2017

NATIONAL SUPERANNUATION FUND LIMITED

ANNUAL REPORT

NASFUND

PAPUA NEW GUINEA

Contents

VISION STATEMENT

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

MISSION STATEMENT

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

VALUE STATEMENT

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

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 Hulala Tokome - Chairman
- Mr Charles Vee - Deputy Chairman
- Mr William Lamur OBE - (retired 1 January 2018)
- Mr Graham Ainui, MBE, OL
- Mr Murray Woo
- Mr Vera Raga
- Mrs Lata Milner, MBE
- Mr David Doig
- Ms Tamzin Wardley, LM
- Mr Kepas Wali (commenced 1 January 2018)
- Mr Leon Buskens (commenced 1 January 2018)

Secretary

- Mr. Jack Parina

Auditors

Deloitte Touche Tohmatsu

Level 9

Deloitte Haus

MacGregor Street

Port Moresby, N.C.D.

Papua New Guinea

Fund Administrators

Aon Hewitt (PNG) Limited - (up to 30 June 2017), Kina Investments and Superannuation Services Limited (from 1 July 2017)

Licensed Investment Manager

PacWealth Capital Limited

Bankers

Bank South Pacific Limited

Australia & New Zealand Banking Group (PNG) Limited

Kina Bank

Lawyers

Ashurst Lawyers

Dentons (PNG) Lawyers

Posman Kua Aisi (PKA) Lawyers

Warner Shand Lawyers

Corrs Chambers Westgarth

Professional Indemnity Insurance

American Home Insurance

NASFUND's Board of Directors Front row (from left to right): Ms Tamzin Wardley LM, Mr Hulala Tokome (Chairman), Mrs Lata Milner MBE, Back row (from left to right): Mr Leon Buskens, Mr Charles Vee (Deputy Chairman), Mr David Doig, Mr Graham Ainui MBE OL, Mr Murray Woo, Mr Vera Raga, Mr Kepas Wali.

Management Team

Management Team Caption: From left to right: Mr Jack Parina (Company Secretary), Mrs Seema Dass-Raju (Chief Risk and Compliance Officer), Mr Ian Tarutia (Chief Executive Officer), Mr Rajeev Sharma (Chief Finance Officer), Mr David Brown (Chief Investment Officer), Mr Charlie Gilichibi (Chief Officer, Member Services), Mr Vincent Lialu (Head of Human Capital).

> It is our view now that, while it may not seem so, the tide is turning in our favour and we expect 2019 to be a better year for all of us.

Dear Members

I am pleased to present to you the 2017 Annual Report for your fund. After yet another difficult year for our country, it is a credit to the work of your board and staff at NASFUND to be able to say we credit to your accounts a healthy credit rate of 8%.

The 2017 year will go down in history for drama, with the inauguration of Donald Trump as the 45th President of the United States, ballistic missile tests from North Korea landing in the Sea of Japan and terrorist attacks in London. In spite of this, financial markets largely shrugged off these events and global stock prices surged ahead. The US stock market finished the year 25% higher.

Here in PNG, however, we held our National Elections, while currency remained scarce and economic activity slowed.

The contrast couldn't have been greater but that is where our diversification strategy of your fund paid off. The listed global equity holdings provided the best return for the portfolio and it is this constant shifting of winners and losers in financial markets that means we must at all times show discipline and have clear objectives with a view to the long term.

Improving the quality of our commercial property portfolio for the long term included a commitment to a K 52 million refurbishment of the Tower in Douglas Street, which will be renamed 'Kina Haus' upon completion in early 2019.

Our PNG Government Securities have paid good interest rates and while many of the local equity investments struggled as companies dealt with the weak economy, once again our solid diversification strategy benefitted returns for all members.

Staying with the strategy and remaining clear about our objectives will also stand your portfolio well as the economy eventually changes for the better. It is our view now that, while it may not seem so, the tide is turning in our favour and we expect 2019 to be a better year for all of us.

We are now half way through the APEC year and the eyes of the world to be watching PNG in November. They will be surprised to see a country where we are coping with our difficulties and where growth and rapid change is part of the future. To this end, we are concentrating our efforts to take advantage of any new developments in the economy that may result.

I want to personally thank my fellow directors for their wise counsel, professional approach and collegial support. And I would always extend a thank you to all our hard-working staff. A special thanks this year to our CEO Mr Ian Tarutia OBE, for whom this year marks his 30th year of dedicated service to the members of NASFUND.

Hulala Tokome
Chairman

More pleasing was the 3.5% increase in membership, to 537,520 contributors

Dear Members & Employers

It is my pleasure once again to report that 2017 was another positive year for your fund in a subdued economic market. Your fund experienced growth across a number of financial and operational matrices ultimately resulting in an interest crediting rate of 8% being paid to members. This is a pleasing result considering members received 7.25 % for the 2016 financial year.

Total Fund Assets grew by 6.8% to K4.62 billion, cash income increased by 14.9% to K322 million, contribution receipts from employers increased by 9.5 % to K493 million resulting in a net profit of K242 million which was all distributed to members. More pleasingly was the 3.5% increase in membership to 537,520 contributors, at a time when employment opportunities were restrictive due to dampened market conditions.

Investments & Finance

In April, your board reviewed its Strategic Asset Allocation Strategy (SAA) and introduced a new asset class—Domestic Infrastructure—which now allows the Fund to seek investment opportunities in specific sectors such as power generation, telecommunication and port (air & sea) assets.

In properties, major refurbishment works commenced at Kina Haus (formerly Deloitte Tower), at a cost of over K50 million. Kina Haus is an iconic landmark building in the Port Moresby CBD and, once the works are completed in late 2019, it will be restored to its A-grade status as a premier building in Papua New Guinea.

Another focus area for the board and management was a targeted review of non-performing investments, which make up 15% of our total investment portfolio. The objective of the 'deep drill' was to optimise returns to meet our investment objective of attaining returns above CPI or seek divestment for better alternatives. While this work was highly engaging and taxing, it has provided the board better visibility of investment performances and, importantly, a go-forward strategy for each of these investments.

Fund Administration

After a 15-year partnership with AonHewitt, we commenced the transition to our new Fund Administrators, Kina, in early June. While we anticipated transitional issues, our focus was on ensuring disruption of services to members was minimised as much as possible.

As part of the transition process, I am pleased to report that we have now introduced a number of innovative solutions. Firstly, we now have an electronic workflow system to track superannuation contributions from employers. Secondly, we introduced an online portal for employers to upload contributions electronically and, thirdly, processing of withdrawal applications is now automated, from receipt of application through to payments. This has cut down on human errors and removed bottle necks caused by frequent manual interventions. The efficiency gains have seen improved staff productivity and accountability in our servicing of members and employers alike.

Member Services

Another service improvement was the introduction of a member portal which now enables members to access their accounts via internet or through a mobile phone App. The Mobile phone App now allows members the convenience of viewing their superannuation balances in real time or beneficiary details at their fingertips.

Other highlights were:

- 588 educational & public awareness shop floor presentations to employers & members throughout the country.
- Payment of over K431 million in superannuation entitlements to members, including housing advances, representing 61,358 transactions. This compares to K456 million paid in 2016, which is a 5.48 % reduction in payment outflows to exiting members.
- Introduction of an electronic customer queuing system in our Boroko Branch with further roll-outs in other branches throughout the country planned in 2018.
- 3.3 % increase in our active employer base to 2,626 establishments.

In the first half of 2017, a member survey was conducted to gauge member sentiment around our service standards and product offerings. It was pleasing to note that the result rated the fund above Australian Superfunds as a benchmark. Surveys will be an annual event to ensure we continue to meet member expectations.

Again, it would be remiss of me not to remind members of the benefit of superannuation savings for the long term and its growth through the effect of compound interest. If funds are withdrawn intermittently during times of temporary unemployment, the final amount received at the end of active employment will not be sufficient to provide a members a comfortable quality of life in retirement. I also commend the effort of a majority of employers in remitting contributions on time, including their 8.4% employer share on behalf of their employees. At times members forget the role of their employers in building their retirement nest egg.

Staff

Much of our success as an organization is attributed to the hard working and committed staff we have. For instance, the Fund Administration transition to Kina, while challenging on a number of fronts, would not have been executed successfully without the support and cooperation of our people in head office and throughout our 16 provincial branches.

Under our HR Framework, staff development and succession planning, especially for key risk positions, is a priority of the board. Leadership Development for EXCOM and professional studies for our leadership teams is an ongoing process to ensure we retain and maintain the best team possible for the fund at all times.

2018

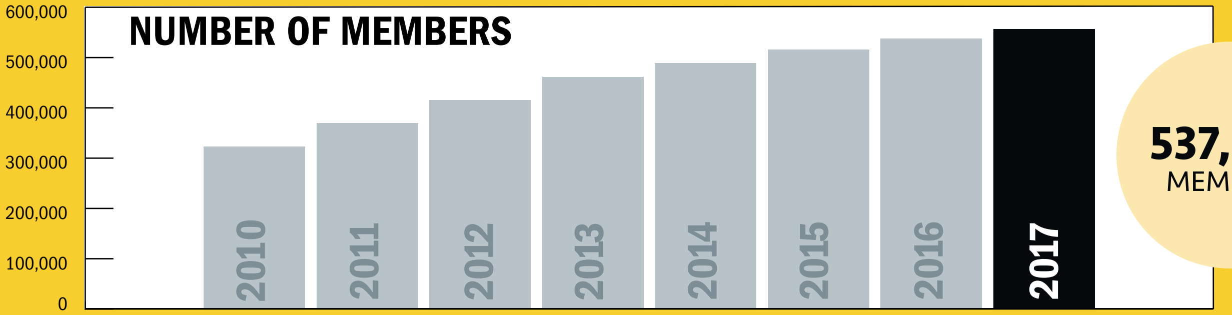
For 2018, we will continue the focus on enhancing our member services, bedding down our Fund Admin transition while actively seeking opportunities to grow membership and our investment portfolio.

On this note, I would like to sincerely thank our Chairman Hulala Tokome and our Board of Directors for their counsel and guidance over 2017. I also acknowledge my fellow management colleagues, our leadership team and all staff throughout PNG. Thank you for your unwavering support and commitment in delivering these results for our members.

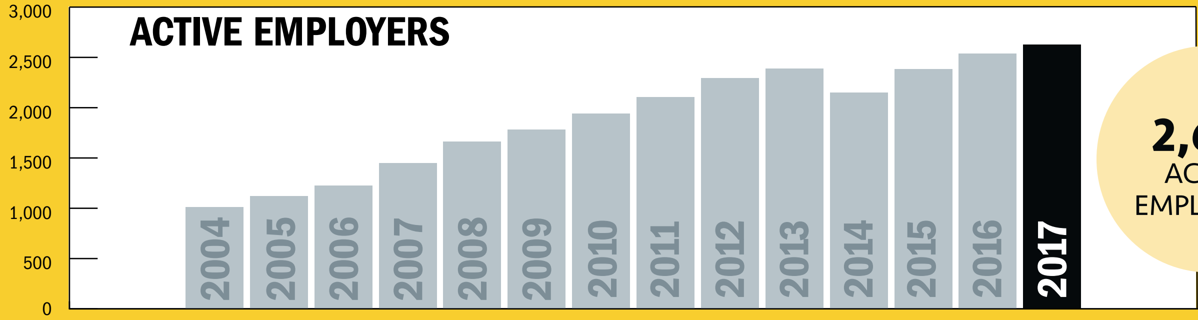
Let's do it again in 2018.

Ian A, Tarutia, OBE
Chief Executive Officer

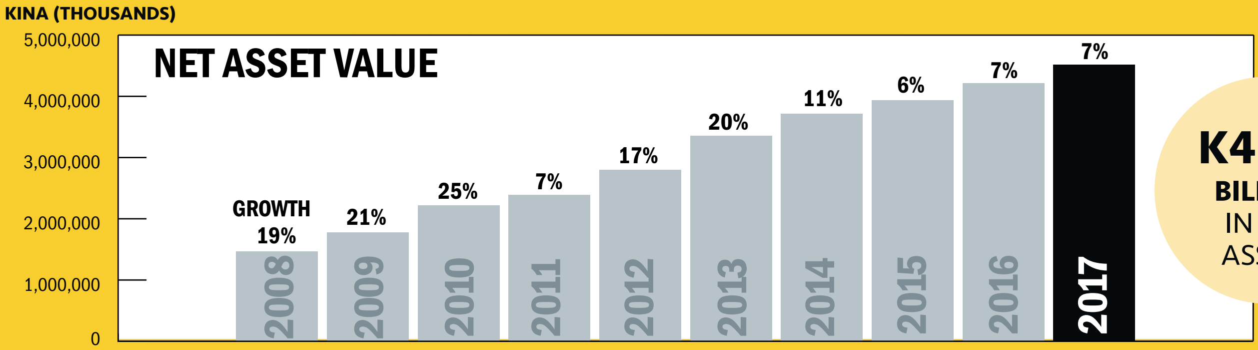
2017 in Numbers



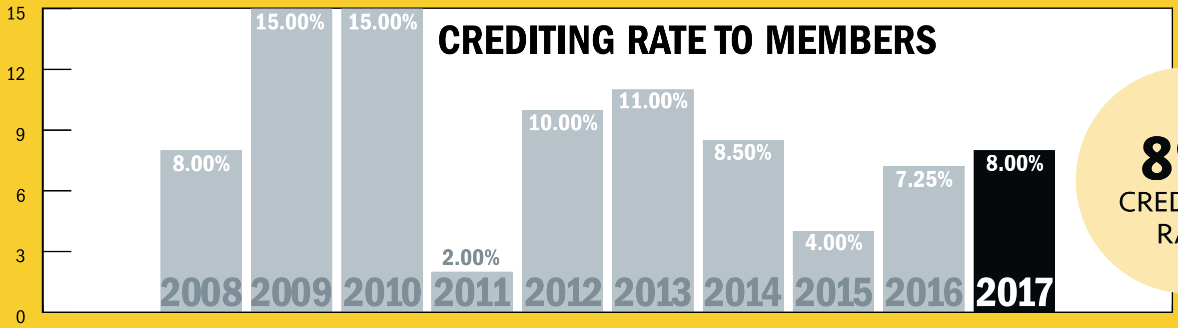
537,520
MEMBERS



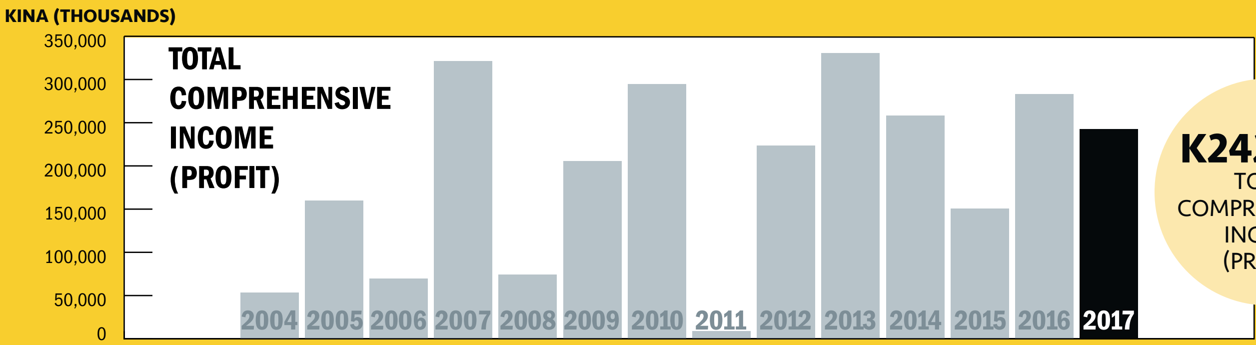
2,626
ACTIVE EMPLOYERS



K4.515
BILLION
IN NET ASSETS



8%
CREDITING RATE



K242,438
TOTAL COMPREHENSIVE INCOME (PROFIT)

THE YEAR IN REVIEW

NASFUND went through a major strategic alignment in 2017 to refocus the Fund to meet member, employer and all stakeholder expectations. The last time the Fund went through such significant change was in 2002 following the 2000 legislative reforms for the superannuation industry.

Key strategic initiatives were executed, which included:

- switching to Kina Investment and Superannuation Services (KISS). The process of transition was not only challenging and difficult, but rewarding in the end for internal administration efficiencies and external customer facing experiences.
- as part of employee engagement activities, all 17 branch employees were brought in one place with head office employees. This has improved engagement across the business with a collective future focus to better service our clients.
- streamlining and simplifying staff alignment to core roles and improving communication across functions.
- recruitment of three experienced and talented executives to lead the Member Services, Human Capital and Risk and Compliance teams.
- successful completion of an investment project to review less yielding assets for divestment to improve member returns.
- member satisfaction surveys were conducted in the first half of 2017 to gauge member sentiment around NASFUND's services and products including investment strategy. It is pleasing to note NASFUND did better than world class benchmarks against Australian superannuation funds as a world class model of pensions. While it is acknowledged the second half of 2017 was a rough ride both for the Fund and members given the Fund Administrator transition. These surveys are now conducted annually, including for 2018, to generate objective member feedback to improve the customer experience.

Long-term investment in agribusiness

Mainland Holdings is a good example of the benefits of NASFUND making a long-term investment. Back in 2011, Mainland was making losses, but it has since recovered strongly with our backing.

NASFUND became an equity holder in the business in 2011 and now owns 70 per cent of the company, with local Morobe farming groups owning the remaining 30%.

Mainland is now one of the biggest and most important agribusinesses in Papua New Guinea, with an annual turnover of K400 million and a profit of K41 million before tax. In all its products lines, it is either number one or two in the country.

Mainland is a diversified enterprise, with operations in poultry, flour, stockfeed, crocodiles, table eggs and day old chicks. The business is based in Lae, but it has recently established an egg operation in Port Moresby. The company's 2,200 employees are predominately based in Lae but are also located in Hagen and Port Moresby.

Mainland runs the only crocodile business in PNG, selling the skins to Heng Long Leather, Caravel Pelli Pregiate SPA, Reef leather and Horiuch. The crocodile meat is sold locally and exported to Australia.

On the poultry side of the business, Mainland's approach is to work with local out-growers who own and operate their own businesses. The company provides day old chicks and local farmers then bring back the grown birds. All suppliers must earn the right to supply by observing standards of service, quality and price. It is a close relationship that is likely to deepen with the company moving into farming sorghum and soya beans.

The reason for the move into cropping is the growing difficulties in acquiring foreign exchange in PNG. After a suggestion by a local bank, which was unable to help furnish foreign exchange, the board and management initiated a bold strategic move into growing its own feed.

Mainland imports 150,000 tonnes of Australian wheat each year of which 60,000 tonnes is used in stock feed. Sorghum can be a replacement for that wheat and the potential financial gains could be significant. Stock feed represents 70 per cent of the cost of an egg and 60 per cent of the cost of a chicken. Stubble from the sorghum can also be used as litter for the chicken sheds.

Extensive research had to be undertaken to ensure the crops would survive local pests. The first trial began in June 2017 in the Markham Valley, and the second trial was undertaken in November 2017. Both were successful and 800 hectares were planted in March 2018.

The company's aim will be to crop in February and October each year and to plant 12,000 hectares by 2020, potentially eliminating K63 million in foreign exchange. This will necessitate working with local farmers and landowners.

The relationship with local farmers will be developed in phases: leasing the land at an agreed rate; teaching the farmers to farm; working in partnership to develop data on yields and track records so as to guide investment; and the final phase, letting the farmers take over operations completely, with Mainland being just a buyer.

There is considerable potential upside in the company's poultry business. Consumption is comparatively low in PNG at five kilos per person a year. In Australia the equivalent figure is 60 kilos and in New Zealand 42 kilos.

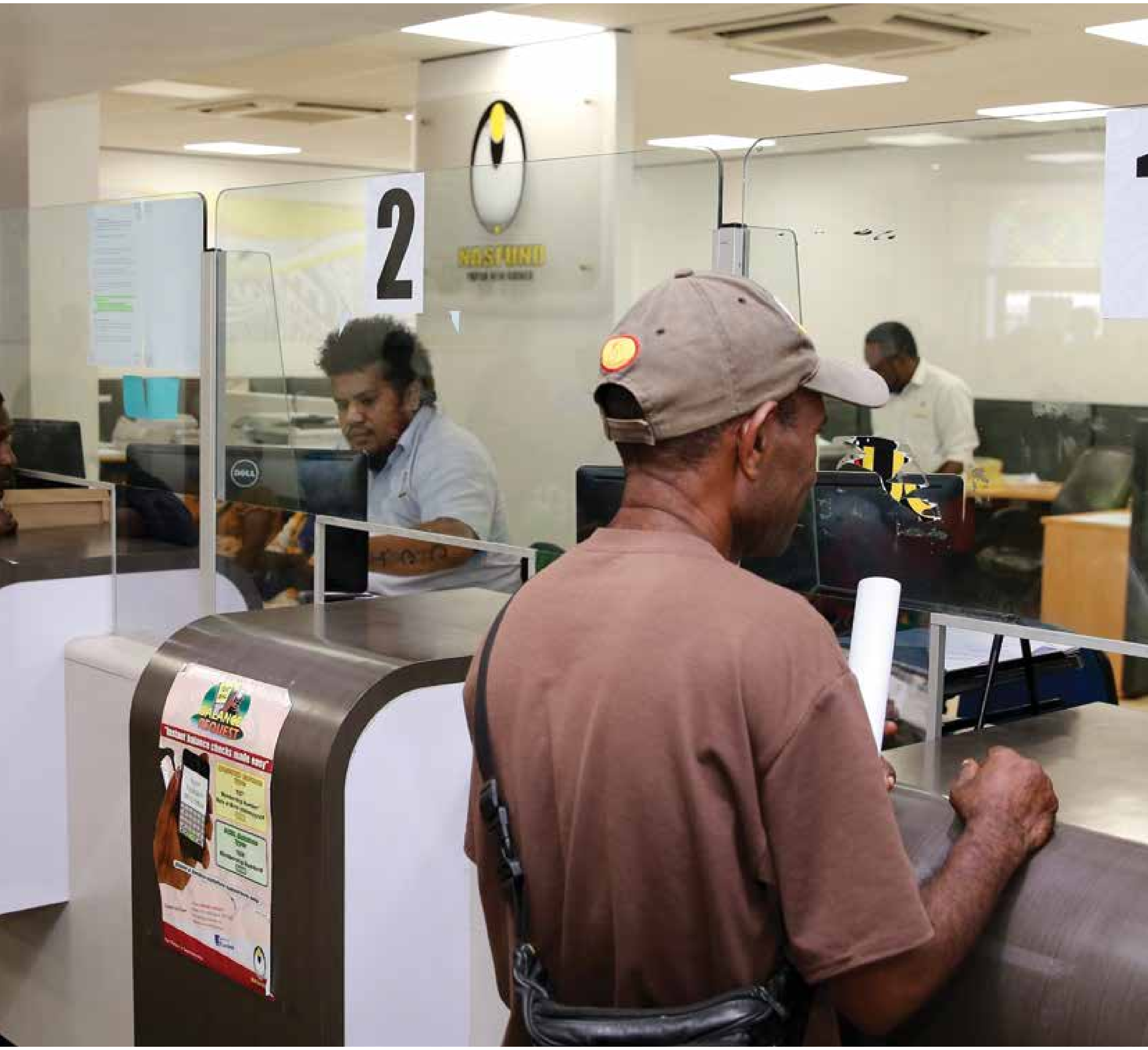
By sourcing grains locally, it will be possible to protect local poultry security and continue the company practice of providing low cost quality foods. Mainland's prices have been kept stable for over two years.

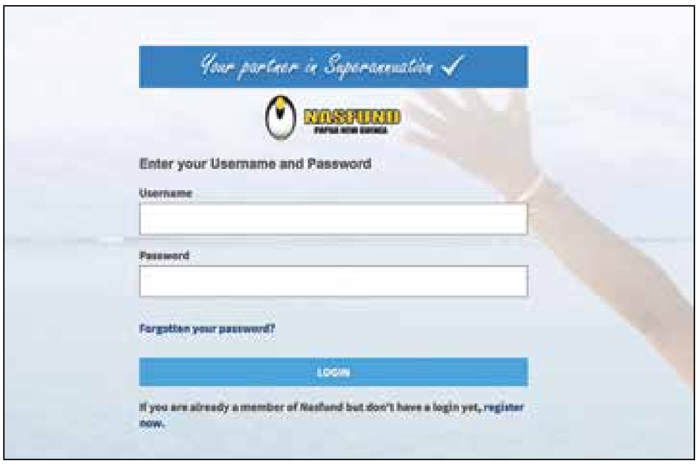
Mainland typically pays 25 to 35 per cent of its profit after tax in dividends, subject to cash flow availability. In 2016, the dividend to shareholders was K9.961 million, up from K7.343 million in 2015.

Thanks to our shareholding, 70% of those profits now flow to NASFUND.

Technology and Automation.

NASFUND deployed a case management system that has removed the hassles of having to batch files at the branches for sending into Head Office for processing. All documentation from the branches is now moved instantly from branch counters to head office for processing, and seamlessly transmitted to the back office. Further more, there is greater visibility and improved productivity from the workflow system acting as a filing system for the management of active cases.





Member and Employer Self Service

NASFUND also implemented real time access to member accounts via desktop internet access or smartphone app. As at 31st December 2017, eleven thousand (11,000) members were signed up and actively accessing their accounts online.

Employers were also given access to the Employer Online portal (EOL) to load member contributions directly.

NASFUND transforms Loloata Island Resort

One of NASFUND's notable domestic current investments is Loloata Island Resort in Bootless Bay near Port Moresby. The resort, for many years popular with dive enthusiasts, is getting a stylish makeover as four-star hotel and boutique conference venue.

The resort, which is expected to deliver a strong, long-term returns to NASFUND members, is expected to open in the first half of 2019.

The project is a joint venture between NASFUND and Lamana Development, a company that has considerable experience in building hotels and executive apartments in PNG and other Pacific nations, such as the Heritage Park in Honiara, Solomon Islands and the Grand Pacific in Suva, Fiji.

Australian company Thomson Adsett, which has extensive experience in resort and leisure architecture, is responsible the modern design. Ben Kearney, Thomson Adsett's Director of Special Projects for the Asia-Pacific region, says the aim has been to create a resort that engages with the rugged natural landscape and carries its own distinct identity. At the same time, it will embody the history of the original resort.

The original resort is already familiar with many people in Port Moresby; it is only 20 kilometres east of town and two kilometres offshore. It has long been a popular option for day trips and weekend getaways. The ferry from a jetty just off the Magi Highway takes 15 minutes.

Lamana and NASFUND bought the property in the first half of 2016 from the previous owner, Richard Knight, who had between 12 and 20 bungalows built of timber.

The new development will retain the basic location. It will be on the same side of the island, and the jetty and the dive shop will be in the same place.

Lew Nielsen, Director of Lamana Development, says the target will be the business market, including Chinese visitors. There will be 66 accommodation suites, two conference rooms, a restaurant, casual cafés and a bar. Other highlights will be a water sports pavilion, a pool and two retail outlets.

The new-look Loloata Island Resort will offer international visitors the opportunity to gain access to a local island without the need for domestic air transfers.

Mooring provisions will be provided to allow for water craft, and there will be access for day and weekend visits outside the resort. Snorkellers will be taken to another island and there will be other water sports, including kayaking.

NASFUND and Lamana have a history of working together.

'NASFUND joined us with Heritage Park Hotel in Solomon Islands,' says Lew Nielsen. "That has been a very successful development. NASFUND was also a partner in the Grand Pacific Hotel in Fiji."

Loloata Island has 30 recognised dives and is superbly located. 'You can see some of the high rises from Port Moresby from the resort,' observes Nielsen. "Look in another direction and you can see water villages. It is a nice cultural mix of things.

"And it has exceptional diving; it is being promoted as the best diving close to a capital city and will get international divers and people coming off the Kokoda trail."

THE YEAR IN REVIEW

Employer Contributions

It is worthy of noting the significant work by NASFUND's employer account managers to reduce unallocated contributions from the usual month-to-month level of K40 million down to less than K20 million by 30th of June. This placed the Fund in good territory for transition to the new Fund Administrator's systems and processes.

Overall for 2017, the contributions team attained a record K493 million in contribution flows to the Fund – significantly higher compared to prior years. This bodes well for members to earn decent annual interest.

Member Payments

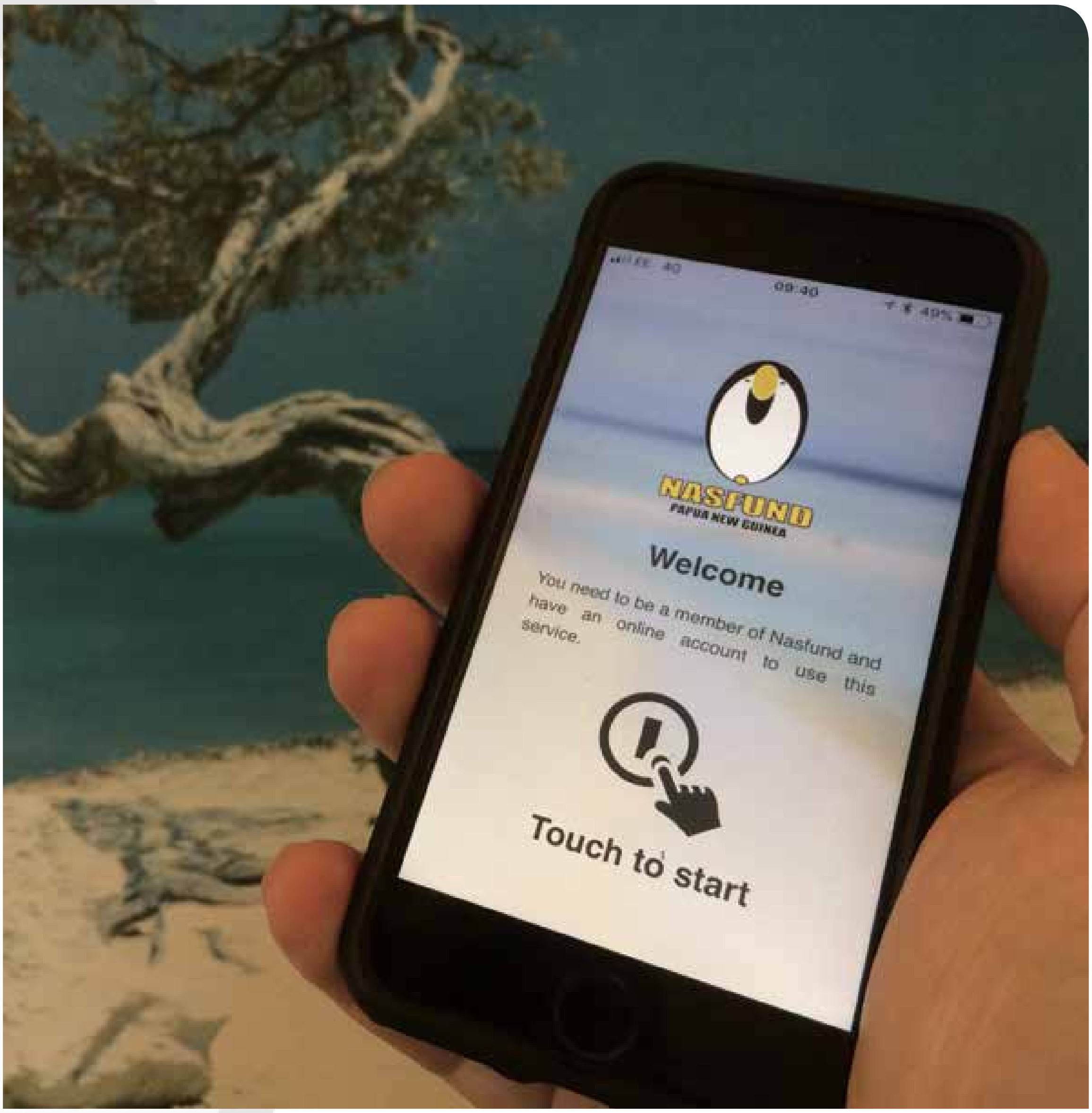
A major alignment and improvements were done around payment processes, systems and people capability to improve outcomes. Total payment transactions reduced from 75,000 in 2016 to 61,000 in 2018. This resulted in less member payments of K431 million, with a K62 million preserved against contributions of K493 million.

Voluntary Contribution

Kicking goals for RETIREMENT

Email: voluntary@nasfund.com.pg

THE YEAR IN REVIEW



2018 Focus

While 2017 was a year of major change and challenges, NASFUND also kept a strong focus on 2018. Strategic initiatives of which the ground work was initiated in 2017 include:

- Rollout of backup network connectivity to service 19 NASFUND branches and service centres.
- Implementation of a Customer Relationship Management (CRM) platform.
- Improved branding and communication activities.
- Improved systems and processes around voluntary contribution for mainstream members through employer payrolls.
- Wall mounted dashboard display of real time workflow processing at Head Office.
- Free access to NASFUND's online services by members and employers.
- Rollout of ticketing system for major branches with high member traffic – Boroko, Port Moresby (Town) and Lae. This will improve management of member traffic at the branches and provide meaningful insights, for data driven decisions by management.
- Scoping and build of an online payments channel for employers to load contribution schedules, make payments online, and have contributions allocated automatically. It will be streamlined for employers and a version for members to make voluntary contribution payments online which will also be automatically allocated.

9 April 2018

PACWEALTH CAPITAL

Dear Members of NASFUND,

2017 was expected to be a rather dull year with low economic growth, with few exciting investment opportunities on the horizon, with FX shortages and with a tight Government budget. As it turned out it was a good year for your investment portfolio, resulting in an annual crediting rate of 8%.

In 2017, PacWealth Capital, your Investment Manager, performed an in-depth review of the Strategic Asset Allocation (SAA). Regular readers of NASFUND's Annual Reports will know that the SAA is the optimal composition of the Fund to achieve the return objectives, given the risk appetite and the liquidity constraints. It describes the distribution of funds to various Asset Classes such as Cash, Property, Fixed Income and Equity.

As a result, the Board agreed to a 5-year implementation plan and a new SAA which sees 3 new asset classes added to the investment universe for the Fund.

- Domestic Infrastructure
- International Fixed income
- International Emerging Market Equity

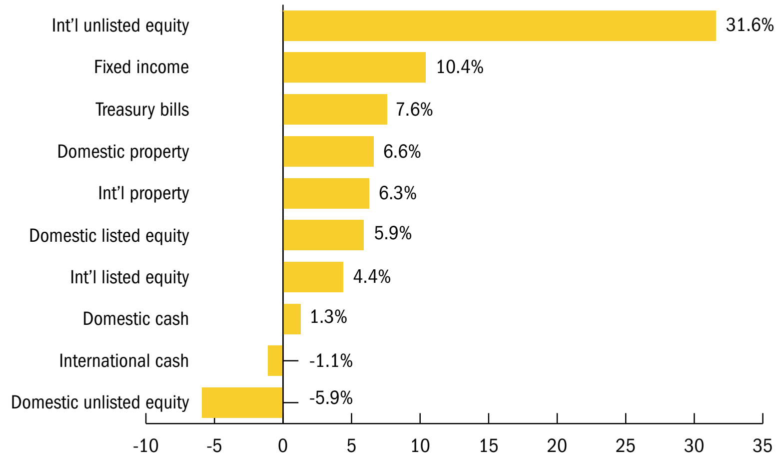
The table below shows the current NASFUND Strategic Asset Allocation:

Asset class	Minimum bound	Strategic asset allocation	Maximum bond
Domestic cash	5%	10%	15%
Domestic sovereign fixed income	15%	21%	25%
Domestic property	15%	20%	25%
Domestic infrastructure	5%	8%	10%
Domestic equity	10%	18%	20%
Total domestic		77%	
International cash	0%	0%	5%
International fixed income	0%	5%	10%
International equities	5%	12%	15%
Emerging market equities	0%	6%	10%
Total international		23%	
Total		100%	

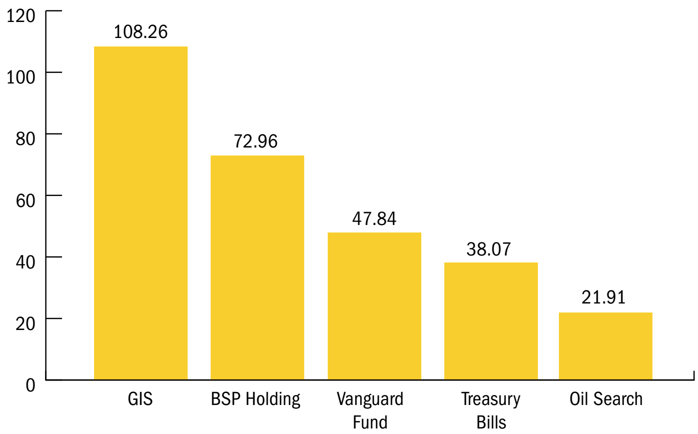
Table 1: NASFUND Strategic Asset Allocation. Source: PacWealth Capital

What were the main drivers for the 2017 result?

The graphs show that the top performing asset class in 2017 was international unlisted equity with a return of over 31%. This asset class is mainly made up of an investment in a Vanguard international equity fund. A strong second was the Fixed Income portfolio, returning over 10%. Only 2 asset classes showed a negative return, international cash and domestic unlisted equity.



If we look at individual assets it is clear that the GIS portfolio has provided the fund with the strongest income and valuation gains, closely followed by BSP while Vanguard added nearly PGK 50m to the results.



The road ahead.

The adoption of the three new Asset Classes in the SAA opens new opportunities for investment for the Fund. Domestic Infrastructure has received the most attention in 2017 and will be under close review in 2018 as well. The SAA implementation plan that was developed for your Fund will provide a good guide for new investments. The beginning of the new year has seen an increase in volatility in international markets, geopolitical uncertainties and talks of trade wars. Domestically, the market is preparing for APEC in November and for decisions on some major resources investments. Will domestic market sentiment pick up in the course of 2018? Your investment manager will certainly do what is in its power to produce a healthy return for the Fund and to manage the associated risks.

We thank the Board and the management of NASFUND for its enduring support in 2017 and we are looking forward to a continued and successful cooperation in 2018.

Eric Kramer
CEO
PacWealth Capital Limited

Kina Investment & Superannuation Services Limited

kina

2017

YEAR IN REVIEW

It is with great pride that Kina reports its first fund administrator's statement for the period ended 31st December 2017 for the National Superannuation Fund Limited (NASFUND). 2017 has been a year of rapid change for Kina with the transition of the members of NASFUND to the Acurity system in the 3rd quarter. While this process proved challenging, we are pleased to report that the systems we bring across have been designed to provide and will result in a significantly improved member/customer experience for NASFUND members and their employers.

This transition has delivered systems that provide a platform for superior customer services to the members of NASFUND

Acurity Online (Member) Module and Mobile Application

This module delivers an online administration portal for members which allows members to view their contributions, benefits and account details in real-time. Members are also able to update their contact details, download Member Bio-data Forms and Annual Statements through this portal. Complimentary to this, the Mobile Application enables easy and fast access to the member portal for members on a smartphone. For the first time, NASFUND members are now able to see real time status of their member accounts at their convenience. This gives members the opportunity to ensure that their membership information is always kept up to date.

Acurity Online (Employer) Module

This new module has allowed employers to submit member contribution and payment files online. Validation rules have been incorporated to ensure correct employer submission and data integrity with the aim of reducing reconciliation issues. NASFUND Employers can now upload all contribution online at the convenience of their offices without having to visit a NASFUND branch.

An integrated Document image and workflow management system

This document image and workflow management system has been rolled out to NASFUND offices enabling timely access to member data and information. This has resulted in efficient workflow leading to significant reduction in errors and related downtime and significant improvements in turnaround time for NASFUND member services. NASFUND management now has full visibility of all member and employer applications.

2017 Operational Statistics

- Contribution: K493.1 million received, K466.2 million allocated and K26.9 million unallocated as at 31 Dec 2017.
- Payments: A total of K430.7 million was paid out by 31 Dec 2017.
- Text Balance: A total of 529,266 members have access to the Text Bal Service as at 31 Dec 2017.
- Member Online: In the last quarter alone, 10,672 members have subscribed to the member online portal.
- Employer Online: As at 31 Dec 2017, 564 employers have registered to use the employer online portal.

With the transition to Kina, NASFUND members now have access to real time information anywhere through the Acurity Online portals, ultimately equipping members in making informed, sound decisions around saving for retirement. It is our intent to provide the best customer service experience via these platforms.

We look forward to working with NASFUND and its members in ensuring that members can achieve their retirement goals in 2018 and beyond.

Together it's possible!

Adam Fenech
General Manager
Kina Investment & Superannuation Services

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 ("the Fund") for the year ended 31 December 2017.

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 K242.438 million (2016: profit after tax of K283.471 million).

Directors

The directors of the Trustee at the date of the report of the Fund are listed on page 6. 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 2017.

Remuneration of Trustee Directors

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

	2017	2016
Director's name	K	K
Hulala Tokome	176,897	137,931
William Lamur, OBE (resigned 1 January 2018)	144,828	155,172
Melchior Togolo CBE	-	124,138
Graham Ainui MBE	144,828	124,138
Lady Mina Siaguru	-	93,103
Murray Woo	144,828	124,138
Vera Raga	144,828	124,138
Lata Milner, MBE	144,828	124,138
David Doig	144,828	124,138
Charles Vee	160,000	62,069
Tamzin Wardley	144,828	-
	1,350,693	1,193,103
Independent member of audit, risk and investment committees		
Arthur Sam	6,250	26,800
	1,356,943	1,219,903

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. Hulala Tokome
Chairman
Date: 11 April 2018

Ms. Lata Milner MBE
Chair of the Audit and Risk Committee
Date: 11 April 2018

Trustees' declaration

In our opinion, the financial statements set out on pages 33 to 80 are drawn up so as to give a true and fair view of the state of affairs as at 31 December 2017 and the financial performance 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 Board of the Trustee has satisfied themselves that they have:

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. Ensured the risk management systems are operating effectively and are adequate in regards to the risk they are designed to control; and
4. No apparent conflicts of interest with respect to National Superannuation Fund's engagement of an external auditor which may compromise the independence of the auditors performance.

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

DATED at PORT MORESBY this 11th day of April 2018.

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

Mr. Hulala Tokome
Chairman
Date: 11 April 2018

Ms. Lata Milner MBE
Chair of the Audit and Risk Committee
Date: 11 April 2018

Management's declaration

In our opinion, the financial statements set out on pages 33 to 80 are drawn up so as to give a true and fair view of the state of affairs as at 31 December 2017 and the financial performance for the year ended on that date of the National Superannuation Fund in so far as they concern members of the National Superannuation Fund.

Management has satisfied themselves that it 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. Ensured the risk management systems are operating effectively and are adequate in regards to the risk they are designed to control; and
4. No apparent conflicts of interest with respect to National Superannuation Fund's engagement of an external auditor which may compromise the independence of the auditors performance.

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

DATED at PORT MORESBY this 11th day of April 2018.

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

Mr. Ian Tarutia OBE
Chief Executive Officer

Rajeev
Mr. Rajeev Sharma
Chief Financial Officer

Deloitte.

Deloitte Touche Tohmatsu

Level 9, Deloitte Haus

MacGregor Street Port Moresby

PO Box 1275 Port Moresby

National Capital District

Papua New Guinea

Tel: +675 308 7000

Fax: +675 308 7001

www.deloitte.com/pg

Independent Auditor's Report to the Members of National Superannuation Fund Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of National Superannuation Fund Limited (the "Fund"), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, 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, the Trustee's and Management's declaration.

In our opinion the accompanying financial report presents fairly, in all material respects, the Fund's financial position as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the the Superannuation Prudential Standards.

Basis for Opinion

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

We are independent of the Fund in accordance with the auditor independence requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other Information

The Directors and management of the Trustee are responsible for the other information. The other information comprises the information included in the Fund Information and the Report of the Trustee of the Fund, for the year ended 31 December 2017, but does not include the financial report and our auditor's report thereon.

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

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

Directors' Responsibilities for the Financial Report

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 Directors determine is necessary to enable the preparation and fair presentation of the financial report and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

Report on Other included Legal and Regulatory Requirements

The financial report of National Superannuation Fund Limited is in accordance with the the Superannuation (General Provisions) Act 2000 and the Superannuation Prudential Standards issued by the Bank of Papua New Guinea and proper accounting records have been kept by the Fund. We have not performed any other sevices for National Superannuation Fund Limited during the year ended 31 December 2017.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Benjamin Lee

Registered under the Accountants Act 1996 Partner

Port Moresby, 11th April 2018

Statement of Financial Position

	Note	31 Dec 2017 K'000	31 Dec 2016 K'000
Investment assets			
Cash at bank and on hand		89,343	54,491
Interest bearing deposits and treasury notes		779,284	539,935
Interest receivable (net)		48,784	43,385
Property receivables		9,316	21,933
Government securities and other loans	9	1,225,024	1,184,687
Equity investments	10	2,021,420	2,009,382
Investment properties	11	444,175	469,035
		4,617,346	**4,322,848**
Other assets			
Withholding taxes recoverable		255	5,726
Other receivables		2,209	937
Property and equipment	12	9,923	11,021
		12,387	17,684
Total assets		**4,629,733**	**4,340,532**
Current liabilities			
Sundry creditors and accruals	14	50,381	27,314
Withholding taxes payable		8,983	3,657
Provisions for employee entitlements	15	803	1,326
Current tax liabilities	13 (b)	1,977	20,649
Total current liabilities		**62,144**	**52,946**
Deferred tax liability (net)	13 (c)	11,865	27,084
Provisions	15	41,107	41,429
Total liabilities		**115,116**	**121,460**
Net assets		**4,514,617**	**4,219,072**
Represented by			
Liability for accrued benefits			
– Allocated funds		4,161,146	3,828,950
– Unallocated contributions		31,082	33,434
– Unallocated earnings		316,545	350,843
Revaluation reserve	16	5,845	5,845
Total members funds		**4,514,617**	**4,219,072**

Mr. Hulala Tokome
Chairman
Date: 11 April 2018

Ms. Lata Milner MBE
Chair of the Audit and Risk Committee
Date: 11 April 2018

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 and Loss and Other Comprehensive Income

	Note	2017 K'000	2016 K'000
Investment income			
Interest income		165,435	159,632
Dividend income		113,482	70,793
Property rentals		61,559	70,892
Movement in net fair value of investments	17	(46,456)	54,995
Loss on disposal of shares		1,483	2,635
Net foreign exchange gain	18	41,112	18,356
		336,615	377,303
Less: property costs		(23,905)	(24,833)
Net investment income		**312,710**	**352,470**
Other income and expenses			
Sundry income		2,092	1,595
Profit / (Loss) on disposal of fixed assets		(47)	216
		2,045	**1,811**
Expenditure			
Provision for bad and doubtful debts		-	-
Staff related expenses	19	(20,217)	(19,655)
Fund administration fee		(8,342)	(6,779)
Investment manager's fee		(6,307)	(5,914)
Advertising		(1,295)	(1,297)
Depreciation		(2,134)	(1,530)
Board expenses		(1,700)	(1,713)
Bank of PNG regulatory fees		(1,891)	(373)
Donations		-	-
Other administration expenses		(11,181)	(13,109)
		(53,067)	(50,370)
Profit before tax		**261,687**	**303,912**
Income tax expense	13	(19,249)	(20,440)
Profit for the year		**242,438**	**283,471**
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		**242,438**	**283,471**

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	Unallocated Contribution	Unallocated Earnings	Revaluation Reserve	Total
	K'000	K'000	K'000	K'000	K'000
As at 1 January 2016	**3,684,929**	**37,424**	**208,113**	**5,845**	**3,936,311**
Profit for the year	-	-	283,471	-	283,471
Other comprehensive loss	-	-	-	-	-
Total comprehensive income for the year	-	-	283,471	-	283,471
Contributions received	-	451,633	-	-	451,633
Allocated contributions	455,623	(455,623)	-	-	-
Additional members' fund upon amalgamation with SIOS (Note 8)	-	-	-	-	-
Transfers from other funds	-	-	-	-	-
Interim interest	5,488	-	(5,488)	-	-
Benefits paid to members	(456,007)	-	-	-	(456,007)
Interest allocated to members' accounts	138,865	-	(138,865)	-	-
Front end fees	(337)	-	-	-	(337)
Prior year tax true-up	-		4,001		4,001
Provision on member funds	389	-	(389)	-	-
As at 31 December 2016	**3,828,950**	**33,434**	**350,843**	**5,845**	**4,219,072**
Profit for the year	-	-	242,438	-	242,438
Other comprehensive loss	-	-	-	-	-
Total comprehensive income for the year	-	-	242,438	-	242,438
Contributions received	-	493,094	-	-	493,094
Allocated contributions	495,446	(495,446)	-	-	-
Interim interest	3,607	-	(3,607)	-	-
Benefits paid to members	(430,680)	-	-	-	(430,680)
Interest allocated to members' accounts	263,823	-	(263,823)	-	-
Front end fees	-	-	-	-	-
Prior year tax true-up	-	-	-	-	-
Provision on member funds	-	-	(9,307)	-	(9,307)
As at 31 December 2017	4,161,146	31,082	316,545	5,845	4,514,617

Allocated funds represent National Superannuation Fund's obligation to pay benefits to members and beneficiaries arising as at 31 December 2017.

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	2017 K'000	2016 K'000
Cash flows from operating activities			
Interest received		160,035	151,709
Net rent received		74,176	60,370
Dividend received		118,953	71,823
Wages and administration payments		(50,931)	(51,835)
Income tax received / (paid)	13	-	-
Net cash from operating activities	**22(b)**	**302,233**	**232,067**
Cash flows from investing activities			
Purchase of property and equipment	12	2,859	2,856
Proceeds from sale of property and equipment		25,000	(1,134)
Proceeds from government securities and other loans		39,722	-
Proceeds from sale of property investments		18,958	1,350
Investments in equity		(179,080)	(192,183)
Investments in government securities and other loans		(279,685)	(138,645)
Investments in investment property		(24,861)	(65,941)
Net cash used in investing activities		**(397,087)**	**(393,697)**
Cash flows from financing activities			
Transfer (to) / from other funds (net)		-	(337)
Contributions received		493,094	451,633
Benefits paid		(430,680)	(456,007)
Net cash from financing activities		**62,414**	**(4,711)**
Increase in cash and cash equivalents		**(32,440)**	**(166,341)**
Effect of exchange rate fluctuations	18	41,112	18,356
Cash and cash equivalents at the beginning of the year		105,796	253,781
Cash and cash equivalents at the end of the year	**22(a)**	**114,467**	**105,796**

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

Notes to, and forming part of, the financial statements
For the year ended 31 December 2017

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 20 March 2018.

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 the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Estimation uncertainty

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

Valuation of investment properties

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

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

Valuation of financial assets and liabilities

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

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

Contingent liabilities

The Fund is currently involved in various legal proceedings as disclosed in note 21. Estimates of 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 IRFRs 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 2017.

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[1]
IFRS 16	Leases[2]
Ammendments to IFRS 40	Transfer of Investment property[1]

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

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 lAS 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 lAS 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 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 will not have a material impact on amounts reported in respect of the Fund's financial assets and financial liabilities. However, there may be impacts on disclosures.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accountng treatments for both lessors and lessess. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an indentified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e on balance sheet) except for short-ter leases and leases of low value assets. The right-to-use asset is initally measure at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurment of the lease liability. The lease liability is measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments will be split into a principal and an interest portion which will present as financing and operating cash flows respectively.

In contract to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating or a finance lease.

Furthermore, extensive disclsoures are required by IFRS 16.

The directors of the Fund have not assessed the impact that the application of IFRS 16 will have on the Fund's financial statements.

Amendments to IAS 40 Transfer of Investment Property

The amendments clarify that the transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change is use has occurred. The amendments further clarify that situations other than the ones listed in IAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e change in use is not limited to completed properties).

The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. Entities can apply the amendments either retrospectively (if this is possible without the use of hindsight or prospectively. Specific transition provisions apply.

The directors of the Fund do not anticipate that the application of these amendments will have an impact on the Fund 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.

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, government securities and treasury notes, 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 including treasury notes are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, government securities market 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.

ii. Non-derivative financial liabilities

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

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

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

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

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

f. Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated deprecation and accumulated impairment losses.

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

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss.

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.

Depreciation

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

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Fund will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

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

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

g. Investment property

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

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

h. Impairment

i. Financial assets (including receivables)

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

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

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

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

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

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

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

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

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

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

ii. Non-financial assets

The carrying amount of the Fund's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

i. Employee benefit plans

i. Defined contribution plans

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

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.

ii. Short-term employment benefits

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

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

j. Provisions

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

k. Revenue

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

Dividend revenue

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

Interest revenue

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

Movement in net market value of investments

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

Rent

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

l. Expenses

Fees, commission and other expenses

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

m. Income taxes

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

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

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

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

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

4. Determination of fair values

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

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

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

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

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

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

The following is a 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 is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

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

ii. Investment property

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

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

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

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 2017.

iii. *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 (e).

iv. *Trade and other receivables*

The fair value of trade and other receivables, excluding construction work in progress, 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.

v. *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 management 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 Remuneration Committee, which is responsible for developing and monitoring the Fund's risk management policies. The committee reports regularly to the Board of Directors of the Trustee company on its activities.

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

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

i. *Credit risk*

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

Trade and other receivables

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

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

Investments

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

ii. *Liquidity risk*

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

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

iii. *Market risk*

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

iv. *Operational risk*

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

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

iv. Operational risk

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 Remuneration Committee and Board of Directors.

6. Funding arrangements

The employers have contributed to the Fund during the current financial year at a rate of 8.4% of the gross salaries of those employees who were members of the Fund (2016: 8.4%). Employees contributed to the Fund during the year at a rate of 6.0% of the gross salaries (2016: 6.0%).

7. Fund requirements

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

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

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

8. Policies required under the Prudential Standards

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

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

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

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

The Board reviewed these policies in November 2015 as part of its annual review calendar and adopted final amendments on April 2018.

9. Government securities and other loans

		31 Dec 2017	31 Dec 2016
	Note	K'000	K'000
Government Inscribed Stock	(a)	1,058,812	936,278
Sovereign Community Infrastructure Treasury Bill (SCITB)	(b)	68,581	125,000
State Grant	(c)	-	2,000
Notes and other loans	(d)	97,631	121,409
		1,225,024	**1,184,687**

a. Government Inscribed Stock

Government Inscribed Stock (GIS) are recorded net of unamortised discounts and premiums on acquisition which are amortised over the life of the stock. The GIS have coupon rates ranging from 6% to 14% and yield rates ranging from 6.65% to 16% with a total face value of K1,049.9 million (2016: K923.1 million). The bonds will mature between 2018 and 2031.

For 2017, 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 K2.9 million.

The yields used when fair valuing the GIS are derived from the most recently GIS issued by the State of Papua New Guinea. Yields are not directly comparable in all cases as there may not have been any GIS issued with the exact remaining life as the GIS held by the fund. As such yields may be estimated using, where possible a yield curve, or when not possible, the weighted average of yields observable. If there was a decrease of 25 bps in the estimated yields as at 31 December 2017, this would have resulted in an approximate increase in value of K10.03 million to the GIS held by the Fund. A similar decrease of 25 bps would result in an equal but opposite effect.

b. Sovereign Community Infrastructure Treasury Bill (“SCITB”)

		31 Dec 2017	31 Dec 2016
	Note	K’000	K’000
SCITB		68,581	125,000
Interest receivable from SCITB		35,250	35,250
Provision for impairment	9(e)	(35,250)	(35,250)
		68,581	125,000

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 15 and 21.

The yield on the bill is 7.05%. Interest relating to the bill of K8.8 million (2016: 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 was 6.67%. The grant ended in 2016.

d. Notes and other loans

		Maturity	Average yield	31 Dec 2017	31 Dec 2016
	Note	(years)		K'000	K'000
PNG Power		-	10.2%	4,659	9,281
Airlines of PNG promissory notes		-	8.0%	-	-
Panamex Limited		1	12.0%	11,198	14,698
TDC Samoa	(i)	-	15.0%	-	-
Boroma Piggery	-		2.0%	-	-
Tawaili Resort	(ii)	-	-	4,057	4,057
Harbour City Dev. Ltd				-	-
Big Rooster		3-5	9.2%	45,000	45,000
Heritage Park Hotel			12.5%	27,016	37,114
Loloata Island Resort				9,758	6,091
Malagan Loan				-	1,121
Carpark Loan				-	506
Gewani Loan				-	7,598
				101,688	125,466
less: provision for impairment	(ii)			(4,057)	(4,057)
				97,631	**121,409**

All loans are subject to fixed interest rates except Taumeasina Development Corporation (Samoa) Limited ('TDC - Samoa'). The interest rate on notes payable by TDC Samoa is based on effective interest rate with minimum yield of 9% (2016: 15%). The loan granted by the Fund has embedded derivatives and is further discussed below.

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 9% (2016: 15%) per annum and the loan is repayable at maturity of August 2019. The loan has been repaid, however, interest of K19.79 million is outstanding as at 31 December 2017 (2016: K18.5m).

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

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

	31 Dec 2017	31 Dec 2016
	K'000	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 2017	31 Dec 2016
	K'000	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 15 and 21.

10. Equity investments

		31 Dec 2017	31 Dec 2016
	Note	K'000	K'000
Quoted investments - domestic	(a)	604,236	610,544
Quoted investments - international	(a)	442,519	387,174
Unquoted investments	(b)	974,665	1,011,663
		2,021,420	2,009,381

a. Quoted investments

Summary of revaluation of quoted investments is as follows:

	2016	Revaluation	Purchases / (Sales)	2017
	K'000	K'000	K'000	K'000
Quoted shares domestic				
PNG Air	31,050	(15,525)	20,000	35,525
Bank of South Pacific Limited	407,865	22,660	-	430,525
City Pharmacy Limited	34,580	(13,832)	-	20,748
Credit Corporation (PNG) Limited	117,988	(15,524)	-	102,464
Kina Securities	19,061	(4,086)	-	14,974
	610,544	**(26,307)**	**20,000**	**604,236**
Quoted shares international				
Oil Search Limited	100,946	19,858	-	120,804
Vanguard	192,959	24,388	23,449	240,796
Steamships Trading Company Limited	93,269	(12,350)	-	80,919
	387,174	**31,896**	**23,449**	**442,519**

Reconciliation of movement in quoted investments is as follows:

		31 Dec 2017	31 Dec 2016
	Note	K'000	K'000
Opening balance		997,719	726,487
Additions during the year		43,449	217,183
Profit on disposal		-	-
Fair value gain	17	5,589	54,049
Closing balance		**1,046,757**	**997,719**

b. Unquoted investments at fair values

Summary of revaluation of unquoted investments is as follows:

				2017	2016			Other	
	Note	Percentage Holding	Valuation Model	Valuation Model	Market Multiple	2016	Revaluation	movements	2017
Unquoted investments						K'000	K'000	K'000	K'000
Amalgamated Packaging Limited		30.00%	(iii)	(ii)			(3,975)	-	
Hornibrooks NGI		21.13%	(ii)	(ii)			(6,000)	-	
Nas Aviation		40.00%	(ii)	(ii) & (iii)			(4,700)	-	
Nasmel Limited	(b (i))	100.00%	(iii)	(ii)			1,091	-	
Turumu Holdings Limited		20.00%	(v)	(v)			(6,150)	-	
The Edge Limited		70.00%	(iii)	(ii)			(2,046)	-	
Port Services Limited		5.00%	(ii)	(i)			(350)	-	
City Centre Developments Limited	(b (ii))	65.00%	(iii)	(ii)			2,231	(16,160)	
South Pacific Brewery Limited		0.72%	(iii)	(iii)			700	-	
Pacific Balance Fund		22.00%	(ii)	(ii)			(20,450)	-	
Toyota Tsusho (PNG) Limited		0.61%		(iii)			-	(3,900)	
Westpac Bank PNG Limited		1.25%		(iii)			-	(11,650)	
Hillside Garden		50.00%	(ii)	(ii)			-	-	
Panamex Limited		46.30%	(iii)	(iii)			17,500	-	
Heritage Park Hotel		60.00%	(ii)	(ii)			3,700	-	
Malagan Limited	(c)	100.00%	(iii)	(ii)			2,637	-	
Carpark Limited	(c)	100.00%	(iii)	(ii)			2,662	-	
Grand Pacific Hotel Ltd		50.00%	(ii)	(iv)			(6,930)	-	
Gewani ltd	(c)	100.00%	(iii)	(ii)			4,391	-	
Capital Insurance Group Ltd		19.20%	(iii)	(iii)			10,400	-	
Total unquoted investments						**1,011,664**	**(5,289)**	**(31,710)**	**974,665**

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

Reconciliation of movement in unquoted investments is as follows:

	Note	31 Dec 2017 K'000	31 Dec 2016 K'000
Opening balance		1,011,664	970,402
Additions / disposals during the year		(15,550)	73,923
Fair value gain/ (loss)	17	(5,289)	10,379
Other adjustments	(iii)	(16,160)	(43,040)
Closing balance		**974,665**	**1,011,664**

The above unquoted investments are stated at fair value, which have been determined by the Board of Directors based on external valuations performed by KPMG PNG (by Zanie Theron - KPMG PNG Partner, Bachelor of Business (Accounting) , Member Institute of Chartered Accountants , Australia and CPA PNG and Ernst & Young Australia (by Michael Fenech – Transaction Advisory Services Partner, Bachelor of Business (Accounting)/Bachelor of Laws, Member of Chartered Accountants Australia and NZ Valuation Specialist Interest Group). 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. (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 (2016: 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 City Centre Developments Limited arising from advances and repayments of short-term working capital requirements.

c. Equity investments that are over 5% of the net asset value of the Fund

Bank of South Pacific Limited 9.54%

Nasmel Limited 5.65%

d. 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.

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. The final valuation is taken at the mid range of the provided valuation range.

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.

v. 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.

vi. 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.

vii. Cost

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

viii. 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 the fair value of the parts attributable to the holding company is summed to arrive at 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.

ix. 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.

e. Sensitivity analysis

The following is a sensitivity analysis of significant unobservable inputs:

	Effect on profit or loss	
	increase / (decrease)	
	31 Dec 2017	31 Dec 2016
	K'000	K'000
Increase of 1 in market multiples	(4,359)	24,535
10% increase in earnings	(9,519)	19,512
Increase of 5% in discount rates	78,338	9,048

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

11. Investment properties and work in progress

		31 Dec 2017	31 Dec 2016
	Note	K'000	K'000
Investment properties	(a)		
Residential properties		57,834	69,671
Industrial properties		28,933	24,919
Commercial properties		352,577	361,233
Land		4,831	13,213
		444,175	**469,035**

a. Investment properties (at market value)

Summary of movement in revaluation of investment properties as follows:

	Valuation Model	Capitalisation Rates	2016	Revaluation	Other Movements	2017
			K'000	K'000	K'000	K'000
Residential properties						
Peacehaven Apartments	MC	11.00%		(2,887)	(600)	
Ramu Sugar Properties	Cost	-		-	(974)	
Sol Wara Apartments	MC	10.81%		(5,352)	69	
Cross Street Apartments	MC	11.00%		(533)	-	
Lot 18 Sect. 69 House Property	MC	11.00%		(302)	-	
Lot 3 Sect. 2 Madang Property	DMA	-		(232)	-	
Lot 11 Sect. 13 KBB Property	DMA	-		(268)	-	
Siroi Panu Units	MC	11.00%		(758)	-	
Airways Avenue Apartments	MC	11.00%		-	-	
			69,671	**(10,332)**	**(1,505)**	**57,834**

	Note	Valuation Model	Capitalisation Rates	2016	Revaluation	Other movements	2017
	Note			K'000	K'000	K'000	K'000
Industrial properties							
API		MC	11.00%		-	-	-
Gerehu		DMA	-				-
Gordons - Cameroon Road		MC	11.11%		4,014	-	-
				24,919	**4,014**	**-**	**28,933**
Commercial properties							
Ravalian Haus		MC	10.00%		5,694	53	
Able Computing Madang		MC	10.00%		-	-	
ANZ Haus		MC	10.00%		7,826	-	
Westpac Head Office Building	(iv)	Cost			-	-	
BSP Douglas Street	(iv)	Cost			-	-	
Lusship Voco Point Lae		DMA			-	(10,200)	
Malahang Shed Regina St. Lae		DMA			(204)	-	
Madang Slipway		DMA			(1,183)	1,183	
Kina Haus		MC	10.00%		(16,187)	5,374	

	Note	Valuation Model	Capitalisation Rates	2016	Revaluation	Other movements	2017
				K'000	K'000	K'000	K'000
NASFUND Haus Lae		MC	11.50%		(28)	28	
NCSL Head Office	(iii)	DMA			(222)	222	
IPA Haus		MC	12.50%		356	-	
The Factory		MC	12.50%		(1,368)	-	
				361,233	**(5,316)**	**(3,340)**	**352,577**
Land							
Section 69, Lae		Cost	-	4,070	(1,221)	-	-
8 Mile and 9 Mile	(ii)	DMA	-	970	52	(314)	-
Lawes Rd		DMA	-	6,353	-	(6,353)	-
Vacant Land, Lae		DMA	-	1,820	(546)	-	-
				13,213	**(1,715)**	**(6,667)**	**4,831**

Reconciliation of movement in investment properties is as follows:

	Note	31 Dec 2017	31 Dec 2016
		K'000	K'000
Opening balance		469,035	515,148
Improvements to properties		4,120	2,694
Disposals of properties		(16,867)	(1,350)
Fair value gain	17	(12,114)	(47,457)
Closing balance		**444,175**	**469,035**

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 K47,640 (2016: K65,705) million have been categorised at Level 2 fair value as the inputs to the valuation techniques used made reference to recent market sales transactions of comparable properties.

The fair value measurement for investment properties of K396,533 million (2016: K403,330 million) have been categorised at Level 3 fair value as the inputs to the valuation techniques used made reference to significant unobservable inputs such as risk-adjusted capitalisation rates.

v. Level 2 fair value

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

	2017	2016
	K'000	K'000
Opening balance	65,705	68,910
Improvements, reclassifications, and additions	(15,462)	(1,455)
Changes in fair value	(2,603)	(1,750)
Closing balance	**47,640**	**65,705**

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:

	2017	2016
	K'000	K'000
Opening balance	403,330	446,238
Improvements, reclassifications, and additions	3,950	2,799
Changes in fair value	(10,746)	(45,707)
Closing balance	**396,534**	**403,330**

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 2017	31 Dec 2016
	K'000	K'000
Increase of 1% in capitalisation rates	(2,940)	63,229
10% increase in rentals	70,980	85,605
10% increase in sales prices and / or replacement costs	1,486	2,870

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

12. Property and equipment

	Land and buildings	Motor vehicles	Office equipment	Fixtures and fittings	Total
Cost or deemed cost	K'000	K'000	K'000	K'000	K'000
At 1 January 2016	-	359	5,754	7,258	13,372
Additions	-	432	2,384	43	2,859
Disposals	-	(367)	-	-	(367)
At 31 December 2016	-	424	8,138	7,301	15,863
At 1 January 2017	-	424	8,138	7,301	15,863
Additions	-	918	1,112	334	2,364
Disposals	-	(322)	-	-	(322)
At 31 December 2017	-	**1,020**	**9,250**	**7,635**	**17,905**
Accumulated depreciation					
At 1 January 2016	-	359	2,887	1,180	4,426
Depreciation for the year	-	31	1,513	-	1,544
Disposals	-	(14)	-	-	(14)
At 31 December 2016	-	376	4,400	1,180	5,957
At 1 January 2017	-	376	4,400	1,180	5,957
Depreciation for the year	-	80	1,513	558	2,151
Disposals	-	(17)	-	-	(17)
At 31 December 2017	-	**439**	**5,913**	**1,738**	**8,091**
Carrying amounts					
At 31 December 2017	**-**	**581**	**3,337**	**5,897**	**9,815**
At 31 December 2016	**-**	**47**	**3,738**	**6,121**	**9,907**

Capital Work in Progress included in property and equipment

	2017	2016
	K'000	K'000
Opening balance	1,116	1,435
Additions	-	(319)
Commissioned	(1,008)	-
Closing balance	**108**	**1,116**

Total property and equipment

At 31 December 2017 9,923

At 31 December 2016 11,023

13. Income tax

a. Income tax expense

		1 Dec 2017	31 Dec 2016
	Note	K'000	K'000
Current tax		38,237	52,319
Under provision of current taxes in previous years		(20,843)	(20,857)
Deferred tax expense		1,855	(11,022)
		19,249	**20,440**
Accounting profit before tax		261,687	303,912
Tax on the profit for the year at 25%		65,422	75,978
Taxation effect of permanent differences			
- Non deductible items		20,877	8,819
- Non taxable items		(17,795)	(25,802)
Dividend rebate		(28,412)	(17,698)
Under provision in prior years		(20,843)	(20,857)
		19,249	**20,440**

b. Income tax balance

	Note	1 Dec 2017 K'000	31 Dec 2016 K'000
Opening balance of income tax payable		20,649	18,032
Current tax payable		41,972	47,337
Under provision of taxes in previous years		(20,843)	(20,857)
Offset of withholding taxes recoverable		(39,801)	(23,863)
Payment during the year		-	-
Balance of income tax payable		**1,977**	**20,649**

c. Deferred tax balances

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

	Asset	Liability	Net
As at 31 December 2017	K'000	K'000	K'000
Property, plant and equipment	-	(120)	(120)
Investment property	-	(20,403)	(20,403)
Provisions	749	-	749
Interest receivable	-	(3,123)	(3,123)
Other	10,463	568.78	11,032
	11,212	**(23,077)**	**(11,865)**
As at 31 December 2016			
Property, plant and equipment	-	79	79
Investment property	-	(17,514)	(17,514)
Provisions	(99)	-	(99)
Interest receivable	-	(1,702)	(1,702)
Other	866	(8,714)	(7,848)
	767	**(27,851)**	**(27,084)**

14. Sundry creditors and accruals

	31 Dec 2017 K'000	31 Dec 2016 K'000
Sundry creditors and other accruals	15,513	9,421.24
Unearned interest	31,038	15,058
Bonds and repayable deposits	3,830	2,835
	50,381	**27,314**

15. Provisions

	31 Dec 2017	31 Dec 2016
	K'000	K'000
Current		
Provisions for employee entitlements	803	1,326
Non current		
Provision for impairment of government securities	39,000	39,000
Provision for long service leave	2,107	2,429
	41,107	**41,429**

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

		31 Dec 2017	31 Dec 2016
		K'000	K'000
Opening balance		2,429	1,886
Charge for the year	19	288	1,030
Payments made during the year		(610)	(487)
Closing balance		**2,107**	**2,429**

16. Revaluation reserve

	31 Dec 2017	31 Dec 2016
	K'000	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.

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

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

	Note	1 Dec 2017 K'000	31 Dec 2016 K'000
Mark to market - GIS		(2,933)	37,529
Shares in listed companies	10	5,589	54,049
Shares in unlisted companies	10	(36,999)	10,379
Investment properties	11	(13,349)	(47,457)
		(47,692)	**54,500**

In respect to those investments realised during the financial year:

	31 Dec 2017 K'000	31 Dec 2016 K'000
Investment properties / unlisted companies / other	1,235	495
	1,235	495
Total (loss) / gain	**(46,456)**	**54,995**

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

	31 Dec 2017 K'000	31 Dec 2016 K'000
Auditors' remuneration – audit	280	271
Legal expenses	371	440
Gain / (loss) on sale of property, plant and equipment	(47)	216
Net foreign exchange gain	41,112	18,356

19. Staff related expenses

	Note	1 Dec 2017 K'000	31 Dec 2016 K'000
Salaries and wages		11,532	11,946
Superannuation	20	1,146	1,031
Long service leave	15	288	1,030
Other expenses and benefits		7,251	5,648
		20,217	**19,655**

The number of full time employees at the end of the year was 152 (2016: 157).

The number of employees whose remuneration exceeds K100,000 for the year was 12 (2016: 9).

Total remuneration (Kina)	31 Dec 2017	31 Dec 2016
	No.	No.
K100,001 TO K150,000	2	2
K150,001 TO K200,000	1	-
K200,001 TO K250,000	-	-
K250,001 TO K300,000	3	-
K300,001 TO K350,000	-	1
K350,001 TO K400,000	-	1
K400,001 TO K450,000	1	1
K450,001 TO K500,000	2	1
K500,001 TO K550,000	-	-
K550,001 TO K600,000	-	-
K600,001 TO K650,000	-	-
K650,001 TO K700,000	-	1
K700,001 TO K750,000	-	-
K750,001 TO K800,000	-	-
K850,001 TO K900,000	1	-
K900,001 to K950,000	1	1
K950,001 TO K1,100,000	-	-
K1,100,001 +	1	1
	12	**9**

20. Employee benefit plans

Post-employment benefits

The Fund contributes to the National Superannuation Fund for its own employees. The plan for general employees is a defined contribution type, whereby the Fund matches contributions to the scheme made by employees at the rate of 6% of the employees' base salary. The Fund's employees receive 10% employer contribution rates. Employee contributions are based on various percentages of their gross salaries. During 2017, the Fund expensed K1.146 millon in contributions (2016: K1.031 thousand).

21. Commitments, contingencies and disputes

a. Commitments

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

Contract	Amount
Facilities management (i)	K5.6 million per annum
Security fees	K1.14 million per annum
Member's fund management (AON)	
-weekly fees per active member	K0.67 per member per week
-withdrawal fees charged to exiting members	K20 per member upon exit
Member's fund management (KISS)	
-monthly fee for up to 180,000 active members	K590,000 per month
-withdrawal fees charged to exiting members	Nil
Investment portfolio management	0.13% of investment portfolio excluding interest and property receivables, SCITB and State Grants

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

b. Government securities in dispute

The Fund had the following government securities which were directly or indirectly in dispute as at 31 December 2017:

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 recoverable. 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 being the amount NASFUND advanced to the State in exchange for the SCITB. On 28 August 2017, the National Court ordered that approximately K56 million of the funds advanced by NASDFUND which were held in several NCL bank accounts be paid to NASFUND. These funds have since been received by NASFUND. As a consequence, the principal remaining in dispute has reduced to approximately K69 million. This amount, and accrued and unpaid interest, is still being pursued in the ongoing legal proceedings.

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 Kumul Consolidated Holdings (KCH) (parent of MVIL), NNL and MVIL by which KCH is seeking to have the BSP shares returned to MVIL. The Fund was joined as a party to these proceedings in June 2011 after the BSP shares were transferred to the Fund and all relevant transactions were closed out. One of KCH's claims is that all of the transactions entered into by the parties were void and that as a consequence all of the BSP Shares which had been mortgaged to NNL including those transferred to the Fund should be returned to MVIL. The Fund is advised that KCH's claim should fail.

The Fund's independent legal advisor has advised the Fund that it 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 that its claim in relation to the SCITB referred to in paragraph (i) will fail, or that it has any exposure to KCH's claim in paragraph (ii), the Fund has mande a provision in relation to these and all other litigious matters in which it is engaged of K39 million (2016: K39 million) to take account of the uncertainties of litigation generally (see note 15)

c. Material contracts - operational

Contract	Services	Expiry Date
AonHewitt (PNG) Limited	Administration	June 2017
Kina Investments & Superannuation Services	Administration	July 2022
SOS Security Ltd.	Administration	month to month
PacWealth Capital Limited	Investment Management	March 2018

d. Material contracts - property development

Contract	Services	Expiry Date
Ashton Brunswick Limited	Facilities Manager	June 2019

22. Notes to the statement of cash flows

a. Reconciliation of cash and cash equivalents

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

	31 Dec 2017	31 Dec 2016
	K'000	K'000
Cash at bank and on hand	89,343	54,491
Interest bearing deposits and treasury notes	25,124	51,305
Cash and cash equivalents	**114,467**	**105,796**

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

b. Reconciliation of profit to net cash provided by operating activities

	2017	2016
	K'000	K'000
Profit before tax for the year	261,687	303,912
Adjustments for:		
Movement in fair value of investments	47,692	(54,500)
Provision for impairment of government securities	-	-
Provision for doubtful debts		
Provision for long service leave	288	1,030
Profit on disposal of property, plant and equipment	(47)	(216)
Profit on sale of investment properties	1,235	-
Amortisation of discounts and premiums	2,925	3,002
Depreciation	2,134	1,530
Front end fees on membership	-	(337)
Exchange difference	(41,112)	(18,356)
Net cash before changes in working capital	**274,803**	**236,065**
Decrease / (Increase) in interest receivable	5,400	7,924
Decrease / (Increase) in other receivables	9,923	(14,907)
(Decrease) / increase in trade and other payables	12,107	2,987
Net cash provided by operating activities	**302,233**	**232,067**

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 2017	31 Dec 2016
	K'000	K'000
Opening balance owing to NASFUND	9	9
Administration services provided by NASFUND	58	-
Payments made to NASFUND	(11)	-
Closing balance	**56**	**9**

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 2017	31 Dec 2016
	K'000	K'000
Opening intercompany balance owing to NASFUND	127,440	127,452
Improvements to Nasmel Limited investment properties	-	-
Other account adjustments	-	(12)
Closing intercompany balance owing to NASFUND	**127,440**	**127,440**

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 2017	31 Dec 2016
	K'000	K'000
Loan owing to NASFUND - opening balance	15,751	12,500
Other account adjustments	409	5,260
Payments made to NASFUND	(16,160)	(2,009)
Loan owing to NASFUND - closing balance	**-**	**15,751**

The loan agreement with CCD was completed in 2017.

iv. Transactions with key management personnel

Key management personnel are Ian Tarutia (CEO), Charlie Gilichibi (COMS), Seema Dass Raju (CRO), Rajeev Sharma (CFO), David Brown (CIO), Jack Parina (Company Secretary) and Vincent Lialu (Head Of Human Capital).

v. Compensation

Key management personnel compensation comprised of:

	31 Dec 2017	31 Dec 2016
	K'000	K'000
Salary and fees	4,875	5,394
Non-monetary benefits	2,823	2,175
Post-employment benefits	882	1,585
	8,580	9,154

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 2017	31 Dec 2016
	K'000	K'000
- Sitting allowance	114	92
- Quarterly allowance	1,380	1,231
- Audit committee fees	34	49
- Directors insurance	83	161
	1,611	**1,533**

All of the above payments were made in the ordinary course of business. The above payments include payments of K6.25 thousand (2016: 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 personnel interests

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

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 Contributions Savings & Loans Society Ltd, Nasmel Ltd
	Shareholder	BP Oil Ltd, Interoil Corporation, Kina Asset Management Ltd
Mr. William Lamur, OBE (Resigned 1 January 2018)	Director	ENB Development Corporation, ENB Port Services, Andersons Foodland, National Development Bank, Trukai Industries Limited, Pacific Assurance Group, ENB Supermarkets, Witherlam Investments Limited, ENB Copra, Cocoa & Coffee Co-Operative, Mainland Holdings Limited, ENB Properties Ltd, PEIL (Pacific Energy), Territory Packaging, Grand Pacific Hotel Ltd, NASFUND Contributions Savings & Loans Society Ltd, Nasmel Ltd, PNG Chamber of Commerce and Industry.
	Shareholder	Bank of South Pacific Ltd, PNG Air Ltd, Oil Search Ltd
Mr. Graham Ainui, MBE, OL	Director	First Investment Finance Ltd, Police Legacy, Employers Federation of PNG, Viva 5 Ltd, National Roads Authority, Nasmel Ltd
	Shareholder	Oil Search Limited, Pacific Balance Fund Ltd
Mr. Murray Woo	Director	Woo Textile Corporation Limited, Heathly Kamwood Limited, Manufacturers Council of PNG, Getaway Travel Limited, Business Council of PNG, PNG Air Ltd, Print Monster Limited, NASFUND Contributions 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.
	President	PNG-India Business Forum Inc
	Shareholder	Pedy No 10 Ltd, Private Boxes (PNG) Ltd , Kina Bank Ltd
Mr. Vera Raga	Director	NASFUND Contributions Savings & Loan Society , National Tripartite Consultative Council, Edge Ltd, Carpark Ltd, Nasmel Ltd, Gewani Limited, Malagan Ltd.

Name	Nature	Organisations
Mr. David Doig	Director	Moore Business Systems (PNG) Limited, Employers Federation of PNG, Brian Bell Ltd, Credit Corp Ltd , Nasmel Ltd
	Shareholder	Moore Business Systems (PNG) Limited
Mr. Charlie Vee	Director	Edge Limited, Carpark Limited, Gewani Limited, Malagan Limited, V-Tech Consultancy Limited, Architectural Alliance Limited, Nasmel Ltd
	Shareholder	Architectural Allianz Ltd
Mr. Ian Tarutia OBE	CEO	NASFUND
	Director	NASFUND Contributions Savings & Loan Society, Federation of Savings & Loan Societies, Air Niugini Limited, PNG Chamber of Commerce of Industry, Seychelles Limited, East New Britain Properties Ltd, Cloud App Laboratories Ltd
	Shareholder	Bank South Pacific Ltd, Seychelles Ltd, PNG Air Ltd
Mr. Leon Buskins (Appointed 1 January 2018)	Director	ANZ PNG Limited, SP Brewery Limited, Capital Insurance Group, IPA, Busines Coalition for Women, Gazelle International Hotel, Kopkop College, Nasmel Ltd
	Sharesholder	Oil Search Limited
	Trustee	National Footbal Stadium
Mr. Kepas Wali	Director	Minerals & Petroleum Consultants Ltd.
(Appointed 1 January 2018)		Nasmel Ltd
Ms. Tamzin Wardley	Director/ Executive member	Royal Papua Yacht Club Inc., PNG National Olympic Commmittee Inc.
	Director	Pacific Games 2015 Ltd, Nasmel Ltd
	Shareholder	Steel Indusries Ltd

24. Financial instruments

a. Credit risk

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

	31 Dec 2017	31 Dec 2016
	K'000	K'000
Government debt securities	1,127,392	1,063,278
Equity securities	2,021,420	2,009,381
Loans and receivables	97,631	121,409
Interest receivables	48,784	43,385
Property receivables	9,316	21,934
Other receivables	2,209	937
Interest bearing deposits and treasury notes	754,160	488,630
Cash and cash equivalents	114,467	105,796
	4,175,379	**3,854,749**

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 2017	31 Dec 2016
	K'000	K'000
Current	1,853	4,773
31 - 60 days	1,291	5,414
61 - 90 days	1,230	2,481
over 90 days	4,942	9,265
	9,316	**21,933**

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

	31 Dec 2017	31 Dec 2016
	K'000	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.

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 2017. 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 a currencies other than the functional currency (Kina) of the Fund.

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

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

As at 31 December 2017	**AUD**	**USD**	**FJD**	**SBD**
Equity investments	215,561	25,235	35,000	112,620
Cash at bank	-	-	-	3,124
Gross balance	**215,561**	**25,235**	**35,000**	**115,744**
% of net asset value	4.8%	0.01	0.8%	2.6%
Foreign exchange rate	-	0.317	0.67	2.45
As at 31 December 2016				
Equity investments	178,175	-	28,093	104,358
Cash at bank	-	-	-	3,026
Gross balance	**178,175**	**-**	**28,093**	**107,384**
% of net asset value	8.5%	-	1.0%	0.9%
Foreign exchange rate	0.44	-	0.67	2.47

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 2016 and 2015.

	31 Dec 2017	31 Dec 2016
	K'000	K'000
AUD	21,556	17,817
USD	2,524	-
FJD	3,500	2,731
SBD	11,574	10,514
	39,154	**31,062**

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 2017	31 Dec 2016
	K'000	K'000
Fixed rate instruments		
Financial assets (Government bonds and inscribed stock)	1,058,812	936,278
Treasury bills and interest-bearing deposits	779,284	539,935
Loans and other receivables	60,857	106,093
	1,898,953	**1,582,306**
Variable rate instruments		
State grant	-	2,000
Loans and other receivables	-	-
Total	**1,898,953**	**1,584,306**

Sensitivity analysis

For 2017, Government Inscribed Stocks ("GIS") is marked to market based on current yields. A change of 25 bps in yields would result in an increase in the value of GIS of K10.03 million.

A change of 1% in the interest rates and a change of 10% in the consumer price index (CPI) of Papua New Guinea in respect of the state grant for the variable interest-bearing financial instruments would have increased or decreased profits by K392 thousand (2016: K469 thousand).

e. Other market price risk

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

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

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

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

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

Sensitivity analysis

Following analysis of historical data and expected investment rate movements during the 2017 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.t

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

			Effect on net assets and profit	Effect on net assets and profit
	%	Carrying amount	increase	decrease
As at 31 December 2017	K'000	K'000	K'000	
Listed overseas shares	15%	442,519	66,378	(66,378)
Listed local shares	10%	604,236	60,424	(60,424)
Investment in unquoted companies	5%	974,665	48,733	(48,733)
As at 31 December 2016				
Listed overseas shares	15%	387,174	58,076	(58,076)
Listed local shares	10%	610,544	61,054	(61,054)
Investment in unquoted companies	5%	969,733	48,487	(48,487)

f. Fair value versus carrying values

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

g. Fair value hierarchy

Subsequent to initial recognition, the Fund uses the fair value hierarchy in determining the fair value of its available-for-sale financial assets, financial assets at fair value through profit and loss ("FVTPL") and financial liabilities at FVTPL. The fair value hierarchy groups the financial instruments into Levels 1 to 3 based on the degree to which the fair value is observable. Details of each level are discussed in note 4(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.

	Level 1	Level 2	Level 3	Total
As at 31 December 2017	**K'000**	**K'000**	**K'000**	**K'000**
Government Inscribed Stock	-	-	1,058,812	1,058,812
Equity securities	1,046,755	-	974,665	2,021,420
	1,046,755	-	**2,033,477**	**3,080,232**

	Level 1	Level 2	Level 3	Total
As at 31 December 2016	**K'000**	**K'000**	**K'000**	**K'000**
Government Inscribed Stock	-	-	936,278	936,278
Equity securities	997,719	-	969,733	1,967,452
	997,719	**-**	**1,906,011**	**2,903,730**

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 2017, GIS have been marked to market using a price formula and comparable current market yields. Please refer to note 9 for a sensitivity analysis relating to changes in yields.

ii. Financial instruments not measured at fair value

Debt securities

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

iii. Reconciliation of Level 2 fair values

There has been no movement in Level 2 fair values during the year.

iv. 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:

	2017	2016
	K'000	K'000
Opening balance	1,906,010	1,667,940
(Disposals / redemptions) or additions during the year	132,755	340,027
Changes in fair value	(5,289)	(101,957)
Closing balance	**2,033,477**	**1,906,010**

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 to a better presentation of accounts and did not have any impact on prior year's profit or loss.

26. Events after balance sheet date

On 15 February 2018, Credit Corporation (PNG) Limited purchased 100 percent of shares in Pacwealth Capital Pty Ltd. As NASFUND has a 19 per cent shareholding in Credit Corporation (PNG) Limited this results in Pacwealth Capital Pty Ltd becoming a related party to NASFUND. Pacwealth are NASFUND's Investment Managers.

NASFUND's branch network

HEAD OFFICE

Level 3, BSP Haus, Harbor City
PO Box 5791, Port Moresby, NCD
Phone: +675 3131998
Fax: +675 3201625
Email: reception@nasfund.com.pg

NASFUND branches

LAE OFFICE
Phone: +675 472 4633 / 472 2178 / 472 1294
Fax: +675 472 5791 / 472 1539
Email: laestaff@nasfund.com.pg
P.O Box 2451, Lae, MP

KOKOPO OFFICE
Phone: +675 982 8730
Fax: +675 982 8731
Email: kpostaff@nasfund.com.pg
P.O Box 2079, Kokopo, ENBP

GOROKA OFFICE
Phone: +675 532 1089
Fax: +675 532 1086
Email: gkastaff@nasfund.com.pg
P.O Box 595, Goroka, EHP

MT HAGEN OFFICE
Phone: +675 542 2281
Fax: +675 542 3134
Email: hgnstaff@nasfund.com.pg
P.O Box 1539, Mt Hagen, WHP

WABAG OFFICE
Phone: +675 547 1074
Fax: +675 547 1142
Email: wabag@nasfund.com.pg
P.O Box 193, Wabag, EP

TABUBIL OFFICE
Phone: +675 649 8091
Fax: + 675 649 8051
Email: tblstaff@nasfund.com.pg
P.O Box 133, Tabubil, WP

ALOTAU OFFICE
Phone: +675 641 0162
Fax: +675 641 0164
Email: alostaff@nasfund.com.pg
P.O Box 423, Alotau, MBP

POPONDETTA OFFICE
Phone: +675 629 7400 / 629 7787
Fax: +675 629 7400
Email: popstaff@nasfund.com.pg
P.O Box 619, Popondetta, OP

MADANG OFFICE
Phone: +675 422 1835
Fax: +675 4221847
Email: mdgstaff@nasfund.com.pg
P.O Box 1166, Madang, MP

WEWAK OFFICE
Phone: +675 456 1010
Fax: + 675 456 1436
Email: wwkstaff@nasfund.com.pg
P.O Box 740, Wewak, ESP

KAVIENG OFFICE
Phone: +675 984 1353
Fax: +675 984 1399
Email: kvgstaff@nasfund.com.pg
P.O Box 70, Kavieng, NIP

LIHIR OFFICE
Phone: +675 986 4845 / 986 4451
Fax: +675 986 4844
Email: lihirstaff@nasfund.com.pg
P.O Box 300, Lihir, NIP

BUKA OFFICE
Phone: +675 973 9050
Fax: +675 973 9250
Email: bukastaff@nasfund.com.pg
P.O Box 446, Buka, ARB

KIMBE OFFICE
Phone: +675 983 4114
Fax: +675 983 4115
Email: kbestaff@nasfund.com.pg
P.O Box 935, Kimbe, WNBP

BIALLA OFFICE
Phone: +675 983 1078
Fax: +675 983 1152
Email: bialla@nasfund.com.pg
P.O. Box 106, Bialla, WNBP

VANIMO OFFICE
Phone: +675 457 0997
Fax: +675 457 1874
Email: vaistaff@nasfund.com.pg
P.O Box 63, Vanimo, SP

LORENGAU OFFICE
Phone: +675 970 3848 / 970 9518
Fax: +675 970 9866
Email: manus@nasfund.com.pg
P.O Box 238, Lorengau, MP

This annual report produced for NASFUND by Business Advantage International (www.businessadvantageinternational.com)