CONSOLIDATION AND EFFICIENCIES CONSOLIDATION AND EFFICIENCIES CONSOLIDATION AND EFFICIENCIES

NATIONAL SUPERANNUATION FUND LIMITED

"Your Partner in Superannuation"

NASFUND
PAPUA NEW GUINEA

ANNUAL REPORT 2016

CONTENT

Index	Page
Content	03
Corporate Information	04
Vision, Mission and Value Statement	05
The Board of Directors and the Management Team	06
Chairman's Statement	07
Chief Executive Officer's Statement	09
Year in Review	11
Licenced Investment Manager Statement - PacWealth Capital	18
Licenced Fund Administrator Statement - Aonhewitt	20
Perfomance Breakdown	21
Corporate Governance	25
Risk Management	27
Our Work Culture	29
Our Community	31
Independent Auditor's Report to the Members of NASFUND	32
Report of the Trustee of the Fund	33
Trustee's Declaration to the Members of NASFUND	34
Management's Declaration to Members of NASFUND	35
Statement of Financial Position	36
Statement of Profit or Loss & Other Comprehensive Income	37
Statement of Changes in Members' Funds	38
Statement of Cash Flows	39
Notes to and Forming Part of the Financial Statements	40
Directory	82
Member Discount Service Providers	83

Cover Page:
The theme of this year's Annual Report is Consolidation and Efficiencies. This is part of our on-going endeavours to institutionalise systems and processes at NASFUND.

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	Level 4 , BSP House Harbour City Port Moresby, N.C.D. Papua New Guinea
Trustee	National Superannuation Fund Limited
Directors of the Trustee Company	Mr. William Lamur, OBE - Chairman Mr. Hulala Tokome - Deputy Chairman Mr. Graham Ainui, MBE, OL Mr. Mel Togolo, CBE *(Retired 31 December 2016)* Lady Mina Siaguru, CSM *(Retired August 2016)* Mr. Murray Woo Mr. Vera Raga Mrs. Lata Milner, MBE Mr. David Doig Mr. Charles Vee (appointed August 2016) Ms. Tamzin Wardley (appointed February 2017)
Secretary	Mr. Jack Parina
Auditors	Deloitte Touche Tohmatsu Level 12, Deloitte Tower Douglas Street Port Moresby, N.C.D. Papua New Guinea
Fund Administrator	Aonhewitt (PNG) Limited
Investment Manager	PacWealth Capital Limited
Bankers	Australia & New Zealand Banking Group (PNG) Limited Bank South Pacific Limited
Lawyers	Ashurst Lawyers Denton's (PNG) Posman Kua Aisi (PKA) Lawyers Warner Shand Lawyers

VISION, MISSION & VALUE STATEMENT

Vision Statement

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

Mission Statement

Using our people, we will provide world class members services using innovative systems and technologies. We will also grow member retirement savings using a balanced fund portfolio to achieve a return above CPI over a rolling 5 year period.

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 the necessary training and equipment.
- We will provide the 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 & MANAGEMENT TEAM

Board of Directors

***From left to right*:**
***Front*:** *Charles Vee, William Lamur OBE - Chairman, Lata Milner MBE, Hulala Tokome - Deputy Chairman.*
***Back*:** *Vera Raga, Graham Ainui MBE OL, Murray Woo, David Doig, Mel Togolo CBE.*

Management Team

***From left to right*:**
***Front*:** *Warwick Vele - Chief Operating Officer, Ian Tarutia OBE - Chief Executive Officer, Rajeev Sharma - Chief Financial Officer.* ***Back*:** *David Brown - Chief Investment Officer, Sitiveni Weleilakeba - Change Consultant, Seno Wekina - Chief Legal Officer, John Topal - Chief Risk Officer, Jack Parina - Company Secretary.*

BOARD CHAIRMAN'S STATEMENT

William Lamur, OBE
Board Chairman

Dear Members,

I am pleased to present to you the 2016 results, which were improved in spite of yet another challenging year. In my last two years' Chairman's Statements I noted that the NASFUND Board were mindful of several challenges facing the economy which would impact our opportunities to invest Members' funds profitably. It is now apparent that those warnings made in earlier years came to be very real features of the economic landscape of 2016.

While new LNG and other mining projects are mooted and seem likely to come to fruition, the whole economy has stood poised in anticipation, but with no tangible uplift. Limited access to foreign currency continued to squeeze business opportunities and soft commodity prices together with a severe national drought added to a troublesome first half to the year. However, a slight firming of commodity prices in the second half of the year offered some help for PNG and the surprise election result in the United States seemed to add a capstone to a more positive sentiment on world growth by the end of the year.

Sentiment notwithstanding, as we enter 2017 with a National Election and many real challenges ahead, I feel the good work of the Trustee Board in improving several aspects of financial and operational areas of the Fund stands NASFUND members in good stead. Our strategy to focus on income and reliable business models has paid off. The Fund took a restrained approach to new investment decisions in 2016, choosing to not increase risk simply to chase returns. Sticking to a disciplined plan and consolidating improvements from previous years has led to a year of improved results, with total membership increasing despite the now prolonged slowdown in the economy and a fall in formal employment numbers.

It is with a sense of satisfaction at these achievements that I stand down from my role as your Chairman and pass to the capable hands of my colleague Hulala Tokome who will take up the responsibility from the 1st of January 2017.

The main highlights for 2016 were as follows:

1. Net Asset Value (NAV) rose to K 4.22 billion representing growth of 7% over 2015 audited results of K3.93 billion.
2. Net Profit after Tax was K283.47 million compared to 2015 audited result of K150.97 million.
3. Contribution receipts were K457 million, compared to K473 million in 2015.
4. Reserves of 2.2% of NAV equating to K92 million.
5. Total membership of 537,520 members out of which 170,780 were active contributors, representing an increase of 4% over 2015 figures.
6. Active employer base of 2,540 establishments.
7. 983 educational and public awareness shop floor presentations to employers and members compared to 774 presentations conducted in 2015.
8. Payment of over K455 million in superannuation entitlements including unemployment allowances and housing advances representing 74,963 transactions to members or their beneficiaries.
9. The remodeling of your branch office in Lae.

Operational Framework and Investment of Members' Funds

When I commenced my term as Chairman, our superannuation regulator, the Bank of Papua New Guinea, had recommended in 2014 a number of changes to systems, processes and procedures. The Trustee Board focused hard in the following two years on implementing these recommendations. I am pleased to report these changes, in consultation with the Fund's Licensed Investment Manager (Pacwealth Capital Limited) have led to improvements in the analysis, monitoring and management of investments. We have continued the three year plan to implement our agreed Strategic Asset Allocation of investments, and were not for limitations in currency availability, we would be essentially at the weights we aspired to. We have been able to take on appropriate risks within a disciplined framework of assessing each investment opportunity. One key outcome of that disciplined approach has been to remain invested in high yielding State securities such as Treasury Bills and Government Inscribed Stock. Together with focusing on rental yields and high occupancy, our real estate portfolio remains a key driver of income.

BOARD CHAIRMAN'S STATEMENT

Risk and Compliance

Yet again this year, the Trustee Board engaged KPMG to conduct a thorough review of risk management in the Fund's activities, and how these risks are mitigated on behalf of the Members. The Bank of Papua New Guinea also engaged with the Fund to review risk management and compliance, and we continue to welcome constructive engagement by the regulator. I am pleased to report the Fund has complied within the required timeframe (by the start of 2016) with the two new Prudential Standards (on Investment and Risk Management) introduced by The Bank of Papua New Guinea.

Looking ahead

As mentioned earlier, I hand over the role of Chairman to a very capable and committed successor. Director Tokome has been a member of the Board for several years and was most recently Deputy Chairman and the Chair of the Investment Committee.

It is with some pride that I can hand over a Fund that has again returned a positive return for 2016. All Members must remember that investment cycles go down as well as up, that returns can be negative as well as positive, and to which your Fund is inevitably exposed. But this Fund has remained reliable in challenging times. The Trustee Board is mindful of the risks in all investments, we will maintain a disciplined approach to investing Members' Funds, and we will retain a diversified investment portfolio at all times. We are also mindful that to take no risk when investing Members' Funds is even more risky as we would be locked out of high growth investments when the economy improves. It is this watchfulness that in the long run will provide above-inflation returns to meet the retirement expectations of our members.

However, we must also remember that superannuation in Papua New Guinea has special rules allowing savings to be withdrawn prior to retirement, for example during periods of unemployment, housing needs or on strong medical grounds. In the case of NASFUND, once again, for the second year running in 2016, we have seen a continued high level of member payments for reasons other than retirement. On this point I repeat my message from previous years; "If funds are consistently withdrawn in between employment, exponential savings growth will not be realized and Members will not enjoy the quality of life they deserve in retirement". I urge all Members to see your retirement savings as long term and to keep contributing to enjoy the compound interest effects of long term contributions.

Conclusion

The Trustee Board of NASFUND is well aware of the fiduciary responsibilities we owe to all Members. As an Approved Superannuation Fund we will invest for the benefit of Members first and at the same time remain aware that in doing so your Fund is playing a significant part in the development of Papua New Guinea.

I congratulate Ian Tarutia, the Fund's Chief Executive Officer, all management and staff of the Fund for the conscientious work and commitment in delivering this year's results for Members.

I also thank and acknowledge our Licensed Fund Administrators, Aon Hewitt, and Licensed Investment Managers, Pacwealth Capital Limited and other service providers with whom we partner in the interests of our Members.

Finally, I am appreciative of and grateful for the support of my fellow Board Members for their hard work, wise counsel and leadership over 2016. On behalf of our valued Members and for our country Papua New Guinea, I look forward to another year as a Board member, and wish our new Chairman, Mr Hulala Tokome all the best for his term.

Thank you.

William Lamur, OBE
Chairman

Ian Tarutia, OBE
Chief Executive Officer

Dear Members,

I am pleased to report that 2016 was another positive year for your Fund in yet another challenging economic environment. Despite falling GDP, belt tightening by a large number of our contributing employers, rising unemployment and foreign currency constraints, total Fund assets grew by 6.9%, profitability by 88% and membership by 8.4%. As a matter of prudency, reserves were increased to K 92 million or 2.2% of NAV while engagement activities with members and employers increased by 27% to 983 shop floor presentations. Consequently, a 7.25% crediting rate equating to over K 263 million was paid direct into individual member accounts in late February 2017.

Summary of other notable achievements are summarised in the following table.

Even more pleasing to note was that over 90% of the Fund's profitability which translated to the 7.25% annual crediting rate was actual cash, not capital gains.

Services and Benefits to Members.

Our endeavour to cover as many workers and voluntary contributors throughout the country was supported with the opening of new branch offices in Wabag, (Enga Province) and Bialla (West New Britain Province). Enga Province is home to the large Porgera Gold mine with over 2500 members while Bialla is home to a large oil palm industry employing over 10,000 workers.

In Wewak, our office was relocated to a better premises in the center of town allowing easier access for members. Members will be pleased to know that the Fund is now represented in 16 provinces throughout the country.

	Year 2015	Year 2016	Variance
Gross Asset Value	K 4.05 billion	K 4.34 billion	6.6 % increase
Net Asset Value	K 3.936 billion	K 4.21 billion	6.9 % increase
Net Profit	K 150.9 million	K 283.47 million	88 % increase
Reserves (% of NAV)	K 75 million (1.96%)	K 92 million (2.2%)	20 % increase
New members registered	42,666	46,276	8.4 % increase
Total Membership	515,535	537,520	4.2 % increase
Total Employers	2,383	2,540	6.5 % increase
Contribution Receipts	K 473 million	K 451 million	4.6 % decrease
Member Withdrawals	K 407 million	K 455 million	12 % increase
Number of Member Transactions	71,011	74,963	8.6 % increase
Educational Awareness and Public relation presentations	773	983	27 % increase
Interest Crediting Rate	4%	7.25	3.25 % increase
Amount of Interest Credited (Kina)	K 142 million	K 263.8 million	85 % increase

Investments

In 2016 we invested K137 million in property, fixed income and shares. We moved from holding cash in low-yield bank deposits and increased investments in higher-yielding lower risk Government Bonds. Our exposure in Treasury Bills increased by K 124.6 million to K 488.6 million. Bonds increased from 6.93 % to 11.91 % of total investments, cash decreased from 4.68 % to 1.26 % while offshore exposure increased from 11.2 % to 12.14 % of total investments.

We continued our strategy of divesting from noncore assets and sold our shares in Hitron Ltd and a property in Lae for a combined total of K 54 million representing a 14.8 % increase in profit.

In Lae and Port Moresby, our two largest membership base, work commenced on refurbishing the Lae and Boroko branches to a standard that will provide a comfortable environment for both staff and members.

In Bouganville, we received a cheque of K 1 million representing the retirement savings of elected leaders of the Autonomous Region of Bouganville Government. This is a clear testament that to promote a savings culture amongst our people, leaders must first demonstrate by action and we thank Bouganville leaders for this initiative.

Other highlights were;

- Hosting of the annual employer/ member conferences in Port Moresby, Lae, Mt Hagen and Kokopo which were once again successful events and attended by over 850 employer/ member representatives.
- Hosting of 15 employer lunches to educate employer officials on operational requirements of the Fund and to build better working relationships.
- Participation in Bank of Papua New Guinea's initiative of "banking the unbanked" and 'Financial Inclusion" EXPOs.
- Radio awareness campaigns with NBC promoting voluntary superannuation savings through our Eda Supa product.
- Continued sponsorship of the FM 100 Talk Back Show to promote a savings culture and financial literacy.

Payment of Superannuation Entitlements.

We continued to meet our obligations to pay superannuation entitlements to withdrawing members as and when they fell due. Over 74,000 transactions were processed by our Fund Administrator with K 291 .1 million paid in unemployment withdrawals, (representing 64%), K 77.6 million in retirement exits (17%) and housing advances a total of K 43.5 million representing 9% of total withdrawals. The remaining 10% of withdrawals related to death, migration and medical grounds.

On this note, a constant message we continuously pitch to members is the benefit of long term superannuation savings and its exponential growth through the effects of compound interest. We want members to realize that the value of a members' retirement savings is accelerated through accumulated interest over a long period. If funds are withdrawn intermittently during times of temporary unemployment, the amount ultimately received at retirement may not be sufficient to provide a comfortable lifestyle.

Internal Processes – Fund Administration.

A key decision was made to appoint Kina as new Fund Administrator. This move was part of the Fund's endeavours to improve efficiency and boost service offerings to members in a cost effective manner using leading technology platform. Transition will commence in the new year.

The benefits we anticipate with the new Fund Admin system are:

- An electronic workflow management system to track contributions and manage payments in real time.
- Smartphone app and online service for members to access personal account details.
- Online portal for employers to upload contribution listings and online payments.
- Real time tracking of application processing and SMS Alerts providing status updates.
- Upscale Call Center.

Focus for 2017

Our focus for 2017 will be to build on the positives of 2016. Our objective will be to;

- maintain a positive crediting rate to members,
- continue our endeavours to improve all facet of the Funds Operations with client service delivery still our number one priority.
- Continue to grow membership.
- Concentrate on seeking Quality as opposed to Quantity in investments and service delivery.

Conclusion.

The year 2016 is now gone and we look forward to 2017. We believe there are opportunities that will deliver the right returns without placing your funds at significant risk and of course there is always room for improvement in everything we do.

I would like to once again thank our valued members for their unwavering support in 2016. Our partners, Aonhewitt – back office Fund Administrator, Pacwealth Capital – investment manager and off course our regulator, Bank of PNG are deserving of acknowledgement. We thank you all for your cooperation and support.

Finally, a special gratitude to outgoing Chairman, William Lamur and the Board for their leadership and guidance throughout the year. In 2017, I look forward to working with the new Chairman, Hulala Tokome for the benefit of our members and key stakeholders. I also acknowledge my fellow EXCOM team and staff, thank you for your hard work, commitment and support. Well done and lets do it again in 2017.

Ian Tarutia OBE
Chief Executive Officer.

1. Wewak Branch relocated in June.

Our Wewak branch relocated to the center of town, giving members and employers convenient access to the office. The move to the new location has been a breath of fresh air for branch staff allowing them to approach their daily tasks with renewed energy and vigour.

The new location of NASFUND office in Wewak town, East Sepik Province.

2. FUND opens new Service Centre in Bialla, West New Britain Province in July.

We opened a service centre in Bialla, West New Britain Province in September. Our Kimbe portfolio currently has a total membership of 50,000 with 37 active employer contributors and growing. This set up also promotes the FUND's objective to push a savings culture into rural areas to ensure more people are included in the financial services we offer.

NASFUND officially opened its services in Bialla, West New Britain Province in September 2016.

Entertainment put on by a local group during the official opening of NASFUND Service Centre in Bialla.

3. New look Lae Branch opened for business in August.

NASFUND officially opened its refurbished building in Lae in August 2016. Morobe Province is the second largest contributing membership base to the Fund. It was only deserving that the Lae branch was refurbished to ensure our members were served in a comfortable and customer friendly environment.

The official opening of new-look NASFUND Lae branch office by Morobe Governor, Kelly Naru.

4. Opening of WABAG branch in October.

Members of NASFUND in Enga Province are now able to access superannuation services at the new Wabag office which was officially opened in October 2016. The Wabag office brings the Fund's total number of fully operating branches to 16 including three service centres throughout the country. The branch opening is part of NASFUND's strategic plan to be present in Provinces that are experiencing high development activities and a potential membership base for coverage. Enga Province, currently has 12 active contributing employers, with more than 2500 members in total with Barrick Niugini, being the largest employer with more than 2000 contributing employees.

Contributing members at the official opening of NASFUND Wabag Branch, Enga Province.

Employer/Employee Engagements

1. Shop Floor Presentations.

The Fund had a target to visit 800 employers in 2016. A concerted effort by the Business Development team and all 16 branches however visited a total of 983 employers with 60, 272 recorded attendees. Our approach to customized presentations for individual employers at their convenience and timing resulted in improved working relations with Employers. The shop floor presentations were also used to collect and update member details.

The Business Development team who is also responsible in processing membership ID Cards surpassed its target of 9000. The team clocked in 10, 519 by the end of 2016 and registered 14 new Membership Discount Providers.

2. Employer Conferences.

The 2016 annual employer conferences hosted in Port Moresby, Lae, Kokopo and Mt Hagen attracted a record number of participants with Port Moresby registering 400, Lae 195, Kokopo 132 and Mt Hagen 130.

These regional conferences, attended by Payroll and Human Resource officers from contributing employers, provide an avenue for the Fund to inform contributors about its overall performance for the previous year. The Fund also uses this opportunity to reinforce its policies and processes, and how compliance with these ensure the safeguarding of members' accounts. The conference also provides a forum for employer representatives to engage with the Fund. 2016 conferences were boosted by the inclusion of members of the NASFUND Board and representatives from the Bank of Papua New Guinea.

Paradise Foods staff get their share of presentation on the products and services offered by NASFUND.

Shop Floor presentation conducted by Business Development team at Guard Dog Security in Madang.

NASFUND Membership Discount providers, The Wellness Shop booth at the Regional Employer Conference in Port Moresby.

Touching base with contributing employers at the annual regional Employer Conference in Port Moresby.

3. Employer Luncheons.

Employer services team re-visited the concept of conducting Employer Luncheons to engage companies through payroll officers who were facing problems in administrating member's records. The team hosted 15 luncheons in 2016.

One of the Employer Luncheons conducted for the companies represented by Payroll Officers in Port Moresby.

4. NASFUND Participates in BPNG Financial Inclusion Exposition.

The financial inclusion exposition hosted by the Bank of PNG in Mt Hagen saw thousands of locals visiting exhibiting stalls to be informed about financial services. This supported BPNG's drive to empower people to contribute meaningfully to economic development throughout the country. NASFUND along with its Savings and Loans Society facility (NCSL) saw a successful turnout of the public visiting its stall with an overwhelming number of people wanting to know more about the Fund's role in promoting long-term savings.

The team also took part in conducting training programs organized by the Bank of Papua New Guinea. Governor of BPNG, Mr. Loi Bakani said that the event recorded the highest number of visitors with a record of 30,432 compared to previous years. Mr. Bakani stressed that the objective of the event was to educate the public of the benefits and services provided by the various financial institutions who participated in the EXPO.

5. NASFUND rolls out Branch Radio Campaign through National Broadcast Corporation.

As part of our on-going efforts to inform and educate members of superannuation in rural areas, the Fund partnered with the National Broadcasting Corporation (NBC) to commence a radio campaign. The campaign promoted the Eda Supa voluntary superannuation savings account and entailed a series of jingles and evening talk shows.

6. NASFUND promotes Superannuation Services during Morobe Show in October

Morobe Show provided another forum for contributing members and interested individuals to know more about the Fund. Contributing members who visited the booth were assisted with general enquiries regarding services that were available, including housing advance, the membership discount program and the importance of having a retirement savings account. The team also

A combined team of NASFUND and NASFUND Savings and Loans Society officers serving members at BPNG Financial Inclusion exposition at Queen's Park Oval in Mt Hagen.

assisted with ID photos. The show was also a great avenue to drive awareness on the Eda Supa voluntary savings account for self employed individuals.

NASFUND officers in Lae talk to contributing members on the importance of retirement savings and services available at Morobe Show.

7. Creating and avenue for international opportunities/ investment.

The Fund also participated in the 32nd Australia and Papua New Guinea Business Forum and Trade Expo held in Cairns with the theme "Today's Investments: Tomorrow's returns." The forum featured a Trade Expo, giving Australian and Papua New Guinean companies an opportunity to showcase their goods and services as well as broaden their business relationships. The expo was the largest to date with 47 companies participating. NASFUND's participation in the Expo was reflective of its leading role in superannuation services for the private sector. Our team used the opportunity to engage with business houses considering expansion into PNG as well as fellow Papua New Guineans who had migrated to Australia for work .

Networking with other business houses during the expo also provided an opportunity for officers to gain exposure to trade and business relations at an international level. Overall the forum, with its engaging workshops and trade expo, presented an unparalleled opportunity for delegates to uncover business opportunities and network with senior Papua New Guinean policy makers and business leaders.

NASFUND booth at the 32nd Australia and Papua New Guinea Business Forum and Trade exposition in Cairns.

Social Responsibility engagement.

1. NASFUND staff donate blood in 'Blood Drive'.

NASFUND Port Moresby staff took part in the 'Save a Life' blood donation drive in January 2016. The initiative was to encourage staff to be good citizens of the community through socially responsible activities at work or at home. Staff donated a total of 34 bags. The Fund will continue to assist the blood donation drive in future.

2. FUND bring cheer to Cheshire Homes during Christmas.

Staff were delighted to kick off the Christmas spirit by sharing gifts and a cake with friends at the Cheshire Homes. The visit is an annual activity initiated by staff to share the Christmas cheer by way of donated clothes, gifts, light refreshment and cash donations. The previous year, staff shared Christmas with children and mothers at the Port Moresby General Hospital.

Staff witness sharing of gifts at Cheshire Homes.

NASFUND staff participate in the Corporate blood donation drive facilitated by the Health Department.

The spirit of Christmas was truely felt when NASFUND staff shared gifts with friends at Cheshire Homes.

Training and Development

1. Staff undergo Customer Service and Leadership Skills training.

Staff training and development is an integral part of ensuring the Fund's human resource are adequately skilled to discharge their duties professionally and competently. Especially at our operations level where a lot of interaction and engagement with our members is required. Staff were given refresher courses in communication skills, customer service, sales techniques and conflicts resolution.

2. Corporate Services workshop.

Corporate Services now renamed Member Services is the Fund's largest division. The divisions' annual workshop held in November was premised on the theme 'Consolidating in a Challenging Environment to Restore Confidence' and aimed at reminding staff, the practice of good ethics, team work and resources management. The two - day workshop entailed revisiting the division's current strategies through group and panel discussions resulting in a detailed action plan. Keynote speakers included the CEO, divisional heads as well as representatives from the Public Prosecutor's office, new FUND administrators – KINA Wealth Management and the Bank of PNG.

Staff participate in a panel discussion at the annual Corporate Services strategic workshop.

Staff upskill their communication, customer service and sales technieque skills facilitated by Coles International Training and Development Consultants.

A group photo of officers at the annual Corporate Services strategic workshop at Gateway Hotel.

Member savings still robust

BY GLORIA BAUAI

NASFUND says its contributions inflows are actually greater than withdrawals.

But the superannuation fund is also mindful of the gap between what it is receiving as contributions and what it is paying out to members as due entitlements.

Chief executive officer Ian Tarutia clarified reports mentioning that the withdrawals had outnumbered the contributions over the last three years. He clarified that this was not the case but confirmed a decrease in contributions since 2013.

NASFUND statistics show it received K444 million in contributions and paid out K260 million in 2013.

It also received K459 million in contributions and paid out K340 million in 2014 and received K471 million in contributions and paid out K408 million in 2015.

Mr Tarutia said the decreasing gap signals the high un-

At a glance

NASFUND: Says its contributions inflows are actually greater than withdrawals

CLARIFICATION: That the withdrawals had outnumbered

Newlook building opens

NASFUND reports 40 per cent growth

BY HAIVETA KIVIA

THE National Superannuation Fund (NASFUND) has grown by 40 per cent in three years from 2013 to 2015 and the fund is now worth K2.83 billion.

The super funds growth and worth was presented to employers an employees in Lae yesterday by the funds top management team led by Chief Executive Officer Ian Tarutia and included Board Director Graham Ainui, Acting Chief Investment Officer Dominic Beange, Chief Financial Officer Rajiv Shar-

NASFUND CEO Ian Tarutia

ma, Chief Operating Officer Warwick Vele, Vari Lahui from the Nasfund Contributors Saving and Loans and Norma Makip from the Bank of Papua New Guinea.

The half day conference was to assure member employers and employees that their money was looked after well by the fund with stringent and prudent management practices put in place for investment and growth.

Chief Financial Officer Rajiv Sharma told Lae employers and members that their fund had grown by 15 per cent per annum since 2012 and it was one of the big biggest growths ever experienced.

Mr Sharma told the members that growth represented K1.1 billion in real cash terms from K2.8 billion in 2012 to K2.30 billion last year.

CEO Tarutia and COO Vele presented 2015 highlights which were very much the contributing factors of the growth.

Mr Tarutia said new investments in properties and equity generated a total income of K600 million.

He said smart cash management: moving cash from low yielding bank deposits of 2 per cent to higher yielding one year Treasury Bills at 7 per cent gained K15 million.

While, employer and employee contributions totalled K472 million.

The fund also increased Inscribed Stock (Bonds) by K270 million to K940 million and increased investment in Treasury Bills by K173 mil-

Buka branch

Committed to deliver

ABG creates savings accounts for staff

MEMBERS of the Autonomous Bougainville Government (ABG) and their parliamentary staff will now have their retirement savings accounts activated with a K1 million deposit with the National Superannuation Fund (Nasfund) last week.

Nasfund chief executive officer Ian Tarutia said the fund commended the ABG for recognising that there was life after active employment and taking the initiative to create a retirement nest egg for its members and staff.

Tarutia said the ABG was the first regional government outside of the National Government to provide retirement savings for its members through an approved superannuation fund like Nasfund.

He said with the tough economic environment that was impacting the fund's returns, the superannuation savings was about long term.

Tarutia said the value of savings would be realised if it was allowed to grow through the effects of compound interests.

ABG government clerk Robert Tapi said this was a bold move to ensure that ABG members and staff invested in their retirement savings.

ABG finance minister Albert Punghau commended decision the Momis government for ensuring that retirement benefits for staff were approved.

"Although it took three years due

NASFUND brings SUPER services to Enga

The Wabag branch is the FUND's 16th fully Operating Branch along with 3 service centres. A total of 19 member chambers.

Members of NASFUND in Enga Province can now be able to access superannuation services and information at the new office in Wabag Town that was officially opened yesterday.

The new branch makes the FUND's total number of fully operating branches to 16 with three service centres throughout the country.

Representing the Enga Provincial Government, Mr Joe Nayaepe thanked NASFUND for bringing the service to Wabag.

He said that a lot of developments have been happening and seeing such services coming into the province is welcoming especially in contributing positively to people's livelihoods.

NASFUND's Chief Operating Officer, Warwick Vele said that the branch opening was part of its strategic extension and investment plans to Provinces that were experiencing high developments, growing membership and to continue its purpose to ensure Papua New Guineans were financially included in services that can change mindsets to save for the long term.

The new branch is managed Philip Pung who brings with him 17 years of experience in the financial Industry.

He is assisted by a client service officer, Geno Muapak a graduate who is a trained community relations personnel.

In a brief report into the first two weeks of operation, the branch has so far assisted over a hundred walk ins, collected 16 Text-

Meet the Wabag team

Wabag Branch Officer in Charge, Philip Pung (standing) with Client service officer, Geno Muapak who have already kicked off operations and served over 300 walk ins in its first two weeks since the launching. Both officers said that they were looking forward in ensuring the people of Wabag and Enga Province as a whole can access information about the importance of Superannuation.

Barrick says thankyou

David Kuk who represented the biggest contributing employer, Barrick during the opening ceremony said that he was delighted to represent the 2000 employees knowing that the branch was now at the door step of members. He said that, the set up was a relief knowing that services were now at their reach, saving cost, time and importantly safety for their employees.

First EDA SUPA member

Pictured is Laurel Lufi, operations team leader receiving the first EDA SUPA member to be registered at the Wabag Branch. Luther Makayo was at opening of the branch. The next day he came in opened an EDA SUPA account after hearing the benefits. He is self-employed and owns a small security firm in town with less than 15 guards who is planning to also register his staff soon.

Acting officer in charge Bialla service centre Daniel Vegi serving the first member, Steven Patiken, at the newly opened service centre yesterday.

Nasfund opens new service centre in West New Britain

THE National Superannuation Fund (Nasfund) opened its 16th service centre – in Bialla, West New Britain, yesterday.

A representative of the small holders association, Steven Patiken, thanked Nasfund for bringing superannuation services to the small growers and their members in Bialla.

"It is a milestone because we have been looking forward to this set-up since 2007," he said.

"I am proud to say that we have already signed up more than 3000 small holder growers under the Papa Account and looking at tapping into more small growers who can now have a facility to save wisely for the long term."

Bialla Oil Palm Growers Association chairman Oka Kamale said Nasfund made it easier for their members and they were making arrangements to move the association under Nasfund's care.

Officer in charge of Kimbe branch Gordon Evans commended Nasfund for the new service.

The Kimbe portfolio currently has 50,000 with 37 active employer contributors and was growing.

Nasfund said the new facility would enhance its objective to develop a savings culture in rural areas to ensure more people were included in services provided by financial institutions.

Nasfund updates employers on status

LICENCED INVESTMENT MANAGER STATEMENT - PACWEALTH CAPITAL

Last year PacWealth Capital, your Fund's Licensed Investment Manager, expressed concerns about the short term performance of the PNG Economy. Along with NASFUND's Investment Division and Chief Financial Officer, we forecasted a modest investment return for 2016.

In an economy that was hampered by external shocks, I am happy to look back on the year with the knowledge that the Fund exceeded expectations. The Fund generated an investment return in 2016 of 8.8%, a very good result.

What contributed to the success, and what are our concerns?

To start with the latter question first, we have to take a small step back and look at the Fund's Strategic Asset Allocation (SAA) first. As a reader of the Annual Report, you are undoubtedly aware that NASFUND's Investment Framework is supported by the SAA. The SAA, which is subject to a yearly review, is the optimal composition for the Fund to achieve its return objectives given the risk appetite and the liquidity constraints of the Fund.

(The present SAA is shown in Table 1).

ASSET CLASS	ACTUAL ALLOCATION IN PORTFOLIO	MIN	NEUTRAL	MAX	EXPOSURE
DOMESTIC	**%**	**%**	**%**	**%**	**%**
PNG Equity	24%	17	22	27	+2%
PNG Property	22%	12	17	25	+5%
PNG Bonds & Loans	27%	20	29	38	-2%
PNG Cash	15%	0	10	20	+5%
Total Domestic	**88%**				
INTERNATIONAL			**78**		
International Equity	9%	16	22	30	-13%
International Property	2%	0	0	0	+2%
International Cash	1%	0	0	5	+1
Total International	**12%**				
PORTFOLIO			**100**		

Table 1: SAA and 2016 year end actuals, NasFund , PCL

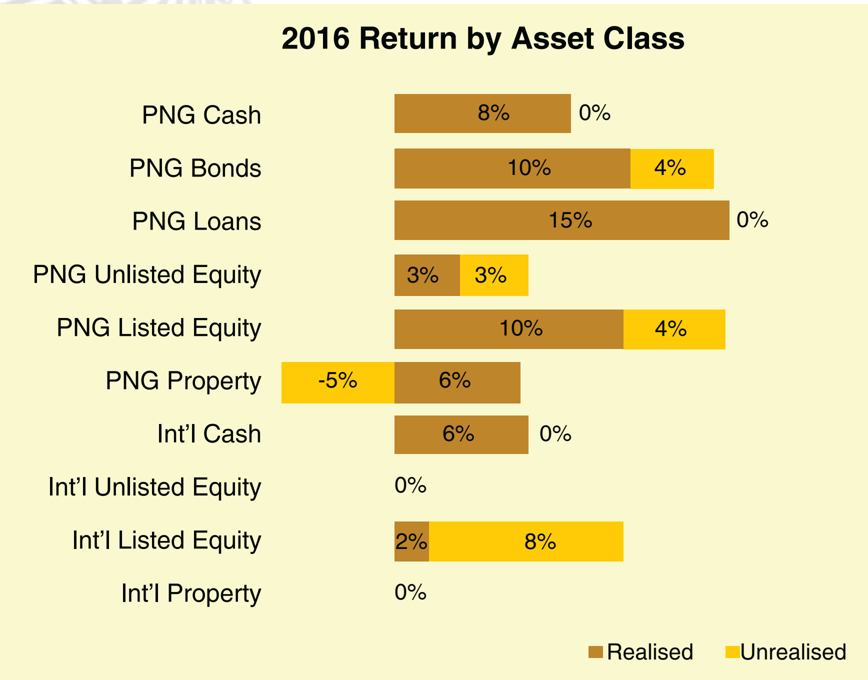


Table 2: Return by Asset Class 2016, NASFUND, PCL

The table clearly shows that the Fund is within the top end of the ranges in all asset classes on the Domestic side, but underexposed on the International side. This reflects one of the major impediments affecting the PNG economy: the lack of foreign exchange in the market. This has obvious effects on business in PNG, but perhaps less recognised is its effect on your Fund.

The International asset class allocations serve two important goals: diversification and liquidity. In all major asset classes in PNG (Equity, Fixed Income and Property) we find a lack of liquidity. This poses risks to a portfolio which is predominantly invested in-country. Needless to say, this has been and continues to be a cause of concern for your Licensed Investment Manager.

(The Returns by Asset Class for 2016 are shown in Table 2).

The major contributors to the positive investment results this year are shown in Table 3.

Changes in the investment portfolio in 2016.

In the Fund's Property portfolio in 2016, work was started on Loloata; a new resort under construction near Port Moresby.

The Fund acquired 100% ownership of 3 properties in Harbour City, Port Moresby; completed renovation works on Lagatoi Haus in Waigani in Port Moresby; and sold a number of properties in Port Moresby and Lae. In addition the Fund sold part ownership in the Tawali Resort in Milne Bay, and in TDC Samoa (another resort property). In the Fund's Fixed Income portfolio, more than PGK 1

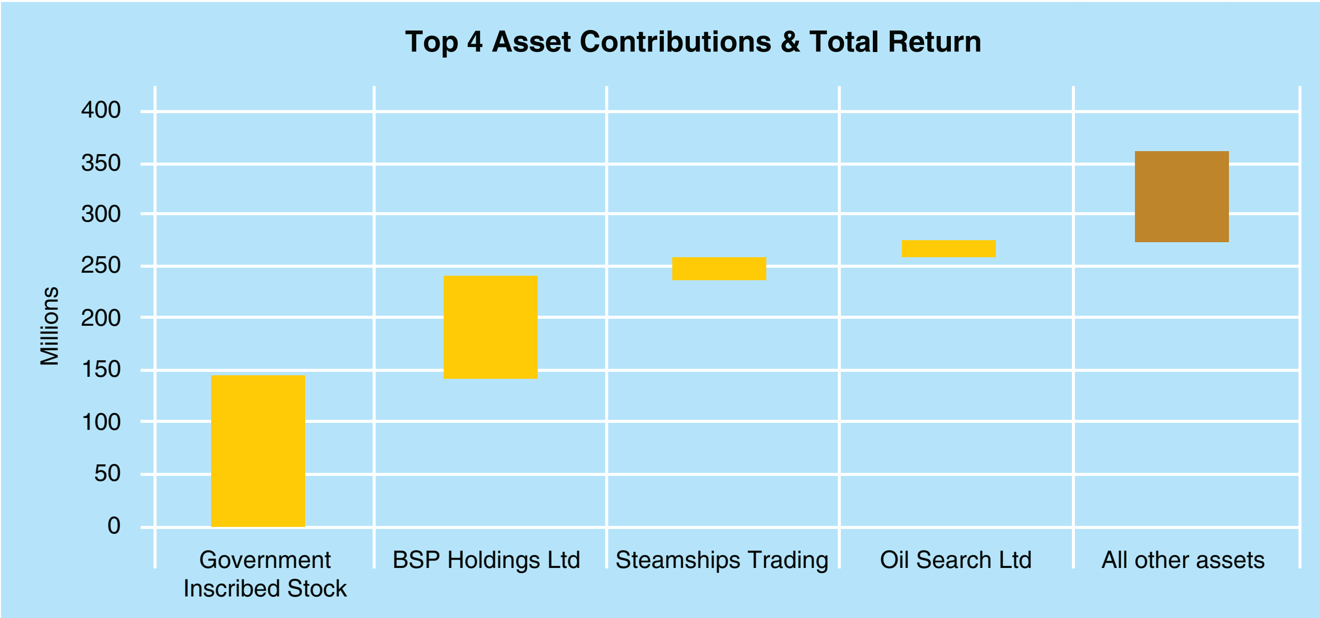


Table 3: Contributions to Total Return 2016, NASFUND, PCL

billion in Treasury Bills and Government Incribed Stock securities were purchased.

And finally, in the Equity portfolio, the Fund purchased units in an International Equity Fund; sold stakes in Post Courier, Boroma Piggery, Hitron, and BeMobile. We held extensive talks with some of our investee companies on governance issues and are in the process of setting up internal processes to support our investments in that area.

All in all, quite a busy year for the Fund and quite a few changes to the portfolio. As a result, the portfolio is much closer to the desired SAA than it was in the beginning of the year, thereby reducing risk and increasing (member) returns.

Outlook for 2017

At this early stage, 2017 is showing similar signs of the uncertainty we saw in 2016. A lacklustre economy, shortages in the FX markets, a Government with funding issues - but rising commodity prices - increasing signs of movement in extractive industries and big investment projects awaiting commencement.

On the political front both domestically and internationally we are anticipating closely fought elections.

What does this mean for the NASFUND Investment Portfolio? Fresh plans are being put in place to rid the investment portfolio of underperforming assets. We are looking at infrastructure investments, and at expansion of our overseas holdings.

More than enough to be excited about.

We thank the Fund and the Board for its support in 2016 and we are looking forward to a continued and successful cooperation in 2017.

Eric Kramer
CEO
PacWealth Capital Ltd

LICENCED FUND ADMINISTRATOR STATEMENT - AONHEWITT

Dear Chairman and Directors,

2016 proved to be a great and challenging year with the introduction of the new administration platform system PenProPlus (PPP).The system has fully automated almost all processes and improved efficiencies as well as minimized delays in the respective processing areas. It is a web based system that has the ability to connect anywhere where there is an internet access available and can cater for future innovative features or modules.

The system produces better reporting capabilities which is accessible to all users, in turn this has made a great impact in providing specific information to users to educate the members on their Superannuation as well as ensure that employers are complying with the Superannuation Legislation.

The Highlights of 2016

Type of Service Per Week		
Weekly Textbal Messages	6,500	5,600
Employer Portal	501	491
eContribution	45,250	43,095
eMaintenance - New Members Registration	900	980
eMaintenance - SF2 Forms Updates	2,100	1,600
eMaintenance - SF25/SF10/SF3 & Transfers	350	200
eReceipts	750	726
ePayments - Partials	600	450
Full Payments	995	1,366
	2016	**2015**
	Year	

The turnaround times on the various processing were according to the service agreement period or on most occasions was minimised, therefore there was an increase in processing of transactions or applications per week.

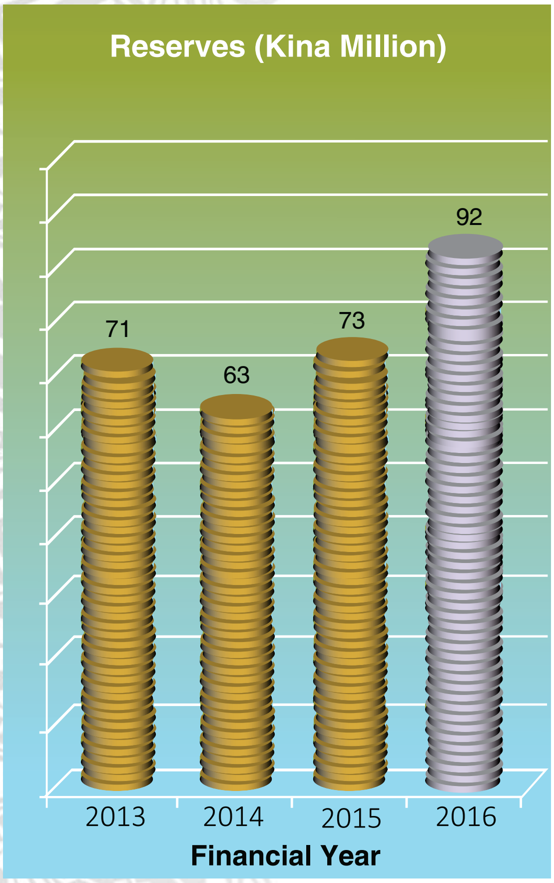
The greatest challenge faced is educating employers to remit clean and accurate data at all times hence the new featured reports assist users to continue to reach out to such employers to make improvements. Collective efforts from both NASFUND and employers are important to ensure quality and accurate data is received in a timely manner.

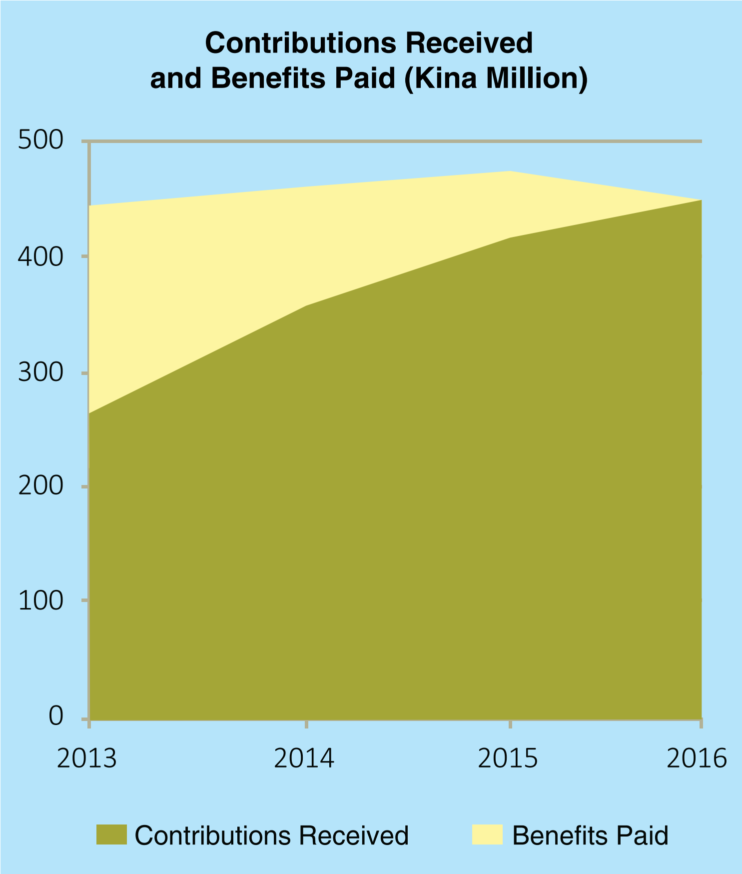
We will continue to strive and work in partnership with the Management and the Board of NASFUND.

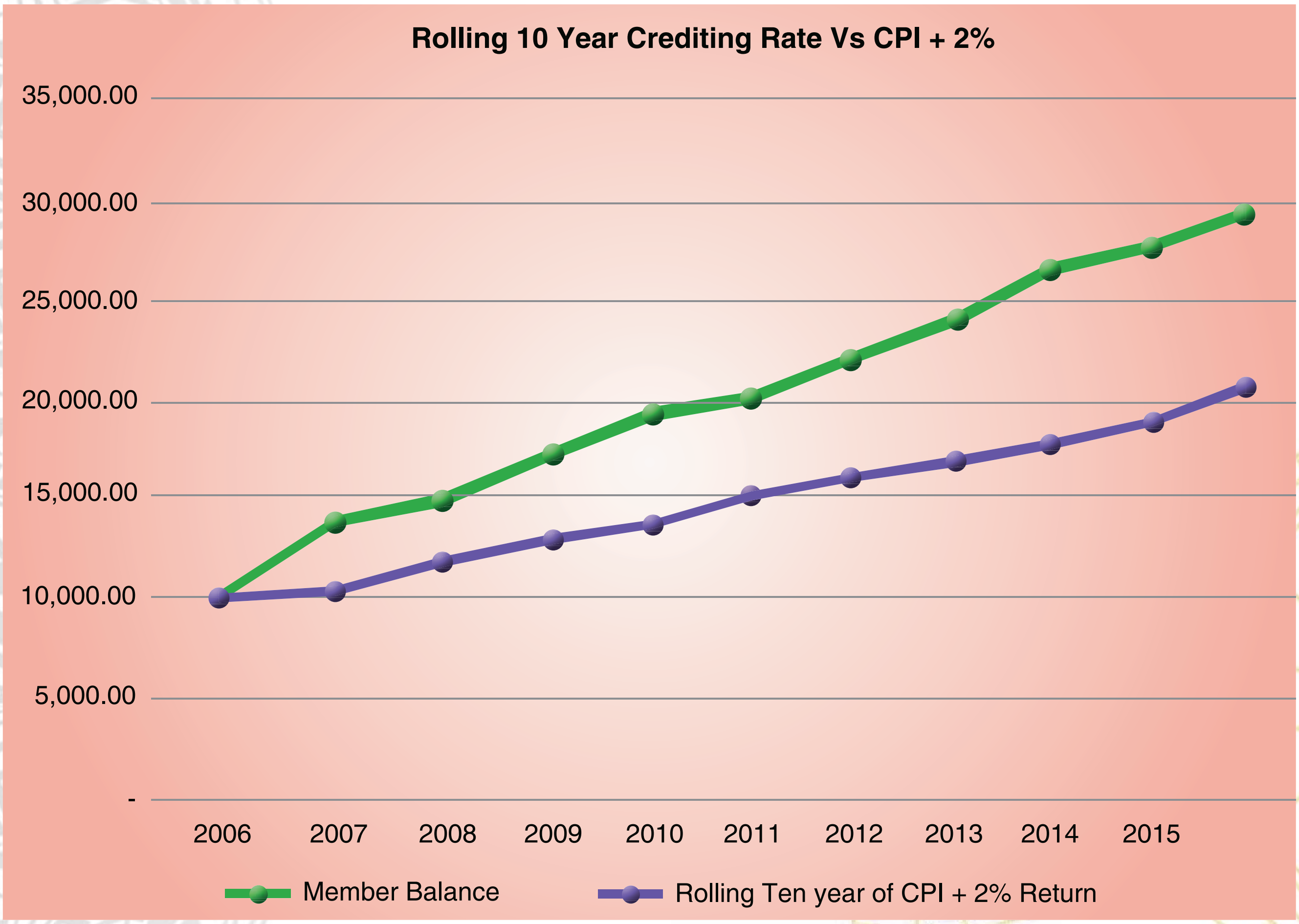
Chris Hagan
CEO - Aon Hewitt (PNG) Limited

Statistical Information	2012	2013	2014	2015	2016
Assets & Liabilities					
Net Asset Value ("NAV" - K'000)	2,798,908	3,356,643	3,719,625	3,936,310	4,219,072
Growth	17%	20%	11%	6%	7%
Profitability					
Total Comprehensive Income (K'000)	223,417	330,600	258,465	150,978	283,471
Interest Credited to Members' Accounts	10.00%	11.00%	8.50%	4.00%	7.25%
Reserves (% NAV)	1.54%	2.11%	1.72%	1.96%	2.2%
Employers & Active Members					
Number of Active Employers	2,296	2,389	2,150	2,383	2,540
New Employers Registered (Gross) YTD	216	203	291	136	183
Employers Deregistered YTD	121	123	257	49	132
Level of Employer Default	115	222	317	503	304
Total Membership	415,179	461,085	488,346	515,535	537,520
Number of Active Members	172,190	173,799	175,992	177,272	170,780
Number of Inactive Members	242,989	287,144	312,354	338,263	366,760
New Members Registered (Gross)	69,934	61,441	52,673	51,112	43,276
Expenses					
Total Expenses (K'000)	29,513	42,610	50,681	50,126	50,370
Management Expense Ratio (MER)	1.14%	1.38%	1.43%	1.31%	1.24%
Fund Administrator's Fees (K'000)	5,380	6,239	6,263	6,736	6,779
Investment Manager's Fees (K'000)	3,975	5,051	5,962	5,875	5,914
Number of full time staff	119	123	136	139	150
Cashflow					
Withdrawals (K'000)	216,454	268,359	354,193	407,600	456,007
Contributions (K'000)	397,147	443,119	459,231	473,818	451,633
Number of payment transactions	61,115	66,680	76,984	71,011	74,871
Gross Return to Member	15.10%	13.98%	9.02%	6.76%	9.74%
Net Profit After Tax return	9.64%	11.57%	8.24%	4.25%	7.79%
Less					
Transfer to/(from)Reserves	(0.36%)	0.57%	(0.26%)	0.25%	0.54%
Equal					
Crediting Rate to Member	10.00%	11.00%	8.50%	4.00%	7.25%

PERFORMANCE BREAKDOWN

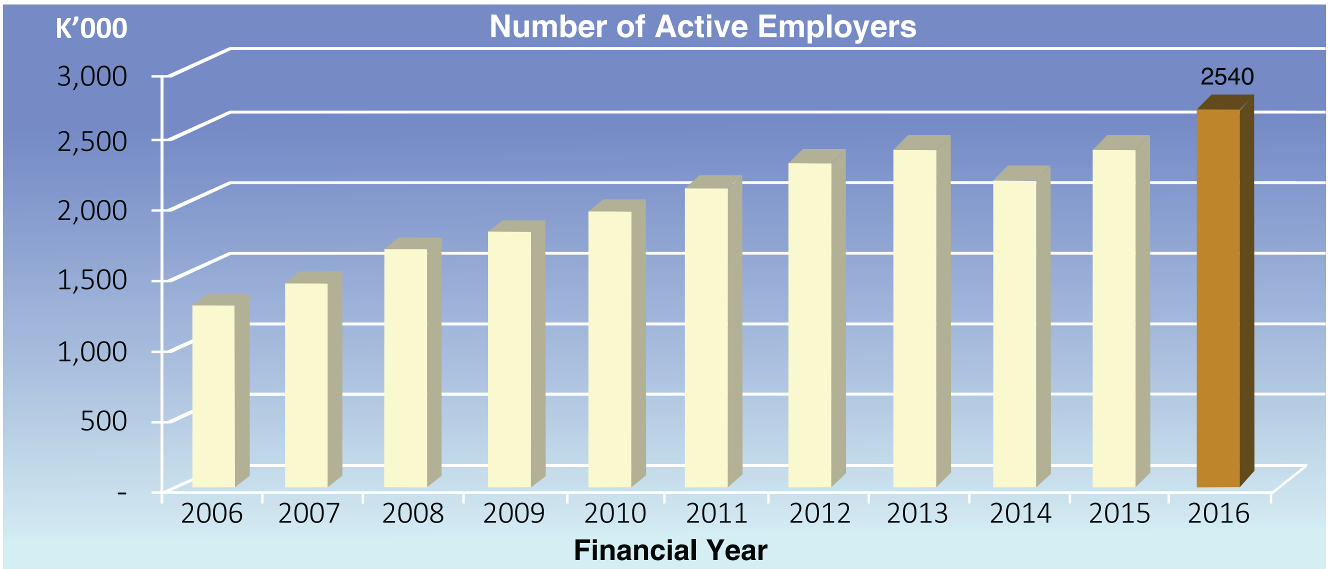


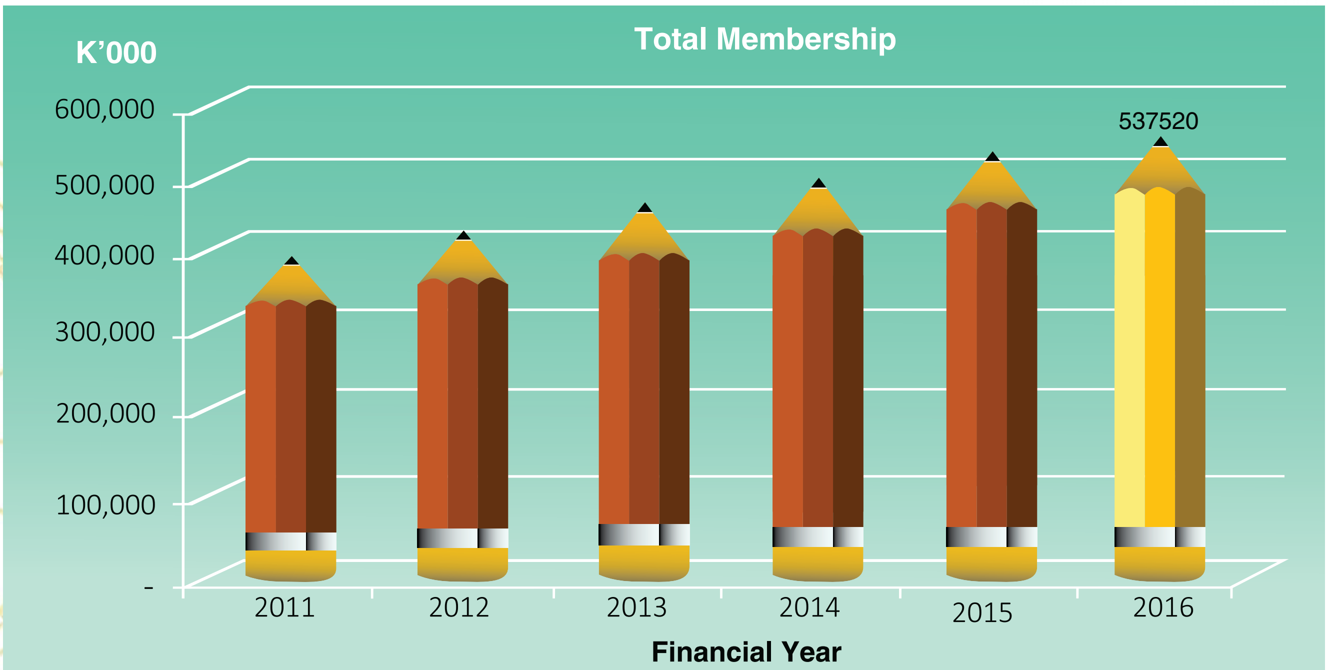




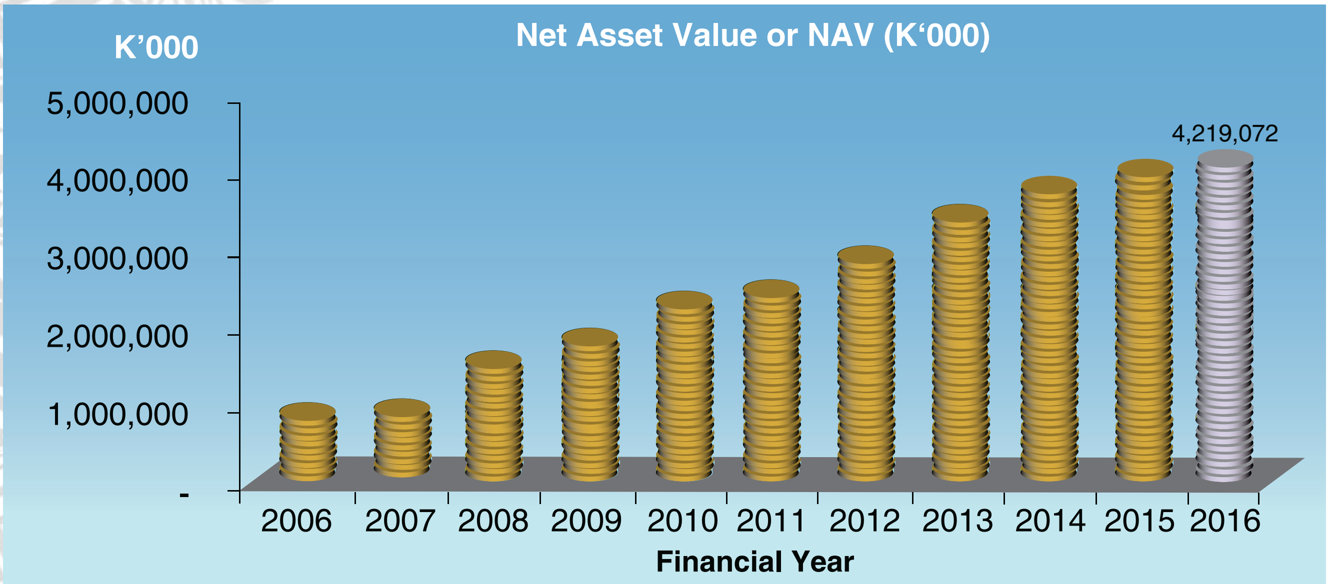
Current allocation under the new Strategic Asset Allocation

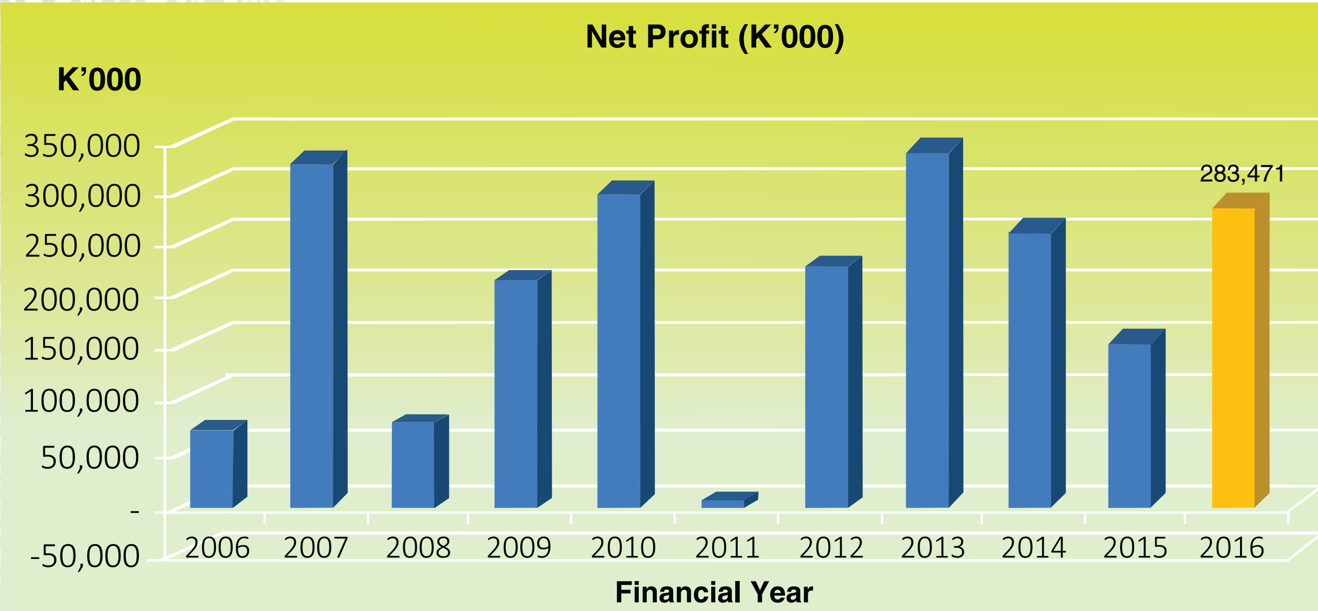
Asset ('000)		31-Dec-15	(%)	Min	SAA Neutral	Max	Var	31-Dec-16	%
Domestic									
Equities	PNG Equities	1,050,988.89	26.76	17	22	27	4.76	1,117,342.26	26.20
Real Estate	PNG Property	1,012,303.22	25.78	12	17	25	8.78	900,782.30	21.12
Fixed Income	PNG Bonds (incl Loans)	1,010,173.56	25.72	13	16	19	9.72	1,184,686.51	27.78
Cash (Balancing Item)	PNG Cash	635,042.50	16.17	0	10	0	6.17	427,208,711.00	14.87
Total Domestic		3,708,508.17	90.35		65.00			3,836,993.70	89.97
International									
Equities	Global Defensive Equities	218,434.11	5.56	8	11	14	-5.44	427,635.11	10.03
	Asia ex Japan Equities		0.00	8	11	14	-11.00		
	Dual Listed an Unlisted Equities	-	0.00	0	0	0	0.00		
Total International Equities		218,434.11	10.32		22.00			427,635.11	10.03
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		3,926,942.28	100.00		100.00			4,264,628.80	100.00

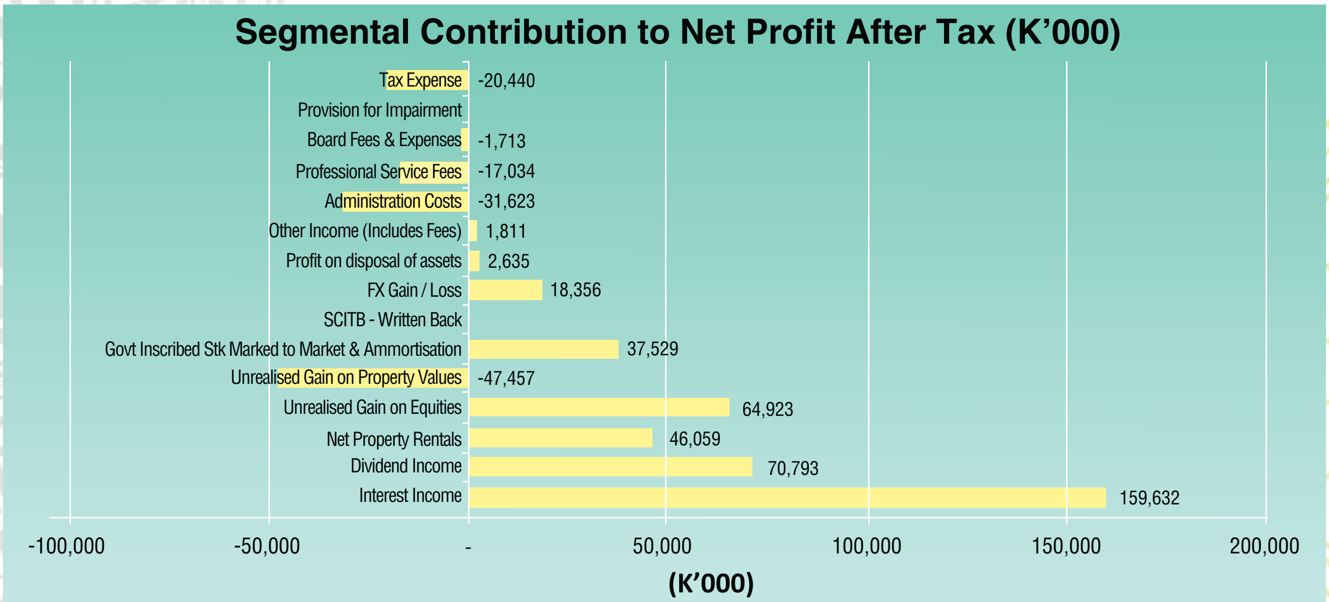




PERFORMANCE BREAKDOWN







In 2014 the Bank of Papua New Guinea as the Regulator of the Superannuation industry introduced *Superannuation Prudential Standard 7/2012 on Corporate Governance applying to Authorised Superannuation Funds (ASFs)*. The purpose of PS7/2012 is as follows:

a) *This Standard prescribes standards of corporate governance conduct and administration for Licence Holders and its officers to ensure that Licence Holders are prudently managed and that reasoned, informed and impartial decisions are made in the best interests of the members of the ASF.*

b) *The ultimate responsibility for the sound and prudent management of an institution regulated by the Bank of PNG rests with its Board of Directors. It is essential that a Licence Holder has a sound governance framework and conducts its affairs with a high degree of integrity. A Culture that promotes good governance and that benefits all stakeholders of a Licence Holder and helps maintain public confidence in the institution.*

PS7/2012 prescribes ASFs to have the following:

- Governance Framework;
- Board Composition & Skills Matrix;
- Licensed Service Providers;
- Fitness and Propriety policy of directors and officers;
- Board Procedures;
- Tenure of appointments of members of the Board of Directors;
- Conflicts of Interest;
- Whistleblowing;
- Audit Committee;
- Internal Audit;
- Board Renewal and Succession Planning for members of the Board;
- Performance Assessment and Review of the Board;
- Delegated Authority;
- Independent Directors;
- Remuneration Policy, Committee and Disclosure;
- Investment Committee;
- The formulation and implementation of a Risk Management Framework.

As part of its compliance with PS7/2012 a number of actions have been taken by the FUND as follows:

- Resignation of all officers from Boards of entities that the FUND has an interest in;
- Appointment of Independent Directors to investee company Boards;
- Additional staff in the Investment, Finance and Risk divisions;
- Engagement of an independent investigator to examine allegations of fraud;
- Review and Implementation of the Whistleblower Policy;
- Introduction of awareness sessions with staff to highlight areas of risk and good governance.

In 2012 the Board initiated a programme of improving its' self-governance. A number of areas were identified covering directors' personal development and a process of performance review, to be conducted by a qualified, independent party.

Each director must undergo an accredited training course with the Papua New Guinea Institute of Directors, Australian Institute of Company Directors, as well as a number of targeted training sessions run by the Australian Superannuation Funds Association (ASFA). Both institutions provide a very high level of accredited director education and are leaders in the region, giving members confidence that their Fund Trustees are well informed to discharge their duties competently.

CORPORATE GOVERNANCE

The Board is made up of 10, representing a mix of independent and representative directors of the seven shareholders of the trustee company, National Superannuation Fund Ltd. The Board is now chaired by an independent director as are the chairs of the three board committees which are; Investment, Audit & Risk and Remuneration & Nomination. This is in compliance with the Prudential Standards on Governance 7/ 2012 issued by the regulator, Bank of Papua New Guinea.

The Board as a whole and as individuals are assessed regularly and has conducted a number of performance reviews since 2012. This engagement is taken seriously by the Board and management and ensures the Board of Directors are well equipped to discharge their fiduciary responsibilities in an evolving well regulated environment.

Board and Committee Attendance

Name of Director	Status	Board Meeting	Renumeration & Nomination Committee Meeting	Investment Meeting	Audit & Risk Committee Meeting
William Lamur, OBE	Continuing	9/10	n/a	n/a	4/5
Hulala Tokome	Continuing	9/10	n/a	4/5	n/a
Mel Togolo, CBE	Retired (31.12.16)	7/10	4/5	n/a	n/a
Graham Ainui, MBE, OL	Continuing	9/10	5/5	n/a	5/5
David Doig	Continuing	9/10	5/5	4/5	n/a
Vera Raga	Continuing	9/10	5/5	5/5	n/a
Murray Woo	Continuing	9/10	n/a	5/5	5/5
Mina Siaguru, CSM	Retired (24.08.16)	8/8	n/a	n/a	4/4
Lata Milner, MBE	Continuing	8/10	n/a	5/5	5/5
Charles Vee	Appointed (14.07.16)	3/3	1/2	1/2	n/a

Prime Minister of Papua New Guinea, Hon. Peter O'Neill meets team NASFUND. The team showcased products and services and also extended the Fund's business relationships at the Mining Exposition in Sydney.

Risk Management Framework (RMF).

NASFUND's comprehensive Risk Management Framework (RMF) fully complies with requirements of the *Superannuation Prudential Standard 8/2014 on Risk Management* issued by the Bank of PNG. The RMF practically covers the Fund's approach to risk, responsibility of risk management across the organisation, determination of the Risk Appetite Statement (RAS), the Risk Management Strategy (RMS), the Material Risk Register, risk management principles, policies, approach, management and monitoring arrangements in respect of adequate human, technical and financial resources.

Objectives of Risk Management

The objective of Risk Management at NASFUND is to ensure:

- Appropriate internal processes are in place for identifying, rating, managing and reporting on material risks;
- Appropriate internal processes are in place for ensuring the material risk profile remains up to date and relevant to NASFUND;
- Risk appetite is clearly articulated and regularly reviewed;
- An appropriate risk aware culture is embedded within and throughout NASFUND;
- Available resources to execute controls are used optimally to manage material risks and have regard to the ratings assigned to risks;
- Appropriate controls are in place for material risks and that the residual risk (after considering controls in place to manage the risks) are consistent with the risk appetite of NASFUND and of the Board (which may vary from time to time); and
- NASFUND takes informed and considered risks.

The Risk Appetite Statement (RAS)

Two key elements, the RAS and RMS, comprise the RMF. The RAS outlines NASFUND's risk appetite, which is the amount of risk the Board considers is acceptable to expose the Fund to, in the pursuit of its strategic objectives and considers both value creation (upside) and value preservation (downside).

The Risk Management Strategy (RMS)

The RMS comprises the systems and processes used to identify, assess, manage, mitigate, monitor and control all Material Risks that the Board has identified. NASFUND's RMF is consistent with the most recent International Standard on Risk Management (currently ISO 31000). Importantly, this framework provides NASFUND with the flexibility to adapt quickly to the changing needs of the business. Processes relating to establishing the context, identifying risks, analysing risks, evaluating risks, treating risks, monitoring and reviewing risk mitigation plans and communicating and consulting within and externally, underpin NASFUND's RMS.

The Board and Audit & Risk Committee

NASFUND Board is ultimately responsible for the RMF and more broadly for the sound and prudent management of risks. Whilst the oversight of risk is delegated to the Audit & Risk Committee (A & RC), this does not in any way abrogate the Board's ultimate responsibility for ensuring that Management have in place appropriate risk frameworks.

NASFUND's Risk Management Function

As required by PS 8/2014, NASFUND has an in-house risk management function led by the Chief Risk & Compliance Officer (CRCO) to assist in the management and monitoring of risks including periodic compliance testing. The CRCO is responsible for assisting the Board, Audit & Risk Committee and Management in developing and maintaining the RMF.

The Risk Management Function is also supported by the outsourced internal auditors and external audit in respect to providing assurance over the design and operating effectiveness of internal controls and the RMF. Importantly however, all people involved in the achievement of NASFUND's objectives have some role to play in the management of risk and these collectively form NASFUND's Risk Management Function. Those roles are broadly outlined below.

The Board and Audit & Risk Committee

The Board is responsible for instilling a strong risk culture throughout the organisation and for ensuring that an effective process of risk management and internal compliance and control is in place. The Board oversights the risk management process including the risk assessment process and the effectiveness and status of risk mitigation actions through the Audit & Risk Committee.

Management

Management is responsible for the implementation of organisational policies to achieve effective risk management, and for ensuring adherence to policies by employees. Members of management are responsible for identifying and evaluating risks within their area of responsibility and implementing agreed actions to manage risk.

Review, Audit and Reporting

NASFUND regularly reviews and monitors the RMF to ensure it remains appropriate, effective and adequate. NASFUND undertakes a comprehensive independent review by Internal Audit at least once every 3 years and ensures an Annual Review is undertaken at least once a year (for each year during which a comprehensive review does not take place) and undertake other reviews outside of the review arrangements set out above, where NASFUND identifies institutional, operational or other developments that materially affect the size, business mix and complexity of its business operations.

Audit of RMF

External audit and internal audit is required to be undertaken regularly to ensure appropriate compliance testing coverage is maintained and to enable the Board to attest annually that the RMF is appropriately designed and operating effectively.

Risk Management Declaration Reporting

NASFUND will provide Bank of PNG with an Annual Declaration on Risk Management signed by two Directors.

Breach Reporting

The CRCO will be responsible for reporting to the Board, Audit & Risk Committee and Bank of PNG when a material deviation from, or material breach of the RMF occurs.

Risk Reporting

Management reporting of risk information underpins the effectiveness of the Board's Risk Management governance structure and ensures the transparency of risks that face NASFUND's business. The quarterly risk report to Audit & Risk Committee is the means of communicating risk activities, significant risks, and incidents, which are consolidated for reporting to the Board on a quarterly basis by the CRCO.

Providing a work environment that is safe, team oriented, encouraging of ambition and recognises and rewards achievement is extremely important for NASFUND.

Employment Culture

NASFUND is proud of the development and retention of its staff, recognizing that “people are our most important asset”. Boasting one of the lowest staff turnover rates in the country we believe in training, supporting and empowering our staff to carry out their respective roles in an environment that fosters teamwork, leadership and recognizes and rewards high performance. Through workshops to identify SWOT (Strengths, Weaknesses, Opportunities, Threats), staff are given the opportunity to create and review the Strategic Plan and formulate the upcoming year’s budget. NASFUND staff at multiple levels are given the opportunity to contribute to the strategic direction of the company. These workshops are the precursor to the acceptance and ratification by the Board of the 5 Year Strategic Plan.

Beating to One Drum

Staff are encouraged to recognize that they are part of a team at NASFUND. Individual staff objectives and Key Performance Indicators (KPIs) are formulated through an interactive process that starts with the Board and CEO and between management and staff. This process ensures that the sum of individual KPIs cascade up and are aligned with the objectives set by the Board in its Strategic Plan. It also ensures that staff, management and the Board are in concert and work towards a common objective. A balanced Scorecard is used to provide an objective measure of progress against the Strategic Plan and is reviewed on a regular basis by staff and management.

The Level Playing Field

NASFUND promotes an open culture that fosters equal opportunity and mutual respect, where diversity is celebrated and where all members of staff can contribute equally to the success of the organization. Career development is based on the input and application of staff rather than on arbitrary classifications.

Empowerment

Staff are encouraged to take ownership of their areas of responsibility. As an organization that values its staff, NASFUND believes that as its people are empowered in their respective roles, they will take more ownership of the desired outcomes, reaping the rewards not only for themselves but for the organization.

Rewarding Performance

NASFUND recognises that people do not work in a vacuum. A bonus structure that creates an incentive for staff to achieve or exceed properly articulated objectives is an important part of staff motivation. Three CEO awards identifying champions in the areas of Customer Service, Risk Reduction and Value Enhancement are celebrated in monthly “town hall” sessions.

Zero Tolerance of Misbehaviour

NASFUND has a zero tolerance towards sexual harassment, workplace bullying, theft, fraud and other forms of anti-social and unwanted behavior. Depending on the nature of the behavior in question, the appropriate authority (internal or external) will be engaged to investigate and provide an independent determination of the facts and the appropriate action to be taken, including penalties if any. Staff are encouraged to report transgressions in this area. NASFUND will have no hesitation in referring people for prosecution for breaches of a criminal nature.

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. Staff are encouraged to report any incident where they feel they have been subject to this sort of behavior, include going directly to the Board if the personnel carrying out this behavior is at a higher level of authority.

Education

Staff are encouraged to strive for higher learning and are able to access educational advancement through professional training with NASFUND's support. Training not only encompasses their current roles but also future roles that they are aiming for.

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 proactively 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 Against HIV & AIDS (BAHA).

Communication

To keep staff informed and up to date with developments within the organization, the Fund employs a number of methods to disseminate information. Nastok is a regular newsletter containing items of interest and photos highlighting staff milestones and achievements, whilst monthly townhall meetings are hosted by the CEO at which he presents his monthly CEO awards to celebrate the hard work of staff. This is also an opportunity for EXCOM members to provide updates or highlight areas of concern for their respective divisions.

Training & Development

Recognising staff as its most important asset, NASFUND continues to invest in their training and professional development.

In 2016 the following programmes were attended by staff:

- Bachelor in Management - Divine Word University 5 staff
- Diploma in Management - Divine Word University 3 staff
- Team Building - Coles International Training 36 staff
- Delivering Winning Sales Pitch - Coles International Training 36 staff
- Driving Sales Force - Coles International Training 36 staff
- Conflict Resolution - Coles International Training 36 staff
- The Whole Manager - Coles International Training 17 staff
- Sales & Customer Service - Coles International Training 40 staff

University Scholarship Program

The Fund continued its University Scholarship Scheme. This scheme was implemented as a Capacity Building initiative forming part of our Corporate Social Responsibility program.

Under the scheme, the company invited interested applicants from Students entering their 3rd Year of studies in 2015 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.

The NASFUND Scholarship program invites applicants every 2 years, meaning that the next set of applicants will be selected in 2017 for graduation in 2018.

The current program participants are:

- Wesley Warun - University of Papua New Guinea Bachelor in Accounting
- Arthur Amos - University of Papua New Guinea Bachelor in Economic
- Bartholomew Uratel - Papua New Guinea University of Technology Bachelor in Applied Economics
- Max Manimbi Jr - Divine Word University Bachelor in Accounting

Workplace Diversity

We pride ourselves as an Equal Opportunity Employer, recognising the importance of a balanced workforce. The FUND's gender ratio at the end of 2016 was 76 female to 81 male staff.

Young Trainee Directors Program

The private sector has had long standing concerns about the lack of quality directors in Papua New Guinea with the appropriate skill-sets and experience to serve on Boards.

In 2008 NASFUND initiated the NASFUND Young Trainee Director Program aimed at giving young professional Papua New Guineans the opportunity to experience the boardroom environment and aspire to be directors in the future.

The program is as follows:

- The Board appoints 3 candidates by way of open invitation.

  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 a good track record in their current job and recognised by their employer;

  V. Have written endorsement from their 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.

Each candidate is allocated to a Committee of the Board (ie. Audit & Risk, Investments or Remuneration & Nomination).

Trainee directors also have the right to receive Board papers and participate in Board and Committee meetings but cannot vote on any Board resolution.

The program provides first-hand experience to observe board protocol, board room dynamics and understand the role of a director. At the end of two years, the trainee directors are awarded a certificate confirming their participation.

After successful completion of the program, trainee directors may be given an opportunity to be nominated as director on an investee company board at the discretion of the NASFUND Board.

Since inception the program has accommodated nine (9) young promising Papua New Guinea professionals. The current batch - Bill Doa Neil, Irene Takendu and Kevin Henry - started their tenure in 2016 and will complete the program at the end of 2017.

Bill Doa Neil

Irene Takendu

Kevin Henry

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NASFUND

Deloitte.

Deloitte Touche Tohmatsu

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

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Report on the Audit of the Financial Report

Opinion

We have audited the financial report of National Superannuation Fund Limited (the "Fund"), which comprises the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, the statement of changes in members' funds and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, the Trustee's and Management's declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Fund's financial position as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000 and the Superannuation Prudential Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

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

Other Information

The directors and management of the Trustee are responsible for the other information. The other information comprises the information included in the Fund Information and the Report of the Trustee of the Fund for the year ended 31 December 2016, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of Trustee Directors and Management for the Financial Report

The directors and management of the Trustee are responsible for the preparation of the financial report 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, and for such internal control as the directors and management determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors and management are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors and management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors and management.
- Conclude on the appropriateness of the director's and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

- Members of the audit team are also members of the Fund under normal commercial terms and conditions.
- In addition, during the year ended 31 December 2016 we provided non-conflicting tax advisory services to the Fund.
- Proper accounting records have been kept by the Fund as far as appears from our examination of those records.

Deloitte Touche Tohmatsu

Benjamin Lee
Registered under the Accountants Act 1996
Partner

Port Moresby, 27 February 2017

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 2016.

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 K283.471 million (2015: profit after tax of K150.978 million).

Directors

The directors of the Trustee at the date of the report of the Fund are listed on pages 76 - 78. No director of the Trustee had any material interest in any contract or arrangement with the Fund or any related entity during the year end 31 December 2016.

Remuneration of Trustee Directors

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

Director's name	**2016** **K**	**2015** **K**
William Lamur, OBE	155,172	155,172
Hulala Tokome	137,931	137,931
Mel Togolo, CBE	124,138	124,138
Graham Ainui MBE, OL	124,138	124,138
Lady Mina Siaguru, CSM	93,103	124,138
Murray Woo	124,138	124,138
Vera Raga	124,138	124,138
Lata Milner, MBE	124,138	124,138
David Doig	124,138	124,138
Charles Vee	62,069	-
	1,193,103	**1,162,069**
Independent member of Audit & Risk Committee		
Arthur Sam	26,800	26,800
	1,219,903	**1,188,869**

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

....

Mr. William Lamur, OBE
Chairman

Date: 23 February 2017

Mr. Murray Woo
Chairman Audit & Risk Committee

Date: 23 February 2017

TRUSTEE'S DECLARATION TO THE MEMBERS OF THE FUND

In our opinion, the financial statements set out on pages 36 to 84 are drawn up so as to give a true and fair view of the state of affairs as at 31 December 2016 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 Trustee has satisfied itself 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 23rd day of February 2017.

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

....
Mr. William Lamur, OBE
Chairman

....
Mr. Murray Woo
Chairman Audit & Risk Committee

A shop floor presentation conducted for staff at St Joseph's Primary School.

MANAGEMENT'S DECLARATION TO THE MEMBERS OF NASFUND

In our opinion, the financial statements set out on pages 36 to 84 are drawn up so as to give a true and fair view of the state of affairs as at 31 December 2016 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 Trustee of the National Superannuation Fund 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 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 23rd day of February 2017.
For and on behalf of the National Superannuation Fund management:

…………………………………………	……………………………………......
Mr. Ian Tarutia, OBE	Mr. Rajeev Sharma
Chief Executive Officer	**Chief Financial Officer**

A shop floor presentation conducted for staff at Hitron.

STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2016 K'000	31 Dec 2015 K'000
Investment assets			
Cash at bank and on hand		54,491	198,732
Interest bearing deposits and treasury notes		539,935	376,080
Interest receivable (net)		43,385	35,461
Property receivables		21,933	11,410
Government securities and other loans	9	1,184,687	1,198,589
Equity investments	10	2,009,382	1,696,888
Investment properties	11	469,035	515,148
Current tax assets	13	-	-
		4,322,848	4,032,308
Other assets			
Withholding taxes recoverable		5,726	9,757
Other receivables		937	1,968
Property and equipment	12	11,021	10,380
		17,684	22,105
Total assets		**4,340,532**	**4,054,413**
Current liabilities			
Sundry creditors and accruals	14	27,314	21,527
Withholding taxes payable		3,657	-
Provisions for employee entitlements	15	1,326	641
Current tax liabilities	13	20,649	18,032
Total current liabilities		**52,946**	**40,200**
Deferred tax liability (net)	13	27,084	37,017
Provisions	15	41,429	40,886
Total liabilities		**121,460**	**118,103**
Net assets Represented by		**4,219,072**	**3,936,311**
Liability for accrued benefits			
- Allocated funds		3,828,950	3,684,929
- Unallocated contributions		33,434	37,424
- Unallocated earnings		350,843	208,113
Revaluation reserve	16	5,845	5,845
Total members funds		**4,219,072**	**3,936,311**

....
Mr. William Lamur, OBE
Chairman

Date: 23 February 2017

....
Mr. Murray Woo
Chairman Audit & Risk Committee

Date: 23 February 2017

The Statement of Financial Position is to be read in conjunction with the notes to, and forming part of, the Financial Statements.

STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

	Note	2016 K'000	2015 K'000
Investment income			
Interest income		159,632	141,727
Dividend income		70,793	54,775
Property rentals		70,892	71,490
Movement in net fair value of investments	17	54,995	(35,079)
Loss on disposal of shares		2,635	2,072
Net foreign exchange gain / (loss)	18	18,356	18,596
		377,303	253,580
Less: property costs		(24,833)	(19,207)
Net investment income		**352,470**	**234,373**
Other income and expenses			
Sundry income		1,595	5,615
Profit / (Loss) on disposal of fixed assets		216	30
		1,811	**5,645**
Expenditure			
Provision for bad and doubtful debts		-	-
Staff related expenses	19	(19,655)	(14,984)
Fund administration fee		(6,779)	(6,736)
Investment manager's fee		(5,914)	(5,875)
Advertising		(1,297)	(710)
Depreciation		(1,530)	(1,401)
Board expenses		(1,713)	(1,561)
Bank of PNG regulatory fees		(373)	(1,385)
Donations		-	-
Other administration expenses		(13,109)	(17,473)
		(50,370)	(50,126)
Profit before tax		**303,912**	**189,892**
Income tax expense	13	(20,440)	(38,914)
Profit for the year		**283,471**	**150,978**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation (loss) / gain of property	16	-	-
Total comprehensive income for the year		**283,471**	**150,978**

The Statement of Comprehensive Income is to be read in conjunction with the notes to, and forming part of, the financial statements.

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 2015	**3,338,836**	**52,545**	**322,399**	**5,845**	**3,719,625**
Profit for the year	-	-	150,978	-	150,978
Other comprehensive loss	-	-	-	-	-
"Total comprehensive income for the year"	-	-	150,978	-	150,978
Contributions received	-	473,818	-	-	473,818
Allocated contributions	488,939	(488,939)	-	-	-
Transfers from other funds	-	-	-	-	-
Interim interest	2,350	-	(2,350)	-	-
Benefits paid to members	(407,600)	-	-	-	(407,600)
"Interest allocated to members' accounts"	266,476	-	(266,476)	-	-
Front end fees	(510)	-	-	-	(510)
Prior year tax true-up	(3,766)	-	3,766	-	
Provision on member funds	(204)	-	(204)	-	-
As at 31 December 2015	**3,684,929**	**37,424**	**208,113**	**5,845**	**3,936,311**
Profit for the year	-	-	283,471	-	283,471
Other comprehensive loss	-	-	-	-	-
"Total comprehensive income for the year"	-	-	283,471	-	283,471
Contributions received	-	451,633	-	-	451,633
Allocated contributions	455,623	(455,623)	-	-	-
Transfers from other funds	-	-	-	-	-
Interim interest	5,488	-	(5,488)	-	-
Benefits paid to members	(456,007)	-	-	-	(456,007)
"Interest allocated to members' accounts"	138,865	-	(138,865)	-	-
Front end fees	(337)	-	-	-	(337)
Prior year tax true-up	-		4,001	-	4,001
Provision on member funds	389	-	(389)	-	-
As at 31 December 2016	**3,828,950**	**33,434**	**350,843**	**5,845**	**4,219,072**

Allocated funds represent National Superannuation Fund's obligation to pay benefits to members and beneficiaries arising as at 31 December 2016.

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.

Unallocated earnings represent profits not yet allocated to members at 31 December. Each year the final allocation of current year earnings would be approved by the board of directors subsequent to year end and credited to member accounts in the ensuing financial year.

The Statement of Changes in Members' Funds is to be read in conjunction with the notes to, and forming part of, the Financial Statements.

	Note	2016 K'000	2015 K'000
Cash flows from operating activities			
Interest received		151,709	122,434
Net rent received		60,370	83,488
Dividend received		71,823	54,775
Wages and administration payments		(51,835)	(46,861)
Income tax received / (paid)	13	-	24,282
Net cash from operating activities	22(b)	**232,067**	**238,118**
Cash flows from investing activities			
Purchase of property and equipment	12	2,856	-
Proceeds from sale of property and equipment		(1,134)	30
Proceeds from government securities and other loans		-	-
Proceeds from sale of property investments		1,350	12,568
Investments in equity		(192,183)	68,872
Investments in government securities and other loans		(138,645)	(454,557)
Investments in work in progress		-	(979)
Investments in investment property		(65,941)	(10,409)
Net cash used in investing activities		**(393,697)**	**(384,475)**
Cash flows from financing activities			
Transfer (to) / from other funds (net)		(337)	(510)
Contributions received		451,633	473,818
Withdrawals paid		(456,007)	(407,600)
Receipts from short-term loans		-	-
Net cash from financing activities		**(4,711)**	**65,708**
Increase in cash and cash equivalents		**(166,341)**	**(80,648)**
Effect of exchange rate fluctuations	18	18,356	18,596
Cash and cash equivalents at the beginning of the year		253,781	315,834
Cash and cash equivalents at the end of the year	22(a)	**105,796**	**253,781**

The Statement of Cash Flows is to be read in conjunction with the notes to, and forming part of, the Financial Statements.

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 Level 4, BSP House, Harbour City, 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 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 23rd February 2017.

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.

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 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.

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 next page:

2 Basis of preparation (continued)

Estimation uncertainty (continued)

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 be 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 methodologies. 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 probable 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.

Application of new and revised International Financial Reporting Standards

In the current year, the Fund has applied a number of amendments to IFRSs and new Interpretations issued by the international Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

These changes had no impact on the disclosures or amounts recognised in the Fund's financial statements.

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

IFRS 9	Financial instruments [2]
IFRS 16	Leases [3]
Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception[1]

1. Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
2. Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3. Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
4. Effective for annual periods beginning on or after a date to be determined.

2 Basis of preparation (continued)

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

a) Impairment requirements for financial assets; and
b) Limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:
All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of Financial Assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Fund anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Fund's financial assets and financial liabilities. However, there may be impacts on disclosures.

2 Basis of preparation (continued)

Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to IFRS 11 provide guidance on how to account for the acquisition that constitutes a business as defined in IFRS 2 Business combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income taxes regarding the recognition of deferred tax at the time of acquisition and IAS 36 Impairment of assets regarding impairment testing of cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016.

The directors of the Fund anticipate that the application of IFRS 11 in the future may have a material impact on the Fund's financial statements should such transactions arise.

Amendments to IAS 16 and IAS 38 *Clarification of acceptable Methods of Depreciation and Amortisation*

The amendments to IAS 16 prohibit entities from using a revenue-based method for items of property, plant and equipment. The amendments to IAS 38 introduce a reputable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Fund uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The directors of the Fund believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Fund do not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Fund's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities*: *Applying the Consolidation Exemption*

The amendments to IFRS 10, IFRS 12 and IAS 28 clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirements for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The directors of the Fund do not anticipate that the application of these amendments to IFRS 10, IFRS 12 and IAS28 will have a material impact on the Fund's financial statements as this does not impact the Fund's qualification as an investment entity.

2 Basis of preparation (continued)

Annual Improvements to IFRSs 2012 - 2014 Cycle
The Annual Improvements to IFRSs 2012 - 2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The Directors of the Fund do not anticipate that the application of these amendments will have a significant impact on the Fund's financial statements.

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 rate of interest is determined by the Board of Directors of the Trustee every year and interest 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.

3 Significant accounting policies (continued)

(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 marked to market using a simple pricing model driven by current comparable yields. In 2012 government securities were recorded at 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, the amortised cost of these investments was considered to approximate their fair value.

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 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.

3 Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Fund is restricted from borrowing by the Superannuation (General Provisions) Act 2000. 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, 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 deprecation and accumulated impairment losses.

Cost includes 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 may aslo 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.

(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.

3 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

(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 of 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 course 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, or 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.

3 Significant accounting policies (continued)

(h) Impairment (continued)

In assessing collective impairment, the Fund uses historical 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 asset, 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.

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 contributions into the Fund. The Fund has no legal or constructive obligation to pay further amounts to each employee. 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.

3 Significant accounting policies (continued)

(i) Employee benefit plans (continued)

(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, and 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 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.

3 Significant accounting policies (continued)

(m) Income Taxes (continued)

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 laws that have been 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 Chief Investment Officer 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 summay 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.

4 Determination of fair values (continued)

The fair value of items of plant, equipment, fixtures and fittings is based on the market 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 is then 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 oninvestment property revaluations was disclosed in Note 11.

(iii) Investment in quoted 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 2016.

(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 (f) and 24 (c).

(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 and 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 placed 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 exclude the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

5 Financial risk management (continued)

(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 and Risk Committee and Board of Directors.

6 Funding arrangements

Employers 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 (2015: 8.4%). Employees contributed to the Fund during the year at a rate of 6.0% of the gross salaries (2015: 6.0%).

7 Fund requirements

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 Policies required under the Prudential Standards.

As part of Prudential Standard 1/2014, issued by the Bank of Papua New Guinea and effective from 31 December 2015, an Authorised Superannuation Fund (ASF) must review annually a variety of policies and publish some of these on its website and in their annual report.

a) Section 14d (PS 1/2014: The "Reserving Management Policy" Please read the full current policy on the NASFUND website

b) Section 17d (PS 1/2014): The "Interim Crediting Rate Policy" Please read the full current policy on the NASFUND website

c) Section 18c (PS 1/2014): the "Annual Crediting Rate Policy" Please read the full current policy on the NASFUND website

The Board reviewed these policies in November 2015 as part of its annual review calendar and adopted final amendments on 23rd February 2017.

9 Government securities and other loans

	Note	31 Dec 2016 K'000	31 Dec 2015 K'000
Government Inscribed Stock	(a)	936,278	861,701
Sovereign Community Infrastructure Treasury Bill (SCITB)	(b)	125,000	125,000
State Grant	(c)	2,000	2,000
Notes and other loans	(d)	121,409	209,888
		1,184,687	**1,198,589**

(a) Government Inscribed Stock

Government Inscribed Stock (GIS) are recorded net of unamortised discounts and premiums on acquisition which are amortised over the life of the stock. The GIS have coupon rates ranging from 6% to 14% and yield rates ranging from 6.65% to 16% with a total face value of K923.1 million (2015: K884.1 million). The bonds will mature between 2018 and 2031.

For 2016, 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 income was a gain of approximately K37.5 million.

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 2016, this would have resulted in an approximate increase in value of K10.03 million to the GIS held by the Fund. A similar decrease of 25 bps would result in an equal but opposite effect.

(b) Sovereign Community Infrastructure Treasury Bill ("SCITB")

	Note	31 Dec 2016 K'000	31 Dec 2015 K'000
SCITB		125,000	125,000
Interest receivable from SCITB		35,250	35,250
Provision for impairment	9(e)	(35,250)	(35,250)
		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 in 2010 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 (2015: K8.8 million) has not been included in interest revenue.

(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% (2015: 6.67%).

(d) Notes and other loans

	Note	Maturity (years)	Average yield	31 Dec 2016 K'000	31 Dec 2015 K'000
PNG Power		0	10.2%	9,281	17,249
Airlines of PNG promissory notes		0	8.0%	-	25,000
Panamex Limited		1	12.0%	14,698	19,698
TDC Samoa	(i)	0	15.0%	-	60,743
Boroma Piggery		0	2.0%	-	5,000
Tawali Resort	(ii)	-	-	4,057	4,057
Big Rooster Heritage		3-5	9.2%	45,000	45,000
Heritage Park Hotel			12.5%	37,114	37,199
Harbour City Dev. Ltd				-	28,500
Loloata Island Resort				6,091	-
Malagan Loan				1,121	-
Carpark Loan				506	-
Gewani Loan				7,598	-
				125,466	242,445
less: provision for impairment	(ii)			(4,057)	(4,057)
				121,409	**238,388**

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 15%. The loan granted by the Fund has embedded derivatives and is further discussed on the next page.

9 Government securities and other loans (continued)

(d) Notes and other loans (continued)

(i) The loan to TDC Samoa is to undertake a joint development of a hotel complex with 80 rooms and 25 villas in Taumesina Island, Apia, Western Samoa (the “Project”) with Lamana Development (Samoa) Limited. Interest is receivable monthly at a minimum rate of 15% per annum and the loan is repayable at maturity of August 2019. The loan has been repaid, however, interest of K18.15 million is outstanding as at 31 December 2016.

(ii) In 2012 the Fund provided for the loan to Tawali 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 2016 K’000	31 Dec 2015 K’000
Opening balance	39,307	39,307
Closing balance	**39,307**	**39,307**

Provision for impairment is comprised of the following:

	31 Dec 2016 K’000	31 Dec 2015 K’000
Tawali Resort (note 9(d))	4,057	4,057
Interest receivable on SCITB (note 9(b))	35,250	35,250
	39,307	**39,307**

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

NASFUND staff promote products and services in an annual Corporate Va’a Challenge. Each teams wearing the traditional colours of the Fund’s various products and services: orange (Eda Supa), green (RSA), and maroon (Textbal).

10 Equity investments

	Note	31 Dec 2016 K'000	31 Dec 2015 K'000
Quoted investments - Domestic	(a)	610,544	556,750
Quoted investments - International	(a)	387,174	169,736
Unquoted investments	(b)	1,011,663	970,402
		2,009,381	**1,696,888**

(a) Quoted investments

Summary of revaluation of quoted investments is as follows:

	2015 K'000	Revaluation K'000	Purchases / (Sales) K'000	2016 K'000
Quoted shares Domestic				
PNG Air	12,100	(6,050)	25,000	31,050
Bank of South Pacific Limited	339,888	67,977	-	407,865
City Pharmacy Limited	45,991	(11,411)	-	34,580
Credit Corporation (PNG) Limited	139,723	(21,735)	-	117,988
New Britain Palm Oil Limited	-	-	-	-
Kina Securities	19,048	13	-	19,061
	556,750	**28,794**	**25,000**	**610,544**
Quoted shares International				
Oil Search Limited	90,533	10,413	-	100,946
Vanguard	-	776	192,183	192,959
Steamships Trading Company Limited	79,203	14,066	-	93,269
	169,736	**25,255**	**192,183**	**387,174**

Reconciliation of movement in quoted investments is as follows:

	Note	31 Dec 2016 K'000	31 Dec 2015 K'000
Opening balance		726,487	889,633
Additions / Disposals during the year		217,183	(100,215)
Profit on disposal		-	2,823
Fair value gain / (loss)	17	54,049	(65,754)
Closing balance		**997,719**	**726,487**

10 Equity investments (continued)

(b) Unquoted investments at fair values

Summary of revaluation of unquoted investments is as follows:

Unquoted investments	Note	Percentage Holding	2016 Valuation Model	2015 Valuation Model	Market Multiple	2015 K'000	Revaluation K'000	Other movements K'000	2016 K'000
Amalgamated Packaging Limited		30.00%	(ii)	(ii)			950	-	
Hornibrooks NGI		21.13%	(ii)	(ii)			(2,800)	-	
Nas Aviation		40.00%	(ii) & (iii)	(iii) & (iii)			(5,000)	-	
Nasmel Limited	(b (i))	100.00%	(ii)	(iv)			5,522	-	
Turumu Holdings Limited		20.00%	(v)	(v)			4,150	-	
The Edge Limited		70.00%	(ii)	(ii)			8,274	-	
Port Services Limited		5.00%	(i)	(i)			350	-	
City Centre Developments Limited	(b (ii))	65.00%	(ii)	(ii)			(536)	7,984	
South Pacific Brewery Limited		0.72%	(iii)	(iii)	8x - 9x		450	-	
Pacific Balance Fund		22.00%	(ii)	(ii)			9,300	-	
Post Courier Limited		0.00%	(iii)	(iii)	4x - 6x		-	(40)	
Toyota Tsusho (PNG) Limited		0.61%	(iii)	(iii)	4x - 5x		(100)	-	
Westpac Bank PNG Limited		1.25%	(iii)	(iii)	7x - 8x		(1,450)	-	
Hillside Garden		50.00%	(ii)	(ii)			(211)	-	
Panamex Limited		46.30%	(iii)	(iii)	4.5x - 5.5x		(8,250)	-	
Heritage Park Hotel		60.00%	(ii)	(ii)			5,300	-	
Malagan Limited	(c)	100.00%	(ii)	(iv)			3,932	16,837	
Carpark Limited	(c)	100.00%	(ii)	(iv)			(3,442)	5,534	
Grand Pacific Hotel Ltd	(c)	50.00%	(iv)	(iv)			-	-	
Gewani ltd	(c)	100.00%	(ii)	(iv)			(710)	43,568	
Hitron Ltd		0.00%	(iii)	(iii)			-	(43,000)	
Capital Insurance Group Ltd		19.20%	(iii)	(iii)			(5,350)	-	
Total unquoted investments						**970,402**	**10,379**	**30,883**	**1,011,664**

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

10 Equity investments (continued)

(b) Unquoted investments at fair values (continued)

Reconciliation of movement in unquoted investments is as follows:

	Note	31 Dec 2016 K'000	31 Dec 2015 K'000
Opening balance		970,402	885,867
Additions / disposals during the year		73,923	30,837
Fair value gain	17	10,379	56,015
Other adjustments	(iii)	(43,040)	(2,317)
Closing balance		**1,011,664**	**970,402**

The above unquoted investments are stated at fair value, which have been determined by the Board of Directors based on external valuations performed by KPMG PNG (by Zanie Theron - KPMG PNG Partner, Bachelor of Business (Accounting) , Member Institute of Chartered Accountants , Australia and CPA PNG. 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 (2015: 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 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 2016 K'000	31 Dec 2015 K'000
Grand Pacific Hotel Limited	(iii)	41,930	41,930
		41,930	**41,930**

10 Equity investments (continued)

(c) Unquoted investments at cost (continued)

(i) The Fund acquired 35.71% of Malagan Limited in October 2012 for the consideration of K27.4 million (including a K2.3 million receivable). In 2015 the Fund further acquired 28.57% of Malagan Limited at cost of K20.29 million. During the year, the fund further aquired the remaining 35.72% of Malagan Limited at a cost of K16.84 million. Malagan Limited owns BSP Haus in Konedobu, NCD. The company has completed construction and management believes that cost approximates the company's fair value as at 31 December 2016. There have not been any market indicators that would suggest any significant difference between cost and fair value.

(ii) The Fund acquired 33.33% of Carpark Limited who owns and operates a carpark building in Konedobu, NCD. In 2015, the fund aquired a further 33.33% of the equity in Carpark LImited for K6.95 million. During the current financial year the Fund acquired the remaining 33.33% of the equity in Carpark Limited for K5.35 million. Management believe cost is a reasonable approximate of its fair value.

(iii) Grand Pacific Hotel Limited is a hotel in Suva, Fiji owned 50% by the Fund. This is a 120 room commercial development. Management believes that cost approximates the company's fair value as at 31 December 2016 and 2015. There have been no market indicators that would suggest any significant difference between cost and fair value.

(iv) The Fund aquired 50% of Gewani Limited in 2014, when development was still in its construction phase. Gewani Limited owns PWC Haus. During the current financial year the fund acquired the remaining 50% equity for K43.57 million. As this is a 100% investment, management believe that cost is a reasonable approximate of the fair value.

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

Bank of South Pacific Limited	9.67%
Nasmel Limited	6.02%

(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 asets 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%	Net Assets	-
Aloga No. 2 Limited*	Dormant	100.00%	Net Assets	-
Yuwai No. 67 Limited*	Dormant	100.00%	Net Assets	-
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)

(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.

(f) Sensitivity analysis

The following is a sensitivity analysis of significant unobservable inputs:

	Effect on profit or loss increase / (decrease)	
	31 Dec 2016 K'000	**31 Dec 2015 K'000**
Increase of 1% in market multiples	24,535	22,755
10% increase in earnings	19,512	20,349
Increase of 5% in discount rates	9,048	(8,856)

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

11 Investment properties and works in progress

	Note	31 Dec 2016 K'000	31 Dec 2015 K'000
Investment properties	(a)		
Residential properties		69,671	79,629
Industrial properties		24,919	24,769
Commercial properties		361,233	396,991
Land		13,213	13,759
		469,035	**515,148**

(a) Investment properties (at market value)

Summary of movement in revaluation of investment properties as follows:

	Valuation Model	Capitalisation Rates	2015 K'000	Revaluation K'000	Other Movements K'000	2016 K'000
Residential properties						
Peacehaven Apartments	MC	11.00%			-	
Ramu Sugar Properties	Cost	-			-	
Sol Wara Apartments	MC	10.50%			-	
Cross Street Apartments	MC	11.00%			-	
Lot 18 Sect. 69 House Property	MC	11.00%			-	
Fifth Street Lae House Property	MC	11.00%			(1,350)	
Lot 3 Sect. 2 Madang Property	DMA	-			-	
Lot 11 Sect. 13 KBB Property	DMA	-			-	
Siroi Panu Units	MC	11.00%			-	
			79,629	**(8,608)**	**(1,350)**	**69,671**

11 Investment properties and works in progress (continued)

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

	Note	Valuation Model	Capitalisation Rates	2015 K'000	Revaluation K'000	Other movements K'000	2016 K'000
Industrial properties							
API		MC	11.00%			-	
Gordons - Cameron Road		MC	10.00%			-	
				24,769	**-**	**-**	**24,919**
Commercial properties							
Ravalian Haus		MC	11.00%			-	
Able Computing Madang		MC	10.00%			-	
ANZ Haus		MC	11.00%			160	
Westpac Head Office Building	(iv)	Cost				-	
BSP Douglas Street	(iv)	Cost				-	
Luship Voco Point Lae		DMA				-	
Malahang Shed Regina St. Lae		DMA				-	
Madang Slipway		DMA				-	
Deloitte Tower		MC	12.00%			3,989	
NASFUND Haus Lae		MC	11.50%			-	
NCSL Head Office	(iii)	DMA				-	
IPA Haus		MC	12.00%			-	
The Factory		MC	12.00%			-	
				396,991	**(39,908)**	**4,149**	**361,233**
Land							
Section 69, Lae		Cost	-			-	
8 Mile and 9 Mile	(ii)	DMA	-			(728)	
Lawes Rd		DMA	-			(727)	
Vacant Land, Lae		DMA	-			-	
				13,759	**909**	**(1,455)**	**13,213**

11 Investment properties and works in progress (continued)

Reconciliation of movement in investment properties is as follows:

	Note	31 Dec 2016 K'000	31 Dec 2015 K'000
Opening balance		515,148	522,541
Improvements to properties		2,694	3,212
Disposals of properties		(1,350)	(12,568)
Fair value gain	17	(47,457)	1,963
Closing balance		**469,035**	**515,148**

Investment properties are stated at fair value, which have been determined by the Board of Directors in line with the accounting policy at 4(ii).

(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.

(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.

(iv) Fair value hierarchy
The classifications of fair value hierarchy has been discussed in note 4(vi). 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 K68,910 million has 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 K446,238 million has 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 balance to the closing balance for Level 2 fair values:

	2016 K'000	2015 K'000
Opening balance	68,910	80,065
Improvements, reclassifications, and additions	(1,455)	(10,530)
Changes in fair value	(1,750)	(625)
Closing balance	**65,705**	**68,910**

11 Investment properties and works in progress (continued)

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

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:

	2016 K'000	**2015 K'000**
Opening balance	446,238	442,476
Improvements, reclassifications, and additions	2,799	1,174
Changes in fair value	(45,707)	2,588
Closing balance	**403,330**	**446,238**

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 10.5% 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 2016 K'000	**31 Dec 2015 K'000**
Increase of 1% in capitalisation rates	63,229	45,989
10% increase in rentals	85,605	51,524
10% increase in sales prices and / or replacement costs	2,870	4,565

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

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 2015	-	613	5,756	7,258	13,628
Additions	-	-	-	-	-
Disposals	-	(254)	(2)	-	(256)
At 31 December 2015	-	359	5,754	7,258	13,372
At 1 January 2016	-	359	5,754	7,258	13,372
Additions	-	432	2,384	43	2,859
Disposals	-	(367)	-	-	(367)
At 31 December 2016	-	424	8,138	7,301	15,861
Accumulated depreciation					
At 1 January 2015	-	542	2,423	527	3,492
Depreciation for the year	-	71	464	653	1,189
Disposals	-	(254)	-	-	(254)
At 31 December 2015	-	359	2,887	1,180	4,427
At 1 January 2016	-	359	2,887	1,180	4,427
Depreciation for the year	-	31	1,513	0	1,544
Disposals	-	(14)	-	-	(14)
At 31 December 2016	-	376	4,400	1,180	5,957
Carrying amounts					
At 31 December 2016	-	47	3,738	6,121	9,907
At 31 December 2015	-	(0)	2,867	6,078	8,945

Capital Work in Progress	
Opening balance 1 January 2016	1,435
Additions (i)	(319)
Closing balance	1,116

i) Relate to the ERP Project.

Total property and equipment	
At 31 December 2016	11,021
At 31 December 2015	10,380

13 Income tax

(a) Income tax expense

	Note	31 Dec 2016 K'000	31 Dec 2015 K'000
Current tax		52,319	35,360
Under provision of current taxes in previous years		(20,857)	8,320
Deferred tax expense		(11,022)	(4,766)
		20,440	**38,914**
Accounting profit before tax		303,912	189,892
Tax on the profit for the year at 25%		75,978	47,473
Taxation effect of permanent differences			
- Non deductible items		8,819	9,224
- Non taxable items		(25,802)	(12,411)
Dividend rebate		(17,698)	(13,693)
(Over) / under provision in prior years		(20,857)	8,320
		20,440	**38,913**

(b) Income tax balance

	31 Dec 2016 K'000	31 Dec 2015 K'000
Opening balance of income tax payable	18,032	(19,760)
Current tax payable	47,337	35,360
Under provision of taxes in previous years	(20,857)	8,320
Offset of withholding taxes recoverable	(23,863)	(30,170)
Payment during the year	-	24,282
Balance of income tax payable	**20,649**	**18,032**

(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 2016	**Asset K'000**	**Liability K'000**	**Net K'000**
Property, plant and equipment	-	79	79
Investment property	-	(17,514)	(17,514)
Provisions	(99)	-	(99)
Interest receivable	-	(1,702)	(1,702)
Other	866	(8,714)	(7,848)
	767	**(27,851**	**(27,084)**
As at 31 December 2015			
Property, plant and equipment	14	-	14
Investment property	-	(29,012)	(29,012)
Provisions	830	-	830
Interest receivable	-	(8,572)	(8,572)
Other	-	(277)	(277)
	844	**(37,861)**	**(37,017)**

14 Sundry creditors and accruals

	31 Dec 2016 K'000	31 Dec 2015 K'000
Sundry creditors and other accruals	24,479	19,254
Bonds and repayable deposits	2,835	2,274
	27,314	**21,528**

15 Provisions

Current	31 Dec 2016 K'000	31 Dec 2015 K'000
Provisions for employee entitlements	**1,326**	**641**

Non current		
Provision for impairment of government securities	39,000	39,000
Provision for long service leave	2,429	1,886
	41,429	**40,886**

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

Opening balance	1,886	1,752
Charge for the year	1,030	205
Payments made during the year	(487)	(71)
Closing balance	**2,429**	**1,886**

16 Revaluation reserve

	31 Dec 2016 K'000	31 Dec 2015 K'000
Opening balance	5,845	5,845
Revaluation of NASFUND Head Office and NCSL Land and Building	-	-
Release of NCSL Head Office revaluation	-	-
Closing balance	**5,845**	**5,845**

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	31 Dec 2016 K'000	31 Dec 2015 K'000
Mark to market - GIS		37,529	(28,356)
Shares in listed companies	10	54,049	(65,754)
Shares in unlisted companies	10	10,379	56,015
Investment properties	11	(47,457)	1,963
		54,500	**(36,131)**
In respect to those investments realised during the financial year:			
Investment properties / unlisted companies / other		495	1,052
		495	**1,052**
Total (loss) / gain		**54,995**	**(35,080)**

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

	31 Dec 2016 K'000	31 Dec 2015 K'000
Auditors' remuneration – audit	271	255
Auditors' remuneration – other services	42	150
Legal expenses	440	655
Gain / (loss) on sale of property, plant and equipment	216	30
Net foreign exchange gain	18,356	18,596

19 Staff related expenses

	Note	31 Dec 2016 K'000	31 Dec 2015 K'000
Salaries and wages		11,946	9,990
Superannuation	20	1,031	947
Long service leave	15	1,030	205
Other expenses and benefits		5,648	3,843
		19,655	**14,985**

The number of full time employees at the end of the year was 157 (2015: 143).

The number of employees whose remuneration exceeds K100,000 for the year was 9 (2015: 9).

19 Staff related expenses (continued)

Total remuneration (Kina)	31 Dec 2016 No.	31 Dec 2015 No.
K100,001 - K150,000	2	2
K150,001 - K200,000	-	1
K200,001 - K250,000	-	-
K250,001 - K300,000	-	-
K300,001 - K350,000	1	-
K350,001 - K400,000	1	1
K400,001 - K450,000	1	1
K450,001 - K500,000	1	-
K500,001 - K550,000	-	-
K550,001 - K600,000	-	-
K600,001 - K650,000	-	-
K650,001 - K700,000	1	1
K700,001 - K750,000	-	-
K750,001 - K800,000	-	-
K850,001 - K900,000	-	-
K900,001 - K950,000	1	2
K950,001 - K1,100,000	-	-
K1,100,001 +	1	1
	9	**9**

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 2016, the Fund expensed K1.031 millon in contributions (2015: K946.7 thousand).

21 Commitments, contingencies and disputes

(a) Commitments

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	K5.317 million per annum
Security fees	K1.14 million per annum
Member's fund management	
- weekly fees per active member	K0.67 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

(i) Facilities management includes fees for properties in 100% owned companies and other JV companies.

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 2016:

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

Recoverability of the SCITB is in dispute. The Government of Papua New Guinea claims that the SCITB is not a lawfully issued Treasury Bill. The Fund maintains, based on independent legal advice that the SCITB was legal and funds advanced for the SCITB and the applicable interest are fully recoveable. The Fund has commenced legal action against the State of Papua New Guinea, the Bank of Papua New Guinea and National Capital Limited (NCL) for the return of the K125 million.

(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 (BSP), being part of a parcel of BSP Shares which Motor Vehicles Insurance Limited (MVIL) had mortgaged to NNL. There is currently legal action between Independent Public Business 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. 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.

The Fund has obtained independent legal advice and is advised that the Fund has good title to the parcel of BSP shares transferred to the Fund and there is no 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 K39 million (2015: K39 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
Aon Hewitt (PNG) Limited	Administration	July 2017
SOS Security Ltd.	Administration	month to month
PacWealth Capital Limited	Investment Management	Mar 2018
Lamana Developments Limited	Property Development	12 months after completion
Ashton Brunswick Limited	Facilities Manager	June 2019

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 2016 K'000	31 Dec 2015 K'000
Cash at bank and on hand	54,491	198,732
Interest bearing deposits and treasury notes	51,305	55,049
Cash and cash equivalents	**105,796**	**253,781**

Interest bearing deposits and treasury notes have a maturity of less than 90 days. Interest rates ranged from 0.5% to 6.25% (2015: 0.8% to 3.2%).

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

	2016 K'000	2015 K'000
Profit before tax for the year	303,912	189,892
Adjustments for:		
Movement in fair value of investments	(54,500)	36,131
Provision for impairment of government securities	-	-
Provision for doubtful debts	1,030	-
Provision for long service leave	(216)	205
Profit on disposal of property, plant and equipment	-	(30)
Profit on sale of investment properties	3,002	-
Amortisation of discounts and premiums	1,530	6,368
Depreciation	(337)	1,401
Front end fees on membership	(18,356)	(510)
Exchange difference	-	(18,596)
Net cash before changes in working capital	**236,065**	**214,862**
(Decrease) / increase in interest receivable	7,924	19,293
Increase in other receivables	(14,907)	11,568
(Decrease) / increase in trade and other payables	2,987	(7,604)
Net cash provided by operating activities	**232,067**	**238,118**

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 2016 K'000	31 Dec 2015 K'000
Opening balance owing to NASFUND	5	5
Administration services provided by NASFUND	-	-
Payments made to NASFUND	-	-
Closing balance	**5**	**5**

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 2016 K'000	31 Dec 2015 K'000
Opening intercompany balance owing to NASFUND	127,452	126,874
Improvements to Nasmel Limited investment properties	-	578
Other account adjustments	(12)	-
Closing intercompany balance owing to NASFUND	**127,440**	**127,452**

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 as part of the investment in Nasmel in Note 10 (b) (Unquoted investments at fair value).

(iii) City Centre Developments Limited ("CCD")	31 Dec 2016 K'000	31 Dec 2015 K'000
Loan owing to NASFUND - opening balance	12,500	10,491
Loan repayments	5,260	(2,781)
Other account adjustments	(2,009)	4,790
Loan owing to NASFUND - closing balance	**15,751**	**12,500**

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 as part the investment in CCD in Note 10 (b) (Unquoted investments at fair value).

23 Related party transactions (continued)

(iv) Transactions with key management personnel

Key management personnel are Ian Tarutia (CEO), Warwick Vele (COO) Seno Wekina (CLO), David Brown (CIO), Rajeev Sharma (CFO), Sitiveni Weleilakeba (Change Consultant), John Topal (CRO) and Dominic Beange (Investment Consultant).

(v) Compensation

Key management personnel compensation comprised of:

	31 Dec 2016 K'000	31 Dec 2015 K'000
Salary and fees	5,394	5,507
Non-monetary benefits	2,175	2,105
Post-employment benefits	1,585	910
	9,154	**8,522**

(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 2016 K'000	31 Dec 2015 K'000
- Sitting allowance	92	97
- Quarterly allowance	1,231	1,198
- Audit committee fees	49	65
- Directors insurance	161	133
	1,533	**1,492**

All of the above payments were made in the ordinary course of business. The above payments include payments of K25,000 (2015: K25,000) to JAJ & Associates for the services of Arthur Sam as an independent member of the Audit & Risk and Investment committees of the Fund.

(viii) Board and CEO interests

The following interests are recorded in the Interests Register for the year:

Name	Nature	Organisations
Mr. William Lamur, OBE	Director	ENB Development Corporation, ENB Port Services, Andersons Foodland, National Development Bank, Trukai Industries Limited, Pacific Assurance Group, ENB Supermarkets, Witherlam Investments Limited, ENB Copra, Cocoa & Coffee Co-Operative, Mainland Holdings Limited, ENB Properties Ltd, PEAL (Pacific Energy), Territory Packaging, Grand Pacific Hotel Ltd, NASFUND Contributors Savings & Loan Society Ltd, Nasmel Ltd.
	Shareholder	Bank of South Pacific Ltd, PNG Air Ltd, Oil Search Ltd.

23 Related party transactions (continued)

(viii) Board and CEO interests (continued)

Name	Nature	Organisations
Mr. Hulala Tokome	Director	Puma Energy Png Ltd, Puma Energy Refining PNG Ltd, Puma Energy Supply PNG Ltd, Mainland Holdings Limited, NASFUND Contributors Savings & Loan Society Ltd, Nasmel Ltd, Sol Wara.
	Shareholder	BP Oil Ltd, Interoil Corporation, Kina Asset Management Ltd.
Mr. Melchior Togolo, CBE	Director	Oil Search Limited, Kumul Hotels Limited, Heritage Park Hotel Limited, Panamex Holdings (Singapore) Pte Ltd, Grand Pacific Hotel Ltd, Nasmel Ltd.
	Shareholder	Bank of South Pacific Ltd, Nautilus Minerals Niugini Ltd. (Share Options)
Mr. Graham Ainui, MBE, OL	Director	First Investment Finance Ltd, Police Legacy, Employers Federation of PNG, Viva 5 Ltd, National Roads Authority, Nasmel Ltd.
Mr. Murray Woo	Director	Woo Textile Corporation Limited, Heathly Kamwood Limited, Manufacturers Council of PNG, Getaway Travel Limited, Business Council of PNG, PNG Air Ltd, Print Monster Ltd, NASFUND Contributors Savings & Loan Society, City Centre Developments Ltd, Nasmel Ltd, Galatoire Ltd.
	Shareholder	Highlands Pacific Limited, Oil Search Limited.
Lady Mina Siaguru, CSM	Director	Divine Word University, Porgera Environmental Advisory Committee, Nasmel Ltd.
	Shareholder	Oil Search Ltd.
Mrs. Lata Milner, MBE	Director	Pedy No 10 Ltd, Private Boxes (PNG) Ltd, Heritage Park Hotel Ltd, Nasmel Ltd, PNG India Business Forum Inc.
	Shareholder	Pedy No 10 Ltd, Kina Securities Ltd.
Mr. Vera Raga	Director	NASFUND Contributors Savings & Loan Society, National Tripartite Consultative Council, Edge Ltd, Carpark Ltd, Malagan Ltd, Gewani Ltd, Nasmel Ltd.
Mr. David Doig	Director	Moore Business Systems (PNG) Limited, Employers Federation of PNG, Credit Corporation Ltd, Turumu Investments Ltd.
	Shareholder	Moore Business Systems (PNG) Limited.
Charlie Vee	Director	The Edge Ltd, Carpark Ltd, Malagan Ltd, Gewani Ltd, V-Tech Consultancy Limited, Architectural Alliance Limited.
	Shareholder	Architectural Alliance Ltd.
Mr. Ian Tarutia, OBE	CEO	NASFUND.
	Director	NASFUND Contributors Savings & Loan Society, Federation of Savings & Loan Societies, Air Niugini Limited, PNG Chamber of Commerce and Industry, PNG Institute of Directors, Seychelles Limited, Employers Federation of PNG. ENB Properties Ltd.
	Shareholder	Bank South Pacific Ltd, Seychelles Ltd, PNG Air Ltd.

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 2016 K'000	31 Dec 2015 K'000
Government debt securities	1,063,278	988,701
Equity securities	2,009,381	1,696,888
Loans and receivables	121,409	209,888
Interest receivables	43,385	35,461
Property receivables	21,934	11,410
Other receivables	937	1,968
Interest bearing deposits and treasury notes	488,630	321,031
Cash and cash equivalents	105,796	253,781
	3,854,749	**3,519,128**

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 2016 K'000	31 Dec 2015 K'000
Current	4,773	5,950
31 - 60 days	5,414	814
61 - 90 days	2,481	140
over 90 days	9,265	4,506
	21,933	**11,410**

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

	31 Dec 2016 K'000	31 Dec 2015 K'000
Opening balance	1,448	1,448
Additional doubtful debts upon amalgamation with SIOS	-	-
Doubtful debts provisions during the year	-	-
Write-offs during the year	-	-
Closing balance	**1,448**	**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.

24 Financial instruments (continued)

(b) Liquidity risk (continued)

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 2016. 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.

(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 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:

As at 31 December 2015	**AUD**	**GBP**	**FJD**	**SBD**
Equity investments	178,175	-	28,093	104,358
Cash at bank	-	-	-	3,026
Gross balance	**178,175**	**-**	**28,093**	**107,384**
% of net asset value	8.5%	-	1.0%	0.9%
Foreign exchange rate	0.44	-	0.67	2.47
As at 31 December 2014				
Equity investments	77,005	-	30,185	100,875
Cash at bank	-	-	-	5,391
Gross balance	**77,005**	**-**	**30,185**	**106,266**
% of net asset value	2.0%	-	0.8%	2.7%
Foreign exchange rate	0.46	-	0.72	2.73

24 Financial instruments (continued)

(c) Currency risk (continued)

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 2015 and 2014.

	31 Dec 2016 K'000	31 Dec 2015 K'000
AUD	17,817	20,415
GBP	-	-
FJD	2,731	5,240
SBD	10,514	4,449
	31,062	**30,104**

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.

(d) Interest rate risk profile
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:

	31 Dec 2016 K'000	31 Dec 2015 K'000
Fixed rate instruments		
Financial assets (Government bonds and inscribed stock)	936,278	861,701
Treasury bills and interest-bearing deposits	539,935	376,080
Loans and other receivables	106,093	144,145
	1,582,306	**1,381,926**
Variable rate instruments		
State grant	2,000	2,000
Loans and other receivables	-	65,743
Total	**1,584,306**	**1,449,669**

Sensitivity analysis
For 2016, Government Inscribed Stocks ("GIS") is marked to market based on current yields. A change of 25 bps in yields would result in an increase in the value of GIS of K10.3 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 K469 thousand (2015: K4,126 thousand).

24 Financial instruments (continued)

(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 receives 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.

Sensitivity analysis
Following analysis of historical data and expected investment rate movements during the 2015 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%

As at 31 December 2016	%	Carrying amount	Effect on net assets and profit increase	Effect on net assets and profit decrease
Listed overseas shares	15%	387,174	58,076	(58,076)
Listed local shares	10%	610,544	61,054	(61,054)
Investment in unquoted companies	5%	969,733	48,487	(48,487)
As at 31 December 2015				
Listed overseas shares	15%	169,736	25,460	(25,460)
Listed local shares	10%	556,750	55,675	(55,675)
Investment in unquoted companies	5%	928,471	46,424	(46,424)

(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.

24 Financial instruments (continued)

(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(iii).

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 2016	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total K'000
Government Inscribed Stock	-	-	936,278	936,278
Equity securities	997,719	-	969,733	1,967,452
	997,719	**-**	**1,906,010**	**2,903,729**

As at 31 December 2015	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total K'000
Government Inscribed Stock	-	-	861,701	861,701
Equity securities	726,487	-	806,239	1,532,726
	726,487	**-**	**1,667,940**	**2,394,427**

(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 2016, 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 include government securities and other loans, but exclude Government Inscribed Stock, are valued at amortised cost. Due to the absence of an observable market for 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
There has been no movement in Level 2 fair values during the year.

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:

	2016 K'000	2015 K'000
Opening balance	1,667,940	1,272,293
(Disposals / redemptions) or additions during the year	338,784	357,553
Changes in fair value	(101,957)	38,094
Closing balance	**1,904,767**	**1,667,940**

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.

Representatives from Employers registering their attendance at the annual regional Employer Conference in Port Moresby.

DIRECTORY

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Mr. Charles Vee	Independent	Charlesf@vtectpng.com	321 2727 / 762 48811
Mr. Murray Woo	Manufacturers Council of PNG	murray.woo12@gmail.com	321 7144
Mr. Graham Ainui, MBE, OL	Rural Industries Council	grahamainui@online.net.pg	321 5773
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Mr. David Brown	Chief Investment Officer	dbrown@nasfund.com.pg	313 1823
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