GROWING OPPORTUNITY

2018 ANNUAL REPORT

PNG National Superannuation Fund Limited

NASFUND
PAPUA NEW GUINEA

OUR VISION

TO BE OUR MEMBERS' TRUSTED SUPERANNUATION FUND PROVIDING QUALITY SERVICES AND FINANCIAL SECURITY.

CONTENTS

OUR MISSION

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.

OUR PROMISE

- **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 with **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 3, 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
Ms Tamzin Wardley, LM
Mrs Lata Milner, MBE (resigned 10 September 2018)
Mr David Doig (resigned 10 September 2018)
Mr Kepas Wali (commenced 1 January 2018)
Mr Leon Buskens (commenced 1 January 2018)
Ms Florence Willie (commenced 1 January 2019)

Secretary
Mr Jack Parina

Auditors
Deloitte Touche Tohmatsu
Level 9
Deloitte Haus
MacGregor Street
Port Moresby, N.C.D.
Papua New Guinea

Fund Administrators
Kina Investments and Superannuation Services Limited

Licensed Investment Manager
PacWealth Capital Limited (up to 30 June 2018)
BSP Capital Limited (from 1 July 2018)

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

Professional Indemnity Insurance
QBE Insurance

YOUR BOARD OF DIRECTORS

NASFUND's Board of Directors:
(back row, left to right)
Mr Leon Buskens
Mr Murray Woo
Mr Charles Vee
Mr Kepas Wali
Mr Vera Raga

(front row, left to right)
Mr Graham Ainui
Ms Florence Willie
Mr Hulala Tokome
Ms Tamzin Wardley

YOUR MANAGEMENT TEAM

NASFUND's Management Team:
(back row, left to right)
Mr Rennie Wekina
Chief Properties Officer
Mr Vincent Lialu
Head of Human Capital
Mr Rajeev Sharma
Chief Financial Officer
Mr David Brown
Chief Investment Officer
Mr Jack Parina
Company Secretary

(front row, left to right)
Mrs Seema Dass-Raju
Chief Risk and Compliance Officer
Mr Ian Tarutia, OBE
Chief Executive Officer
Mr Charlie Gilibichi
Chief Offier Member Services

BOARD OF DIRECTORS

Hulala Tokome
Chairman

Tokome has served on the Board for over nine years as an Independent Director and is currently NASFUND's Chairman.

He is the longest serving Director and has extensive corporate knowledge of the Fund. He also holds various directorships, including NCSL, Mainland Holdings and local Puma Energy entities.

Tokome is an Accountant and has held senior management positions with BP, Inter Oil and Puma Energy. He is the General Manager and Resident Director for Puma Energy, PNG.

Graham Ainui
Director

Ainui is a Senior Director on the Board and has served for over eight years. He was initially appointed as nominee, representing the Rural Industries Council (RIC). However, the RIC relinquished its directorship in 2015, after amendments in line with BPNG *Prudential Standard 7/2012* were made to the constitution.

He had a distinguished career as a police officer from 1969–1996, having risen to the rank of Deputy Commissioner (1991–1996). Ainui was awarded a Member of the Order of the British Empire and the Queen's Police Medal for Services to the Police. He also served as PNG's Ambassador to the Philippines from 1997–2004.

Ainui serves on various industry boards, including the Employers' Federation of Papua New Guinea, RPNGC Police Legacy, First Investment Finance Limited and Security Industries Authority.

Charles Vee
Deputy Chairman

Vee joined the Board in 2016 as an Independent Director. He is currently the Deputy Chairman and Chair of the Remuneration & Nomination Committee.

He is a Registered Architect and holds a Master's Degree in Project Management with a major in Property Development from Queensland University of Technology, in Australia. He brings his experience in Project Management to the Board, particularly with respect to NASFUND's Property Portfolio, which comprises a large part of the Fund's total investment portfolio. Vee is also a Graduate of the Australian Institute of Company Directors and Member of the PNG Institute of Directors (PNGID).

Tamzin Wardley
Director

Wardley joined the board on 1 January 2017 as an Independent Director and is currently working with the Australia Papua New Guinea Governance partnership. She has over 25 years of experience in a broad range of commercial and development enterprises in PNG, including retail, agriculture, property and manufacturing.

She is actively involved in the financial business sector being a Director of Westpac PNG Ltd and has previously been a Director of PNG Microfinance Ltd. Wardley is very active in PNG sports governance, finance and inclusivity, sitting on the PNG Olympic Committee and Pacific Games Council Executive Committee.

She holds a Bachelor's Degree from the University of Queensland, in Australia, and is a member of the Institute of Chartered Accountants in England and Wales, PNG Certified Practising Accountants, PNGID and a graduate member of the Australian Institute of Company Directors.

In 2010, the PNGID selected her as 'Female Director of the Year'; in 2012, she received the Queen's Jubilee Medal for Services to Business, and in 2015, was awarded the PNG Independence Medal (Logohu) for Services to Sport and the Pacific Games.

She was granted PNG citizenship in 2018.

Vera Raga
Director

Raga has been a Director on the Board for almost nine years. He initially represented the PNG Banks (PNGB) and Financial Institutions Workers Union (FIWU) on the Board, but the role was relinquished in 2015 when amendments to the constitution took away PNGB and FIWU's right to nominate a director. This was in line with BPNG's *Prudential Standard 7/2012*, which advocates for more independent director representation on the Board.

Raga has extensive experience in the union sector and continues to maintain his network of contacts for the betterment of the Fund. He is a lawyer by profession and a Director of the National Housing Corporation.

Murray Woo
Director

Woo is the Founding Director and current Chairman of the Manufacturers Council of Papua New Guinea and, since 2011, a Trustee Shareholder Representative on the NASFUND Board of Directors. He helped establish the Manufacturers Council of PNG in 1992. The Council continues to foster good dialogue and working relationships with both government and the private sector, contributing to the growth of many businesses in PNG.

While Woo was Chairman of the Board of Directors of PNG Air, he was instrumental in transforming the second largest airline in the country. Today, PNG Air continues to benefit the travelling public and stimulate economic activity and growth in PNG.

Woo is a Director of NASFUND Contributors Savings & Loans Society (NCSL) and Chairman of City Centre Development Limited. He is the Managing Director of Woo Textile Corporation, the only garment company that has invested in large format sublimation digital printing in the country.

He is also a Director of Getaway Travel, Print Monster and Chairman of the Port Moresby Nature Park. Woo is an active member on the Australian Institute of Company Directors and a member of PNGID.

Leon Buskens
Director

Buskens joined the Board at the beginning of 2018 as nominee of the PNG Chamber of Commerce and Industry.

He has a wealth of experience in the superannuation industry: Buskens was the Managing Director for Nambawan Super (previously POSF) from 2002–2011. He played a major role in Nambawan's transformation and also served as Board Director. Buskens has held a number of senior management and board positions within the private and public sectors. He is currently the General Manager – Stakeholder Engagement with Oil Search Ltd.

Buskens is a business graduate from the University of Technology (Lae) and has a Master's Degree in Finance from the Royal Melbourne Institute of Technology, in Australia. He is also a member of the Australian Institute of Company Directors and PNGID.

Kepas Wali
Director

Wali joined NASFUND's Board in 2018 as nominee of the PNG Trade Union Congress. He has held various senior management positions within the public and private sectors in the country, including Managing Director for PNG Ports Corporation and the Mineral Resources Authority of PNG.

Wali is a Petroleum Engineer and holds a Bachelor's Degree of Science from UPNG and Postgraduate Diploma in Petroleum Engineering.

He is the Country Manager / General Manager–Corporate Affairs for Harmony Gold.

Florence Willie
Director

Willie joined the Board in January 2019 as Nominee of the Employers Federation of Papua New Guinea (EFPNG). She is the Executive Director of the EFPNG and has served for over 12 years in that capacity.

She is a lawyer and started her career with the law firm Blake Dawson Waldron (now Ashurst Lawyers). She has extensive experience in human resources management, industrial relations, labour and employment law. She is highly regarded in the sector and is also involved in negotiations between industry and the unions.

CHAIRMAN'S REPORT

Dear Members,

I am pleased to present the 2018 NASFUND Annual Report.

In spite of tough trading conditions in the broader economy, your team here at NASFUND was able to achieve another positive result. As many of you would be aware, the 3.5% crediting rate for 2018 is modest given our performance in previous years.

Nevertheless, this figure is based on independent valuations taking into account the broad and diverse portfolio of global investments we manage on your behalf. It is therefore a reflection of the reality that investment markets can go down as well as up. We remain confident that in the long-term, if managed correctly, this portfolio will deliver handsome returns for all.

During the year, we instituted strategy changes that will ensure NASFUND can take part fully in the next stage of expansion of the Papua New Guinea economy. We are already seeing very positive signs for this year and predict this change will gather pace during 2019. It was of vital importance to take the opportunity to position the portfolio for success into the future.

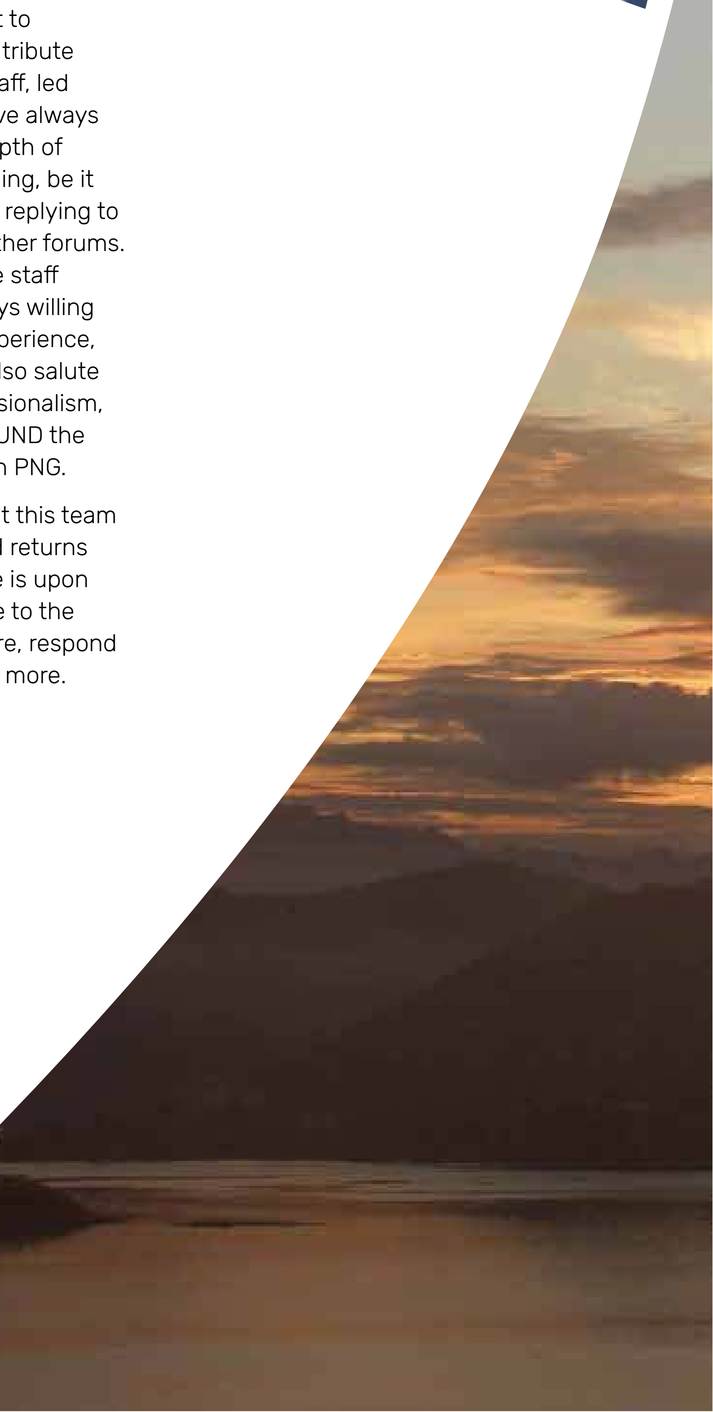
After a year in which the eyes of the world were upon PNG while hosting the APEC summit, a very successful global bond issue by the government of PNG and movement towards historic agreements to develop our national resources, we are more convinced that our country is growing in standing amongst the economies of the world.

My term on the Board and as Chairman will be complete by mid-2019. This will be my last report, but I am confident I leave a Board that is more focused on its task, more committed to members and striving for implementing best governance practices across the organisation and the many PNG companies in which the Fund invests.

I wish to extend my sincere thanks to my fellow Board members, the tireless work of our committee Chairpersons, and the various skillsets that each Board member has brought to NASFUND. Also, I must pay tribute to the high quality of our staff, led by our CEO Ian Tarutia. I have always been impressed by their depth of knowledge and understanding, be it at the Board when they are replying to Directors' questions or in other forums. Personally, I have found the staff extremely helpful and always willing to share their NASFUND experience, knowledge and passion. I also salute their dedication and professionalism, which helps to make NASFUND the superannuation of choice in PNG.

As I say farewell, I know that this team will continue to deliver solid returns to all our members. Change is upon us and my parting message to the NASFUND team is to prepare, respond and be committed to doing more.

Hulala Tokome
Chairman



“WE INSTITUTED STRATEGY CHANGES THAT WILL ENSURE NASFUND CAN TAKE PART FULLY IN THE NEXT STAGE OF EXPANSION OF THE PAPUA NEW GUINEA ECONOMY. WE PREDICT THIS CHANGE WILL GATHER PACE DURING 2019.”

CEO'S REPORT

Dear Members & Employers,

I am pleased to report that results were once again positive for your Fund in yet another challenging year. We achieved a number of significant milestones in our service offerings, governance and operations and, at the same time, attained an over budgeted performance in cash returns from investments while managing expenses under budget.

Your Board exercised prudency and caution in taking up a greater provisioning against a number of underperforming investments and this is reflected in the modest crediting declared by the Board of Trustees for 2018.

Total Fund Assets increased by 6% to K4.98 billion; net assets grew by 5% to K4.75 billion; cash income from investments increased by 2% to K322 million, and operating expenses of K58.6 million was under budget by 0.6%.

Contribution receipts from employers increased by 6% to K518 million, our highest ever recorded to date, while K497 million in superannuation entitlements representing over 81,000 transactions was paid out to members.

After accounting for valuation losses, provisioning to comply with international accounting standards IFRS9, expenses and tax, net profit available for distribution to members was K158.7 million. As stated earlier, this translated to a modest crediting rate of 3.5 % which was allocated to member accounts in March 2019.

Other notable highlights across key functions of your Fund were:

Member & Employer Services

- Over 700 shop floor presentations, educational campaigns and four regional conferences in N.C.D., Lae, Kokopo and Mt Hagen were conducted, ensuring our ongoing commitment of engaging with members and employers.
- Increase in members using TextBal to access their super accounts to 31,913 from 27,779 in 2017.
- Increase in members using the Member Portal (MOL) to access their super accounts to 19,322 from 10,032 in 2017.
- Increase in employers registered to use the Employer Portal (EOL) to remit contributions electronically to 1,068 from 263 in 2017. Over 50% of our employer base are now using this electronic channel.
- Introduction of free access for APP and Online Access via Telikom's 4G network to support the mobile phone app to access account details.
- Reduction in hard core default employers from 27% to 18% of active employer base.
- Introduction of the Customer Service Management tool, HappyFox, to manage email and Facebook queries, and improve response times.
- Introduction of Employer Awards acknowledging and recognising our top and compliant employers.
- Retention of Paradise Foods Limited employees as members after a shareholder direction to transfer to another fund was defeated in a vote by members.
- Ase Boas, high profile Rugby League player, Captain of the SP Hunters and PNG Kumuls, signed up as Brand Ambassador to promote voluntary savings.
- Worked with our Savings & Loan Facility, NCSL, to encourage membership to cover short-term financial commitments outside of superannuation.

"CONTRIBUTION RECEIPTS FROM EMPLOYERS INCREASED BY 6% TO K518 MILLION."

Investments & Finance

- Appointment of BSP Capital as new Licenced Investment Managers.
- Completion of Stage 1 of the Kina Bank Haus refurbishment project and commencement of Stage 2.
- Continued focus and monitoring of underperforming investments.
- New Strategic Asset Allocation guidelines with focus on yield and liquidity approved by the Board.

Risk, Governance & Compliance

- Appointment of new Internal Auditor—KTK on a co-sourcing arrangement.
- Conduct of Board Risk Workshop.
- Appointment of two new directors to the Board: Mr Leon Buskens and Mr Kepas Wali.
- Resignation of Mr David Doig and Mrs Lata Milner as directors.
- The Board approved a new five-year strategic plan (2019–2023).
- Appointment of an independent Board Assessor.
- Introduction of an Intranet to facilitate convenient and prompt communication with staff—especially those in branches.
- Introduction of TV Dash Board reporting to enable staff to have ongoing visibility over progress of KPIs.

Staff

- Implementation of new staff Service Awards.
- Implementation of new Franklin Covey Online Learning & Development for staff.
- Completion of inaugural Graduate Development Program for new tertiary educated trainee staff.

Industry Engagement

We have engaged actively with other approved super funds, our regulator Bank of Papua New Guinea, investment managers and fund administrators. Issues pertaining to the governance of our industry and improvement areas are discussed via our peak body, the Association of Superannuation Funds PNG (ASFPNG). In 2019, we are advocating a review of the existing legislation, the *Superannuation Act*, to amend a number of provisions. The objectives, amongst other considerations, include extending coverage, reducing early withdrawals and improving the Housing Advance Facility.

LOOKING AHEAD

As trustees and administrators of retirement savings, we bring to attention a number of critical issues to our members and the general public.

First, superannuation in PNG, and the NASFUND membership for that matter, still covers a small segment of our working population. Less than 10% of PNG's population are contributing to their retirement, which effectively means 90% of our people are missing out on superannuation benefits. Workers are entitled by law to a comfortable life in retirement after active employment. Superannuation is for everybody, not just for a privileged few. Thus our advocacy to promote universal coverage for all workers earning some form of income. Superannuation coverage should not be filtered by the number of staff an organization employs.

Second, the trend of members withdrawing their super savings early during times of temporary unemployment is worrying. Over 90% of withdrawals today are by members aged between 20 and 30 years with balances with of less than K20,000. We caution members that frequent withdrawals while you are young means you will have less to live on and enjoy after you are retired from active employment. We must not forget we are a retirement fund and not a bank. Savings are not for short-term financial expenses. Always remember your NASFUND savings should be considered a long-term investment that, over an extended period, grows significantly through the effect of compound interest.

Third, life expectancy for our citizens has improved and forecasted to average 63 years. This means our members are expected to live another 10 years after retirement at 55 years. Thus the amount of retirement savings a member is expected to have, must be sufficient to sustain a comfortable life for at least 10 years after retirement. This is why we actively encourage additional voluntary contributions, so members receive the full benefit of a comfortable retirement funded by their NASFUND savings and not to be reliant on family, relatives or others after they leave active employment.

In conclusion, we have had a busy year, but that is now behind us. The NASFUND team and I now look forward to 2019 and beyond. We have a new five-year strategic plan, which is a commitment to do more and is underpinned by three pillars: Solutions, Engagement and Innovation. In 2019, we will commence the roll out of this new plan, dubbed the Chapel Accord, and we look forward to the challenges and opportunities this journey will bring.

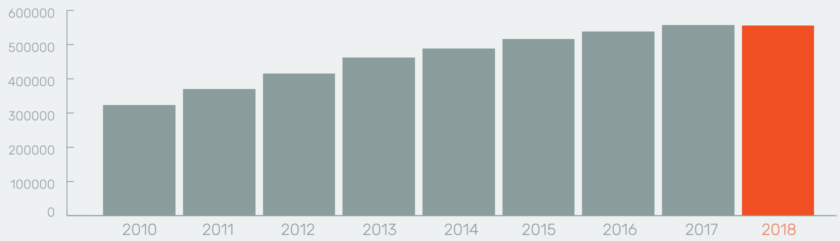
Once again, I thank our Chairman, Hulala Tokome, and the Board of Directors for their leadership, counsel and guidance over 2018. I also convey my appreciation and sincere gratitude to our regulator, the Bank of Papua New Guinea, my fellow EXCOM team, and staff for their commitment, support, and cooperation in bringing 2018 together.

Finally, I acknowledge our valued members and employers. Thank you for keeping the faith, confidence and trust in us as custodians and trustees of your hard-earned super savings.

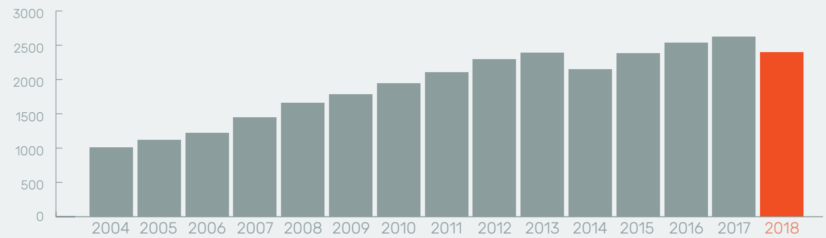
Ian Tarutia, OBE
Chief Executive Officer

2018 IN NUMBERS

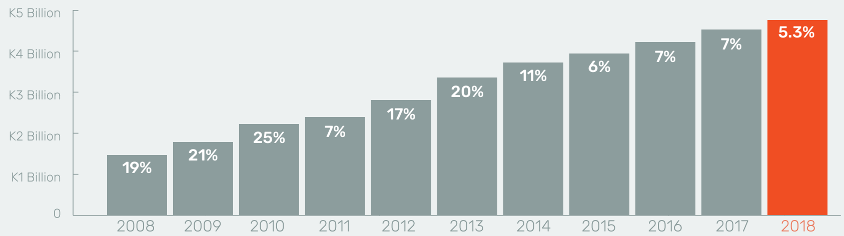
555,133 MEMBERS



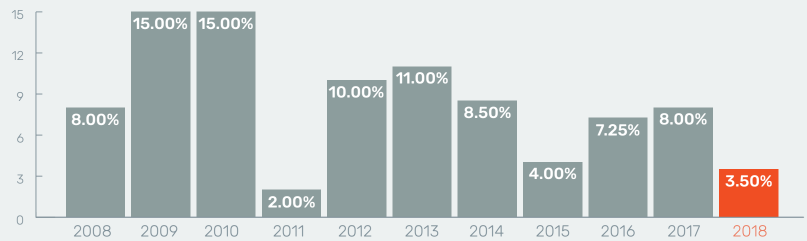
2,402 ACTIVE EMPLOYERS



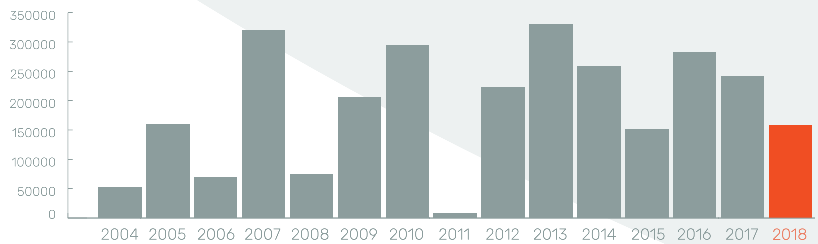
K4.75 MILLION IN NET ASSETS



3.5% CREDITING RATE



K158,707 (K'000) TOTAL COMPREHENSIVE INCOME (PROFIT)



81,000

TRANSACTIONS PAID OUT TO MEMBERS

92% ⬆

INCREASE IN MEMBER PORTAL (MOL) USE TO 19,322 FROM 10,032 IN 2017

PERFORMANCE BREAKDOWN

Statistical Information	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Assets & Liabilities											
Net Asset Value ("NAV" - K'000)	1,467,863	1,779,136	2,221,532	2,388,131	2,798,908	3,356,644	3,719,625	3,936,310	4,219,072	4,514,617	4,753,895
Growth	19%	21%	25%	7%	17%	20%	11%	6%	7%	7%	5.30%
Profitability											
Total Comprehensive Income (K'000)	74,115	205,617	294,603	-8,836	223,417	330,600	258,465	150,978	283,471	242,438	158,707
Interest Credited to Members' Accounts	8.00%	15.00%	15.00%	2.00%	10.00%	10.00%	8.50%	4.00%	7.25%	8.00%	3.50%
Reserves (% NAV)	4.15%	3.06%	3.99%	1.87%	1.54%	2.11%	1.72%	1.96%	2.19%	0.22%	0.21%
Employers & Active Members											
Number of active Employers	1,661	1,784	1,943	2,107	2,296	2,389	2,150	2,383	2,540	2,626	2,402
Total Membership	286,942	313,034	322,706	369,667	415,179	461,085	488,346	515,535	537,520	556,459	555,133
Balance Per Member (K '000)	5.12	5.68	6.88	6.46	6.74	7.28	7.62	7.64	7.85	8.11	8.56
Expenses											
Total Expenses (K'000)	16,900	18,244	22,390	27,288	29,513	42,610	50,682	50,126	50,370	53,067	56,883
Management Expense Ratio (MER)	1.25%	1.12%	1.12%	1.18%	1.14%	1.38%	1.43%	1.31%	1.24%	1.22%	1.23%
Fund Administrator's Fees (K'000)	3,196	3,380	4,020	4,835	5,380	6,239	6,263	6,736	6,779	8,342	7,999
Investment Manager's Fees (K'000)	1,694	1,327	2,487	4,540	3,975	5,051	5,962	5,875	5,914	6,307	6,724
Number of full time staff	91	100	100	109	119	123	136	139	150	150	156
Cashflow											
Withdrawals (K'000)	90,743	125,584	149,828	166,029	216,454	268,359	354,193	407,600	456,007	430,680	436,870
Contributions (K'000)	252,011	232,745	299,254	334,788	397,147	443,119	459,231	473,818	451,633	493,094	517,865
Number of members receiving benefit payment	41,538	55,846	74,323	55,004	61,115	66,862	76,984	71,011	74,871	61,358	81,781
Gross Return to Member	7.70%	16.22%	19.03%	3.12%	15.10%	14.26%	9.02%	6.76%	9.74%	8.05%	5.94%
Net Profit After Tax return	6.12%	14.10%	16.93%	-0.41%	9.64%	11.57%	8.24%	4.25%	7.79%	6.20%	3.62%
Less											
Transfer to/(from) Reserves	-1.88%	-0.90%	1.93%	-2.41%	-0.36%	0.57%	-0.26%	0.25%	0.54%	-1.80%	0.12%
Equal											
Crediting Rate to Member	8.00%	15.00%	15.00%	2.00%	10.00%	11.0%	8.5%	4.0%	7.25%	8.00%	3.50%

THE YEAR IN REVIEW

NASFUND instituted major strategic changes in 2018 to prepare for the next stage of expansion in the Papua New Guinea economy and fulfil member, employer and stakeholder expectations.

The Board set a new strategy for five years that will focus on three pillars—Solution, Engagement and Innovation. These are the key initiatives:

Investments

- Switching investment manager from PacWealth to BSP Capital.
- Continue improvement across all facets of the Fund's operations.
- Approving a 3.5% crediting rate for members.
- Amalgamating NASMEL Ltd Group, which holds 78.27% of Mainland Holdings, a diversified agricultural company, into the Fund. This was completed in July 2018 and, accordingly, 6 months' income is included in NASFUND's books.
- Completing Stage 1 refurbishment works at Kina Bank Haus, followed by Fletcher Morobe commencing Stage 2 of the project.

Member & Employer Services

- Conducting over 700 educational and public awareness shop floor presentations to employers and members, including four regional employer conferences. Revamping, simplifying and strengthening employer default management, which reduced defaulting employers from 27% to 18%.
- Implementing Leadership Capability Assessment and Action items.
- Conducting two risk workshops.
- Rolling out an Employee Engagement Survey as part of the efforts to improve internal organizational culture.
- Holding the inaugural Employer Awards dinner in November 2018; 27 companies were nominated and six received awards.
- Signing up Rugby League player Ase Boas as Brand Ambassador to promote voluntary contributions.

"THE BOARD SET A NEW FIVE-YEAR STRATEGY THAT WILL FOCUS ON THREE PILLARS— SOLUTIONS, ENGAGEMENT AND INNOVATION."

Member Payments

We met our legal obligations to pay members their superannuation entitlements and processed over 81,000 transactions totalling K437 million. This compares to K431 million paid in 2017.

Membership remained stable in 2018.

A visit to Mainland Holdings in Lae. Ase Boas, signed as NASFUND Brand Ambassador during 2018.

Staff graduation day at DWU Port Moresby.

2019 AND BEYOND

While 2018 was a year of major change and challenges, NASFUND also kept a strong focus on 2019. Strategic initiatives of which the ground work was initiated in 2018 include:

- Implementation of a Customer Relationship Management (CRM) platform.
- Improved branding and communication activities.
- Managing of the balance of inflows and outflows.
- Efforts to encourage voluntary contribution from employees or employers, and encouraging employees to view their savings over an extended time.
- Continuous improvement applied to systems and processes for voluntary contribution from mainstream members through employer payrolls.
- 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.

Employer Contributions

Although 2018 was a year with slow economic growth, lack of large-scale private sector investment projects, rising unemployment and foreign exchange rationing that led to tight conditions, employer contribution receipts rose from K493 million in 2017 to K518 million in 2018, the highest recorded jump for the last six years.

This bodes well for the members' opportunity to earn stronger annual interest in the future.

NASFUND is rolling out an employer initiative to remit both member and employer contributions within 14 days.

Fund membership numbers increased by 6% in 2018.

Technology & Automation

- Full automation of member monthly payments, with teething issues solved.
- The launching of back up links to branches via Telikom 4G. This improved network connectivity from 65% to 95%.
- Introduction of the HappyFox helpdesk cloud application. The app has helped to improve the integration of emails and Facebook enquiriesem—on average 99% of business enquiries are responded to within 8 hours.
- The company's intranet went live, improving internal communications.
- TV Dashboard Monitoring was implemented and enabled NASFUND staff to see business and investment metrics in real time on office screens. This has helped to improve the timeliness and accuracy of decision making.
- Ninety-five per cent of the payroll system was migrated from Able to Tech One.
- Last year, 17,000 members signed up to NASFUND's App and online access. This brings the total number of members with digital access to 28,000

EMPLOYER AND MEMBER PROFILES

OK TEDI MINING LTD

Ok Tedi Mining is the 100% PNG-owned company operating Ok Tedi mine, the open-pit copper and gold mine located in the Star Mountains of the Western Province of Papua New Guinea. It has 1620 direct employees, plus a large number of indirect contractors.

"We produce copper and gold from our Mt Fubilan mining and mill operations," says Managing Director Peter Graham. "Concentrate is sent by pipeline to our port operations in Kiunga from where it is shipped to Port Moresby Harbour and on to markets in Germany, India, Japan, Korea and the Philippines." Graham says one of the company's values is integrity—"by which we mean honesty, trust, fairness and respect." To maintain trust and respect with employees, it is important to make sure the right systems are in place.

"Receiving the award for best compliance was exciting for us and we thank NASFUND for the recognition. Superannuation is essential so that employees have the ability to support a dignified retirement, when that time comes." Ok Tedi Mining was also runner up in the Chairman's Award for the Employer of the Year.

WINNER
Most Compliant Employer
Mandatory Contributions Category

Ok Tedi operation in the Star Mountains of Western Province.

"EVERY KINA YOU SAVE CAN MAKE A SIGNIFICANT DIFFERENCE."

EAST NEW BRITAIN PROVINCE MARKET AUTHORITY

The East New Britain Province Market Authority (ENPMA) in Kokopo was established in 2010 to manage all the markets in East New Britain Province. It has 79 employees. John Rusiat, Accountant with ENPMA, says the Authority increased employees' contributions from 6% to 10%. "This has been done after consultations with the employees. All of them have agreed to the increase."

Rusiat says most of the new employees are registered for NASFUND after their probation periods end and over 90% of the employees are contributing to NASFUND.

"NASFUND payments are completed by us on time," he says. "It is important because superannuation is a long-term investment for each employee of the organisation, so every Kina you save can make a significant difference."

"Investing extra cash is generally a good idea if you're younger and may want to consider an investment strategy that will allow you to retire early. If you're closer to retirement and in a stable job, topping up super may be a better option." says Rusiat.

WINNER
Employer–
Above and Beyond
Voluntary Contributions Category

Kokopo Market in East New Britain Province.

"TO MAINTAIN TRUST AND RESPECT WITH EMPLOYEES, IT IS IMPORTANT TO MAKE SURE THE RIGHT SYSTEMS ARE IN PLACE."

NASFUND 2018
Employer Awards Dinner.

TELIKOM PNG LTD

Telikom is the country's state-owned telecommunications company. It employs about 570 people.

Magi Kini, Human Resources Manager, Internal Services and Operations, says "all PNG nationals get paid super. We maintained staff welfare in terms of paying contributions, which were paid at all times. We have not received any grief from staff, or NASFUND, about outstanding payments because they were completed consistently—on time, or before time.

"It is a significant thing. Because what we are thinking of is the life of the staff when they leave employment. It will look after them when they retire."

Kini says some staff make voluntary contribution to their super because they realise that the more they save now, the bigger the benefit will be for the future. He says saving is a challenge for many Papua New Guineans.

"It is because of the culture in PNG. They look after their extended family. So super is important because those contributions are untouchable. That is what the law stipulates. The only time that they will access to it is when they leave employment."

WINNER
Most Compliant Employer
Member Maintenance Category

"STAFF MAKE VOLUNTARY CONTRIBUTION TO THEIR SUPER BECAUSE THEY REALISE THAT THE MORE THEY SAVE NOW, THE BIGGER BENEFIT WILL BE FOR THE FUTURE."

Telikom › operations in action.

"IT IS RETIREMENT SAVINGS WHICH WILL LOOK AFTER THE MEMBERS IN OLD AGE."

CAMP ADMINISTRATION LTD

Camp Administration is a local landowner company and subcontractor to the Ok Tedi mine. The company has more than 400 employees. About 35% are engaged short-term jobs (up to 21 days maximum).

David Kaga, Human Resources, Payroll and Employee Services Officer for Camp Administration, says the company's main contract is providing camp cleaning services for Ok Tedi.

"In 2017 we ventured into labour hire services," he says. "I believe we complied with NASFUND requirements in registering all our new employees online.

"Superannuation is very important because it is a retirement savings which will look after the members in old age and provide financial security and safety when they retire after active work. For this reason, I encourage all new member employees to contribute more than the mandatory 6%."

RUNNER UP
Most Compliant Employer
Member Maintenance Category

EMPLOYER AND MEMBER PROFILES

BANK SOUTH PACIFIC

Bank South Pacific (BSP) is PNG's largest bank. It has the biggest branch network in the country. It also has presence in Cook Islands, Fiji, Solomon Islands, Samoa, Tonga and Vanuatu.

"Our branch network is complemented by electronic banking networks that can meet the banking needs of our customers wherever we operate," says Hari Rabura, General Manager of Human Resources for the BSP Group.

There are more than 4000 employees in the BSP Group.

"Superannuation is very important, because it provides guaranteed life savings for staff when they retire after their working life. During work, superannuation may also provide an avenue for staff to use their savings as equity to purchase homes or build homes," says Rabura.

WINNER
Most Compliant Employer
Benefit Payments Category

"SUPERANNUATION MAY ALSO PROVIDE AN AVENUE FOR STAFF TO USE THEIR SAVINGS AS EQUITY TO PURCHASE OR BUILD HOMES."

"THE STAFF DO APPRECIATE THE FACT WE ARE ABLE TO ASSIST THEM WITH THEIR SAVINGS."

C-WISE LTD

C-Wise is a consulting company that has been in business in PNG since 2011. The company has 10 national staff, and three expatriates.

"We started contributing in 2014 with one national member," says a spokesperson for director Kevin Yong. "Since 2014 it has been increased to 10 national members and since then we have consistently contributed.

"We have done it on time, every time, each month. For us as a consulting company this is very important; we do a lot of work for other companies and it is important for us to meet deadlines on the accounts,"

The spokesperson says staff find it very hard to save. "So, to save with NASFUND is of immense significance for our staff."

She says superannuation is the only way employees can accumulate some savings. "The staff do appreciate the fact we are able to assist them with their savings. If they were to leave it to themselves, they wouldn't have that opportunity."

WINNER
Best Voluntary Contributing Employer
Less than 15 employees

Steven Gerega, Regional Team Leader, Momase Region, talking to members at Paradise Foods. >

< 2018 Employer Awards Dinner.

"IN PNG, USUALLY WE DON'T HAVE SAVINGS, SO NASFUND IS VERY IMPORTANT TO NATIONAL STAFF."

GLOBAL INTERNET LTD

Global Internet is an internet services provider founded in 1997. It has two branches, one in Lae and one in Port Moresby. The company has four national employees and five expatriates.

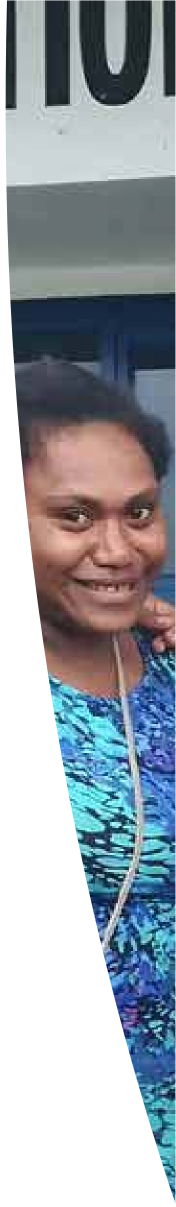
Gemma Sinaki, the Lae Administration Officer for Global Internet, says the company makes a point of paying super contributions on time, which she believes is why the organisation was nominated for the awards.

"In PNG, usually we don't have savings, so NASFUND is very important to national staff."

Sinaki says the main reason is the *wantok* system of family obligation. "We are always looking after our extended family, not just our immediate family. So employees definitely appreciate savings being put aside for them. And, because of the contribution, they like to turn up to work every day. Because if they don't, then they have less savings and make less of a contribution."

RUNNER UP
Best Voluntary Contributing Employer
Less than 15 employees

OUR COMMUNITY



NASFUND continues to provide support for a number of NGOs, institutions, benevolent charities and causes that promote good governance, gender equality, early childhood literacy, academic excellence in high schools and development of young professionals. These causes are important for the socio-economic development of our country and NASFUND is proud to play a part as a responsible corporate citizen.

We provide office space for the PNG Institute of Directors, the Association of Superannuation Funds of PNG, Lukautim Buk Bilong Pikinini and PNG Cancer Society. We were a major sponsor of the EMSTRET School Challenge, a national debating competition amongst our top high schools. The Challenge resulted in top student debaters representing the country in Croatia in July.

HELPING A NEW GENERATION OF DIRECTORS SOAR

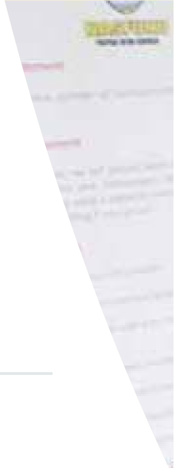
It has been a long held view that the pool of professional directors available in PNG is small and in short supply.

To address this shortcoming, NASFUND initiated the Young Directors Training Program in 2007. Eighteen young professionals have been inducted and 15 have graduated and now hold Board positions in various high-profile corporate sector and listed company boards.

In 2018, we were involved in a project with the PNG Institute of Directors, Bank of Papua New Guinea and the University of PNG to introduce a formal Directors Postgraduate Diploma in Corporate Governance, which is now being taught at the University of PNG.

Even more pleasing for us is seeing other organizations institute similar programs and contributing to building a talent pool of leaders for the benefit of our country.

"THESE CAUSES ARE IMPORTANT FOR THE SOCIO-ECONOMIC DEVELOPMENT OF OUR COUNTRY AND NASFUND IS PROUD TO PLAY A PART AS A RESPONSIBLE CORPORATE CITIZEN."



CORPORATE GOVERNANCE STATEMENT

THE NASFUND BOARD IS RESPONSIBLE FOR THE CORPORATE GOVERNANCE OF THE FUND AND IS COMMITTED TO ENSURING THE HIGHEST GOVERNANCE STANDARDS ARE IMPLEMENTED, PURSUANT TO THE FOLLOWING OBJECTIVES:

1. **Risk Mitigation.**
2. **Compliance with the Superannuation Act, Regulatory Prudential Standards, internal Policies & Procedures.**
3. **Performance of the Board and its Committees.**
4. **Employment and training of Management and Staff to meet world benchmark performance goals.**

BOARD COMPOSITION

The Board is presently comprised of 10 directors. Four directors are shareholder representatives from the Employers Federation of PNG, PNG Trade Union Congress, Manufacturers Council of PNG and the PNG Chamber of Commerce and Industry. The remaining six directors are independents. Currently, there are three independents, two former representative directors and a vacancy. However, there is a transition plan in place to board another three independent directors in 2020 to comply with *Prudential Standard 7/2012*.

BOARD COMMITTEES

The Board has three committees—each chaired by Independent Directors—to assist with its workload and ensure the quality of its decision making process follows robust and stringent assessment guidelines. The Committees are:

- Investment Committee
- Audit & Risk Committee
- Remuneration & Nomination Committee

INVESTMENT COMMITTEE

The responsibilities of the Investment Committee (IC) are:

- Assess recommendations to the Board on investment proposals from the Licenced Investment Manager (LIM) and the Internal Investment Team based on i) Risk & Return and ii) Adherence with the Board's Strategic Asset Allocation guidelines.
- Ensure compliance with the Board's investment framework, and prudential and legislative requirements.
- Ensure appropriate systems and controls are in place to effectively monitor and evaluate investments on an ongoing basis.
- Monitor the performance of the LIM pursuant to agreed SLAs.

AUDIT & RISK COMMITTEE

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

- Oversee financial performance and budget setting.
- Receive and assess financial reports from the Finance Division as well as internal and external auditors.
- Ensure that appropriate systems and controls are in place to identify and mitigate risks arising from legitimate Fund activities.
- Ensure that a strong risk management culture is instilled throughout the Fund.
- Ensure the Fund's Risks Management Strategy provides for the proactive identification, assessment, mitigation, management, monitoring and reporting of risks. These includes Operational Risks, Liquidity Risks, Currency Risks, Investment Risks, Reputation Risk, etc.

REMUNERATION & NOMINATION COMMITTEE

The responsibilities of the Remuneration & Nomination Committee (RNC) are:

- Ensure compliance with the Fund's Strategic Human Resource Framework.
- Review and recommend to the Board NASFUND's HR policies and procedures, including the terms and conditions of appointment, remuneration and termination of Directors, CEO and Senior Management
- Review and recommend to the Board, NASFUND's Director, CEO and Senior Management induction. Review performance as well as professional development and continuous improvement programs.

The Board is considering establishing a new Membership Committee in the New Year to directly deal with membership issues.

RISK MANAGEMENT

At NASFUND, we take a systematic and structured approach to risk management across all the business units and the process which are in place to support the achievement of the business and strategic goals of the organisation, the continuity of the operations and safeguarding of the company's assets.

We have in place the Risk Management Framework (RMF) which is the totality of systems, structures, policies, processes and people within NASFUND's business operations that identify, assess, manage, mitigate and monitor all internal and external sources of inherent risk that could have a material impact on its business operations or the interests of beneficiaries (material risks).

The RMF serves as a management tool to enable NASFUND to develop and implement different strategies, policies and controls to appropriately manage different types of material risks. The RMF determines NASFUND's risk appetite and risk tolerance which is expressed in the Risk Appetite Statement.

By giving effect to the RMF, NASFUND ensures that each material risk to the business operations is being prudently managed, having regard to the size, business mix and complexity of its operations. Business units are responsible for their own risk management. The risk management function has the ultimate oversight throughout the company to ensure visibility of risks and risk management activities covering all risks from strategic and operational to financial.

The responsibility for overall risk management is vested with the Board. However the Management and staff at all levels have a responsibility and a part to play in the risk management process.

"BY GIVING EFFECT TO THE RMF, NASFUND ENSURES THAT EACH MATERIAL RISK TO THE BUSINESS OPERATIONS IS BEING PRUDENTLY MANAGED."

COMPLIANCE

The Management provide the Audit & Risk Committee (ARC) with regular updates regarding all compliance matters including compliance with all legal and regulatory obligations and the Constitution. All investigation and follow up of any fraudulent activities or any non-compliance issues are also reported to ARC.

Management along with the ARC and Board review any findings made by regulatory agencies and respond accordingly.

INTERNAL AUDIT

NASFUND has a co-sourced internal audit function with Kuna Taberia Kiruwi Accountants and Advisors (KTK). The purpose of the co-sourcing model is to build the internal capacity and capability whilst ensuring independent oversight. The Internal Audit functions has direct access to Audit and Risk Committee (ARC) and to the full Board. All findings and recommendations made by the internal audit team is reported to the ARC and ultimately to the Board and any significant findings are discussed promptly. The committee monitors and ensures that management responds to recommendations by the internal auditors on a timely basis.


NASFUND
PAPUA NEW GUINEA
CORPORATE SERVICES
WORKSHOP

FUND ADMINISTRATOR'S STATEMENT

KINA INVESTMENT & SUPERANNUATION SERVICES LIMITED 2018 YEAR IN REVIEW

Kina Bank is delighted to report its second Fund Administrator's statement for the period ending 31 December 2018 for National Superannuation Fund Limited (NASFUND).

The year saw continuous system enhancements to fund administration services designed to significantly improve customer experience. This was achieved through a collaborative and strong partnership between NASFUND and Kina Bank. As a result, Kina Bank was able to improve service level turnaround time to one business day from the original three business days for all work types.

Another significant achievement was the launch of the Bank Reconciliation Module. This module will ensure that all member records are reconciled between NASFUND and Kina Bank on a daily basis.

Kina Bank is now able to effectively manage and report member information to NASFUND and its stakeholders.

TEXTBAL AND ONLINE SERVICES

All member engagement services provided by NASFUND saw significant growth:

- TextBal: members using TextBal Service increased from 27,779 to 31,913;
- Member Portal: members registered to use member online portal increased from 10,032 to 19,322; and
- Employer Portal: employers registered to use the employer online portal increased from 263 to 1,068 in December 2018.

This trend shows that members and employers are now using digital services to manage their superannuation accounts.

The employer online portal is fast becoming an essential part of administering superannuation contributions in PNG, and has the potential to reengineer the traditional way of remitting superannuation contributions both from NASFUND and an employer's perspective.

The employer online portal enables the employer to conveniently submit contributions, avoiding the need to go to a branch. With additional enhancements to the portal, NASFUND is able to assign portfolio managers to track contributions remittances, and effectively assist employers as required.

NASFUND's aim is for the majority of employers to use the online portal, and we are confident that this result could be achieved by the end of 2019.

Type of Service	2017	2018
TextBal Service	27,779	31,913
Employers Registered on Employer Portal	263	1,068
Members Registered on Member Portal	10,032	19,322

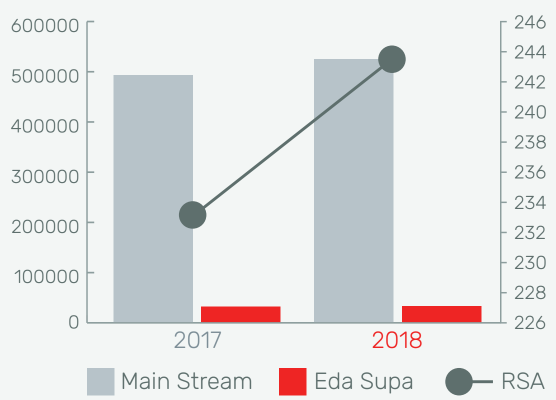
FUND MEMBERSHIP

Fund membership numbers increased by 6% from 525,322 to 558,037 in 2018.

Total membership consists of;

- 524,894 mainstream super members
- 32,898 Eda Supa Members
- 245 Retirement Savings Account (RSA) members

Total funds under administration was K4.7 billion, a K229.60 million increase from December 2017.

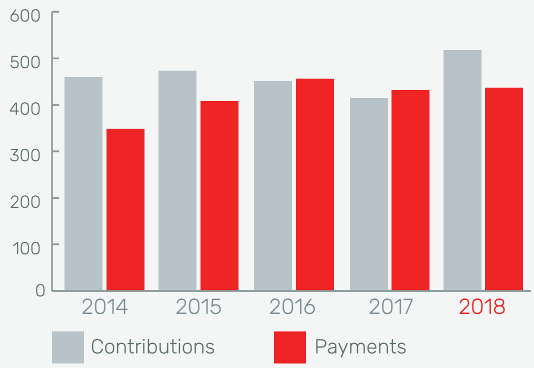


CONTRIBUTIONS

Total contributions received as at 31 December 2018 was more than K517 million which consist of;

- K195.77 million in member contributions
- K273.98 in employer contributions
- K19.41 million in voluntary contributions
- K5.08 million and K4.32 million Eda Supa savings.

Total unallocated contributions by the year end was K6.25 million.



BENEFIT PAYMENTS

A total of 81,781 benefit payment transactions where processed during 2018 totalling up to K436.87 million.

Description	(Value) 2017	(Value) 2018
Normal Retirement	K116,930,916.19	K299,566,308.07
Medical Retirement	K6,316,775.00	K7,322,728.33
Death	K8,295,125	K20,176,168.95
Transfer Out (to other ASF)	K2,006,658.15	K4,339,095.32
Unemployment Benefits	K16,068,548.60	K42,027,791.99
RSA Payments	K2,025,956.76	K5,305,039.81
Housing Advance Payments	K18,226,426.76	K38,476,575.68
Tax on Full Benefit Payment (Not included in Total)	K7,625,855.43	K16,071,359.48
Tax on Partial Benefit Payment (Not included in Total)	K1,384,263.74	K3,585,065.81
TOTAL	**K178,880,525.63**	**K436,870,133.44**

OUR PEOPLE

From a people perspective, we are proud in having a highly skilled team who can deliver the superior service fund members need. During the year, all our fund administration staff were accredited with international qualifications through the Association of Superannuation Funds of Australia (ASFA). We will continue to invest in our staff ensuring that skillset and knowledge is maintained at the highest level. ASFA represents all superannuation funds in Australia and is recognised as a global leader in providing superannuation training.

Our commitment to NASFUND and its members is to strengthen our strategic partnership by continuing to improve member experience through innovation and offer up to date systems and processes – supported by a highly qualified and experienced team. We look forward to working with NASFUND to ensure that fund members continue to enjoy the superior customer service experience, assured that their retirement savings are in good hands.

Sharon Punau
Head of Operations (Wealth) Kina Bank

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 2018.

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 significant changes in the nature of the activities of the Fund during the year.

Results
The net profit after tax for the year was K158.707 million (2017: profit after tax of K242.438 million).

Directors
The directors of the Trustee at the date of the report of the Fund are listed on page 1. 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 2018.

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

	31 Dec 2018 K '000	31 Dec 2017 K '000
Director's name		
Hulala Tokome	198,621	176,897
Charles Vee	182,069	160,000
Graham Ainui MBE	165,517	144,828
Murray Woo	165,517	144,828
Vera Raga	165,517	144,828
Lata Milner, MBE	124,138	144,828
David Doig	124,138	144,828
William Lamur (retired 1 January 2018)	-	144,828
Tamzin Wardley	165,517	144,828
Leon Buskens	165,517	-
Kepas Wali	165,517	-
	1,622,068	**1,350,693**
Independent member of audit, risk and investment committees		
Arthur Sam	-	6,250
	1,622,068	**1,356,943**

Remuneration of Employees
The number of employees (not including directors) whose remuneration exceeds K100,000 in bands of K50,000 is disclosed in note 18.

Interests Register
Interests of the Directors of the Trustee and key management personnel as recorded in the interests register are disclosed in note 22.

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

Mr Hulala Tokome
Chairman

Date: 29 March 2019

Mr Vera Raga
Chair of the Audit and Risk Committee

Date: 29 March 2019

TRUSTEES' DECLARATION

In our opinion, the financial statements set out on pages 8 to 47 are drawn up so as to give a true and fair view of the state of affairs as at 31 December 2018 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 auditor's performance.

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

DATED at PORT MORESBY this 29th day of March 2019
For and on behalf of the Board of Directors of the Trustee of National Superannuation Fund:

Mr Hulala Tokome
Chairman

Date: 29 March 2019

Mr Vera Raga
Chair of the Audit and Risk Committee

Date: 29 March 2019

MANAGEMENT'S DECLARATION

In our opinion, the financial statements set out on pages 8 to 47 are drawn up so as to give a true and fair view of the state of affairs as at 31 December 2018 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 auditor's performance.

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

DATED at PORT MORESBY this 29th day of March 2019.

For and on behalf of the Management of National Superannuation Fund

Mr Ian Tarutia Chief Executive Officer	**Mr Rajeev Sharma** Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu
Deloitte Haus Level 9
MacGregor Street
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PO Box 1275 Port Moresby
National Capital District
Papua New Guinea

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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 2018, 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 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, Superannuation (General Provisions) Act and 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 2018, 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.

Deloitte

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 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 directors and management.

- Conclude on the appropriateness of the directors and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

8

Deloitte

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

Report on Other Legal and Regulatory Requirements

- Members of the audit team are also members of the Fund under normal commercial terms and conditions.
- Proper accounting records have been kept by the Fund as far as appears from our examination of those records.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Benjamin Lee
Registered under the Accountants Act 1996
Partner

Port Moresby, 29 March 2019

7

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 2018

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Investment assets			
Cash at bank and on hand	21 (a)	134,838	89,343
Interest bearing deposits and treasury notes		817,906	779,285
Interest receivable (net)		31,029	48,784
Property receivables		20,993	9,316
Government securities and other loans	8	1,316,072	1,176,265
Equity investments	9	1,980,906	2,031,178
Investment properties	10	526,232	444,175
		4,827,976	**4,578,346**
Other assets			
Withholding taxes recoverable		75	255
Other receivables		1,728	2,209
Property and equipment	11	9,320	9,923
		11,123	**12,387**
Total Assets		**4,839,099**	**4,590,733**
Current Liabilities			
Sundry creditors and accruals	13	57,520	50,381
Withholding taxes payable		4,348	8,983
Provisions for employee entitlements	14	826	803
Current tax liabilities	12 (b)	9,284	1,977
Total current liabilities		**71,978**	**62,144**
Deferred tax liability (net)	12 (c)	10,452	11,865
Provisions	14	2,773	2,107
Total liabilities		**85,203**	**76,116**
Net Assets		**4,753,896**	**4,514,617**
Represented by			
Liability for accrued benefits			
- Allocated funds		4,552,661	4,161,146
- Unallocated contributions		35,183	31,082
- Unallocated earnings		160,207	316,544
Revaluation reserve	15	5,845	5,845
Total member funds		**4,753,896**	**4,514,617**

Mr Hulala Tokome
Chairman

Date: 29 March 2019

Mr Vera Raga
Chair of the Audit and Risk Committee

Date: 29 March 2019

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AS AT DECEMBER 2018

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Investment income			
Interest income		197,180	165,435
Dividend income		89,090	113,482
Property rentals		61,749	61,559
Movement in net fair value of investments	16	(2,307)	(46,456)
Impairment losses on financial assets	2c	(30,596)	-
Loss on disposal of shares		-	1,483
Net foreign exchange gain/(loss)	17	(28,868)	41,112
		286,248	336,615
Less: property costs		(21,028)	(23,905)
Net investment income		**265,220**	**312,710**
Other income and expenses			
Sundry income		973	2,092
Profit / (Loss) on disposal of fixed assets		98	(47)
		1,071	**2,045**
Expenditure			
Staff related expenses	18	(21,320)	(20,217)
Fund administration fee		(7,999)	(8,342)
Investment manager's fee		(6,724)	(6,307)
Advertising		(1,549)	(1,295)
Depreciation		(2,123)	(2,134)
Board expenses		(2,296)	(1,700)
Bank of PNG regulatory fees		(954)	(1,891)
Donations		-	-
Other administration expenses		(19,796)	(11,181)
		(62,761)	(53,067)
Profit before tax		**203,530**	**261,687**
Income tax expense	12	(44,823)	(19,249)
Profit for the year		**158,707**	**242,438**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Revaluation (loss) / gain of property	15	-	-
Total comprehensive income for the year		**158,707**	**242,438**

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' FUND AS AT 31 DECEMBER 2018

	Allocated Funds K'000	Unallocated Contribution K'000	Unallocated Earnings K'000	Revaluation Reserve K'000	Total K'000
As at 1 January 2017	**3,828,950**	**33,434**	**350,843**	**5,845**	**4,219,072**
Profit for the year	-	-	242,438	-	242,438
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)	-	-
Provision on member funds	-	-	(9,307)	-	(9,307)
As at 31 December 2017	**4,161,146**	**31,082**	**316,545**	**5,845**	**4,514,618**
Profit for the year	-	-	158,707	-	158,707
Total comprehensive income for the year	-	-	158,707	-	158,707
Contributions received	-	515,714	-	-	515,714
Allocated contributions	511,613	(511,613)	-	-	-
Interim interest	3,383	-	(3,383)	-	-
Benefits paid to members	(436,870)	-	-	-	(436,870)
Interest allocated to members' accounts	313,389	-	(313,389)	-	-
Provision on member funds	-	-	1,727	-	1,727
As at 31 December 2018	**4,552,661**	**35,183**	**160,207**	**5,845**	**4,753,896**

Allocated funds represent National Superannuation Fund's obligation to pay benefits to members and beneficiaries arising as at 31 December 2018.

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.

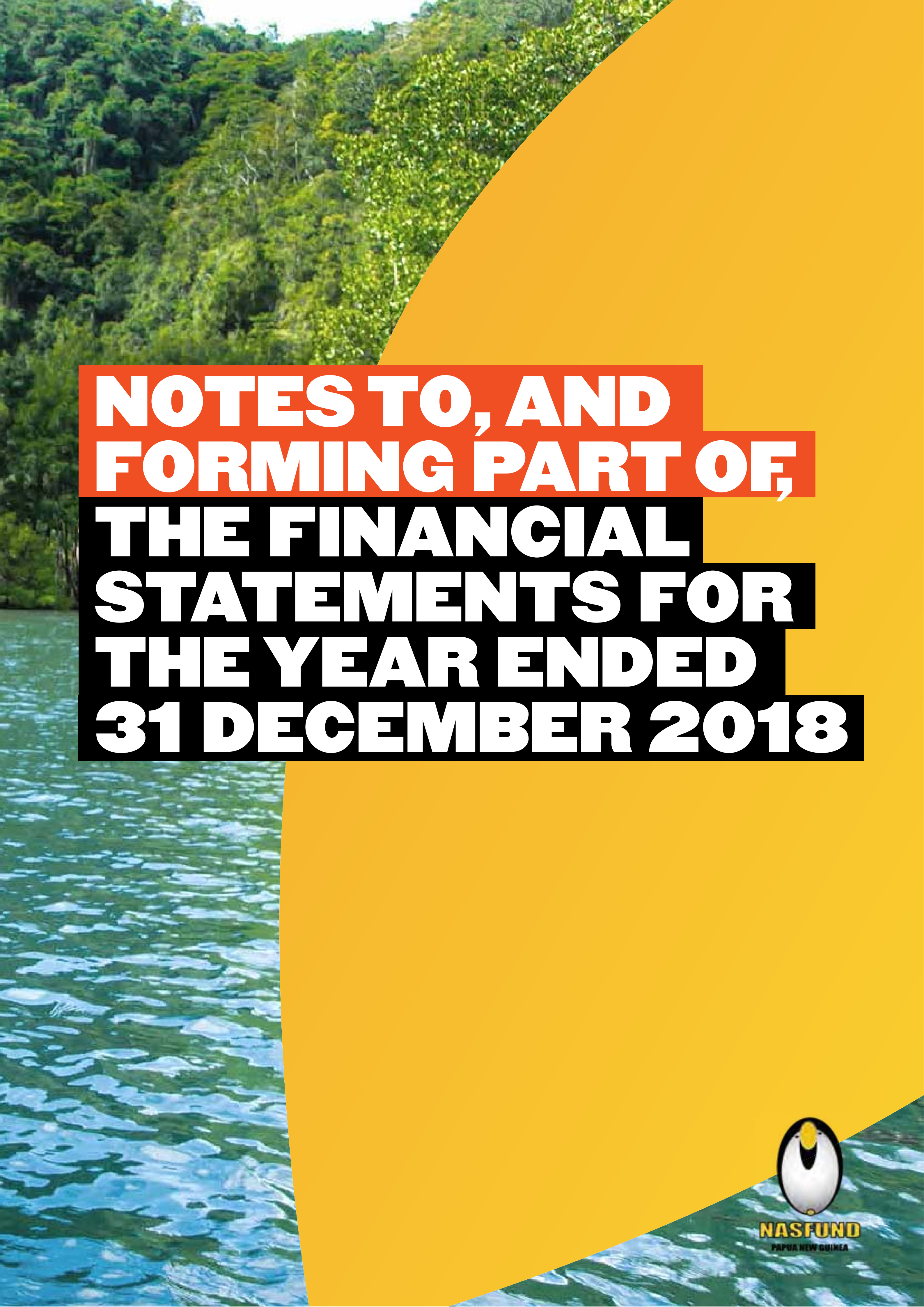
Unallocated earnings represent profits not yet allocated to members at 31 December. Each year the final allocation of current year earnings would be approved by the board of directors subsequent to year end and credited to member accounts in the ensuing financial year.

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 FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Cash flows from operating activities			
Interest received		214,935	160,035
Net rent received		50,073	74,176
Dividend received		89,270	118,953
Wages and administration payments		(71,962)	(45,708)
Income tax received / (paid)	12	-	-
Net cash from operating activities	21 (b)	**282,316**	**307,456**
Cash flows from investing activities			
Purchase of property and equipment	11	(945)	(2,364)
Proceeds from sale of property and equipment		100	25,000
Proceeds from government securities and other loans		82,786	39,722
Proceeds from sale of property investments		-	18,958
Investments in equity		(38,898)	(179,080)
Investments in government securities and other loans		(290,949)	(279,685)
Investments in investment property		-	(24,861)
Net cash used in investing activities		**(247,906)**	**(402,310)**
Cash flows from financing activities			
Contributions received		515,714	493,094
Benefits paid		(436,870)	(430,680)
Net cash from financing activities		**78,844**	**62,414**
Increase in cash and cash equivalents		**113,254**	**(32,440)**
Effect of exchange rate fluctuations	17	(28,868)	41,112
Cash and cash equivalents at the beginning of the year		114,467	105,796
Cash and cash equivalents at the end of the year	21 (a)	**198,853**	**114,468**

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 2018

NASFUND
PAPUA NEW GUINEA

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, and 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 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 28 February 2019.

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

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

New and amended IFRS Standards that are effective for the current year.

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Fund has applied IFRS 9 Financial Instruments (as revised) and the related consequential amendments to other Accounting Standards for the first time. IFRS 9 introduces new requirements for:

1. the classification and measurement of financial assets and financial liabilities;
2. impairment for financial assets; and,
3. general hedge accounting. Details of these new requirements as well as their impact on the Fund's financial statements are described below.

The Fund has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. The Fund has not restated prior periods as a result of adoption of IFRS 9 and has recognised any difference between the previous carrying amount and carrying amount at 01 January 2018 in the retained earnings.

a) **Classification and measurement**
   All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. 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 amount outstanding, are subsequently measured at amortised cost
   - Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income (FVTOCI)

All other debt investments and equity investments are subsequently measured at fair value through profit or loss (FVTPL).

The Fund may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Fund has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

The directors of the Company reviewed and assessed the Fund's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Fund's financial assets as regards their classification and measurement:

- Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding;

- Financial assets that were measured at FVTPL under IAS 39 continue to be measured as such under IFRS 9, with the exception of Government Inscribed Stock;
- Government Inscribed Stock has been reclassified from FVTP to amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

b) Impairment of financial assets

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 the Fund to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Fund to recognise a loss allowance for expected credit losses ('ECL') on

i. debt investments subsequently measured at amortised cost or at FVTOCI;
ii. lease receivables;
iii. contract assets; and
iv. loan commitments and financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Fund to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Fund is required to measure the loss allowance for that financial instrument at an amount equal to 12 months ECL. IFRS 9 also provides a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The application of IFRS 9 has resulted in additional loss allowance of K30.596m recognised in current period.

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to each financial asset.
The only financial asset which the Fund had previously designated as FVTPL under IAS 39 that the Fund has elected to reclassify upon the application of IFRS 9 was the Government Inscribed Stock as described above.
There were no financial assets or financial liabilities which the Fund has elected to designate as at FVTPL at the date of initial application of IFRS 9.

c) Financial impact of initial application of IFRS 9

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 9 for the current period.

	2018 K'000
Increase in Impairment losses – Loans and receivables	(21,668)
Increase in Impairment losses – Investments in government inscribed stocks	(8,928)
Total effect on profit for the period	**(30,596)**
Decrease in Loans and receivables	(21,668)
Decrease in Investments in government inscribed stocks	(8,928)
Total effect on net assets	**(30,596)**

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 16	Leases[1]

1. Effective for annual periods beginning on or after 1 Jan 2019 with earlier application permitted.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and leases. 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 identified 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-term leases and leases of low value assets.

The right-to-use asset is initially measure at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement 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.

The directors of the Fund do not anticipate that the application of these amendments will have an impact on the Fund financial statements, as the Fund does not have a significant quantum of leases.

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

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.

› **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 at amortised cost, and assessed for impairment annually.

  In the current year, Government Inscribed Stock (GIS) has been reclassified from FVTPL to Amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

- **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 from borrowing funds. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Fund becomes a party to the contractual obligations.

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

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

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

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

f) Property Plant and equipment

i. Recognition and measurement

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

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

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

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

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

ii. Reclassification into investment property

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

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

iii. Subsequent costs

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

iv. Depreciation

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

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

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

Building	40 years
Plant and equipment	5-12 years
Fixture 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.

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

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

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

If, in a subsequent period, the fair value of an impaired available-for-sale debt security 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.

h) Employee benefit plans

i. **Defined contribution plans**

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

ii. **Other long-term employee benefits**

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

iii. **Short-term employment benefits**

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

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

i) 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.

j) 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.

i. 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.

ii. 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.

iii. 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).

iv. Rent

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

k) Expenses

Fees, commission and other expenses

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

l) 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 summary of significant fair values determined in preparing the notes to the Fund's financial statements:

i. Property plant and equipment

The fair value of property, plant and equipment 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, 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. 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.

iii. Investment in quoted equity and debt securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

iv. Unquoted equity investments

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

v. Trade and other receivables

The fair value of trade and other receivables for disclosure purposes, 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.

vi. Non-derivative financial liabilities

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

5. FINANCIAL RISK MANAGEMENT

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

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

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and 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. 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.

ii. **Liquidity risk**

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.

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;
- 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 (2017: 8.4%). Employees contributed to the Fund during the year at a rate of 6.0% of the gross salaries (2017: 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.

Nasfund meets the criteria of an investment company, which allows it to operate as a Superannuation Fund. Consequently the Fund is subject to regulatory requirements under the BPNG Prudential Standards and the Superannuation Act 2000.

8. GOVERNMENT SECURITIES AND OTHER LOANS

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Government Inscribed Stock	(a)	1,244,846	1,058,811
Sovereign Community Infrastructure Treasury Bill (SCITB)	(b)	29,092	29,581
Notes and other loans	(c)	42,134	87,873
		1,316,072	**1,176,265**

(a) Government Inscribed Stock

	Note	31 Dec 2018	31 Dec 2017
GIS		1,253,774	-
Provision for impairment	(d)	(8,928)	-
		1,244,846	**-**

In the current year, Government Inscribed Stock (GIS) has been reclassified from FVTPL to Amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. The bonds will mature between 2018 and 2031. For details of transition, refer to note 2 Application of New and revised International Financial Reporting Standards.

In the prior year, Government Inscribed Stock (GIS) were recorded net of unamortised discounts and premiums on acquisition which were 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 and a Fair value of KK1,058.8 million in 2017.

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

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
SCITB		68,581	68,581
Interest receivable from SCITB		35,250	35,250
Provision for impairment	(d)	(74,748)	(74,250)
		29,083	**29,581**

The SCITB was issued by the Treasurer on behalf of the State under the Treasury Bills Act using National Capital Limited (NCL) as the State's Agent, However the State has disputed its liability to repay the SCITB and the Fund has therefore commenced proceedings for recovery of the amount subscribed for the SCITB and interest. On 28 August 2017, the National Court ordered that approximately K56.4 million of the funds advanced by the Fund which were held in several NCL bank accounts be paid to the Fund. These monies have since been received by the Fund. As a consequence, the principal remaining in dispute has reduced to approximately K66.6 million. The balance of the SCITB remains in dispute and the proceedings to recover those funds continue to be prosecuted by the Fund.

The yield on the SCITB is 7.05%. Interest relating to the SCITB of K8.8 million (2017: K8.8 million) has not been included in interest revenue.

8. GOVERNMENT SECURITIES AND OTHER LOANS (CONTINUED)

(c) Notes and other loans

	Note	Maturity (years)	Average Yield	31 Dec 2018 K'000	31 Dec 2017 K'000
PNG Power		-	10.2%	-	4,659
Panamex Limited		1	12.0%	11,198	11,198
Lamana Hotel (TDC Samoa)	(I)	-	15.0%	5,600	-
Tawaili Resort	(ii)	-	-	4,057	4,057
Big Rooster		3-5	9.2%	-	45,000
Heritage Park Hotel			12.5%	25,336	27,016
PNG Air	(iii)			20,000	-
				66,191	91,930
Less: provision for impairment	(ii), (iii)			(24,057)	(4,057)
				42,134	**87,873**

All loans are subject to fixed interest rates except City Centre Development (CCD), previously 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% (2017: 15%).

i. The loan to TDC Samoa was 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% (2017: 15%) per annum and the loan is repayable at maturity of August 2019. In the current year, K21.422m of the loan was transferred through an equity swap in exchange for the 35% shares that were held by Lamana in CCD Building, giving Nasfund 100% ownership of CCD. The remaining K5.6m will be settled by Lamana.
ii. In 2012 the Fund provided for the loan to Tawaili Resort of K4.06 million as there is doubt regarding its recoverability.
iii. In 2017 Nasfund purchased additional shares in PNG Air worth K20 million, however to date, the shares have not been issued. As such, this has now been recorded as a loan and fully provided for in accordance with IFRS 9, impairment assessment.

(d) Movement in provisions

The movement in the provision for impairment in respect of government securities and other loans is as follows:	31 Dec 2018 K'000	31 Dec 2017 K'000
Opening balance	78,307	78,307
Provision for impairment on SCITB interests (note 8(b))	498	-
Provision on Government Inscribed Stock	8,928	-
Provision for impairment loan to PNG Air (note 8(c))	20,000	-
Closing balance	**107,733**	**78,307**

Provision for impairment is comprised of the following:	31 Dec 2018 K'000	31 Dec 2017 K'000
Tawaili Resort (note 8(c))	4,057	4,057
Provision on Government Inscribed Stock	8,928	-
Provision for impairment on SCITB	39,498	39,000
Interest receivable on SCITB (note 8(b))	35,250	35,250
PNG Air (note 8(c))	20,000	-
	107,733	**78,307**

9. EQUITY INVESTMENTS

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Quoted investments – domestic	(a)	604,320	604,236
Quoted investments – international	(a)	437,941	442,519
Unquoted investments	(b)	938,645	984,423
		1,980,906	**2,031,178**

(a) Quoted investments

Summary of revaluation of quoted Investments is as follows:

	31 Dec 2017 K'000	Revaluation K'000	Purchase / (Sales) K'000	31 Dec 2018 K'000
Quoted shares domestic				
PNG Air (i)	35,525	-	(20,000)	15,525
Bank of South Pacific Limited	430,525	34,442	-	464,967
City Pharmacy Limited	20,748	-	-	20,748
Credit Corporation (PNG) Limited	102,464	(17,388)	-	85,076
Kina Securities	14,974	3,030	-	18,004
	604,236	**20,084**	**(20,000)**	**604,320**
Quoted shares international				
Oil Search Limited	120,804	(16,109)	-	104,695
Vanguard	240,796	10,072	-	250,868
Steamships Trading Company Limited	80,919	1,459	-	82,378
	442,519	**(4,578)**	**-**	**437,941**

Reconciliation of movement in quoted investments is as follows:

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Opening balance		1,046,757	997,719
Additions / (Disposal) during the year		(20,000)	43,449
Profit on disposal		-	-
Fair value gain / (loss)	16	15,507	5,589
Closing balance		**1,042,264**	**1,046,757**

9. EQUITY INVESTMENTS (CONTINUED)

(b) Unquoted investments at fair values

Summary of revaluation of unquoted investments is as follows:

Unquoted investments	Note	Percentage Holding	2018 Valuation Model
Amalgamated Packaging Limited		30.00%	(iii)
Hornibrooks NGI		21.13%	(ii)
Nas Aviation		40.00%	(ii)
Nasmel Limited	(b (i))	100.00%	(iii)
Turumu Holdings Limited		20.00%	(v)
The Edge Limited		70.00%	(iii)
Port Services Limited		5.00%	(ii)
City Centre Developments Limited	(b (ii))	100.00%	(iii)
South Pacific Brewery Limited		0.72%	(iii)
Pacific Balance Fund		22.00%	(ii)
Toyota Tsusho (PNG) Limited		0.61%	
Hillside Garden		50.00%	(ii)
Panamex Limited		46.30%	(iii)
Heritage Park Hotel		60.00%	(ii)
Malagan Limited		100.00%	(iii)
Carpark Limited		100.00%	(iii)
Grand Pacific Hotel Ltd		0.00%	(ii)
Gewani Ltd		100.00%	(iii)
Capital Insurance Group Ltd		19.20%	(iii)
Loloata Island Resort		50.00%	(iv)
Mainland Holdings Ltd	(b (i))	78.27%	(ii)
Total unquoted investments			

Unobservable inputs of valuation models are discussed in note (d).

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

2017 Valuation Model	Market Multiple	2017 K'000	Revaluation K'000	Other movements K'000	2018 K'000
(iii)		–	(3,075)	–	–
(ii)		–	(2,750)	–	–
(ii)		–	–	–	–
(iii)		–	–	(255,092)	–
(v)		–	3,200	–	–
(iii)		–	(1,336)	–	–
(ii)		–	–	–	–
(iii)		–	(5,573)	15,175	–
(iii)	8x – 9x	–	(950)	–	–
(ii)		–	–	–	–
	4x – 5x	–	–	–	–
(ii)		–	–	–	–
(iii)	4.5x – 5.5x	–	6,850	–	–
(ii)		–	14,900	–	–
(iii)		–	2,039	–	–
(iii)		–	–	–	–
(ii)		–	–	(35,000)	–
(iii)		–	5,059	–	–
(iii)		–	(10,100)	–	–
(iv)		–	–	18,525	–
(ii)		–	(33,189)	235,539	–
		984,423	**(24,925)**	**(20,853)**	**938,645**

9. EQUITY INVESTMENTS (CONTINUED)

(b) Unquoted investments at fair values (continued)

Reconciliation of movement in unquoted investments is as follows:

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Opening Balance		984,423	1,011,664
Additions / disposals during the year		(36,029)	(5,792)
Fair value gain/ (loss)	17	(24,924)	(5,289)
Other adjustments	(iii)	15,175	(16,160)
Closing balance		**938,645**	**984,423**

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. Nasmel Group (100% owned by the Fund) holds 78.27% 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 included long term capital contributions of K127 million (2017: K127 million). Nasmel was amalgamated into the Fund in July 2018, and accordingly 6 months income is included in Nasfunds books, with the first 6 months of the year recorded in Nasmels books. The amounts recognised in respect of the indefinable assets and liabilities on amalgamation are as set out in the table below:

	31 Dec 2018 K'000
Investment Properties	248,640
Debtors	2,514
Cash	3,733
Creditors	(4,850)
Equity Investment	(250,037)

ii. City Centre Developments Limited is now 100% 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%**
Vanguard	**5.2%**

(d) Fair value model and significant unobservable inputs

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

i. Orderly Realisation of Assets

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

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

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

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

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

v. **Sum of Parts**
Turumu Holding Limited ("Turumu"), which apart from its own operations, is also a holding company for a number of other companies. Turumu is valued using the sum of parts approach. The investments held by the holding company are fair valued individually using either the ORA, Net Assets, or CME approach. The 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	-

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

(e) Sensitivity analysis

The following is a sensitivity analysis of significant unobservable inputs:

	Effect on profit or loss Increase / (decrease)	
	31 Dec 2018	**31 Dec 2017**
	K'000	**K'000**
Increase of 1 in market multiples	(19,955)	(4,359)
10% increase in earnings	(16,693)	(9,519)
Increase of 5% in discount rates	110,744	78,338

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

10. INVESTMENT PROPERTIES AND WORK IN PROGRESS

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Investment properties	(a)		
Residential properties		58,502	57,834
Industrial properties		28,546	28,933
Commercial properties		424,893	352,577
Land		14,291	4,831
		526,232	**444,175**

(a) Investment properties (at market value)

Summary of movement in revaluation of investment properties as follows:

	Valuation Model	Capitalization Rates	2017 K'000	Revaluation K'000	Other movements K'000	2018 K'000
Residential properties						
Peacehaven Apartments	MC	11.00%	-	(593)	593	-
Sol Wara Apartments	MC	10.81%	-	775	28	-
Cross Street Apartments	MC	11.00%	-	-	(135)	-
Lot 18 Sect. 69 House Property	MC	11.00%	-	-	-	-
Lot 3 Sect. 2 Madang Property	DMA	-	-	-	-	-
Lot 11 Sect. 13 KBB Property	DMA	-	-	-	-	-
Siroi Panu Units	MC	11.00%	-	-	-	-
Airvos Avenue Apartments	MC	11.00%	-	-	-	-
			57,834	**182**	**486**	**58,502**
Industrial properties						
API	MC	11.00%	-	-	-	-
Gordons – Cameroon Road	MC	11.11%	-	(440)	53	-
			28,933	**(440)**	**53**	**28,546**

10. INVESTMENT PROPERTIES AND WORK IN PROGRESS

	Note	Valuation Model	Capitalization Rates	2017 K'000	Revaluation K'000	Other movements K'000	2018 K'000
Commercial properties							
Ravalian Haus		MC	10.00%	-	1,374	89	-
Able Computing Madang		MC	10.00%	-	-1	56	-
ANZ Haus		MC	10.00%	-	-1,371	16	-
Westpac Head Office Building	(iv)	Cost	-	-	-	-	-
BSP Douglas Street	(iv)	Cost	-	-	-	66	-
Luship Voco Point Lae		DMA	-	-	-	-	-
Malahang Shed Regina St. Lae		DMA	-	-	-	-	-
Madang Slipway		DMA	-	-	-	969	-
Kina Haus		MC	10.00%	-	2,288	20,351	-
Nasfund Haus Lae		MC	11.50%	-	-	82	-
NCSL Head Office	(iii)	DMA	-	-	-	56	-
IPA Haus		MC	12.50%	-	1,047	-	-
Burns Philp		MC	-	-	1,600	27,400	-
The Face		MC	-	-	1,533	15,131	-
The Factory		MC	12.50%	-	899	732	-
				352,577	**7,369**	**64,948**	**424,894**
Land							
Section 69, Lae		Cost	-	-	-	-	-
8 Mile and 9 Mile	(ii)	DMA	-	-	-	-	-
Lawes Rd		DMA	-	-	-	-	-
Nasmel Land			-	-	-	9,460	-
Vacant Land, Lae		DMA	-	-	-	-	-
				4,831	**-**	**9,460**	**14,291**

Reconciliation of movement in investment properties is as follows:

	31 Dec 2018 K'000	31 Dec 2017 K'000
Opening balance	444,175	469,035
Improvements, reclassifications, and additions	74,947	4,120
Disposal of properties	-	(16,866)
Fair value gain	7,111	(12,114)
Closing balance	**526,233**	**444,175**

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 K44,978 (2017: K43,887) 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 K481,255 million (2017: K400,288 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:

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Opening balance		43,887	64,146
Improvements, reclassifications, and additions		1,091	(16,435)
Changes in fair value	16	-	(3,824)
Closing balance		44,978	43,887

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:

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Opening balance		400,288	404,890
Improvements, reclassifications, and additions		73,856	4,923
Changes in fair value	16	7,111	(9,525)
Closing balance		**481,255**	**400,288**

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 2018 K'000	31 Dec 2017 K'000
Increase of 1% in capitalisation rates	33,352	(2,940)
10% increase in rentals	119,740	70,980
10% increase in sales prices and / or replacement costs	1,588	1,486

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

11. PROPERTY AND EQUIPMENT

a) **Property and equipment**

Cost or deemed cost	**Motor Vehicles K'000**	**Office Equipment K'000**	**Fixture and Fitting K'000**	**Total K'000**
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**
At 1 January 2018	1,020	9,250	7,635	17,905
Additions	611	271	63	945
Disposals	(18)	-	-	(18)
At 31 December 2018	**1,613**	**9,521**	**7,698**	**18,832**
Accumulated depreciation				
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**
At 1 January 2018	439	5,913	1,738	8,091
Depreciation for the year	232	1,284	559	2,075
Disposals	-	-	-	-
At 31 December 2018	**671**	**7,197**	**2,297**	**10,166**
Carrying amounts				
At 31 December 2018	**942**	**2,324**	**5,401**	**8,666**
At 31 December 2017	**581**	**3,337**	**5,897**	**9,815**

Capital Work in Progress included in property and equipment

	2018 K'000	**2017 K'000**
Opening balance	108	1,116
Additions	546	-
Commissioned	-	(1,008)
Closing balance	654	108

Total property and equipment	
At 31 December 2018	**9,320**
At 31 December 2017	**9,923**

12. INCOME TAX

(a) Income tax expense	31 Dec 2018 K'000	31 Dec 2017 K'000
Current tax	38,835	38,237
Under provision of current taxes in previous years	5,088	(20,843)
Deferred tax expense	900	1,855
	44,823	**19,249**
Accounting profit before tax	203,530	261,687
Tax on the profit for the year at 25%	50,882	65,422
Taxation effect of permanent differences		
– Non-deductible items	21,508	20,877
– Non-taxable items	(10,342)	(17,795)
Dividend rebate	(22,314)	(28,412)
Under provision in prior years	5,088	(20,843)
	44,823	19,249
(b) Income tax balance		
Opening balance of income tax payable	1,977	20,649
Current tax payable	9,315	41,972
Under provision of taxes in previous years	5,088	(20,843)
Offset of withholding taxes recoverable	(7,096)	(39,801)
Payment during the year	9,284	1,977

(c) Deferred tax balances

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

As at 31 December 2018	Asset K'000	Liability K'000	Net K'000
Property, plant and equipment	-	(474)	(474)
Investment property	-	(2,822)	(2,822)
Provisions	8,209	-	8,209
Interest receivable	-	(8,052)	(8,052)
Other	11,230	(18,544)	(7,313)
	19,439	**(29,892)**	**(10,452)**
As at 31 December 2017			
Property, plant and equipment	-	(120)	(120)
Investment property	-	(20,403)	(20,403)
Provisions	749	-	749
Interest receivable	-	(3,123)	(3,123)
Other	10,463	569	11,032
	11,212	**(23,077)**	**(11,865)**

13. SUNDRY CREDITORS AND ACCRUALS

	31 Dec 2018 K'000	31 Dec 2017 K'000
Sundry creditors and other accruals	21,697	15,512
Unearned interest	32,843	31,038
Bonds and repayable deposits	2,980	3,831
	57,520	**50,381**

14. PROVISION

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Current			
Provisions for employee entitlements		**826**	**803**
Non-current			
Provision for long service leave		2,773	2,107
		2,773	**2,107**
The movement in provision for long service leave is presented as follows:			
Opening balance		2,107	2,429
Charge for the year	18	694	288
Payments made during the year		(28)	(610)
Closing balance		**2,773**	**2,107**

15. REVALUATION RESERVE

	31 Dec 2018 K'000	31 Dec 2017 K'000
Opening balance	5,845	5,845
Closing balance	**5,845**	**5,845**

16. 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	31 Dec 2018 K'000	31 Dec 2017 K'000
Mark to market – GIS		-	(2,933)
Shares in listed companies	9(a)	15,507	5,589
Shares in unlisted companies	9(b)	(24,924)	(36,999)
Investment properties	10(a)	7,111	(13,349)
		(2,307)	**(47,692)**
In respect to those investments realised during the financial year:			
Investment properties / unlisted companies / other		-	1,235
		-	**1,235**
Total (loss) / gain		**(2,307)**	**(46,456)**

17. OPERATING SURPLUS FOR THE YEAR HAS BEEN ARRIVED AT AFTER CHARGING THE FOLLOWING ITEMS:

	31 Dec 2018 K'000	31 Dec 2017 K'000
Auditors' remuneration – audit	298	280
Legal expenses	1,042	371
Gain / (loss) on sale of property, plant and equipment	98	(47)
Net foreign exchange gain/(loss)	(28,868)	41,112

18. STAFF RELATED EXPENSES

	Note	31 Dec 2018 K'000	31 Dec 2017 K'000
Salaries and wages		12,717	11,532
Superannuation		1,114	1,146
Long service leave	14	694	10
Other expenses and benefits		6,795	7,529
		21,320	**20,217**

The number of full time employees at the end of the year was 152 (2017: 157).

The number of employees whose remuneration exceeds K100, 000 for the year was 12 (2017: 9).

Total remuneration (Kina)	31 Dec 2018 No.	31 Dec 2017 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**

19. 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 2018, the Fund expensed K1.146 million in contributions (2017: K1.031 million).

20. 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†	K6.1 million per annum
Security fees	K1.14 million per annum
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 (BSP Capital)	
› Custodial Services	K125,000 per annum
› Asset Consulting Services	K1.625 million per annum
› Listed Funds Management Services	K480,000 per annum
› Unlisted Funds Management Services	30 basis points per annum, based on value of funds under management

† Facilities management includes fees for properties in 100% owned companies and other JV companies.

(b) Government securities in dispute and litigation liabilities

The Fund had the following government securities and other litigious matters which were directly or indirectly in dispute as at 31 December 2018:

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 the Fund advanced to the State in exchange for the SCITB. On 28 August 2018, the National Court ordered that approximately K56.4million of the funds advanced by the Fund which were held in several NCL bank accounts be paid to the Fund. These monies have since been received by NASFUND. As a consequence, the principal remaining in dispute has reduced to approximately K68.6 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, the Fund has made a provision in relation to this matter in which it is engaged, of K39 million (2017: K39 million) to take account of the uncertainties of litigation (see note 8d). There are no other provisions for impairment on litigation matters.

(c) **Material contracts – operational**

Contract	Services	Expiry Date
Kina Investments & Superannuation Services	Administration	July 2022
Black Swan	Security	March 2021
PacWealth Capital Limited	Investment Management	March 2018
BSP Capital Limited	Investment Management	June 2021

(d) **Material contracts - property development**

Contract	Services	Expiry Date
Ashton Brunswick Limited	Facilities Manager	June 2019

21. 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 2018 K'000	31 Dec 2017 K'000
Cash at bank and on hand	134,838	89,343
Interest bearing deposits and treasury notes	64,015	25,125
Cash and cash equivalents	**198,853**	**114,468**

Interest bearing deposits and treasury notes have a maturity of less than 90 days. Interest rates ranged from 0.5% to 6.25% (2017: 0.8% to 3.2%).

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

	31 Dec 2018 K'000	31 Dec 2017 K'000
Profit before tax for the year	203,530	261,687
Adjustments for:		
Movement in fair value of investments	2,307	47,693
Provision for impairment on financial assets	30,596	-
Provision for long service leave	694	10
Profit on disposal of property, plant and equipment	98	(47)
Profit on sale of investment properties	-	1,235
Amortisation of discounts and premiums	-	2,925
Depreciation	2,123	2,134
Exchange difference	28,868	(41,112)
Net cash before changes in working capital	**268,216**	**274,525**
Decrease in interest receivable	17,756	5,400
Decrease / (Increase) in other receivables	(11,195)	9,923
Increase in trade and other payables	7,539	17,607
Net cash provided by operating activities	**282,316**	**307,456**

22. 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.

	31 Dec 2018 K'000	31 Dec 2017 K'000
Opening balance owing to Nasfund	56	9
Administration services provided by Nasfund	6	58
Payments made to Nasfund	-	(11)
Closing balance	**62**	**56**

ii. Nasmel Limited

	31 Dec 2018 K'000	31 Dec 2017 K'000
Opening intercompany balance owing to Nasfund	127,440	127,452
Improvements to Nasmel Limited investment properties	-	-
Amalgamation	(127,440)	-
Closing intercompany balance owing to Nasfund	**-**	**127,452**

In the current year Nasmel was amalgamated into Nasfund, refer to Note 10 (b) (Unquoted investments at fair value).

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), Rennie Wekina (CP), Jack Parina (Company Secretary) and Vincent Lialu (Head Of Human Capital).

v. Compensation

Key management personnel compensation comprised of:	31 Dec 2018 K'000	31 Dec 2017 K'000
Salary and fees	5,201	4,875
Non-monetary benefits	2,608	2,823
Post-employment benefits	1,395	882
	9,204	**8,580**

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 2018 K'000	31 Dec 2017 K'000
Sitting allowance	129	114
Quarterly allowance	1,622	1,357
Audit committee fees	37	34
Directors insurance	170	83
Other Costs	338	111
	2,296	**1, 700**

All of the above payments were made in the ordinary course of business.

viii. Board and CEO personnel interests

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 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, PNG Air Ltd, Print Monster Limited, NASFUND Contributions Savings & Loan Society, City Centre Developments Ltd, Nasmel Ltd, Galatoire Ltd, Employers Federation of Papua New Guinea, Port Moresby Nature Park.
	Shareholder	Highlands Pacific Limited, Oil Search Limited, Woo Textile Corporation Limited, Healthy Kamwood Limited, Gateway Travel, Print Monster Limited

Mrs Lata Milner, MBE Resigned 10 Sept 2018	Director	Pedy No 10 Ltd, Private Boxes (PNG) Ltd, Heritage Park Hotel Ltd, Nasmel Ltd.
	President	PNG-India Business Forum Inc
Mr Vera Raga	Director	NCSL, The Edge, Carpark Limited, Gewani Limited, Malagan Limited, Nasmel Limited, National Housing Corporation
	Member	National Tripartite Consultative Council
	Shareholder	Pedy No 10 Ltd, Private Boxes (PNG) Ltd , Kina Bank Ltd
Mr David Doig Resigned 10 Sept 2018	Director	Moore Business Systems (PNG) Limited, Employers Federation of PNG, Brian Bell Ltd, Credit Corp Ltd , Nasmel Ltd
Mr Charles Vee	Director	Edge Limited, Carpark Limited, Gewani Limited, Malagan Limited, V-Tech Consultancy Limited, Architectural Alliance Ltd, Nasmel Limited
	Shareholder	Architectural Allianz Ltd, V-Tech
	Shareholder	Bank South Pacific Ltd, Seychelles Ltd, PNG Air Ltd
Mr Leon Buskens Appointed 1 Jan 2018	Director	ANZ PNG Limited, SP Brewery Limited, Capital Insurance Group, IPA, Business Coalition for Women, Gazelle International Hotel, Kopkop College, Nasmel Ltd
	Shareholder	Oil Search Limited, KOPKOP College
	Trustee	National Football Stadium
Mr Kepas Wali Appointed 1 Jan 2018	Director	Minerals & Petroleum Consultants Ltd. Nasmel Ltd
Ms Tamzin Wardley, LM	Director/ Executive member	Royal Papua Yacht Club Inc., PNG National Olympic Committee Inc, National Apprenticeship and Trade Test Board, National Training Council, National Tripartite Consultative Council.
	Director	Pacific Games 2015 Ltd, Nasmel Ltd, Westpac Bank Ltd
	Shareholder	Steel Industries Ltd, Oil Search Ltd
Ms Florence Willie	Director/ shareholder	Konevia No 1 Consultants
Mr Ian Tarutia OBE	CEO	NASFUND
	Director	NASFUND Contributions Savings & Loan Society, Federation of Savings & Loan Societies, PNG Chamber of Commerce of Industry, Seychelles Limited, East New Britain Properties Ltd, Cloud App Laboratories Ltd

23. 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 2018 K'000**	**31 Dec 2017 K'000**
Government debt securities	1,322,355	1,127,392
Equity securities	1,972,624	2,021,420
Loans and receivables	70,416	97,631
Interest receivables	32,208	48,784
Property receivables	20,993	9,316
Other receivables	1,722	2,209
Interest bearing deposits and treasury notes	753,890	754,160
Cash and cash equivalents	198,854	114,467
	4,373,062	**4,175,380**

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

Aging of trade receivables	**31 Dec 2018**	**31 Dec 2017**
The aging of unimpaired property receivables at the reporting date was:	**K'000**	**K'000**
Current	7,102	1,853
31 - 60 days	81	1,291
61 - 90 days	127	1,230
over 90 days	13,682	4,942
	20,992	**9,316**

The movement in the allowance for impairment in respect of property receivables is as follows:	**31 Dec 2018 K'000**	**31 Dec 2017 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 2018. 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 effect 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 2018	AUD K'000	USD K'000	FJD K'000	SBD K'000
Equity investments	309,569	252,947	-	60,851
Cash at bank	-	-	-	4,067
Gross balance	**309,569**	**252,947**	**-**	**64,918**
% of net asset value	6.5%	5.3%	-	1.4%
Foreign exchange rate	0.40	0.31	-	2.45
As at 31 December 2017				
Equity investments	215,561	25,235	35,000	122,620
Cash at bank	-	-	-	3,124
Gross balance	**215,561**	**25,235**	**35,000**	**125,744**
% of net asset value	4.8%	0.01	0.8%	2.6%
Foreign exchange rate	-	0.32	0.67	2.45

› 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 2018 and 2017.

	31 Dec 2018 K'000	31 Dec 2017 K'000
AUD	-	21,556
USD	-	2,524
FJD	-	3,500
SBD	15,911	11,574
	15,911	**39,154**

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.

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:

Fixed rate instruments	**31 Dec 2018 K'000**	**31 Dec 2017 K'000**
Financial assets (Government bonds and inscribed stock)	1,253,774	1,058,812
Treasury bills and interest-bearing deposits	817,906	779,284
Loans and other receivables	15,255	60,857
	2,086,935	**1,898,953**
Variable rate instruments		
State grant	-	-
Loans and other receivables	-	-
Total	**2,086,935**	**1,898,953**

(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 2018 financial year, together with consultation with the investment consultant, the Fund's Investment Department considers the following movements in other market price risk are reasonably possible.

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

As at 31 December 2018	%	Carrying Amount K'000	Effect on net assets and profit increase K'000	Effect on net assets and profit decrease K'000
Listed overseas shares	15%	437,941	503,632	(503,632)
Listed local shares	10%	624,321	686,753	(686,753)
Investment in unquoted companies	5%	910,362	955,880	(955,880)
As at 31 December 2017				
Listed overseas shares	15%	432,519	66,378	(66,378)
Listed local shares	10%	624,321	60,424	(60,424)
Investment in unquoted companies	5%	974,665	48,733	(48,733)

(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.

As at 31 December 2018	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total K'000
Equity securities	1,062,262	-	910,362	1,972,624
	1,062,262	**-**	**910,362**	**1,972,624**
As at 31 December 2017				
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**

(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

Government Inscribed Stock has been reclassified from FVTP to amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

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.

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

	31 Dec 2018 K'000	31 Dec 2017 K'000
Opening balance	2,033,477	1,906,010
(Disposals / redemptions) or additions during the year	(39,379)	132,756
Changes in fair value	(24,924)	(5,289)
Closing balance	**1,969,174**	**2,033,477**

24. 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.

25. EVENTS AFTER BALANCE SHEET DATE

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

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