NATIONAL SUPERANNUATION FUND LIMITED

2013 ANNUAL REPORT

NASFUND
PAPUA NEW GUINEA

Your Partner in Superannuation!

CONTENTS

"The first choice provider of Superannuation Services in Papua New Guinea"

Your Partner in Superannuation!

CORPORATE INFORMATION

National Superannuation Fund ("Fund", "NASFUND" hereinafter) is a registered trust in accordance with the Superannuation (General Provisions) Act 2000 and is incorporated and domiciled in Papua New Guinea.

Principal place of business	Section 58, Lot 6 & 7 Boroko 4 Mile, Hubert Murray Highway Port Moresby, N.C.D. Papua New Guinea
Trustee	National Superannuation Fund Limited
Directors of the Trustee Company	Mr. Melchior Togolo CBE- Chairman Mr. William Lamur- Deputy Chairman Mr. Graham Ainui MBE, OL Mr. Hulala Tokome Mrs. Lata Milner (appointed 28 February 2013) Lady Mina Siaguru SM Mr. Murray Woo Mr. Reginald McAllister Mr. Vera Raga Mr. Robert Debrouwere (resigned 29 August 2013)
Secretary	Mr. Seno Wekina
Auditors	KPMG Chartered Accountants Level 3 Credit House Cuthbertson Street Port Moresby, N.C.D. Papua New Guinea
Fund Administrators	AonHewitt (PNG) Limited
Investment Manager	PacWealth Capital Limited
Bankers	Australia & New Zealand Banking Group (PNG) Limited Bank South Pacific Limited
Lawyers	Ashurst Lawyers Gadens Lawyers Posman Kua Aisi (PKA) Lawyers Warner Shand Lawyers
Professional Indemnity Insurance	American Home Insurance

VISION, MISSION & VALUE STATEMENT

Vision Statement

"The first choice provider of Superannuation Services in Papua New Guinea."

Mission Statement

"Safe guarding the (retirement) income of our Members in Papua New Guinea. To this end the Fund attempts to optimise growth and minimise risk by using the balanced portfolio approach. The Fund endeavours to credit an interest rate of minimum CPI +2% over a rolling 5 year period. The Fund regards compliance to it's Strategic Asset Allocation as paramount to acheiving this outcome.

Value Statement

- Customer service is our first priority.
- We rely on teamwork to achieve our goal.
- We will treat each other with trust, respect, consideration and courtesy.
- We will operate with honesty and integrity.
- We will never turn a blind eye to corruption of any kind.
- The efficient use of time will be encouraged.
- Skill level, progress and contribution will be encouraged and rewarded.
- We will be responsible for our actions.
- We will provide necessary training and equipment.
- We will provide necessary people in decision making.
- We will empower people to make and carry out decisions.
- There will be opportunities to learn the whole superannuation philosophy and processes.
- We learn from mistakes so that we can improve NASFUND and grow.
- We will communicate NASFUND activities and results.
- We will do what we can to support community without impacting on members' funds.
- We will always protect the reputation of NASFUND by ethical behaviour.

BOARD OF DIRECTORS

Standing (Left to Right): *Vera Raga, Murray Woo, Graham Ainui and Reg McAlister* ***Sitting (Left to Right):*** *Lata Milner, William Lamur - Deputy Board Chairman, Mel Togolo CBE - Board Chairman, Lady Mina Siaguru and Hulala Tokome.*

MANAGEMENT TEAM

Ian A. Tarutia MBE
Chief Executive Officer

Andrew McGrath
General Manager
Finance & Investments

Sitiveni T. Weleilakeba
Change Consultant &
Acting General Manager
Corporate Services

Seno Wekina
General Manager
Legal & Board Services

Ceslie Ila
Head of Human Capital

Turaho S. Morea
(Resigned in May 2013)

CHAIRMAN'S STATEMENT

Mr. Mel P. Togolo CBE
Chairman

Dear Members,

It is my pleasure to present to you the 2013 results of your Fund in what was another good year. Despite expectations that capital appreciation would soften and level out in the PNG market, the Fund experienced increased profitability and balance sheet growth on the back of positive capital gains on property, unlisted shares and government inscribed stock valuations. We also saw an increase in member accounts, growth of active employer base, more engagement with members, effective control on Management Expense Ratio and an increase in market share as the preferred provider of superannuation savings for workers in PNG.

I am pleased the consolidation strategy we put in place two years ago with a focus on fund growth, capacity building and institutional strengthening is now delivering the financial and operational outcomes we are realising today.

The main highlights for 2013 were as follows:

1. Net Asset Value ("NAV") of K3.356 billion representing a growth of 20% over 2012 audited results of K2.798 billion.
2. Net Profit of K332.250 million representing an increase of 50% over 2012 audited results of K220.842 million.
3. Contribution receipts of K443 million representing a 12% increase from K397 million in 2012.
4. Management expense ratio of 1.38% against a budget of 1.39% indicating efficient spending of administrative expenses against balance sheet growth.
5. Reserves of 2.11% of NAV equating to K71 million.
6. Total membership of 461,034 members out of which 173,799 were active contributors.
7. Active employer base of 2,389 establishments representing a 4% increase over 2012 figures.
8. 662 educational & public awareness shop floor presentations to employers & members exceeding budget of 500 presentations.
9. Payment of over K268 million in superannuation entitlements including housing advances to 66,680 members or their beneficiaries.
10. Attendance of another three Board directors on the Australian Institute of Company Directors course on professional directorship.
11. Continued professional training of our key personal in overseas institutions including our CEO's attendance at the highly regarded Harvard Business School.

On the back of these results the Board approved a crediting rate of 11% equating to over K301 million which was paid to members on 28 February 2014 compared to 10% paid to members in 2012. Over the last two years this is an average of 10.5% equating to K528 million that your Board has credited into members' accounts.

Sovereign Community Infrastructure Treasury Bill (SCITB) Investment
To expedite the recovery of the K125 million invested in the Sovereign Community Infrastructure Treasury Bill ("SCITB") the matter has been referred to the courts. At this point in time the matter is pending an Alternate Dispute Resolution hearing, however discussions are ongoing with the Government to resolve the issue out of court and we are hopeful of a favourable outcome that will see the return of the K125 million plus accrued interest.

As a matter of prudent management and audit comfort a total of K95 million of the outstanding principal plus all accrued interest since 2011 has been provisioned pending a successful outcome of the resolution of this issue. On the advice of our auditors further impairment was not required in 2013.

Revised Investment Strategy & Asset Allocation Guidelines
In August the Board approved a revised investment strategy conducted by Mercers, a well-known and highly reputable professional investment advisory firm. The review was also assisted by PacWealth Capital Ltd,

our Investment Manager. The review was necessary to ensure the Board had a clear plan to guide its investment objective of delivering returns equating to a minimum of CPI plus 2% over a rolling 5 year period. Secondly that the investment portfolio held a sufficient level of liquidity to pay members their entitlements as and when they fell due and at the same time continuing to invest in opportunities that reflect the long term risk and return requirements of our members. The Strategic Asset Allocation ("SAA") is detailed in the CEO's Statement and your Board has a plan to fully adhere to the new allocation guidelines over the next 3 years.

Regulatory & Compliance

The regulator, Bank of Papua New Guinea, has introduced new draft Prudential Standards on Governance, Risk Management and Investments. The Prudential Standard for Governance will be effective on the 1st January 2015 and your Board has plans in place to be compliant within the given time frame.

Looking ahead

As always we caution members that while good results are welcome news, we must remember that the investment cycle goes up and down and for superannuation savings to grow, members need to be aware of the long-term trends. We have been fortunate that for two years we have been able to deliver double digit returns.

In 2014, economic growth is projected to grow at a slower rate of 5% of GDP, down from 9% in 2012, as construction phase of the LNG project winds down and low commodity prices for our exports prevail. The Kina is also expected to depreciate by 10% against a back drop of decline in volume of exports and strong import demand from the retail, construction, manufacturing, petroleum and finance sectors. The challenge of continuing to deliver at the same levels as in the previous two years will be more arduous in 2014 and members must expect that the high returns they have enjoyed over the last 2 years is not sustainable.

While the Superannuation Act allows withdrawals before retirement for housing needs or times of unemployment, I remind members yet again that your superannuation savings are a long term investment for your benefit. Real returns after inflation to member accounts increase significantly over a longer period of time through the effect of compound interest and a dedication to investing in assets that provide secure long term returns. If funds are consistently withdrawn in between employment, exponential savings growth will not be realised and members will not enjoy the quality of life they deserve in retirement.

Conclusion

As an approved superannuation fund and a leading Papua New Guinean financial institution, we will continue to protect and grow members' hard earned savings as well as providing quality service that our members deserve and have become accustomed to. We will also play our part in nation building in accordance with the prudential guidelines and legislation we are subjected to and will engage with Government, colleague superannuation funds and other like-minded institutions to develop our country for the benefit of our members and future generations.

At this juncture I would like to commend the CEO, management and staff of the Fund for the hard work and commitment in delivering these pleasing results for 2013. Please continue the great effort into the future.

I also acknowledge and thank our Fund Administrators, Aonhewitt, and Investment Managers, Pacwealth Capital Limited, for their contribution and professional advice.

Finally, I am appreciative of and grateful for the support of my fellow board directors for their hard work, wise counsel and leadership over 2013. I look forward to working with each of you once more in the New Year for the benefit of our valued membership and our country Papua New Guinea.

Thank you.

Mel P Togolo. CBE
Chairman

Mr. Ian Tarutia MBE
Chief Executive Officer

Dear Members,

It is my pleasure to present your Funds' performance and activities over 2013. A comparative analysis of the main highlights is presented in the following table:

	2013	2012
Net Asset Value	K3.357 billion	K2.799 billion
Net Profit (expressed as Return on Investment)	K332.25 million	K220.84 million
Reserves (% of NAV)	2.1% (K71 million)	1.54% (K43 million)
Provisions for Impairment	Nil	K55 million
Management Expense Ratio	1.38%	1.14%
New Members Registered	61,441	69,934
Members Withdrawing under Section 90	66,680	61,115
Withdrawal Payment (Kina)	K268 million	K216 million
Total Member Accounts	461,034	415,179
Active Membership	173,799	172,190
Active Employer Base	2,389	2,296
Contribution Receipts	K443 million	K397 million
Educational and Public relation presentations	662	500
Interest credited to member accounts	11%	10%
Amount of Interest credited (kina)	K301 million	K227 million

The main contributors to the net profit of K332.250 million were direct investment income of K199.687 million, movement in net value of investments of K205.585 million as well currency movement of K0.823, before property costs of K17.4 million, admin expenses of K43 million, provisions of K9 million, and income tax expense of K 6.6 million.

On the back of this financial outcome, an 11% interest rate crediting equating to over K301 million was approved by the Board to be paid to members. This was credited into individual member accounts in February 2014. Management expense ratio was predicted to increase in 2013 on the back of implementing our new organisation structure but came below budget of 1.39% of NAV.

Active membership remained static, due to the high number of exiting members negating new member registrations. The high withdrawals were mainly attributed to downsising of the labour workforce associated with the LNG construction wind down. Unemployment and housing advances continued to be the largest category of withdrawals and reflected the fluidity of the private sector workforce and high demand for housing needs. Total member accounts, however, inclusive of inactive members increased by 11% to over 461,000 contributors. Likewise the 4% increase in employer base reflected the efforts of our marketing and employer services team to extend our coverage over a wider segment of the working population engaged in non-mining and petroleum sectors.

No further provisions were required to cover the SCITB investment which, as the Chairman stated in his report, is now before the courts for resolution. We anticipate a favourable outcome and are comfortable with the provision of K95 million set aside to date to mitigate any adverse findings if at all. We will continue to keep members informed of the progress of the SCITB resolution.

Investment Summary

The Board's investment objective is to achieve a return equal to or better than inflation plus 2% over a rolling 5 year period. To achieve this objective, the Board adopted a new Strategic Asset Allocation (SAA) in August 2013 after engaging Mercers and supported by Investment Managers, Pacweath Capital Limited to review its investment strategy. The revised SAA is now as follows;

			Board Adopted (02.08.13)	
		Low (%)	**SAA (%)**	**High (%)**
Equities	PNG Equities	17	22	27
Real Estate	PNG Property	12	17	25
Fixed Income	PNG Bonds	13	16	19
	PNG Loans	-	-	-
	PNG Cash *	-	10	-
International Equities	Global Defensive Equities	8	11	14
	Asia ex Japan Equities	8	11	14
Total International Equities			22	
International Fixed Income	Asian Hard Currency Bonds	3	6	9
	Emerging Market Local Currency Bonds	6	7	10
Total International FI/Cash			13	
Total			100	

* Balancing Item

The Board is looking over a 3 year time frame to 2017 to be compliant with the new guidelines.
New Investments made in 2013 were;

1. K203 million of GIS and Treasury Bills as part of our defensive strategy to capitalise on long term high yielding government securities.
2. K45 million refinancing of a popular fast food chain in the country.
3. K36 million for 40% equity in Hitron, a well- known provider of wireless TV programs and ISP services.
4. K56 million for 50% equity JV of the construction of PWC Haus in the Harbour City precinct.
5. K13 million purchase of the former BSP Douglas Street Building, adjacent to the former Westpac Building in Port Moresby CBD.

Corporate Services Summary

1. <u>Client Services – Face Book Enquiries</u>

A new initiative was the setup of a Facebook Page as another means of keeping in touch with member enquiries. Social media as a means of communication is fast catching on with consumers in PNG and our members are no exception. It is a less costly and convenient facility for members to keep in touch with us at their leisure in the comfort of their home or workplace. Common queries are account balances and withdrawal enquiries. To date we have 14,325 members registered on our Facebook Page.

2. <u>New Branch Offices</u>

Another initiative we are embarking on is the opening of second branch in Port Moresby CBD to complement our Boroko Client Service Centre. The branch will be housed in the former BSP Building along Douglas Street.

The same strategy of establishing a second branch will also be executed in Lae in the New Year.

3. <u>Member Date of Birth Update</u>

An accurate and updated member data base is important for investment planning. We need to know when the portfolio is to be liquidated to meet withdrawal demands as members leave the work force permanently or retire from employment having reached retirement age of 55 years. Over 25% of our members have inaccurate dates of birth. This exercise initiated in 2012 is ongoing to obtain correct information from our members, through employer visits and media advertising. We aim to have at least 90% of our member data base updated with the correct dates of birth by the end of 2014.

4. <u>Unallocated Contributions</u>

The timely receipt of contributions and efficient allocation into individual member accounts is an important KPI. It means members are able to access updated balances at any point in time, keeps employers compliant with remittances and enables members to plan their future as they see their savings grow. Our KPI is to keep aged unallocated contributions > 90 days below K5 million per month. This has been consistently below K5 million especially in the second half of the year, reflecting the effective workings of our Employer Services department and Aonhewitt, our back office Fund Administrator.

5. <u>Education, Public Awareness & Marketing</u>.

Interaction and direct communication with employers and members through regional conferences, and employer shop floor presentations is another important KPI and is conducted by our Business Development Unit. This activity ensures members and potential new contributors are kept abreast of all issues pertaining to the Fund, in addition to the benefits and services offered. Four regional employer conferences were held in Port Moresby, Lae, Mt Hagen and Kokopo over 2013 and 662 shop floor presentations conducted throughout the country.

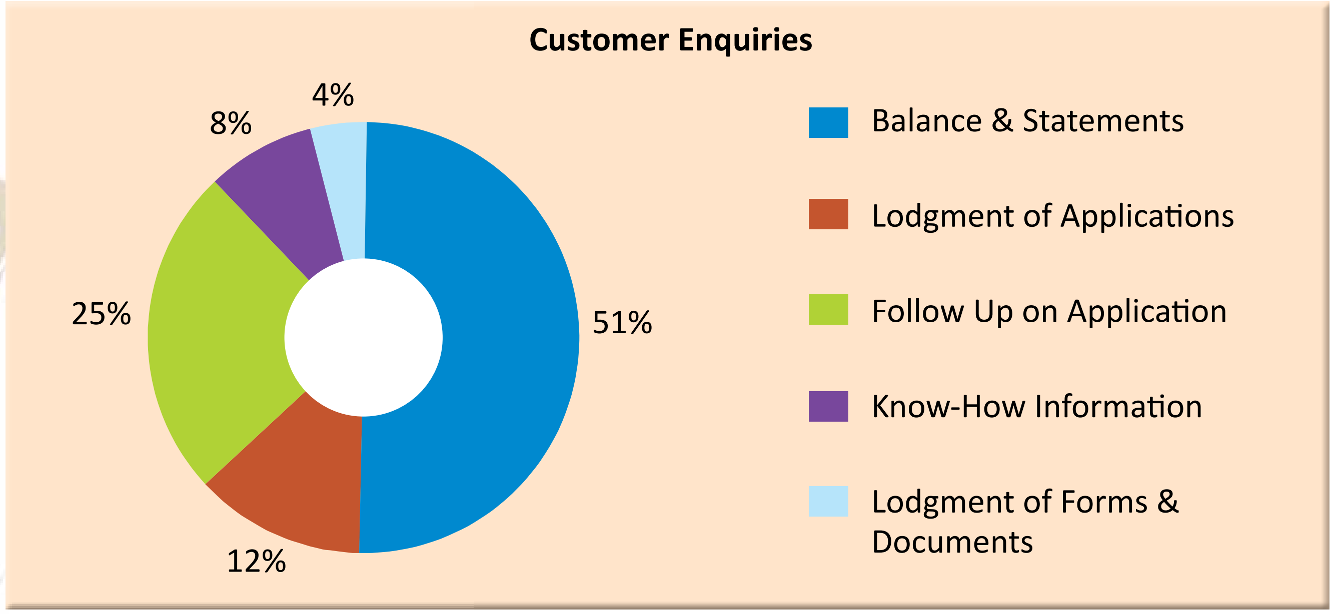
6. <u>Default Employers</u>

Hard core employers in breach of the Superannuation Act were the target of an aggressive campaign to comply with provisions of the Act. The actions entailed the recruitment of a lawyer, a para legal to boost our legal division, imposition of hefty penalty fines and referrals to the court. Whilst we acknowledge employers have genuine reasons for non-compliance, often due to circumstances beyond their control, default employers are not absolved from their obligations and advice should be sought from our Employer Services division on the appropriate course of action to take to avoid prosecution.

In 2013 our default employer level averaged 7% of active employer base, 4% above our benchmark of 3%. Reduction of default employers will be a priority area to address in 2014.

7. <u>Member Survey</u>

A survey of members revealed a majority of their enquiries throughout our branch offices related to balances or statements, followed by application withdrawal status updates, then lodgment of forms.



As a consequence, we commenced a project to review our internal business processes and resource allocation to ascertain what we could do better to accommodate members' demands for balances and statements. The project is work in progress.

People (Training & Development)
We continued our focus on career development for senior staff as part of succession planning, skill enhancement and leadership grooming. Senior staff in Siri Koae, Manager Employer Services & Business Development, Dickson Aopi, Manager Operations and Ceslie Ila, Head of Human Capital attended management programs at the highly regarded Mt Eliza Business School, Victoria, Australia. This is an ongoing program that will ensure the fund in the long term has a cadre of adequately skilled and professional staff in key positions for the benefit of the organisation and our valued members.

Governance
The Board's Governance Enhancement Program which started in 2012 continued in 2013. With new Prudential Standards being introduced by the regulator, Bank of Papua New Guinea, Directors have added responsibility and accountability. All directors have attended the Australian Institute of Company Directors Course and perform additional work through the Board sub committees, (Investment Committee, Remuneration & Nomination Committee, Audit & Risk Committee) to ensure matters prior to being presented before the full Board are well thought out, thoroughly screened and vigorously discussed before a final decision is made.

Corporate Social Responsibility
Modern day organisations do not just focus on the bottom line and NASFUND is no exception. The fight against the spread of HIV / AIDS, the efforts to improve child literacy, gender equality and improvement of governance are important developmental issues. We remain committed to supporting the work of BAHA (Business Coalition Against HIV Aids), Buk bilong Pikinini Literacy Program, Coalition for Change and the PNG Institute of Directors and demonstrate our actions by providing office space to these organisations in our head office.

Outlook 2014
As a consequence of an expected slowing in GDP growth by 4% in 2014, we anticipate organic growth indicators, while remaining positive, to also fall in 2014. We are already seeing a fall in new member numbers, new employer signings and contribution inflows. Active member numbers are being affected by an increase in retirees becoming eligible for payment as well as those affected by temporary unemployment. This will place a strain on our service capacity to process superannuation entitlements for the high volume of exiting members, not to mention ensuring sufficient liquidity at all times to make these payments. Consequently this also impacts our investment decision making and as Chairman mentioned, the intent of the Board to adhere to a revised asset allocation guideline starting in 2014. The Board has a plan that addresses these challenges and we look forward to implementing these actions to maintain, if not better, the results of 2013.

On this note I would like to acknowledge the many people and organisations that contributed to the positives of 2013. Firstly, to our valued members, thank you for your unwavering support and patronage. Without you we would not exist. I thank the Chairman Mel Togolo and the Board of Directors for their leadership, wisdom and guidance over the year. Thirdly, I acknowledge the support and contribution of our regulator, Bank of Papua New Guinea and the State as important stakeholders in our industry. Special thanks are also accorded to our service providers, Aonhewitt and Pacwealth Capital Limited for their timely back office services and professional investment advice.

Finally, a special thank you to my fellow EXCOM members and all the hardworking staff of the Fund. Well done and I look forward to your commitment and support once more in 2014.

Ian A. Tarutia, MBE
Chief Executive Officer.

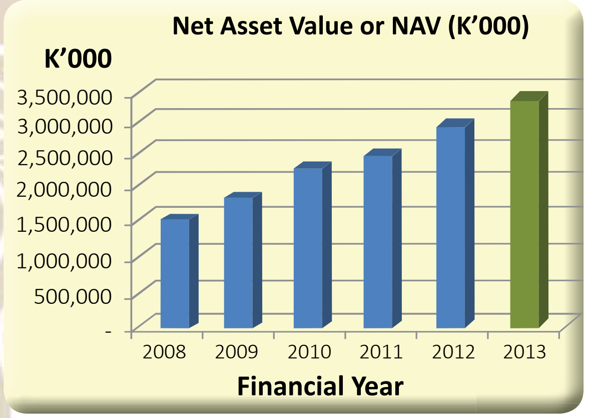
Statistical Information	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Assets & Liabilities						
Net Asset Value ("NAV"- K'000)	1,467,863	1,779,136	2,221,532	2,388,131	2,798,908	3,356,643
Growth	19%	21%	25%	7%	17%	20%
Profitability						
Total Comprehensive Income (K'000)	74,115	205,617	294,603	-8,836	223,417	330,600
Interest Credited to Members' Accounts	8.00%	15.00%	15.00%	2.00%	10.00%	11.00%
Reserves (% NAV)	4.15%	3.06%	3.99%	1.87%	1.54%	2.11%
Employers & Active Members						
Number of Active Employers	1,661	1,784	1,943	2,107	2,296	2,389
New Employers Registered (Gross) YTD	229	158	209	204	216	203
Employers Deregistered YTD	19	35	50	34	121	123
Level of Employer Default	39	52	63	70	115	222
Number of Active Members	119,018	126,812	140,545	159,397	172,190	173,941
Number of Inactive Members	167,924	186,222	182,161	210,270	242,989	287,144
New Members Registered (Gross)	55,217	51,789	53,184	66,331	69,934	61,441
Expenses						
Toal Expenses (K'000)	16,900	18,244	22,390	27,288	29,513	42,610
Management Expense Ratio (MER)	1.25%	1.12%	1.12%	1.18%	1.14%	1.38%
Fund Administrator's Fees (K'000)	3,196	3,380	4,020	4,835	5,380	6,239
Investment Manager's Fees (K'000)	1,694	1,327	2,487	4,540	3,975	5,051
Number of full time staff	91	100	100	109	119	123
Cashflow						
Withdrawals (K'000)	90,743	125,584	149,828	166,029	216,454	268,359
Contributions (K'000)	252,011	232,745	299,254	334,788	397,147	443,119
Number of members receiving benefit payment	41,538	55,846	74,323	55,004	61,115	66,680
Gross Return to Member	7.70%	16.22%	19.03%	3.12%	15.10%	13.98%
Net Profit After Tax return	6.12%	14.10%	16.93%	-0.41%	9.64%	11.57%
Less						
Transfer to/(from)Reserves	-1.88%	-0.90%	1.93%	-2.41%	-0.36%	0.57%
Equal						
Crediting Rate to Member	8.00%	15.00%	15.00%	2.00%	10.00%	11.00%

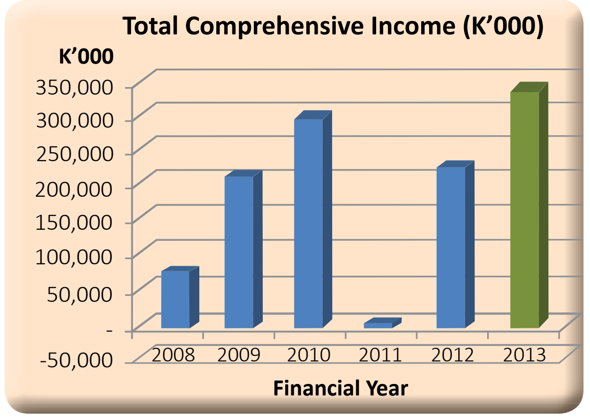
Investment Allocation and Guidelines

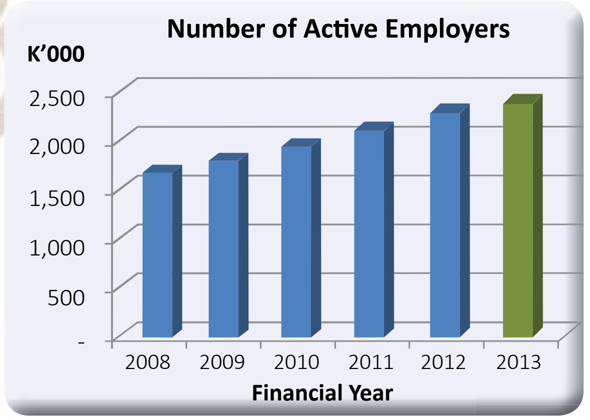
Asset Class Range	Min	Neutral	Max	2009	2010	2011	2012	2013
Equities	20	30	40	26%	27%	36%	36%	32%
Property	10	15	20	24%	21%	22%	20%	20%
International Equity	10	15	20	18%	20%	10%	9%	10%
International Fixed	0	5	10	0%	0%	0%	0%	0%
Fixed Interest & State Grants	10	15	30	16%	19%	19%	21%	20%
Loans	0	5	10	15%	5%	4%	3%	3%
Cash & Receivables	5	15	30	11%	9%	9%	11%	15%
Total				100%	100%	100%	100%	100%

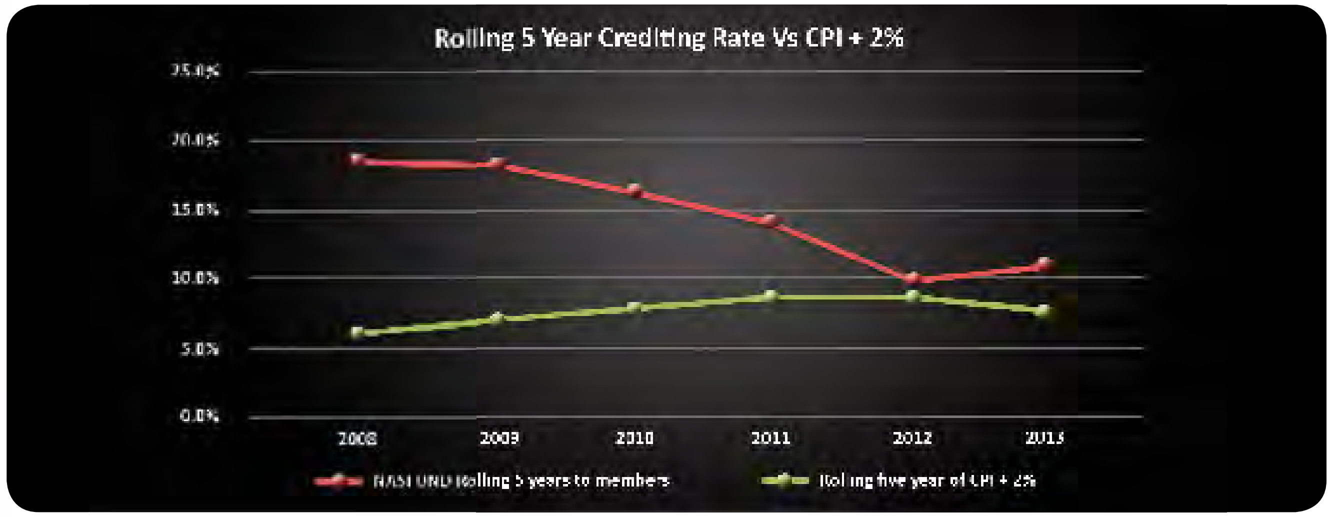
Current Allocation under the new Strategic Asset Allocation

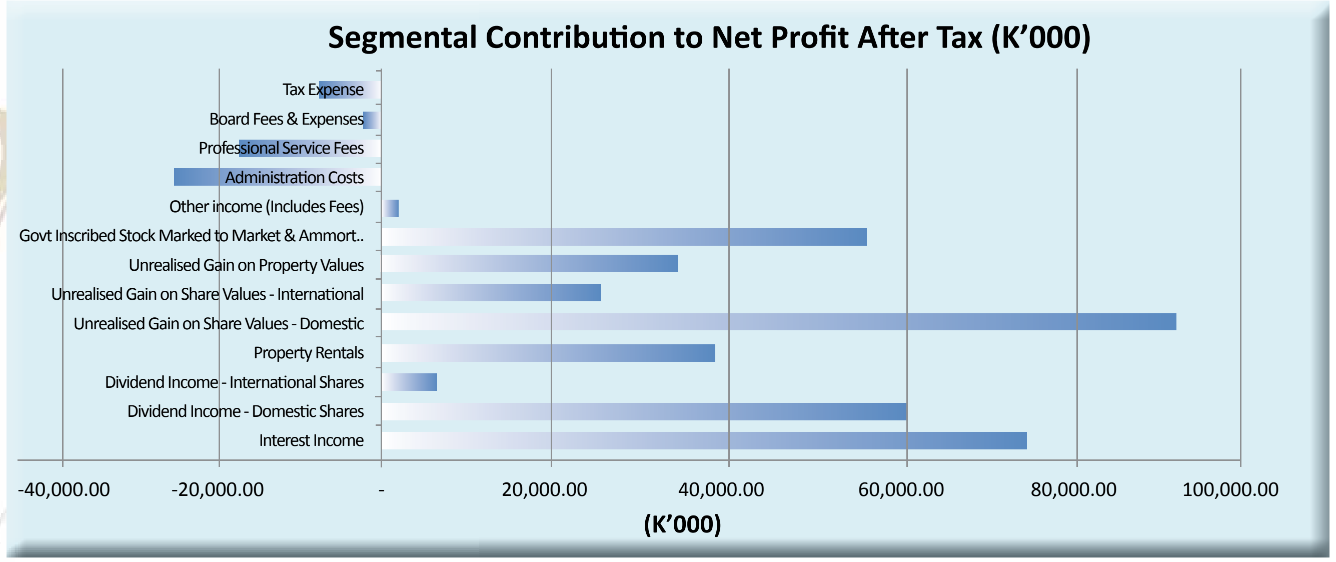
Asset ('000)		31-Dec-13	(%)	Min	SAA Neutral	Max	Var
Domestic							
Equities	PNG Equities	1,109,499.00	32.38	17	22	27	10.38
Real Estate	PNG Property	673,543.00	19.65	12	17	25	2.65
Fixed Income	PNG Bonds (incl Loans)	787,628.00	22.98	13	16	19	6.98
Cash (Balancing Item)	PNG Cash	524,746.00	15.31	0	10	0	5.31
Total Domestic		3,157,218.75	90.35		65.00		
International							
Equities	Global Defensive Equities	-	0.00	8	11	14	-11.00
	Asia ex Japan Equities		0.00	8	11	14	-11.00
	Dual Listed an Unlisted Equities	331,433.00	9.67	0	0	0	9.67
Total International Equities		337,269.97	10.32		22.00		
Fixed Income	Asian Hard Currency Bonds		0.00	3	6	9	-6.00
	Emerging Market Local Currency Bonds		0.00	6	7	10	-7.00
Total International Fixed Income & Cash		-	-		13.00		
Aggregate Investment Portfolio		3,426,849.00	100.00		100.00		











Vision
"The first choice provider of Superannuation Services in Papua New Guinea"

Objectives
The Board is responsible for the corporate governance of the Fund. The NASFUND Board is committed to the highest standards of Corporate Governance and disclosure in Papua New Guinea. The Corporate Governance matrix consists of five distinct governance objectives:

- Implementing the vision and values of NASFUND;
- Identification of risk and managing risk within set parameters within the Strategic Plan;
- Setting financial and service delivery targets;
- Compliance with the Superannuation (General Provisions) Act 2000 and associated Prudential Standards; and
- Employment and training of world class staff to meet performance goals.

NASFUND believes that its continued strength as the leading institution in superannuation lies in its open platform of member communication and open disclosure of the operations of the business. This statement sets out the principal corporate governance practices and disclosures that were in operation throughout the twelve months to 31 December 2013.

Role of Board
Under the NASFUND Constitution the management of the group is vested in the Board. The Board is charged with the following responsibilities:

- Corporate governance;
- Selection and supervision of the Chief Executive Officer;
- Approving and monitoring strategies, policies and plans;
- Monitoring compliance with relevant legislation, in particular the Superannuation 2000 Act; and
- Review of human resources, information technology, and resources of the business.

Prudential Standards on Corporate Governance
New Prudential Standards on Corporate Governance will be implemented by the regulator in 2015. The intent of the standards is to ensure approved superannuation funds are prudently managed and that reasoned, informed and impartial decisions are made in the interest of Fund members. Secondly, the standards ensure ultimate responsibility for the sound and prudent management of an approved superannuation fund is vested with the Board of Directors. The Board is committed to complying with the new standards.

Board Composition
The Board presently comprises 10 directors. Seven directors are shareholder representatives. The remaining 3 directors are independents selected by the Board. The new Prudential Standards on Corporate Governance will require a majority of the Board to comprise of independent directors with a tenure not to exceed 3 terms or 9 years in office. In the case of the Chairman or a Chairman of a Board committee, the term will not exceed 2 terms or 6 years. The Board is committed to complying with this requirement.

Board Committees
The Board has three committees to assist its workload and ensure the quality of its decision making follows a robust and stringent filtering process. They are the Audit & Risk Committee, the Investment Committee and the Remuneration and Nomination Committee.

Audit & Risk Committee (A&RC)
The responsibilities of the ARC are to:

(1) monitor compliance with the Board's policies and prudential and statutory requirements;

(2) ensure that appropriate systems and controls are in place to identify and address the risks arising from NASFUND's activities;

(3) ensure that a strong risk management culture is instilled throughout NASFUND; and

(4) oversee financial reporting, internal and external audits and recommending external auditor appointments.

In discharging these responsibilities the Audit & Risk Committee ensures that the Fund has in place a Risk Management Strategy which provides for the proactive identification, assessment, mitigation, management, monitoring and reporting of risks. This would include operational risk, liquidity risk, currency risk, investment risk, reputation risk, natural disasters, fraud and any other risk arising.

Investment Committee (IC)
The responsibilities of the IC are to:

(1) monitor compliance with the Board's investment policy, prudential and statutory requirements;

(2) ensure appropriate systems and controls are in place to identify and address the risks arising from the Licence Holder's investments and investment proposals;

(3) review investment objectives and strategies; and

(4) review and make investment recommendations to the Board based on investment proposals provided by the Investment Manager. This includes an assessment of:

(a) the risk and return;

(b) compliance with investment objectives and strategies; and

(c) how the performance of the investment is to be measured and monitored.

In discharging these responsibilities the Investment Committee reviews and monitors the investment portfolio reporting as well as monitoring the system of internal control in relation to investments, performance of the Investment Manager and regulatory requirements.

Remuneration & Nomination Committee (R&NC)
The responsibilities of the R&NC are to:

(1) Review and make recommendations to the Board on NASFUND's human resource policies and procedures, including the terms and conditions of appointment, remuneration and termination of Directors, the CEO and Senior Management;

(2) Review and make recommendations to the Board on NASFUND's Director, Executive and Senior Management Induction, Performance and Continuous Improvement Programs; and

(3) Review and make recommendations to the Board on NASFUND's Code of Conduct

In performing its duties, the R&NC will maintain effective working relationships with the Board of Trustees, Management, the internal and external auditors and the Audit & Risk and Investment Committees.

Board and Committee Attendance

Name of Director	Status	Board Meeting	Com. Meeting
Mel Togolo	Continuing	7/7	8/9
William Lamur	Continuing	6/7	6/7
Reg McAlister	Continuing	5/7	5/6
Graham Ainui	Continuing	5/7	6/7
Bob DeBrouwere	Resigned (July 2013)	4/7	4/6
Vera Raga	Continuing	7/7	7/7
Murray Woo	Continuing	4/7	6/9 & 5/7
Hulala Tokome	Continuing	7/7	9/9
Mina Siaguru	Continuing	6/7	6/7
Lata Milner	Appointed (August 2013)	1/7	-

Auditor Independence
The external Auditor is prohibited from preparing accounting records, or asset and liability valuations of existing assets.

Changes to the NASFUND Constitution and Trust Deed
There is an expected amendment to be made to the NASFUND Constitution to accommodate the change in appointment of directors to the Board. The majority of directors will now be independent while shareholder nominees will form a minority. All directors are required to meet minimum standards and pass a fit and proper assessment.

Codes of Conduct & Ethical Standards
The Board has adopted several codes relating to the conduct of Directors, Executives and Staff, including conflicts of interest and confidentiality agreements. NASFUND expects Directors and employees to observe the highest standards of behaviour and business ethics in conducting their business. All Directors and senior management have signed a code of conduct. A member of management is a graduate of the Australian Institute of Company Directors (AICD). Three Directors attended the AICD Directors Course in 2013. In total seven directors have completed the AICD Directors course.

Communication to Members
The Fund formally communicates to members on the performance and activities of the Fund through shop floor presentations, radio talk back, print electronic media and social media such as Facebook. In addition the Fund transmits updated member balances through the use of mobile phone SMS facilities. The Fund is cognisant that a well informed membership through effective communication is conducive to membership growth, loyalty and long term member retention.

Crediting Rate Policy
The Crediting Rate is determined on a time-weighted basis on member balances throughout the year. This is in accordance with international standards on return accreditation. The crediting rate distribution occurred in February 2014 for the 2013 year.

Conflicts of Interest
The Board has a process for dealing with conflicts of interest which entails the following:

- At the beginning of each meeting of the NASFUND Board and its Committees, the Chairman will ask for disclosure of all potential or actual conflicts of interest by Directors on any matters likely to be discussed at the meeting;
- Directors with a conflict of interest on a particular matter are prohibited from speaking or voting on that matter;
- The Seal Register maintained by the Company Secretary must be tabled at each Board meeting; and
- The Interest Register is to be tabled and where necessary updated at each meeting.

Derivative & Futures Exposure
The Fund through its investment guidelines is not allowed to engage in derivative exposure.

Directors Interests
A list of NASFUND Directors personal shareholdings and Board positions can be accessed via the internet and on page 74- 75 of this report.

Directors Liability Insurance
Under the Superannuation Act it is compulsory for Directors to have Director Liability Insurance. The Directors Liability Insurance is with American Home Assurance Limited. The amount of insurance is capped at K10 million per Director. Since the inception of NASFUND there has been no claim against this policy nor do Directors believe there is any event likely to lead to a claim on this policy.

Independent Professional Advice
With the approval of the Chairman, a Director is entitled to seek independent professional legal and accounting advice at the Fund's expense, concerning any aspect of that Directors' duties and or aspects of concern about the Fund's operation. It is a requirement that any such legal opinion obtained is distributed to fellow Directors. Directors sought no external legal advice in 2013.

Internal Audit
The Fund has an Internal Audit Charter with responsibilities to:

- Conduct internal audits in relation to all Divisions and Sections including service providers;
- Monitor and ensure that NASFUND is compliant with all statutory and non-statutory compliance requirements and the matters incidental to those requirements as may be determined from time to time;
- Ensure company procedures and policies in relation to cheque signatories, processing of superannuation entitlements, recruitment, information technology, risk management, investment guidelines and other such policies as approved by the Board are adhered to by all Divisions of the Fund;
- Monitor the performance of Service Providers and ensure that they meet the benchmark performance targets;
- Review management performance to ensure their actions are not only consistent with applicable plans, policies, processes, procedures, laws, and regulations but that they are efficiently and effectively carrying out those activities in a manner that is consistent with the Fund's mission;
- Determine the adequacy and effectiveness of NASFUND's systems of operational controls; and
- Review the controls of safeguarding assets and verifying the existence of such assets.

Member Statements
Member Statements inclusive of interest credited for the 2013 year were distributed in March – April 2014.

Policies and Procedures Manual
The Board reviews the Policies and Procedures manual annually.

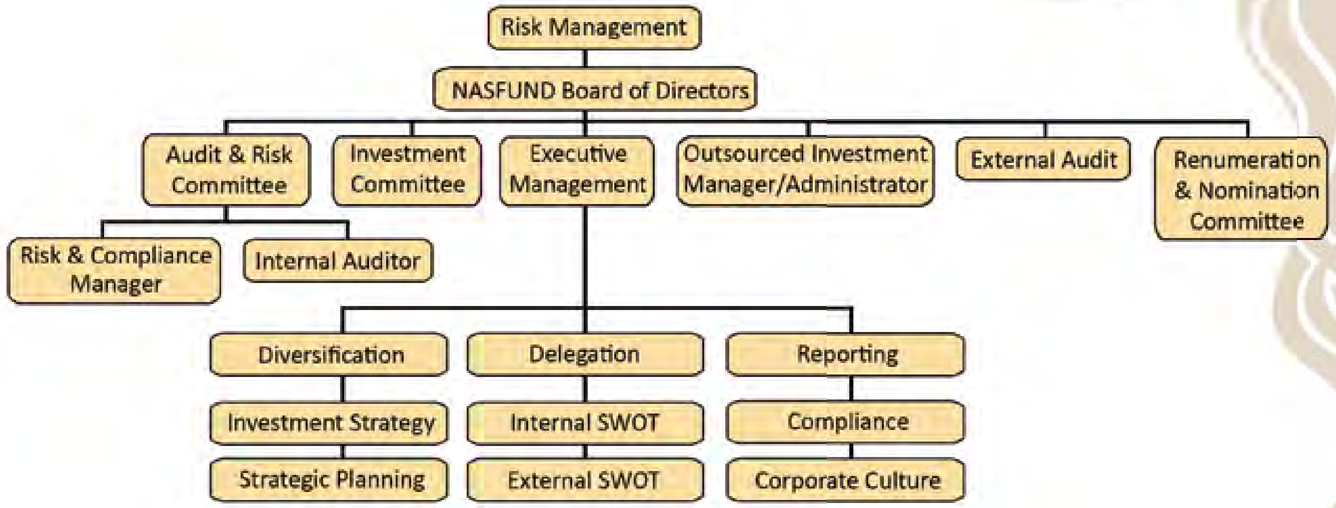
Remuneration of Executive Management and Staff
The executive and staff remuneration are determined with reference to conditions as generally set in the superannuation, banking and finance industry. Payment of bonuses to management and staff, if any, are approved by the Board on recommendation from the Remuneration and Nomination Committee.

Risk Management
The Board, through the Strategic Plan, identifies possible risks to the Fund in meeting its core objectives. The identification of risks flow through to risk minimisation strategies including policies on reserving. The Fund, through its Risk Management Statement ("RMS"), attempts to reduce volatility in the Fund and improve resilience to external future events that may impact negatively on Members' Funds. The Board monitors the identified risks to NASFUND and in particular recognises that adherence to the investment guidelines of the Fund is paramount in controlling the level of risk to Members. Review of the RMS is conducted annually. It should be noted the current RMS is subject to finalisation of the BPNG Prudential Standard on risk.

Seal Register
The Seal Register is maintained by the Company Secretary and must be tabled at each Board meeting.

Significant Events
The recovery of the K125 million investment in the Sovereign Community Infrastructure Community Treasury Bill per agreement with the State has been slow. In 2011 the Board provisioned K40 million. Return of the unspent portion of K55 million in 2012 is disputed and a further provision of K55 million was taken up in the 2012 accounts. In consultation with the Auditors no provisioning was required in 2013.

“Plan for what is difficult while it is easy. By deep knowledge of principle, one can change disturbance into order, change danger into safety, change destruction into survival, change calamity into fortune” – SunTzu – The Art of War



Whistleblower Policy
NASFUND has a zero tolerance policy towards corruption. The whistleblower policy is designed to protect staff, members, and interested individuals who in good faith report conduct which they reasonably believe to be corrupt, illegal or unethical. Such reporting will be treated on a confidential basis without fear of reprisal, dismissal, or discriminatory treatment. If you have reason to believe there has been conduct committed by NASFUND, its directors, management or staff that could be deemed corrupt, illegal or unethical we ask you to report the matter to the Independent Member of the Audit & Risk Committee.

Culture
A culture built on excellence determines the level and quality of risk management at NASFUND. Successful organisations anticipate problems, are pro–active, prepared and ensure that a risk management regime is in place at all times. The NASFUND Board takes ownership of the assessment and management of risk and we consciously assess risk on a daily basis. Risk management is a continuous process of reassessment.

Objectives:
The basis of our risk management policy is to protect members' wealth by:

- Minimising volatility and surprise;
- Balancing risk with reward and adherence to diversification; and
- Achieving competitive advantage through understanding the operational and investment risks faced by the Fund.

Parameters:
NASFUND has developed a risk management strategy that:

- Identifies the key risks to the organisation;
- Creates policies and procedures to manage risk within the organisation;
- Allocates ownership of risk;
- Utilises the Audit & Risk Committee and ultimately the Board for on going management of risk;
- Utilises outsourced agencies (Investment Management & Back Office arrangement) as an aid to risk management;
- Ensures compliance of all statutory obligations including adherence to the Superannuation (General Provisions) 2000 Act; and
- Implements compliance through designated Officers.

Key Risks Identified and Monitored:

Investment Portfolio
- Currency Risk
- Unlisted Equity Risk
- Listed Equities Domestic Risk
- Large Single Equity Exposure Risk
- International Equity Exposure Risk
- Overall Equity Exposure Risk
- Interest Rate Risk
- Liquidity Risk
- Fixed Interest/ Loans Risk
- Property Risk
- Investment Guideline (failure to adhere) Risk

Operational
- Catastrophe Fire/ Earthquake Risk
- Compliance Risk
- Environmental Risk
- Fraud Risk
- Information Technology Risk
- Insurance Risk
- Legal Risk
- Management Loss/ Key Staff Risk
- Occupational Health & Safety Risk
- Operational Risk
- Service Provider Risk

The seven shareholders of NASFUND:
The current NASFUND Board comprises seven shareholder directors nominated by shareholder entities. The seven shareholder directors nominate and appoint three independent directors.

Share Capital:
Each of the seven shareholders under the NASFUND constitution hold one share to the value of K1.00 in National Superannuation Fund Limited. Shareholders are prohibited from taking a dividend and all profits must be returned to the Members of NASFUND. Sale of the seven NASFUND shares are restricted by its constitution.

Independent Board Member Selection:
The seven shareholder Directors have the right to select three independents from the community. One independent is selected from a professional body, another a women's representative and the other independent is a workers' representative chosen from the NASFUND Membership. While these three independents do not represent the shareholders they have equal voting rights with the seven shareholder Directors.

Chief Executive Officer Selection:
The Board selects and appoints the Chief Executive Officer.

Managing Conflicts of Interest:
A Director or Officer shall not vote in respect of a contract or transaction in which they have a direct personal material interest.

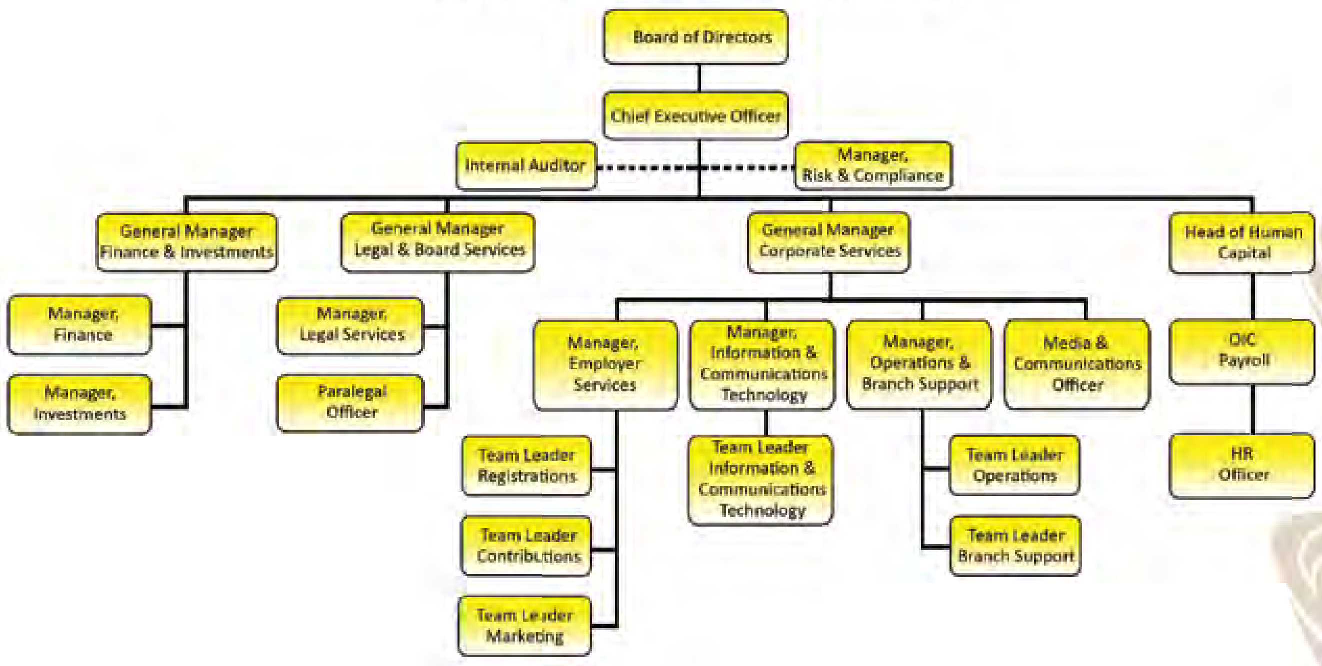
Directors' Interests:
A list of NASFUND Directors' personal shareholdings and Board seats can be accessed via the Internet and on pages 74 - 75 of this report.

The NASFUND constitution and deed can be accessed on the website www.nasfund.com.pg

Employment Culture
The old saying that "*people are our most important asset*" is a truism of modern business. The NASFUND success story is all about people. Their individual and collective efforts are the driving force behind meeting our strategic plans and goals. Building the corporate road map: The NASFUND strategic plan is formed through traditional SWOT analysis and annual strategic workshops. From the identification of Strengths, Weaknesses, Opportunities and Threats, objectives are created and from those objectives action plans are determined. The Board ratifies the five year plan and in doing so it becomes the "road map" for management and staff to follow in terms of meeting the objectives of the organisation.

Beating to one drum:
From action plans, management works with each staff member in preparing individual staff objectives and performance criteria to meet the strategic objectives as set by the Board. Thus there is a total flow through from Board, to management and staff in ensuring that all in the organisation are similarly focused. The strategic plan therefore becomes an important governance and benchmarking tool in measuring the progress of the organisation and building well trained and qualified staff.

ORGANISATION STRUCTURE: MANAGEMENT



NASFUND ANNUAL REPORT 2013
OUR WORK CULTURE

The Level Playing Field:
NASFUND believes in a level playing field at the work place where arbitrary classifications play no importance in career development of our staff. Equal opportunity, mutual respect and diversity are a key to our success.

Empowerment:
NASFUND believes in staff empowerment. Workers who have a sense of ownership over their particular area of responsibility are generally more motivated and receive greater satisfaction. Empowerment of our staff goes part and parcel with our on–going success.

Rewarding Performance:
NASFUND recognises that people do not work in a vacuum. A bonus structure that creates an incentive for staff in meeting properly articulated objectives is an important part of staff motivation.

Staff Employment Policy

Discrimination:
NASFUND is an equal opportunity employer and does not discriminate on the basis of sex, race, colour, or religion. A comprehensive staff employment policies and procedures manual has been compiled and is reviewed by the Audit and Risk Committee annually.

Education:
Staff will be given every opportunity to access higher learning and educational advancement through professional training at NASFUND's expense.

HIV:
The incidence of HIV/AIDS in the community is increasing at an alarming rate. While the Board and management are unaware of any staff member with HIV, discrimination against any staff member with the disease will not be tolerated. A comprehensive policy has been adopted at NASFUND that pro actively considers the care, treatment and positive support for any staff member and immediate family who contracts HIV & AIDS. NASFUND through its outreach program plays an integral role in the PNG Business Coalition on HIV & AIDS (BAHA).

ANZ Haus at Harbour City, Port Moresby.

2013 was a year of implementation and developing the human capacity of the FUND with new changes that had been introduced in 2012. Recognising our people as major strategic asset of the Fund, the Human Capital Department recorded the following highlights for the year:

- TRAINING & DEVELOPMENT
  Investing in the development of our People for Leadership, Excellence & Driving a Performance Culture as a key priority; the following development activities were undertaken for our staff:

  - o Harvard Business School, USA
    - . Advanced Management Program for CEO
  - o Mt Eliza Business School, Australia
    - . Accelerated Development for Emerging Managers for Head of Human Capital, Manager-Operations & Manager-Employer Services & Marketing
  - o Institute of Business Studies
    - . Team Building Training for Employer Services & Business Development Teams
    - . IT Degree Program for IT Team Leader
  - o PNG IBBM
    - . Supervisor Skills for Employer Services & Business Development Teams
    - . Presentation Skills for Employer Services & Business Development Teams
  - o Divine Word University
    - . Diploma of Management: 3 Senior Officers
    - . Bachelor of Management: 2 Senior Officers

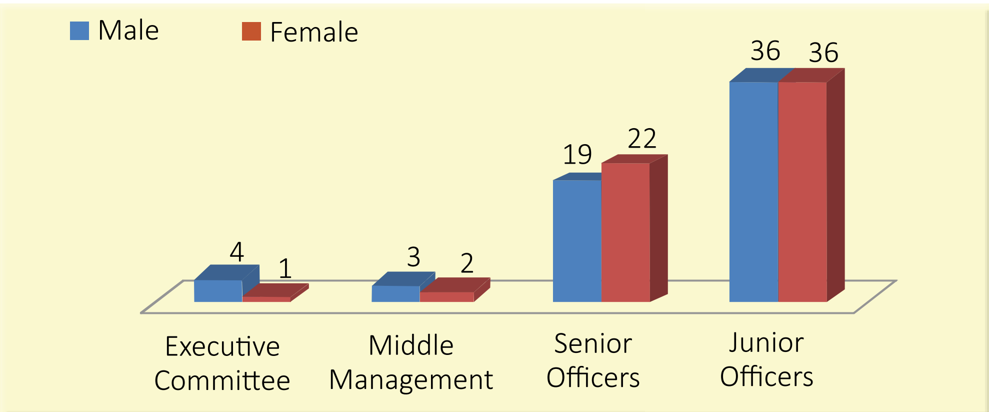
- UNIVERSITY SCHOLARSHIP
  The first for NASFUND, the University Scholarship Scheme was implemented as a Capacity Building initiative forming part of our Corporate Social Responsibility program.

  The company invited interested applicants from Students who would be doing their 3rd Year in 2013 at the local Universities; University of Papua New Guinea, University of Technology, Pacific Adventist University and Divine Word University; studying in the fields of Business, Accounting and Computer Science.

  Four successful applications were selected; namely, Arlette Wolly, Bachelor of Business Management Strategic Management, UPNG; Bradley Bonjui, Bachelor of Computer Science, Unitech; Nelson Warua, Bachelor of Business, PAU & Robbie Nikints, Bachelor of Business-Banking & Finance, UPNG.

  The NASFUND Scholarship program runs for two years, as such, applications for the next set of Scholarships will be open at the end of 2014 for 2015 and 2016 years.

- WORKPLACE DIVERSITY
  We pride ourselves as an Equal Opportunity Employer, recognising the importance of a balanced workforce. Thus we are satisfied with our gender balanced and provincially diverse workforce as shown in our statistics below:



Coalition for Change Papua New Guinea Inc.

Coalition for Change PNG Inc. (CFC). CFC is a community based not-for-profit advocacy group launched in November 2007 to address the issue of gender based violence, particularly violence in the home.

At CFC we aim to make a positive differrence through working with three tiers of society- the political, business and community levels. We seek to change the attitudes of individuals so that women and children are treated with respect and dignity.

CFC's priority after it was formed was to seek legislative and policy reform to curb domestic violence. On 18th September this year (2013) our efforts over the five years was rewarded when the draft Family Protection Bill we proposed to Government was passed by Parliament. The Family Protection Act makes domestic violence a criminal offence. It also provides victims of domestic violence the legal avenue to seek protection under it. The other feature of the Act is that it is gender neutral; which means either spouse or partner in an intimate relationship is entitled to seek protection under its provisions.

On 11th March 2014, the Family Protection Act was certified by the Speaker of Parliament which generally makes the Act come into operation. Work is now underway with CFC and its partners in the Department of Justice & Attorney General, PNG Law & Justice Sector Program and other stakeholders to organise the Awareness roll out of the Act and its implementation.

Apart from this milestone achievement, CFC also runs general awareness and advocacy programs targeting communities, schools and workplaces.

One of its major awareness campaigns is the White Ribbon Campaign done each year on 25th November - ***The International Day for the Elimination of all forms of Violence Against Women and Girls*** - where activities are staged including media coverage to raise awareness.

CFC also participates in other organised forums and meetings organised by other like-minded organisations, NGO's and stakeholders through workshops, forums, speaking engagements and so forth where CFC is also represented.

NASFUND supports the work of CFC by providing office space for their head office.

Buk bilong Pikinini
ABC

Buk bilong Pikinini – *"Education is the most powerful weapon which you can use to change the world."*- **Nelson Mandela**

Buk bilong Pikinini (books for children) is an independent not-for-profit organisation based in Port Moresby, Papua New Guinea, which aims to establish children's libraries and foster a love of reading and learning. In PNG there are few functioning libraries outside the school system and most children do not have access to books at all.

The purpose of Buk bilong Pikinini is to focus on early childhood learning as a key to literacy. Only half of school-age children go to school and the literacy rate in PNG is well under the 50% officially claimed - in some areas as low as 5%. We aim to bring the books to the children via the creation of small Buk bilong Pikinini libraries in community based localities such as near settlements, clinics and market places.

We collect books from private individuals and publishing houses and seek to obtain funding for our libraries through various fundraising efforts as well as through corporate sponsorships.

Buk bilong Pikinini was established in 2007 and has so far set up eleven children's libraries with many more to come. Buk bilong Pikinini libraries are not like normal libraries. We employ trained teacher-librarians who implement a comprehensive early childhood development programme in the mornings and a literacy and numeracy syllabus for school children in the afternoons.

NASFUND supports the work of Buk bilong Pikini by providing office space for their head office.

YOUNG TRAINEE DIRECTORS PROGRAM

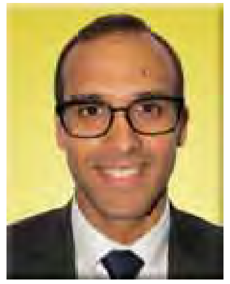
The private sector has had long standing concerns about the lack of quality directors in Papua New Guinea with appropriate skill sets and experience to sit on Boards. In 2008 NASFUND initiated the NASFUND Young Trainee Director Program aimed at young professional Papua New Guineans aspiring to be board directors in future years. The program is as follows:

- The Board appoints 3 candidates by way of open invitation or nomination from the Business Council of PNG, PNG Chamber of Commerce and Rotary Club. The eligibility criteria is that candidates must:
    - I. Be between 25 and 35 years old;
    - II. Be a contributing member of NASFUND;
    - III. Have no Board experience;
    - IV. Have track record in current job and recognised by their employer;
    - V. Have written endorsement from employer to attend up to 6 meetings a year and a directors training course funded by NASFUND;
    - VI. Sign a confidentiality agreement; and
    - VII. Have no criminal conviction and be able to pass a fit and proper test.
- A trainee director will be allocated a NASFUND director as a mentor/coach for two years; and
- Trainee directors have the right to receive Board papers, participate in Board and Committee meetings but they are not entitled to vote on any Board resolution.

The program is a first hand experience of observing board protocols, board room dynamics and understanding the role of a director. At the end of the two years the young directors are handed a certificate confirming their participation.

The next phase of the program entails successful candidates to be invited to sit on investee company boards at the discretion of the NASFUND Board.

Since inception the program has accommodated 9 young promising professionals with 7 successfully completing the program. The last batch commenced in 2011 with two candidates completing the program at the end of 2012. In 2013 the Board appointed Christopher Elphick, Sarah Ilave-Richards and Vanessa Asivo.



Christopher Elphick
K. K. Kingston

Vanessa Asivo
PNG Law Society

Sarah Ilave-Richards
Pricewaterhouse Coopers

We have audited the accompanying financial statements of National Superannuation Fund (the “Fund”), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 32 to 81.

This report is made solely to the Fund’s members, as a body, in accordance with the Superannuation (General Provisions) Act 2000. Our audit work has been undertaken so that we might state to the Fund’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Trustees’ and Management’s Responsibility for the Financial Statements

The Trustees and Management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the Superannuation (General Provisions) Act 2000 and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ Responsibility

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

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

We performed procedures to assess whether in all material respects the financial statements presents fairly in accordance with the International Financial Reporting Standards and the Superannuation (General Provisions) Act 2000 and the Superannuation Prudential Standards, a true and fair view which is consistent with our understanding of the Company’s and Group’s financial position and their performance.

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

Audit opinion

In our opinion:

(a) the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000 and the Superannuation Prudential Standards; and

(b) proper accounting records have been kept by the Fund as far as appears from our examination of those records.

Others Matters

Relevant ethical requirements for auditor independence are set out in IFAC's Code of Ethics for Professional Accountants. Due to certain audit team staff being members of the Fund, some of the relevant ethical requirements are not met. We have implemented appropriate safeguards to address the resulting threats to our independence. The Board of Trustees of the Fund, the Bank of PNG, and CPA PNG have confirmed to us their agreement that the safeguards are sufficient to enable us to issue our independent auditors' report to the members.

In addition to audit services, KPMG provided permissible taxation services to the Fund during the financial year.

DATED at PORT MORESBY this 27th day of February 2014.

KPMG
Chartered Accountants

Scott Pearce
Audit Partner
Registered under the Accountants Act 1996

The Directors of the Trustee have the pleasure in submitting their report and the financial statements of National Superannuation Fund Limited ("the Fund") for the year ended 31 December 2013.

Activities
"The principal activities of the Fund during the year was the management of retirement funds for employees in the private sector and State-owned entities throughout Papua New Guinea."

There were no other significant changes in the nature of the activities of the Fund during the year.

Results
The net profit after tax for the year was K332.3 million (2012: profit after tax of K220.8 million).

Directors
The directors of the Trustee at the date of the report of the Fund are listed on page 4. No director of the Trustee had any material interest in any contract or arrangement with the Fund or any related entity during the year ended 31 December 2013.

Remuneration of the Directors of the Trustee
Directors of the Trustee remuneration, including the value of benefits, received during the year, is as follows:

	2013	**2012**
Director's name	**K**	**K**
Mr. Melchior Togolo CBE- Chairman	155,172	56,000
Mr. William Lamur- Deputy Chairman	137,931	44,500
Mr. Graham Ainui MBE	124,138	38,500
Mr. Hulala Tokome	124,138	41,000
Mrs. Lata Milner (appointed 28 February 2013)	103,448	-
Lady Mina Siaguru	124,138	42,000
Mr. Murray Woo	124,138	42,500
Mr. Reginald McAlister	124,138	41,500
Mr. Vera Raga	127,138	40,000
Mr. Robert Debrouwere (resigned 29 August 2013)	82,759	32,750
Mr. John Nonggorr (resigned 26 April 2012)	-	1,000
	1,227,138	**379,750**
Independent member of the Audit and Risk committee		
Arthur Sam (appointed 1 June 2013)	55,000	-
Ernie Gangloff (resigned 31 December 2012)	-	225,450
	1,282,138	**605,200**

Remuneration of Employees
The number of employees (not including directors) whose remuneration exceeds K100,000 in bands of K50,000 is disclosed in note 19.

Interests Register
Interests of the Directors of the Trustee and key management personnel as recorded in the interests register are disclosed in note 23.

Signed on behalf of the Board of Directors of the Trustee of National Superannuation Fund Limited.

....
Mr. Melchior Togolo CBE
Chairman
Date: 27 February 2014

....
Mr. William Lamur
Audit and Risk Committee
Date: 27 February 2014

In our opinion, the financial statements set out on pages 32 to 81 are drawn up so as to give a true and fair view of the state of affairs as at 31 December 2013 and the surplus before distribution for the year ended on that date of the National Superannuation Fund in so far as they concern members of the National Superannuation Fund.

The Trustees have satisfied themselves that the National Superannuation Fund Board has:

1) Identified the key financial and operational risks;

2) Established systems to control and monitor those risks including adherence to prudent policies and procedures, reasonable operating limits and adequate and timely reporting processes;

3) Satisfied itself that the risk management systems are operating effectively and are adequate in regards to the risk they are designed to control; and

4) There are no apparent conflicts of interest with respect to National Superannuation Fund's engagement of an external auditor which may compromise the independence of the auditor's performance.

The Financial Statements have been drawn up in accordance with the requirements of the Superannuation (General Provisions) Act 2000 and requirements of the Trust Deed of the National Superannuation Fund dated 31 May 2002.

DATED at PORT MORESBY this 27th day of February 2014.

For and on behalf of the Board of Directors of the Trustee of National Superannuation Fund:

....
Mr. Melchior Togolo CBE
Chairman

....
Mr. William Lamur
Audit and Risk Committee

Ravalian Haus at Harbour City, Port Moresby.

In our opinion, the financial statements set out on pages 32 to 81 are drawn up so as to give a true and fair view of the state of affairs as at 31 December 2013 and the surplus before distribution for the year ended on that date of the National Superannuation Fund in so far as they concern members of the National Superannuation Fund.

The Management have satisfied themselves that the National Superannuation Fund Board has:

1) Identified the key financial and operating risks;

2) Established systems to control and monitor those risks including adherence to prudent policies and procedures, reasonable operating limits and adequate and timely reporting processes;

3) Satisfied itself that the risk management systems are operating effectively and are adequate in regards to the risk they are designed to control; and

4) There are no apparent conflicts of interest with respect to National Superannuation Fund's engagement of an external auditor which may compromise the independence of the auditors' performance.

The Financial Statements have been drawn up in accordance with the requirements of the Superannuation (General Provisions) Act 2000 and requirements of the Trust Deed of the National Superannuation Fund dated 31 May 2002.

DATED at PORT MORESBY this 27th day of February 2014.

For and on behalf of the National Superannuation Fund management:

....
Mr. Ian Tarutia MBE
Chief Executive Officer

....
Mr. Andrew McGrath
General Manager
Finance and Investments

The Edge at Harbour City, Port Moresby.

STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Investment assets			
Cash at bank and on hand	22	19,475	14,930
Interest bearing deposits and treasury notes	22	505,271	316,301
Interest receivable (net)		22,385	20,667
Property receivables		9,915	11,665
Government securities and other loans	9	787,628	667,622
Equity investments	10	1,624,826	1,450,040
Investment properties	11	489,649	410,454
Work in progress	11	-	38,425
Available for sale assets	12	6,945	7,520
		3,466,094	2,937,624
Other assets			
Withholding taxes recoverable		16,028	12,402
Other receivables		1,396	3,616
Property and equipment	12	3,640	7,558
		21,064	23,576
Total assets		**3,487,158**	**2,961,200**
Current liabilities			
Sundry creditors and accruals	14	7,724	10,712
Provisions for employee entitlements	15	493	261
Current tax liabilities	13	8,146	29,978
Total current liabilities		**16,363**	**40,951**
Deferred tax liability (net)	13	17,691	25,313
Provisions	15	96,460	96,028
Total liabilities		**130,514**	**162,292**
Net assets		**3,356,644**	**2,798,908**
Represented by			
Liability for accrued benefits			
- Allocated funds		2,958,909	2,495,527
- Unallocated contributions		25,750	31,016
- Unallocated earnings		366,140	263,155
Revaluation reserve	16	5,845	9,210
Total members funds		**3,356,644**	**2,798,908**

Mr. Melchior Togolo CBE
Chairman

Date: 27 February 2014

Mr. William Lamur
Chairman Audit and Risk Committee

Date: 27 February 2014

The Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 36 to 81.

NASFUND ANNUAL REPORT 2013

STATEMENT OF COMPREHENSIVE INCOME

	Note	2013 K'000	2012 K'000
Investment income			
Interest income		79,092	68,717
Dividend income		64,701	65,157
Property rentals		55,894	57,906
Movement in net fair value of investments	17	205,585	171,853
Net foreign exchange gain / (loss)		823	(60)
		406,095	363,573
Less: property costs		(17,420)	(15,301)
Net investment income		**388,675**	**348,272**
Other income			
Sundry income		1,627	1,583
Profit on disposal of fixed assets		2	14
		1,629	**1,597**
Expenditure			
Provision for bad and doubtful debts	9(e)	(8,813)	(12,869)
Provision for bad and doubtful debts- rent		(640)	-
Staff related expenses	19	(12,030)	(7,152)
Fund administration fee		(6,239)	(5,380)
Investment manager's fee		(5,051)	(3,975)
Advertising		(768)	(468)
Depreciation		(420)	(478)
Board expenses		(1,465)	(960)
Bank of PNG regulatory fees		(1,392)	(260)
Donations		(46)	(41)
Other administration expenses		(14,559)	(10,799)
		(51,423)	(42,382)
Operating profit before impairment of government securities	18	**338,881**	**307,487**
Less: provision for impairment of government securities	21	-	(55,000)
Profit before tax		**338,881**	**252,487**
Income tax expense	13	(6,631)	(31,645)
Profit for the year		**332,250**	**220,842**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation (loss) / gain of property and equipment	16	(1,650)	2,575
Total comprehensive income for the year		**330,600**	**223,417**

The Statement of Comprehensive Income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 36 to 81.

STATEMENT OF CHANGES IN MEMBERS' FUNDS

	Allocated Funds K'000	Unallocated Contribution K'000	Unallocated Earnings K'000	Revaluation Reserve K'000	Total K'000
As at 1 January 2012	**2,265,981**	**29,392**	**86,123**	**6,635**	**2,388,131**
Profit for the year	-	-	220,842	-	220,842
Other comprehensive income	-	-	-	2,575	2,575
"Total comprehensive loss for the year"	-	-	220,842	2,575	223,417
Contributions received	-	397,147	-	-	397,147
Allocated contributions	402,892	(402,892)	-	-	-
Net transfers from other funds	-	7,369	-	-	7,369
Interim interest	538	-	(538)	-	-
Benefits paid to members	(216,454)	-	-	-	(216,454)
"Interest allocated to members' accounts"	43,272	-	(43,272)	-	-
Front end fees	(702)	-	-	-	(702)
As at 31 December 2012	**2,495,527**	**31,016**	**263,155**	**9,210**	**2,798,908**
Profit for the year	-	-	332,250	-	332,250
Other comprehensive loss	-	-	-	(1,650)	(1,650)
"Total comprehensive income for the year"	-	-	332,250	(1,650)	330,600
Contributions received	-	443,119	-	-	443,119
Allocated contributions	448,466	(448,466)	-	-	-
"Additional members' fund upon amalgamation with SIOS (Note 8)"	53,002	-	-	-	53,002
Net transfers from other funds	-	81	-	-	81
Interim interest	1,621	-	(1,621)	-	-
Benefits paid to members	(268,359)	-	-	-	(268,359)
"Interest allocated to members' accounts"	229,359	-	(229,359)	-	-
Front end fees	(707)	-	-	-	(707)
"Release of revaluation reserve (Note 16)"	-	-	1,715	(1,715)	-
As at 31 December 2013	**2,958,909**	**25,750**	**366,140**	**5,845**	**3,356,644**

Allocated funds represent National Superannuation Fund's obligation to pay benefits to members and beneficiaries arising as at 31 December 2013.

Unallocated contribution represent deposits not yet allocated to members due to insufficient documentation and due to deposits recently received prior to 31 December and not yet processed.

The Statement of Changes in Members' Funds is to be read in conjunction with the notes to, and forming part of, the Financial Statements set out on pages 36 to 81.

STATEMENT OF CASHFLOW

	Note	2013 K'000	2012 K'000
Cash flows from operating activities			
Interest received		68,561	53,129
Net rent received		54,440	49,837
Dividend received		67,829	63,187
Wages, administration and property payments		(62,302)	(48,946)
Income tax paid	13	(31,645)	(9,043)
Net cash from operating activities	22(b)	**96,883**	**108,164**
Cash flows from investing activities			
Purchase of property and equipment	12	(2,478)	(300)
Proceeds from sale of property and equipment		5	14
Proceeds from government securities and other loans		6,476	9,625
Proceeds from sale of property investments		-	19,250
Investment in equities		(5,806)	(43,112)
Investments in government securities and other loans		(67,383)	(133,489)
Investments in work in progress		-	(3,027)
Investments in investment property		(15,408)	(5,067)
Net cash used in investing activities		**(84,594)**	**(156,106)**
Cash flows from financing activities			
Receipt of government grant		5,000	-
Net transfers from other funds		81	7,369
Contributions received		443,119	397,147
Withdrawals paid		(268,359)	(216,454)
Receipts from short-term loans		-	-
Additional cash upon amalgamation with SIOS	8	562	-
Net cash from financing activities		**180,403**	**188,062**
Increase in cash and cash equivalents		**192,692**	**140,120**
Effect of exchange rate fluctuations	18	823	(60)
Cash and cash equivalents at the beginning of the year		331,231	191,171
Cash and cash equivalents at the end of the year	22(a)	**524,746**	**331,231**

The Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the Financial Statements set out on pages 36 to 81.

1 **Reporting entity**

"National Superannuation Fund" (""the Fund"" or ""Nasfund"") is a defined contribution superannuation fund domiciled in Papua New Guinea. The address of the Fund's registered office is Allotment 6 & 7, Section 58, 4 Mile, Sir Hubert Murray Highway, Port Moresby, Papua New Guinea. The Fund primarily is involved in the management of retirement funds for employees in the private sector and State Owned Entities throughout Papua New Guinea.

Under the Trust Deed number 220228, National Superannuation Fund Limited is the Trustee of the Fund.

2 **Basis of preparation**

Statement of compliance
The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997, the Superannuation (General Provisions) Act 2000, and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea.

The financial statements were authorised for issue by the Board of Directors of the Trustee, on 27 February 2014.

Basis of preparation
"The financial statements have been prepared primarily on the historical cost basis except for the following material items in the Statement of Financial Position which are measured at fair value:

- financial instruments at fair value through profit or loss measured at fair value;
- available-for-sale financial assets measured at fair value;
- certain financial instruments carried at amortised cost;
- certain property, plant and equipment carried at revalued amounts;
- investment property measured at fair value; and
- investment in subsidiary and associates measured at fair value.

Functional and presentation currency
The financial statements are presented in the currency of Papua New Guinea, the Kina, which is the Fund's functional currency, and amounts are rounded to the nearest thousand.

Investments in controlled and associated entities

The Fund's interest in controlled entities and entities in which it holds significant influence are treated as plan investments of the Fund and these investments are measured at fair value.

Use of estimates and judgments
In the application of the Fund's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting are recognised in the period in which the estimate is revised and in future periods if affected.

Judgments
The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Classification of investments
The Fund's management decides on acquisition of an investment whether it should be classified as a trading investment or available-for-sale. Classification of investments as trading investments depends on how management monitor the performance of these investments. These investments have readily available reliable fair values and the changes in fair values are reported as part of the statement of comprehensive income in the financial statements. All other investments are classified as available-for-sale.

Impairment of equity investments held at cost
The Fund's management reviews its investments for impairment. The assessment is carried out when there has been a significant or prolonged decline in the fair value of an equity investment below its cost or where objective evidence of impairment exists.

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

The fair value methodology and any unobservable inputs that would applicable to estimation for investment properties are considered in Notes 4 (ii) and 11.

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

The fair value methodologies and unobservable inputs used in calculating the financial assets and liabilities of the Fund are considered in Notes 4 (iii) to (vi), 9, 10 and 24.

Contingent liabilities
The Fund is currently involved in various legal proceedings as disclosed in note 21. Estimates of proable costs for the resolution of these claims has been developed in consultation with outside counsel handling the defence in these matters and is based upon an analysis of potential results. The Fund currently does not believe these proceedings will have a material adverse effect on the statement of financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the Fund's strategies relating to these proceedings.

Changes in accounting policies
The following new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) were adopted by the Fund effective on January 1, 2013, unless otherwise indicated:

IAS 1 - Financial Statement Presentation (Amendment - Presentation of Items of Other Comprehensive Income)
IAS 19 Employee Benefits (amendment)
IAS 27 Separate Financial Statements
(2011 amendment)
IAS 28 Investments in Associates and Joint Ventures (2011 amendment)
IFRS 7 Disclosures - Offsetting Financial Assets and
Financial Liabilities (amendment)
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosures of Interests in Other Entities
IFRS 13 Fair Value Measurements

Other than the additional disclosures, the application of the standard has no material impact on the amounts recognised in the financial statements.

IFRS 10 Consolidated Financial Statements
IFRS 10 introduces a single control model to determine whether an investee should be consolidated. An amendment to the standard effective 1 January 2014 also provides relief from consolidation for those entities that qualify as an “investment entity” under the definition within the standard.

The Fund has consistently adopted the approach of fair valuing its investments and has assessed itself to quality as an investment entity and gain exemption from consolidation of investments. As such, the introduction of IFRS 10 has had no significant impact on the Fund.

IFRS 13 Fair Value Measurements
IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as 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. It replaces and expands the disclosure requirements about fair value measurement in other IFRSs, including IFRS 7. As a result, the Fund has included additional disclosures in this regard (see Notes 4, 9, 10, 11 and 24).

In accordance with the transitional provisions of IFRS 13, the Fund has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurement of the Fund’s assets and liabilities. However in light of the introduction of IFRS 13, the Fund reassessed the valuation methodology of Government Inscribed Stock (“GIS”). The effects of change in valuation method can be seen in Notes 4(iii) and 9.

3 Significant accounting policies
The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the Fund.

(a) Members accounts
Contributions are accounted for, and members’ accounts credited with their contributions, on a cash basis based on the receipt of reconciled contributions schedules.

Accounting for interest credited to members’ accounts is in accordance with Section 8 of the National Superannuation Trust Deed and is as follows:

1. Interest credited to members is on the basis of the period to which contributions relate; and
2. The interest rate is determined by the Board of Directors of the Trustee every year and is calculated on the daily balance of the members’ accounts.

(b) Investment assets
In accordance with IFRS investments assets including investment properties and equity investments are included in the Statement of Financial Position at fair value as at the balance sheet date and movement in fair value of investment assets are recognised in the statement of comprehensive income in the period in which they occur.

The Fund’s interest in controlled entities and associated investments are treated as plan assets or investments of the Fund available for sale and therefore not consolidated or equity-accounted in these financial statements.

(c) Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency of the Fund at the exchange rate at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(d) Deferred expenditure
All staff housing subsidies advanced are amortised over a five-year period at 20% per annum.

(e) Financial instruments

(i) Non-derivative financial assets
The Fund initially recognises loans and receivables and deposits on the date that they have originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Fund becomes a party to the contractual provisions of the instrument.

The Fund derecognises a financial asset when the contractual rights to the cash flows from the assets expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Fund has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss
A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Fund’s documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Government securities
Government securities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, government securities are marked to market using a pricing model driven by current comparable yields. In 2012 government securities were recorded at a fair value based on amortised cost using the effective interest method, due to there being no secondary market for these securities and the Fund's intention to hold these investments to maturity at that time.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Fund's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(ii) Non-derivative financial liabilities
The Fund is restricted by the Superannuation (General Provisions) Act 2000 to borrow. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Fund becomes a party to the contractual obligations.

The Fund derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset and the amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amount and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Fund's non-derivative financial liabilities include trade and other payables.

Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Fund.

(f) Property, plant and equipment

(i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost include expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of material and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchase of property, plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Reclassification into investment property
When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Property that is being constructed for future use as investment property is accounted for at fair value. Any gains arising on re-measurement is recognised in profit or loss to the extent the gain reverses a previous impairment loss on the specific property, with any remaining gain recognised in other comprehensive income and presented in the revaluation reserve in equity.

Any loss is recognised in other comprehensive income and presented in the revaluation reserve in equity to the extent that an amount had previously been included in revaluation reserve relating to the specific property, with any remaining loss recognised immediately in profit or loss.

(iii) Subsequent costs
The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Fund, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iv) Depreciation
Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern consumption of the future economic benefits embodied in the asset.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Fund will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Building	40 years
Plant and equipment	5-12 years
Fixtures and fittings	5-10 years
Motor vehicles	3-5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(g) Investment property
Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary cause of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(h) Impairment

(i) Financial assets (including receivables)
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Fund on terms that the Fund would not consider otherwise, indication that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Fund considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level.

All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Fund uses historically trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets
The carrying amount of the Fund's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, any intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an assets exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee benefit plans

(i) Defined contribution plans
The Fund is a defined contribution plan and as part of its post-employment benefit plan for its employees the Fund pays fixed contribution into the Fund. The Fund has no legal or constructive obligation to pay further amounts to each employees. The obligation for contributions are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Other long-term employee benefits
The Fund's obligations in respect of long-term employee benefits other than pension plans is the amount of benefit that employees have earned in return for their services in the current and prior periods as required by law. That benefit is accrued each period and the increase taken to profit and loss account.

(iii) Short-term employment benefits
Short-term employment benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Fund has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(j) Provisions
A provision is recognised if, as a result of a past event, the Fund has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(k) Revenue

Revenue is recorded on an accrual basis. To the extent in which it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, revenue is recognised. The following recognition criteria relates to the different revenues the Fund has recognised.

Dividend revenue
Revenue from dividends is recognised on the date the shares are quoted ex-dividend and if not received at balance date, is reflected in the statement of financial position as a receivable.

Interest revenue
Revenue on money market and fixed interest securities is recognised using the effective interest rate method, if not received at balance date, is reflected in the statement of financial position as a receivable.

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

Rent
Rent from property is recognised in accordance with the rental agreement on an accrual basis.

(l) Expenses

Fees, commission and other expenses
Fees, commission and other expenses are recognised in profit or loss on an accrual basis.

(m) Income taxes

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the law that have been enacted substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax is reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4 Determination of fair values

A number of the Fund's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on methods discussed in the following sections. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Fund has an established control framework with respect to the measurement of fair values. The overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, rests upon the General Manager for Finance and Investments. The General Manager for Finance and Investments reviews the valuation reports and assesses the reasonableness of the significant unobservable inputs. The key items in the valuation reports are reported to the Audit and Risk Committee.

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

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest input that is significant to the entire measurement.

The Fund recognises transfers between levels of the fair value hierarchy at the end of the reporting period during the change has occurred.

The following is a summary of significant fair values determined in preparing the notes to the Fund's financial statements.

(i) Property plant and equipment
The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(ii) Investment property
Investment property is initially recorded at cost. Individual property assets are externally valued at a minimum of every three years. An external valuation will also be required where the Directors of the Trustee believe that the value of the asset has changed by the greater of K5 million or 10% from the previous external valuation. An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, then values the Fund's investment properties as required. Directors' valuations are required for all other years. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Fund and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate, counter-notices, have been served validly and within the appropriate time. The sensitivity analysis on investment property revaluations is disclosed in Note 11.

(iii) Investment in equity and debt securities
The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

Government Inscribed Stock ("GIS") are booked at fair value using a pricing formula and comparable market yields as at 31 December 2013. The GIS were previously measured at amortised cost as management believed it approximated their fair value due to there being no secondary market and the Fund's intention to hold these investments to maturity. As management believe a secondary market in Papua New Guinea is becoming more transparent and liquid, management believes the change in methodology when fair valuing the GIS is appropriate. The change in valuation method has resulted in a K57 million increase in the value of GIS for 2013.

(iv) Unquoted equity investments
Unquoted equity investments are initially recorded at cost. Individual unquoted equity investments are externally valued at a minimum of every three years. An external valuation will also be required where the Directors of the Trustee believe that the value of the asset has changed by the greater of K5 million or 10% from the previous external valuation. When an external valuation is required, an external independent valuer, having appropriate recognised professional qualifications and recent experience of unquoted companies being valued, values the Fund's unquoted equity investments. Directors' valuations are required for all other years. The fair values are based on either the cumulative multiple earnings, net assets, discounted cash flows, dividend discount model, or liquidation method. The method adopted is applied consistently from year to year. The sensitivity analysis on unquoted equity investments is disclosed in Notes 10 and 24.

(v) Trade and other receivables
The fair value of trade and other receivables, excluding construction work in progress, but including service concession receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(vi) Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 **Financial risk management**

The Fund has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risks, and the Fund's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework
The Board of Directors of the Trustee company has overall responsibility for the establishment and oversight of the Fund's risk management framework. The board has established the Audit & Risk Committee, which is responsible for developing and monitoring the Fund's risk management policies. The committee reports regularly to the Board of Directors of the Trustee company on its activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities. The Fund, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors of the Trustee company oversees how management monitors compliance with the Fund's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

(i) Credit risk
Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's receivables from customers and investment securities.

Trade and other receivables
Trade and other receivables relate mainly to the Fund's rental debtors. Customers that are graded as "high risks" are place on a restricted customer list and monitored by the property managers and management of the Fund.

The Fund establishes an allowance for impairment that represents its estimates of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures.

Investments
The Fund manages its exposure to credit risk by ensuring that adequate return is priced for the Fund taking on the specified credit risk. The fund actively monitors its investments for changes in credit risk.

(ii) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

Typically the Fund ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 90 days, including the servicing of repayments of members balances, withdrawals and loans; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(iv) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Fund's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Fund's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Fund's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Fund standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with Fund standards is supported by a programme of periodic reviews undertaken by management. The results of internal reviews are discussed with management with summaries submitted to the Audit & Risk Committee and Board of Directors.

6 Funding arrangements

The employers have contributed to the Fund during the current financial year at a rate of 8.4% of the gross salaries of those employees who were members of the Fund (2012: 8.4%). Employees contributed to the Fund during the year at a rate of 6.0% of the gross salaries (2012: 6.0%).

7 IASB Standards and Interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the financial statements are listed below. This listing is of standards and interpretations issued, which the Fund reasonably expects to be applicable at a future date. The Fund intends to adopt these standards when they become effective.

- *IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009), Classification and Measurement of Financial Assets. No effective date has been set;*
- *IAS 32 Offsetting Financial Assets and Financial Liabilities (amendment), effective for annual periods on or after 1 January 2014;*
- *Amendments to IFRS 10, IFRS 12 and IAS 27 Consolidated Financial Statements, Disclosure of Interests in Other Entities: Transition Guidance and Investment Entities, effective for annual periods on or after 1 January 2014.*

It is not expected that the implementation of these standards, interpretations, revisions and amendments, except as noted below, will have any impact on the Fund's financial performance or financial position.

IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)

IFRS 9 Financial Instruments (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The adoption of IFRS 9 (2009 and 2010) will have an impact on the classification and measurement of the Fund's financial assets. The Fund is currently evaluating the effect of the implementation of IFRS 9 will have on the financial assets of the Company and will complete this once all phases of IFRS 9 are issued, to present a comprehensive picture. An effective date or adoption has not been set and will be determined closer to when the entire IFRS 9 project is complete. Early adoption of the IFRS 9 (2009 and 2010) is permitted.

Amendments to IFRS 10, IFRS 12 and IAS 27 *Consolidated Financial Statements, Disclosure of Interests in Other Entities: Transition Guidance and Investment Entities*

The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. In terms of the exception, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is an investment entity when it:

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

Consequential amendments to IFRS 12 and IAS 27 have been made to introduce new disclosure requirements for investment entities. In general, the amendments require retrospective application, with specific transitional provisions.

8 Amalgamation of SIOS Workers Ritaia Fund

Effective 1 January 2013, SIOS Workers Ritaia Fund ("SIOS"), a superannuation fund based in Papua New Guinea, was transferred to the Fund. All members of SIOS became full members of the Fund effective as at that date. No consideration has been provided for the amalgamation.

The fair value of the assets, liabilities and member funds of SIOS transferred to the Fund are presented below. The balances are based on the audited financial statements of SIOS as at 31 December 2012. As a superannuation fund, the balances presented in those financial statements were presented at their fair value. The Fund noted no differences in their fair value when evaluated upon transfer.

At the date of transfer, the Fund owed SIOS K6,041,396, which represented cash assets transferred to Nasfund held in trust for SIOS prior to the amalgamation. The receivable in SIOS and the payable in the Fund have been eliminated upon amalgamation.

Assets	***Fair value recognised on amalgamation*** **K '000**
Cash at bank and on hand	562
Rental and other receivables	64
Income and withholding taxes recoverable (net)	520
Government securities and other loans	9,872
Equity Investments	13,472
Investment properties	27,326
Fixed assets	66
Total assets	**52,382**
Liabilities	
Trade and other payables	2,961
Due to terminated members	1,291
Deferred tax liability	1,160
Provision	9
Total liabilities	**5,421**
Net assets acquired upon transfer	**46,961**
Receivables from Nasfund eliminated against payable in Fund upon transfer	6,041
Net assets and liabilities of SIOS	**53,002**
Member Funds liable upon transfer	**53,002**

During the year the assets transferred from SIOS generated revenue of K8.3 million and profit before tax of K8.1 million to the Fund. Previous administrative expenses incurred by SIOS have been absorbed by the Fund.

9 Government securities and other loans

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Government Inscribed Stock	(a)	554,458	441,950
Sovereign Community Infrastructure Treasury Bill (SCITB)	(b)	125,000	125,000
State Grant	(c)	15,000	20,000
Notes and other loans	(d)	93,170	80,672
		787,628	**667,622**

(a) Government Inscribed Stock

Government Inscribed Stock (GIS) have coupon rates ranging from 9% to 14% and yield rates ranging from 4.52% to 10.05% with a total face value of K472.3 million (2012: K415.7 million). The bonds will mature between 2014 and 2029.

For 2013, Government Inscribed Stock has been marked to market using a pricing formula driven by recent comparable market yields. The change in fair value for the year recorded in the statement of in come was approximately K57 million (Note 17).

The yields used when fair valuing the GIS are derived from the most recently GIS issued by the State of Papua New Guinea. Yields are not directly comparable in all cases as there may not have been any GIS issued with the exact remaining life as the GIS held by the fund. As such yields may be estimated using, where possible a yield curve, or when not possible, the weighted average of yields observable. If there was a decrease of 25 bps in the estimated yields as at 31 December 2013, this would have resulted in an approximate increase in value of K8.5 million to the GIS held by the Fund. A similar decrease of 25 bps would result in an equal but opposite effect.

Previously, GIS were recorded at amortised cost, which the Fund believed approximated their fair value as there was no secondary market to trade the securities and they will be held to maturity. The Fund has changed its methodology in light of the introduction of IFRS 13 and based on their belief that the market in Papua New Guinea is becoming more transparent and liquid, and it is now likely that the Fund may be able to trade government securities. As such, management believe the valuation model implemented at 2013 is appropriate.

(b) Sovereign Community Infrastructure Treasury Bill

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
SCITB		125,000	125,000
Interest receivable from SCITB		35,250	26,413
Provision for impairment	9(e)	(35,250)	(26,413)
		125,000	**125,000**

9 Government securities and other loans (continued)

(b) Sovereign Community Infrastructure Treasury Bill (continued)

The SCITB was issued by the Treasurer under the Treasury Bill Act using National Capital Limited as the Agent, Register and holder of monies raised. The Treasury Bill was guaranteed by the State in line with all Treasury Bills. The Fund had the option to elect at the end of the 364 day period to redeem the bill or roll over the bill for a further 12 months. Certain factions of the government are questioning the legality of the issue of the bill due to its linkage with unappropriated Government expenditure. The Fund however maintains that the issue of the bill was a legal transaction and believes the amount should be fully recovered. A provision for this and other matters has been taken into consideration in notes 21 and 15.

The yield on the bill is 7.05%. Interest relating to the bill of K8.8 million (2012: K8.8 million) has been included in interest revenue. The interest has been recognised as the Fund believes the transaction to be a legal bill and it should continue to earn interest under the terms of the bill until it is repaid. However, the interest receivable has been provided for due to the uncertainty of recovery of the amount.

(c) State Grant

In December 2000, the government passed the National Provident Fund (Financial Reconstruction) Act 2000. Under Section 4, the State shall make quarterly payments to the Fund of K1 million commencing 31 May 2001 and ending 28 February 2016 indexed to consumer price inflation. The yield on the state grant is 6.67% (2012: 6.67%).

(d) Notes and other loans

	Note	Maturity (years)	Average yield	31 Dec 2013 K'000	31 Dec 2012 K'000
PNG Power		2 to 3	10.2%	30,295	30,974
Airlines of PNG promissory notes		1 to 2	8.0%	25,000	25,000
Panamex Limited		4	12.0%	19,698	19,698
TDC Samoa	(i)	up to 6	7.0%+	13,177	-
Boroma Piggery		2 to 3	+2.0%	5,000	5,000
Tawaili Resort		-	-	4,057	4,057
				97,227	84,729
less: provision for impairment	(ii)			(4,057)	(4,057)
				93,170	80,672

All loans are subject to fixed interest rates except Boroma Piggery and Taumeasina Development Corporation (Samoa) Limited ('TDC - Samoa'). The average yield rate for the Boroma Piggery loan is the 182-day Treasury Bill rate plus 2%. The interest rate on notes payable by TDC Samoa is based on effective interest rate with minimum yield of 7%. The loan granted by the Fund has embedded derivatives and is further discussed below.

9 Government securities and other loans (continued)

(d) Notes and other loans (continued)

(i) The loan to TDC Samoa is a convertible note arrangement to undertake a joint development of a hotel complex with 80 rooms and 25 villas in Taumeasina Island, Apia, Western Samoa (the "Project") with Lamana Development (Samoa) Limited. The terms and conditions of the convertible note provides the Fund with an option to convert the loan to ordinary shares on a one for one basis subject to the IRR minimum hurdle requirement of 15% in the Project at any time and at their absolute discretion up until the maturity date in August 2019. The number of shares will be determined based on the value of the share at the date of conversion. In addition, interest is receivable monthly at a minimum rate of 7% per annum and the loan is repayable at maturity in the event the Notes are not converted to equity.

The right to convert the loan is fair valued using the Effective Interest Rate (EIR) method with an intrinsic value of Nil at inception. As at 31 December 2013, the right to convert the loan was valued at K208 thousand.

(ii) In 2012 the Fund provided for the loan to Tawaili Resort of K4.06 million as there is doubt regarding its recoverability.

(e) The movement in the provision for impairment in respect of government securities and other loans is as follows:

	31 Dec 2013 K'000	31 Dec 2012 K'000
Opening balance	30,494	17,625
Provision for impairment on SCITB interests (Note 9 (b) (ii))	8,813	8,812
Provision for impairment loan to Tawaili Resort (Note 9 (d))	-	4,057
Closing balance	**39,307**	**30,494**

Provision for impairment is comprised of the following:

	31 Dec 2013 K'000	31 Dec 2012 K'000
Tawaili Resort (Note 9 (d))	4,057	4,057
Interest receivable on SCITB (Note 9 (b) (ii))	35,250	26,437
	39,307	**30,494**

For further provisions associated with the disputes, refer to Notes 21 and 15.

10 Equity investments

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Quoted investments - domestic	(a)	687,128	652,533
Quoted investments - international	(a)	245,808	220,244
Unquoted investments	(b)	691,890	577,263
		1,624,826	**1,450,040**

(a) Quoted investments

Summary of revaluation of quoted investments is as follows:

	2012 K'000	Revaluation K'000	Other movements K'000	2013 K'000
Quoted shares domestic				
Airlines PNG	7,560	(210)	-	7,350
Bank of South Pacific Limited	418,305	(4,160)	869	415,014
City Pharmacy Limited	52,048	14,178	1,550	67,776
Credit Corporation (PNG) Limited	128,295	18,629	8,324	155,248
New Britain Palm Oil Limited	46,325	(5,565)	980	41,740
	652,533	**22,872**	**11,723**	**687,128**
Quoted shares international				
Highlands Pacific Limited	14,929	(8,784)	-	6,145
New Britain Palm Oil Limited	16,207	(910)	-	15,297
New Guinea Energy Limited	-	(438)	527	89
Oil Search Limited	87,718	15,306	1,215	104,239
Steamships Trading Company Limited	101,390	18,648	-	120,038
	220,244	**23,822**	**1,742**	**245,808**

Reconciliation of movement in quoted investments is as follows:

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Opening balance		872,777	824,723
Addition upon amalgamation with SIOS		13,465	-
Fair value gain	17	46,694	48,054
Closing balance		**932,936**	**872,777**

10 Equity investments (continued)

(b) Unquoted investments at fair values

Summary of revaluation of unquoted investments is as follows:

Unquoted investments	Note	Percentage Holding	2013 Valuation Model	2012 Valuation Model	Market Multiple	2012 K'000	Revaluation K'000	Other movements K'000	2013 K'000
Amalgamated Packaging Limited		30.00%	(i)	(ii)	-	8,750	800	-	9,550
Boroma Piggery Limited		25.00%	(i)	(ii)	-	1,800	-	-	1,800
Hornibrooks NGI Limited		21.10%	(i)	(iii)	-	19,700	14,400	-	34,100
Nas Aviation Limited		40.00%	(v)	(v)	-	12,850	800	-	13,650
Nasmel Limited	(b (i)	100.00%	(ii)	(ii)	-	173,836	7,404	607	181,847
Turumu Holdings Limited		20.00%	(v)	(v)	-	53,700	(950)	-	52,750
The Edge Limited		70.00%	(ii)	(iv)	-	106,945	24,853	-	131,798
Port Services Limited		5.00%	(iii)	(vi)	3.4x	3,838	(1,188)	-	2,650
City Centre Developments Limited	b (ii)	65.00%	(ii)	(ii)	-	30,031	8,254	(2,989)	35,296
South Pacific Brewery Limited		0.70%	(iii)	(vi)	5.8x	9,144	1,456	-	10,600
Pacific Balanced Fund		22.00%	(i)	(vii)	-	40,366	8,934	-	49,300
Post Courier Limited		0.10%	(iii)	(vi)	4.1x	48	(18)	-	30
Toyota Tsusho (PNG) Limited		0.61%	(iii)	(iii)	4.6x	4,245	(996)	7	3,256
Westpac Bank PNG Limited		1.25%	(iii)	(vi)	11.5x	20,599	3,101	-	23,700
Hillside Gardens Limited		50.00%	(ii)	(ii)	-	15,501	1,299	-	16,800
Panamex Holdings (PNG) Limited	(c)	46.30%	(iv)	(iv)	-	5,837	-	-	5,837
Heritage Park Limited	(c)	60.00%	(i)	(iv)	-	44,960	2,240	-	47,200
Malagan Limited	(c)	35.71%	(iv)	(iv)	-	25,113	-	-	25,113
Carpark Limited	(c)	33.33%	(iv)	-	-	-	-	8,188	8,188
Grand Pacific Hotel Limited	(c)	50.00%	(iv)	(iv)	-	-	-	38,425	38,425
Total unquoted investments						**577,263**	**70,389**	**44,238**	**691,890**

Unobservable inputs of valuation models are discussed in note (e). The valuation models as indicated above are as follows:

(i) Orderly Realisation of Assets
(ii) Net Assets on a Going Concern Basis
(iii) Capitalisable Maintainable Earnings ("CME")
(iv) Cost
(v) Sum of Parts - see note (e) for further breakdown of valuation.
(vi) Discounted cash flows
(vii) Observable market

10 Equity investments (continued)

(b) Unquoted investments at fair values (continued)

Reconciliation of movement in unquoted investments is as follows:

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Opening balance		577,263	346,125
Additions during the year		8,188	43,112
Additions upon amalgamation with SIOS	8	7	-
Transfers from WIP	11(c)	38,425	106,945
Fair value gain	17	70,389	81,081
Other adjustments	(iii)	(2,382)	-
Closing balance		**691,890**	**577,263**

The above unquoted investments are stated at fair value, which have been determined by the Board of Directors based on external valuations performed by Deloitte PNG (by James Walker - Deloitte PNG Partner, Post Graduate Diploma of Accounting, CPA Australia, Fellow Taxation Institute of Australia) as at 31 December 2013. The main methodologies in determining the fair value of unlisted equities are usually based on future maintainable earnings, dividend yields, net tangible assets or cash flows. It is appropriate to consider all of the above methods in arriving at a fair value.

(i) Nasmel Group (100% owned by the Fund) holds 63% of Mainland Holdings - a diversified agricultural company with interests in chicken production and processing, eggs, flour and crocodile skins. Nasmel is also the holding company for the construction of "Burns Philp Haus" and "The Face". The investment balance includes long term capital contributions of K127 million (2012: K127 million). See note 23 for further details.

(ii) City Centre Developments Limited is 65% owned by Nasfund with its two primary assets being NCDC Haus and Sumsuma Complex, Cameron Road Waigani.

(iii) Other adjustments relate to the transactions by the Fund with Nasmel Limited and City Centre Developments Limited arising from advances and repayments of short-term working capital requirements. Refer to Note 23 for further details.

(c) Unquoted investments at cost

For investments held at cost, due to the early stage and nature of these investments, cost is considered an appropriate fair value approximate for these investments. The below table includes values only while the investment is held at cost.

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Panamex Holdings (PNG) Limited	(i)	5,837	5,837
Malagan Limited	(ii)	25,113	25,113
Heritage Park Limited	(iii)	-	44,960
Carpark Limited	(iv)	8,188	-
Grand Pacific Hotel Limited	(v)	38,425	-
		77,563	**75,910**

10 Equity investments (continued)

(c) Unquoted investments at cost (continued)

(i) The Fund subscribed to 46.25% of the nominal share capital of Panamex Holdings (PNG) Limited in August 2012 for a consideration of K5.8 million. The investment was acquired during 2012 and management believed that the cost approximated its fair value. In 2013, Panamex had inflated earnings which the valuers did not believe they could maintain, as such the valuers believed they could not rely on the financial information provided and believe that cost remains the most appropriate approximation of fair value.

(ii) The Fund acquired 35.71% of Malagan Limited in October 2012 for the consideration of K27.4 million (including a K2.3 million receivable). Malagan Limited owns Malagan Haus in Konedobu, NCD. The company is in its construction phase and management believes that cost approximates the company's fair value as at 31 December 2013 and 2012. There have been no market indicators that would suggest any significant difference to cost approximating fair value existing.

(iii) The investment represents a 60% investment in Heritage Park Limited, a hotel and commercial complex in Honiara, Solomon Islands. Due to the start up phase and nature of the company and there being no indications of impairment, management believed that the cost approximated its fair value in 2012. In 2013, the investment has been fair valued using an appropriate valuation method, as there was sufficient financial and market information available to estimate its fair value.

(iv) The Fund acquired 33.33% of Carpark Limited who owns and operates a carpark building in Konedobu, NCD. Due to the recent acquisition of the company, management believe cost is a reasonable approximate of its fair value.

(v) Grand Pacific Hotel Limited is a hotel in Suva, Fiji owned 50% by the Fund. This is a 120 room commercial development that is currently being constructed. The company is in its construction phase and management believes that cost approximates the company's fair value as at 31 December 2013 and 2012. There have been no market indicators that would suggest any significant difference to cost approximating fair value existing.

(d) Equity investments that are over 5% of the net asset value of the Fund

Bank of South Pacific Limited (direct interest only)	13%
Nasmel Limited	5%

(e) Fair value model and significant unobservable inputs

Set out below are the fair valuation models used and the significant unobservable inputs that may effect the valuation.

(i) Orderly Realisation of Assets

Orderly Realisation of Assets (ORA) is a valuation model based on the identifiable net assets of the investee. Intangible assets such as customer lists, management, supply arrangements, and goodwill are ignored where not already recorded. The individual assets of the company are discounted for costs that would be incurred to realise those assets. Significant key unobservable input used in this valuation model is the fair value adjustment for the realisation costs, ranging from 10% to 30%. This valuation method assumes that the company is wound up in an orderly manner. As the investments are not expected to be wound up, the final valuation is generally taken at the higher end of the provided valuation range.

10 **Equity investments (continued)**

(e) Fair value model and significant unobservable inputs (continued)

(i) Orderly Realisation of Assets (continued)
Accordingly, an increase in the discounts for the realisation costs will decrease the estimated fair value of the equity investment. A decrease in the fair value adjustments for the realisation costs will increase the estimated fair value of the equity investment.

(ii) Net Assets on a Going Concern Basis
Net assets approach is a valuation model similar to the orderly realisation of assets. Under this model, fair value is based on the identifiable net assets of the investee. Intangible assets such as customer lists, management, supply arrangements, and goodwill are likewise ignored. The difference lies in the treatment of realisation costs, where under this valuation model, these costs are ignored as the investee is assumed to continue its operations for the foreseeable future. This method is used where the underlying assets and liabilities approximate their fair value and management do not believe there is any intangible value in the company.

(iii) Capitalisable Maintainable Earnings ("CME")
Capitaliseable maintainable earnings (CME) approach is a valuation model based on market multiples derived from quoted prices of companies comparable to the investee and the maintainable earnings of the investee. The fair value estimate is adjusted for the effect of the non-marketability of the equity securities. Significant key unobservable input used in this valuation model are the maintainable earnings of the investee and the adjusted market multiples ranging from 3.4x to 14.5x.

Accordingly, an increase in the maintainable earnings of the investee and / or an increase in the adjusted market multiple will increase the estimated fair value of the equity investment. A decrease in the maintainable earnings of the investee and / or a decrease in the adjusted market multiple will decrease the estimated fair value of the equity investment.

(iv) Cost
Due to the early stage nature of these investments, cost is considered to be an appropriate fair value approximation for the investments.

(v) Sum of Parts
Turumu Holding Limited ("Turumu"), which apart from its own operations, is also a holding company for a number of other companies. Turumu is valued using the sum of parts approach. The investments held by the holding company are fair valued individually using either the ORA, Net Assets, or CME approach. The percentage of the fair valued of the parts attributable to the holding company is added to come up with a fair value of the holding company. Presented below is the investment portfolio of Turumu Holdings Limited and the valuation model used to value each investment:

"Entities of Turumu Investments Limited (Group)"	Status	Percentage shareholding	Valuation model	Market multiple
Turumu Investments Limited (Company)	Operating	100.00%	Net Assets	-
Donnybrook Limited*	Operating	100.00%	CME	7.3x
Aloga No. 2 Limited*	Dormant	100.00%	ORA	-
Yuwai No. 67 Limited*	Dormant	100.00%	ORA	-
Brian Bell & Co. Limited (Group)*	Dormant	66.47%	Sum of parts	-

**Except for Brian Bell & Co. Limited, these companies are 100% owned by Turumu Investments Limited Brian Bell & Co. Limited has 2 subsidiaries as detailed in the following section.*

10 **Equity investments (continued)**

(e) Fair value model and significant unobservable inputs (continued)

"Entities of Brian Bell & Co. Limited (Group)"	Status	Percentage shareholding	Valuation model	Market multiple
Brian Bell & Co. Limited (Company)**	Operating	100.00%	CME	5.8x
Esco Limited**	Operating	100.00%	CME	9.8x
Beltek Chemicals Limited**	Operating	100.00%	CME	8.5x

***These companies are 100% owned by Brian Bell & Co. Limited. Brian Bell & Co. Limited is 66.47% owned by Turumu Investments.*

(vi) Discounted cash flows
The discounted cash flow ("DCF") method estimates market value by discounting a company's future cash flows to their present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life. Significant key unobservable input used in this valuation model are the cash flows projection of the investee and the adjusted discount rate.

(vii) Observable market
An observable market was available during the time of the fair value estimation of Pacific Balanced Fund (PBF) investment units during 2012. In 2013, the observable market for such equity securities was no longer available which triggered the transfer of fair value hierarchy from Level 2 to Level 3.

(f) Sensitivity analysis
The following is a sensitivity analysis of significant unobservable inputs:

	Effect on profit or loss increase / (decrease) 31 Dec 2013 K'000	31 Dec 2012 K'000
Increase of 1 in market multiples	22,755	8,237
10% increase in earnings	20,349	16,309
Increase of 5% in discount rates	(8,856)	(7,097)

A decrease in any of the above unobservable inputs would have the opposite but similar effect to profit or loss.

11 Investment properties and work in progress

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Investment properties	(a)		
Residential properties		82,131	64,680
Industrial properties		31,261	31,340
Commercial properties		361,740	302,255
Land		14,517	12,179
		489,649	410,454
Work in progress	(c)	-	38,425
		489,649	**448,879**

(a) Investment properties (at market value)

Summary of movement in revaluation of investment properties as follows:

	Valuation Model	Capitalisation Rates	2012 K'000	Revaluation K'000	Other Movements K'000	2013 K'000
Residential properties						
Peacehaven Apartments	MC	10.50%	10,000	2,717	63	12,780
Ramu Sugar Properties	DMA	-	974	-	-	974
Sol Wara Apartments	MC	10.50%	53,706	2,460	34	56,200
Cross Street Apartments	MC	11.00%	-	(533)	2,803	2,270
Parer Street Property	DMA	-	-	(363)	1,548	1,185
Lot 18 Sect. 69 House Property	MC	11.00%	-	(766)	2,184	1,418
Fifth Street Lae House Property	MC	11.00%	-	(628)	1,808	1,180
Lot 3 Sect. 2 Madang Property	DMA	-	-	(742)	1,582	840
Lot 11 Sect. 13 KBB Property	DMA	-	-	(320)	1,370	1,050
Siroi Panu Units	MC	11.00%	-	(656)	3,710	3,054
Airvos Avenue Apartments	MC	11.00%	-	(435)	1,615	1,180
			64,680	**734**	**16,717**	**82,131**

Burns Philp Haus, Port Moresby

11 Investment properties and work in progress (continued)

(a) Investment properties (at market value) (continued)

	Note	Valuation Model	Capitalisation Rates	2012 K'000	Revaluation K'000	Other movements K'000	2013 K'000
Industrial properties							
API		MC	11.00%	11,346	(526)	15	10,835
Gerehu		DMA	-	8,500	(881)	1,081	8,700
Gordons - Cameron Road		MC	10.00%	11,494	232	-	11,726
				31,340	**(1,175)**	**1,096**	**31,261**
Commercial properties							
Ravalian Haus		MC	10.50%	46,691	5,342	-	52,033
Able Computing Madang		MC	10.50%	4,269	331	-	4,600
ANZ Haus		MC	10.50%	40,650	10,260	-	50,910
Westpac Head Office Building	(iv)	Cost	-	-	-	12,000	12,000
BSP Douglas Street	(iv)	Cost	-	-	-	1,978	1,978
Luship Voco Point Lae		DMA	-	-	6,075	4,290	10,365
Malahang Shed Regina St. Lae		DMA	-	-	(433)	1,225	792
Madang Slipway		DMA	-	-	4,200	3,680	7,880
Deloitte Tower		MC	12.00%	139,890	(221)	221	139,890
Nasfund Haus Lae		MC	11.50%	7,535	515	-	8,050
NCSL Head Office	(iii)	DMA	-	-	-	4,964	4,964
IPA Haus		MC	12.00%	21,400	1,122	-	22,522
The Factory		MC	12.00%	41,820	3,920	16	45,756
				302,255	**31,111**	**28,374**	**361,740**
Land							
Section 69, Lae		Cost	-	4,275	-	-	4,275
8 Mile and 9 Mile	(ii)	DMA	-	1,971	486	-	2,457
Lawes Rd		DMA	-	5,933	232	-	6,165
Vacant Land, Lae		DMA	-	-	109	1,511	1,620
				12,179	**827**	**1,511**	**14,517**

Grand Pacific Hotel, Fiji.

11 Investment properties and work in progress (continued)

Reconciliation of movement in investment properties is as follows:

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Opening balance		410,454	381,919
Additions	(iv)	13,978	-
Improvements to properties		1,430	5,067
Additions upon amalgamation with SIOS	8	27,326	-
Transfers from property, plant and equipment	(iii)	4,964	-
Disposals of properties	(i), (ii)	-	(17,866)
Fair value gain	17	31,497	41,334
Closing balance		**489,649**	**410,454**

Investment properties are stated at fair value, which have been determined by the Board of Directors based on valuations performed by L.J. Hooker (by Leo Digori, PNG Registered Valuer No. 65) as at December 2013.

(i) Port Moresby Grammar School property was sold during 2012 for K18.6 million. A profit of K1.08 million was realised.

(ii) A house at 8 mile was sold during 2012 for K650 thousand. A profit of K300 thousand was realised on sale.

(iii) NCSL Head Office represents a transfer from property, plant and equipment (Note 12) to investment property. The historical cost of NCSL Head Office is K900 thousand. The property was transferred at its fair value.

(iv) During the year, the Fund acquired the Westpac Head Office and the neighbouring BSP property on Douglas Street in Port Moresby town centre. The Fund is currently considering re-development possibilities for the properties.

(b) 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:

(i) Direct market approach (DMA) is a market-based valuation technique which considers the most recent completed sales transactions and quoted market prices (when available) of similar properties in the location adjusted for the certain market factors such as the physical deterioration of the property and its location (prime vs secondary).

(ii) Market capitalisation (MC) is a fair valuation model which considers the present value of net cash flows to be generated from the property. The expected net cash flows are discounted using risk-adjusted market capitalisation rates adjusted for the certain market factors such as the physical deterioration of the property and its location (prime vs secondary). Key unobservable input includes the risk-adjusted market capitalisation rates and market lease rates.

11 Investment properties and work in progress (continued)

(b) Measurement of fair value, fair value model and significant unobservable inputs (continued)

(iii) Certain properties are valued at cost either due to the recent acquisition of these investments. Management believes that the cost of these properties approximates their fair value.

Fair value hierarchy

The classifications of fair value hierarchy has been discussed in Note 4. The reconciliation of the movement of investment properties based on their respective fair value hierarchy classification are detailed as follows:

The fair value measurement for investment properties of K65.2 million have been categorised at Level 2 fair value as the inputs to the valuation techniques used made reference to recent market sales transactions of comparable properties.

The fair value measurement for investment properties of K465.1 million have been categorised at Level 3 fair value as the inputs to the valuation techniques used made reference to significant unobservable inputs such as risk-adjusted capitalisation rates.

(v) Level 2 fair value
The following table shows a reconciliation from the opening balances to the closing balances for Level 2 fair values:

	2013 K'000
Opening balance	21,652
Improvements, reclassifications and additions including amalgamation of SIOS	35,230
Changes in fair value	8,363
Closing balance	**65,245**

Direct market comparison was the valuation model used in measuring the fair value of the above properties. Direct market comparison valuation model considers the most recent completed sales transaction and quoted market prices (when available) of similar properties in the location adjusted for the certain market factors such as the physical deterioration of the property and its location (prime vs secondary).

The estimated fair value would increase or decrease based on the market's most recently completed sales transaction for comparable properties and the changes in the costs of constructing new similar properties.

(vi) Level 3 fair value
The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	2013 K'000
Opening balance	404,303
Improvements, reclassifications and additions including amalgamation of SIOS	12,469
Changes in fair value	48,302
Closing balance	**465,074**

11 Investment properties and work in progress (continued)

(b) Measurement of fair value, fair value model and significant unobservable inputs (continued)

(vi) Level 3 fair value (continued)

Market capitalisation was the valuation model used in measuring the fair value of the above properties. The valuation model considers the present value of net cash flows to be generated from the property. The expected net cash flows are discounted using risk-adjusted market capitalisation rates adjusted for the certain market factors such as the physical deterioration of the property and its location (prime vs secondary).

Significant key unobservable inputs used include market lease rates and market capitalisation rates ranging from 10% to 12%. Accordingly, an increase in market lease rates and / or a decrease in market capitalisation rate would increase the fair value of the properties. A decrease in market lease rates and / or an increase in market capitalisation rate would decrease the fair value of the properties.

(vii) Sensitivity analysis

	Effect on profit or loss increase / (decrease) 31 Dec 2013 K'000	31 Dec 2012 K'000
Increase of 1% in capitalisation rates	(46,086)	(37,194)
10% increase in rentals	36,962	29,830
10% increase in sales prices and / or replacement costs	4,070	3,285

A decrease in any of the above unobservable inputs would have the opposite but similar effect to profit or loss.

(c) Work in progress (WIP)

	31 Dec 2013 K'000	31 Dec 2012 K'000
Grand Pacific Hotel	**-**	**38,425**

WIP represents investment properties under construction by Nasfund or corporate entities in which Nasfund has an interest. The WIP is carried at cost and is transferred to investment properties upon completion.

Reconciliation of movement in work in progress is as follows:

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Opening balance		38,425	142,343
Additions during the year		-	3,027
Transfers to unquoted investments	(i), (ii)	(38,425)	(106,945)
Closing balance		-	**38,425**

(i) In 2012, The Edge apartments were completed. The Edge Limited holds the investment assets and was transferred to unquoted investments in Note 10(b). The Edge Limited is 70% owned by Nasfund with the primary asset being 63 apartments at Harbour City, Port Moresby.

(ii) In 2013, Grand Pacific Hotel Limited was transferred to unquoted investments in Note 10 (b) as an incorporated equity investment.

12 Property and equipment

a) Property and equipment

Cost or deemed cost	Land and buildings K'000	Motor vehicles K'000	Office equipment K'000	Fixtures and fittings K'000	Total K'000
At 1 January 2012	10,984	662	3,344	354	15,344
Additions	-	-	276	24	300
Revaluation of property	2,575	-	-	-	2,575
Transfer (Note 12(b))	(7,520)	-	-	-	(7,520)
Disposals	-	(85)	(273)	(13)	(371)
At 31 December 2012	6,039	577	3,347	365	10,328
At 1 January 2013	6,039	577	3,347	365	10,328
Additions	-	102	332	2,044	2,478
"Additions on amalgamation with SIOS (Note 8)"	-	-	56	10	66
Revaluation of property	(1,075)	-	-	-	(1,075)
Transfer (Note 11)	(4,964)	-	-	-	(4,964)
Disposals	-	(66)	(7)	(5)	(78)
At 31 December 2013	**-**	**613**	**3,728**	**2,414**	**6,755**
Accumulated depreciation					
At 1 January 2012	-	516	1,925	222	2,663
Depreciation for the year	-	17	326	35	478
Disposals	-	(85)	(272)	(14)	(371)
At 31 December 2012	**-**	**548**	**1,979**	**243**	**2,770**
At 1 January 2013	-	548	1,979	243	2,770
Depreciation for the year	-	40	361	19	420
Disposals	-	(66)	(7)	(2)	(75)
At 31 December 2013	**-**	**522**	**2,333**	**260**	**3,115**
Carrying amounts					
At 31 December 2013	**-**	**91**	**1,395**	**2,154**	**3,640**
At 31 December 2012	**6,039**	**29**	**1,368**	**122**	**7,558**

b) Property and equipment available for sale

	31 Dec 2013 K'000	31 Dec 2012 K'000
Nasfund Head Office - Boroko	**6,945**	**7,520**

The Fund has classified the land and buildings of its head office as available for sale. As at the date of signing the report, the property had not been sold. The historical cost of Nasfund Head Office is K650 thousand. A revaluation loss of K575 thousand was recognised on this property for the year.

13 Income tax

(a) Income tax expense

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Current tax		13,971	16,064
Under provision of current taxes in previous years		1,443	3,755
Deferred tax expense		(8,783)	11,826
		6,631	**31,645**
Accounting profit before tax		338,881	252,487
Tax on the profit for the year at 25%		84,720	63,122
Taxation effect of permanent differences			
- Non deductible items		49	16,273
- Non taxable items		(52,466)	(36,144)
Dividend rebate		(16,175)	(16,125)
(Over) / under provision in prior years		(9,497)	4,520
		6,631	**31,645**

(b) Income tax balance

Opening balance of income tax payable	29,978	22,539
Current tax payable	13,971	16,064
Amalgamation with SIOS	21	-
Under provision of taxes in previous years	1,443	3,755
Offset of withholding taxes recoverable	(5,622)	(3,547)
Payment during the year	(31,645)	(9,043)
Balance of income tax payable	**8,146**	**29,978**

(c) Deferred tax balances

Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below:

As at 31 December 2013	Asset K'000	Liability K'000	Net K'000
Property, plant and equipment	466	-	466
Investment property	-	(15,057)	(15,057)
Provisions	503	-	503
Interest receivable	-	(3,458)	(3,458)
Other	-	(145)	(145)
	969	**(18,660)**	**(17,691)**
As at 31 December 2012			
Property, plant and equipment	16	-	16
Investment property	-	(22,532)	(22,532)
Provisions	322	-	322
Interest receivable	-	(3,035)	(3,035)
Other	-	(84)	(84)
	338	**(25,651)**	**(25,313)**

The movement in the deferred tax liability between 2013 and 2012 includes the addition of K1,160 thousand obtained through the amalgamation of SIOS.

14 Sundry creditors and accruals

	31 Dec 2013 K'000	31 Dec 2012 K'000
Sundry creditors and other accruals	6,162	8,658
Bonds and repayable deposits	1,562	2,054
	7,724	**10,712**

15 Provisions

Current	31 Dec 2013 K'000	31 Dec 2012 K'000
Provisions for employee entitlements	**493**	**261**
Non current		
Provision for impairment of government securities	95,000	95,000
Provision for long service leave	1,460	1,028
	96,460	**96,028**

The movement in provision for long service leave is presented as follows:

Opening balance	1,028	790
Charge for the year	659	271
Payments made during the year	(227)	(33)
Closing balance	**1,460**	**1,028**

No provision was made for impairment of government securities during the year. In 2012, a provision of K55 million was made for impairment of government securities. See Note 21(b) for further details.

16 Revaluation reserve

	31 Dec 2013 K'000	31 Dec 2012 K'000
Opening balance	9,210	6,635
Revaluation of Nasfund Head Office and NCSL Land and Building	(1,650)	2,575
Release of NCSL Head Office revaluation	(1,715)	-
Closing balance	**5,845**	**9,210**

17 Movement in fair value

The realised gain from financial instruments at fair value through the profit and loss, represents the difference between the carrying amount of a financial instrument at the beginning of the year or the transaction price upon acquisition during the year, and its settlement / sale price upon disposal.

17 Movement in fair value (continued)

The unrealised gain represents the difference between the carrying amount of a financial instrument at the beginning of the period or transaction price upon acquisition during the year, and its carrying amount at the end of the period. A summary of the movement in fair value of the investments is as follows:

Unrealised in respect of those investments held at the end of the year:

	Note	1 Dec 2013 K'000	31 Dec 2012 K'000
Mark to market- GIS	9	57,005	-
Shares in listed companies	10	46,694	48,054
Shares in unlisted companies	10	70,389	81,081
Investment properties	11	31,497	41,334
		205,585	**170,469**
In respect to those investments realised during the financial year:			
Investment properties / unlisted companies / other		-	1,384
		-	**1,384**
Total gain		**205,585**	**171,853**

18 Operating surplus for the year has been arrived at after charging the following items:

	31 Dec 2013 K'000	31 Dec 2012 K'000
Auditors' remuneration – audit	372	485
Auditors' remuneration – other services	20	20
Legal expenses	112	209
Gain on sale of property, plant and equipment	2	14
Net foreign exchange (gains) / losses	(823)	60

19 Staff related expenses

	Note	31 Dec 2013 K'000	31 Dec 2012 K'000
Salaries and wages		7,726	4,438
Superannuation	20	846	480
Long service leave	15	659	271
Other expenses and benefits		2,799	1,963
		12,030	**7,152**

The number of full time employees at the end of the year was 123 (2012: 120).

The number of employees whose remuneration exceeds K100,000 for the year was 16 (2012: 15).

19 Staff related expenses (continued)

Total remuneration (Kina) (Above K100,000)	**31 Dec 2013 No.**	**31 Dec 2012 No.**
K100,001 to K150,000	4	2
K150,001 to K200,000	3	6
K200,001 to K250,000	4	2
K250,001 to K300,000	1	-
K350,001 to K400,000	2	2
K700,001 to K750,000	-	-
K750,001 to K800,000	1	1
K850,001 to K900,000	-	-
K900,001 to K950,000	-	1
K1,100,001 to K1,150,000	-	1
K1,200,001 to K1,250,000	1	-
	16	**15**

20 Employee benefit plans

Post-employment benefits
The Fund contributes to the National Superannuation Fund for its own employees. The plan for general employees is a defined contribution type, whereby the Fund matches contributions to the scheme made by employees at the rate of 6% of the employees' base salary. The Fund's employees receive 10% employer contribution rates. Employee contributions are based on various percentages of their gross salaries. During 2013, the Fund expensed K846 thousand in contributions (2012: K480 thousand).

21 Commitments, contingencies and disputes

(a) Commitments

Development properties	**K'000**
Head Office Fit-Outs at BSP Haus Konedobu	6,891

The commitments on the head office fit outs relates to the planned new office site at levels 2 to 4 of BSP Haus in Konedobu, NCD. The amount disclosed is payable to Curtain Bros. PNG Limited which oversees the project. The amount is expected to be paid within the first and second quarters of the subsequent year.

In addition, the Fund has entered into a contract for the management and maintenance of its investment properties (facilities management), member's fund management, and investment portfolio management for the next three years. The annual expense expected to be incurred in relation to these contracts is as follows:

Contract	**Amount**
Facilities management	K1.73 million per annum
Security fees	K1.14 million per annum
Member's fund management	
- weekly fees per active member	K0.67 toea per member per week
- withdrawal fees charged to exiting members	K20 per member upon exit
Investment portfolio management	0.18% of investment portfolio excluding interest and property receivables, SCITB and State Grants

21 Commitments, contingencies and disputes (continued)

(b) Government securities in dispute

The Fund had the following government securities which were directly or indirectly in dispute as at 31 December 2013:

(i) Sovereign Community Infrastructure Treasury Bill (SCITB) - K125 million

Recoverability of the SCITB has been delayed due to a disagreement with the Government of PNG with respect to its status as a legal Bill.

The Department of Treasury has asserted that the SCITB was illegal due to its linkage with unappropriated Government expenditure. The Fund maintains, based on independent legal advice, that the SCITB was legal, and as the Fund was not a party to any unappropriated Government expenditure, funds advanced for the SCITB and the applicable interest are fully recoverable. Not with standing the legal positions assumed, the Government and the Fund are in "without prejudice" discussions for an amicable resolution.

Whilst full recovery of the SCITB is yet to occur, the Fund is currently in negotiations with the State of Papua New Guinea and National Capital Limited (who hold K55 million of the original K125 million in trust), for the return of the K55 million to Nasfund without prejudice to any legal action taken by any party. The Fund has commenced legal action against the State of Papua New Guinea, the Bank of Papua New Guinea and National Capital Limited for the return of the K125 million. If the action is successful, the amount awarded will be offset by the K55 million above mentioned if returned.

(ii) Exchange of Niugini Nominee Notes (K100 million) for Bank of South Pacific shares

During 2011, the Fund redeemed its holding of Notes issued by Nominees Niugini Limited (NNL) in exchange for shares in Bank of South Pacific Limited (BSP), being part of a parcel of BSP shares which Motor Vehicles Insurance Limited had mortgaged to NNL. There is currently legal action between Independent Public Corporation of Papua New Guinea (IPBC) (parent of MVIL), NNL and MVIL by which IPBC is seeking to have the BSP shares returned to MVIL. The Fund is not a party to that action, however as a result of the above mentioned action, it has been suggested by external parties that there is a possibility that the deal could be unwound and thus the shares may be required to be returned. Despite this view there has not been any formal claim for the return of the BSP shares.

The Fund has obtained independent legal counsel, who have advised the Fund that it has good title to the parcel of BSP shares transferred to the Fund. They have further advised that the shares cannot be taken from the Fund without direct legal action against the Fund of which none has been commenced, and that they do not believe that there is any basis for any legal action against the Fund that would result in a negative outcome for the Fund.

(iii) Provision for impairment

Whilst the Fund does not accept liability for any of the above matters, it has an accumulated provision of K95 million (2012: K95 million) in respect of the above matters to take into account the vagueness of the laws of the State and the ability to recover the entire amounts (see note 15).

(c) Material contracts - operational

Contract	Services	Expiry Date
AonHewitt (PNG) Limited	Administration	May 2015
SOS Security Ltd.	Security	February 2016
PacWealth Capital Limited	Investment Management	March 2015

21 Commitments, contingencies and disputes (continued)

(d) Material contracts - property development

Contract	Services	Expiry Date
Hornibrooks NGI Ltd.	Property Development	12 months after completion
Curtain Bros. Ltd.	Property Development	12 months after completion
Consap Developers Ltd.	Property Development	12 months after completion
Lamana Developments Limited	Property Development	12 months after completion
Ashton Brunswick Limited	Facilities Manager	August 2016

22 Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank and short-term deposits. Cash and cash equivalents as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:

	31 Dec 2013 K'000	31 Dec 2012 K'000
Cash at bank and on hand	19,475	14,930
Interest bearing deposits and treasury notes	505,271	316,301
Cash and cash equivalents	**524,746**	**331,231**

Interest bearing deposits and treasury notes have a maturity of less than 90 days. Interest rates ranged from 0.39% to 4.25% (2012: 0.88% to 3.18%).

(b) Reconciliation of profit to net cash provided by operating activities

	2013 K'000	2012 K'000
Profit before tax for the year	338,881	252,487
Adjustments for:		
Movement in fair value of investments	(205,585)	(170,469)
Provision for impairment of government securities	-	55,000
Provision for doubtful debts	9,453	12,870
Provision for long service leave	659	271
Profit on disposal of property, plant and equipment	(2)	(14)
Profit on sale of investment properties	-	(1,384)
Depreciation	420	478
Amortisation of discounts and premiums	2,777	2,128
Exchange difference	(823)	60
Front end fees on membership	(707)	(702)
Net cash before changes in working capital	**145,073**	**150,725**
Increase in interest receivable	(10,531)	(15,587)
Decrease / (increase) in other receivables	811	(13,013)
Decrease in trade, other payables and tax accounts	(38,470)	(13,961)
Net cash provided by operating activities	**96,883**	**108,164**

23 Related party transactions

Related parties represent major shareholders, directors and key management personnel of the Fund and entities controlled, jointly-controlled or significantly influenced by such parties. Pricing policies and the terms of these transactions are approved by the Board of Directors.

Transactions with related parties during the year are as follows:

(i) NASFUND Contributors Savings and Loan Society ("NCSL")

NASFUND Contributors Savings and Loan Society is a related party as only NASFUND contributors are eligible to be members of the Society.

Transactions with NASFUND Contributors Savings and Loan Society during the year were as follows:

	31 Dec 2013 K'000	31Dec 2012 K'000
Opening balance owing to NASFUND	21	11
Administration services provided by NASFUND	25	25
Payments made to NASFUND	-	(15)
Closing balance	**46**	**21**

In addition, the Fund provides the use of the building NCSL uses as their head office for a nominal fee included in the above administration fee.

ii) Nasmel Limited	31 Dec 2013 K'000	31 Dec 2012 K'000
Opening intercompany balance owing to NASFUND	126,964	109,483
Improvements to Nasmel Limited investment properties	607	17,481
Other account adjustments	(815)	-
Closing intercompany balance owing to NASFUND	**126,756**	**126,964**

The loan with Nasmel represents long-term capital contributions by the Fund to develop investment properties and finance the investment in Mainland Holdings. The balance is interest-free and is included within the investment of unquoted investments of Nasmel in Note 10.

(iii) City Centre Developments Limited ("CCD")	31 Dec 2013 K'000	31 Dec 2012 K'000
Loan owing to NASFUND- opening balance	2,781	7,450
Loan repayments	(1,443)	(4,669)
Other account adjustments	(1,338)	-
Loan owing to NASFUND- closing balance	**-**	**2,781**
Opening intercompany balance owing to NASFUND	14,819	14,819
Loan repayments	(1,546)	-
Closing intercompany balance owing to NASFUND	**13,273**	**14,819**

The loan agreement with CCD was completed in 2011, no interest has been incurred since that date and the loan balance has been repaid in monthly instalments in 2012. The intercompany balance of K14.8 million is currently interest-free pending negotiations of loan terms between the parties. The balance is expected to be repaid within the next 3 to 4 years through monthly instalments and is included within the investment of unquoted investments of CCD in Note 10.

23 Related party transactions (continued)

(iv) Transactions with key management personnel

Key management personnel are Ian Tarutia (CEO), Seno Wekina (General Manager - Legal and Board Services/Company Secretary), Turaho Morea (General Manager - Corporate Services), and Andrew McGrath (General Manager- Finance and Investments).

(v) Compensation

Key management personnel compensation comprised of:

	31 Dec 2013 K'000	31 Dec 2012 K'000
Salary and fees	3,528	1,967
Non-monetary benefits	292	391
Post-employment benefits	353	197
	4,173	**2,555**

(vi) Loans

No loans were provided to key management personnel during the year.

(vii) Benefits paid to key management personnel

The following payments were made to Board members and Audit Committee members:

	31 Dec 2013 K'000	31 Dec 2012 K'000
- Sitting allowance	36	35
- Quarterly allowance	1,238	326
- Audit committee fees	55	244
- Directors insurance	72	48
	1,401	**653**

All of the above payments were made in the ordinary course of business. The above payments include payments of K55 thousand (2012: K225 thousand) to JAJ & Associates (2012: Deloitte Touche Tohmatsu PNG) for the services of Arthur Sam (2012: Ernie Gangloff) as an independent member of the Audit & Risk Committee of the Fund.

23 Related party transactions (continued)

(viii) Key management personnel interests

Name	Nature	Organisations
Mr. Mel Togolo CBE	Director	Westpac Bank (PNG) Ltd, Nautilus Minerals Niugini Ltd, Transparency International PNG, Panamex Ltd, Grand Pacific Ltd, Finance Board, Halfway Haus, Catholic Bishop Conference, Jesus Centre Business Council of PNG, PNG Mama Graun Trust
Mr. Graham Ainui	Employee	Rural Industries Council.
	Director	Institute of National Affairs, Employers Federation of PNG, Police Legacy Fund, First Investment Finance, Viva No.5 Ltd, PNG Coalition for Business Women
	Shareholder	Viva No. 5 Limited
	Member	PNGID, AICD
Mr. William Lamur	Employee	CEO and Executive Chairman ENDBC Group of Companies
	Director	ENB Development Corporation, ENB Port Services, Andersons Foodland, National Development Bank, NCSL, Kumul Hotel Group, Pacific Assurance Group, ENB Supermarkets, Witherlam Investments Ltd, ENB Copra, Cocoa & Coffee Co-Operative, Mainland Holdings Ltd
	Member	PNGID, AICD
Mr. Murray Woo	Employee	Woo Textile Corporation Ltd
	Director	Woo Textile Corporation Ltd, Heathly Kamwood Ltd, Manufacturers Council of PNG, Getaway Travel Ltd, NCSL, Business Council of PNG, Airlines PNG
	Shareholder	Highlands Pacific Limited, Oil Search Ltd, Woo Textile Corporation Ltd, Getaway Travel Ltd, Heathly Kamwood Ltd
	Member	PNGID, AICD
Mr. Reg McAllister	Employee	General Secretary of the PNG Maritime Workers Industrial Union
Lady Mina Siaguru	Director	Divine Word University, Chair-Porgera Environment Advisory Committee, Alumni-Leadership PNG, Alumni-Emerging Pacific Leadership Dialogue, Aerie Holdings Ltd.
	Member	PNGID, AICD
Mr. Hulala Tokome	Director	InterOil Limited, InterOil Products Ltd, InterOil Corporate PNG Ltd, InterOil Partners, SPI Ltd, SPI (157) Ltd, SPI (199) Ltd, SPI (208) Ltd, SPI (210) Ltd, SPI (220) Ltd, NCSL, Mainland Holdings Ltd
	Shareholder	Kina Asset Management, BP Oil Ltd, InterOil Ltd
	Member	PNGID, CPA PNG

23 Related party transactions (continued)

(viii) Key management personnel interests (continued)

Name	Nature	Organisations
Mr. Ian Tarutia MBE	Director	NCSL, Seychelles Ltd, East New Britain Properties Ltd, Federation of Savings and Loans, Credit Corporation (PNG) Ltd, The Edge Ltd, Heritage Park Hotel, Grand Pacific Hotel Ltd, 2015 Pacific Games Authority, PNG Rugby Union, Nasmel Ltd.
	Shareholder	Bank South Pacific Ltd, Seychelles Ltd, Airlines PNG
	Member	PNGID, AICD, FINSIA
Mr. Vera Raga	Employee	PNG Banks & Financial Institutions Workers Union
	Director	NCSL, Proxy- National Tripartite Consultative Council
	Member	PNGID, AICD
Mr. Robert DeBrouwere	Employee	Bank of South Pacific Ltd
	Director	PNG Employers Federation
Mrs. Lata Milner	Lawyer	Twivey Lawyers
	Director	Pedy No. 10 Ltd, Hopewell Hospice Gold Coast Aust. Hanpan No's 11-15 Ltd, Susu Mama's, POM Inc. Fundraising Commmittee
	Shareholder	Pedy No. 10 Ltd, Hanpan No's 11- 15 Ltd
	Member	PNG Law Society, PNG Institute of Directors.
Mr. Seno Wekina	Director / Secretary	Amalgamated Packaging Ltd, The Edge Ltd NCSL, Malagan Ltd, Carpark Ltd, PNG Land Board
	Member	Law Society of PNG, PNGID
Mr. Turaho Morea	Director	Oceania Volleyball Association, Asian Volleyball Confederation, Emerging Pacific Leaders Dialogue Alumni, Leadership Papua New Guinea Roseko Rentals & Construction, Roseko Builders & Contractors.
Mr. Arthur Sam	Partner	JAJ & Associates.
	Director	Milne Bay Earthworks Ltd., Bank of South Pacific Ltd. (Audit Committee Member)
	Shareholder	Milne Bay Earthworks Ltd.
	Member	Associate PNG CPA.
Mr. Andrew McGrath	Director	Clan McGrath Pty Ltd, Alternate, Panamex Ltd, Reward Pay Pty. Ltd.
	Shareholder	Reward Pay Pty. Ltd.
	Member	Institute of Chartered Accountants (Australia).

24 Financial instruments

(a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 Dec 2013 K'000	31 Dec 2012 K'000
Government debt securities	694,458	586,950
Equity securities	1,624,826	1,450,040
Loans and receivables	93,170	80,672
Interest receivables	22,385	20,667
Property receivables	9,915	11,665
Other receivables	1,396	3,616
Cash and cash equivalents	524,746	331,231
	2,970,896	**2,484,841**

The maximum exposure to credit risk for loans and receivables at the reporting date is concentrated in Papua New Guinea.

Aging of trade receivables

The ageing of unimpaired property receivables at the reporting date was:

	31 Dec 2013 K'000	31 Dec 2012 K'000
Current	6,126	9,486
31- 60 days	492	565
61- 90 days	1,398	721
over 90 days	1,899	893
	9,915	**11,665**

The movement in the allowance for impairment in respect of property receivables is as follows:

	31 Dec 2013 K'000	31 Dec 2012 K'000
Opening balance	-	-
Additional doubtful debts upon amalgamation with SIOS	1,448	-
Doubtful debts provisions during the year	640	-
Write-offs during the year	(640)	-
Closing balance	**1,448**	**-**

(b) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Fund's approach to managing liquidity risk is to ensure as far as possible that it will always have sufficient liquidity to meets its obligations when due under normal and stressed conditions without incurring unacceptable losses or risking damage to the Funds' reputation.

Contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements are expected to be realised within the first three months of 2013. Contractual financial liabilities comprise sundry creditors and accruals and current tax liabilities. Any interest payable on these accounts is expected to be insignificant for expected future contracted payments.

24 Financial instruments (continued)

(c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund is exposed to currency risk on financial instruments that are denominated in a currencies other than the functional currency (Kina) of the Fund.

Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Fund's investments denominated in currencies other than the Kina.

The Fund's exposure to foreign currency risk was as follows based on notional amounts:

	AUD in '000	GBP in '000	FJD in '000	SBD in '000
As at 31 December 2013				
Equity investments	110,692	3,965	26,740	148,590
Cash at bank	-	-	-	7,200
Gross balance	**110,692**	**3,965**	**26,740**	**155,790**
% of net asset value	6.9%	0.5%	1.1%	1.5%
Foreign exchange rate	0.48	0.26	0.70	3.15
As at 31 December 2012				
Equity investments	99,162	5,050	30,210	166,811
Cash at bank	-	-	-	31,140
Gross balance	**99,162**	**5,050**	**30,210**	**197,950**
% of net asset value	7.3%	0.6%	1.4%	1.9%
Foreign exchange rate	0.49	0.31	0.79	3.71

Sensitivity analysis

A 10 percent strengthening of the PNG Kina against the above currencies at 31 December would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2013 and 2012.

	31 Dec 2013 K'000	31 Dec 2012 K'000
AUD	20,956	18,549
GBP	1,391	1,473
FJD	3,493	3,493
SBD	4,499	4,850
	30,338	**28,366**

A 10 percent weakening of the PNG Kina against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

24 Financial instruments (continued)

(d) Interest rate risk profile (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At the reporting date the interest rate profile of the Fund's interest-bearing financial instruments was:

	1 Dec 2013 K'000	31 Dec 2012 K'000
Fixed rate instruments		
Financial assets (Government bonds and inscribed stock)	554,458	441,950
Treasury bills and interest-bearing deposits	505,271	316,301
Loans and other receivables	74,993	75,672
	1,134,722	**833,923**
Variable rate instruments		
State grant	15,000	20,000
Loans and other receivables	18,177	5,000
Total	**1,167,899**	**858,923**

Sensitivity analysis

For 2013, Government Inscribed Stock ("GIS") is marked to market based on current yields. A reduction of 25 bps in yields would result in an increase in the value of GIS of K8.5 million.

A change of 1% in the interest rates and a change of 10% in the consumer price index (CPI) of Port Moresby in respect of the state grant for the variable interest-bearing financial instruments would have increased or decreased profits by K2,175 thousand (2012: K947 thousand).

(e) Other market price risk

Other market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

As the Fund's financial instruments are carried at fair values with changes recognised in the statement of comprehensive income, changes in market conditions affecting fair value will be recognised.

Investments of the Fund (other than cash held for liquidity purposes and investment properties) comprise fixed interest securities, shares in listed companies, investments in unlisted companies and funds. The Fund's exposure therefore is limited to the fair value movement of these investments.

Other market price risk is mitigated by constructing a diversified portfolio of instruments which are traded on various markets. All investment managers are subject to extensive due diligence prior to being appointed with the recommendation for their appointment and removal made by the Investment Committee to the Board for final approval.

The Investment Department receive monthly reports from all investment managers which are reviewed in detail and assessed against relevant benchmarks and expected returns. Investment manager performance is reported to the Investment Committee and Board on a quarterly basis.

24 Financial instruments (continued)

(e) Other market price risk (continued)

Sensitivity analysis

Following analysis of historical data and expected investment rate movements during the 2013 financial year, together with consultation with the investment consultant, the Fund's Investment Department considers the following movements in other market price risk are reasonably possible.

Listed overseas shares	15%
Listed local shares	10%
Investment in unquoted companies	5%

	%	Carrying amount	Effect on net assets and profit increase	Effect on net assets and profit decrease
As at 31 December 2013				
Listed overseas shares	15%	245,808	36,871	(36,871)
Listed local shares	10%	687,128	68,713	(68,713)
Investment in unquoted companies	5%	614,327	30,716	(30,716)
As at 31 December 2012				
Listed overseas shares	15%	220,244	33,037	(33,037)
Listed local shares	10%	652,533	65,253	(65,253)
Investment in unquoted companies	5%	501,353	25,068	(25,068)

(f) Fair value versus carrying values

The carrying amounts of financial assets and liabilities as set out in the statement of financial position approximates their fair values. The significant methods and assumptions used in estimating the fair values are stated in Notes 4, 9 and 10.

(g) 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. Details of each level are discussed in Note 4.

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.

As at 31 December 2013	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total K'000
Government Inscribed Stock	-	-	554,458	554,458
Equity securities	932,936	-	614,327	1,547,263
	932,936	**-**	**1,168,785**	**2,101,721**

24 Financial instruments (continued)

(g) Fair value hierarchy (continued)

As at 31 December 2012	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total K'000
Government Inscribed Stock	-	-	441,950	441,950
Equity securities	872,777	40,366	460,987	1,374,130
	872,777	**40,366**	**902,937**	**1,816,080**

As at 31 December 2013, the Pacific Balanced Fund (PBF) investment units with a carrying amount of K49,300 (2012: K40,366) was transferred from Level 2 to Level 3 as prices in an observable market for such equity securities was no longer available. The fair value of PBF at 31 December 2013 was estimated based on significant unobservable market data. There were no other transfers in between fair value hierarchy during the year.

(h) Measurement of fair values

(i) Financial instruments measured at fair value

Equity securities
Capitalisable maintainable earnings (CME) approach, orderly realisation of assets (ORA), net assets approach, and sum of parts were the valuation models used in measuring the fair value of the Level 3 fair value equity securities.

For a summary of valuation methods used, unobservable inputs and sensitivity analysis associated with Equity securities, please refer to Note 10.

Debt securities - Government Inscribed Stock

For 2013, GIS have been marked to market using a price formula and comparable current market yields. Please refer to Note 9 for a sensitivity analysis relating to changes in yields.

(ii) Financial instruments not measured at fair value

Debt securities
Debt securities, which includes government securities and other loans, but excludes Government Inscribed Stock for the year ended 31 December 2013, are valued at amortised cost. Due to the absence of an observable market of these debt securities in Papua New Guinea and/or their nature as loans, the amortised cost approximates their fair values. There is no significant unobservable input used in the valuation model.

(iii) Reconciliation of Level 2 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 2 fair values:

	2013 K'000
Opening balance	40,366
Transfers to Level 3	(40,366)
Changes in fair value	-
Closing balance	-

24 Financial instruments (continued)

(h) Measurement of fair values (continued)

(iii) Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	2013 K'000
Opening balance	902,937
Reclassifications and additions including amalgamation of SIOS	57,768
In respect of those fair valued this year which were valued at cost in prior year	44,960
Transfers from Level	240,366
Disposals and redemptions during the year	(4,640)
Changes in fair value	127,394
Closing balance	**1,168,785**

25 Comparative figures

Certain amounts in the comparative financial statements and note disclosures have been reclassified to conform to the current year's presentation. Management believes that the above reclassifications resulted in a better presentation of accounts and did not have any impact on prior year's profit or loss.

26 Events after balance sheet date

There have been no significant events after the balance sheet date that have not been appropriately accounted for, or disclosed, in these financial statements.

BSP Haus at Harbour City, Port Moresby.

DIRECTORY

TRUSTEE	STAKEHOLDER REPRESENTATIVE	E-MAIL ADDRESS	PHONE NUMBER
Mr. Melchior Togolo	PNG Chamber of Mines & Petroleum	mpt@nautilusminerals.com	321 1284
Mr. Reg Mc Alister	Trade Union Congress	pngmwiu@daltron.com.pg	321 5408
Mr. Murray Woo	Manufacturers Council of PNG	murray@wtc.com.pg	325 8219
Mr. Graham Ainui	Rural Industries Council	grahamainui@online.net.pg	321 5773
Mr. William Lamur	PNG Chamber of Commerce	wlamur@enbdc.com.pg wlamur@online.net.pg	982 5193 / 323 4066
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Lady Mina Siaguru	Independent Director	mina.siaguru@gmail.com	M: 7674 4629
Mr. Vera Raga	PNG Bankers and Financial Institution Workers Union	pngbfiwu2@daltron.com.pg vera. raga@gmail.com	321 4485
Ms. Lata D. Milner	Independent Director	lmilner@twiveylaw.com.pg	325 1144

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Mr. Sitiveni Weleilakeba	Change Consultant & Acting General Manager - Corporate Services	siti.weleilakeba@nasfund.com.pg	313 1927
Mr. Andrew McGrath	General Manager - Finance & Investments	amcgrath@nasfund.com.pg	320 1174
Ms. Ceslie Ila	Head of Human Capital	cila@nasfund.com.pg	320 0824
Mr. Seno Wekina	General Manager - Legal & Board Services & Company Secretary	swekina@nasfund.com.pg	320 1734

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f: +675 320 1625	IT Support/Scanning	320 3942	New Business Registration	313 1801
e: reception@nasfund.com.pg	Operations	320 2668	Human Resource	320 0824
Level 3, BSP Haus, Harbour City P.O Box 5791, Port Moresby, NCD	Marketing	320 3582	Legal & Board Services	320 1734
www.nasfund.com.pg	Finance & Administration	325 7590	Branch Support Network	320 1660

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