the Superannuation (General Provision) Act of 2000.

It has been a challenging year to roll out key aspects of the "Rehabilitation Plan" as a direct consequence of the Covid-19 pandemic. Notwithstanding this, the Fund was able to operate under these conditions in aspiring to members' expectations and closed the year off on a positive note with additional State Funding for our Accumulated Contribution members.

Board of Directors

The Bank of Papua New Guinea has extended the period of Statutory Management for a further two years. The Board of Directors will be reinstated after the two-year extension.

Trustee Secretary

Mr Seno Wekina was appointed as the Company Secretary in August 2020 as a precursor to the appointment of the Board.

Review of operations

The Fund reported a net surplus after income tax and before other comprehensive income of K24,654,300 (2019: K31,473,652) and a change in net assets for the year of K20,206,649 (2019: K26,782,775).

Changes in state of affairs

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

Change in accounting policies

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

Entries in the interest register

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

Directors' remuneration

No remuneration was paid to directors in the absence of a board.

Donations

No donations were made during the current year (2019: Nil).

Independent audit report

The financial statements have been audited by KPMG and should be read in conjunction with the Independent Auditor's report on pages 32 to 34. Fees paid for external audit services are disclosed in Note 19.2 to the financial statements.

Subsequent events

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

Signed on behalf of the Bank of Papua New Guinea, having been given the responsibility and control over the Fund under the provisions of the Superannuation (General Provision) Act 2000.

Sitiveni Weleilakeba
Statutory Manager

Dated at Port Moresby this 31st day of March 2021.

Independent Auditor's Report

To the members of the Defence Force Retirement Benefit Fund

Report on the audit of the Financial Report

Opinion

We have audited the Financial Report of Defence Force Retirement Benefit Fund (the "Fund").

In our opinion, the accompanying Financial Report of the Fund is in accordance with the *Superannuation (General Provision) Act 2000, Defence Force Retirement Benefits Fund Act* and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea, including:

- giving a true and fair view of the Fund's financial position as at 31 December 2020 and of its financial performance for the year ended on that date; and
- complying with *International Financial Reporting Standards*.

The Financial Report comprises:

- statement of financial position as at 31 December 2020;
- statement of comprehensive income, statement of changes in net assets, and statement of cash flows for the year then ended; and
- notes including a summary of significant accounting policies.

Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Fund in accordance with the ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in Papua New Guinea. We have fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that we have remained independent as required by the Code throughout the period of our audit and to the date of this Auditor's Report.

KPMG

Other Information

Other Information is financial and non-financial information in Defence Force Retirement Benefit Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Statutory Manager is responsible for the Other Information.

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

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

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

Responsibilities of the Statutory Manager for the Financial Report

The Statutory Manager is responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

As part of the audit in accordance with *International Standards on Auditing*, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

KPMG

Auditor's responsibilities for the audit of the Financial Report (continued)

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

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

The auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

The *Superannuation (General Provisions) Act 2000*, *Defence Force Retirement Benefits Fund Act* and the Prudential Standards issued by the Bank of Papua New Guinea require that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the Financial Report for the year ended 31 December 2020:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the Fund as far as appears from an examination of those records.

KPMG
Chartered Accountants

Suzaan Theron
Partner
Registered under the Accountants Act 1996

Port Moresby
31 March 2021

STATEMENT OF NET ASSETS

For the year ended 31 December 2019

	Note	2020	2019
		K	K
Assets			
Cash and cash equivalents	7	**66,586,947**	**59,598,219**
Receivables from State	8	**7,008,763**	**13,958,306**
Financial assets:			
At fair value through profit or loss	9.1	**334,727,703**	**312,642,969**
At amortized cost	9.2	**29,487,377**	**33,283,359**
Investment properties	10	**172,490,403**	**176,082,934**
Property and equipment		**1,980,578**	**2,420,253**
Other assets	11	**4,524,387**	**3,412,446**
Related party receivables	21.1	**7,165,425**	**3,060,534**
Current tax assets	12.4	**2,953,085**	**2,344,830**
Deferred tax assets	12.3(a)	**284,711**	**949,264**
Total assets		**627,209,379**	**607,753,114**
Liabilities			
Employee provisions		**385,366**	**496,783**
Deferred tax liabilities	12.3(b)	**217,068**	**1,029,765**
Other liabilities	13	**7,761,894**	**7,588,164**
Total liabilities		**8,364,328**	**9,114,712**
Net assets available to pay benefits	14	**618,845,051**	**598,638,402**

Full notes to the financial statements are provided from page 38 to 58.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 K	2019 K
Revenue			
Investment revenue			
Interest income	15	**4,958,496**	**5,260,190**
Dividends		**18,654,200**	**23,342,933**
Property income net of property expenses	16	**1,362,495**	**4,119,209**
Change in fair value on investment properties	10	**(4,876,750)**	**(1,428,416)**
Change in fair value of financial assets	9.3	**14,342,603**	**11,525,624**
Gain on sale of financial assets	17	**(261,403)**	**112,100**
Net investment revenue		**34,179,641**	**42,931,640**
Other net income		**1,987,844**	**821,761**
Total revenue		**36,167,485**	**43,753,401**
Administrative and management expenses			
Trustee administration and management expenses	19	**9,569,339**	**12,131,000**
Fund administration and investment fees	20	**2,091,991**	**2,062,499**
Total administrative and management expenses		**11,661,330**	**14,193,499**
Net profit before income tax		**24,506,155**	**29,559,902**
Income tax benefit	12.1	**(148,145)**	**(1,913,750)**
Net profit after income tax		**24,654,300**	**31,473,652**
Other comprehensive income		**-**	**-**
Total comprehensive income		**24,654,300**	**31,473,652**

Full notes to the financial statements are provided from page 38 to 58.

STATEMENT OF CHANGE IN NET ASSETS

For the year ended 31 December 2020

	Note	2020 K	2019 K
Net profit for the year available to pay benefits		**24,654,300**	**31,473,652**
Contributions from members and state	18.2	**30,381,376**	**27,041,496**
Benefits paid to members	18.1	**(34,829,027)**	**(31,732,373)**
Change in net assets for the year		**20,206,649**	**26,782,775**
Net assets available to pay benefits at the beginning of the year		**598,638,402**	**571,855,627**
Net assets available to pay benefits at the end of the year		**618,845,051**	**598,638,402**

Full notes to the financial statements are provided from page 38 to 58.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 K	2019 K
Cash flows from operating activities			
Interest received		**4,958,496**	**5,260,190**
Dividends received		**18,654,200**	**23,342,933**
Property income received		**5,849,010**	**6,809,895**
Contributions received from members & state		**20,972,034**	**13,041,496**
Cash receipt from the state share of benefits		**37,962,546**	**14,000,000**
Benefits paid to members - normal		**(34,829,027)**	**(31,732,373)**
Benefits paid to members - unfunded state share		**(20,712,984)**	-
Cash payment to employees and suppliers		**(15,762,709)**	**(15,819,082)**
Net cash flows from operating activities		**17,091,566**	**14,903,059**
Cash flows from investing activities			
Proceeds from maturity of treasury bills		**6,000,000**	-
Purchase of treasury bills		**(3,122,424)**	-
Purchase of property and equipment		**(649,228)**	**(683,783)**
Proceeds from sale of property and equipment		**50,000**	-
Purchase of investment properties		-	-
Proceeds from sale of investment properties		-	-
Toea Homes Limited advances		**(4,170,316)**	**(2,245,302)**
Taurama commercial capital cost		**(1,125,744)**	**(504,286)**
Purchase of listed shares		**(8,540,919)**	-
Proceeds from sale of listed shares		**1,455,793**	-
Net cash flows used in investing activities		**(10,102,838)**	**(3,433,371)**
Net increase in cash and cash equivalents		**6,988,728**	**11,469,688**
Cash and cash equivalents at the beginning of the year		**59,598,219**	**48,128,531**
Cash and cash equivalents at the end of the year	7	**66,586,947**	**59,598,219**

Full notes to the financial statements are provided from page 38 to 58.

Notes to the financial statements

For the year ended 31 December 2020

1. DESCRIPTION OF THE FUND

Defence Force Retirement Benefits Fund (the "Fund" or "DFRBF") was established and recognized as a Superannuation Fund on 1 January 2003 pursuant to Section 8 of the Superannuation (General Provisions) Act 2000 and governed under the Defence Force Retirement Benefits Fund Act, Chapter 79 (DFRBF Act) with the repeal of Section 17 of the DFRB Act (provision through which the Fund was initially established on 31 December 2002). DFRBF was a Defined Benefit Fund until November 2015, when Parliament passed a bill allowing members to choose between the existing Defined Benefit and the newly established Defined Contribution (Accumulation) Fund. This has effectively changed the Fund from being a Defined Benefit Fund to be a hybrid Fund with both Defined Benefits and Defined Contribution (Accumulation) Schemes as at 1 January 2016.

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

The Fund is operated for the purpose of providing benefits to members of the DFRBF who are also members of the PNG Defence Force on retirement and or 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 their declared beneficiaries are fully funded by the time they become payable.

Total membership for the Fund as at 31 December 2020 was:

	ACCUMULATION BENEFIT MEMBERS	DEFINED BENEFIT MEMBERS	TOTAL
Contributors	4,104	193	4,297
Pensioners	-	1,710	1,710

The fund administration and investment management functions were outsourced to and performed by Kina Investment & Superannuation Services Limited (KISS) and Frontier Equities respectively, in compliance with the Superannuation (General Provision) Act 2000. The engagement of KISS was extended for a term of one year while Frontier Equities is into its second year of its three-year contract.

The principal place of business of the Fund is:

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

The principal accounting policies are set out below.

2.3 Summary of significant accounting policies

(a) Revenue recognition

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

Interest revenue

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

Dividend revenue

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

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

Property rental income

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

(b) Taxes

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

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

Current income tax

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

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

Deferred tax

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

Deferred tax liabilities are recognized 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 recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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 utilized, 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 recognized 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 utilized.

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 utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized 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 recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized 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 recognized in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant accounting policies (continued)

(c) Property and equipment

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

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

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

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

(d) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Land and buildings, classified as investment property, are valued at 31 December 2020. In determining the fair value for financial reporting purposes, reference is made to the valuations performed by registered valuers ("the valuers") whose valuation reports indicate several methods that have been considered as a part of the valuation process and include methods such as capitalization method, summation method and discounted cash flow method.

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

The registered valuers:

REGISTERED VALUER	PROPERTIES
DAC Real Estate	Defens Haus, Stop & Shop, Latitude 9, Ela Makana 1 & 2, Taurama and Comrade Haus

(e) Financial assets

i. Recognition and initial measurement

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

ii. Classification and subsequent measurement

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

- financial assets at fair value through profit or loss (FVTPL);
- financial assets at fair value through other comprehensive income (FVOCI) and;
- amortized cost financial assets.

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

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

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

(2) Amortized cost

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

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

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

(3) Reclassifications

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

(4) Financial liabilities

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

iii. Fair value measurement

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

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

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

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

Unlisted shares were independently valued as at 31 December 2020 as adopted by the Statutory Manager/Board. This valuation was performed by PricewaterhouseCoopers(PwC) as an independent professional valuer. The methodology used in the analysis was a combination of future maintainable earnings, dividend yields and discounted cash flows of assets, respectively as appropriate to the shares including Toea Homes Ltd, a 100% subsidiary.

iv. Amortized cost measurement

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference.

v. Impairment of financial assets

POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized 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 recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Summary of Significant accounting policies (continued)

(e) Financial Assets (continued)

v. Impairment of financial assets (continued)

POLICY APPLICABLE FROM 1 JANUARY 2018

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

The Fund measures loss allowances at an amount equal to lifetime ECL, except cash and cash equivalents which are measured as 12-month ECL as credit risk (i.e the risk of default occuring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for receivables are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

The Bank does not allow the Fund to issue loans to members and also does not allow interest bearing deposits with Financial Institutions that are not on the Bank's approved list. This mitigates the risk of possible impairments for the assets held at amortized cost. In addition, the Fund has K29.5 million out of its total assets of K627 million sitting as investments with the Bank through purchasing of the Government Inscribed Stocks. These have a high credit risk rating which further reduces the possible risk of impairments of these assets.

(f) Loans and impairment losses

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans originated by the Fund by providing money directly to the borrower are recognized as loans originated by the Fund and are carried at cost, which is defined as the fair value of cash consideration given to originate those loans as is determinable by references to market prices at origination date.

Third-party expenses, such as legal fees, incurred in securing a loan are treated as part of the cost of the transaction.

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

(g) Cash and cash equivalents

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

(h) Foreign currency

Functional presentation currency

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

Transactions and balances

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

(i) Changes in accounting policies and comparatives

No changes to accounting policies in the current year impacted the Fund. See details IFRS Standards in Note 2.4.

(j) Employee benefits

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

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

Defined contribution plans

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

(k) Provisions

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

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

(l) Goods and services tax

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

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognized as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognized inclusive of GST.

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

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

(m) Payables

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

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

Of the mandatory Standards introduced in the last three years, the Fund has applied IFRS 9 in January 2018. Most standards introduced have no impacts on the Fund in terms of its application.

Newly effective standards	Effective dates
Amendments to References to Conceptual Framework in IFRS Standards	1-Jan-20
Definition of a Business (Amendments to IFRS 3)	1-Jan-20
Definition of Material (Amendments to IAS1 and IAS 8)	1-Jan-20
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1-Jan-20

a) New Accounting Standards with impact on the Fund introduced in 2020.

New standards introduced with effective dates in 2020 have had no impacts on the operations of the Fund in terms of its applications.

b) Standards to be issued on and after 1 January 2021

The Fund is assessing the potential impact on its financial statements resulting from the application of the following standards:

Standards available for early adoption	Effective dates
IFRS 17 Insurance Contracts	1-Jan-20

3. CONTRIBUTION ARRANGEMENTS

Defined Benefit scheme

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

Accumulation scheme

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

Contribution receipts

Member contributions

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

3. CONTRIBUTION ARRANGEMENTS (CONTINUED)

Contribution receipts (continued)

State (Employer) Contribution

Defined Benefit scheme

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

Accumulation scheme

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

4. LIABILITY FOR ACCRUED BENEFITS UNDER DEFINED BENEFIT

The liability for accrued benefits for Defined Benefit Scheme Members has been determined on the basis of the present value of the expected future payments that arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to the expected future salary levels and, by application of the market-based, risk-adjusted discount rate and relevant actuarial assumptions. The actuary (Haintz Actuarial Pty Ltd) undertook the valuation of accrued benefits for the Defined Benefit scheme as part of an actuarial review as at 31 December 2018. The actuarial investigation used an aggregate costing method, whereby the discounted values of future benefits were compared with the net assets of the Fund, plus the discounted value of contributions paid by the existing members only. No assumptions were made regarding new entrants. Detailed discussion of the review is provided in the actuarial report.

Significant assumptions applied in the actuarial report are as follows:

	2018	2016
Investment Yield	**6%**	8%
Salary Increase	**6%**	8%
Pension Increase	**4%**	5%
Crediting rate	**6%**	8%
Pension Commutation	**50 %**	50%

Accrued benefits were valued as part of a comprehensive review undertaken as at 31 December 2018 as follows:

	2018	2016
	K	K
Liability for accrued benefits	**99,063,000**	82,529,000
Net value of assets	**331,418,000**	316,261,000

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

	2018	2016
	K	K
Liability for vested benefits	**97,945,000**	81,861,000
Net value of assets	**331,418,000**	316,261,000

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

	2018	2016
	K	K
Total net assets available to pay benefits	**571,856,000**	516,615,000
Accumulation Fund	**(240,438,000)**	(206,279,000)
Actuarial value of pensions currently being paid	-	5,925,000
Net value of assets under Defined Benefit	**331,418,000**	316,261,000

Although the actuarial report is prepared as at 31 December 2018, 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 2021 for the year ending 31st December 2020.

5. LIABILITY FOR ACCRUED BENEFITS UNDER ACCUMULATION SCHEME

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

The Fund is only liable to pay the 6% component of the member's contribution, the Fund's enhancement values and interest earned at the time of transfer in addition to the interest and contributions received after the transfer to the date of exit from the Fund. This liability is limited to the Accumulation Scheme net asset of K265 million (see Note 14.1(ii)).

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

Valuation of investment properties

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

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

Valuation of financial assets and liabilities

The Fund carries most of its non-quoted financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence, i.e., foreign exchange rates, interest rates, and volatility rates, the amount of changes in fair value would differ if the Fund utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect profit or loss and equity. (See Note 2.3(e)(iii).

Receivable from the State

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

1. State's share of the Accumulation (AC) member exit payments. This component is not reflected in the Fund's accounting records until it is received;
2. The balance of the initial AC members crystalized liability paid by the Fund;
3. State's share of the Defined Benefits (DB) member payments including the fortnightly pensions; and
4. Interest accrued on the outstanding payments.

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

These are then communicated at the Board level. In the absence of the Board of Directors, the Statutory Manager considers the State's share of exit payments receivable to be fully recoverable.

As at 31 December 2020, the State owes the Fund K7 million (Refer to Note 8) in respect of the State's share of members' benefits payments made by the Fund for both the AC and DB schemes.

The Fund pays pensions and commutations to eligible DB members on behalf of the State. Since 2018, the Fund has also made a one-off State share benefit payment to AC members who have retired on behalf of the State. The Fund recognizes these payments as receivables when invoiced to the State. All outstanding payments in respect of these invoices attract penalty interest of 5% plus the Treasury bill rate as at the end of each month.

As at 31 December 2020, the State's crystallized liability due for settlement to AC members who have since resigned and exited the PNG Defence Force stands at K17.5 million out of a total of K265 million owed to the AC members. This balance does not include the current year's interest. The Fund is not obliged to pay on behalf of the State and this liability is not recognized in the books of the Fund until the State releases money into the Fund.

7. CASH AND CASH EQUIVALENTS

	2020	2019
	K	K
Cash on hand	**2,000**	2,000
Cash in banks	**44,148,640**	41,459,267
Term deposits with original maturity less than 90 days	**22,436,307**	18,136,952
	66,586,947	59,598,219

8. RECEIVABLES FROM STATE

	2020	2019
	K	K
State's share on benefits paid	**7,008,763**	13,958,306

9. FINANCIAL ASSETS

9.1 Financial assets at fair value through profit or loss

	Note	2020 K	2019 K
Listed shares	23.1.1	**221,831,703**	218,785,377
Unlisted shares	23.1.2	**112,896,000**	93,857,592
		334,727,703	312,642,969

9.2 At amortized cost

	Note	2020 K	2019 K
Government inscribed stocks	23.2	**29,487,377**	33,283,359

Government inscribed stocks (GIS) are carried at amortized costs in accordance with IFRS 9 requirements introduced in 2018. These deposits are held to their maturity which varies between 2020 and 2031. Movements in GIS are set out in Note 23.2.

9.3 Change in value of financial assets

The amount comprises of:	2020 K	2019 K
Net fair valuation gain for listed financial assets at fair value through profit or loss	**(3,777,398)**	30,837,982
Net fair valuation loss for unlisted financial assets at fair value through profit or loss	**19,038,408**	(17,738,377)
Net movement for amortized cost assets	**(918,407)**	(1,573,982)
Change in fair value through profit and loss	**14,342,603**	11,525,624

10. INVESTMENT PROPERTIES

	2020 K	2019 K
Balance at beginning of financial year	**176,082,934**	175,311,898
Additions	**1,284,219**	2,199,452
Net loss from fair value adjustments	**(4,876,750)**	(1,428,416)
Balance at end of financial year	**172,490,403**	176,082,934

The fair value of the Fund's investment properties as at 31 December 2020 has been arrived at by considering valuation assessments carried out by DAC Real Estate which is an unrelated entity to the Trustee, along with re-computation of valuations using inputs from various other sources.

Investment property with a total carrying amount of K174,009,403 (2019: K176,082,934) was encumbered at 31 December 2020.

Investment Property	Valuation Basis	Value as at 31 December 2020 K	Value as at 31 December 2019 K
Comrade Haus	Capitalization	**19,500,000**	18,090,000
Defens Haus	Capitalization	**49,503,000**	50,454,000
SNS Boroko	Capitalization	**8,600,000**	8,560,000
Taurama Commercial Land	Direct Comparison	**47,981,000**	47,981,000
Taurama Commercial WIP	Cost	**21,406,403**	20,125,184
Ela Makana 1 Residential House	Direct Comparison	**6,500,000**	6,098,000
Ela Makana 2 Apartment	Direct Comparison	**10,000,000**	12,718,750
Latitute 9 Apartment	Capitalization	**9,000,000**	12,056,000
		172,490,403	176,082,934

Fair values were determined using present value cash flows, having regard to current market characteristics for similar properties located in Papua New Guinea. In the current year, Statutory Manager assessed that the carrying value of the investment properties are fairly stated.

Measurement of fair value, fair value model and significant unobservable inputs

Information about how the fair values of the Fund's investment properties are determined (in particular, the valuation method(s) and inputs used) is detailed as follows:

Direct capitalization is a fair valuation model, which considers the annual gross income of the property adjusted for vacancies and expenses. The net operating income is divided by a capitalization rate. The capitalization rate is derived from comparable markets transactions and adjusted for certain property specific characteristics such as the physical deterioration of the property and its location (prime or secondary). Key unobservable input includes the capitalization rates of 10%-11% (2019: 10.5%-11%) and market lease rates.

Operating lease arrangements

Operating leases, in which the Group is the lessor, relate to investment property owned by the Fund with lease terms of between one to three years, usually with an extension option. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The unguaranteed residual values do not represent a significant risk for the Fund, as they relate to property which is located in a location with a constant increase in value over the last three years. The Fund did not identify any indications that this situation will change.

Rental income earned from investment properties and costs of property operations recognized are disclosed in Note 16.

11. OTHER ASSETS

	2020	2019
	K	K
GST tax receivable*	**2,783,122**	2,313,955
Debtors – Corporate	**396,268**	184,283
Accrued interest:		
Term deposits and Government Inscribed Stock (GIS)	**664,651**	599,739
State share of defined benefits	**-**	60,732
Prepayments	**656,748**	175,004
Sundry debtors	**23,598**	78,733
Total	**4,524,387**	3,412,446
Less: specific allowance for losses	**-**	-
	4,524,387	3,412,446

*GST Receivable represented credits sitting in CTSL books. This has accumulated over time as GST credits received, in particular those on investment projects including Taurama surpassed the GST payable collected from its rental income. Dividends and interest income do not attract GST while capital gain is exempt from tax.

12. INCOME TAXES

12.1 Income tax expense recognized in profit or loss

	2020	2019
Comprising:	K	K
Deferred tax: Current year charge	**(267,420)**	(1,021,096)
Deferred tax: Prior year adjustments	**119,275**	(892,654)
Income tax benefit	**(148,145)**	(1,913,750)

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

	2020	2019
	K	K
Income Tax expense		
Profit before tax	**24,506,155**	24,869,025
Income tax expenses calculated at 25%	**6,126,539**	6,217,256
Tax effect of permanent differences	**(2,809,857)**	(1,402,619)
Dividends rebate	**(3,379,558)**	(5,835,733)
Under/(over) provision in prior year	**(85,268)**	(892,654)
Income tax benefit	**(148,145)**	(1,913,750)

12.3 Deferred tax recognized during the year

(a) Deferred tax assets

2020	Opening balance	Other adjustments	Recognized in P&L	Closing balance
	K	K	K	K
Temporary difference				
Accruals	106,171	-	(45,615)	60,556
Employee benefits	100,521	-	1 ,674	102,195
Tax losses	742,572	(742,572)	-	-
Depreciation*	(736,893)	827,840	31,013	121,960
	212,371	**85,268**	**(12,928)**	**284,711**

2019	Opening balance	Other adjustments	Recognized in P&L	Closing balance
Temporary difference				
Accruals	33,104	-	73,067	106,171
Employee benefits	91,639	-	8,882	100,521
Tax losses	-	-	742,572	742,572
	124,743	**-**	**824,521**	**949,264**

*Depreciation was classified as tax liability in 2019. This is now corrected and adjustments made accordingly in the 2020 tax calculation where depreciation is brought into the opening balance as a negative opening balance.

(b) Deferred tax liabilities

2020	Opening balance	Other adjustments	Recognized in P&L	Closing balance
	K	K	K	K
Temporary difference				
Interest receivable	165,117	204,543	(179,681)	189,979
Prepaid insurance	33,783	-	(6,694)	27,089
Rental debtors	93,973	-	(93,973)	-
	292,873	**204,543**	**(280,348)**	**217,068**

2019	Opening balance	Other adjustments	Recognized in P&L	Closing balance
Temporary difference				
Interest receivable	1,149,854	(892,654)	(92,083)	165,117
Prepaid insurance	10,843	-	22,940	33,783
Rental debtors	221,406	-	(127,434)	93,972
Depreciation*	736,893	-	-	736,893
	2,118,996	**(892,654)**	**(196,577)**	**1,029,765**

12.4 Current tax asset

	2020	2019
	K	K
Withholding tax	**3,508,805**	2,900,550
Company income tax provision	**(555,720)**	(555,720)
	2,953,085	2,344,830

13. OTHER LIABILITIES

	2020	2019
	K	K
Members Unclaimed Monies & State AC funding[1]	**3,008,581**	3,455,862
Creditors	**3,245**	3,245
BPNG Licence Fees	**506,756**	857,824
Fund Investment & Administration	**252,964**	255,371
Tenants Advance Rentals & Security Bonds	**1,180,895**	1,163,744
Wages & Salary Tax (Staff, Directors and Members)[2]	**1,834,751**	1,405,973
Audit Fees	**20,334**	20,546
Other Accruals	**954,368**	425,599
	7,761,894	7,588,164

[1] This reflects the crystallized balance of AC members due and payable pending further details from AC members. Also included here are the returned funds and unallocated funds pending confirmation of details for location.

[2] Wages and salary tax represents tax relating to staff and members benefits tax due and payable.

14. NET ASSETS AVAILABLE TO PAY BENEFITS

14.1 Statement of members funds

		2020	2019
Members funds	**Note**	**K**	**K**
(i) Defined Benefit			
Balance at beginning of year		**339,913,870**	331,417,430
Operating results (Note 14.2)		**13,697,694**	18,240,473
Net assets Available to pay Defined Benefits		**353,611,564**	349,657,903
Contributions received	18.2.1	**8,373,325**	8,536,860
Benefits paid	18.1.1	**(14,561,514)**	(18,280,893)
Prior year adjustments		**-**	-
Net assets Available to pay Defined Benefits at the end of the year		**347,423,375**	339,913,870
(ii) Accumulation Benefit			
Balance at beginning of year		**258,724,532**	240,438,197
Reclassification after election by Members		**-**	-
Operating results	14.2	**10,956,606**	13,233,179
Net assets Available to pay Accumulation Benefits		**269,681,138**	253,671,376
Contributions received	18.2.2	**22,008,051**	18,504,636
Benefits paid	18.1.2	**(20,267,513)**	(13,451,480)
Net assets Available to pay Accumulation Benefits at the end of the year		**271,421,676**	258,724,532
Comprising:			
Members Accounts – opening balance		**257,224,720**	237,136,056
Movements for the year		**1,740,538**	5,053,156
Interest allocation		**12,448,037**	15,035,508
Members Accounts – closing balance		**271,413,295**	257,224,720
Reserve*		**8,381**	1,499,812
Total Accumulation Members Funds		**271,421,676**	258,724,532
(iii) Total Members Funds			
Defined Benefits		**347,423,375**	339,913,870
Accumulation Benefits		**271,421,676**	258,724,532
Total Members Funds		**618,845,051**	598,638,402

*The reserve carried forward from 2019 has been allocated to AC members account along with the 2020 net operating profit. This is to ensure consistent returns after the impact of the Covid-19 pandemic on the Fund's performance.

14.2 Apportioning of net operating surplus

The Fund's actuary provided the accounting apportioning basis for allocating revenue and cost from the investment and administrative operations to determine the net operating profit under each scheme.

The opening net assets under each scheme along with actual contribution and benefits payments for the year has been used as the basis for apportionment.

	Accumulation Total	Defined Accumulation	Defined Benefit
	K	K	K
Income	36,167,485	16,073,175	20,094,310
Expenses	(11,661,330)	(5,182,406)	(6,478,924)
Tax	148,145	65,837	82,308
Net operating income from operations	24,654,300	10,956,606	13,697,694
Accounting apportioning ratios	100%	44.44%	55.56%

15. INTEREST INCOME

	2020	2019
	K	K
Interest income is earned from the following assets:		
Financial assets at amortized cost	**3,643,692**	3,646,355
Cash and short-term funds	**1,314,804**	1,613,835
	4,958,496	5,260,190

16. PROPERTY INCOME NET OF PROPERTY EXPENSES

	2020	2019
	K	K
Rent	**6,935,723**	8,137,198
Less: • Agent management expense	**(40,038)**	(29,157)
• Other property expenses	**(5,533,190)**	(3,988,832)
	1,362,495	4,119,209

17. GAIN/(LOSS) ON SALE OF FINANCIAL ASSETS

	2020	2019
	K	K
Gain/(loss) on sale of listed investments	**(261,403)**	112,100

18. CONTRIBUTIONS RECEIVED AND BENEFITS PAID IN DETAIL

18.1 Benefits paid

	2020	2019
	K	K
18.1.1 Defined Benefit Scheme		
Pension and back pension	**13,148,145**	18,202,888
Refunds	**1,293,733**	54,540
Gratuities	**-**	-
Lump sum	**119,636**	44,320
Housing Advance Benefit Payments	**-**	(20,855)
Total Defined Benefits Payment	**14,561,514**	18,280,893
18.1.2 Defined Accumulation Scheme		
Normal benefits paid	**19,571,584**	12,629,477
Unemployment benefits paid	**18,915**	55,078
Other employments benefits paid	**-**	-
Housing Advance Benefit Payment	**677,014**	766,925
Total Defined Accumulation Payments	**20,267,513**	13,451,480
18.1.3 Total Benefits paid		
Defined Benefit Scheme	**14,561,514**	18,280,893
Defined Accumulation Scheme	**20,267,513**	13,451,480
Total Benefits Paid	**34,829,027**	31,732,373

18.2 Contributions from members and state

	2020	2019
	K	K
18.2.1 Defined Benefit Contribution		
State share of contributions towards defined benefits payments	**8,096,252**	8,242,083
Defined Benefits Scheme Members 6% contribution	**277 ,073**	294,777
Housing Repayments	**-**	-
Total Defined Benefits Contribution	**8,373,325**	8,536,860
18.2.2 Defined Accumulation Contribution		
State 8.4% Contribution to Accumulation Scheme Members	**12,701,501**	10,984,472
Members 6% Employee Contributions	**9,306,550**	7,520,164
Housing Repayments	-	-
Total Defined Accumulation Contribution	**22,008,051**	18,504,636
18.2.3 Total Contribution		
Defined Benefit Scheme	**8,373,325**	8,536,860
Defined Accumulation Scheme	**22,008,051**	18,504,636
Total Contribution Receipts	**30,381,376**	27,041,496

19. TRUSTEE ADMINISTRATION AND MANAGEMENT EXPENSES

		2020	2019
	Note	K	K
Staff expenses	19.1	**3,861,416**	5,204,544
Operating lease		**1,086,713**	1,327,303
Depreciation		**1,028,214**	966,608
Software cost		**34,903**	-
Other administrative expenses	19.2	**3,558,093**	4,632,545
		9,569,339	12,131,000

100% of annual administrative costs carried by CTSL have now been transferred to THL based on approved apportioning rates to ensure equal distribution of costs to THL, resulting in a drop in the overall admin costs.

19.1 Staff expenses

	2020	2019
	K	K
Salaries and wages	**2,861,014**	4,246,962
Sacrifice – Accommodation	**553,713**	621,791
Insurance – medical	**38,404**	32,914
Training	**159,171**	111,705
Sacrifice – School fee	**107,334**	94,066
Sacrifice – Airfare	**111,810**	46,909
Other staff expenses	**29,970**	50,197
	3,861,416	5,204,544

There were 34 employees at the end of the year (2019: 33). Staff costs have reduced as components of the costs have been transferred to its subsidiary Toea Homes Ltd.

19.2 Other administrative expenses

	2020	2019
Details of other administrative expenses follow:	K	K
Board of Trustee expenses	**29,589**	648,677
Insurance	**601,352**	383,007
Advertising	**127,402**	75,345
Internet service provider	**184,250**	119,589
Professional fees:		
Audit services[1]	**427,560**	218,000
Tax	**76,029**	40,000
Consulting	**307,575**	488,099
Legal	**46,083**	117,216
Other	**11,415**	63,382
Printing and stationery	**92,532**	103,030
Telephone	**109,804**	44,864
Licence fee[2]	**774,762**	1,515,399
Sundry expenses	**769,740**	815,937
	3 ,558,093	4,632,545

[1]External Audit Service Fee is K145,000 while balance is internal audit services.

[2]Licence fee directly relates to Bank of PNG annual licence fee renewal and includes 50% Statutory Management cost transferred to its subsidiary, Toea Homes Ltd.

20. FUND ADMINISTRATION AND INVESTMENT MANAGEMENT FEES

	2020	2019
	K	K
Fund administration fee	**795,356**	545,725
Investment management fee	**1,296,635**	1,516,774
	2,091,991	2,062,499

21. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The receivable from Toea Homes Ltd is unsecured, interest free and does not have a pre-determined payment term.

21. RELATED PARTY TRANSACTIONS (CONTINUED)

21.1 Toea Homes Limited

	2020	2019
	K	K
Related party receivable from THL	**7,165,425**	3,060,534

Toea Homes Limited (THL) is a wholly owned subsidiary of CTSL and was formed as a vehicle to manage the CTSL member home ownership scheme. THL is focused on developing a home ownership scheme for members of the Fund. The investment in THL is recorded at market value and is carried at K54,501,000 (2019: K37,700,556).

THL, being a 100% subsidiary of Comrade Trustee Services Ltd, is under Statutory Management per Section 59 of the Superannuation General Provision Act 2000.

21.2 Key management personnel remuneration specified in aggregate

	2020	2019
	K	K
Salary	**2,102,400**	2,358,657
Non-monetary(i)	**793,242**	588,457
Superannuation – Employer	**184,302**	232,864
	3,079,944	3,179,978

(i) This pertains to the actual housing and other salary sacrificed allowances paid to suppliers as benefits to employees.

21.3 Board of Directors remuneration during the year

	2020	2019
	K	K
Board remuneration*	-	576,089

*2020 board remuneration is nil. The fund is under Statutory Management.

21.4 Other related party transactions

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

During the 2020 financial year, the Fund earned interest on term deposits of K470,367 (2019: K516,656) while term deposits placed with Kina Finance Limited amounted to K22,436,308 (2019: K18,942,930). The Fund also received dividends amounting to K894,708 (2019: K775,253) and generated unrealized capital loss of Kl,527,395 (2019: K4,656,946) from its investment in KSL.

22. FINANCIAL RISK MANAGEMENT

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

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

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

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

22.1 Liquidity risk

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

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

The liabilities of the Fund are long term in nature and are well structured in terms of benefits comprising of a mix of a pension commutation and a fortnightly pension payable throughout the life-time of the member. The Fund is not exposed to liquidity risk arising from interest bearing financial liabilities.

22.2 Government security risk

The Fund has a significant exposure to the State through its holding of government inscribed stocks (Note 9.2) and through State contributions towards benefit payments (Note 8).

22.3 Country risk

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

	2020	2019
	K	K
Listed securities (FVTPL)	**62,647,231**	61,479,320
Monetary financial assets (cash and cash equivalents)	**18,592,373**	18,477,316
Total	**81,239,604**	79,956,636

22.4 Interest rate risk

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

	Weighted average interest rate	Up to 1 Year	1 to 5 Years	Over 5 Years	Non-interest bearing	Total
31-Dec-20		K	K	K	K	K
Assets						
Cash and cash equivalents	1.23%	66,586,947	-	-	-	66,586,947
Amount receivable from State	6.38%	-	7,008,763	-	-	7,008,763
Financial assets:						
FVTPL	-	-	-	-	334,727,703	334,727,703
Amortized Cost	11.13%	-	11,880,962	17,606,415	-	29,487,377
Other assets	-	-	-	-	1,084,517	1,084,517
Liabilities						
Employee provisions	-	-	-	-	-	-
Other liabilities	-	-	-	-	(5,927,143)	(5,927,143)
Liquidity and interest sensitivity gap		66,586,947	18,889,725	17,606,415	329,885,077	432,968,164

	Weighted average interest rate	Up to 1 Year	1 to 5 Years	Over 5 Years	Non-interest bearing	Total
31-Dec-19		K	K	K	K	K
Assets						
Cash and cash equivalents	1.23%	59,598,219	-	-	-	59,598,219
Amount receivable from State	6.39%	-	13,958,306	-	-	13,958,306
Financial assets:						
FVTPL	-	-	-	-	312,642,969	312,642,969
Amortized Cost	10.61%	-	17,967,432	15,315,928	-	33,283,360
Other assets	-	-	-	-	923,487	923,487
Liabilities						
Employee provisions	-	-	-	-	-	-
Other liabilities	-	-	-	-	(6,182,191)	(6,182,191)
Liquidity and interest sensitivity gap		59,598,219	31,925,738	15,315,928	307,384,265	414,224,150

22.5 Foreign currency exchange risk

The Fund holds monetary assets denominated in currencies other than Kina, the functional currency. The Fund is therefore exposed to currency risk, in regards to assets denominated in foreign currency due to changes in exchange rates. The table below summarizes Fund's exposure to currency risks.

	2020	2019
Currency	**K**	**K**
PGK Value of overseas currency denominated in AUD	**14,888,579**	14,891,494
PGK Value of overseas currency denominated in USD	**3,703,794**	3,585,822
	18,592,373	18,477,316

Assuming that the impact of currency fluctuation is asymmetric, a100 basis points shift in currencies in either direction would impact the profit or loss by K185,924 (2019: K184,773).

22.6 Fair values of financial assets and liabilities

(a) Fair value versus carrying values

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

Management and the Statutory Manager are of the opinion that the fair values of the following financial assets and liabilities approximate their carrying values as these are short dated instruments carried at amortized cost such as cash and cash equivalents, receivable from State and related party and other assets and liabilities. Carrying values of the financial instruments are disclosed in the statement of net assets.

(b) Fair value hierarchy

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

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

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

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

Level 3 investments identified below consist of unlisted shares (refer Note 9.1). The unlisted shares are stated at fair value, which are based on external valuation reports provided by independent experts. The main methodologies in determining the fair value of unlisted equities are based on capitalization of earnings, capitalization of dividends, net tangible assets and discounted cash flows. It is appropriate to consider all of the above methods in arriving at a fair value.

	Level 1	Level 2	Level 3	Total
31-Dec-20	**K**	**K**	**K**	**K**
At fair value through profit or loss	**221,831,703**	-	**112,896,000**	**334,727,703**
Government inscribed stocks	-	**29,487,377**	-	**29,487,377**
Total	**221,831,703**	**29,487,377**	**112,896,000**	**364,215,080**
31-Dec-19	**K**	**K**	**K**	**K**
At fair value through profit or loss	**218,785,378**	-	**93,857,591**	**312,642,969**
Government inscribed stocks	-	**33,283,359**	-	**33,283,359**
Total	**218,785,378**	**33,283,359**	**93,857,591**	**345,926,328**

22.7 Credit risk

The Fund is exposed to credit risk primarily through the balances it holds with banks, receivable from State and related party, investments in government inscribed stocks and other financial assets. The maximum exposure to credit risk is limited to the extent of the carrying values of these assets which are disclosed in the statement of net assets. The Fund manages credit risk by dealing with reputed counterparties including financial institutions and the government, and closely monitors receivables that are past due and the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

22.8 Equity price risk

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

	2020	2019
	K	K
At fair value through profit or loss		
Listed securities in PNG	**159,184,475**	157,306,057
Listed securities in Australia	**62,647,231**	61,479,321
Total	**221,831,706**	218,785,378

Assuming that the impact of equity price volatility is asymmetric, a shift in indices by 1% in either direction would impact the profit or loss by K2,218,317 (2019: K2,187,854).

23. DETAILED LISTING OF FINANCIAL ASSETS HELD BY THE FUND

23.1 Financial assets at fair value through profit or loss

23.1.1 Listed shares

	Market Value 2020	Shareholding as a % of net assets of the Fund	Market Value 2019	Shareholding as a % of net assets of the Fund	Movements
Companies	**K**		**K**		**K**
Bank South Pacific	**149,472,624**	**24.72%**	146,732,293	22.35%	2,740,331
City Pharmacy	**1,288,462**	**0.21%**	2,087,306	0.29%	(798,844)
Oil Search Limited	**10,472,793**	**1.73%**	18,063,226	3.09%	(7,590,433)
Kina Asset Management Ltd	**4,883,424**	**0.81%**	5,154,726	0.90%	(271,302)
Credit Corporation	**3,539,966**	**0.59%**	3,331,733	0.49%	208,233
Telstra Corporation	**-**	**0.00%**	1,717,196	0.24%	(1,717,196)
Newcrest Mining Ltd	**2,125,309**	**0.35%**	2,201,067	0.27%	(75,758)
Vanguard International Shares Index Fund	**30,383,846**	**5.02%**	26,846,076	3.83%	3,537,770
Kina Securities Ltd	**19,665,279**	**3.25%**	12,651,755	1.40%	7,013,524
	221,831,703	**36.69%**	218,785,378	36.18%	3,046,325

During the year 4.4 million Kina Securities shares were purchased at a total cost of K5.5 million. 200,000 Telstra shares were also sold for K1.7 million.

23. DETAILED LISTING OF FINANCIAL ASSETS HELD BY THE FUND (CONTINUED)

23.1 Financial assets at fair value through profit or loss (continued)

23.1.2 Unlisted shares

	Market Value 2020	Shareholding as a % of net assets of the Fund	Market Value 2019	Shareholding as a % of net assets of the Fund	Movements
Companies	**K**		**K**		**K**
BPT(PNG) Ltd	**8,900,000**	**1.43%**	6,348,064	1.06%	2,551,936
Paradise Foods Ltd	**20,241,000**	**3.26%**	21,840,326	3.65%	(1,599,326)
Post Courier	**762,000**	**0.12%**	1,386,250	0.23%	(624,250)
South Pacific Brewery	**28,492,000**	**4.59%**	26,582,396	4.44%	1,909,604
Toea Homes Limited	**54,501,000**	**8.78%**	37,700,556	6.30%	16,800,444
Total	**112,896,000**	**18.18%**	93,857,592	15.68%	19,038,408

Unlisted equities are valued at fair value at balance date, as determined generally by registered independent professional valuers. The valuations as at 31 December 2020 were conducted by PricewaterhouseCoopers(PwC) PNG. The valuation methods used are considered the most relevant and appropriate. They are:

(1) Capitalization of Earnings (COE), which estimates a sustainable level of future maintainable earnings and applies an appropriate earnings multiples derived from market transactions of comparable entities or operational plans to derive a value;

(2) The Net Assets (NA) method which has been used by the valuers where the entity has significant real estate backing and earnings are limited or inconsistent.

23.2 Government Inscribed Stock

	2020	2019
	K	**K**
Beginning balance	**33,283,359**	34,857,341
Purchases during the year	**3,122,425**	-
Maturity during the year	**(6,000,000)**	-
Adjustments through P&L	**(918,407)**	(1,573,982)
Ending balance	**29,487,377**	33,283,359

24. AUDIT FEES

The independent external audit firm is KPMG. The audit fees for the audit of the financial statements are disclosed in Note 19.2.

25. CONTINGENT LIABILITIES AND COMMITMENTS

There were no contingent liabilities as at 31 December 2020 (2019: Nil). Statutory Management has approved the 2021 capital budget which includes a K7 million commitment to develop the Taurama commercial precinct fuel station to be fully operational by end of 2021.

26. EVENTS AFTER BALANCE SHEET DATE

There were no other events that occurred after 31 December 2020, the balance sheet date, other than what has been disclosed in the notes to the financial statements, that would require an adjustment or disclosure in the financial statements.

27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Statutory Manager and authorized for issue on 31 March 2021.

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