Vanuatu National Provident Fund Consolidated Financial Statements for the Year ending 31st December 2017

C/- Vanuatu National Provident Fund
P.O Box 420
Port Vila

13 February 2020

Hon Johnny Koanapo
Hon. Minister for Finance & Economic Management
Ministry of Finance & Economic Management
PMB 9058
Port Vila

Dear Hon. Minister,

Re: VNPF 29th Consolidated Financial Statements

In accordance with Section 21 (1) of the VNPF Act [Cap.189], I am pleased to present to you VNPF Consolidated Financial Statements for the year ending 31st December 2017.

Yours Faithfully,

August Letlet
Chairman
VNPF Board of Trustees


SAVE
TODAY,
ENJOY
TOMORROW

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Vanuatu National Provident Fund
Caisse Nationale De Prevoyance
De Vanuatu
We are Members of VNPF!

CHAIRMAN's REPORT

2017 was a year of mixed results for the Fund. The appointment of the Commission of Inquiry in 2016 has had a huge impact on how the Fund conducts its business. The report issued in early 2017 revealed a number of short falls which led Members to lose trust in the organisation. Further, after several advertisements since the post was vacated in March 2017, the Fund was only able to recruit a General Manager in September of the year.

With the appointment of Mr Parmod Achary and his impeccable education and experience in Provident Funds and other professions, we anticipate that a number of reforms, particularly in terms of strengthening the fund will be implemented under his leadership.

The 2017 financial statements were reviewed by external auditors, KPMG and confirm that the Fund's benefits accrued amounted to a loss of VT979,446,000 compared to a profit of VT247,073,000 in 2016; whilst for the Group, the consolidated result was a loss of VT388,739,000 compared to a profit of VT413,482,000 in 2016.

An Annual Interest rate of 1.5 percent was declared for Members and a total payout of VT313,218,155 made. Despite this, we believe that the Fund can comfortably meet its obligations to its Members expectations and that with a more concerted effort, we can improve our financial performance.

I wish to convey my appreciation to the Fund's Board, Management and Staff for standing together and for their hard work and perseverance, despite the challenges faced.

I wish to also thank our Members and stakeholders for their continued support. I appeal to all to continue to actively engage with the Fund towards achieving our targets for providing better services and benefits to our Members.

Alain Lew
Chairman

GENERAL MANAGER's REPORT

Highlights of the Year

- VUV 1.8 billion collected in contributions compared to 1.6 billion in 2016
- Annual Interest credited to Members' accounts was VT344,679,000
- Purchase of additional shares worth 40 percent with UNELCO for VT953,207,893
- Dividend payout of VT29,807,500 received from UNELCO
- VNPF granted a convertible loan to Telecom Vanuatu Limited for up to VT800,000,000 at a rate of 6 percent for seven years
- Purchase of Conquistador Apartment Building for VT162,000,000 with an expected annual rental of VT14,196,000
- Purchase of units with Unit Trust of Fiji for VT270,320,000
- Recruitment of new General Manager
- VNPF's Lenakel Branch office re-opens after closing from the damages caused by Tropical Cyclone Pam in 2015

I joined VNPF on 4th September, 2017. At the time, staff morale had gone down to the lowest level we could expect. The first step I took was to devise a Strategic Plan for the next five years, given that the current was well out of date and that there was a need for order to be restored.

I acknowledged the need for improvement in the following areas:

• Management of Members accounts
• Containing operating expenses
• Enforcement of Procurement guidelines
• Board Management guides
• Internal Auditing processes
• Information and IT Systems
• Resourcing, policies, processes and structure of the Investments team
• Human resources policies and practices

I wish to convey my appreciation to the VNPF Board of Trustees for their guidance and support, the VNPF management and staff for their team work and commitment and our Members and stakeholders for their support.

My personal vision for VNPF is to provide financial assistance to members, during and after their working life and so I look forward to achieving this during my term in office.

Parmod Achary
General Manager

Vanuatu National Provident Fund and its Controlled Entities
Consolidated Financial Statements
31 December 2017

The Board of Trustees present their report together with the financial statements of Vanuatu National Provident Fund ("the Fund") and the consolidated financial statements of the Fund and its controlled entities ("the Group") for the year ended 31 December 2017 and report as follows:

Board Members

The board members during the year and up till the date of this report were:

Name	Position	Date first appointed	Date appointment ended/ ending
Allen Lew	Chairman	2-Nov-16	
Henrickson Relive Malsokle	Deputy Chairman	2-Nov-16	28-Feb-19
Roan Lester	Member	2-Nov-16	12-Apr-18
David Russet	Member	2-Nov-16	14-Dec-18
Jack Maite	Member	2-Nov-16	
Willie Karie	Member	2-Nov-16	
John Ezra	Member	12-Apr-18	
Letlet August	Member	14-Dec-18	
Antoine Boudier	Member	28-Feb-19	

Operation of the Fund

The Fund is a defined contributions fund and the operations of the Fund have been carried out in accordance with the Vanuatu National Provident Fund Act [CAP 189].

Principal Activities

The Principal activity of the Fund during the financial year was the provision of superannuation services to its members.

The Principal activities of the subsidiary entities during the year were those of financial services, farm operations and property management.

Operating results

The benefits accrued as a result of the operations of the Fund for the year ended 31 December 2017 amounted to a loss of 979,446,000 (2016: profit of Vatu 247,073,000). The consolidated result for the Group attributable to the members for the year ended 31 December 2017 was a loss of Vatu 388,739,000 (2016: profit of Vatu 413,482,000).

Reserves

During the year, the annual interest amount credited to members' accounts for the period is Vatu 344,679,000. In 2016, Vatu 5,687,000 was paid out to members in the form of interest on withdrawals and subsequent to year-end the Board declared an annual and interim interest of 1.5 percent each for the year 2016 which was credited to members' accounts in that year amounting to Vatu 232,483,000.

Bad and doubtful debts

The Board members took reasonable steps before the Fund's and the Group's financial statements were made out to ascertain that all known bad debts were written off and adequate provision was made for

Bad and doubtful debts (continued)

As at the date of this report, the Board members are not aware of any circumstances which would render the amounts written off for bad debts, or the amounts of provision for doubtful debts, inadequate to any substantial extent.

Significant events during the year

There has not arisen during the year any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Fund, to affect significantly the operations of the Fund, the results of those operation or the state of the affairs of the Fund.

Events subsequent to balance date

Annual interest declaration

Subsequent to year-end the Board declared an annual and interim interest of 2.0 percent each for the year 2017. The annual interest amount credited to members' accounts for the period is Vatu 333,218,155.

Additional investments

Subsequent to year-end the Board has made several further investments and loans, with those of significance including:

- Purchase of 21,197 of additional shares in UNELCO for Vatu 953,207,893 taking the Fund's shareholding to 40%;

- Loan to Telecom Vanuatu Ltd (TVL) for up to Vatu 800,000,000 at a rate of 6% for seven years;

- Purchase of TVL Building in Downtown Port Vila for Vatu 258,552,239, with an estimated annual rental of Vatu 27,007,290;

- Purchase of Conquistador apartment building for Vatu 162,000,000, with an expected rental of Vatu 14,196.000; and

- Purchase of units in the Unit Trust of Fiji for Vatu 270,320,000.

Basis of preparation

The financial statements of the Fund and of the Group have been drawn up in accordance with International Financial Reporting Standards and the requirements of the Vanuatu National Provident

Related party transactions

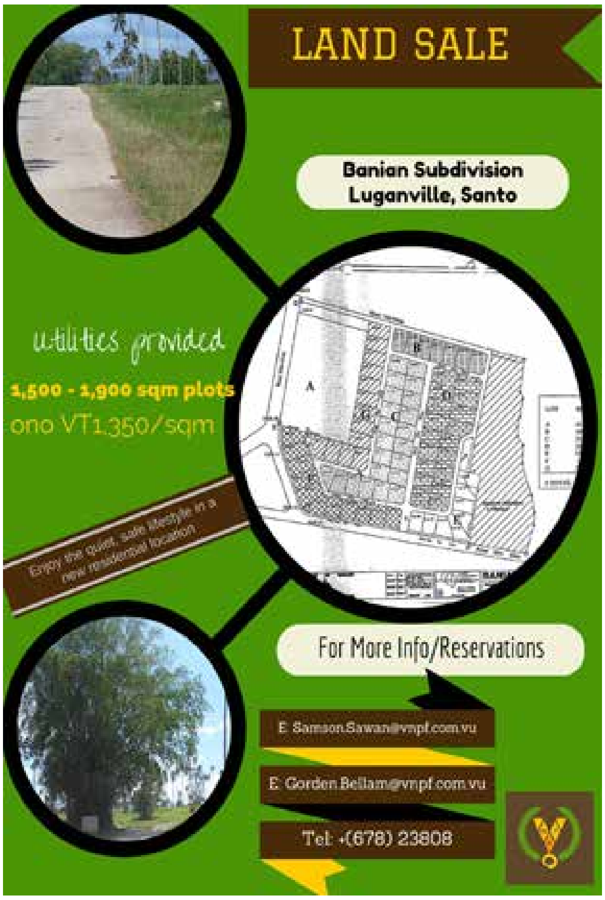
In the opinion of the Board members all related party transactions have been recorded in the books of the Fund and its controlled entities and are adequately disclosed in the financial statements.

Other circumstances

At the date of this report, the Board members are not aware of any circumstances not otherwise dealt with in this report or financial statements which render any amounts stated in the financial statements to be misleading.

Unusual transactions

The results of the Fund and its controlled entities' operations during the financial year have not in the opinion of the Board members been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.



Board member's interest

No Board member of the Fund has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by Board members as shown in the Fund's financial statements) by reason of a

Signed in accordance with a resolution of the Board of Trustees:

[Chairman]

[Board member]

Dated: 16 / 12 / 2019.

contract made by the Fund or related corporation with the Board member or with a firm of which he is a member, or with an entity in which he/she has a substantial financial interest.

Statement by the Board of Trustees

In the opinion of the Board of Trustees:

a) the accompanying statements of net assets are drawn up so as to give a true and fair view of the movements in net assets of the Fund and the Group as at 31 December 2017;

b) the accompanying statements of profit or loss and other comprehensive income are drawn up so as to give a true and fair view of the results of the Fund and the Group for the year ended 31 December 2017;

c) the accompanying statements of changes in member's funds and reserves are drawn up so as to give a true and fair view of the changes in member's funds and reserves of the Fund and the Group for the year ended 31 December 2017;

d) the accompanying statements of cash flows are drawn up so as to give a true and fair view of the changes in cash flows of the Fund and the Group for the year ended 31 December 2017;

e) at the date of this statement there are reasonable grounds to believe that the Fund and the Group will be able to pay their debts as and when they fall due; and

all related party transactions have been recorded and adequately disclosed in the financial statements.

Dated at Port Vila this 16 day of December 2019.

Signed in accordance with a resolutions of the Board of Trustees.

[Chairman]

[Board member]

KPMG

Independent Auditor's Report to the Members of Vanuatu National Provident Fund

Report on Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Vanuatu National Provident Fund (the "Fund") and the consolidated financial statements of the Fund and its controlled entities (the "Group"), which comprise the statements of net assets of the Fund and the Group as at 31 December 2017, and the statements of profit or loss and other comprehensive income, the statements of changes in member funds and reserves and the statements of cash flows for the year then ended, for both the Fund and the Group and Notes 1 to 31 comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund and the Group as at 31 December 2017, and of their financial performance, changes in member funds and reserves and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and the Fund in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 (a) to the financial statements which notes that the net assets of the Fund as stated in these financial statements are Vatu 17,103 million compared to Member Funds of Vatu 18,503 million. As stated in Note 2 (a), the financial statements of the Fund have been prepared on the basis that the Fund will be able to meet its obligations, including to meet member liabilities to pay out member funds as and when called upon by members, due to the fair value of certain controlled and non-controlled entities exceeding the carrying amount recorded in these financial statements.

Other information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is information included in the Board of Trustee's report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements 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 statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, the Vanuatu National Provident Fund Act 2011 (Act No. 52) and for such internal control as management determines is
necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs 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 these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 and Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of 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 auditors' report to the related disclosures in the financial statements 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 auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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

We have obtained all the information and explanations, which, to the best of our knowledge and belief, were necessary for the purposes of our audit.
In our opinion:

i. The financial statements are prepared in accordance with the Vanuatu National Provident Fund Act 2011 (Act No. 52); and
ii. The Board, Board members and staff members have given all the information, explanations and assistance necessary for the purposes of the audit.

16 December , 2019 KPMG

Suva , Fiji

Vanuatu National Provident Fund and its Controlled Entities
Statements of net assets
As at 31 December 2017

		The Group		The Fund	
		2017 Vatu (000's)	2016 Vatu (000's)	2017 Vatu (000's)	2016 Vatu (000's)
Assets					
Cash and cash equivalents	16	2,879,787	2,924,370	2,679,722	2,798,364
Receivables and other prepayments	17	333,077	316,146	457,494	407,035
Term deposits	12(a)	3,708,609	2,293,466	3,708,609	2,293,466
Government securities	12(b)	3,499,950	3,649,950	3,499,950	3,649,950
Loans and advances	12(c)	1,910,448	1,643,766	1,388,155	1,875,985
Investment in controlled entities	14	-	-	1,145,400	1,145,400
Investment in equity accounted investees	15(a)	508,157	1,262,574	-	-
Investments at cost	15(b)	609,993	718,825	1,256,989	2,048,616
Investment properties	13	3,359,042	3,465,367	2,467,746	2,585,367
Biological assets	18	47,885	49,830	-	-
Property plant and equipment	19	1,130,593	1,144,805	661,763	670,685
Total assets		17,987,541	17,469,099	17,265,828	17,474,868
Liabilities					
Creditors and payables	20	17,662	101,240	90,786	311,003
Employee entitlements	21	76,878	84,224	71,303	78,785
Total liabilities (excluding net assets available to pay benefits)		94.540	185.464	162.089	389.788
Net assets available to pay benefits		17,893,001	17,283,635	17,103,739	17,085,080
Net assets available to pay benefits is represented by:					
General Reserve	22(a)	(746,515)	(13,097)	(1, 535,777)	(211,652)
Revaluation	22(b)	77,878	77,878	77,878	77,878
Members funds	22(c)	18,503,152	17,162,964	18,503,152	17,162,964
Special death benefit reserve	22(d)	58,486	(55,890)	58,486	55,890
		17,893, 001	17,283, 635	17,103,739	17,085,080

Signed in accordance with a resolution of the Board of Trustees

Chairman of the Board

Board member

The statement of net assets are to be read in conjunction with the notes to and forming part of the financial statements.

Vanuatu National Provident Fund and its Controlled Entities
Statements of profit or loss and other comprehensive income
As at 31 December 2017

		The Group		The Fund	
		2017	2016	2017	2016
	NOTE	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
Investment income					
Interest income	6	567,886	616,119	543,164	558,033
Property rental income		250,877	239,882	174,694	170,456
Dividend income		35,769	39,942	60,769	71,285
Reversal of impairment - equity		-	2,000	-	11,297
Change in fair value of investments	7	(91,755)	48,590	(91,755)	(31,410)
Total investment income		762,777	946,533	686,872	779,661
Impairment of investments and investment properties		(152,964)	-	(835,756)	(160,416)
Direct investment expenses	8	(64,980)	(76,602)	(57,218)	(68,578)
Net return on investments		544,833	869,931	(206,102)	550,667
Other revenue					
Sales revenue (biological assets)	18	22,842	18,486	-	-
Surcharge revenue		55,914	34,510	55,914	34,510
Other revenue	9	102,309	65,875	21,763	27,459
		181,065	118,871	77,677	61,969
Expenses incurred					
Administrative and other expenses	10	(360,220)	(420,937)	(851,021)	(365,563)
		(360,220)	(420,937)	(851,021)	(365,563)
Share of losses of equity accounted investees	15	(754,417)	(154,383)	-	-
Net (loss) / profit for the year		(388,739)	413,482	(979,446)	247,073

Other comprehensive income		-	-	-	-
Total comprehensive (loss) / income for the year		(388,739)	413,482	(979,446)	247,073
Net (loss) / profit available for allocation		(388,739)	413,482	(979,446)	247,073
Net benefits allocated to members' accounts		(344,679)	(238,170)	(344,679)	(238,170)
Net (loss) / profit taken to reserves		(733,418)	175,312	(1,324,125)	8,903

The statements of profit or loss and other comprehensive income are to be read in conjunction with the notes to and forming part of the financial statements.

	The Group				
	Member Accounts Vatu (000's)	Special Death Benefit Reserve Vatu (000's)	Revaluation Reserve Vatu (000's)	General Reserve Vatu (000's)	Total Vatu (000's)
Balance at 1 January 2016	16,086,233	39,330	77,878	(188,409)	16,015,032
Contributions from employers and members	1,687,888	-	-	-	1,687,888
Interest credited to member accounts	238,170	-	-	(238,170)	-
Transfer from members	(28,319)	28,319	-	-	-
Benefit payments	(821,008)	(11,759)	-	-	(832,767)
Total comprehensive income for the year	-	-	-	413,482	413,482
Balance as at 31 December 2016	17,162,964	55,890	77,878	(13,097)	17,283,635
Balance as at 1 January 2017	17,162,964	55,890	77,878	(13,097)	17,283,635
Contributions from employers and members	1,853,604	-	-	-	1,853,604
Interest credited to member accounts	344,679	-	-	(344,679)	-
Transfer from members	(15,289)	15,289	-	-	-
Benefit payments	(842,806)	(12,693)	-	-	(855,499)
Total comprehensive loss for the year	-	-	-	(388,739)	(388,739)
Balance as at 31 December 2017	18,503,152	58,486	77,878	(746,515)	17,893,001

Vanuatu National Provident Fund and its Controlled Entities
Statements of changes in member funds and reserves
As at 31 December 2017

The statements of changes in member funds and reserves are to be read in conjunction with the notes to and forming part of the financial statements.

	The Fund				
	Member Accounts Vatu (000's)	Special Death Benefit Reserve Vatu (000's)	Revaluation Reserve Vatu (000's)	General Reserve Vatu (000's)	Total Vatu (000's)
Balance at 1 January 2016	16,086,233	39,330	77,878	(220,555)	15,982,886
Contributions from employers and members	1,687,888	-	-	-	1,687,888
Interest credited to member accounts	238,170	-	-	(238,170)	-
Transfer from members	(28,319)	28,319	-	-	-
Benefit payments	(821,008)	(11,759)	-	-	(832,767)
Total comprehensive income for the year	-	-	-	247,073	247,073
Balance as at 31 December 2016	17,162,964	55,890	77,878	(211,652)	17,085,080
Balance as at 1 January 2017	17,162,964	55,890	77,878	(211,652)	17,085,080
Contributions from employers and members	1,853,604	-	-	-	1,853,604
Interest credited to member accounts	344,679	-	-	(344,679)	-
Transfer from members	(15,289)	15,289	-	-	-
Benefit payments	(842,806)	(12,693)	-	-	(855,499)
Total comprehensive loss for the year	-	-	-	(979,446)	(979,446)
Balance as at 31 December 2017	18,503,152	58,486	77,878	(1,535,777)	17,103,739

The statements of changes in member funds and reserves are to be read in conjunction with the notes to and forming part of the financial statements.

Vanuatu National Provident Fund and its Controlled Entities
Statement of cash flows
For the year ended 31 December 2017

		The Group		The Fund	
		2017	2016	2017	2016
		Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
Cash flows from operating activities					
Contributions received		1,853,604	1,687,888	1,853,604	1,687,888
Cash receipts from customers		21,695	30,840	-	-
Interest received		586,874	608,781	562,152	550,695
Dividends received		35,769	46,285	60,769	71,285
Property rental received		237,922	242,974	161,739	171,359
Other income received		164,674	97,855	74,550	53,362
Withdrawal payments to members		(855,499)	(832,767)	(855,499)	(832,767)
Purchase of livestock		(3,826)	(4,827)	-	-
Net (increase) / decrease in loans - MFSL		(324,085)	(100,538)	-	-
Payments to suppliers and employees		(490,211)	(541,599)	(540,125)	(425,946)
Net cash from operating activities		1,226,917	1,234,892	1,317,190	1,275,876
Cash flows from investing activities					
Net government securities matured / (acquired)		150,000	(200,890)	150,000	(200,890)
Net movement in term deposits		(1,415,143)	237,646	(1,415,143)	237,646
Acquisition of investment properties		(72,843)	(9,410)	(62,176)	(9,410)
Acquisition of property plant and equipment		(9,993)	(26,450)	(5,189)	(25,511)
Net movement in loans to related parties		-	-	(179,803)	26,546
Net movement in loans to quasi government bodies		87,137	73,368	87,137	73,368
Net cash (used by)/from investing activities		(1,260,842)	74,264	(1,425,174)	101,749
Net (decrease)/increase in cash and cash equivalents		(33,925)	1,309,156	(107,984)	1,377,625
Cash and cash equivalents at the beginning of the year		2,924,370	1,628,315	2,798,364	1,433,840
Effect of change in foreign exchange rates		(10,658)	(13,101)	(10,658)	(13,101)
Cash and cash equivalents at the end of the year	16	2,879,787	2,924,370	2,679,722	2,798,364

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements.

Vanuatu National Provident Fund and its Controlled Entities
Notes to the consolidated financial statements
For the year ended 31 December 2017

1 Reporting entity

Vanuatu National Provident Fund ("the Fund") is a defined contribution superannuation fund domiciled in Vanuatu. The address of the registered office is Cnr Pierre Lamy & Andre Ballande Street, Port Vila, Vanuatu. These consolidated financial statements comprise the Fund and its controlled entities (collectively "the Group").

The Fund was established in 1987 under an act of Parliament of the Republic of Vanuatu as superannuation or saving scheme for all employees who are members of the Fund. The Fund is primarily involved in providing retirement benefits to its members. The address of the Fund's registered office is at the VNPF Head Office

2 Basis of preparation

(a) Basis of accounting

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Vanuatu National Provident Fund Act ("the Act").

The consolidated financial statements were authorised for issue by the Board of Trustees

on 16 December 2019.

The financial statements of the Fund have been prepared on the basis that the Fund will be able to meet its obligations, including to meet member funds as and when called upon by members. The Directors note that as at 31 December 2017, the net assets of the Fund as stated in these financial statements are Vatu 17,103 million compared to member funds of Vatu 18,503 million (2016: net assets of Vatu 17,085 million, member funds of Vatu 17,162 million).

Furthermore, the net assets of the Group as stated in these financial statements are Vatu 17,893 million compared to member funds of Vatu 18,503 million (2016: net assets of Vatu 17,283 million, member funds of Vatu 17,162 million)

The Directors note that the current accounting policy for valuation of investments in controlled and non-controlled entities adopted by the Fund is for such investments to be carried at cost less impairment. However, they note that many provident funds and similar investment funds account for such investments at fair value rather than cost. The Directors plan to adopt a similar accounting policy for the year ending 31 December 2018 when the Fund adopts the provisions of the new accounting standard IFRS 9: Financial instruments (see note 5).

The Directors have considered the fair value of investments in controlled and non-controlled entities when assessing whether the Fund can meet its obligations, and note that the fair value of these investments is Vatu 1,475 million higher than the carrying amount in these financial statements, and as a result consider that the value of the Fund assets exceed Fund liabilities (including member funds) by Vatu 75 million. On a consolidated basis, the fair value of these investments is Vatu 118 million higher than the carrying amount in these financial statements, and as a result consider that the value of the Fund liabilities (including member funds) exceed Fund assets by Vatu 491 million.

Accordingly, the Directors consider that the Fund's assets exceed its liabilities and that the Fund will be able to meet its liabilities as and when they fall due.

Vanuatu National Provident Fund and its Controlled Entities
Notes to the consolidated financial statements
For the year ended 31 December 2017

(b) Functional and presentation currency

These consolidated financial statements are presented in Vatu, which is the Fund's and the Group's functional currency.

2 Basis of preparation (continued)

(c) Level of rounding

All amounts presented in these consolidated financial statements have been rounded to the nearest thousand, unless otherwise indicated.

(d) Use of estimates and judgements

In preparing these consolidated financial statements, management have made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities and expenses. Actual results may differ from these estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in notes 3 (a) (i) – classification of controlled entities and (iii) - classification of joint arrangements.

(ii) Assumptions and estimations uncertainties

Information about assumptions and estimation uncertainties that have the most significant effect on the amounts recognised

in the financial statements are described in the following notes:

Note 3 (h) - Valuation of owner occupied properties (land and buildings)

Note 3 (i) - Valuation of investment properties

Note 3 (k) - Impairment test: key assumptions underlying recoverable amounts.

3 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in the consolidated financial statements.

(a) Basis of consolidation

(i) Controlled Entities

Controlled Entities are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity. The financial statements of controlled entities are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iii) Interests in equity-accounted investees

The Group’s interest in equity-accounted investees comprise interests in associates and joint ventures.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

3 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

Interests in associates and joint ventures in the consolidated financial statements are accounted for using the equity method. In the separate financial statements of the Fund, these are accounted for at cost including transaction costs less impairment (if any).

Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases. When an associate's accounting policies differ significantly to that of the Fund, adjustments are made to the associate's gains and losses to conform to the Fund's accounting policies before they are incorporated into the Group's statement of financial position.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated

against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Group entities at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

(c) Revenue

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and rebates.

(ii) Investment property rental income

Rental income from investment property is recognised as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(iii) Interest income

Interest income is earned from investments such as government securities, loans and advances, term deposits and other fixed term securities. Interest income is recognised in the profit or loss using the effective interest method.

3 Significant accounting policies (continued)

(c) Revenue (continued)

(iv) Dividend income

Dividend income is recognised in the profit or loss on the date on which the Group's right to receive payment is established.

(v) Surcharge Revenue

Surcharge revenue relates to charges for late payment of contributions. This revenue is recognised from the date the contribution is owed.

(vi) Fees

Fees comprise housing application, withdrawal, voluntary contribution application, documentation, investment application, loan confirmation, commitment and computer service fees. Revenue from fees and commissions is recognised when related services have been provided.

Vanuatu National Provident Fund and its Controlled Entities
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(d) Expenses

(i) Benefits paid

Benefits paid include member withdrawals and other member payments. These are recognised directly in equity at the time of the payment of such benefits.

(ii) Other expenses

Other expenses are recognised in the profit or loss when the service was performed.

(e) Biological assets

Biological assets are measured at fair value less costs to sell, with any change therein recognised in profit or loss.

(f) Income tax expense

The Fund is exempt from all income taxes under Part 9 (para 46) of the Vanuatu National Provident Fund Act (CAP 198). The Controlled Entities of the Fund are exempt from income taxes in accordance with the Laws of Vanuatu.

(g) Employee Benefits

(i) Wages and salaries

Liabilities for wages and salaries and incentives expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Annual Leave and severance pay

The liability for annual leave and severance pay is recognised in employee benefits measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels and periods of service.

Annual leave is generally taken within one year and accordingly it is expected that a significant portion of the total annual leave balance will be utilised within the next financial year.
For severance pay, given the unpredictability of when an employee may resign, the Group treats the liability as potentially being settled within one year.

3 Significant accounting policies (continued)

(h) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses except for land and buildings which are carried at revalued amounts.
If significant 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. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Vanuatu National Provident Fund and its Controlled Entities
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For the year ended 31 December 2017

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Land & Building	57 - 67 years (term of lease on land)
Computer Equipment	3 years
Furniture & fittings	5 years
Motor Vehicles	4 years
Office Equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if the assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Upon impairment, the revised carrying value of the asset is depreciated over the remaining estimated useful life of the asset. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised in the profit or loss.

(i) Investment property

Investment property is initially measured at cost and subsequently at fair value determined by external valuers.Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

3 Significant accounting policies (continued)

(j) Financial instruments

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

The Group classifies non-derivative financial liabilities into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

(i) Non-derivative financial assets and financial liabilities - Recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

Vanuatu National Provident Fund and its Controlled Entities
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Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

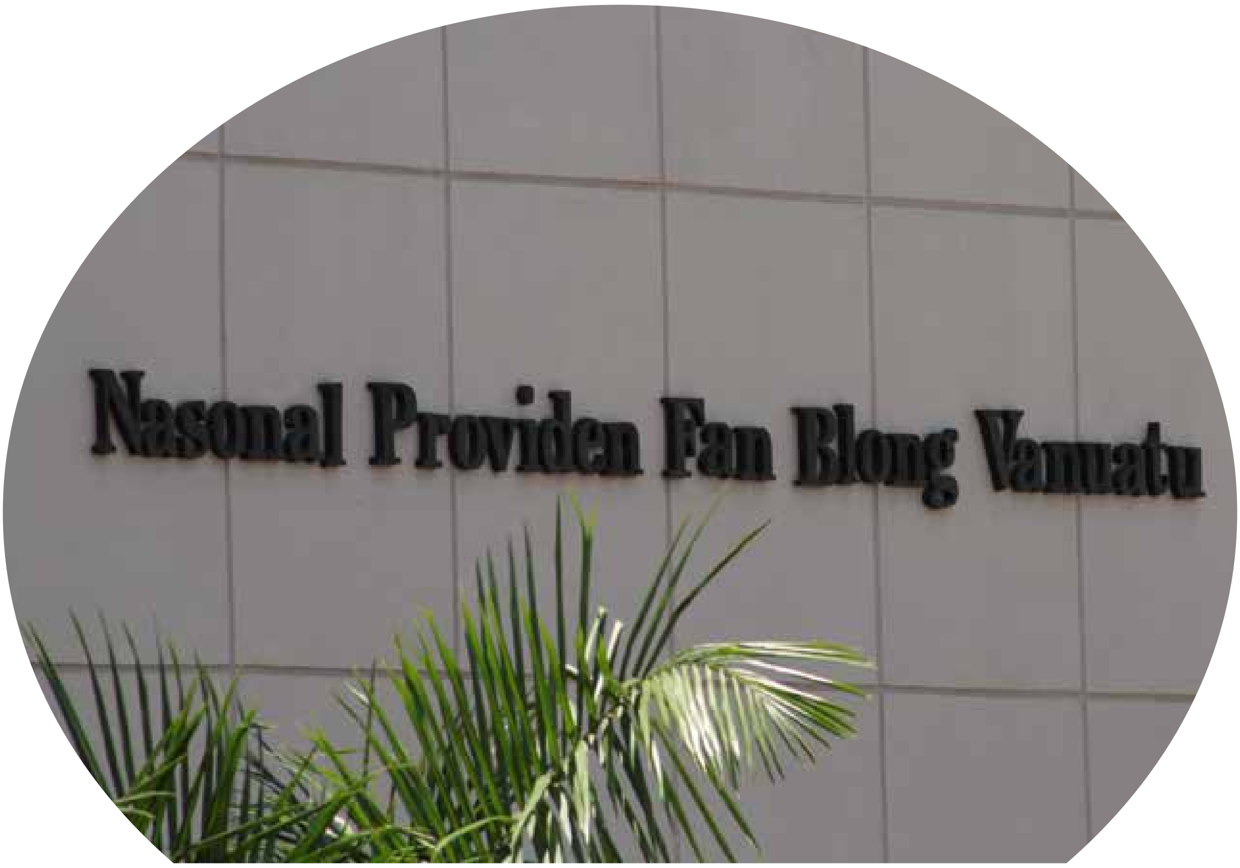
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

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

3 Significant accounting policies (continued)

(j) Financial instruments (continued)

(ii) Non-derivative financial assets - Measurement



Financial assets at fair value through profit or loss	A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly 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, including any interest or dividend income, are recognised in profit or loss.
Held-to-maturity financial assets	Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables. These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.
Loans and receivables	Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Certain private equity investments are included under this category. These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

3 Significant accounting policies (continued)
(j) Financial instruments (continued)
(i) Non-derivative financial liabilities - Measurement

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(k) Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;

- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;

- indications that a debtor or issuer will enter bankruptcy;

adverse changes in the payment status of borrowers or issuers;

- the disappearance of an active market for a security because of financial difficulties; or

- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

Vanuatu National Provident Fund and its Controlled Entities
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Financial assets measured at amortised cost	The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends. An impairment loss is calculated as the difference between an asset's 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. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.
Available-for-sale financial assets	Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in fair value reserve to profit or loss. The amount reclassified 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. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.
Equity-accounted investees	An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

Vanuatu National Provident Fund and its Controlled Entities
Notes to the consolidated financial statements
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3 Significant accounting policies (continued)

(I) Impairment (continued)

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill (if applicable) arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.
An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

4 Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transactions price. Subsequently, that difference is recognised in profit or loss on an appropriate basis.

4 Fair value estimation (continued)

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1- fair value measurement are those instruments valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 - fair value measurements are those instruments valued based on 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).

- Level 3 - fair value measurements are those instruments valued based on inputs for the asset or liability that are not based on observable market data (unobservable inputs

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring Level 2 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Government bonds	Market comparison: The fair value of the long term investment securities is based on market prices published by the Reserve Bank of Vanuatu.	Not applicable	Not applicable

The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy are shown in their respective note disclosures as relevant.

5 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018, however, the Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

Vanuatu National Provident Fund and its Controlled Entities
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New or amended standards	Summary of the requirements	Possible impact on financial statements
IFRS 9 Financial instruments	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial instruments: Recognition and measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 9.
IFRS 15 Revenue from Contracts with Customers	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, AS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 15.
IFRS 16 Leases	IFRS 16 removes the classification of leases as either operating leases or finance leases - for the lessee - effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognize a front loaded pattern of expense for most leases even when they pay constant annual returns.	The Group is assessing the potential impact on its financial statements resulting from the application of IFRS 16.
IAS 7 Disclosure Initiative	These amendments are effective for annual reporting periods beginning on or after 1 April 2017 and aim to improve information about an entity's debt, including movements in that debt. Disclosures are required to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	The Group is assessing the potential impact on its financial statements resulting from the application of IAS 7.

Vanuatu National Provident Fund and its Controlled Entities
Notes to the consolidated financial statements
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	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
6. Interest income				
Term deposits	86,982	89,781	86,982	89,781
Government securities	261,511	281,835	261,511	281,835
Commercial loans	98,212	102,903	127,683	128,280
Call accounts	58,703	48,010	58,570	48,010
Collateral	8,418	10,127	8,418	10,127
Member loans (MFSL)	54,060	83,463	-	-
	567,886	616,119	543,164	558,033
7. Changes in fair value of investments				
	(81,097)	61,691	(81,097)	(18,309)
Unrealised exchange (loss) / gain - term deposits	(10,658)	(13,101)	(10,658)	(13,101)
Net (loss) / gain	(91,755)	(48,590)	(91,755)	(31,410)
8. Direct investment expenses				
Building maintenance	13,453	23,045	12,584	21,094
Utilities	2,953	3,649	2,953	3,649
Insurance	21,260	22,208	17,094	18,355
Land rent and municipal taxes	23,178	19,403	20,451	17,183
Valuation fees	3,315	3,811	3,315	3,811
Consultancy and professional fees	821	4,486	821	4,486
	64,980	76,602	57,218	68,578

Vanuatu National Provident Fund and its Controlled Entities
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	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's	Vatu (000's	Vatu (000's	Vatu (000's
9. Other revenue				
Gain on sale of fixed assets	1,900	8,737	1,900	8,737
Shared services centre - revenue	-	-	4,995	5,072
Processing fees	84,201	19,235	13,790	6,304
Penalty fees	16,248	36,016	-	1,989
Fair value loss – livestock (note 18)	(5,771)	(6,320)	-	-
Other sundry income / (expense)	5,731	8,207	1,078	5,357
	102,309	65,875	21,763	27,459
10. Administrative and other expenses				
Depreciation expense	28,818	45,641	25,051	37,303
Travelling	4,451	3,006	4,451	3,006
Legal fees	2,556	3,620	2,556	3,620
Auditor's remuneration	4,148	8,349	3,222	6,933
Board expenses	6,512	3,591	4,573	3,525
Public relations	3,535	5,743	3,535	5,743
Doubtful debts	-	-	569,625	10,871
Computer software maintenance)	9,606	23,114	19,845	23,114
Utilities	14,412	7,850	14,412	7,850
Telephone and communications	5,130	4,982	5,130	4,982
Stationery	4,651	3,358	4,651	3,358
Other administrative expenses	47,809	89,329	22,908	82,072
Personnel expenses (refer Note 11	228,592	222,354	175,062	173,186
	360,220	420,937	851,021	365,563

Vanuatu National Provident Fund and its Controlled Entities
Notes to the consolidated financial statements
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11.Personnel expenses				
Salaries and wages	172,859	170,265	129,202	134,857
VNPF contributions	7,155	7,756	4,956	5,684
Severance pay	13,285	10,641	11,485	7,608
Allowances	23,983	25,367	20,163	19,664
Other staff related expenses	11,310	8,325	9,256	5,373
	228,592	222,354	175,062	173,186

Key management compensation is disclosed under Note 23 (b)

	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
12. Financial investments				
(a) Term deposits				
Term deposits - local currency	3,236,347	1,818,668	3,236,347	1,818,668
- foreign currency	472,262	474,798	472,262	474,798
	3,708,609	2,293,466	3,708,609	2,293,466
Movement in term deposits during the year is as follows:				
Balance as at 1 January	2,293,466	2,531,112	2,293,466	2,531,112
Net movement during the year	1,430,793	(224,545)	1,430,793	(224,545)
Unrealised exchange gain/ (loss)	(15,650)	(13,101)	(15,650)	(13,101)
Balance as at 31 December	3,708,609	2,293,466	3,708,609	2,293,466
Maturity represented as:				
Less than 1 year	1,517,832	1,622,637	1,517,832	1,622,637
More than 1 year	2,190,777	670,829	2,190,777	670,829
	3,708,609	2,293,466	3,708,609	2,293,466

Vanuatu National Provident Fund and its Controlled Entities
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The Fund has pledged term deposits amounting to Vatu 612 million as security for a loan obtained by Interchange Limited from ANZ Banking Group Limited. Although the maturities of these deposits are less than 1 year, they have been shown as more than 1 year due to the restrictions placed on them and to match the tenure of the loan for which they provide security.

The carrying amounts of term deposits approximate their fair value.

(b) Government securities				
Government bonds (refer Note 24)	3,499,950	3,649,950	3,499,950	3,649,950
Movement in government securities during the year is as follows:				
Balance as at 1 January	3,649,950	3,449,060	3,649,950	3,449,060
Purchased during the year	300,000	699,950	300,000	699,950
Redeemed during the year	(450,000)	(499,060)	(450,000)	(499,060)
Balance as at 31 December	3,499,950	3,649,950	3,499,950	3,649,950
Maturity represented as:				
Less than 1 year	1,149,950	450,000	1,149,950	450,000
1 to 5 years	2,350,000	1,499,950	2,350,000	1,499,950
Greater than 5 years	-	1,700,000	-	1,700,000
	3,499,950	3,649,950	3,499,950	3,649,950

The fair value of government bonds in the current year is Vatu 4,278,886,456 (2016: Vatu 3,603,778,173).

Vanuatu National Provident Fund and its Controlled Entities
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	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
12. Financial investments (continued)				
(c) Loans and advances				
Loans to subsidiaries (refer note 23(e))	-	-	931,898	781,829
Loans to investees (refer note 23(e))	136,090	106,356	136,090	106,356
Loans quasi-government	900,663	987,800	900,663	987,800
MFSL loans to members	875,143	551,058	-	-
	1,911,896	1,645,214	1,968,651	1,875,985
Provision for loan impairment	(1,448)	(1,448)	(580,496)	-
	1,910,448	1,643,766	1,388,155	1,875,985
Maturity of gross loans and advances represented as:				
Current (Less than 1 year)	88,257	386,881	169,674	171,843
Non-current (More than 1 year)	1,823,639	1,258,333	1,798,977	1,704,142
	1,911,896	1,645,214	1,968,651	1,875,985
Movement in provision for loan impairment:				
Balance as at 1 January	(1,448)	-	-	-
Created during the year	-	(1,448)	(580,496)	-
Reversed during the year	-	-	-	-
Balance as at 31 December	(1,448)	(1,448)	(580,496)	-

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Quasi-Government

There are two loan agreements between Air Vanuatu Operations Limited (AVOL) and VNPF. The First Loan agreement was made in August of 2009 for a principle sum of Vatu 340,000,000 at an interest rate of 10% for an 8 year term. In 2015 after the devastation of Cyclone PAM, interest from March to September 2015, a total of Vatu 25,459,905 was capitalised and a grace period was given to assist AVOL in its recovery. This first loan is secured by a Vanuatu Government Guarantee for the full amount of Vatu 340,000,000.

The second loan agreement was made in 2013 for a principle sum of Vatu 660,000,000 at an interest rate of 8.75% for a term of 10 years. In 2015, Vatu 92,335,728 of interest was capitalised and a grace period extended as part of AVOL's recovery after Cyclone PAM. This second loan is also fully secured through a government Guarantee of Vatu 660,000,000.

MFSL

Security over loan balances are held against members VNPF investment account balances. The provision of Vatu 1,448,000 reflects loan balance in excess of members' investment account balances (2016: Vatu 1,148,000). The balance of loans by MFSL to members is considered fully recoverable through the members investment account balances held with VNPF.

The carrying amounts of loans and advances approximate their fair value.

	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
13. Investment properties				
Balance as at 1 January	3,465,367	3,394,266	2,585,367	2,594,266
Acquisitions and additions	72,843	9,410	62,176	9,410
Impairment and adjustments	(98,071)	-	(98,700)	-
Fair value (losses) / gains - refer Note 7	(81,097)	61,691	(81,097)	(18,309)
Balance as at 31 December	3,359,042	3,465,367	2,467,746	2,585,367

Investment properties are measured at fair value in accordance with the accounting policy set out in note 3(i). Changes in fair value are recognised as gains or losses in profit or loss. All gains and losses arising out of fair value movements are unrealised.

In December 2015, 2016 and 2017, the Fund obtained external valuations of its investment properties by engaging Vanuatu Property Valuation Limited and Vanuatu Property Appraisals Limited, registered valuers to carry out valuations. The valuations were based on a combination of the income, depreciated replacement cost method and comparable sales approaches.

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Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Income capitalization approach: Discounted cash flows and Direct Capitalisation: The valuation model considers the present value of net operating income (NOI) to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The net income is converted into a value indicator using a direct and or yield capitalization model. The capitalisation rate has been developed using three techniques: extracted from comparable sale, debt coverage method and a band of investment method.	— Expected market rental growth 2.5% — Annualised vacancy and credit loss allowance, 2.5% - 10% — Market based management fee 2.5% - 4.5% — Operating expense increases, 3%- 5% — Capitalisation rates – 8% - 11%	The estimated fair value would increase (decrease) if: — expected market rental growth were higher (lower); — void periods were shorter (longer); — the occupancy rates were higher (lower); — rent-free periods were shorter (longer); or — The capitalisation rates were lower (higher).

	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
14. Investment in controlled entities				
Investment in controlled entities	-	-	1,637,328	1,637,328
Provision for impairment	-	-	(491,928)	(491,928)
	-	-	1,145,400	1,145,400
Movement in provision for impairment:				
Balance as at 1 January	-	-	(491,928)	(491,940)
Created during the year	-	-	-	(11,285)
Reversed during the year	-	-	-	11,297
Balance as at 31 December	-	-	(491,928)	(491,928)
Name of subsidiary				
Member Financial Services Limited	2,146	-	2,146	-
VNPF Property Holdings Limited	1,053,194	-	1,053,194	-
Bouffa Limited	581,988	(491,928)	581,988	(491,928)
	1,637,328	(491,928)	1,637,328	(491,928)

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15 Investment in equity accounted investees

(a) Equity accounted investees - consolidated

The Group accounts for its investment in joint ventures and associates over which it has significant influence using the equity method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Groups' share of net assets. Associates over which the Group does not have significant influence are accounted for at cost less impairment losses (if any).

(i) Bay Developments Limited (Joint venture)

Bay Developments Limited is a joint venture in which the Group has joint control and a 50% ownership interest. The principal activity of Bay Developments Limited is ownership and rental of buildings located in Downtown, Port Vila, Vanuatu. The company is domiciled in Vanuatu.

(ii) VNBR Limited (Joint venture)

VNBR Limited is a joint venture in which the Group has joint control and a 50% ownership interest. The principal activity of VNBR is that of property investment. The company is domiciled in Vanuatu

15. Investment in equity accounted investees (continued)

(a) Equity accounted investees - consolidated (continued)

(iii) Interchange Limited (Associate)

Interchange Limited (ICL) is an investee in which the Group has a 37.5% ownership interest. The principal activity of ICL is to own and sell capacity on a submarine telecommunications cable in Vanuatu. The company is domiciled in Vanuatu.

	The Group	
	2017	2016
Equity accounted investees	Vatu (000's)	Vatu (000's)
Balance as at 1 January	1,262,574	1,423,300
Share of total comprehensive (loss)	(754,417)	(154,383)
Elimination of dividends	-	(6,343)
Balance at 31 December	508,157	1,262,574

Summarised financial information of the equity accounted investees, not adjusted for the percentage ownership held by the Group as at and for the year ended 31 December 2017 is set out below:

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	Assets	Liabilities	Revenue	Expenses	Profit / (loss)s
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
2017					
BDL	161,213	2,641	19,989	5,295	14,694
VNBR	709,877	403	11,404	7,986	3,418
ICL	2,436,887	1,981,971	393,365	587,000	(193,635)
Total	3,307,977	1,985,015	424,758	600,281	(175,523)
2016					
BDL	151,481	7,602	21,681	10,286	11,395
VNBR	707,734	1,678	11,864	231,731	(219,867)
ICL	3,654,178	1,070,214	170,598	498,769	(328,171)
	4,513,393	1,079,494	204,143	740,786	(536,643)

BDL: Bay Developments Limited
VNBR: VNBR Limited
ICL: Interchange Limited

15 Investment in equity accounted investees (continued)
(b) Investments carried at cost

The Group also has investments where the Group owns less than 20% of the equity interest. Consequently the Group has assessed that it does not have significant influence over these entities and therefore has accounted for them at cost less impairment losses (if any).

Vanuatu National Provident Fund and its Controlled Entities
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	Effective	The Group	
	ownership	2017	2016
Investments carried at cost	interest	Vatu (000's)	Vatu (000's)
National Bank of Vanuatu Limited	15.00%	148,503	214,750
UNELCO *	14.40%	461,490	504,075
		609,993	718,825

The Fund in its separate financial statements, accounts for investments in Controlled Entities, joint ventures and other entities at cost less impairment losses (if any).

	The Fund	
	2017	2016
	Vatu (000's)	Vatu (000's)
Investment in Controlled Entities, JVs, and other entities	3,835,077	3,835,077
Provision for impairment	(1,432,688)	(641,061)
	2,402,389	3,194,016
Movement in provision for impairment:		
Balance as at 1 January	(641,061)	(491,931)
Created during the year	(791,627)	(149,130)
Balance as at 31 December	(1,432,688)	(641,061)

Vanuatu National Provident Fund and its Controlled Entities
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	2017	2017	2016	2016
	Cost	Impairment	Cost	Impairment
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
VNPF Property Holdings Limited	1,053,195	-	1,053,195	-
Member Financial Services Limited	2,146	-	2,146	-
Bouffa Limited	581,990	(491,931)	581,990	(491,931)
Bay Developments Limited	123,374	-	123,374	-
VNBR Limited	502,159	(149,130)	502,159	(149,130)
Interchange Limited	853,388	(682,795)	853,388	-
National Bank of Vanuatu Limited	214,750	(66,247)	214,750	-
UNELCO	504,075	(42,585)	504,075	-
	3,835,077	(1,432,688)	3,835,077	(641,061)

Vanuatu National Provident Fund and its Controlled Entities
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	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
16. Cash and cash equivalents				
Cash on hand	281	245	225	190
Cash at bank - local currency	2,867,674	2,912,255	2,667,664	2,786,304
Cash at bank - foreign currency	11,832	11,870	11,833	11,870
	2,879,787	2,924,370	2,679,722	2,798,364
17. Other receivables and prepayments				
Interest receivable	175,984	280,388	175,984	280,388
Rental receivable	-	18,047	-	18,047
Receivable from related parties	-	-	103,151	91,132
Surcharge receivable	71,626	71,626	71,626	71,626
Other receivables	170,711	8,641	171,406	8,398
Insurance prepayment	4,546	17,084	4,546	17,084
Other prepayments	3,548	2,857	2,407	2,857
	426,415	398,643	529,120	489,532
Provision for doubtful debts	(93,338)	(82,497)	(71,626)	(82,497)
	333,077	316,146	457,494	407,035

Vanuatu National Provident Fund and its Controlled Entities
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	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
18. Biological assets				
Livestock	47,885	49,830	-	-
Movement in livestock is as follows:				
Balance at 1 January	49,830	53,606	-	-
Purchases / Natural increases	26,668	21,030	-	-
Sales	(22,842)	(18,486)	-	-
Fair value loss (refer Note 9)	(5,771)	(6,320)	-	-
Balance at 31 December	47,885	49,830	-	-

The fair value measurements of livestock have been categorised as level 2 fair values based on observable market sales data (see note 4). The fair values are based on the market price of livestock of similar age, weight and market values.

Vanuatu National Provident Fund and its Controlled Entities Notes to the consolidated financial statements For the year ended 31 December 2017	The Group					
	Land and buildings (at valuation) Vatu (000's)	Computer equipment Vatu (000's)	Furniture fittings Vatu (000's)	Motor vehicles Vatu (000's)	Other equip-ment Vatu (000's)	Total (Vatu 000's)
19. Property plant and equipment Cost						
Balance as at 1 January 2016	1,179,068	164,756	57,776	38,530	52,197	1,492,327
Additions	-	4,824	814	12,400	8,412	26,450
Disposals	-	-	-	(15,153)	-	(15,153)
Revaluation gain	2,000	-	-	-	-	2,000
Balance as at 31 December 2016	1,181,068	169,580	58,590	35,777	60,609	1,505,624
Balance as at 1 January 2017	1,181,068	169,580	58,590	35,777	60,609	1,505,624
Additions	-	3,577	956	5,289	171	9,993
Disposals	-	-	-	(3,893)	-	(3,893)
Transfers from WIP	4,472	196	(27)	-	2,591	7,232
Balance as at 31 December 2017	1,185,540	173,353	59,519	37,173	63,371	1,518,956
Accumulated depreciation						
Balance as at 1 January 2016	57,013	158,985	55,969	24,340	34,076	330,383
Depreciation expense	23,890	3,856	768	8,497	8,630	45,641
Disposals	-	-	-	(15,205)	-	(15,205)
Balance as at 31 December 2016	80,903	162,841	56,737	17,632	42,706	360,819
Balance as at 1 January 2017	80,903	162,841	56,737	17,632	42,706	360,819
Depreciation expense	11,365	4,227	729	6,583	7,853	30,757
Disposals	-	-	-	(3,213)	-	(3,213)
Balance as at 31 December 2017	92,268	167,068	57,466	21,002	50,559	388,363
Carrying amount						
Carrying amount as at 1 January 2016	1,122,055	5,771	1,807	14,190	18,121	1,161,944
Carrying amount as at 31 December 2016	1,100,165	6,739	1,853	18,145	17,903	1,144,805
Carrying amount as at 31 December 2017	1,093,272	6,285	2,053	16,171	12,812	1,130,593

Vanuatu National Provident Fund and its Controlled Entities Notes to the consolidated financial statements For the year ended 31 December 2017	The Fund					
	Land and buildings (at valuation) Vatu (000's)	Computer equipment Vatu (000's)	Furniture fittings Vatu (000's)	Motor vehicles Vatu (000's)	Other equip-ment Vatu (000's)	Total (Vatu 000's)
19. Property plant and equipment (continued) Cost						
Balance as at 1 January 2016	708,842	145,335	56,245	19,046	32,991	962,459
Additions	-	4,097	602	12,400	8,412	25,511
Disposals	-	-	-	(15,153)	-	(15,153)
Balance as at 31 December 2016	708,842	149,432	56,847	16,293	41,403	972,817
Balance as at 1 January 2017	708,842	149,432	56,847	16,293	41,403	972,817
Additions	-	3,577	800	751	61	5,189
Disposals	-	-	-	(244)	-	(244)
Transfers from WIP	4,472	196	-	-	2,516	7,184
Balance as at 31 December 2017	713,314	153,205	57,647	16,800	43,980	984,946
Accumulated depreciation						
Balance as at 1 January 2016	47,787	141,207	54,967	13,729	22,332	280,022
Depreciation expense	23,890	2,978	580	5,046	4,809	37,303
Disposals	-	-	-	(15,193)	-	(15,193)
Balance as at 31 December 2016	71,677	144,185	55,547	3,582	27,141	302,132
Balance as at 1 January 2017	71,677	144,185	55,547	3,582	27,141	302,132
Depreciation expense	11,365	3,365	517	578	5,226	21,051
Disposals	-	-	-	-	-	-
Balance as at 31 December 2017	83,042	147,550	56,064	4,160	32,367	323,183
Carrying amount						
Carrying amount as at 1 January 2016	661,055	4,128	1,278	5,317	10,659	682,437
Carrying amount as at 31 December 2016	637,165	5,247	1,300	12,711	14,262	670,685
Carrying amount as at 31 December 2017	630,272	5,655	1,583	12,640	11,613	661,763

	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
20. Creditors and payables				
Creditors and accruals	21,945	85,423	95,069	295,186
Deferred income	-	2,189	-	2,189
Other payables	(4,283)	13,628	(4,283)	13,628
	17,662	101,240	90,786	311,003
21. Employee benefits				
Provision for severance pay	70,019	75,054	64,897	71,448
Provision for annual leave	6,859	9,170	6,406	7,337
	76,878	84,224	71,303	78,785

22 Reserves

(a) General reserve

Under section 33 of the Vanuatu National Provident Fund Act, "there shall be an account known as the General Reserve which shall be credited with -
(a) any income of the fund remaining
unappropriated at the end of any financial year; and

(b) any other monies prescribed to be so credited by regulations made under the Act.

Revenue less normal operating expenses are credited to the General Reserve unless otherwise appropriated In complying with Section 33(a) of the Act, the following items are credited and debited respectively to and from the general reserve each year:

• Net profit from operations is credited to the general reserve; and

• Interest on member accounts is debited from general reserve and credited to member accounts.

The net movement of these transactions equate to "income of the fund remaining unappropriated at the end of the financial year."

(b) Revaluation reserve

Revaluation of the Fund's land and buildings classified as property plant and equipment was carried out in 2015. The revaluation surplus was credited to the revaluation reserve. Management do not believe that is a significant change in property values and accordingly have not sought a revaluation during 2017. The next revaluation of the land and buildings is scheduled for the 2019 financial year.

22 Reserves (continued)

(c) Member funds

		The Fund	
		2017	2016
		Vatu (000's)	Vatu (000's)
Total members funds		18,503,152	17,162,964
Total member funds are spilt as follows:			
Members - Retirement account	50%	9,251,576	8,581,482
Members - Investment account	25%	4,625,788	4,290,741
Members - Medi-save account	25%	4,625,788	4,290,741
		18,503,152	17,162,964

(d) Special death benefit reserve

When a member dies prior to attaining any of the dates of entitlement for withdrawal as specified in the Act, an amount known as the special death benefit is added to the amount standing to the credit of the member and is treated as forming part of the member's benefit.
In accordance with the Act, a reserve (known as the "special death benefit reserve") was created out of which the special death benefit is to be paid and into which annual sums are transferred as deductions from member accounts.
The amount of benefit paid is calculated taking into account the deceased member's period of membership of the fund and the periods for which contributions have been paid to the fund.
The monies in the special death benefit reserve form part of the fund and any interest arising from the investment thereof is placed to the general reserves of the Fund and any shortfall in the reserve is made good out of the general reserves of the Fund.

23 Related parties

(a) Board of directors

The names of Directors in office at any time during the financial year were as follows:

Name	Position	Date first appointed	Date appointment ended/ ending
Allen Lew	Chairman	2-Nov-16	28-Feb-19
Henrickson Rolife Malsokle	Deputy Chairman	2-Nov-16	12-Apr-18
Roan Lester	Member	2-Nov-16	14-Dec-18
David Russet	Member	2-Nov-16	
Jack Maite	Member	2-Nov-16	
Willie Karie	Member	2-Nov-16	
John Ezra	Member	12-Apr-18	
Letlet August	Member	14-Dec-18	

	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
23. Related parties (continued) (a) Board of directors (continued)				
Board sitting allowances	1,739	1,670	1,739	1,610
Other board expenses	2,866	1,921	2,834	1,915
	4,605	3,591	4,573	3,525

Any director who is a member of the Fund contributes and receives benefits on the same terms and conditions as those available to other members.

(b) Key management

In addition to directors, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity (whether executive or otherwise).

Names	Position	Entity
Joanne Bani	Acting General Manager / HR Manager	Vanuatu National Provident Fund
Stephen Daniel	Acting General Manager / Manager Finance	Vanuatu National Provident Fund
Parmod Achary	General Manager	Vanuatu National Provident Fund
John Naviti	Manager Investments	Vanuatu National Provident Fund
Jackson Lessa	Head of Operations Services Division	Vanuatu National Provident Fund
Reynolds Armkori	Acting HR Manager	Vanuatu National Provident Fund
Naylene Nicolosi	HR Manager	Vanuatu National Provident Fund
Mosese Nakabea	General Manager	Member Financial Services Limited
David Russet	General Manager	Bouffa Limited

The aggregate compensation of the key management personnel for the Fund comprises short term benefits and is set out below:

	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
Short Benefits	24,730	21,522	16,382	14,553

Management personnel who are members of the Fund contribute and receive benefits on the same terms and conditions as those available to other members.

23 Related parties (continued)
(c) Identity of other related parties

The following entities are related parties to the Fund by virtue of ownership interest.

Entity		
Member Financial Services Limited (MFSL)	100.00%	
VNPF Property Holdings Limited (VNPF-HL)	100.00%	
Bouffa Limited (Bouffa)	50.00%	100.00%
Bay Developments Limited (BDL)		
VNBR Limited (VNBR)		50.00%
Interchange Limited (ICL)		37.50%
National Bank of Vanuatu (NBV)	15.00%	
Union Electric Company Limited (UNELCO)	14.40%	
Entity		Interest
Member Financial Services Limited (MFSL)	100.00%	

Member Financial Services Limited (MFSL)

Member Financial Services Limited (MFSL) is a wholly owned subsidiary of the Fund and was established under section 30 of the VNPF Act (as amended). Currently MFSL offers a single product, micro loans to members of the Fund. A Fund Member may pledge up to 85% of their investment account at VNPF as collateral for the loan and are entitled to borrow for purposes of education, home improvement, furniture and fittings. Loans to members are currently at an interest rate of 10.50%.

VNPF Property Holdings Limited (VNPF-HL)

VNPF Property Holdings Limited was acquired for the purpose of earning rental income from two purpose built stores in Port Vila and Luganville. The acquisition in 2013 was through a sale and lease back arrangement between VNPF and Wilco Hardware.

Bouffa Limited (Bouffa)

Bouffa Limited is a wholly owned subsidiary of the Fund.

The land that is presently owned by Bouffa Limited was farm land, purchased in 2009, with an intention of establishing a housing scheme, providing low cost housing for members of the Fund. The idea was to subdivide, build and market the sites with an expectation to make returns through the housing scheme.

The housing development concept was a prohibited investment under the Investment Policy Guidelines of the Fund and therefore on 27th April 2011, a feasibility study for a cattle project was presented to and approved by the Board and the initial purpose of the housing scheme was put on hold.

The value of the land in Efate and Santo totalled Vatu 581 million which represents the Funds equity investment in Bouffa Limited. The value of the land has subsequently been written down to Vatu 463 million and the Fund's investment in Bouffa has been written down to Vatu 101 million.

23 Related parties (continued)

(c) Identity of other related parties (continued)

Bay Developments Limited (BDL)

Bay Developments Limited is a partnership between VNPF and Vonciere du Vanuatu Ltd, a subsidiary of Bred Bank (Vanuatu) Limited. A joint agreement was entered into between VNPF and Bred Bank in May 2012, with each party having a 50% interest, with a view to generating rental income from office space. Bay Developments Limited is managed by LJ Hooker, a real estate company operating in Port Vila, which oversees its operations.

VNBR Limited (VNBR)

VNBR Limited was created between VN PF and Bred Bank in 2012, to purchase property, and enter into a joint venture with a view to building a Commercial Complex Development in the heart of Port Vila, providing lettable office space, food courts, multi-story parking and lettable space for shop owners. The Company has engaged Caillard & Kaddour as the project manager for the proposed development.

Interchange Limited (ICL)

The Vanuatu National Provident Fund (VNPF) in partnership with Interchange Holdings Limited, Vanuatu Posts Limited, Vanuatu Government and Fidelity Group owns the submarine cable connecting from the Southern Cross cables through Fiji, which will contribute to a better future for Vanuatu providing nation-wide telecommunication technologies and infrastructure to communities throughout the entire country and the region. VNPF has a 37.5% interest in Interchange Limited.

National Bank of Vanuatu (NBV)

The National Bank of Vanuatu Limited is a Vanuatu owned Bank, established in August 1991 under the NBV Act of 1989. The Bank in 2012 underwent a corporatisation process and issued fresh capital of which VNPF acquired 15%.

Union Electric Company Limited (UNELCO)

Unelco is a locally incorporated Company, having 2 shareholders; 85% of the shares are owned by ENGIE and 14.4% owned by VNPF. UNELCO is the only Electricity Supplier in Port Vila, Vanuatu's Capital city holding 4 geographical concessions, being Efate Island, two administrative centers in Norsup, Malekula and Lenakal, Tanna for the provision of electricity and supplies water.

	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
23. Related parties (continued) **(d) Transactions with related parties**				
(i) Interest income				
The amount of interest income charged to related parties during the year is as follows:				
Bouffa Limited	-	-	10,841	10,871
Member Financial Services Ltd	-	-	17,973	14,481
Interchange Limited	-	-	7,865	7,126
	-	-	36,679	32,478
(ii) Rental income				
The amount of rental charged to related parties during the year is as follows				
Member Financial Services Ltd	-	-	2,792	2,378
(iii) Dividends from investees				
The amount of dividend income from related parties during the year is as follows:				
Member Financial Services Ltd	-	-	25,000	25,000
Bay Developments Limited	-	-	-	6,343
UNELCO	-	-	-	39,942
			25,000	71,285
(iv) Shared services and processing fees				
The amount of shared services and processing fees charged to related parties during the year is as follows:				
Member Financial Services Ltd	-	-	4,995	11,376

	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
23 Related parties (continued) **(e) Loan balances owed to the Fund by its investees**				
Member Financial Services Ltd	-	-	500,069	350,000
Bouffa Limited	-	-	431,829	431,829
Interchange Limited	-	-	136,090	106,356
	-	-	1,067,988	888,185
Provision for loan impairment	-	-	(580,496)	-
	-	-	487,492	888,185

Member Financial Services Limited (MFSL)

The loan is limited to Vatu 500 million at an interest rate of 4.00% per annum which has been drawn down by MFSL progressively. Up till September 2018 interest only payments are due after which repayment of principal and interest will commence. The loan is secured against the assets of the Company. During the year, provision of Vatu 241,231,000 was made for this loan.

Bouffa Limited (Bouffa)

The loan is for a period of 5 years and interest being charged at the rate of 3% per annum and default interest at 10%. The loan is secured against the assets of the Company. During the year, provision of Vatu 339,264,571 was made for this loan.

Interchange Limited (ICL)

The loan has a 3 year term with interest being charged at the rate of 6.7% per annum. ICL commenced interest and principal repayments after June 2016 based on the agreement between ICL and VNPF. The loan to ICL is unsecured.

24. Government securities

Government bonds held by the Fund as at 31 December 2017 were as follows:

Bond series	Term	Principal (Vatu 000's)	Coupon rate	Issue date	Maturity date
002/16	2	499,950	6.15%	20/02/16	20/02/18
001/16	7	200,000	7.50%	28/01/16	28/01/23
003/15	4	250,000	8.00%	13/06/15	13/06/19

002/15	6	100,000	8.25%	04/04/15	04/04/21
004/14	4	200,000	7.50%	21/08/14	07/08/18
003/14	4	300,000	7.80%	16/07/14	16/07/18
002/13	10	400,000	8.55%	01/08/13	01/08/23
005/12	10	400,000	8.25%	27/12/12	09/12/22
002/12	10	700,000	8.25%	07/06/12	07/06/22
001/08	10	150,000	7.35%	20/02/08	20/02/18
002/17	3	300,000	4.00%	11/07/17	11/07/20
		3,499,950			

24 Government securities

Government bonds held by the Fund as at 31 December 2016 were as follows:

Bond series	Term	Principal (Vatu 000's)	Coupon rate	Issue date	Maturity date
002/16	2	499,950	6.15%	20/02/16	20/02/18
001/16	7	200,000	7.50%	28/01/16	28/01/23
003/15	4	250,000	8.00%	13/06/15	13/06/19
002/15	6	100,000	8.25%	04/04/15	04/04/21
004/14	4	200,000	7.50%	21/08/14	07/08/18
003/14	4	300,000	7.80%	16/07/14	16/07/18
002/13	10	400,000	8.55%	01/08/13	01/08/23
005/12	10	400,000	8.25%	27/12/12	09/12/22
002/12	10	700,000	8.25%	07/06/12	07/06/22
001/08	5	450,000	6.75%	08/03/12	08/03/17
001/08	10	150,000	7.35%	20/02/08	20/02/18
		3,649,950			

25. Going Concern

The Fund is designed to provide retirement and saving benefits to its members and operates within the parameters of the Vanuatu economy. The general economic outlook for the Vanuatu economy is positive, however the Reserve Bank of Vanuatu warns that further economic growth depends on maintenance of law and order and the Government's commitment to reforms and policies to enhance employment and the living of standards of all citizens.

The Fund's Board and Management believes the Fund can comfortably meet its obligations to members as and when they fall due and that with concentrated attention, the co-operation of the Reserve Bank of Vanuatu, the opportunities for improved financial performance for the benefit of members can be realized.

26. Auditor's Remuneration

Auditor's remuneration for the audit of the Fund and its Controlled Entities for the financial year ended is as follows:

	2017	2016
	Vatu (000's)	Vatu (000's)
KPMG: Vanuatu National Provident Fund (The Fund)	3,222	3,430
Other auditors: Member Financial Services Limited	926	1,201
VNPF Property Holdings Limited	251	215
Bouffa Limited	685	411

27. Employees

The number of full time permanent Fund employees as at 31 December 2017 was 76 (2016: 71).

28. Contingencies

The Fund is defending actions and claims brought by former employees. Although liability is not admitted, management are of the view that the chances of success on these claims are low. However any liability as a result of adverse decisions of these is not expected to be material.

29. Subsequent events

Other than these, there has not arisen subsequent to year-end any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Fund, to affect significantly the operations of the Company, the results of those operation or the state of the affairs of the Fund.

29. Subsequent events (continued)
Additional investments

Subsequent to year-end the Board has made several further investments and loans, with those of significance including:
- Purchase of 21,197 of additional shares in UNELCO for Vatu 953,207,893 taking the Fund's shareholding to 40%;
- Loan to Telecom Vanuatu Ltd (TVL) for up to Vatu 800,000,000 at a rate of 6% for seven years;
- Purchase of TVL Building in Downtown Port Vila for Vatu 258,552,239, with an estimated annual rental of Vatu 27,007,290;
- Purchase of Conquistador apartment building for Vatu 162,000,000, with an expected rental of Vatu 14,196.000; and
- Purchase of units in the Unit Trust of Fiji for Vatu 270,320,000.

Annual interest declaration
Subsequent to year-end the Board declared an annual and interim interest of 1.5 percent each for the year 2017. The annual interest amount credited to members account for the period is Vatu 313,218,155.

Change in accounting policy
The directors note that the current accounting policy for investments of controlled and non-controlled entities adopted by the Fund is for such investments to be carried at cost less impairment. However, they note that many provident funds and similar investment funds account for such investments at fair value rather than cost, so reflecting the true value of the investments to the respective fund. The directors plan to adopt such accounting policy for the year ending 31 December 2018 when they adopt the provisions of the new accounting standard IFRS 9: Financial instruments (see note 5).
Accordingly, directors consider that the fair value of investments in controlled and non-controlled entities should be taken into account when considering the results of the Fund and whether member funds are adequately covered by net assets.

30 Financial risk management

The Group's objective is to take a strategic and consistent approach to managing risks across the Group through risk management and associated activities that assist in the safeguarding of the Group's assets and seeks to avoid potential adverse effects on the Group's financial performance.

The respective Board of Directors and Board Audit Committee are responsible for the risk management, monitoring and reporting functions. At the Fund level, they are supported by:

- VNPF's Investment Committee: and
- VNPF's Internal Audit Department.

Risk management is carried out by executive management under policies approved by the Board and the approved investment policy guidelines.

30 Financial risk management (continued)

VNPF caters for the retirement funding of its members and invests significantly to cater for this. The Group’s activities expose it to a variety of financial risks as follows:

(i) Market risk;
(ii) Credit risk; and
(iii) Liquidity risk.

(i) Market risk
Market risk is risk that changes in market prices, such as foreign exchange rates and interest rates 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 returns.

(a) Currency risk
The Group has held-to-maturity investments in foreign currencies and is exposed to foreign exchange risk arising from these currency exposures. Currency risk is primarily associated with the Australian and US Dollar.

	2017 Vatu (000's)	2017 Vatu (000's)
Term deposits - USD	243,279	164,231
Term deposits – AUD	228,983	310,567
The following exchange rates were applied during the year		
spot-rate		Year-end
2016		2017
	USD	
0.0090		0.0097
	AUD	
0.0124		0.0124

Sensitivity analysis

A strengthening or weakening of the Vatu against the Australian and US Dollar at the reporting date would have increased / decreased profit by the amount shown below. This analysis is based on foreign currency exchange rate variances that the Group and Fund considers to be reasonably possible at the reporting date. The analysis assumes that all other variables are constant.

	2017 Vatu (000's)	2017 Vatu (000's)
30. Financial risk management (continued) (a) Currency risk (continued)		
10 % increase in USD	27.031	18.248
10 % decrease in USD	(27.031)	(18.248)
10 % increase in AUD	25.443	34.507
10 % decrease in AUD	(25.443)	(34.507)

(b) Interest rate risk

Interest rate risk refers to the possibility that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group adopts a policy of ensuring that its exposure to changes in interest rates on loans and advances is on a fixed-rate basis over a period of time.

Given that the interest rates on loans and advances (including intra group loans) are fixed, the Group and the Fund does not have a significant exposure to interest rate risk as the loans are not fair valued through profit or loss.

At the reporting date, the fixed interest rate profile of the Group and the Fund was:

	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
Loans to controlled entities	-	-	931.898	781.829
Loans to investees	136.090	106.356	136.090	106.356
Loans quasi-government entities	900.663	987.800	900.663	987.800

(ii) Credit risk

Credit risk is the risk of financial loss to the Group and Fund if a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group and Funds loans and advances and receivables.

The carrying amount of financial assets represent the maximum credit exposure.

Financial risk management (continued)

(ii) Credit risk (continued)

Loans and advances

The Group and Fund's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management also considers the demographics of the customer including the default risk of the industry as these factors have an influence on credit risk.

The Group and Fund have established credit policies under which each new customer is analysed individually for credit worthiness before the loans are offered.

The Group and Fund establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans and advances. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.
In relation to loans and advances made to Fund members by MFSL, these amounts are fully secured against the balance of the members' investment account.

	The Group		The Fund	
	2017	2016	2017	2016
	Vatu (000's)	Vatu (000's)	Vatu (000's)	Vatu (000's)
Cash and cash equivalents	2,879,787	2,924,370	2,679,722	2,798,364
Term deposits	3,708,609	2,293,466	3,708,609	2,293,466
Government securities	3,499,950	3,649,950	3,499,950	3,649,950
Loans and advances	1,910,448	1,643,766	1,388,155	1,875,985
Receivables and other assets	333,077	316,146	457,494	407,035
	12,351,871	10,827,698	11,733,930	11,024,800

Cash and cash equivalents and other receivables are at call. The maturities of term deposits, government securities and loans and advances are disclosed in Note 12.

(iii) Liquidity risk

Liquidity risk is the risk that the Group and 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 Group and Fund's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to reputation.

Financial risk management (continued)

(iii) Liquidity risk (continued)

The following are the contractual maturities of financial liabilities:

As at 31 December 2017	Contractual cash flows (vatu 000's)			
Financial liabilities	Carrying amount	Less than 1 year	Between 1 - 5 years	More than 5 years
The Group				
Creditors and payables	17,662	17,662	-	-
Employee benefits	76,878	6,859	70,019	-
	94,540	24,521	70,019	-
The Fund				
Creditors and payables	90,786	90,786	-	-
Employee benefits	71,303	6,406	64,897	-
	162,089	97,192	64,897	-

As at 31 December 2016	Contractual cash flows (vatu 000's)			
Financial liabilities	Carrying amount	Less than 1 year	Between 1 - 5 years	More than 5 years
The Group				
Creditors and payables	101,240	101,240	-	-
Employee benefits	84,224	9,170	75,054	-
	185,464	110,410	75,054	-
The Fund				
Creditors and payables	311,003	311,003	-	-
Employee benefits	78,785	7,337	71,448	-
	389,788	318,340	71,448	-

For maturity analysis of the Group and Fund's financial assets, refer Note 12.

Capital management

The Group and the Fund pursues an active approach to capital management, which is designed to protect the interests of members.

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