Vanuatu National Provident Fund
Annual Consolidated Financial Report
31 December 2018

VANUATU NATIONAL PROVIDENT FUND


wilco

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 30th Annual Consolidated Financial Statements

In accordance with Section 21 (1) of the VNPF Act [Cap.189], I am pleased to present to you VNPF Annual Consolidated Financial Statements for the year ending 31st December 2018.

Yours Faithfully,

VANUATU NATIONAL PROVIDENT FUND BOARD

Letlet August
Chairman
VNPF Board of Trustees.

OUR MISSION

To ensure the financial and economic security of the Members of VNPF through professional and ethical leadership.

OUR VISION

Honestly serving our Members throughout their lifetime and when needed.

OUR CORE VALUES

- Integrity and respect through action and interaction.
- Professional and ethical representation of our organization.
- Cooperation with employers, employees, Government and other stakeholders.
- Accept and value individuals for their unique talents and contributions.
- Accountability and responsibility for individual and collective actions.
- Diligence in understanding and strengthening the individual and the organization.
- Service to each other, the organization, and our constituents.
- Continuity in ensuring leadership succession.

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CHAIRMAN's REPORT

Vanuatu National Provident Fund has delivered a better financial statement for the 2018 Financial Year, compared to the 2017 Financial Year.

We have this year launched a new Strategic Plan 2018-2022 with this year's theme being that for much needed "Improvements" to the way that we conduct the provident fund business for our stakeholders.

With the newly appointed General Manager serving his first term in Office, we are pleased to see that our investments are showing a steady recovery. Our Membership continues to grow and with this, contributions collected.

With our new Strategic Focus Areas, we anticipate further progress in the implementation of our goals.

Our priorities for the next financial year will focus on the theme of "Growth" which we endeavor to achieve by introducing new growth strategies, increasing innovative schemes and continuing to work on improvements across all areas of our responsibilities.

I thank my fellow Board Members for their commitment, support and valued contributions throughout the year.

I also acknowledge the General Manager and Staff of the Fund for their commitment and perseverance towards achieving the Fund's mandate and encourage them all to continue to work together towards providing the much needed benefits and services to our Members.

I take this opportunity to also thank our Members and stakeholders for their support and ask that they continue to engage with us so that we can continue to grow the Fund.

We look forward to a better year ahead.

ALAIN LEW
CHAIRMAN

GENERAL MANAGER's REPORT

"My personal vision for VNPF is to sincerely provision financial assistance to members, during and after their working life. We will ensure that we look at some financial needs during their working life and after their retirement."
(*Parmod Achary, General Manager VNPF, October 2017*)

It is an honor for me to present this 2018 Annual Report as General Manager. I joined VNPF in September 2017 with high expectations from the Board and Government.

A 2017 Commission of Inquiry report provided recommendations to implement reforms within the Fund's operations and management of Members' Funds. Our regulator has also been providing avid support towards improving our services and constantly reminding us of our trusteeship role.

I first launched a new Strategic Plan 2018-2022, together with new staff uniforms and a new website in April 2018 and with the Plan, focused on "Improvements" across all departments within the Fund.

This is reflected in our Financial Statements; accrued benefits totaled to VT 485,185,000; compared to a net loss of VT 268,442,000 in 2017.

Annual Interest declared to our Members was 1%, compared to 2% in 2017 where we were prudent to ensure that our General Reserves were not at a negative balance again.

A total of VT 184,350,997 was then paid out to Members' accounts. With our change in strategic focus, we have undertaken numerous activities; including restructuring the organization, leading to an increase in staff numbers.

This has also led us to undertake staff development exercises to improve on our core business. Further highlights of the year are summarized below.

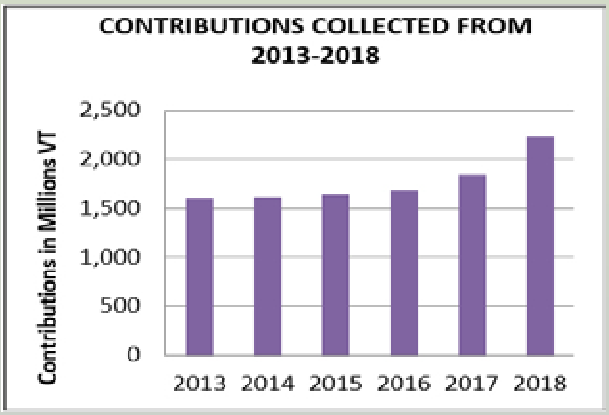
I have had the privilege of working with a supportive Chairman and Board Members; backed by Board sub-committees.

On behalf of the Management team, I would like to convey my sincere gratitude to all our Staff for their commitment towards our Members.

PARMOD ACHARY
GENERAL MANAGER

HIGHLIGHTS

Figure 1: Contributions 2013-2018



• Increase in contributions collected In 2018

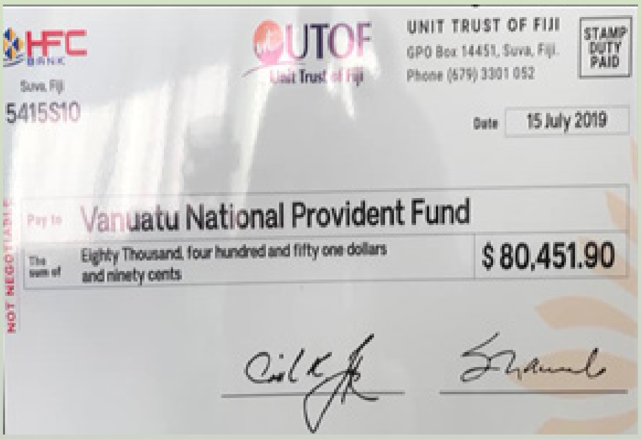
VT 2,2 billion collected in contributions compared to VT 1,8 billion in 2017.

• Purchase of Conquistador Apartment Building

Purchase of Conquistador Apartment Building for VT162,000,000 with an expected monthly rental of VT14,196,000.

• Purchase unit of shares with UTOF (Unit Trust of Fiji)

Annual interest credited to members' account was VT184 million. Purchase unit of shares with UTOF (Unit Trust of Fiji) for an amount of VT270,320,000.



• Unit Trust of Fiji (UTOF) pays dividend

Dividend payout of VT10,178,971 received from UTOF.

• Purchase additional shares of UNELCO

Purchase of additional shares worth 40 percent with UNELCO for VT 503,985,201

• UNELCO pays dividend

Dividend payout of VT29,807,500 received from UNELCO.

Vanuatu National Provident Fund and its Controlled Entities

Consolidated Financial Statements

31 December 2018

Vanuatu National Provident Fund
Board of Trustees' report

The Board of Trustees present their report together with the financial statements of Vanuatu National Provident Fund ("the Fund") for the year ended 31 December 2018 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 APPOINTED ENDED/ ENDING
Allen Lew	Chairman	2 November 2016	
Henrickson Rolife Malsokle	Deputy Chairman	2 November 2016	28 February 2019
Roan Lester	Member	2 November 2016	12 April 2018
David Russet	Member	2 November 2016	14 December 2018
Jack Maite	Member	2 November 2016	
Willie Karie	Member	2 November 2016	
John Ezra	Member	12 April 2018	
Letlet August	Member	14 December 2018	
Antoine Boudier	Member	28 February 2019	

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.

Operating results

The benefits accrued as a result of the operations of the Fund for the year ended 31 December 2018 amounted to a net profit of Vatu 485,185,000 (2017: net loss of Vatu 268,442,000).

Reserves

For the 2018 financial year interest amount credited to members' accounts amounted to Vatu 184,350,997 (2017: 344,679,000). In 2018, Vatu 8,378,000 was paid out to members in the form of interest on withdrawals and subsequent to year-end the Board declared an annual interest of 1 percent amounting to Vatu 175,971,997 (2017: 2 percent) (2017: 344,679,000).

Bad and doubtful debts

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

Vanuatu National Provident Fund
Board of Trustees' report

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.

Event subsequent to balance date
Annual interest Declaration

Subsequent to year-end the Board declared an annual interest of 1 percent amounting to Vatu 175,971,997 (2017: 2 percent) (2017: 344,679,000).

Basis of preparation

The financial statements of the Fund have been drawn up in accordance with International Financial Reporting Standards and the requirements of the Vanuatu National Provident Fund Act 2011 (Act No. 52).

Related party transactions

In the opinion of the Board Members all related party transactions have been recorded in the books of the Fund and are adequately disclose in the financial statements.

Other circumstances

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

[Chaiman]

Dated: 04TH FEBRUARY 2020

[Board Member]

Vanuatu National Provident Fund
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 as at 31 December 2018;

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 for the year ended 31 December 2018;

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 for the year ended 31 December 2018;

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 for the year ended 31 December 2018;

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

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

Dated at Port Vila this 04th day of February 2020.

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

[Chaiman]

[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 as at 31 December 2018, 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 as at 31 December 2018, 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 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.

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.

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

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 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.

- 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.

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.

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

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.

4 February, 2020
Suva, Fiji

KPMG
KPMG
Chartered Accountants

Vanuatu National Provident Fund and its Controlled Entities
Statements of net assets
As at 31 December 2018

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

		2018 Vatu (000's)	2017 Vatu (000's) (restated)[1]	2016 Vatu (000's) (restated)[1]
Assets				
Cash and cash equivalents	14	1,207,429	2,679,722	2,798,364
Other Receivables	15	440,837	457,494	407,035
Term deposits	11(a)	5,097,347	3,708,609	2,293,466
Government securities	11(b)	2,404,036	3,499,950	3,649,950
Loans and advances	11(c)	2,152,709	1,388,155	1,875,985
Investment in controlled entities	13(a)	1,798,830	1,683,228	1,544,847
Investment in joint ventures and associates	13(b)	2,953,341	1,465,232	1,660,366
Other equity investments	13(c)	635,009	728,696	752,566
Investment properties	12	2,937,618	2,467,746	2,585,367
Property plant and equipment	16	578,694	661,763	670,685
Total assets		**20,205,850**	**18,740,595**	**18,238,631**
Liabilities				
Creditors and payables	17	122,832	90,786	311,003
Employee entitlements	18	81,863	71,303	78,785
Total liabilities (excluding net assets available to pay benefits)		204,695	162,089	389,788
Net assets available to pay benefits		**20,001,155**	**18,578,506**	**17,848,843**
Net assets available to pay benefits is represented by:				
General Reserve	19(a)	96,988	(61,010)	552,111
Revaluation	19(b)	96,013	77,878	77,878
Members funds	19(c)	19,745,111	18,503,152	17,162,964
Special death benefit reserve	19(d)	63,043	58,486	55,890
		20,001,155	**18,578,506**	**17,848,843**

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

[Chaiman of the Board]

[Board Member]

The statement of net assets is 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 2018

	NOTE	2018 Vatu (000's)	2017 Vatu (000's) (restated)[1]
Investment income (continued)			
Interest income	5	429,158	543,164
Property rental income		168,362	174,694
Dividend income		31,253	60,769
Change in fair value of investments	6	275,226	(172,367)
Total investment income		903,999	606,260
Impairment of investments and investment properties		-	(44,140)
IFRS 9 Allowance for impairment loss		19,858	-
Direct investment expenses	7	(85,130)	(57,218)
Net return on investments		**838,727**	**504,902**
Other revenue			
Surcharge revenue		66,063	55,914
Other revenue	8	21,574	21,763
		87,637	**77,677**
Expenses incurred			
Administrative and other expenses	9	(441,179)	(851,021)
		(441,179)	(851,021)
Net (loss) / profit for the year		**485,185**	**(268,442)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of property, plant and equipment		18,135	-
Total comprehensive income / (loss) for the year		**503,320**	**(268,442)**
Net profit / (loss) available for allocation		503,320	(268,442)
Net benefits allocated to members' accounts		(184,350)	(344,679)
Net profit / (loss) taken to reserves		**318,970**	**(613,121)**

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

Vanuatu National Provident Fund
Statement of changes in member funds and reserves
For the year ended at 31 December 2018

	Member Funds Vatu (000's)	Special Death Benefit Reserve Vatu (000's)	Revaluation Reserve Vatu (000's)	General Reserve[1] Vatu (000's)	Total Vatu (000's)
Balance at 1 January 2017 as previously reported	**17,162,964**	**55,890**	**77,878**	**(211,652)**	**17,085,080**
Adjustment due to change in accounting policy (refer note 13)	-	-	-	763,763	**763,763**
Restated balance at 1 January 2017	**17,162,964**	**55,890**	**77,878**	**552,111**	**17.848,843**
Contributions from employers and members	1,853,604	-	-	-	**1,853,604**
Interest credited to member accounts	344,679	-	-	(344,679)	-
Transfer to/(from) members	(15,289)	15,289	-	-	-
Benefit payments	**(842,806)**	(12,693)	-	-	**(855,499)**
Total comprehensive (loss) for the year					
Loss for the period	-	-	-	**(268,442)**	**(268,442)**
Total comprehensive (loss) for the period	-	-	-	**(268,442)**	**(268,442)**
Restated balance as at 31 December 2017	**18,503,152**	**58,486**	**77,878**	**(61,010)**	**18,578,506**
Balance as at 1 January 2018	**18,503,152**	**58,486**	**77,878**	**(61,010)**	**18,578,506**
Adjustment on initial application of IFRS 9 (refer note 2.3 (iv))	-	-	-	**(142,837)**	**(142,837)**
Adjustment balance at 1 January 2018	**18,503,152**	**58,486**	**77,878**	**(203,847)**	**18,435,669**
Contributions from employers and members	1,988,002	-	-	-	**1,988,002**
Interest credited to member accounts	184,350	-	-	(184,350)	-
Transfer to/from members	(16,522)	16,522	-	-	-
Benefit payments	(913,871)	(11,965)	-	-	**(925,836)**
Total comprehensive income for the year:					
Profit for the period	-	-	-	485,185	**485,185**
Gain on revaluation of property	-	-	**18,135**	-	**18,135**
Total comprehensive income for the period	-	-	**18,135**	**485,185**	**503,320**
Balance as at 31 December 2018	**19,745,111**	**63,043**	**96,013**	**96,988**	**20,001,155**

The statement of changes in member funds and reserves is 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 2018

		2018 Vatu (000's)	2017 Vatu (000's)
Cash flows from operating activities (continued)			
Contributions received		1,984,415	1,853,604
Interest received		103,413	562,152
Dividends received		29,808	60,769
Property rental received		168,362	161,739
Other income received		87,637	74,550
Withdrawal payments to members		(922,249)	(855,499)
Payments to suppliers and employees		(313,558)	(540,125)
Net cash by operating activities		**1,137,828**	**1,317,190**
Cash flows from investing activities			
Net government securities matured		1,257,646	150,000
Net term deposits acquired		(1,318,080)	(1,415,143)
Acquisition of investment properties		(444,312)	(62,176)
Acquisition of property plant and equipment		(81,775)	(5,189)
Net movement in loans to related parties		62,313	(179,803)
Net movement in loans to quasi government bodies		(860,292)	87,137
Acquisition of equity investments		(1,223,536)	-
Net cash used in investing activities		**(2,608,036)**	**(1,425,174)**
Net (decrease)/increase in cash and cash equivalents		(1,470,208)	(107,984)
Cash and cash equivalents at the beginning of the year		2,679,722	2,798,364
Effect of change in foreign exchange rates		-	(10,658)
Cash and cash equivalents at the end of the year	14	**1,209,514**	**2,679,722**

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
Notes to the financial statements
For the year ended 31 December 2018

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.

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.

2 Basis of preparation
2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Vanuatu Natioanl Privident Fund Act ("The Act"). Management has concluded that the activities of the Fund meet the definition of an investment entity in accordance with requirements of the amedements to IFRS 10, 12 and IAS 27. Consequently the Fund measures substantially all of its investments at fair value through profit or loss and therefore does not consolidate its subsidiaries.

The financial statements were authorised for issue by the Board of Trustees on 04th February 2020.

2.2 Basis of accounting

These financial statements have been prepared under the historial cost basis, except for the following items, which are measured on an alternative basis on each reportng date.

Items	**Measurement basis**
investments in controlled entities	Fair Value
Investments in joint ventures and associates	Fair Value
Other equity investments	Fair Value
Investment properties	Fair Value
Property, plant and equipment (Land and building)	Revaluation

(a) Standards, interpretations and amendments issued but not yet effective

The following new standards, interpretations and amendments to standards relevant to the Fund have been issued.

The Fund does not intend to apply these standards or amendments until their effective dates:
New standards or amendments

Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
IFRS 16 Leases	1 January 2019

Of those standards that are not effective, IFRS 16 is expected to have a material impact on the Fund's financial statements in the period of initial application:

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

i. IFRS 16 Leases - The standard removes the classification of leases as either operating leases or finance leases - for the lessee - effectivelytreating all leases as finance leases. Short term leases (less than 12 months) and leases of low-value assets are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice i.e. lessors continues to classify leases as finance and operating lease. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The Fund is yet to assess the estimated impact of the initial application of IFRS 16 on its financial statements.

2 Basis of preparation (continued)
2.2 Basis of accounting (continued)
(b) Standards, amendments, interpretations which have been adopted by the Fund

The Fund has adopted the following interpretations and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2018. The adoption of the new amended standards and interpretations did not have a material effect on the Fund.

- Transfer of Investment Property (Amendments to IAS 40)
- Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IFRS 1 and IAS 28)
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- IFRS 15 *Revenue from Contracts with Customers*

The Fund also adopted IFRS 9 Financial Instruments, which has had an impact to the Fund, refer note 2.3. Due to the transition method chosen by the Fund in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirement.

The adoption of IFRS 15 did not impact the timing or amount of revenue from contracts with customers or the related assets and liabilities recognised by the Fund. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:
- Additional disclosures related to IFRS 9 (see note 2.3(A) and 3(i))

2.3 Changes in accounting policies

Except for the changes below, the Fund has consistently applied the accounting policies to all periods presented in these financial statement.

A. IFRS 9 Financial Instruments

The Fund has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement.*

The nature and effects of the key changes to the Fund's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

A. IFRS 9 Financial Instruments (continued)

As a result of the adoption of IFRS 9, the Fund adopted consequential amendments to IAS 1 Presentation of Financial Statements which requires impairment of Financial assets to be presented in a separate line item in the statement of profit or loss. Previously, The Fund approach was to include the impairement of other expenses.

Addtionally, the Fund adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures for 2018 but generally have not been applied to comparative information.

i. Classification of financial asset and liabilities

IFRS 9 contains three principal classification categories for financial assets; measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

2 Basis of preparation
2.3 Change in accounting policies
A. IFRS 9 Financial Instruments
i. Classification of financial assets and liabilities

For an explanation of how the Fund classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 3(i).

The adoption of IFRS 9 has not had a significant effect on the Fund’s accounting policies for financial liabilities.

ii. Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost but not to investments in equity instruments. Under IFRS 9, credit losses are generally recognised earlier than under IAS 39 – see Note 3(i).

iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 (2014) have been applied retrospectively, except as described below.

– Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in general reserves as at 1 January 2018.

Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018.

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iii. Transition (continued)

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Fund assumed that the credit risk on the asset has not increased significantly since its initial recognition.

The following table summarises the impact of transition to IFRS 9 on general reserves at 1 January 2018.

General Reserves	Vatu (000's)
Closing balance under IAS 39 (31 December 2017)	(61,010)
Recognition of expected credit losses under IFRS 9	(142,837)
Opening balance under IFRS 9 (1 January 2018)	**(203,847)**

2 Basis of preparation
2.3 Change in accounting policies
A. IFRS 9 Financial Instruments
iv. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Fund's financial assets and financial liabilities as at 1 January 2018.

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	Note	Original classification under IAS 39 Vatu (000's)	New classification under IFRS 9 Vatu (000's)	Original carrying amount under IAS 39 Vatu (000's)	New carrying amount under IFRS 9 Vatu (000's)
Financial assets (continued)					
Term Deposits	11 (a)	Loans and receivables	Amortised cost	3,708,609	3,702,601
Cash and cash Equivalent	14	Loans and receivables	Amortised cost	2,679,722	2,664,333
Other receivables	15	Loans and receivables	Amortised cost	457,494	455,929
Government Securities	11 (b)	Loans and receivables	Amortised cost	3,499,950	3,470,113
Loans and Advances	11 (c)	Loans and receivables	Amortised cost	1,388,155	1,298,117
Total financial assets				**11,733,930**	**11,591,093**
Financial liabilities					
Creditors and payables	17	Other financial liabilities	Other financial liabilities	90,786	90,786
Total financial liabilities				**90,786**	**90,786**

The Fund's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(i). The application of these policies resulted in the reclassifications set out in the table above and explained below.

a. Term deposits, cash and cash equivalents, other receivables, government securities and loans and advances that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

2 Basis of preparation
2.3 Change in accounting policies
A. IFRS 9 Financial Instruments
iv. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

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	IAS 39 carrying amount at 31 December 2017 Vatu (000's)	Re-measurement Vatu (000's)	IFRS 9 carrying amount at 1 January 2018 Vatu (000's)
Financial assets (continued) Amortised cost			
Term Deposits			
Brought forward: Loans and receivables	3,708,609		
Remeasurement		(6,008)	
Carried forward: Amortised cost			3,702,601
Cash and cash equivalents			
Brought forward: Loans and receivables	2,679,722		
Remeasurement		(15,389)	
Carried forward: Amortised cost			2,664,333
Other receivables			
Brought forward: Loans and receivables	457,494		
Remeasurement		(1,565)	
Carried forward: Amortised cost			455,929
Government Securities			
Brought forward: Loans and receivables	3,499,950		
Remeasurement		(29,837)	
Carried forward: Amortised cost			3,470,113
Loans and advances			
Brought forward: Loans and receivables	1,388,155		
Remeasurement		(90,038)	
Carried forward: Amortised cost			1,298,117
Total amortised cost	**11,733,930**	**(142,837)**	**11,591,093**

Vanuatu National Provident Fund
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2 Basis of preparation (continued)
2.3 Change in accounting policies (continued)
B. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Fund initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Fund and revenue from contracts with customers was not impacted by the adoption of IFRS 15.

C. Restatement – investment in controlled entities, joint ventures, associates and other equity at fair value

The Fund has changed its accounting treatment for investment in controlled entities, investment in equity accounted investees and other equity investments in 2018. The Fund previously recognised investment in controlled entities, investment in equity accounted investees and equity investments at cost less impairment in its financial statements.

During 2018, the Fund voluntarily changed the method of accounting for investment in controlled entities, investment in equity accounted investees and other equity investments to measure these at fair value through profit or loss.

Management believes that the change more effectively demonstrates the financial position of such investments and is aligned to the growth strategy that the Fund has adopted. The Fund has applied the accounting policy retrospectively. The effect of this adjustment is disclosed in Note 13.

2.4 Functional and presentation currency

The financial statements are presented in Vatu, which is the Fund’s functional currency.

2.5 Level of rounding

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

2.6 Use of estimates and judgements

In preparing the financial statements, management have made judgements, estimates and assumptions that affect the application of the Fund’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.

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 (g) - Valuation of owner occupied properties (land and buildings)
Note 3 (h) - Valuation of investment properties
Note 3 (i) - Impairment test: key assumptions underlying recoverable amounts.
Note 3 (i) - Equity investments at FVTPL.

Vanuatu National Provident Fund
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3 Significant accounting policies

The Fund has consistently applied the following accounting policies to all periods presented in the financial statements, except as stated in Note 2.

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Fund 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.

(b) Revenue
(i) Property rental income

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

(ii) 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.

(iii) Dividend income

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

(iv) Surcharge Revenue

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

(c) Expenses
(i) Benefits paid

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

Vanuatu National Provident Fund
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(ii) Other expenses (continued)

Other expenses are recognised in the profit or loss when the respective good or service is received.

(d) Income tax expense

The Fund is exempt from all income taxes under Part 9 (section 46) of the Vanuatu National Provident Fund Act (CAP 189).

(e) 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.

3 Significant accounting policies
(ii) Annual Leave and severance pay

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 Fund treats the liability as potentially being settled within one year.

(f) Leases
(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Fund determines whether the arrangement is or contains a lease. At inception or on reassessment of an arrangement that contains a lease, the Fund separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relevant fair values.

If the Fund concludes for a finance lease that is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Fund's incremental borrowing rate.

(ii) Leased assets

Leases of property, plant and equipment that transfer to the Fund substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Fund's statement of financial position.

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(iii) Lease payments (continued)

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(g) 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 Fund.

(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 Fund will obtain ownership by the end of the lease term.

3 Significant accounting policies
(g) Property, plant and equipment
(iii) Depreciation

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

Land and buildings	57-67 years (term of lease on land)
Computer equipment	3 years
Furniture and fittings	5 years
Motor vehicles	4 years
Office equipment	5 years

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(iii) Depreciation (continued)

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.

(h) 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 Fund 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.

(i) Financial Instruments
(1) Recognition and initial measurement

Loans and advances and other receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognized when the Fund becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is loans and advances and other receivables and other receivables without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Loans and advances and other receivables without a significant financing component is initially measured at the transaction price.

(2) Classification and subsequent measurement Financial assets - Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Fund changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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3 Significant accounting policies
(2) Classification and subsequent measurement
Financial assets - Policy applicable from 1 January 2018

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Fund may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Fund may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment
– Policy applicable from 1 January 2018

The Fund makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

– how the performance of the portfolio is evaluated and reported to the Fund's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Fund's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

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Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest – Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

3 Significant accounting policies (continued)
(i) Financial Instruments (continued)
(2) Classification and subsequent measurement (continued)
Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest – Policy applicable from 1 January 2018 (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Fund considers:

– contingent events that would change the amount or timing of cash flows;

– terms that may adjust the contractual coupon rate, including variable rate features;

– prepayment and extension features; and

– terms that limit the Fund's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Financial assets: Subsequent measurement and gains and losses – Policy applicable from 1 January 2018 Financial assets at FVTPL.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. The Fund measures its investments in controlled entities, joint ventures and associates and other equity at FVTPL.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. The Fund measures its investments in term deposits, cash and cash equivalents, government securities and other receivables at amortised cost.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. The Fund did not hold any debt investments at FVOCI.

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Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. The Fund did not hold any equity investments measured at FVOCI.

3 Significant accounting policies (continued)
(i) Financial Instruments (continued)
(2) Classification and subsequent measurement (continued)
Financial assets – Policy applicable before 1 January 2018

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

The Fund 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.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund 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.

A) Derecognition

Financial assets

The Fund 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. Any interest in such derecognised financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

Financial liabilities

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

B) Modifications of financial assets

If the terms of a financial asset are modified, the Fund evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see 3.7 (A)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see 3.7 (D)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

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C) Offsetting

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

3 Significant accounting policies (continued)
(i) Financial Instruments (continued)
D) Impairment Policy applicable from 1 January 2018

Financial instruments

The Fund recognises loss allowances for ECLs on financial assets measured at amortised cost. No impairment loss is recognised on equity investments.

The Fund measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

– bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for other receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Funds historical experience and informed credit assessment and including forward-looking information.

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Fund considers a financial asset to be in default when:

– The borrower is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realizing security (if any is held); or

– The financial asset is more than 120 days past due.

The Fund considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Fund considers this to be B2 or higher per rating agency Moody’s or B or higher per rating agency.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

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Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive); and

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Fund assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3 Significant accounting policies (continued)
(i) Financial Instruments (continued)
Credit-impaired financial assets (continued)

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;

– a breach of contract such as a default or being more than 90 days past due;

– the restructuring of a receivable by the Fund on terms that the Fund would not consider otherwise;

– it is probable that the borrower will enter bankruptcy or other financial reorganisation; or

– the disappearance of an active market for a security because of financial difficulties. Presentation of allowance for ECL in the statement of financial position;

Loss allowances for ECL are presented in the statement of financial position as follows:

Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.

Policy applicable before 1 January 2018
(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 Fund on terms that the Fund 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 Fund 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.

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3 Significant accounting policies (continued)
(i) Financial instruments (continued)
(i) Non-derivative financial assets (continued)
Policy applicable before 1 January 2018

Financial assets measured at amortised cost	The Fund 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 grouped together assets with similar risk characteristics. In assessing collective impairment, the Fund 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 Fund 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.
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.

(ii) Non-financial assets

At each reporting date, the Fund reviews the carrying amounts of its non-financial assets (other than, investment property) 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.

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.

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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 Fund has access at that date. The fair value of a liability reflects its non-performance risk.

The Fund 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 Fund 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 Fund 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 Fund 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 not 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.

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).

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.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

	2018 Vatu (000's)	2017 Vatu (000's)
5. Interest income		
Term deposits	90,467	86,982
Government securities	210,444	261,511
Commercial loans	98,849	127,683
Call accounts	21,315	58,570
Collateral	8,083	8,418
	429,158	**543,164**
6. Changes in fair value of investments		
Loss from changes in fair value of investment properties	(7,452)	(81,097)
Gain/(loss) from changes in fair value of equity investments	278,540	(80,612)
Unrealised exchange gain/(loss)	4,138	(10,658)
Net gain/(loss)	**275,226**	**(172,367)**
7. Direct investment expenses		
Building maintenance	17,022	12,584
Utilities	378	2,953
Insurance	17,972	17,094
Land rent and municipal taxes	43,695	20,451
Valuation fees	1,153	3,315
Consultancy and professional fees	4,910	821
	85,130	**57,218**

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

	2018 Vatu (000's)	2017 Restated Vatu (000's)
8. Other revenue		
Gain on sale of fixed assets	107	1,900
Shared services centre - revenue	8,921	4,995
Processing fees	10,729	13,790
Other sundry income	1,817	1,078
	21,574	**21,763**
9. Administrative and other expenses		
Depreciation expense	149,979	21,051
Travelling	5,542	4,451
Legal fees	3,789	2,556
Auditor's remuneration	4,480	3,222
Board expenses	3,750	4,573
Public relations	4,547	3,535
Doubtful debts	-	569,625
Computer software maintenance	21,587	19,845
Utilities	14,177	14,412
Telephone and communications	6,036	5,130
Stationery	5,268	4,651
Other administrative expenses	17,497	22,908
Personnel expenses (refer Note 10)	204,527	175,062
	441,179	**851,021**

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

	2018 Vatu (000's)	2017 Vatu (000's)
10. Personnel expenses		
Salaries and wages	146,868	129,202
VNPF contributions	5,594	4,956
Severance pay	8,913	11,485
Allowances	23,432	20,163
Other staff related expenses	19,720	9,256
	204,527	**175,062**
Key management compensation is disclosed under Note 20 (b)		
11. Financial investments **(a) Term deposits**		
Term deposits - local currency	4,642,517	3,236,347
Term deposits - foreign currency	471,002	472,262
	5,113,519	**3,708,609**
Less: Provision for impairment	(16,172)	-
	5,097,347	**3,708,609**
Movement in term deposits during the year is as follows:		
Balance as at 1 January	3,708,609	2,293,466
Net movement during the year	1,407,984	1,430,793
Unrealised exchange gain/(loss)	(3,074)	(15,650)
Provision for impairment	(16,172)	-
Balance as at 31 December	**5,097,347**	**3,708,609**
Maturity represented as:		
Less than 1 year	3,418,357	1,517,832
1 to 5 years	1,695,162	2,190,777
	5,113,519	**3,708,609**

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

The Fund has pledged term deposits amounting to Vatu 612 million as security for a loan obtained by Interchange Limited from ANZ Bank (Vanuatu) 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 21(i))	2,350,000	3,499,950
Government notes (refer Note 21(ii))	74,707	-
	2,424,707	**3,499,950**
Less: Provision for impairment	(20,671)	-
	2,404,036	**3,499,950**

	2018 Vatu (000's)	2017 Vatu (000's)
11. Financial investments (continued) **(b) Government securities (continued)**		
Movement in government securities during the year is as follows:		
Balance as at 1 January	3,499,950	3,649,950
Purchased during the year	74,707	300,000
Matured during the year	(1,149,950)	(450,000)
Provision for impairment	(20,6710)	-
Balance as at 31 December	**2,404,036**	**3,499,950**
Maturity represented as:		
Less than 1 year	324,707	1,149,950
1 to 5 years	2,100,000	2,350,000
	2,424,707	**3,499,950**

The fair value of government bonds in the current year is Vatu 3,033,356,962 (2017: Vatu 4,279,886,456).

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

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For the year ended 31 December 2018

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

	2018 Vatu (000's)	2017 Vatu (000's)
(c) Loans and advances		
Loans to subsidiaries (refer note 20(d))	965,487	931,898
Loans to investees (refer note 20(d))	115,831	136,090
Loans quasi-government	932,647	900,663
Loan to Telecom Vanuatu Limited	802,236	-
	2,816,201	**1,968,651**
Less: Provision for impairment	(663,492)	(580,496)
	2,152,709	**1,388,155**

Vanuatu National Provident Fund
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For the year ended 31 December 2018

	2018 Vatu (000's)	2017 Vatu (000's)
11. Financial investments (continued) (c) Loans and advances (continued)		
Maturity of gross loans and advances represented as:		
Less than 1 year	637,113	931,898
1 to 5 years	929,149	136,090
Greater than 5 years	1,249,939	900,663
	2,816,201	**1,968,651**
Movement in provision for loan impairment:		
Balance as at 1 January	580,496	-
Created during the year	82,996	580,496
Balance as at 31 December	**663,492**	**580,496**

Quasi-Government

Up until April 2018, there were 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.

In April 2018, the two loans were amalgamated into one repayable loan for a term of 10 years permitting for advances up to an aggregate of Vatu 1,000 million at an interest rate of 6.25%.

The Fund has recorded Vatu 93,264,657 of impairment in 2018 (2017: Vatu 90,038,110) against the loan provided to AVOL.

Vanuatu National Provident Fund
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For the year ended 31 December 2018

	2018 Vatu (000's)	2017 Vatu (000's)
12. Investment properties		
Balance as at 1 January	2,467,746	2,585,367
Additions	424,062	62,176
Additions to WIP	20,250	-
Impairment and depreciation	12	(98,700)
Reclassification for property, plant and equipment (note 16)	33,000	-
Fair value loss	(7,452)	(81,097)
Balance as at 31 December	**2,937,618**	**2,467,746**

Investment properties are measured at fair value in accordance with the accounting policy set out in note 3 (h). 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.

12 Investment properties
Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The independent valuers provide the fair value of the Fund's investment property annually.
The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used in measuring fair value of investment property, as well as the significant unobservable inputs used.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Sales (Direct Comparison) whereby the comparable developments are compared to subject properties on a common denominator with equated adjustments made to allow for differences and comparability. This approach considers the sales price levels of similar and comparable properties in the localities	Not applicable	Not applicable
Income capitalization approach: Direct Capitalisation: The valuation model considers net income which is converted into a value indicator using a direct and or yield capitalisation model. The capitalization rate has been developed using three techniques: extracted from comparable sale, debt coverage method and a band of investment method.	— Expected market rental growth 4.5% - 7.5% — Annualised vacancy and credit loss allowance, 0% - 8.33% — Market based management fee, 0% - 10% — Operating expense increases, 4.5%- 7%' — Capitalisation rates – 4.5% - 7.5%	The estimated fair value would increase (decrease) if: — void periods were shorter (longer); — the occupancy rate were higher (lower); — rent-free periods were shorter (longer); or — the capitalisation rates were lower (higher).

	2018 Vatu (000's)	2017 (Restated) Vatu (000's)
13. Equity Investments		
Equity securities are valued in accordance with Note 3(i) of the financial statements.		
Greater than 1 year		
a) Investment in controlled entities		
(Investment in controlled entities	1,798,830	1,683,228
13. Equity Investments		
Greater than 1 year		
(b) Investment in joint ventures and associates		
Investment in joint ventures	524,987	358,219
Investment in associates	2,428,354	1,107,013
	2,953,341	**1,465,232**

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

The Fund accounts for its investment in joint ventures and associates over which it has significant influence at fair value through profit or loss.

(i) Bay Developments Limited (Joint venture)

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

(iii) Interchange Limited (Associate)

Interchange Limited (ICL) is an investee in which the Fund 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.

(iv) UNELCO (Associate)

UNELCO is an investee in which the Fund has 40% (2017: 14.4%) ownership interest. The principal activity of UNELCO is that of an ultimate concessionaire for the production, transport and supply of electricity and water. The company is domiciled in Vanuatu.

(c) Other equity investments

Greater than 1 year		
Investment in unlisted entities	356,737	728,696
Investment in unit trust	278,272	-
	635,009	**728,696**

The Fund also has investments in unlisted companies where the Fund owns less than 20% of the equity interest.

Consequently the Fund has assessed that it does not have significant influence over these entities and accounts for them at fair value.

(d) Restatement of investment in controlled entities, investment in equity accounted investees and other equity investments

The Fund's 2017 and 2016 comparatives for investment in controlled entities, investment in equity accounted investees and other equity investments have been restated as explained in Note 2.3 (C).

The effect of the change in accounting policy is summarised on the next page.

13 Equity Investments
(d) Restatement of investment in controlled entities, investment in equity accounted investees and other equity investments

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

Statement of net assets			Impact of restatement			
As at 31 December 2017	As previously reported		Adjustments		Restated	
	2017	2016	2017	2016	2017	2016
	Vatu	Vatu	Vatu	Vatu	Vatu	Vatu
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
Investment in controlled entities	1,145,400	1,145,400	138,381	399,447	1,683,228	1,544,847
Investment in equity accounted investees	646,996	1,329,791	487,661	330,575	1,465,232	1,660,366
Other equity investments	609,993	718,825	84,962	33,741	728,696	752,566
Total assets	**17,265,828**	**17,474,868**	**711,004**	**763,763**	**18,740,595**	**18,238,631**
Net assets available to pay benefits	**17,103,739**	**17,085,080**	**711,004**	**763,763**	**18,578,506**	**17,848,843**
General reserves	(1,535,777)	(211,652)	711,004	763,763	(61,010)	552,111
Net assets available to pay benefits	**(1,535,777)**	**(211,652)**	**711,004**	**763,763**	**(61,010)**	**552,111**

Statement of profit or loss and other comprehensive income

	As previously reported 2017 Vatu (000's)	Adjustments 2017 Vatu (000's)	Restated 2017 Vatu (000's)
Change in fair value of investments	(91,755)	(80,612)	(172,367)
Total investment income	686,872	(80,612)	606,260
Impairment of investments in equity	(835,756)	791,616	(44,140)
Net return on investments	(206,102)	711,004	504,902
Net loss for the year	(979,446)	711,004	(268,442)
Total comprehensive loss for the year	(979,446)	711,004	(268,442)
Net loss available for allocation	(979,446)	711,004	(268,442)
Net profit/(loss) taken to reserves	**(1,324,125)**	**711,004**	**(613,121)**

Vanuatu National Provident Fund
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(e) Valuation of equity investments (continued)
Fair value hierarchy

The fair value of equity investments was determined by external, independent equity valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the Fund's equity investments annually.

The fair value measurement for investment in controlled entities, investment in equity accounted investees and investment in other equity investments amounting to Vatu 356 million to has been categorised as a Level 3 fair value based on the inputs to the valuation technique used. The fair value measurement for investment in unit trust amounting to Vatu 278 million has been categorised as Level 1 fair value based on quoted prices.

13 Equity Investments
(e) Valuation of equity investments
Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of equity investments, as well as the significant unobservable inputs used in measuring fair value of equity investments, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Income Approach: DCF Based Valuation. The Valuation model measures the present worth of the anticipated future benefits of an asset. Net income or Cash Flow is projected over an appropriate period and then discounted to present value at an appropriate rate.	- Expected cash flows - Risk adjusted cost of equity - Terminal growth rate	The estimated fair value would increase (decrease) if the adjusted market multiple were higher (lower)

During the financial year ended 31 December 2018, there were transfers in fair value hierarchy levels mentioned above. There were no material movements between the opening and closing balances in Level 3 of the fair value hierarchy.

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

	2018 Vatu (000's)	**2017 (Restated) Vatu (000's)**
Balance at beginning of year	3,877,156	3,957,779
Gain included in Profit or loss		
- Net change in fair value	278,539	(80,623)
Additions		
- Share purchase in UNELCO	953,213	-
Balance at end of year	**5,108,908**	**3,877,156**

Vanuatu National Provident Fund
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13 Equity Investments
(e) Valuation of equity investments
Valuation technique and significant unobservable inputs
Sensitivity analysis

For the fair values of equity securities which are based on the residual income and income approach, a reasonably possible change at the reporting date to one of the significant unobservable inputs, holding other inputs constant would have the following effects:

National Bank of Vanuatu (2018, Vatu 000s)

Sensitivity Analysis Between Cost of Equity & Terminal Growth Rate

2,538,707	11.60%	12.60%	13.60%	14.60%	15.60%
0.30%	2,703,980	2,606,829	2,522,863	2,449,315	2,384,144
0.40%	2,714,694	2,615,946	2,530,725	2,456,172	2,390,183
0.50%	2,725,601	2,625,214	2,538,707	2,463,127	2,396,303
0.60%	2,736,706	2,634,636	2,546,812	2,470,180	2,402,504
0.70%	2,748,015	2,644,216	2,555,042	2,447,336	2,408,788

The fair value of the equity investment in National Bank of Vanuatu at a 100% equity amounted to Vatu 2,538,707,000 using the Residual Income approach, however, the lower of the range under this method was adopted which amounted to Vatu 2,477,336,000.

National Bank of Vanuatu (2017, Vatu 000s)

Sensitivity Analysis Between Cost of Equity & Terminal Growth Rate

2,307,780	11.60%	12.60%	13.60%	14.60%	15.60%
0.30%	2,475,100	2,378,001	2,293,109	2,217,865	2,150,376
0.40%	2,485,021	2,386,442	2,300,389	2,224,214	2,155,968
0.50%	2,495,119	2,395,024	2,307,780	2,230,653	2,161,635
0.60%	2,505,402	2,403,748	2,315,284	2,237,185	2,167,376
0.70%	2,515,873	2,412,619	2,322,905	2,243,810	2,173,195

The fair value of the equity investment in National Bank of Vanuatu at a 100% equity amounted to Vatu 2,307,780,000 using the Residual Income approach, however, the lower of the range under this method was adopted which amounted to Vatu 2,243,810,000.

Vanuatu National Provident Fund
Notes to the financial statements
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13 Equity Investments (continued)
(e) Valuation of equity investments (continued)
Valuation technique and significant unobservable inputs (continued)
Sensitivity analysis (continued)

Member Financial Services Limited (2018, Vatu 000s)

Sensitivity Analysis Between Cost of Equity & Terminal Growth Rate						
354,311		11.60%	12.60%	13.60%	14.60%	15.60%
1.80%		351,358	351,358	351,358	351,358	351,358
1.90%		352,810	352,810	352,810	352,810	352,810
2.00%		354,311	354,311	354,311	354,311	354,311
2.10%		355,862	355,862	355,862	355,862	355,862
2.20%		357,467	357,467	357,467	357,467	357,467

The fair value of the equity investment in Member Financial Services Limited at a 100% equity amounted to Vatu 354,311,000 using the Residual Income approach, however, the lower of the range under this method was adopted which amounted to Vatu 351,358,000.

Member Financial Services Limited (2017, Vatu 000s)

Sensitivity Analysis Between Cost of Equity & Terminal Growth Rate						
317,510		11.60%	12.60%	13.60%	14.60%	15.60%
1.80%		315,535	315,535	315,535	315,535	315,535
1.90%		316,506	316,506	316,506	316,506	316,506
2.00%		317,510	317,510	317,510	317,510	317,510
2.10%		318,548	318,548	318,548	318,548	318,548
2.20%		319,622	319,622	319,622	319,622	319,622

The fair value of the equity investment in Member Financial Services Limited at a 100% equity amounted to Vatu 317,510,000 using the Residual Income approach, however, the lower of the range under this method was adopted which amounted to Vatu 315,535,000.

Vanuatu National Provident Fund
Notes to the financial statements
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13 Equity Investments (continued)
(e) Valuation of equity investments (continued)
Valuation technique and significant unobservable inputs (continued)
Sensitivity analysis (continued)

UNELCO (2018, Vatu)

Sensitivity Analysis Between Cost of Capital & Terminal Growth Rate						
3,315,209,268		6.76%	7.26%	7.76%	8.26%	8.76%
2.20%		3,470,058,550	2,965,046,417	2,550,933,491	2,205,218,405	1,912,260,007
2.70%		4,010,738,692	3,391,835,832	2,895,310,718	2,488,146,306	2,148,222,303
3.20%		4,703,295,278	3,923,745,793	3,315,209,268	2,826,988,812	2,426,623,861
3.70%		5,622,177,546	4,605,068,664	3,838,531,105	3,240,138,886	2,760,045,490
4.20%		6,899,998,201	5,509,046,067	4,508,853,459	3,755,050,061	3,166,585,897

The fair value of the equity investment in UNELCO at a 100% equity amounted to Vatu 3,315,209,268 using the Income approach, however, the lower of the range under this method was adopted which amounted to Vatu 3,240,138,886.

UNELCO (2017, Vatu)

Sensitivity Analysis Between Cost of Capital & Terminal Growth Rate						
2,907,200,719		6.76%	7.26%	7.76%	8.26%	8.76%
2.20%		3,095,441,003	2,602,236,308	2,197,961,876	1,860,600,973	1,574,849,389
2.70%		3,601,885,498	3,000,138,056	2,517,539,853	2,121,942,097	1,791,806,263
3.20%		4,250,589,681	3,496,045,161	2.907.200.719	2,434,931,665	2,047,784,158
3.70%		5,111,288,696	4,131,252,014	3,392,837,168	2,816,559,296	2,354,350,569
4.20%		6,308,198,264	4,974,042,806	4,014,888,350	3,292,183,880	2,728,146,456

The fair value of the equity investment in UNELCO at a 100% equity amounted to Vatu 2,907,200,719 using the Income approach, however, the lower of the range under this method was adopted which amounted to Vatu 2,816,559,296.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

Interchange Limited (2018, USD)

Sensitivity Analysis Between Cost of Capital & Terminal Growth Rate					
28,407,290	10.39%	11.39%	12.39%	13.39%	14.39%
0.00%	33,591,486	30,841,604	28,407,290	26,243,264	24,311,681
0.00%	33,591,486	30,841,604	28,407,290	26,243,264	24,311,681
0.00%	33,591,486	30,841,604	28,407,290	26,243,264	24,311,681
0.50%	34,924,752	31,940,233	29,323,026	27,014,198	24,966,422
1.00%	36,399,976	33,144,581	30,319,146	27,847,344	25,670,055

13 Equity Investments (continued)
(c) Valuation of equity investments (continued)
Valuation technique and significant unobservable inputs (continued)
Sensitivity analysis (continued)

The fair value of the equity investment in Interchange Limited at a 100% equity amounted to USD 28,407,290, Vatu 3,175,196,244 using the Income approach, however, the lower of the range under this method was adopted which amounted to USD 27,014,198, Vatu 3,019,463,000.

Interchange Limited (2017, USD)

Sensitivity Analysis Between Cost of Capital & Terminal Growth Rate					
30,049,950	10.39%	11.39%	12.39%	13.39%	14.39%
0.00%	35,444,138	32,574,148	30,049,950	27,819,440	25,839,509
0.00%	35,444,138	32,574,148	30,049,950	27,819,440	25,839,509
0.00%	35,444,138	32,574,148	30,049,950	27,819,440	25,839,509
0.50%	36,670,162	33,573,604	30,874,334	28,506,399	26,417,124
1.00%	38,026,726	34,669,235	31,771,082	29,248,793	27,037,-870

The fair value of the equity investment in Interchange Limited at a 100% equity amounted to USD 30,049,950, Vatu 3,155,875,490 using the Income approach, however, the lower of the range under this method was adopted which amounted to USD 28,109,000, Vatu 2,952,035,000.

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	2018 Vatu (000's)	2017 Vatu (000's)
14. Cash and cash equivalents		
Cash on hand	321	225
Cash at bank - local currency	1,197,361	2,667,664
Cash at bank - foreign currency	11,832	11,833
	1,209,514	**2,679,722**
Less: Provision for impairment	(2,085)	-
	1,207,429	**2,679,722**
15. Other receivables		
Interest receivable	210,798	175,984
Receivable from related parties	46,341	103,151
Surcharge receivable	71,626	71,626
Other receivables	176,124	171,406
Insurance prepayment	1,832	4,546
Other prepayments	6,798	2,407
	513,519	**529,120**
Less: Provision for impairment	(72,682)	(71,626)
	440,837	**457,494**
Analysed as:		
Less than 1 year	513,519	529,120
1 to 5 years	-	-
	513,519	**529,120**

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

	Land and buildings (at valuation) Vatu (000's)	Computer equipment Vatu (000's)	Furniture fittings Vatu (000's)	Motor vehicles Vatu (000's)	Other equipment Vatu (000's)	Work in progress Vatu (000's)	Total Vatu (000's)
16. Property plant and equipment **Cost**							
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
Balance as at 1 January 2018	713,314	153,205	57,647	16,800	43,980	-	984,946
Additions	21,580	2,672	1,834	2,700	3,629	49,360	81,775
Disposals	-	-	-	-	-	-	-
Reclassification to investment property - depreciation offset	(3,672)	-	-	-	-	-	(3,672)
Revaluation of building reclassified to investment property	18,135	-	-	-	-	-	18,135
Reclassification to investment property1	(33,000)	-	-	-	-	-	(33,000)
Balance as at 31 December 2018	**716,357**	**155,877**	**59,481**	**19,500**	**47,609**	**49,360**	**1,048,184**
Accumulated depreciation							
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**

Vanuatu National Provident Fund
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	Land and buildings (at valuation) Vatu (000's)	Computer equipment Vatu (000's)	Furniture fittings Vatu (000's)	Motor vehicles Vatu (000's)	Other equipment Vatu (000's)	Work in progress (Vatu 000's)	Total (Vatu 000's)
16. Property plant and equipment (continued) **Cost**							
Accumulated depreciation (continued)							
Balance as at 1 January 2018	83,042	147,550	56,064	4,160	32,367	-	323,183
Depreciation expense	135,915	3,840	862	4,593	4,769	-	149,979
Disposals	-	-	-	-	-	-	-
Reclassification to investment property	(3,672)	-	-	-	-	-	(3,672)
Balance as at 31 December 2018	**215,285**	**151,390**	**56,926**	**8,753**	**37,136**	**-**	**469,490**
Carrying amount							
Carrying amount as at 1 January 2017	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
Carrying amount as at 31 December 2018	**501,072**	**4,487**	**2,555**	**10,747**	**10,473**	**49,360**	**578,694**

‘During 2018, a building was transferred to investment property (see note 12), because it was no longer used by the Fund and was fully leased to a third party. Immediately before the transfer, the Fund remeasured the property to fair value and recognised a gain of Vatu 18,134,000 in OCI. The valuation techniques and significant unobservable inputs used in measuring the fair value of the building at the date of transfer were the same as those applied to investment property at the reporting date.

Vanuatu National Provident Fund
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	2018 Vatu (000's)	2017 Vatu (000's)
17. Creditors and payables		
Creditors and accruals	119,936	95,069
Other payables	2,896	(4,283)
	122,832	**90,786**
Analysed as:		
Less than 1 year	122,832	90,786
	122,832	**90,786**
18. Employee benefits		
Provision for severance pay	71,039	64,897
Provision for annual leave	10,824	6,406
	81,863	**71,303**
Analysed as:		
Less than 1 year	81,863	71,303
	81,863	**71,303**

19 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.

Vanuatu National Provident Fund
Notes to the financial statements
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(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. Except for the building reclassified to investment properties which was revalued to fair value (see note 16), management do not believe that there is a significant change in property values and accordingly have not sought a revaluation during 2018. The next revaluation of the land and buildings is scheduled for the 2019 financial year.

		2018 Vatu (000's)	2017 Vatu (000's)
19. Reserves (continued) **(c) Member funds**			
Total members funds		**19,745,111**	**18,503,152**
Total member funds are spilt as follows:			
Members - Retirement account	50%	9,872,555	9,251,576
Members - Investment account	25%	4,936,278	4,625,788
Members - Medi-save account	25%	4,936,278	4,625,788
		19,745,111	**18,503,152**

(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.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

20 Related parties (continued)
(a) Board of directors (continued)

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	
Antoine Boudier	Member	28-Feb-19	

	2018 Vatu (000's)	2017 Vatu (000's)
20. Related parties		
(a) Board of directors		
Board sitting allowances	1,413	1,739
Other board expenses	2,337	2,834
	3,750	**4,573**

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.

20 Related parties
(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).

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

20 Related parties (continued)
(b) Key management (continued)

Names	Position	Entity
Stephen Daniel	Manager Finance	Vanuatu National Provident Fund
Parmod Achary	General Manager	Vanuatu National Provident Fund
John Naviti	Manager Santo Branch	Vanuatu National Provident Fund
Jackson Lessa	Manager Employer Relations	Vanuatu National Provident Fund
Reynolds Armkori	HR Manager	Vanuatu National Provident Fund

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

	2018 Vatu (000's)	2017 Vatu (000's)
20. Related parties		
Short term benefits	28,501	16,382

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

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

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

Entity	Interest	Classification
Member Financial Services Limited (MFSL)	100.00%	Subsidiary
VNPF Property Holdings Limited (VNPF-HL)	100.00%	Subsidiary
Bouffa Limited (Bouffa)	100.00%	Subsidiary
Bay Developments Limited (BDL)	50.00%	Joint venture
VNBR Limited (VNBR)	50.00%	Joint venture
Interchange Limited (ICL)	37.50%	Associate
Union Electric Company Limited (UNELCO)	40.00%	Associate
National Bank of Vanuatu (NBV)	14.40%	Investment

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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.

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 VNPF 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)

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%.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2018

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

Union Electric Company Limited (UNELCO)

Unelco is a locally incorporated Company, having 2 shareholders; 60% of the shares is owned by ENGIE and 40% is 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 centres in Norsup, Malekula and Lenakal, Tanna for the provision of electricity and supplies water.

In October 2018, VNPF purchased an additional 21,197 shares which now represent a 40% interest in UNELCO (2017: 14.4%) amounting to a total consideration paid of Vatu 953,213,394.

	2018 Vatu (000's)	2017 Vatu (000's)
(i) Interest income		
The amount of interest income charged to related parties during the year is as follows:		
Bouffa Limited	-	10,841
Member Financial Services Ltd	22,492	17,973
Interchange Limited	8,171	7,865
	30,663	**36,679**
(ii) Rental income		
The amount of rental charged to related parties during the year is as follows		
Member Financial Services Ltd	**2,378**	**2,792**
(iii) Dividends from investees		
The amount of dividend income from related parties during the year is as follows:		
Member Financial Services Ltd	-	25,000
UNELCO	29,808	-
	29,808	**25,000**
(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	**19,650**	**4,995**

Vanuatu National Provident Fund
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	2018 Vatu (000's)	2017 Vatu (000's)
20 Related parties (continued) **(d) Loan balances owed to the Fund by its investees**		
Member Financial Services Ltd	533,189	500,069
Bouffa Limited	432,298	431,829
Interchange Limited	115,831	136,090
	1,081,318	**1,067,988**
Provision for loan impairment	(570,227)	(580,496)
	511,091	**487,492**

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.

Vanuatu National Provident Fund
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21. Government securities (continued)
(i) Government bonds

Government bonds held by the Fund as at 31 December 2018 were as follows:

Bond series	Term	Principal (Vatu 000's)	Coupon rate	Issue date	Maturity date
002/12	10	700,000	8.25%	7/06/12	7/06/22
005/12	10	400,000	8.25%	27/12/12	27/12/22
002/13	10	400,000	8.55%	1/08/13	1/08/23
002/15	6	100,000	8.25%	4/04/15	4/04/21
003/15	4	250,000	8.00%	13/06/15	13/06/19
001/16	7	200,000	7.50%	28/01/16	28/01/23
002/17	3	300,000	4.00%	11/07/17	11/07/20
		2,350,000			

21. 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			

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(ii) Government notes (continued)				
Government bonds held by the Fund as at 31 December 2018 were as follows:				
Term	**Coupon rate**	**Principal (Vatu 000's)**	**Issue date**	**Maturity date**
63	1.70%	16,950	28/11/18	30/01/19
91	1.80%	16,924	28/11/18	27/02/19
63	1.70%	12,463	21/11/18	23/01/19
91	1.80%	12,444	21/11/18	20/02/19
91	1.90%	15,926	3/10/18	02/01/19
		74,707		

22 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.

23 Auditor's Remuneration

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

	2018 Vatu (000's)	**2017 Vatu (000's)**
KPMG: Vanuatu National Provident Fund (The Fund)	4,480	3,222
Other auditors: Member Financial Services Limited	1,227	926
VNPF Property Holdings Limited	354	251
Bouffa Limited	433	685
Commitments and contingent liabilities		
(a) Commitments		
Capital expenditure commitment	5,533	-

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(b) Contingent liabilities (continued)

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.

(c) Operating lease commitments – where the company is a lessee

The Fund has a number of lease agreements with varying terms and conditions. The future aggregated minimum lease payments under the leases are as follows:

Not later than 1 year	2,900	2,900
Later than 1 year but not later than 5 years	14,501	14,501
Later than 5 years	133,085	135,985
	150,486	**153,386**

(d) Operating lease commitments – where the company is a lessor

The Fund leases certain properties at varying terms and conditions. The future minimum lease payments receivable under these leases are as follows:

Not later than 1 year	174,393	58,739
Later than 1 year but not later than 5 years	295,782	256,198
Later than 5 years	60,041	105,041
	530,216	**419,978**

24 Commitments and contingent liabilities
(d) Operating lease commitments – where the company is a lessor
Amounts recognised in profit or loss

During 2018, rentals of Vatu 168,362,000 (2017: 174,694,000) were included in 'Investment income'. Direct investment expenses were as follows:

	2018 Vatu (000's)	2017 Vatu (000's)
Land rent	**1,747**	**2,677**

25 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 operations or the state of the affairs of the Fund.

26 Subsequent events
Annual interest declaration

Subsequent to year-end the Board declared an annual interest of 1 percent amounting to Vatu 175,971,997 (2017: 2 percent) (2017: 344,679,000).

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27 Financial risk management (continued)

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

The respective Board of Directors and Board Audit Committee are responsible for the risk management, monitoring and reporting functions. 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.

VNPF caters for the retirement funding of its members and invests significantly to cater for this. The Fund'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 Fund has debt securities 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.

	2018 Vatu (000's)	2017 Vatu (000's)
Term deposits - USD	245,450	243,279
Term deposits – AUD	228,626	228,983
The following exchange rates were applied during the year		
Year-end spot-rate		
	2018	2017
USD	0.0094	0.0097
AUD	0.0126	0.0124

Vanuatu National Provident Fund
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Sensitivity analysis (continued)

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 Fund considers to be reasonably possible at the reporting date. The analysis assumes that all other variables are constant.

	2018 Vatu (000's)	2017 Vatu (000's)
30. Financial risk management (continued) (a) Currency risk (continued)		
10 % increase in USD	27,272	27,031
10 % decrease in USD	(27,272)	(27,031)
10 % increase in AUD	25,403	25,443
10 % decrease in AUD	(25,403)	(25,443)

(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 Fund 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 Fund loans) are fixed, 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 Fund was:

Loans to controlled entities	965,487	931,898
Loans to investees	115,831	136,090
Loans quasi-government entities	932,647	900,663
Loan to Telecom Vanuatu Limited	802,236	-
	2,816,201	**1,968,651**

27 Financial risk management
(ii) Credit risk

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

Vanuatu National Provident Fund
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27 Financial risk management (continued)
(ii) Credit risk

The carrying amount of financial assets represent the maximum credit exposure. The 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 Fund have established credit policies under which each new customer is analysed individually for credit worthiness before the loans are offered.

The 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 Funds 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.

	2018 Vatu (000's)	2017 Vatu (000's)
Cash and cash equivalents	1,207,429	2,679,722
Term deposits	5,097,347	3,708,609
Government securities	2,404,036	3,499,950
Loans and advances	2,152,709	1,388,155
Receivables and other assets	440,837	457,494
	11,302,358	**11,733,930**

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 11.

Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to reputation. The Funds financial liabilities in respect Creditors and payables and employee entitlements have contractual maturities of less than 1 year.

Capital management

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

VANUATU NATIONAL PROVIDENT FUND
P.O. Box 420, Port Vila, Vanuatu

Tel: +(678) 23808
Fax: +(678) 24673
Email: Enquiry@vnpf.com.vu
Website: www.vnpf.com.vu
FB: Vanuatu National Provident Fund