NATIONAL SUPERANNUATION FUND LIMITED

ANNUAL REPORT

2015

NASFUND

PAPUA NEW GUINEA

"Your Partner in Superannuation"

The First Choice Provider of Superannuation Services in Papua New Guinea

EDA SUPA

VOLUNTARY SUPERANNUATION

RSA

NCSL

TEXT BAL

BALANCE REQUEST

mdp

SAVE WHEN YOU SHOP!

WILL

econtribution
ebenefits
enovation

NASFUND e-Newsletter

INTERACTIVE VOICE RECOGNITION

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The cover image represents the strong growth in the Fund's Eda Supa product in challenging times and the financial security this offers to members within Papua New Guinea's developing agriculture sector.

FUND 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 Lady Mina Siaguru, CSM Mr. Murray Woo Mr. Vera Raga Mrs. Lata Milner, MBE Mr. David Doig
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 Gaden Lawyers Posman Kua Aisi (PKA) Lawyers Warner Shand Lawyers
Professional Indemnity Insurance	American Home Insurance

VISION, MISSION & VALUE STATEMENT

Vision Statement

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

Mission Statement

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

Value Statement

- Customer service is our first priority.
- We rely on teamwork to achieve our goal.
- We will treat each other with trust, respect, consideration and courtesy.
- We will operate with honesty and integrity.
- We will never turn a blind eye to corruption of any kind.
- The efficient use of time will be encouraged.
- Skill level, progress and contribution will be encouraged and rewarded.
- We will be responsible for our actions.
- We will provide 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.

THE BOARD OF DIRECTORS

The Board of Directors from left to right:
Front: *Lady Mina Siaguru, William Lamur (Chairman), Lata Milner, Hulala Tokome (Deputy Chairman).*
Back: *Vera Raga, Graham Ainui, Murray Woo, David Doig and Mel Togolo.*

THE MANAGEMENT TEAM

The Management Team from left to right:
Front: *Warwick Vele - Chief Operating Officer, Ian Tarutia - Chief Executive Officer, Rajeev Sharma - Chief Financial Officer,*
Back: *Dominic Beange - Acting Chief Investment Officer, Sitiveni Weleilakeba - Change Consultant, Seno Wekina - Chief Legal Officer, John Topal - Chief Risk Officer and Jack Parina - Company Secretary.*

CHAIRMAN'S STATEMENT

William Lamur, OBE
Chairman

Dear Members,

I am pleased to present to you the 2015 results, which were once again positive after yet another challenging year. In my 2014 Chairman's Statement I noted that the NASFUND Board were mindful of several challenges facing the economy which would impact our opportunities to invest Members' funds profitably. For several years we have counseled that the end of the construction phase of the LNG project would impact negatively on growth in the economy as a whole, and also for NASFUND members employed directly and indirectly by the project. These challenges continued throughout 2015, and were exacerbated by low rain levels (leading to the shutdown of Ok Tedi), limited access to foreign currency limiting business opportunities and a dramatic fall in oil prices with flow-on effects to tax and royalty payments to the State. Last year I said that the Trustee Board would focus on improving several aspects of financial and operational areas, and we did just that. In specific terms, the Fund took restrained investment decisions in 2015, choosing to not increase risk simply to chase returns in what we think are uncertain times. 2015 has once again been a year of positive results with total membership increasing despite a general slowdown in the economy and a fall in formal employment numbers.

The main highlights for 2015 were as follows:

1. Total Asset Value rose to K4.05 billion representing growth of 6.7% over 2014 audited results of K3.795 billion.
2. Net Asset Value of K3.93 billion representing a growth of 5.8% from 2014 audited results of K3.719 billion.
3. Net Surplus after Tax was K150.9 million compared to 2014 audited result of K258.46 million.
4. Contribution receipts were K473 million, compared to K459 million in 2014.
5. Reserves of 1.96% of NAV equating to K77 million.
6. Total membership of 515,535 members representing an increase of 5.6% over 2014 figures. Of this total, 177,272 were active contributors from an active contributor base of 2,383 establishments.
7. 773 educational and public awareness shop floor presentations to employers and members compared to 736 presentations conducted in 2014.
8. Payment of over K407 million in superannuation entitlements including unemployment allowances and housing advances representing 71,011 transactions to members or their beneficiaries.
9. The reopening of a Kavieng branch office.
10. Implementation of a new Enterprise Resource Planning platform to upgrade the Fund's core business reporting and financial systems.

On the back of these results the Board approved a Crediting Rate of 4% equating to over K140 million which was paid to member accounts on the 26th of February 2016, compared to 8.5% paid to members in 2014. Over the last three years this is an average of 7.8% equating to around K809 million that has been credited into member accounts.

Operational Framework and Investment of Members' Funds

In last year's 2014 Annual Report, I mentioned that the regulator, Bank of Papua New Guinea, had recommended a number of changes to systems, processes and procedures. The Trustee Board focused hard in 2015 on implementing these recommendations. I am pleased to report these changes have allowed the Board and management in consultation with the Fund's Licensed Investment Manager (Pacwealth Capital Limited) to improve the analysis of often complex investment opportunities that come to the Fund through public and private markets. We have continued the three year plan to implement our agreed Strategic Asset Allocation of investments and in 2015 we particularly did not increase risks simply to chase returns. One key outcome of that disciplined approach was to shift several hundred million Kina out of low-yielding bank deposits and into higher yielding State securities such as Treasury Bonds and Government Inscribed Stock. That one asset allocation decision alone added tens of millions of Kina in interest income, while not materially changing the risk of the investments. The Trustee Board notes with satisfaction similar prudence in risk management has been recognized globally and we will continue to apply rigorous analysis of all investment opportunities, being careful to balance the risks with potential returns.

Risk and Compliance

The Trustee Board engaged KPMG to conduct a risk review of the Fund's activities and how these risks are mitigated. KPMG presented their findings to the Trustee Board and management have in turn implemented several improvements in 2015, reflecting the high importance placed on risk management. The Bank of Papua New Guinea (BPNG) also engaged with the Fund to review risk management and compliance, and we continue to welcome constructive engagement by the regulator. BPNG introduced two new Prudential Standards on Investment and Risk

Management and I am pleased to report the Fund has complied with these Standards within the required timeframe.

Service Delivery

The Trustee Board continues to be mindful of Members' expectations regarding turnaround times for processing superannuation payments. During 2015 the Fund implemented several changes to branches that have improved service delivery, while not relaxing our duty to carefully scrutinize all withdrawal requests. In 2015 the Fund managed to process a record number of Member payments, which of course challenges faster turnaround times. The Fund's strict approach to risk management also included an increased focus on fraud detection, which pleasingly seems to have detected fraud attempts earlier than in the past, which itself reduces future fraud attempts.

Looking ahead

Once again I find myself repeating two central messages this year that have been conveyed in the past few years. The first is that while your Fund has again returned a positive return for 2015, all Members must remember that investment cycle goes down as well as up and that returns can be negative as well as positive. The start to 2016 has seen a fall in prices of international share markets and commodities to which your Fund is inevitably exposed. As an oil and gas producing country, Papua New Guinea will feel the effects from lower prices for oil and gas, so too will shares in companies such as Oil Search, in which the Fund has been invested for several years. 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 permanent diversification means some of our investments will be adversely affected in price. Nonetheless, our expert advice is that to take no risk when investing Members' funds is even more risky as we would be locked out of high growth investments that, in the long run, provide above-inflation returns, which is important to meet the legitimate retirement expectations of all members.

The second message is that superannuation in Papua New Guinea has special rules allowing savings to be withdrawn prior to retirement, for example during periods of unemployment, for housing needs or on strong medical grounds. In the case of NASFUND, once again in 2015 more than half Member payments were made for reasons other than retirement. On this point I repeat last year's message "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 add this year, that reduced retirement savings impacts not only on the retiring or unemployed Member, but also diminises their ability to provide for dependents such as their spouse and other loved ones. I urge all Members to see your retirement savings as long term investments and to keep contributing to enjoy the compound interest effects.

Conclusion

The Trustee Board of NASFUND is well aware of the fiduciary responsibilities we owe to all Members and it is this appreciation that guides our decisions on your behalf. 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 the Members.

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

Finally, I am grateful for the support of my fellow Board Members for their hard work, wise counsel and leadership throughout 2015. I look forward to working with each of you once more in the coming year on behalf of our valued Members and for our country Papua New Guinea.

Thank you.

William Lamur, OBE
Chairman

CHIEF EXECUTIVE OFFICER'S STATEMENT

Ian Tarutia, MBE
Chief Executive Officer

Dear Members,

We expected 2015 to present the same challenges we experienced in 2014, which would impact our investment returns and consequently our crediting rate to members. Nevertheless I am pleased to report we still achieved positive results across a number of key operational and financial areas of the Fund. We credited member accounts with over K140 million in interest and paid members their rightful superannuation entitlements totalling over K407 million compared to K 354 million paid in 2014. Membership grew by 5.6% to 515, 535 contributors while active employers increased by 12% to over 2300 establishments. These positives against a back drop of a slowing economy and rising unemployment is a timely reminder of the reasons why your Fund has in place a strategic business plan, a service oriented culture, a diversified portfolio and a specific asset allocation strategy. This ensures short term shocks are mitigated, members continue to receive quality services and over a longer period of time, average returns paid to members are positive and above inflation.

Comparative highlights are summarised in the following table.

	2015	2014
Gross Asset Value	K 4.05 billion	K 3.795 billion
Net Asset Value	K 3.936 billion	K 3.719 billion
Net Profit	K 150.9 million	K 258.45 million
Reserves	1.96% (K 77 million)	1.72% (K 64 million)
New members registered	42,666	51,179
Members withdrawing under Section 90	71,011	76,984
Amount Paid	K 407 million	K 354 million
Total Membership	515,535	488,346
Active membership	177,272	173,941
Active Employers	2,383	2,150
Contribution Receipts	K 473 million	K 459 million
Educational Awareness and Public relation presentations	773	736
Interest Crediting Rate	4%	8.5%
Amount of Interest credited (Kina)	K 142 million	K 266 million

New Investments

In 2015 NASFUND invested over K 600 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 by over K200 million. Our exposure in Treasury Bills increased by K173 million to K364 million and we bought 8 million shares in Kina Bank for K17 million at IPO. Offshore, we increased investments slightly to K150 million. In property we increased ownership of several properties in Harbour City, Port Moresby and now fully own BSP Haus, Carpark and the PWC Building in addition to the ANZ Building, Ravalien Haus, Solwara Apartments which are already owned by the Fund. Harbour City is a well sought location and members should be proud to be owners of high quality buildings in this newly developed precinct.

Harbour City, Port Moresby

In other asset class movements, Bonds increased from 24% to 34% of total investments, cash decreased from 14% to 6% of total investments while offshore increased from 9% to 11% of total investments.

Services & Benefits to Members

Attention to members and using an advanced IT platform to drive innovative services continues to be a key focus of our operations. We continued our objective of expanding our coverage to a greater segment of the PNG work force and reopened our Kavieng Branch to serve a growing number of agricultural sector workers on the New Ireland mainland. Even though we were challenged by the high volume of withdrawal applications we successfully reduced turnaround times to 7 days for clean applications across our 15 branch offices through the country.

Another activity we spent time on was encouraging members to update their Nomination of Beneficiaries form (SF2) for two reasons. Firstly to ensure we paid the right person at the time of withdrawal and secondly to ensure the rightful beneficiaries received a deceased members entitlements without referral to the Public Curators office.

Other highlights were:

- The conduct of 773 shop floor presentations covering over 43,000 members and potential members.
- SIM giveaway and discounted phone initiatives with Bmobile Vodafone.
- Improved interaction with our Investment & Finance Teams for better management of liquidity due to increased unemployment withdrawals.
- Four employer regional conferences held in Port Moresby, Lae, Mt Hagen and Kokopo which are always a successful event for employer & member representatives.

Internal Processes

In late 2014 we commenced the implementation of an Enterprise Resource Platform (ERP) which was a key activity throughout 2015 in terms of transitioning from the old to the new system and retraining our staff. It was pleasing to note we completed phase 1 on time and within budget.

Other improvements implemented in the year were:

- Reviewed workflows/processes of our Operations department for incorporation into an updated Policy & Procedures Manual.
- Revised Policy Procedure Manual (PPM) successfully rolled out to all branches (within allocated timeframe).
- Commenced work with the new Employer Contributors Enforcement Unit (ECEU) at BPNG for better enforcement of the Superannuation Act (5 files submitted for review/prosecution action) due to an increase in hard core default employers.
- Cases of fraud recorded remained low due to our high intercept rate.
- KPMG appointed as internal auditor.
- Detailed response to the Target Asset Review from BPNG submitted on time.
- Improved Investment Team processes and asset record-keeping pursuant to BPNG Prudential standards on Investment and Risk.
- Issued and implemented new policies across the board in response to the new prudential standards. These included Investment Framework, Investment Strategy, Currency, Liquidity, Derivatives, Interim and Annual Crediting Rate, Whistle-blower, Conflict of Interest and Risk Management Framework (RMF).
- Vastly improved the working relationship with our Licenced Investment Manager, Pacwealth Capital and their integration into our investment decision-making process.

People

We continued to invest in our staff to ensure they remain motivated, are adequately resourced, upskilled and empowered to continue serving members diligently and professionally. In 2015 we conducted a number of key activities such as:

- Bringing in our deputy Branch heads to HQ for training on new policies and skills upgrade.
- Deployment of senior officers from HQ to branches for skills and knowledge transfer.

- Appointment to two long serving experienced Operations staff into management positions.
- Restructure of Corporate Service division to be more efficient and effective.
- Merger of Registrations and Contributions teams.
- Termination of a number of staff for fraud related activities with referrals to Police for prosecution.
- Advanced Excel training across for all staff in readiness for our ERP roll out.
- Successful hosting of our annual Branch OICs conference.

These activities ensure the Board, management and staff are on top of all critical issues pertaining to the prudent governance of your Fund.

Focus for 2016

Our focus for 2016 will be to build on the positives of 2015. Our aim is to:

- maintain a positive crediting rate to members;
- continue our endeavours to improve all facets of the NASFUND Operations, with client service delivery being our number one priority;
- Continue to grow membership;
- Concentrate on seeking Quality as opposed to Quantity in investments and service delivery; and
- Prepare for BPNG Target Review on Fund Administration.

Conclusion.

The year 2015 is now gone and it is 2016 and beyond that we must look forward to. 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 2015. Our partners, Aonhewitt – back office Fund Administrator, Pacwealth Capital – Investment Manager and of course our regulator, BPNG are deserving of acknowledgement. Thank you for your cooperation and support.

Finally, a special gratitude to Chairman, William Lamur and the Board for their leadership and guidance throughout the year. Also to my fellow EXCOM team and staff, thank you for your hard work and commitment. Remember this… "When the going gets tough, the tough get going".

Let's do it again this year!

Ian Tarutia MBE
Chief Executive Officer

1. Financial

Despite a challenging year in 2015, we recorded a number of positive results and highlights:


Chief Operating Officer, Warwick Vele addressing Big Rooster staff prior to their transfer from Nambawan Super.

- In November, the Fund successfully completed the transfer of Big Rooster membership from Nambawan Super Limited following an election held under Section 85 of the Act. A total of 1,257 employees of Big Rooster and its parent Retail Food Brands elected to transfer their total K1,817,875 in superannuation balances to NASFUND.

- Despite layoffs in the resources sector and the general state of the economy, the NASFUND's total contribution level increased from K459.2 million in 2014 to K473 million with a corresponding increase in total membership up to 515,535 (2014: 488,346).

- The impact of winding down and demobilization in various employment sectors contributed to the increase in the number of withdrawal applications. NASFUND paid out K407 million in member benefits equating to a total of 71,011 transactions. Furthermore, the Fund also saw an increase in the number of companies in default with their contribution payments. This however is being addressed through a concerted effort by officers.

2. Member/Customer

On the Member Services front highlights were as follows:

Enhancing Member Services


Kavieng members' Service Centre re-opens to provide operational support to the existing Lihir Branch.

- In October NASFUND re-opened its Service Centre in Kavieng to provide operational support to the existing Lihir Branch. With this, New Ireland became the second branch in the country to have two operating service chambers, following the opening of the service centre in downtown Port Moresby in 2014. This opening demonstrates the FUND's commitment to extend services to its growing membership.

- NASFUND's two largest branches (Lae and Port Moresby) introduced segmented processing days based on type of member interaction. This segmentation saw a remarkable improvement in the timeframe for servicing members at the counters where long queues were a common concern raised by members through NASFUND's various feedback channels. Feedback from the branches was very positive for members and staff following the success of this initiative, with chambers cleared before close of business.

- The Division also centralized enquiries by redirecting all calls for the branches to the Call Centre in Port Moresby, except those to the Branch OIC.


Officers in the Call Centre in Port Moresby attending to member queries through phone calls.

This was to ensure member queries over the phone were attended to in a timely manner, and to enhance the branches' ability to service walk-in customers by freeing up staff from constantly answering the phones.

- NASFUND again successfully conducted its annual Employer conferences in Port Moresby, Mt Hagen, Lae and Kokopo this year, witnessing record attendances in all locations. As well as receiving an update from NASFUND on the previous year's results, it was an opportunity for members to raise issues which were important to them. It was reassuring to witness the growing awareness of NASFUND's function, roles and activities, and the objective of long term savings for retirement.

Attendees at the annual regional Employer Conference held in Kokopo.

- NASFUND continued its Member Awareness programme by conducting a total of 773 shop floor presentations around the country. A total of 43,707 current and intending members attended these presentations, held in a wide variety of locations around the country.

- With more than 90% of Papua New Guineans without any long term savings, NASFUND recognizes its role in spreading awareness to the population in an effort to include those not covered by the Superannuation net. NASFUND's EDA SUPA voluntary savings account has sparked a great deal of interest from groups such as churches, agriculture workers and rural LLGs through public awarenes activities. One such activity saw the business development team visit the Matalai LLG in Namatanai. The trip registered 108 new members with another 50 members transferring from in-active accounts to voluntary savings. In total, K18,000, including Kids Savings Accounts for NCSL was contributed towards member savings. This result has driven NASFUND to include more rural awareness activities in its plans for the coming year.

EDA SUPA Voluntary Savings Account conducted in Matalai LLG in Namatanai, New Ireland Province.

- Employer luncheons were re-introduced in 2015 and conducted in Port Moresby and around the branches. The luncheons provided an education forum for NASFUND to increase the understanding and compliance of HR and payroll officers in line with their obligations to members, and the correct procedures to remit contributions and update member data records.

NASFUND CEO, Mr Ian Tarutia and Bemobile Vodafone CEO, Mr Sundar Ramamurthy during a EDA SUPA press conference.

- NASFUND and Bmobile Vodafone signed an agreement to provide members with a free SIM and access to discounted mobile handsets. On receiving their free SIM, members were registered to NASFUND's SMS alert service, providing free updates on their account balances. Members can also receive updates on the progress of their applications and other alerts NASFUND may send out.

Client Service Officer serving members at the Boroko Branch counter.

- NASFUND revamped its website in February 2014 to project a more professional and user friendly interface for members with Internet access. Through the updated website, members are able to access information, to keep abreast of activities of NASFUND, access their account balances (including their Housing Advance entitlements) and download the forms they require.

MicroSoft Excel training conducted for Branch Officers in Charge.

- NASFUND's Facebook page is an effective channel for members to raise concerns and issues in a public forum. The page currently has an active membership of over 18,000 members and is a gauge of NASFUND's customer service performance. It is also a quick and efficient way to provide timely updates and convey important announcements to members. Feedback through the page was instrumental in the implemention of 'segmented business hours' in its Lae and Boroko branches to address member concerns about long queues in those locations.

- The operations team significantly reduced turnaround times for partial payments by developing an electronic batch format through which payments could be verified and forwarded to the back office for fast and efficient processing. This initiative decreased the processing time to a third of what it was previously.

- The transfer of Leasemaster member entitlements to Nambawan Super was effected in December 2015. A total of 86 member accounts worth K1,024,724.61 was transferred to Nambawan Super Limited after an election conducted by the PNG Electoral Commission.

- NASFUND re-activated its Interactive Voice Recognition (IVR) service, allowing members to call in and receive an automated voice response providing account balance, housing advance eligibility, last transaction date or the option to speak to a customer service officer.

NASFUND Port Moresby staff conducting SWOT analysis last year.

3. Internal Processes.

- The roll out of the Board's revised Policies & Procedures Manual (PPM) to all Branch Office and Head Office staff was concluded in September 2015. The PPM is a document approved by the Board and is the definitive guide on how NASFUND conducts its business of managing the Superannuation entitlements of members. It provides clear guidelines on all policies and processes to be followed, including compliance with the Superannuation (General Provisions) Act 2000, its associated Prudential Standards and applicable laws. The roll out team comprising Change Consultant – Siti Weleilakeba, divisional managers and the Risk & Compliance team also took the opportunity during the exercise to understand first-hand the issues and challenges faced by staff at the branches, upon which an action plan was formulated and executed.

- Recorded cases of new fraud remain low with a high intercept rate, mainly due to ongoing technical and awareness training by the Operations division. The training, conducted at branch level as well as head office, raised the detection skills of staff and stressed the importance of diligence and accountability towards reducing or eliminating fraud. A Fraud Awareness and Detection workshop was also conducted by NASFUND's independent fraud investigator during the annual Branch OIC Conference. This year the fund registered 30 cases compared to 37 cases in 2014.

Annual Corporate Service Division conference for Branch OICs conducted in Port Moresby last year.

4. PEOPLE

As the custodian of members' funds, NASFUND strives to ensure that it employs the right people and provides them with the correct tools and training to conduct their duties.

Steven Gerega receiving the Fund's Best Branch of the Year award from the Chairman Mr Lamur.

- NASFUND executed a Branch 2nd In Charge (2IC) multi-skilling rotation programme that was facilitated at its Headquarters in Port Moresby. 2ICs from the Fund's 13 branches were put through a week's skills upgrade programme to boost their skills and provide a thorough understanding of the roles and functions of staff within the other sections of the Corporate Services Division.

- In response to a growing number of concerns about the Lae branch, Mr. Steven Gerega was appointed as Branch OIC (BOIC) and transferred to Lae in March. As a former BOIC for Lae, Mr. Gerega wasted no time in successfully realigning the branch to meet members' expectations. As a result, at the BOIC Conference held in Port Moresby in November, the Lae branch was announced as Branch of the Year, with Mr. Gerega receiving the award for BOIC of the Year.

- As part of an ongoing programme to support and enhance their skills, the 15 BOICs were all brought to Port Moresby in November to participate in the annual Corporate Services Division Conference at the Holiday Inn. With the theme "Delivering Superior Client Service in Challenging Times - 2016 Bring It On", the conference allowed participants to identify and address areas of improvement across the board, with the objective of raising the level of service provided to members. Member Services is a key pillar of the NASFUND's Balanced Scorecard so it was an opportunity for the participants to review the Operations division's objectives for the coming year. The two day conference also provided officers with the opportunity to understand the roles of NASFUND's major partners - Licensed Fund Administrator Aonhewitt, Licensed Investment Manager Pacwealth Capital Limited, and the regulator BPNG. The team also underwent Leadership and Fraud awareness training during the conference.

- In order to provide branch staff with the skills to compile better reports and presentations, NASFUND organised a 2-day 'Basic Introduction to Excel' course for all BOICs, to coincide with their annual conference in November. The course was facilitated by Datec and was also undertaken by staff from Finance, Admin and Investments divisions.


Annual Corporate Services Division conference participants.

LICENCED INVESTMENT MANAGER STATEMENT – PACWEALTH CAPITAL

PACWEALTH Capital Limited

2015, a challenging year

2015 proved to be a difficult year for the Fund in spite of starting the year with optimism. The Asian Development Bank's expectations for GDP growth were 21%. As the year panned out PNG ultimately managed no more than single digit growth.

Some of the problems we encountered along the way were:

- Substantial drop in commodity prices, principally oil and consequently LNG;
- Reduced revenues for the Government coffers;
- FX issues; and
- Lower than expected GDP growth.

Nevertheless, the Investment Portfolio of NASFUND saw a number of positive changes during 2015.

Improved liquidity management resulting in a:

- Sharp reduction in cash holdings and thereby translating into a increase in Fixed Income holdings and high-yielding government securities;
- Rationalisation of the Property portfolio; and
- Across the board improved relationship with the Fund and its' Investee Companies.

On top of that, during 2015, a lot of work was done on the governance of the Fund. A substantial number of Policies were formulated and put in place. This not only secures compliance with the relevant regulations but also puts the Fund in a better position for the future with annual review and feedback loops to continuously improve the investment process and outcomes.

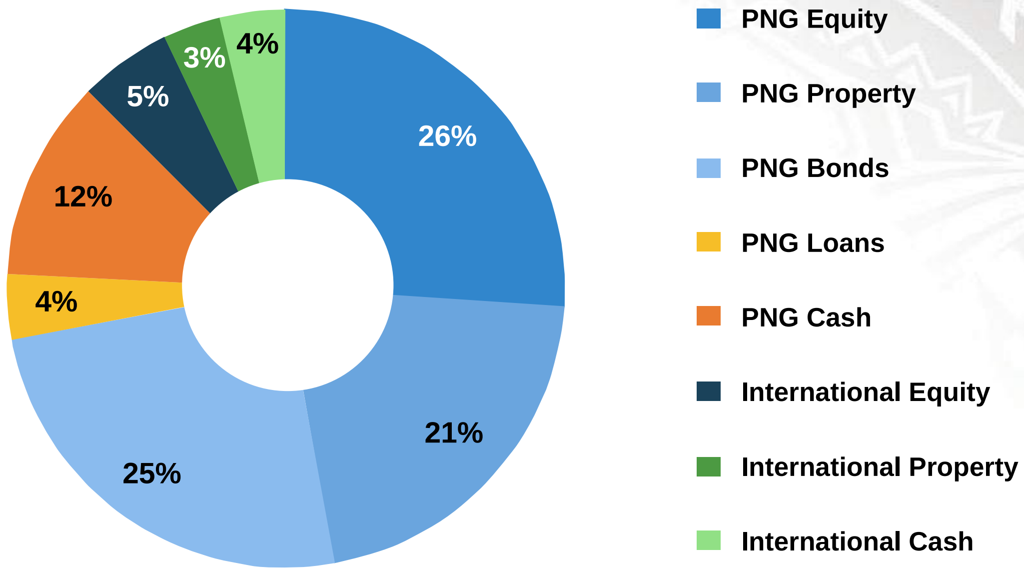
2015 Results

As this Annual Report will show, the results were somewhat lower than experienced in previous years. The various asset classes and the Portfolio showed the following returns:

NASFUND PORTFOLIO RETURN PER ASSET CLASS	
ASSET CLASS	**2015**
DOMESTIC	**%**
PNG Equity	9.26%
PNG Property	6.67%
PNG Bonds	9.25%
PNG Loans	12.77%
PNG Cash	2.17%
Total Domestic	7.89%
INTERNATIONAL	
International Equity	-18.78%
International Property	-0.79%
International Cash	12.65%
Total International	-7.72%
TOTAL AGGREGATE INVESTEMENT PORTFOLIO RETURN	6.27%

LICENCED INVESTMENT MANAGER STATEMENT – PACWEALTH CAPITAL

NASFUND Portfolio Composition as at 31 December 2015



Probably the most notable problem in the above graph is the exposure to foreign investments. As a result of the continued problems in the foreign currency markets and the lack of available foreign currency, the continued investment programme to increase international assets has slowed to a virtual halt. This will ultimately pose problems for the Fund in terms of diversification as well as liquidity.

As a result of the above micro and macro environment and of the accompanying investment management decisions and based on the returns of the Fund in 2015, the Trustee Board of NASFUND has decided on a crediting rate of 4% for 2015.

2016 Outlook

In contrast to the optimism 12 months ago, looking ahead to 2016, PacWealth Capital (PCL), your Fund's Licensed Investment Manager is somewhat concerned by the short term economic performance of the PNG economy.

"We undoubtedly live in tricky times, big issues like oil prices, negative interest rates around the world, global growth expectations, China or the US election result will not be resolved to the satisfaction of many market watchers anytime soon".

With the International Monetary Fund (IMF) warning that the global economy has deteriorated against a backdrop of "increasing financial turbulence and falling asset prices", PCL believes we may not see too much relief until the second half of the year.

While we remain confident of PNG's medium-term prospects, the timing of economic recovery may not coincide neatly with the 2016 crediting rate.

Your Investment Manager expects to see some funds flow into PNG this year, whether it is via a Sovereign Bond or an IFC or IMF loan. This will help ease the foreign exchange problems and backlog of requests from businesses to access foreign currency for imports currently being experienced.

In short, this is a year to make assets sweat by ensuring that processes, information loops and efficient running of the portfolio assets is as good as it can be under the circumstances. Together with the NASFUND investment team, PCL will work in partnership for the most benefit possible to member returns.

We thank NASFUND for a very productive 2015 and we are looking forward to a continued productive and successful cooperation of the management of the Fund's Portfolio in 2016.

Eric Kramer
CEO PacWealth Capital Ltd

LICENCED FUND ADMINISTRATOR STATEMENT – AonHewitt

Dear Chairman and Directors,

2015 proved to be another great year in our administration processes focusing on automated processing and resulting in efficient services towards the members.

- All members contribution schedules being received electronically increasing data accuracy and efficiency through validation and timely allocations;
- Increased bulk registrations of new entrants with correct dates of births; and
- Increased submission of member SF2 forms to update beneficiaries and other personal details.

For those members/employers that are not currently utilising the services that NASFUND has to offer through Aon, these innovative tools and facilities have proven to be beneficial and we encourage you to please go into a NASFUND branch to register.

WEEKLY BALANCE ALERT This facility increased with 24,795 members registered at the end of December 2015 with an average of 5,600 text messages sent every week. This product creates weekly alerts to members who had a change in their balance.

eBENEFITS application is an internet based access provided to an authorised officer in the organisation who will access the employees superannuation details. More employers are requesting to have access. As at December 2015, 491 employers have subscribed to this service.

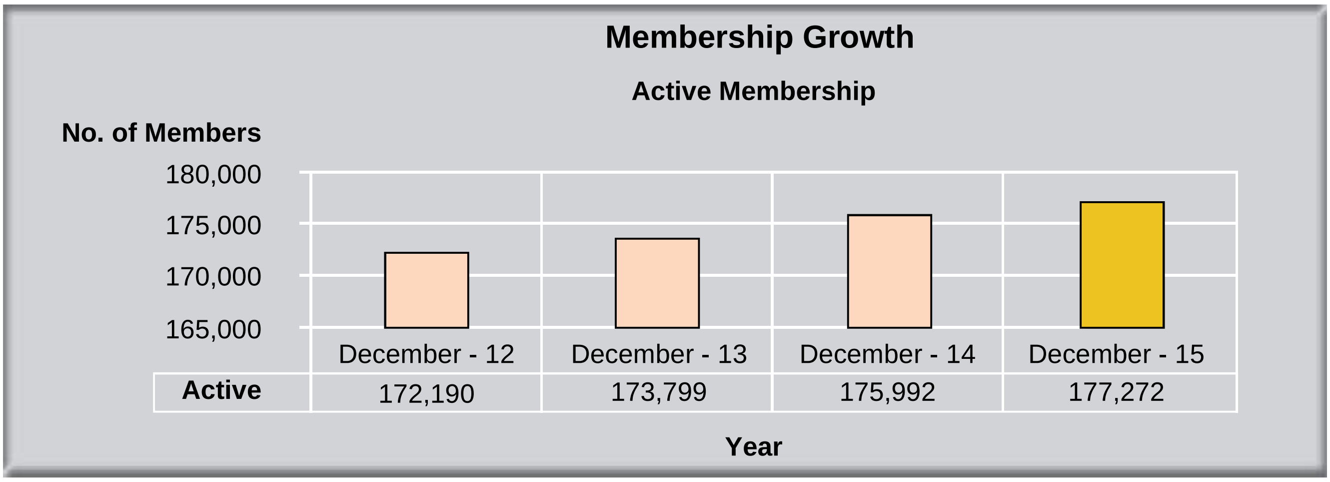
eCONT is an important facility used for validating and allocating member contribution data. With all files received electronically, it has eradicated manual errors and enhanced timely allocation. Aon urges all employers to submit quality data contribution files and most importantly the data file is to be sent when the payment is deposited to avoid lengthy delays. Ensure any new employee on the schedule has the date of birth indicated to fast track registrations. As at December 2015, an average of 43,095 member accounts was allocated every week.

eMAINT is used for bulk maintenance of members/employers data and registration of new members. As at December, an average of 980 new members were registered per week and also an average of 1,600 members accounts were updated with personal details.

eRECEIPTS is used for bulk receipting of employer payments. Aon processes all deposits done by employers hence increasing timely receipting. Aon urges employers to state clearly its employer code or employer name on the deposit form to avoid unidentified payments. As at December 2015, an average of 726 receipts was processed every week.

ePAYMENTS is used for bulk processing of partial unemployment benefits thus unemployed members are receiving timely monthly partial withdrawals.

The Highlights for 2015



LICENCED FUND ADMINISTRATOR STATEMENT – Aonhewitt

Total Transaction

	2015	2014
Full Withdrawals	21,920	23,388
Part Withdrawals	49,091	53,787
# per/week	1,366	1,500
Number of Members Allocated	2,240,929	2,017,505
# per/week	43,095	38.798
New Entrants	51,112	52,673
# per/week	983	1,013
Number of Receipts	37,799	35,921
# per/week	726	691

Turnaround times on the various processing remain consistent and within the service agreement period.

Aon endeavours to assist to ensure all employers and members are equally educated to remit clean and accurate data and employers are complying with Superannuation Legislation. In our efforts, Aon is continuously providing various data reports of concern for NASFUND to target respective members and employers to comply. Please ensure to check your Annual Statement on your correct date of birth.

The table below indicates various data with stated number of members/employers as at end of December, 2015.

Types of Reports	As at December 2015
Number of Members with zero balances	35,141
Number of Active Members yet to commence repaying of Housing Loans	2,091
Number of Active Members with Dummy Date of Births	11,862
Number of Defaulting Employers pending payments	551
Number of New Employers yet to remit payments	235
Number of Active Members with No Beneficiaries	64,031
Number of Active Members without SF2 Forms.	63,335

Collective efforts from both NASFUND and employers are important in this drive to ensure quality and accurate data is received to enable better membership aging and forecast reporting.

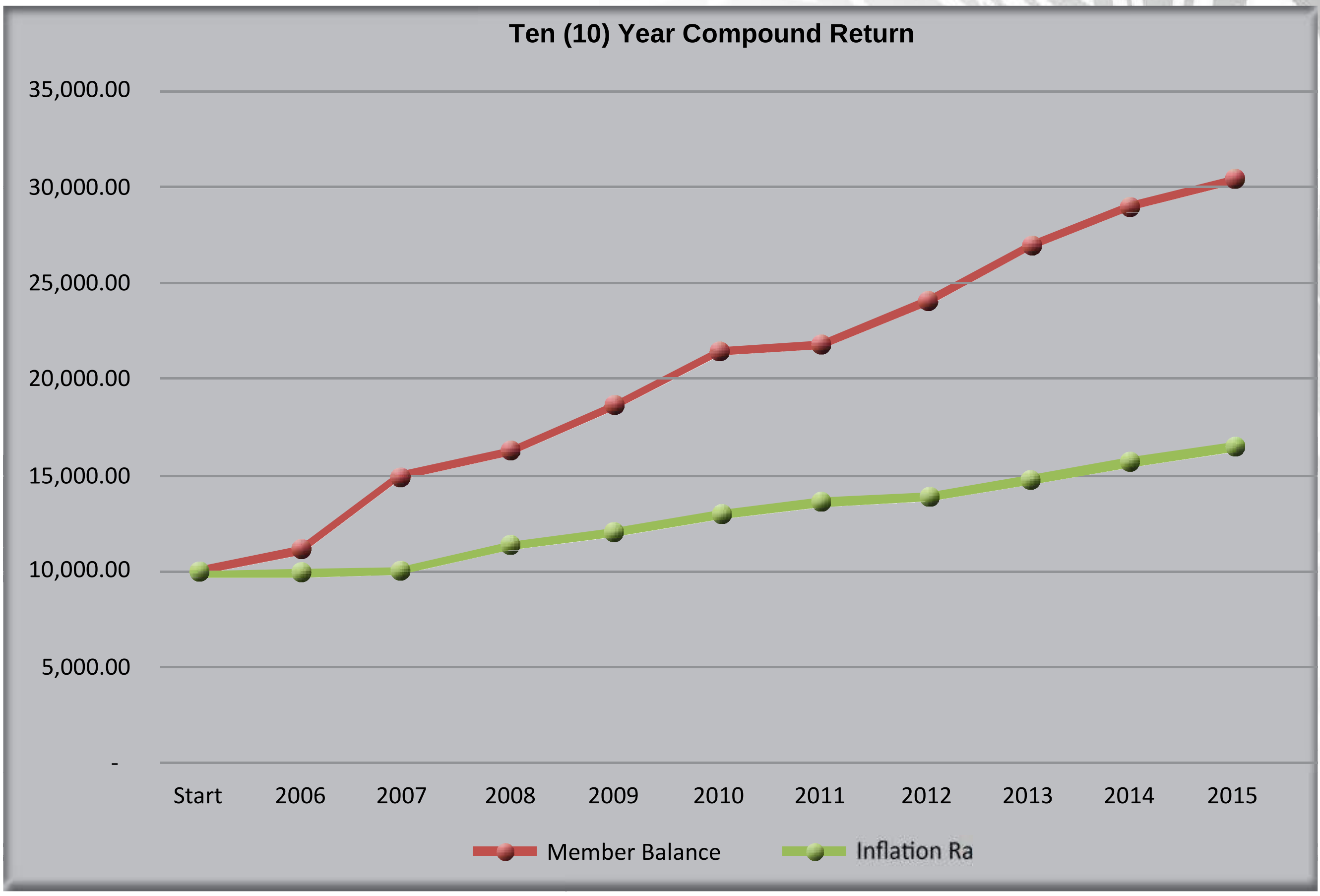
We will continue to work in partnership with the Management and the Board of NASFUND to bring improved and better services to the members.

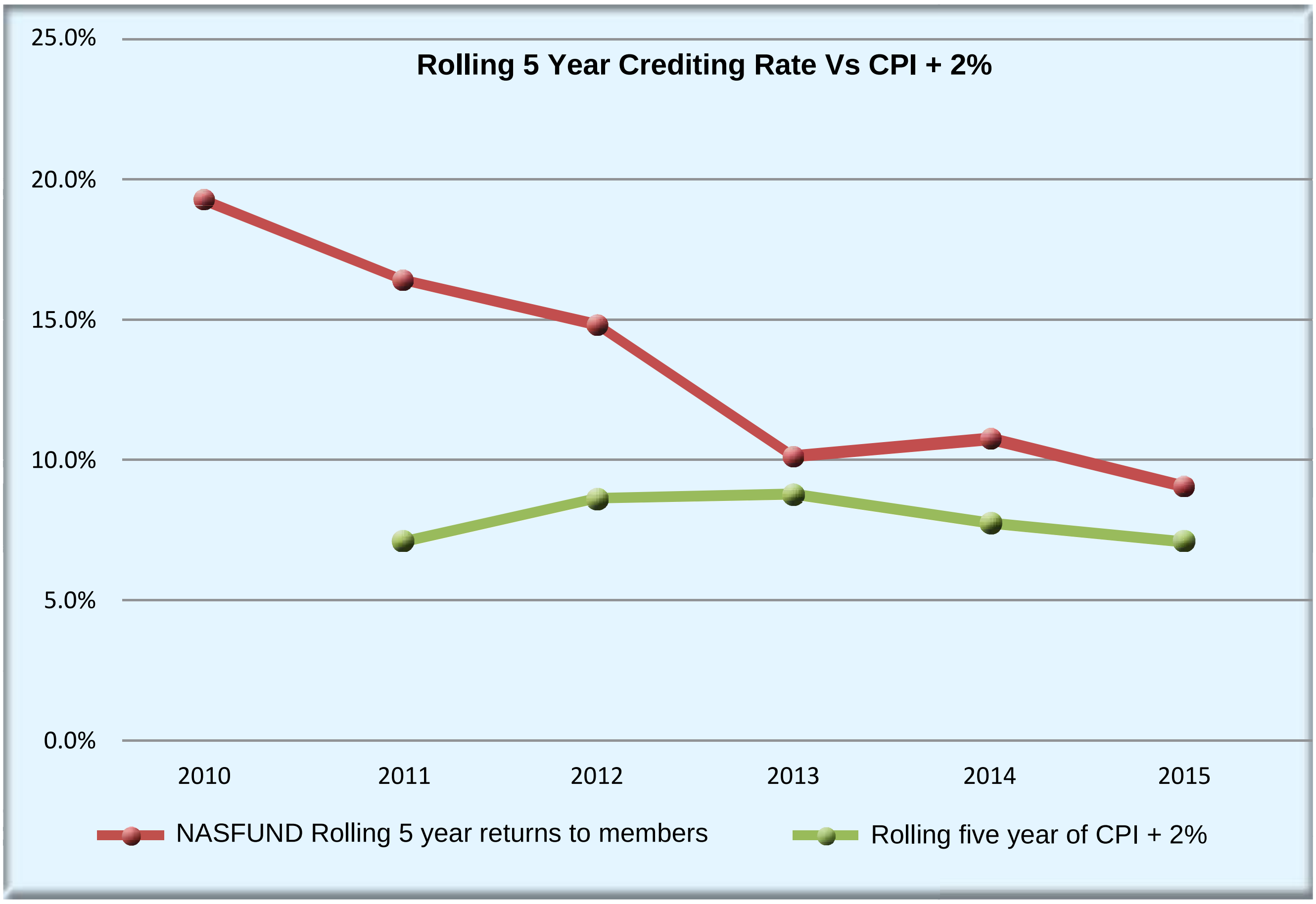
TOGETHER WE WILL CONTINUE TO MAKE A DIFFERENCE

Chris Hagan
CEO
Aon Hewitt (PNG) Limited

PERFORMANCE BREAKDOWN

Statistical Information	2011	2012	2013	2014	2015
Assets & Liabilities					
Net Asset Value ("NAV" - K'000)	2,388,131	2,798,908	3,356,643	3,719,625	3,936,310
Growth	7%	17%	20%	11%	6%
Profitability					
Total Comprehensive Income (K'000)	(8,836)	223,417	330,600	258,465	150,978
Interest Credited to Members' Accounts	2.00%	10.00%	11.00%	8.50%	4.00%
Reserves (% NAV)	1.87%	1.54%	2.11%	1.72%	1.96%
Employers & Active Members					
Number of Active Employers	2,107	2,296	2,389	2,150	2,383
New Employers Registered (Gross) YTD	204	216	203	291	136
Employers Deregistered YTD	34	121	123	257	49
Level of Employer Default	70	115	222	317	503
Total Membership	369,667	415,179	461,085	488,346	515,535
Number of Active Members	159,397	172,190	173,799	175,992	177,272
Number of Inactive Members	210,270	242,989	287,144	312,354	338,263
New Members Registered (Gross)	66,331	69,934	61,441	52,673	51,112
Expenses					
Total Expenses (K'000)	27,288	29,513	42,610	50,681	50,126
Management Expense Ratio (MER)	1.18%	1.14%	1.38%	1.43%	1.31%
Fund Administrator's Fees (K'000)	4,835	5,380	6,239	6,263	6,736
Investment Manager's Fees (K'000)	4,540	3,975	5,051	5,962	5,875
Number of full time staff	109	119	123	136	139
Cashflow					
Withdrawals (K'000)	166,029	216,454	268,359	354,193	407,600
Contributions (K'000)	334,788	397,147	443,119	459,231	473,818
Number of payment transactions	55,004	61,115	66,680	76,984	71,011
Gross Return to Member	3.12%	15.10%	13.98%	9.02%	6.76%
Net Profit After Tax return	(0.41%)	9.64%	11.57%	8.24%	4.25%
Less					
Transfer to/(from)Reserves	(2.41%)	(0.36%)	0.57%	(0.26%)	0.25%
Equal					
Crediting Rate to Member	2.00%	10.00%	11.00%	8.50%	4.00%

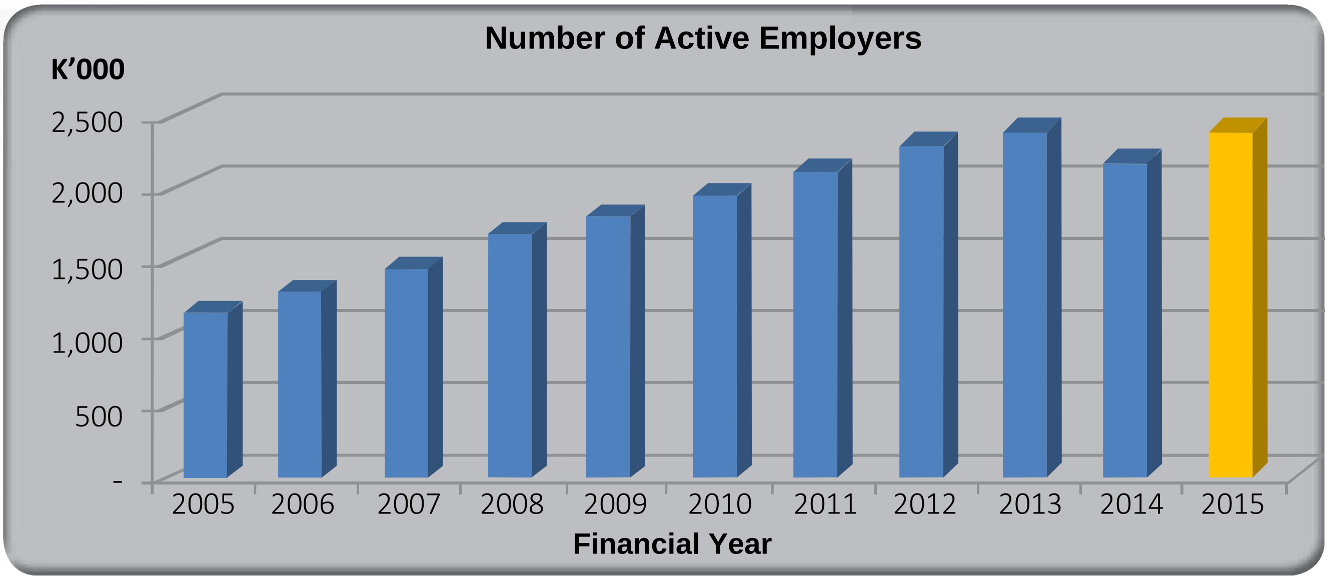

Ten (10) Year Compound Return
35,000.00
30,000.00
25,000.00
20,000.00
15,000.00
10,000.00
5,000.00
-
Start
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Member Balance
Inflation Ra

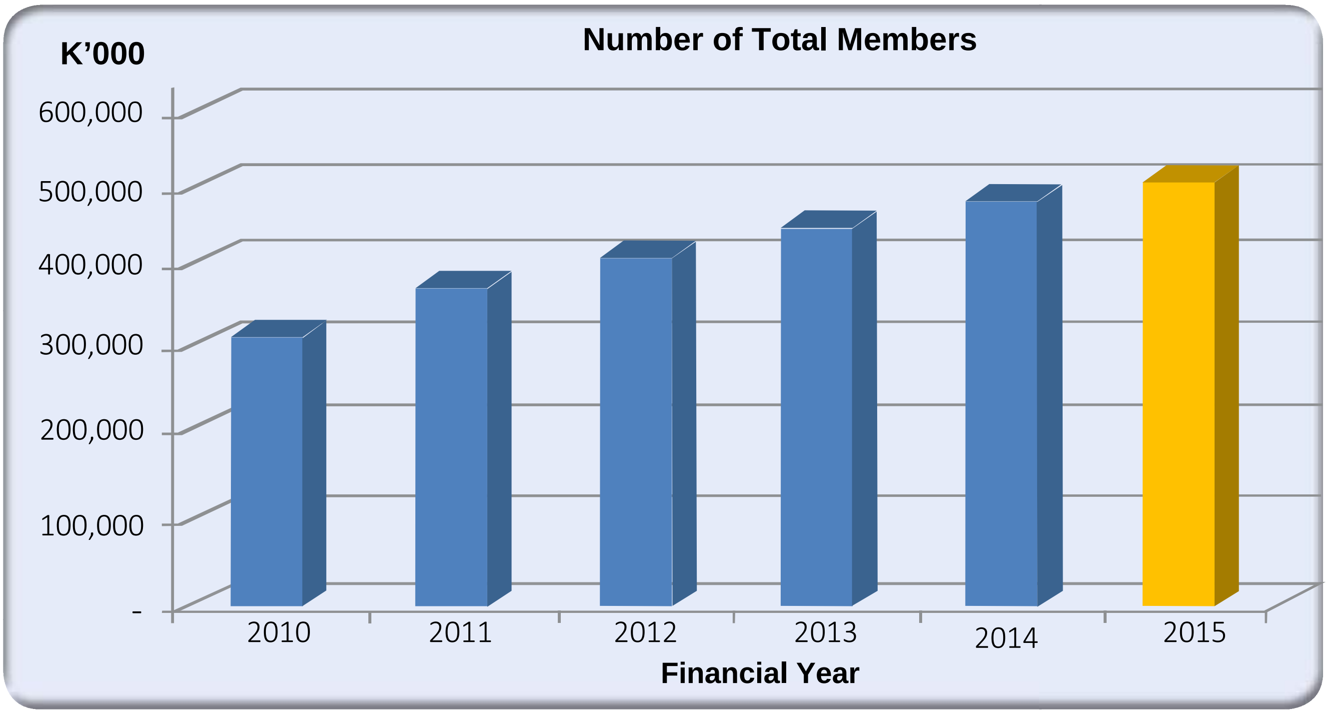

Rolling 5 Year Crediting Rate Vs CPI + 2%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
2010
2011
2012
2013
2014
2015
NASFUND Rolling 5 year returns to members
Rolling five year of CPI + 2%

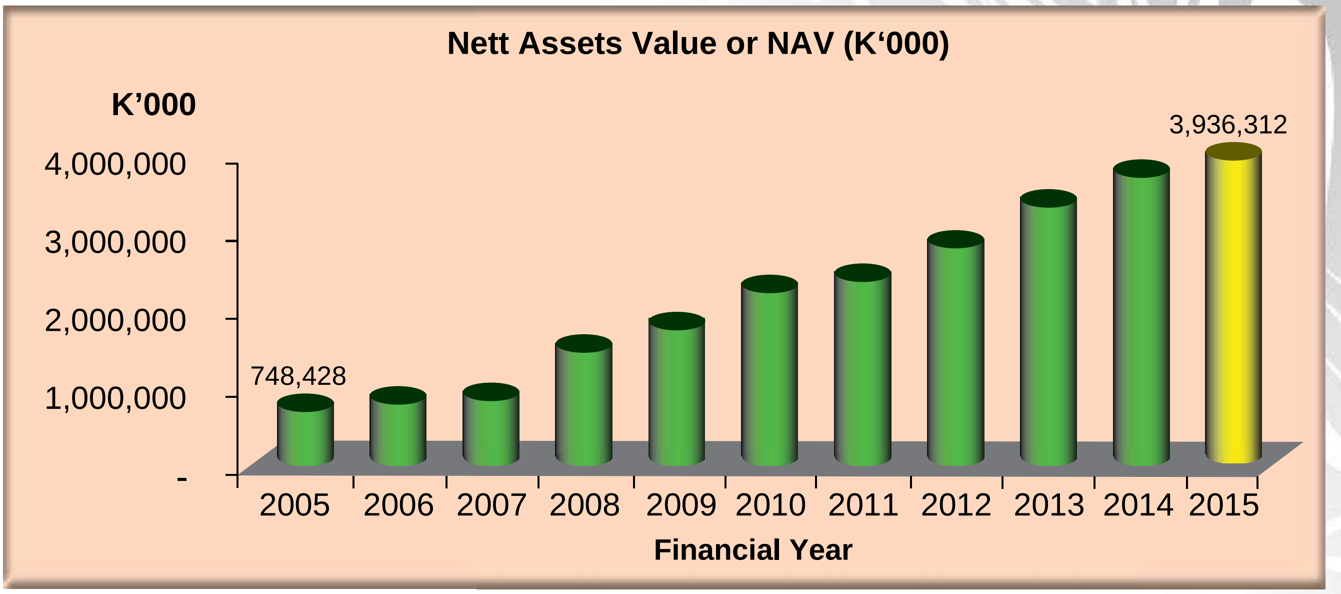
PERFORMANCE BREAKDOWN

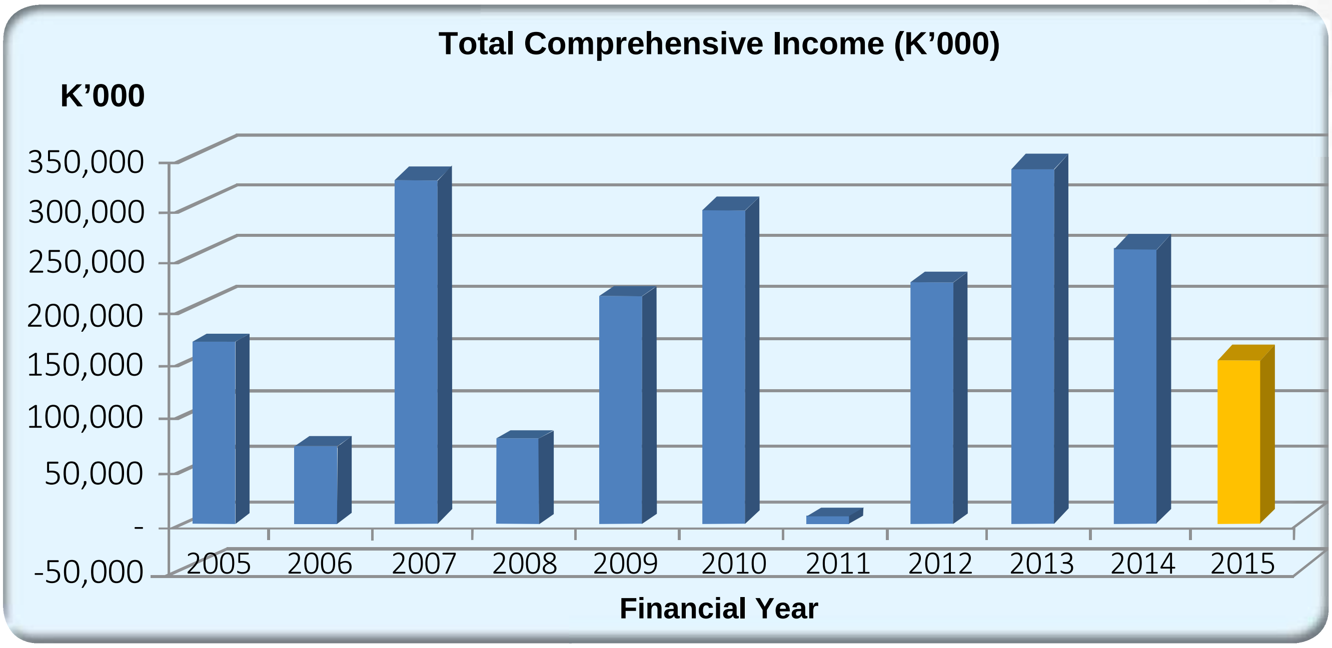
Current allocation under the new Strategic Asset Allocation

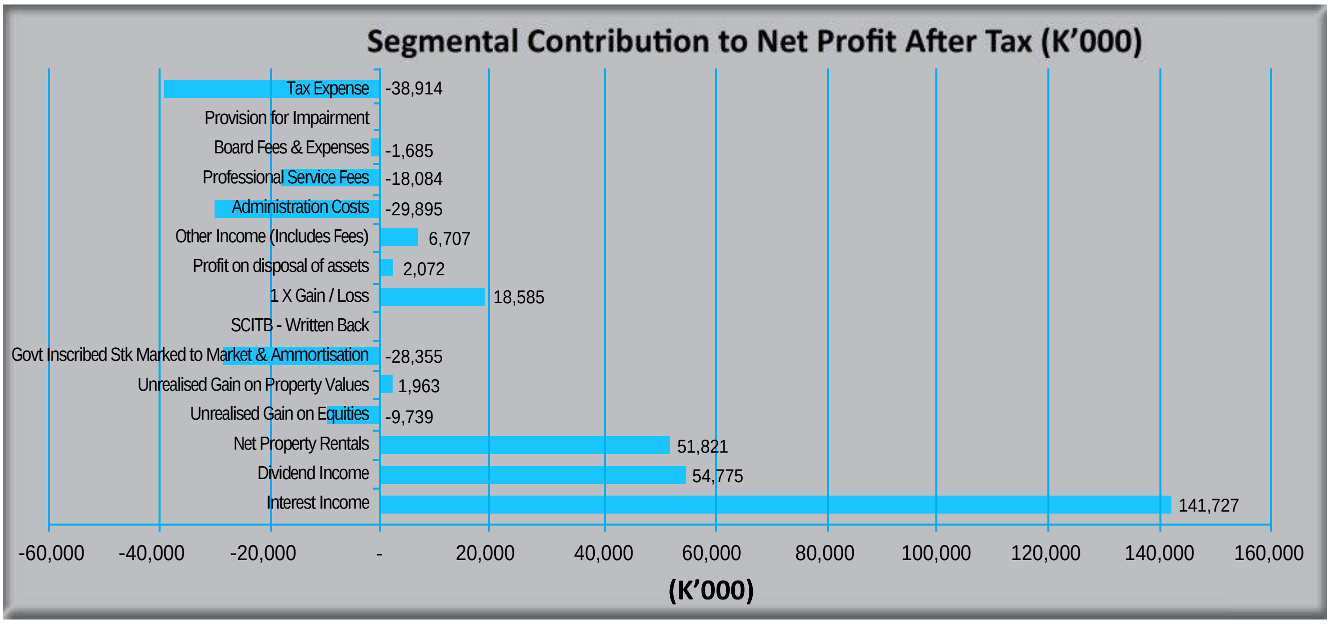
Asset ('000)		31-Dec-14	(%)	Min	SAA Neutral	Max	Var	31-Dec-15	%
Domestic									
Equities	PNG Equities	1,170,991.77	31.14	17	22	27	9.14	1,693,100,487.00	42.46
Real Estate	PNG Property	795,578.73	21.16	12	17	25	4.16	498,850,993.00	12.51
Fixed Income	PNG Bonds (incl Loans)	912,792.80	24.27	13	16	19	8.27	1,218,376,845.00	30.56
Cash (Balancing Item)	PNG Cash	549,663.49	14.62	0	10	0	4.62	427,208,711.00	10.71
Total Domestic		3,429,026.79	90.35		65.00			3,837,537,036.00	96.24
International									
Equities	Global Defensive Equities	331,471.24	8.81	8	11	14	-2.19	149,804,968.00	3.76
	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		331,472.24	10.32		22.00			331,471.24	3.76
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		3,760,498.03	100.00		100.00			3,987,342,004.00	100.00






Nett Assets Value or NAV (K'000)
K'000
4,000,000
3,000,000
2,000,000
1,000,000
-
748,428
3,936,312
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Financial Year


Total Comprehensive Income (K'000)
K'000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
-50,000
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Financial Year


Segmental Contribution to Net Profit After Tax (K'000)
Tax Expense -38,914
Provision for Impairment
Board Fees & Expenses -1,685
Professional Service Fees -18,084
Administration Costs -29,895
Other Income (Includes Fees) 6,707
Profit on disposal of assets 2,072
1 X Gain / Loss 18,585
SCITB - Written Back
Govt Inscribed Stk Marked to Market & Ammortisation -28,355
Unrealised Gain on Property Values 1,963
Unrealised Gain on Equities -9,739
Net Property Rentals 51,821
Dividend Income 54,775
Interest Income 141,727
-60,000
-40,000
-20,000
-
20,000
40,000
60,000
80,000
100,000
120,000
140,000
160,000
(K'000)

CORPORATE GOVERNANCE

In 2014 the Bank of Papua New Guinea as the Regulator of the Superannuation industry in PNG 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 ASFs.

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 at that benefits all stakeholders of a Licence Holder and helps maintain public confidence in the institution

PS7/2012 prescribes requirements on ASF, including:

- Governance Framework;
- Board Composition;
- Licensed Service Providers;
- Fitness and Propriety 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 were 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;
- Creation and filling of the position of Chief Risk Officer;
- Additional staff in the Investment, Finance and Legal 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 properly.

For the assessment of board performance, an independent, external consultant was engaged to provide services entailing observing board meetings and conducting interviews with each director. At the conclusion of the assessment, each director is furnished with an individualized report advising their personal level of performance and any areas of improvement. A consolidated report containing individual directors' performance assessments, plus an overall assessment of the board is then submitted to the Regulator, Bank of PNG for their review.

The above engagements are an important step in ensuring the FUND's directors are well equipped to discharge their duties in an evolving regulatory 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	8/9	-	-	4/6
Hulala Tokome	Continuing	8/9	-	7/8	-
Mel Togolo, CBE	Continuing	8/9	5/6	-	-
Graham Ainui, MBE, OL	Continuing	8/9	6/6	-	6/6
David Doig	Continuing	7/9	6/6	8/8	-
Vera Raga	Continuing	8/9	6/6	7/8	-
Murray Woo	Continuing	9/9	-	8/8	5/6
Mina Siaguru, CSM	Continuing	9/9	-	-	6/6
Lata Milner, MBE	Continuing	7/9	-	8/8	-

Staff learning about the Fund's investments in a "Lunch and Learn" session.

Risk Management Framework (RMF).

NASFUND's comprehensive Risk Management Framework (RMF) fully complies with requirements of *Superannuation Prudential Standard 8/2014 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 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 Officer (CRO) and includes in-house support resources to assist in the management and monitoring of risks including periodic compliance testing. The CRO 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 audit function 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 its sub-committee, 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, 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 CRO 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 CRO.

OUR WORK CULTURE

Providing a work environment that is safe, team oriented, encouraging of ambition and that 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), 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 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. In 2014 three CEO awards were introduced, identifying champions in the areas of Customer Service, Risk Reduction and Value Enhancement. These champions are celebrated in monthly “town hall” briefing sessions to staff and recognizes staff around the country.

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 development. In 2015 the following programmes were attended by staff:

- Multimedia Training - Artech (PNG) Ltd
- MicroSoft Excel Training - Datec PNG Ltd
- ERP Training - TechnologyOne
- HRP Training - TechnologyOne

University Scholarship

The Fund continued its University Scholarship Scheme in 2015. 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.

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 2015 was 74 female to 69 male staff.

NASFUND hosts biggest morning tea

NASFUND Staff and its housed NGOs hosted its first ever biggest morning tea to raise funds for the PNG Cancer Foundation.


Staff from NASFUND, BAHA, PNGID, Buk bilong Pikinini, Coalition for Change & ENBDC taking time out for a group shot.

The Head Office staff and the NGOs comprising Business Coalition against HIV & AIDs (BAHA), Buk bilong Pikinini (BbP), Coalition for Change, PNG Institute of Directors and East New Britain Development Corporation personally contributed a total of K1,527.20. The event, a first for NASFUND provided a very informative session where all staff were given a cancer topic to research and present. NASFUND was privileged to have as a special guest Ms Lynda Babao, wife of Prime Minister Peter O'Neill, who spoke about the functions and role of the PNG Cancer Foundation.

The tea saw a number of staff sharing their experiences of having family members suffering from cancer and the battle for survival. Although emotional, their stories provided encouragement to others supporting family members in their battle against cancer.

Chief Operating Officer, Mr. Warwick Vele thanked everyone on behalf of Management and stressed the importance of early detection. The money raised showed the commitment of staff towards helping the PNG Cancer Foundation provide support and education for people throughout the country.

NASFUND Staff share the Christmas cheer with Mothers and Children at PMGH

The Fund's '*put a smile on someone's face this Christmas*' campaign saw staff and their families turn up at the Port Moresby Labour Ward with boxes of gifts, toys and clothes on Saturday 5th December 2015. The campaign was initiated a month prior at the Port Moresby head office, where staff were asked to donate items for the visit.


Staff team up at POM General Hospital entrance with boxes of gifts.

The staff turned up with boxes of presents, balloons and big hearts looking to put smiles on sick children's faces along with their parents. The group also visited mothers at the Labour Ward and brought along a cake to share, putting a little bit of sweetness into their day before parting.

CEO, Ian Tarutia ,who was among the visiting team said that it was a very thoughtful act of giving and thanked staff who contributed. He said that he was very happy to see the smiles on the faces of the children and their guardians, and was moved by the successful outcome, giving assurance that it would be repeated in future.

NASFUND staff donate blood to help 'save a life' drive


Staff taking part in donating blood.

Staff participated in the Red Cross *'save a life'* drive. The initiative was in line with NASFUND's approach to encouraging staff to be good citizens and socially responsible through community and social activities at work and at home.

CEO, Ian Tarutia, who joined staff donating blood said such initiatives go a long way. "You may never know. You could be saving yourself, a friend or a family member in the future," he said. He was pleased to see staff willing to donate blood for a good cause. The Staff donated a total of 34 bags.

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 young professional Papua New Guineans aspiring to be directors in the future.

The program is as follows:

- The Board appoints 3 candidates by way of open invitation or nomination from the Business Council of PNG, PNG Chamber of Commerce and Rotary Club. The eligibility criteria is that candidates must:

  I. Be between 25 and 35 years old;

  II. Be a contributing member of NASFUND;

  III. Have no Board experience;

  IV. Have 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.

- A trainee director will be allocated a NASFUND director to mentor/coach them for two years; and

- Trainee directors have the right to receive Board papers and participate in Board and Committee meetings but are not entitled to 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 the two years, the trainee directors are awarded a certificate confirming their participation.

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

Since inception the program has accommodated 9 young promising professionals with 7 successfully completing the program. In 2013 the Board appointed Christopher Elphick, Sarah Ilave-Richards and Vanessa Asivo.

The three completed their training program at the end of 2015.

Christopher Elphick
K. K. Kingston

Vanessa Asivo
PNG Law Society

Sarah Ilave-Richards
Pricewaterhouse Coopers

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NASFUND

We have audited the accompanying financial report of National Superannuation Fund Limited (the "Fund"), which comprises the statement of financial position as at Demcember 2015, 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.

Trustee Directors and Managemet's Responsibility for the Financial Statements.

The directors and management of the Trustee are responsible for the preparation and fair presentation 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 preparaion and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility.

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

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

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

Audit Opinion.

In our opinion, the financial report of the Fund presents fairly, in all material respects, the Fund's financial position as at 31 December 2015 and of its financial performance for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act 2000 and the Superannuation Prudential Standards.

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 2015 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.

DELOITTE TOUCHE TOHMATSU

Theron

Suzaan Theron
Registered under the Accountants Act 1996
Partner

Port Moresby, 29 February 2016

REPORT OF THE TRUSTEE OF THE FUND

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 2015.

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 K150.978 million (2014: profit after tax of K258.464 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 2015.

Remuneration of Trustee Directors

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

Director's name	2015 K	2014 K
William Lamur, OBE	155,172	137,931
Hulala Tokome	137,931	124,138
Mel Togolo CBE	124,138	155,172
Graham Ainui MBE, OL	124,138	124,138
Lady Mina Siaguru	124,138	124,138
Murray Woo	124,138	124,138
Reginald McAlister (resigned 1 April 2014)	-	31,035
Vera Raga	124,138	124,138
Lata Milner, MBE	124,138	124,138
David Doig	124,138	31,034
	1,162,069	**1,100,000**
Independent member of Audit & Risk Committee		
Arthur Sam	26,800	25,000
	1,188,869	**1,125,000**

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: 25 February 2016

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

Date: 25 February 2016

TRUSTEE'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 2015 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 25th day of February 2016.

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

…………………………………………	…………………………………………
Mr. William Lamur, OBE	Mr. Murray Woo
Chairman	**Chairman Audit & Risk Committee**

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 2015 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 25th day of February 2016.

For and on behalf of the National Superannuation Fund management:

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

……………………………………......
Mr. Rajeev Sharma
Chief Financial Officer

STATEMENT OF FINANCIAL POSITION

	Note	31 Dec 2015 K'000	31 Dec 2014 K'000
Investment assets			
Cash at bank and on hand	22	198,732	26,302
Interest bearing deposits and treasury notes	22	376,080	480,433
Interest receivable (net)		35,461	16,168
Property receivables		11,410	23,407
Government securities and other loans	9	1,198,589	919,740
Equity investments	10	1,696,888	1,775,500
Investment properties	11	515,148	522,541
Current tax assets	13	-	19,489
		4,032,308	3,783,580
Other assets			
Withholding taxes recoverable		9,757	-
Other receivables		1,968	1,538
Property and equipment	12	10,381	10,592
		22,106	12,130
Total assets		**4,054,414**	**3,795,710**
Current liabilities			
Sundry creditors and accruals	14	21,528	11,769
Withholding taxes payable		-	55
Provisions for employee entitlements	15	641	473
Current tax liabilities	13	18,032	-
Total current liabilities		**40,201**	**12,297**
Deferred tax liability (net)	13	37,017	23,037
Provisions	15	40,886	40,751
Total liabilities		**118,104**	**76,085**
Net assets		**3,936,310**	**3,719,625**
Represented by			
Liability for accrued benefits			
- Allocated funds		3,684,929	3,338,835
- Unallocated contributions		37,423	52,545
- Unallocated earnings		208,113	322,399
Revaluation reserve	16	5,845	5,845
Total members funds		**3,936,310**	**3,719,625**

……………………………………………

Mr. William Lamur, OBE
Chairman
Date: 25 February 2016

……………………………………………

Mr. Murray Woo
Chairman Audit & Risk Committee
Date: 25 February 2016

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	2015 K'000	2014 K'000
Investment income			
Interest income		141,727	84,718
Dividend income		54,775	63,432
Property rentals		71,490	79,353
Movement in net fair value of investments	17	(35,079)	77,512
Loss on disposal of shares		2,072	(6,908)
Net foreign exchange gain / (loss)	18	18,596	210
		253,580	298,317
Less: property costs		(19,207)	(17,117)
Net investment income		**234,373**	**281,200**
Other income and expenses			
Sundry income		5,615	1,502
Profit / (Loss) on disposal of fixed assets		30	(42)
		5,645	**1,460**
Expenditure			
Provision for bad and doubtful debts		-	56,000
Staff related expenses	19	(14,984)	(13,040)
Fund administration fee		(6,736)	(6,263)
Investment manager's fee		(5,875)	(5,962)
Advertising		(710)	(717)
Depreciation		(1,401)	(623)
Board expenses		(1,561)	(1,614)
Bank of PNG regulatory fees		(1,385)	(2,670)
Donations		-	(20)
Other administration expenses		(17,473)	(19,772)
		(50,126)	5,318
Profit before tax		**189,892**	**287,977**
Income tax expense	13	(38,914)	(29,513)
Profit for the year		**150,978**	**258,465**
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		**150,978**	**258,465**

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 2014	**2,905,909**	**25,750**	**366,140**	**5,845**	**3,303,644**
Profit for the year	-	-	258,465	-	258,465
Other comprehensive loss	-	-	-	-	-
"Total comprehensive income for the year"	-	258,465	-	-	258,465
Contributions received	-	459,231	-	-	459,231
Allocated contributions	432,436	(432,436)	-	-	-
"Additional members' fund upon amalgamation with SIOS (Note 8)"	-	-	-	-	-
Transfers from other funds	53,004	-	-	-	53,004
Interim interest	2,078	-	(2,078)	-	-
Benefits paid to members	(354,193)	-	-	-	(354,193)
"Interest allocated to members' accounts"	301,128	-	(301,128)	-	-
Front end fees	(526)	-	-	-	(526)
Provision on member funds	(1,000)	-	1,000	-	-
As at 31 December 2014	**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**	**3,936,310**

Allocated funds represent National Superannuation Fund's obligation to pay benefits to members and beneficiaries arising as at 31 December 2015.

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.

STATEMENT OF CASH FLOWS

	Note	2015 K'000	2014 K'000
Cash flows from operating activities			
Interest received		122,434	84,718
Net rent received		83,488	65,221
Dividend received		54,775	63,432
Wages and administration payments		(46,861)	(44,137)
Income tax received / (paid)	13	24,282	(41,342)
Net cash from operating activities	22(b)	**238,118**	**127,892**
Cash flows from investing activities			
Purchase of property and equipment	12	-	(8,705)
Proceeds from sale of property and equipment		30	1,087
Proceeds from government securities and other loans		-	(45,000)
Proceeds from sale of property investments		12,568	-
Investments in equity		68,872	(62,085)
Investments in government securities and other loans		(454,557)	(285,701)
Investments in work in progress		(979)	(19,761)
Investments in investment property		(10,409)	(21,360)
Net cash used in investing activities		**(384,475)**	**(441,525)**
Cash flows from financing activities			
Transfer (to) / from other funds (net)		(510)	(526)
Contributions received		473,818	459,231
Withdrawals paid		(407,600)	(354,193)
Receipts from short-term loans		-	(1)
Net cash from financing activities		**65,708**	**104,511**
Increase in cash and cash equivalents		**(80,648)**	**(209,122)**
Effect of exchange rate fluctuations	18	18,596	210
Cash and cash equivalents at the beginning of the year		315,834	524,746
Cash and cash equivalents at the end of the year	22(a)	**253,781**	**315,834**

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 25 February 2016.

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 below:

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 would applicable to estimation for investment properties are considered in notes 4 (ii) and 11.

Valuation of financial assets and liabilities
The Fund carries most of its financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. In addition, certain liabilities acquired through debt exchange and restructuring are required to be carried at fair value at the time of the debt exchange and restructuring. While significant components of fair value measurement were determined using verifiable objective evidence, i.e., foreign exchange rates, interest rates, volatility rates, the amount of changes in fair value would differ if the Fund utilised different valuation 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 Standars Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015.

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]
Amendments to IFRS 11	Accounting for Acquistions of interest in Joint Operations[1]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and amortisation [1]

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

Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle1

1. Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

2. Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

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, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Fund undertakes a detailed review.

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 assets 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 summaried 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 on investment 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 2015.

(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 (2014: 8.4%). Employees contributed to the Fund during the year at a rate of 6.0% of the gross salaries (2014: 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 Amalgamation of SIOS Workers Ritaia Fund

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

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

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

Assets	***Fair value recognised on amalgamation*** **K '000**
Cash at bank and on hand	562
Rental and other receivables	564
Income tax recoverable	520
Government securities and other loans	9,872
Equity Investments	13,472
Investment properties	27,326
Fixed assets	66
Total assets	**52,382**
Liabilities	
Trade and other payables	2,961
Due to terminated members	1,291
Deferred tax liability	1,160
Provisions	9
Total liabilities	**5,421**
Net assets acquired upon transfer	**46,961**
Receivables from NASFUND eliminated against payable in Fund upon transfer	6,041
Net assets and liabilities of SIOS	**53,002**
Member Funds liable upon transfer	**53,002**

No income was earned by SIOS during the current or prior financial year.

9 Government securities and other loans

	Note	31 Dec 2015 K'000	31 Dec 2014 K'000
Government Inscribed Stock	(a)	861,701	566,707
Sovereign Community Infrastructure Treasury Bill (SCITB)	(b)	125,000	125,000
State Grant	(c)	2,000	6,000
Notes and other loans	(d)	209,888	222,033
		1,198,589	**919,740**

(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 4.52% to 14% with a total face value of K884.1 million (2014: K567.1 million). The bonds will mature between 2016 and 2031.

For 2015, 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 loss of approximately K28.3 million.

The yields used when fair valuing the GIS are derived from the most recent 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 2015, this would have resulted in an approximate increase in value of K9.5 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 2015 K'000	31 Dec 2014 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 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 (2014: 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% (2014: 6.67%).

(d) Notes and other loans

	Note	Maturity (years)	Average yield	31 Dec 2015 K'000	31 Dec 2014 K'000
PNG Power		1	10.2%	17,249	24,469
Airlines of PNG promissory notes		2	8.0%	25,000	25,000
Panamex Limited		2	12.0%	19,698	19,698
TDC Samoa	(i)	1	15.0%	60,743	39,818
Boroma Piggery		1	+2.0%	5,000	5,000
Tawaili Resort	(ii)	-	-	4,057	4,057
Harbour City Dev. Ltd		-	-	28,500	
Big Rooster		3-5	9.2%	45,000	45,000
Heritage Park Hotel			12.5%	37,199	34,548
				213,945	226,090
less: provision for impairment	(ii)			(4,057)	(4,057)
				209,888	**222,033**

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 below.

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.

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

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

	31 Dec 2015 K’000	31 Dec 2014 K’000
Opening balance	39,307	39,307
Provision for impairment on SCITB interests (note 9(b))	-	-
Provision for impairment loan to Tawaili Resort (note 9(d))	-	-
Closing balance	**39,307**	**39,307**

Provision for impairment is comprised of the following:

	31 Dec 2015 K’000	31 Dec 2014 K’000
Tawaili 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.

10 Equity investments

	Note	31 Dec 2015 K'000	31 Dec 2014 K'000
Quoted investments - Domestic	(a)	556,750	627,039
Quoted investments - International	(a)	169,736	262,594
Unquoted investments	(b)	970,402	885,867
		1,696,888	**1,775,500**

(a) Quoted investments

Summary of revaluation of quoted investments is as follows:

	2014 K'000	Revaluation K'000	Purchases / (Sales) K'000	2015 K'000
Quoted shares Domestic				
Airlines PNG	12,100	-	-	12,100
Bank of South Pacific Limited	323,573	16,315	-	339,888
City Pharmacy Limited	49,795	(3,804)	-	45,991
Credit Corporation (PNG) Limited	161,458	(21,735)	-	139,723
New Britain Palm Oil Limited	80,113	-	(80,113)	-
Kina Securities	-	2,408	16,640	19,048
	627,039	**(6,816)**	**(63,473)**	**556,750**

	2014 K'000	Revaluation K'000	Purchases / (Sales) K'000	2015 K'000
Quoted shares International				
Highlands Pacific Limited	5,827	-	(5,827)	-
New Britain Palm Oil Limited	28,050	-	(28,050)	-
New Guinea Energy Limited	42	-	(42)	-
Oil Search Limited	102,930	(12,397)	-	90,533
Steamships Trading Company Limited	125,744	(46,541)	-	79,203
	262,594	**(58,938)**	**(33,919)**	**169,736**

Reconciliation of movement in quoted investments is as follows:

	Note	31 Dec 2015 K'000	31 Dec 2014 K'000
Opening balance		889,633	932,796
Additions / Disposals during the year		(100,215)	(36,465)
Profit on disposal		2,823	(6,768)
Fair value gain / (loss)	17	(65,754)	70
Closing balance		**726,487**	**889,633**

10 Equity investments (continued)

(b) Unquoted investments at fair values

Summary of revaluation of unquoted investments is as follows:

Unquoted investments	Note	Percentage Holding	2015 Valuation Model	2014 Valuation Model	Market Multiple	2014 K'000	Revaluation K'000	Other movements K'000	2015 K'000
Amalgamated Packaging Limited		30.00%	(ii)	(i)			2,300	-	
Boroma Piggery		0.00%					(1,700)	-	
Hornibrooks NGI		21.13%	(ii)	(ii)			350	-	
Nas Aviation		40.00%	(ii) & (iii)	(iii)			150	-	
Nasmel Limited	(b (i))	100.00%		(ii)			2,845	-	
Turumu Holdings Limited		20.00%	(v)	(v)			1,110	-	
The Edge Limited		70.00%	(ii)	(ii)			-	-	
Port Services Limited		5.00%	(i)	(iii)			(1,240)	-	
City Centre Developments Limited	(b (ii))	65.00%	(ii)	(ii)			942	(2,317)	
South Pacific Brewery Limited		0.72%	(iii)	(iii)	8x - 9x		1,750	-	
Pacific Balance Fund		20.20%	(ii)	(i)			11,700	-	
Post Courier Limited		0.11%	(iii)	(iii)	4x - 6x		8	-	
Toyota Tsusho (PNG) Limited		0.61%	(iii)	(iii)	4x - 5x		(244)	-	
Westpac Bank PNG Limited		1.25%	(iii)	(iii)	7x - 8x		(5,900)	-	
Hillside Garden		50.00%	(ii)	(ii)			-	-	
Panamex Limited		41.60%	(iii)	(iii)	4.5x - 5.5x		11,850	-	
Heritage Park Hotel		60.00%	(ii)	(ii)			24,298	-	
Malagan Limited	(c)	64.28%	(iv)	(iv)			-	20,386	
Carpark Limited	(c)	66.66%	(iv)	(iv)			-	6,945	
Grand Pacific Hotel Ltd	(c)	50.00%	(iv)	(iv)			-	3,505	
Gewani ltd	(c)	50.00%	(iv)	(iv)			-	-	
Hitron Ltd	(c)	40.00%	(iii)	(iv)			6,033	-	
Capital Insurance Group Ltd	(c)	19.20%	(iii)	(iv)			1,763	-	
Total unquoted investments						885,867	56,015	28,520	970,402

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 2015 K'000	31 Dec 2014 K'000
Opening balance		885,867	657,342
Additions / disposals during the year		30,837	108,555
Fair value gain	17	56,015	123,060
Other adjustments	(iii)	(2,317)	(3,090)
Closing balance		**970,402**	**885,867**

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 Troy Stubbings - KPMG PNG Partner, Bachelor of Business (Accounting), USQ, Graduate Diploma of Applied Finance and Investment, Member Institute of Chartered Accountants, Australia) as at 31 December 2015. 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 (2014: 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 2015 K'000	31 Dec 2014 K'000
Malagan Limited	(i)	45,500	25,113
Carpark Limited	(ii)	15,133	8,188
Grand Pacific Hotel Limited	(iii)	41,930	38,425
Gewani ltd	(iv)	61,600	61,600
Hitron Ltd	(v)	-	36,968
Capital Insurance Group Ltd	(v)	-	9,987
		164,163	**180,281**

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 (inlcuding a K2.3 million receivable). During the year the Fund further acquired 28.57% of Malagan Limited at cost of K20.29 million. Malagan Limited owns Malagan Haus in Konedobu, NCD. The company has completed construction and management believes that cost approximates the company's fair value as at 31 December 2015. 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. During the current financial year the Fund acquired additional 33.33% of the equity in Carpark Limited for K6.95 million. Due to the recent acquisition of the remaining equity of the company, 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 that is currently being constructed. The company is in its construction phase and management believes that cost approximates the company's fair value as at 31 December 2015 and 2014. There have been no market indicators that would suggest any significant difference between cost and fair value.

(iv) This investment was purchased during the 2014 financial year. As this is still in the developing phase, management believes that cost approximates the company's fair value as at 31 December 2015. There have been no market indicators that would suggest any significant difference to cost approximating fair value existing.

(v) These investments were fair valued for the year ending 31 December 2015.

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

Bank of South Pacific Limited	8.63%
Nasmel Limited	6.31%

(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 2015 K'000	**31 Dec 2014 K'000**
Increase of 1% in market multiples	22,755	47,665
10% increase in earnings	20,349	35,449
Increase of 5% in discount rates	(8,856)	(18,603)

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


Shop Floor presentation conducted for Coca-Cola Amatil (PNG) Ltd staff.

11 Investment properties and works in progress

	Note	31 Dec 2015 K'000	31 Dec 2014 K'000
Investment properties	(a)		
Residential properties		79,629	82,531
Industrial properties		24,769	32,755
Commercial properties		396,991	392,853
Land		13,759	14,403
		515,148	**522,541**

(a) Investment properties (at market value)

Summary of movement in revaluation of investment properties as follows:

	Valuation Model	Capitalisation Rates	2014 K'000	Revaluation K'000	Other Movements K'000	2015 K'000
Residential properties						
Peacehaven Apartments	MC	11.00%		(2,043)	-	
Ramu Sugar Properties	Cost	-		-	-	
Sol Wara Apartments	MC	10.50%		1,470	-	
Cross Street Apartments	MC	11.00%		-	-	
Parer Street Property	DMA	-		-	(1,224)	
Lot 18 Sect. 69 House Property	MC	11.00%		-	-	
Fifth Street Lae House Property	MC	11.00%		260	(150)	
Lot 3 Sect. 2 Madang Property	DMA	-		-	-	
Lot 11 Sect. 13 KBB Property	DMA	-		-	-	
Siroi Panu Units	MC	11.00%		-	-	
Airways Avenue Apartments	MC	11.00%		-	(1,215)	
			82,531	**(313)**	**(2,589)**	**79,629**

11 Investment properties and works in progress (continued)

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

	Note	Valuation Model	Capitalisation Rates	2014 K'000	Revaluation K'000	Other movements K'000	2015 K'000
Industrial properties							
API		MC	11.00%		1,993	-	
Gerehu		DMA	-		-	(9,979)	
Gordons - Cameron Road		MC	10.00%		-	-	
				32,755	**1,993**	**(9,979)**	**24,769**
Commercial properties							
Ravalian Haus		MC	11.00%		-	-	
Able Computing Madang		MC	10.00%		213	-	
ANZ Haus		MC	11.00%		-	-	
Westpac Head Office Building	(iv)	Cost			-	600	
BSP Douglas Street	(iv)	Cost			-	18	
Luship Voco Point Lae		DMA			-	-	
Malahang Shed Regina St. Lae		DMA			-	-	
Madang Slipway		DMA			-	-	
Deloitte Tower		MC	12.00%		-	2,539	
NASFUND Haus Lae		MC	11.50%		-	-	
NCSL Head Office	(iii)	DMA			74	-	
IPA Haus		MC	12.00%		695	-	
The Factory		MC	12.00%		-	-	
				392,853	**982**	**3,157**	**396,991**
Land							
Section 69, Lae		Cost	-		-	-	
8 Mile and 9 Mile	(ii)	DMA	-		(699)	55	
Lawes Rd		DMA	-		-	-	
Vacant Land, Lae		DMA	-		-	-	
				14,403	**(699)**	**55**	**13,759**

11 Investment properties and works in progress (continued)

Reconciliation of movement in investment properties is as follows:

	Note	31 Dec 2015 K'000	31 Dec 2014 K'000
Opening balance		522,541	489,649
Improvements to properties		3,212	14,415
Disposals of properties		(12,568)	-
Fair value gain	17	1,963	18,477
Closing balance		**515,148**	**522,541**

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:

	2015 K'000
Opening balance	80,065
Improvements, reclassifications, and additions	(10,530)
Changes in fair value	(625)
Closing balance	**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:

	2015 K'000
Opening balance	442,476
Improvements, reclassifications, and additions	1,174
Changes in fair value	2,588
Closing balance	**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 2015 K'000	**31 Dec 2014 K'000**
Increase of 1% in capitalisation rates	45,989	(39,120)
10% increase in rentals	51,524	47,771
10% increase in sales prices and / or replacement costs	4,565	4,485

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 2014	-	613	3,728	2,414	6,755
Additions	-	-	3,823	4,882	8,705
Disposals	-	-	(1,794)	(38)	(1,832)
At 31 December 2014	**-**	**613**	**5,756**	**7,258**	**13,628**
At 1 January 2015	-	613	5,756	7,258	13,628
Additions	-	-	-	-	-
Disposals	-	(254)	(2)	-	(256)
At 31 December 2015	**-**	**354**	**5,754**	**7,258**	**13,372**
Accumulated depreciation					
At 1 January 2014	-	522	2,333	260	3,115
Depreciation for the year	-	20	514	645	1,179
Disposals	-	-	(424)	(378)	(802)
At 31 December 2014	**-**	**542**	**2,423**	**527**	**3,492**
At 1 January 2015	-	542	2,423	527	3,492
Depreciation for the year	-	71	464	653	1,188
Disposals	-	(254)	-	-	(254)
At 31 December 2015	**-**	**360**	**2,888**	**1,179**	**4,427**
Carrying amounts					
At 31 December 2015	**-**	**-**	**2,867**	**6,079**	**8,946**
At 31 December 2014	**-**	**71**	**3,333**	**6,732**	**10,136**

Capital Work in Progress	
Opening balance 1 January 2015	**457**
Additions (i)	979
Closing balance	**1,435**

i) Relate to the ERP Project.

Total property and equipment	
At 31 December 2015	**10,381**
At 31 December 2014	**10,592**

13 Income tax

(a) Income tax expense

	Note	31 Dec 2015 K'000	31 Dec 2014 K'000
Current tax		35,360	32,506
Under provision of current taxes in previous years		8,320	1,190
Deferred tax expense		(4,766)	(4,183)
		38,914	**29,513**
Accounting profit before tax		189,892	287,977
Tax on the profit for the year at 25%		47,473	71,994
Taxation effect of permanent differences			
- Non deductible items		9,224	58
- Non taxable items		(12,411)	(25,491)
Dividend rebate		(13,693)	(15,858)
(Over) / under provision in prior years		8,320	(1,190)
		38,913	**29,513**

(b) Income tax balance

	31 Dec 2015 K'000	31 Dec 2014 K'000
Opening balance of income tax payable	(19,760)	8,146
Current tax payable	35,360	32,506
Under provision of taxes in previous years	8,320	1,190
Offset of withholding taxes recoverable	(30,170)	(20,260)
Payment during the year	24,282	(41,342)
Balance of income tax payable	**18,032**	**(19,760)**

(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 2015	Asset K'000	Liability K'000	Net K'000
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)**
As at 31 December 2014			
Property, plant and equipment	87	-	87
Investment property	-	(17,692)	(17,692)
Provisions	804	-	804
Interest receivable	-	(4,443)	(4,443)
Other	-	(1,793)	(1,793)
	891	**(23,928)**	**(23,037)**

14 Sundry creditors and accruals

	31 Dec 2015 K'000	31 Dec 2014 K'000
Sundry creditors and other accruals	19,254	9,483
Bonds and repayable deposits	2,274	2,286
	21,528	**11,769**

15 Provisions

Current	31 Dec 2015 K'000	31 Dec 2014 K'000
Provisions for employee entitlements	**641**	**473**
Non current		
Provision for impairment of government securities	39,000	39,000
Provision for long service leave	1,886	1,751
	40,886	**40,751**

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

Opening balance	1,752	1,460
Charge for the year	205	365
Payments made during the year	(71)	(73)
Closing balance	**1,886**	**1,752**

16 Revaluation reserve

	31 Dec 2015 K'000	31 Dec 2014 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 2015 K'000	31 Dec 2014 K'000
Mark to market - GIS	9	(28,356)	(66,465)
Shares in listed companies	10	(65,754)	70
Shares in unlisted companies	10	56,015	123,067
Investment properties	11	1,963	18,478
		(36,131)	**75,149**
In respect to those investments realised during the financial year:			
Investment properties / unlisted companies / other		1,052	2,363
		1,052	**2,363**
Total (loss) / gain		**(35,079)**	**77,512**

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

	31 Dec 2015 K'000	31 Dec 2014 K'000
Auditors' remuneration – audit	255	225
Auditors' remuneration – other services	150	-
Legal expenses	655	173
Gain / (loss) on sale of property, plant and equipment	30	(42)
Net foreign exchange gain	18,596	210

19 Staff related expenses

	Note	31 Dec 2015 K'000	31 Dec 2014 K'000
Salaries and wages		9,990	8,779
Superannuation	20	947	735
Long service leave	15	205	365
Other expenses and benefits		3,843	3,161
		14,984	**13,040**

The number of full time employees at the end of the year was 143 (2014: 136).

The number of employees whose remuneration exceeds K100,000 for the year was 9 (2014: 11).

19 Staff related expenses (continued)

Total remuneration (Kina)	31 Dec 2015 No.	31 Dec 2014 No.
K100,001 - K150,000	2	1
K150,001 - K200,000	1	4
K200,001 - K250,000	-	1
K250,001 - K300,000	-	-
K300,001 - K350,000	-	2
K350,001 - K400,000	1	-
K400,001 - K450,000	1	-
K450,001 - K500,000	-	-
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	-	1
K850,001 - K900,000	-	-
K900,001 - K950,000	2	1
K950,001 - K1,100,000	-	-
K1,100,001 +	1	-
	9	**11**

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 2015, the Fund expensed K 947,000 in contributions (2014: K 735,000).

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	K1.73 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	0.14% of investment portfolio excluding interest and property receivables, SCITB and State Grants

21 Commitments, contingencies and disputes (continued)

(b) Government securities in dispute

The Fund had the following government securities which were directly or indirectly in dispute as at 31 December 2015:

(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. The Fund is advised that even if the proceedings are unsuccessful, it will recover a minimum of K55 million held by NCL in an account frozen by the Bank of Papua New Guinea.

(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 (2014: 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	Jun 2016
SOS Security Ltd.	Administration	Feb 2016
PacWealth Capital Limited	Investment Management	Mar 2018
Curtain Bros. Ltd.	Property Development	12 months after completion
Lamana Developments Limited	Property Development	12 months after completion
Ashton Brunswick Limited	Facilities Manager	March 2016

22 Notes to the statement of cash flows

(a) Reconciliation of cash and cash equivalents

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

	31 Dec 2015 K'000	31 Dec 2014 K'000
Cash at bank and on hand	198,732	26,302
Interest bearing deposits and treasury notes	55,049	289,532
Cash and cash equivalents	**253,781**	**315,834**

Interest bearing deposits and treasury notes have a maturity of less than 177 days. Interest rates ranged from 0.8% to 3.2% (2014: 0.8% to 4.75%).

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

	2015 K'000	2014 K'000
Profit before tax for the year	189,892	287,977
Adjustments for:		
Movement in fair value of investments	36,131	(75,149)
Provision for impairment of government securities	-	-
Provision for doubtful debts	-	(55,360)
Provision for long service leave	205	365
Profit on disposal of property, plant and equipment	(30)	44
Profit on sale of investment properties	-	-
Amortisation of discounts and premiums	6,368	12,507
Depreciation	1,401	623
Front end fees on membership	(510)	(526)
Exchange difference	(18,596)	(210)
Net cash before changes in working capital	**214,862**	**170,271**
(Decrease) / increase in interest receivable	19,293	(6,216)
Increase in other receivables	11,568	15,886
(Decrease) / increase in trade and other payables	(7,604)	(52,049)
Net cash provided by operating activities	**238,118**	**127,892**

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 2015 K'000	31 Dec 2014 K'000
Opening balance owing to NASFUND	5	46
Administration services provided by NASFUND	-	-
Payments made to NASFUND	-	(41)
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 2015 K'000	31 Dec 2014 K'000
Opening intercompany balance owing to NASFUND	126,874	126,756
Improvements to Nasmel Limited investment properties	578	(578)
Other account adjustments	-	696
Closing intercompany balance owing to NASFUND	**127,452**	**126,874**

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 2015 K'000	31 Dec 2014 K'000
Loan owing to NASFUND - opening balance	10,491	13,272
Loan repayments	(2,781)	(2,781)
Other account adjustments	4,790	-
Loan owing to NASFUND - closing balance	**12,500**	**10,491**

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), Charles Lee (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 2015 K'000	31 Dec 2014 K'000
Salary and fees	5,507	4,171
Non-monetary benefits	2,105	903
Post-employment benefits	910	484
	8,522	**5,558**

(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 2015 K'000	31 Dec 2014 K'000
- Sitting allowance	97	62
- Quarterly allowance	1,198	1,118
- Audit committee fees	65	28
- Directors insurance	133	107
	1,492	**1,314**

All of the above payments were made in the ordinary course of business. The above payments include payments of K25 thousand (2014: K25 thousand) 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, NCSL, Trukai Industries Limited, Pacific Assurance Group, ENB Supermarkets, Witherlam Investments Limited, ENB Copra, Cocoa & Coffee Co-Operative, Mainland Holdings Limited, ENB Properties Ltd, PEIL (Pacific Energy), Territory Packaging, Grand Pacific Hotel Ltd, NASFUND Contributors Savings & Loan Society Ltd, Nasmel Ltd
	Shareholder	Bank of South Pacific Ltd, Airlines of PNG 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
	Shareholder	BP Oil Ltd, Interoil Corporation, Kina Asset Management Ltd
Mr. Mel Togolo, CBE	Director	Westpac Bank (PNG) Ltd, 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, Airlines PNG, Print Monster Limited, 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
	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, Nasmel Ltd

23 Related party transactions (continued)

(viii) Board and CEO interests (continued)

Name	Nature	Organisations
Mr. David Doig	Director	Moore Business Systems (PNG) Limited, Employers Federation of PNG, Credit Corporation Ltd.
	Shareholder	Moore Business Systems (PNG) Limited
Mr. Ian Tarutia, MBE	CEO	NASFUND
	Director	NASFUND Contributors Savings & Loan Society, Federation of Savings & Loan Societies, Air Niugini Limited, PNG Rugby Union, 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, Airlines PNG Ltd

Shop Floor presentation conducted for UMW staff.

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 2015 K'000	31 Dec 2014 K'000
Government debt securities	988,701	697,707
Equity securities	1,696,888	1,775,500
Loans and receivables	209,888	222,033
Interest receivables	35,461	16,168
Property receivables	11,410	23,407
Other receivables	1,968	1,538
Cash and cash equivalents	253,781	315,834
	3,198,097	**3,052,188**

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 2015 K'000	31 Dec 2014 K'000
Current	5,950	19,284
31 - 60 days	814	675
61 - 90 days	140	615
over 90 days	4,506	2,833
	11,410	**23,407**

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

	31 Dec 2015 K'000	31 Dec 2014 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	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
As at 31 December 2014				
Equity investments	110,262	6,600	26,740	101,656
Cash at bank	-	-	-	19,590
Gross balance	**110,262**	**6,600**	**26,740**	**121,246**
% of net asset value	6.3%	0.7%	1.0%	1.1%
Foreign exchange rate	0.47	0.25	0.73	2.94

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 2015 K'000	31 Dec 2014 K'000
AUD	20,415	21,183
GBP	-	2,354
FJD	5,240	3,314
SBD	4,449	3,746
	30,104	**30,597**

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 2015 K'000	31 Dec 2014 K'000
Fixed rate instruments		
Financial assets (Government bonds and inscribed stock)	861,701	566,707
Treasury bills and interest-bearing deposits	376,080	480,433
Loans and other receivables	144,145	177,215
	1,381,926	**1,224,355**
Variable rate instruments		
State grant	2,000	6,000
Loans and other receivables	65,743	44,818
Total	**1,449,669**	**1,275,173**

Sensitivity analysis

For 2015, 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 K9.1 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 (2014: 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 2015	%	Carrying amount	Effect on net assets and profit increase	Effect on net assets and profit decrease
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%	806,239	40,312	(40,312)
As at 31 December 2014				
Listed overseas shares	15%	262,594	39,389	(39,389)
Listed local shares	10%	627,039	62,704	(62,704)
Investment in unquoted companies	5%	705,586	35,279	(35,279)

(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 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**

As at 31 December 2014	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total K'000
Government Inscribed Stock	-	-	566,707	566,707
Equity securities	889,633	-	705,586	1,595,219
	889,633	**-**	**1,272,293**	**2,161,926**

(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 2015, 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:

	2015 **K'000**
Opening balance	1,272,293
(Disposals / redemptions) or additions during the year	357,553
Changes in fair value	38,094
Closing balance	**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.

Annual Employer Conference held in Port Moresby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