



VANUATU NATIONAL
PROVIDENT FUND



ANNUAL REPORT 2020

Save Today, Enjoy Tomorrow

HISTORY

The Vanuatu Government under the late Fr. Walter Lini set up Vanuatu's first social security system in 1986 through the creation of the Vanuatu National Provident Fund (VNPF) to help take care of its people when they reached retirement age.

The VNPF system was aligned with the Fiji National Provident Fund (FNPF) and the Singapore Central Provident Fund (CPF) after their successes in their respective countries. The complex framework and legislation governing the Fund was developed based on studies conducted by the International Labour Organisation (ILO) under a United Nations Development Program (UNDP) funded project, with the United Kingdom providing further technical assistance.

The VNPF Act was endorsed by Parliament in 1986 and 1987, and first operations commenced with 3 per cent contributions deducted from employees' monthly remuneration and matched by employers. The rate has since been increased to 4 per cent contribution from employees and employers.

The VNPF has faced many challenges throughout its history and is continuing to recover from certain decisions that have been made in the past. Lessons learned from these experiences are the key to ensuring these mistakes are not repeated, which has paved the way for increased transparency and accountability to our members.

VISION

Serving our Members throughout their lifetime and when needed.

MISSION

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

VALUES

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

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1 | 2020 HIGHLIGHTS



COLLECTIONS

VT 2.09 billion was collected in contributions, reflecting a decline of 11% compare to 2019 collection data. VT 28,000,000 was collected in surcharges, which is a significant decrease since 2019, indicating improved performance by the VNPF compliance team and increased compliance amongst employers.



NEW MEMBERS & EMPLOYERS

4,894 new members were registered in 2020, bringing the total of active VNPF members to 80,501. 3,298 new employers were registered, bringing the total number of active employers to 7,768.



MEMBER LOANS

27,092 members were approved for the COVID-19 Hardship Loan and 2,227 members received the TC Harold Hardship Loan. These loans were offered interest free to VNPF members to provide financial relief during these times of crisis.



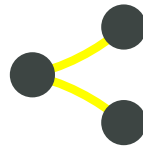
STRATEGIC PARTNERSHIPS

A new partnership with the New Zealand Government allows for seasonal workers working in New Zealand to accumulate superannuation earned overseas in Vanuatu with the VNPF. Preparations have begun for a new partnership with Nasi Tuan, which will see increased investment



INVESTMENT OPPORTUNITIES

New investment in the National Bank of Vanuatu (NBV) has seen VNPF increase its company share to 56 per cent. The current commercial loan to Interchange Limited was also re-negotiated from a guarantee to a direct loan with the VNPF, which will establish VNPF a 37.5% stake in the company and an increase in returns.



NEW PROJECTS

Mobile Services buses equipped with VNPF services are now regularly touring villages in Efate and Santo to increase access to rural areas. The new Port Vila Central Market branch was opened by the Minister of Finance and Economic Management. Launched in 2020, 439 members took advantage of the Age 47 Partial Withdrawal scheme.



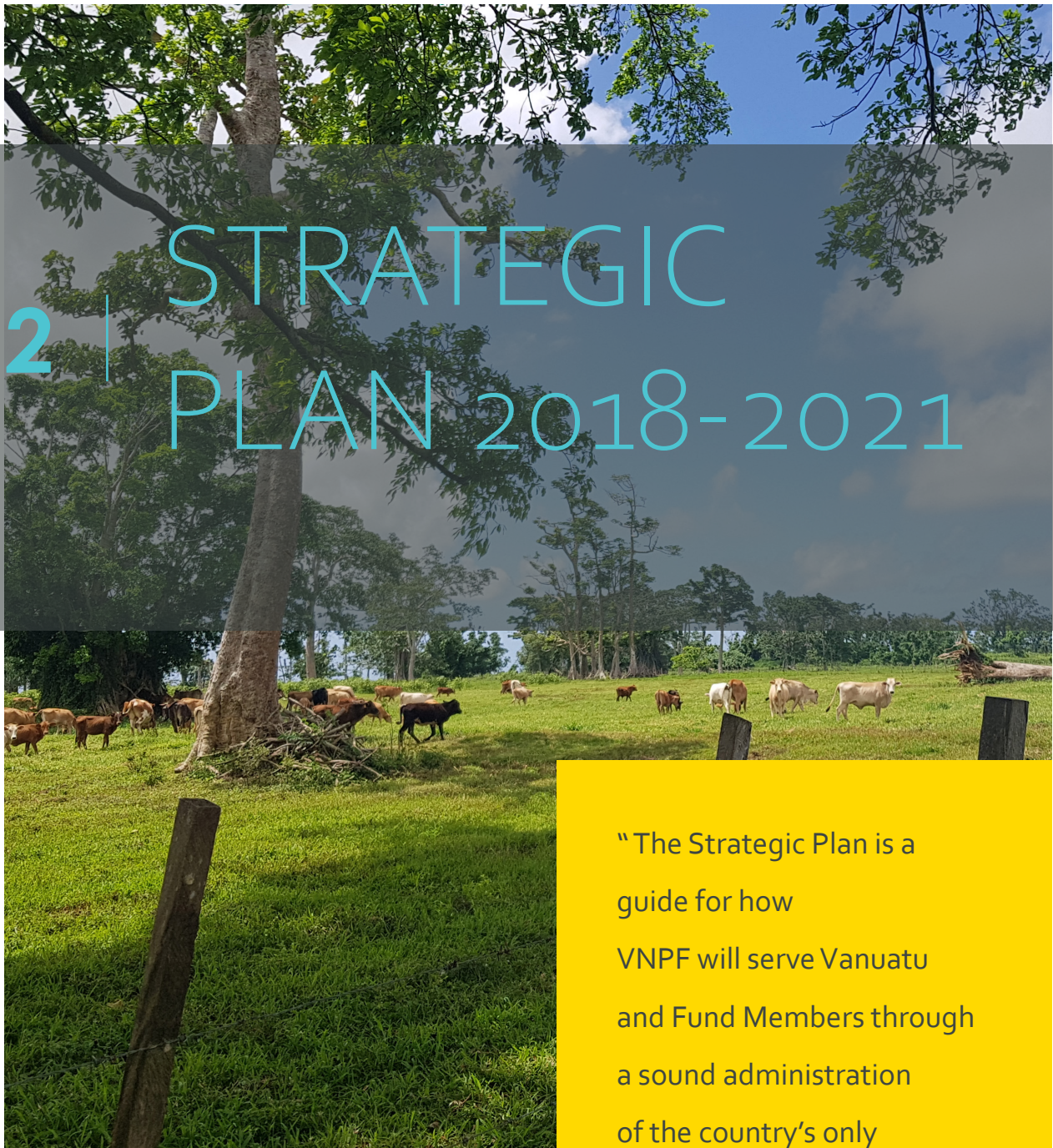
LEGAL RECOVERY

In the year 2020, 1000 inspections were carried out of employers and 25 court cases filed against employers who had failed to pay contributions for their employees, which resulted in VT 18,623,092 in collections and surcharges recovered.



INCREASED MEDIA REACH

VNPF embarked on new communications projects to help better manage its public image and to increase its media reach, including a weekly Q&A column in the local newspaper, weekly interviews with VNPF staff on local radio and improved management of social media.



2 | STRATEGIC PLAN 2018-2021

“The Strategic Plan is a guide for how VNPf will serve Vanuatu and Fund Members through a sound administration of the country’s only superannuation scheme.”

Despite facing some serious and unexpected challenges in 2020, VNPf is working towards overcoming its setbacks and continues to operate according to the goals set out in the Strategic Plan 2018-2021.

The Strategic Plan 2018-2022 aims to address the challenges faced in previous years by strengthening existing systems, better protecting member funds, making smarter investments and building staff capacity to ensure overall growth of the fund and a seamless service to members and employers.

The plan provides the framework to drive and monitor VNPf’s day-to-day operational performance and the achievement of longer-term strategic goals. Considering the challenges currently being faced, particular focus is being placed on improving:

- Revenue
- Members fund management
- Organisational strengthening

CHALLENGES

- COVID-19 related job losses and business closures
- Management of member accounts
- Containing operating expenses
- Enforcement of procurement guidelines
- Board management guides
- Internal auditing processes
- Information and IT systems
- Resourcing, policies, processes and structure of the Investments team
- Human resources policies and practices

2020 ACHIEVEMENTS

Two successful loan schemes were launched in response to those affected by TC Harold and COVID-19 job losses, including the COVID-19 Hardship Loan and the TC Harold Hardship Loan. Almost 30,000 loans were approved to VNPF members.

VNPF celebrated the launch of a new members' and employers' online portal, allowing online access to customer account information and other essential VNPF services. Website visits also increased dramatically, which

Informal Sector activities are growing since its inception in 2019: Mobile Services have been made available around Efate and Santo, and VNPF has reached an agreement with the New Zealand Government regarding seasonal workers to contribute their superannuation directly into their VNPF accounts rather than being collected in New Zealand.

An agreement made between VNPF and Nasi Tuan in Tanna marks the beginning of the VNPF's new strategic focus on de-centralising investment and supporting local agricultural initiatives.

Despite the many challenges of 2020, contributions collected amounted to VT 2.4 billion, representing only a small shortfall since 2019 where contributions amounted to VT 2.5 billion. While the number of active contributing members fell as a result of the pandemic, this has been compensated by growing informal sector contributions and seasonal worker contributions.

A new Social Benefit Scheme was approved by the Board and will be launched in 2021, which will provide an unprecedented level of social security for contributing VNPF members. Plans are also in place to increase the Special Death Benefit in order to provide additional

RIGHT: VNPF and the Vanuatu Government open the Banian Housing Project in Santo, providing low-cost housing opportunities to



3

A MESSAGE FROM THE CHAIRMAN

2020: A YEAR OF RESILIENCE

It is my pleasure as the Chairman to present on behalf of the Vanuatu National Provident Fund (VNPF) Board, this statement and reflect on the Board's achievements and challenges of 2020.

Auditing has been a priority for VNPF for greater transparency and being accountable to its members on all financial commitments. The 2020 financial statements have been reviewed by our external auditors – KPMG Fiji – recording VT

ACHIEVEMENTS

Despite the many hardships experienced in 2020, including the effects of the COVID-19 pandemic and TC Harold, the Board worked closely with the General Manager and the hard-working VNPF team of staff to continue to fulfill the Fund's aims and objectives, while trying to limit the damages caused by these external forces.

We were fortunate that contributions did not suffer as much as anticipated. Contributions received for the year 2020 amounted



to VT 2.09 billion, which was VT 259 million less than the contributions collected in 2019 and short of the forecasted VT 2.7 billion.

Total value of VNPF assets is computed at VT 23 billion, consisting of current assets at VT 3 billion, fixed income investment of VT 9.2 billion, equity at VT 6.6 billion, property investment at VT 3.8 billion while property, plant & equipment at VT 674 million.



RIGHT: VNPF Chairman Mr August Letlet officiates the opening of the Banian Housing

Some of the major developments in 2020 include the launching of Mobile Services, which extends access to VNPF services to rural areas and encourages informal sector workers to join and make regular contributions as Voluntary Members. In response to the global COVID-19 pandemic, an emergency agreement by the Board allowed for early access to funds for those members who had suddenly lost their jobs in the form of interest-free loans. A similar loan scheme was also agreed upon in response to the needs of those affected by TC Harold in April 2020. Almost 30,000 members took advantage of these interest-free loans.

A major milestone for VNPF was the Board approval of a new social benefits scheme, which is a new initiative designed to provide an additional safety net to our members in times of financial hardship, and will be launched in 2021.

Another momentous occasion was the signing of a Memorandum of Understanding (MoU) with the Ministry of Education for the implementation of the Members Education Support Scheme (MESS). This initiative facilitates members in supporting their dependents in furthering their education through tertiary study. The VNPF Board approved VT 300 million to put towards the scheme, which we hope will encourage students to further their education and enter new and technical careers.

The Board continues to monitor struggling VNPF investment projects and is working closely with the General Manager to rehabilitate and attempt to claw back lost funds.

GOVERNANCE RESTRUCTURE

The VNPF Board was pleased to established five new Board Committees in 2020 in order to better support the General Manager and senior management in decision-making processes. The five Board Committees are:

- HR and Remuneration Board Committee
- Discipline and Code of Conduct Board Committee
- Audit (Risk & Governance) Board Committee
- Investment Board Committee

Legislative changes to the VNPF Act were also approved by the Board and passed by the Council of Ministers in December 2020. One of the key changes to the legislation was to approve VNPF members over the age of 47 to apply to withdraw up to 50 per cent of their savings, with applications approved for 439 members within the first month of the launch of the new policy.

WHAT LIES AHEAD

The challenges faced in 2020 were unforeseeable and unprecedented. We were fortunate enough to have a strong team of management and staff behind us in order to stave off a potentially disastrous situation for VNPF. With serving our members' interests our primary goal, we will continue to battle through these difficult times by seizing every opportunity and limiting the damages as much as possible.

It is with great honour that I take this opportunity to thank the Government of the Republic of Vanuatu, in particular the Ministry of Finance and Economic Management, as well as the Ministry of Justice and Community Services for their guidance. A word of thanks is also owing to our regulator, the Reserve Bank of Vanuatu, and other Government departments such as the Vanuatu Foreign Investment Promotion Agency (VFIPA) and the Civil Status Department, who continue to provide valuable input into our governance processes.



Mr August Letlet
Chairman VNPF Board



4 | VNPF BOARD MEMBERS



MR LETLET AUGUST

CHAIRMAN

Chairman and Director-General of the Ministry of Finance and Economic Management, Mr August has more than 15 years' experience in Public Finance with the Vanuatu Government.



MR JACK MAITE

DIRECTOR

Employees' representative and Board member since 2016, Mr Maite is also Provincial School Improvement Coordinator at Shefa Education.



MR JOHN EZRA

DIRECTOR

Vanuatu Government representative Board member since 2018, Mr Ezra is also Principal Policy Analyst for the Prime Minister's Office (PMO).



MR WILLIE KARIE

DIRECTOR

Employers' representative and Board member since 2016, Mr Karie is also VNPF Chairman of the HR and Discipline Committee, and Innovation Adviser at Cloud Breeze Limited.



MR ANTOINE BOUDIER

DIRECTOR

Employers' representative and Board member since 2019, Mr Boudier is Director of Vate Electrics and President of the Vanuatu Association of Sports and National Olympic Committee since 2009.

5 | GM'S EXECUTIVE REPORT



A NEW CHAPTER IN AGRICULTURE

This year was an exceptionally challenging year for all. The effects of the COVID-19 global pandemic have been felt by all and will likely continue to affect us for a while longer.

Many employers were forced to close and hundreds of our members lost their jobs, affecting income for families and putting a strain on the VNPF as members were in dire need of accessing their savings. Tropical Cyclone Harold struck us while we were down and caused further hardship for thousands of people. While VNPF is primarily mandated as a source of financial security for retired workers, it is also a safety net for its members during times of crisis.

Despite these difficult times, our staff and customers have shown unprecedented resilience against uncertainty, and we have managed to limit the damages as best we can and protect our members' funds. In 2020, we also begin a new chapter with a focus on investing in and developing the agricultural sector, which we expect to be profitable for the Fund and beneficial to the workforce and the greater Vanuatu economy.

VT 2.09
BILLION

CONTRIBUTIONS
COLLECTED

VT 272
MILLION

INTEREST CREDITED TO
MEMBER ACCOUNTS

30,000
MEMBERS

HARDSHIP LOANS FOR
COVID-19 & TC HAROLD

“WE HAVE MANAGED TO
LIMIT THE DAMAGES
AS BEST WE CAN
TO PROTECT OUR
INVESTMENTS
AND OUR MEMBERS’
FUNDS”



WITHDRAWAL AND LOAN SCHEME SUCCESS

Many of our members suffered severely from COVID-19 related loss of employment and the destruction caused by TC Harold. VNPF was able to allow those who needed early access to their funds to do so through interest-free loans from their savings that would help them with their immediate expenses without jeopardising their retirement savings in the long run. 27,092 members took out COVID-19 Hardship Loans and 2,227 members took out TC Harold Hardship Loans amounting to a total of VT 1.9 billion. There was also considerable uptake of the Age 47 Partial Withdrawal Scheme, with 439 members withdrawing up to 50 per cent of their savings in single lump sums amounting to VT 178,717,868. Despite large payouts of funds, the Members' Fund grew by VT 236 million in 2020.

CONTRIBUTIONS ARE STABLE

Contributions received for the year 2020 amounted to VT 2.09 billion, which was VT 259 million less than the contributions collected in 2019 and short of the forecasted VT 2.7 billion. Although we were not able to reach our target this year, we are pleased that collections are relatively stable and have not been affected as much as we feared considering the damaging effects of the COVID-19 global pandemic on employment and the greater economy.

There was a decrease in 2020 net profit, which was due to the decrease in overall revenue generated and a rise in operational costs such as an increase in staff and other obligations to ensure services were consistently rendered to the financial members and stakeholders.



LEFT: VNPF Board members gather to discuss and sign an agreement.

NEW INVESTMENT OPPORTUNITIES

We achieved many of our goals this year, which made 2020 a positive year overall. A new agreement with Nasi Tuan in Tanna marks the beginning of VNPF's investment and development of the agricultural sector in Vanuatu. Our partnership with the National Bank of Vanuatu (NBV) was strengthened when VNPF increased its share in the company, from 15 per cent to 56 per cent. We were also delighted to partner with NBV in the launch of a low-cost housing initiative at the Banian Sub-Division in Santo, which will provide accessible, affordable and sustainable housing opportunities to VNPF members under an NBV loan scheme.

VNPF also successfully leased the VNPF-owned Haos blong Vanuatu building in Noumea to the Vanuatu Government, which will rent the building to Vanuatu's Consulate in New Caledonia from January 2021, in addition to other tenants. A new loan arrangement with Interchange Ltd (ICL), the company that owns the country's only international submarine cable, will see VNPF take a 37.5 per cent stake in the company and increased financial returns for the fund.

GROWING VOLUNTARY MEMBERSHIP

With the launch of VNPF Mobile Services in 2020, our Voluntary Membership is growing rapidly and self-employed workers are beginning to save for their retirement. VNPF now has Mobile Services buses equipped with VNPF services visiting rural villages in Efate and Santo to help farmers, fishermen, market vendors and other informal sector workers to register and even print their new VNPF ID cards on the spot. Our Voluntary Members are now also able to access the same benefits offered to our other members, including the Special Death Benefit, loans and annual interest on their savings.

IMPROVED EMPLOYER COMPLIANCE

While contribution collections have decreased due to the effects of the COVID-19 pandemic, employer compliance has improved, which is reflected in the decreased amount of surcharges collected and the number of cases brought against employers for contributions avoidance. There was a 56 per cent decrease in surcharges between 2019 and 2020, which may also be contributed to employer compliance, and only 10 cases were brought against employers. On the other hand, some employers have been forced to close, which has affected overall collections, and we expect this trend to continue into 2021.

LOOKING AHEAD

We were faced with some brutal and unprecedented challenges in 2020. Due to the mass job losses caused by the halt in tourism in Vanuatu, many of our members have been returning to a subsistence lifestyle and turning to seasonal work in Australia and New Zealand. VNPf is encouraging these workers to register as Voluntary Members so that they may keep their superannuation savings in Vanuatu. We are hopeful that collections from seasonal workers may bridge the gap until the Vanuatu border opens again, and investment trickle backs into the country and employment levels restored.



Mr Parmod Achary
VNPf General Manager



6 | OUR GOVERNANCE

BOARD COMPOSITION

The Board of the Vanuatu National Provident Fund (VNPf) is comprised of two Government representatives, two employer representatives, two employee representatives and the VNPf General Manager (ex-officio).

Various committees within the Board structure oversee specific areas of decision making, including the Human Resources and Remuneration Committee, the Investment Committee, the Tender Committee, the Audit, Risk and Governance Committee, and the Disciplinary and Code of Conduct Committee.

BOARD FEES & ALLOWANCES

According to the VNPf Act, members of the Board other than the General Manager shall be paid

such remuneration and such travelling and subsistence allowance as may be fixed by the Board with the approval of the Minister of Finance and Economic Management.

A member must be paid a sitting allowance of VT 20,000 per day or part day for attending meetings of the Board.

Board costs increased during the year 2020 due to an expansion of VNPf investment into the agricultural sector and mobile services in the islands, which required meetings and visits to these areas.

BOARD MEETINGS

According to the VNPf Act, Board meetings shall be held at least four times per year but not exceed once per month. Eight Board meetings were held in 2019.

| ITEM | 2020 | 2019 | 2018 |
|---------------------|----------------|---------------|---------------|
| BOARD MEETING COUNT | 12 | 8 | 10 |
| BOARD COSTS | VUV 13,966,000 | VUV 2,268,000 | VUV 3,750,000 |

TABLE 6.1: BOARD MEETINGS AND COSTS 2020



LEGISLATION

The Vanuatu National Provident Fund (VNPF) is governed by the VNPF Act CAP 189, which details:

- Functions and powers of the Board
- Financial provisions and obligations
- Employee and employer entitlements and obligations
- Powers of inspectors and officers
- Regulations and penalties

According to the Act, the VNPF is obliged to report to the Minister of Finance through its Board of Directors and is regulated by the Reserve Bank of Vanuatu.

COMPLIANCE MANAGEMENT

The Fund is obliged to uphold and comply with the VNPF Act, internal policies and procedures, regulation requirements and all other relevant laws that govern the Republic of Vanuatu in all business dealings.

The Board appoints an independent and qualified auditor who is responsible for auditing the accounts of the Fund on an annual basis under a three-year contract. The 2020 audit was carried out by Fiji-based accounting firm KPMG.

The Minister ensures that a copy of the annual report, audited accounts and audit report are laid before Parliament.

ETHICAL STANDARDS

The Fund ensures that best practice organisational principles, practices and norms are maintained and applied at all levels of management, including the Board of Trustees, management team and staff, and towards financial members and stakeholders.

Internal policies and procedures that govern the Fund include the Board Code of Conduct, VNPF General Orders, Staff Code of Conduct and the Whistle Blowing Policy.

OUR GOVERNANCE

PRUDENTIAL SUPERVISION

Under the Reserve Bank of Vanuatu (RBV) Prudential Guidelines, the Fund submits prudential return to the RBV on a quarterly basis, including details about the Fund's financial position and performance, directly held investment, derivative financial instruments and the exposure concentration of the Fund.

The RBV also conducts annual reviews and onsite visits on the Fund's business dealings and operations and, for any issues identified, submits recommendations to rectify the issues.

RISK MANAGEMENT

The Fund's objectives include taking on a strategic and consistent approach to managing its risks through stringent

risk management and associated activities that assist in safeguarding assets and seeks to avoid potential adverse effects on the Fund's financial performance, such as market, credit and liquidity risks. The Board and Board Audit Committee are responsible for the risk management, monitoring and reporting functions, supported by the VNPF 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.

According to the VNPF Investment Framework, investment must be allocated within a certain range between asset categories to ensure a safer and more secure investment portfolio, including Vatu liquidity, offshore investment, prudent diversification and minimum rates of returns on sources of investment.

| LOCATION | BENCHMARK | RANGE (%) | ASSET CLASSES |
|----------|-----------|-----------|---|
| VANUATU | 0.8 | 70-90 | EQUITY FIXED INTEREST & CASH COMMERCIAL LOANS PROPERTY INFRASTRUCTURE |
| OFFSHORE | 0.2 | 10-30 | EQUITY FIXED INTEREST |

TABLE 6.2: VNPF INVESTMENT SPREAD



FINANCE,

7 | PROPERTY & INVESTMENTS

VNPF HAS A VARIETY OF INVESTMENT PORTFOLIOS TO ENSURE SAFE INVESTMENT OF FUNDS WITH A HIGH PROBABILITY OF RETURN.

VNPF's investment portfolio is comprised of term deposits, Government bonds and RBV notes, properties, commercial loans, equities, FX term deposits, cash and offshore investments. The total value of investment held by the Fund is VT 20.2 billion in 2020. The largest portion of the Fund's investments is in fixed interest and equities, which made up 37 per cent and 31 per cent of total investment in 2020, respectively.

| INVESTMENT | INVESTMENT VALUE 2020 | %TOTAL INVESTMENT |
|--------------------------------|-----------------------|-------------------|
| TERM DEPOSITS | VUV 1,132,273,000 | 6 |
| GOVERNMENT BONDS AND RBV NOTES | VUV 4,762,440,000 | 23 |
| PROPERTIES | VUV 3,783,358,000 | 19 |
| COMMERCIAL LOANS | VUV 2,846,504,000 | 14 |
| EQUITIES | VUV 6,252,906,000 | 31 |
| FX TERM DEPOSITS | VUV 442,999,000 | 2 |
| CASH | VUV 760,180,000 | 4 |
| OFFSHORE INVESTMENTS | VUV 310,583,000 | 2 |
| TOTAL | VUV 20,291,243,000 | 100 |

TABLE 7.1: INVESTMENT VALUES 2020

THE OVERALL NET INCOME FOR 2020 WAS VT 338 MILLION, REPRESENTING A LOSS COMPARED TO 2019 DUE TO THE COVID-19 PANDEMIC.

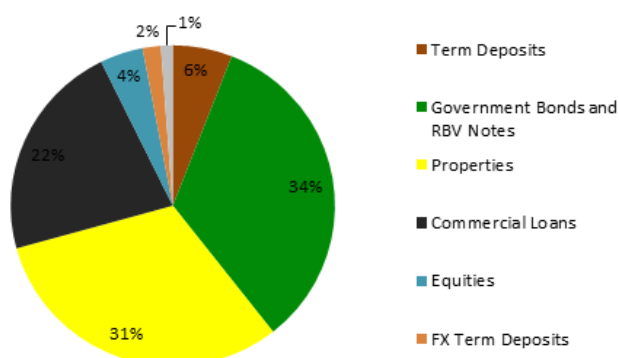


FIGURE 7.1: ACTUAL INVESTMENT SPREAD 2020

SOURCES OF INVESTMENT

VNPF's investment portfolio is comprised of term deposits, Government bonds and RBV notes, properties, commercial loans, equities, FX term deposits, cash and offshore investments. Total investment amounted to VT 20.3 billion in 2020, including VT 605 million in fixed assets, VT 7.4 billion in fixed interest (Government bonds and term deposits), and VT 6.3 billion in equity. Total current assets are valued at VT 1.4 billion.

SOURCES OF INCOME

Interest on Government bonds, commercial loans and dividends on shares made up 67 per cent of total income generated in 2020.

The overall net income for 2020 was VT *****, representing an increase of VT ***** compared to 2019. Other revenue in 2020 comprised mostly of Member Financial Services Limited (MFSL) shared services, guaranteed fees, sales of fixed assets and sundry income.

Interest

Interest income is generated from term deposits, Government bonds, foreign currency term deposits, commercial loans, collateral interest and call accounts. Interest income in 2020 was less than in 2019 due to a decrease in term deposit interest rates, which is less than 7 per cent.

Equities

VNPF has shares in several Vanuatu-based entities that have had mixed performances in recent years. With a 49 per cent share, UNELCO is a consistent performer and pays regular dividends. The Interchange Limited (ICL) loan agreement was adjusted in 2020 so that the loan was transferred from ANZ Bank to VNPF. The first dividend of USD 187,500 was paid in 2020.

Nasama Resort has not been yielding any dividends due to the resort being closed in response to the COVID-19 pandemic. The National Bank of Vanuatu (NBV), VNBR (Centrepoint building) and Bay Development were all considered as non-performing as they did not pay dividends in 2020.

The balance of equities remains stable at VT 6,269,878,873.

| INVESTMENT | VNPF SHARE | EQUITY VALUE |
|----------------------------|-----------------|-------------------|
| UNELCO | 40% | VUV 792,070,399 |
| NBV | 56% | VUV 1,156,736,201 |
| BAY DEVELOPMENT | 50% | VUV 107,429,000 |
| INTERCHANGE LIMITED | 37.5% | VUV 1,199,886,156 |
| VNBR LIMITED (CENTREPOINT) | 50% | VUV 417,557,500 |
| NASAMA RESORT | 6 UNITS | VUV 131,600,000 |
| UNIT TRUST OF FIJI | 2,399,743 UNITS | VUV 297,251,705 |
| HAOS BLONG VANUATU, NC | 100% | VUV 121,016,104 |
| PORT VILA PRIVATE HOSPITAL | 49% | VUV 25,725,000 |
| TOTAL | | VUV 4,249,272,065 |

TABLE 7.2: VNPF EQUITY 2020

FINANCE, PROPERTY & INVESTMENTS

Property

The Vanuatu National Provident Fund (VNPF) owns many properties locally in Efate and Santo, and overseas in New Caledonia, which are rented out to yield rental income. The total value of VNPF properties has continued to grow in recent years. In 2020, the property portfolio stands at VT 3.6 billion, which represents an increase of 14.6 per cent compared to 2019, and a 20.8 per cent increase compared to 2018.

Net property income increased in 2020 compared to 2019 due to a rise in rental income received in 2020 was VT 216 million. The income earned on property rentals during 2019 amounted to VT 164 million and VT 168 million in 2018.

The percentage of return on rental income to the value of investment on properties is almost 3 per cent in 2019. There was a slight dip in rental income in June due to tenants moving out from Conquistador, and there were CPI increases for some tenants occupying VNPF properties.

Rental income then increased when the Japanese Embassy rented within the Air Vanuatu Building, and again when Vodafone moved into the Ex-Post Office building.

Some tenants had a reduction in rent due to COVID-19 related financial hardship, however this reduction ended in September 2020 and rental income levels returned to normal.

Subsidiaries

Subsidiaries include those companies that are 100 per cent owned by VNPF, including Bouffa Farms and Vanuatu Property Holdings (VPH). In 2020, Member Financial

| ITEM | 2020 | 2019 | 2018 |
|------------------|-------------------|-------------------|-------------------|
| PROPERTIES VALUE | VUV 3,783,358,000 | VUV 3,137,413,224 | VUV 2,976,301,403 |

TABLE 7.3: TOTAL PROPERTIES VALUE

Services Limited (MFSL) became a branch of VNPF and is no longer considered a subsidiary.

Bouffa Farms have continually incurred losses since their purchase in 2009. After generating some revenue in 2019 after leasing to Tropical Plantation Limited, poor performance of the farming operation led to the lease agreement being terminated in 2020.

Vanuatu Property Holdings (VPH) consists of the Wilco properties in Port Vila and Luganville, and continues to yield consistent rental income.

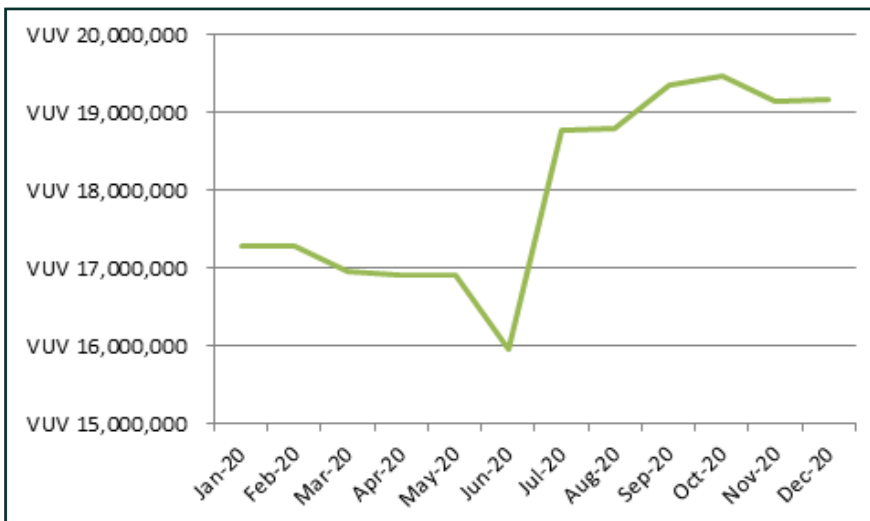


FIGURE 7.2: RENTAL INCOME BY MONTH 2020

| YEAR ACQUIRED | PROPERTY | LOCATION | ACQUISITION COST | 2020 VALUE | ↕ |
|---------------|----------------------------|-----------|------------------|-----------------|---|
| 2007 | AUSTRALIAN HIGH COMMISSION | PORT VILA | VUV 523,825,006 | VUV 497,502,938 | ↘ |
| 2009 | AIR VANUATU BUILDING | PORT VILA | VUV 328,843,118 | VUV 483,936,040 | ↗ |
| 2011 | NATIONAL BANK OF VANUATU | PORT VILA | VUV 746,455,977 | VUV 485,123,115 | ↘ |
| 1992 | HEAD OFFICE BUILDING | PORT VILA | VUV 469,942,034 | VUV 55,639,180 | ↘ |
| 1995 | VNPF SANTO OFFICE | SANTO | VUV 386,411,473 | VUV 40,401,036 | ↘ |
| 2013 | CLUB VANUATU | PORT VILA | VUV 315,650,357 | VUV 355,980,119 | ↗ |
| 2013 | PEKOA SANTO (LAND) | SANTO | VUV 9,200,150 | VUV 14,500,000 | ↗ |
| 2013 | NO.2 LAGOON | PORT VILA | VUV 40,030,134 | VUV 41,662,329 | ↗ |
| 2013 | CUSTOMS (LAND) | PORT VILA | VUV 60,482,417 | VUV 725,000,000 | ↗ |
| 2013 | CLAIRE DORIC (LAND) | SANTO | VUV 46,871,063 | VUV 46,000,000 | ↘ |
| 2013 | SPOL EFATE (LAND) | PORT VILA | VUV 57,812,500 | VUV 219,000,000 | ↗ |
| 2013 | MILAI SPOL SANTO (LAND) | SANTO | VUV 239,577,400 | -VUV 10,901,727 | ↘ |
| 2010 | ETAS LAND (LAND) | PORT VILA | VUV 3,000,000 | VUV 3,000,000 | — |
| 2013 | BANIAN (LAND) | SANTO | VUV 184,888,060 | VUV 196,900,437 | ↗ |
| 2017 | TVL POST OFFICE BUILDING | PORT VILA | VUV 258,552,239 | VUV 333,185,486 | ↗ |
| 2018 | CONQUISTADOR | PORT VILA | VUV 162,000,000 | VUV 175,616,401 | ↗ |
| 2019 | NOUMEA PROPERTY | NOUMEA | VUV 121,016,104 | VUV 121,016,104 | — |

TABLE 7.4: VNPF PROPERTIES AND PROPERTY VALUES

Commercial Loans

The VNPF had various active commercial loans in 2020, including to Air Vanuatu (Operations) Limited (AVOL), Telecom Vanuatu Limited (TVL), Member Financial Services Limited (MFSL) and Interchange Limited (ICL).

Interchange previously had a loan with ANZ Bank Vanuatu that was guaranteed by the VNPF. The loan arrangement was re-negotiated in 2020 and is now a direct loan agreement between Interchange and VNPF.

| BORROWER | LOAN VALUE | TERM | INTEREST RATE | INTEREST PAID 2020 |
|----------|-----------------|---------------------|---------------|--------------------|
| AVOL | VUV 986,526,575 | 10 | 6.75% | VUV 55,010,028 |
| TVL | VUV 800,000,000 | 7 | 6.15% | VUV 52,208,215 |
| MFSL | VUV 500,000,000 | 3 (+2 YEARS' GRACE) | 4.00% | VUV 6,425,120 |
| ICL | VUV 931,367,408 | 10 | 5% | VUV 13,314,554 |

TABLE 7.5: CURRENT COMMERCIAL LOANS



8 OPERATIONS

MEMBERS

Member numbers have been growing steadily in recent years, with active members currently at 80,501 of which 4,894 are new members since 2020.

| MEMBERS | 2020 | 2019 | 2018 |
|-------------|--------|--------|--------|
| NEW MEMBERS | 4,894 | 5,568 | 5,390 |
| TOTAL | 80,501 | 75,984 | 70,416 |

TABLE 8.1: NEW MEMBERS 2020

The number of male members vastly outweighs the number of female members at 47,037 and 28,947 members, respectively. As a result, males hold 67 per cent more VNPf savings than females.

| GENDER | MEMBER COUNT | VNPf BALANCE 2020 |
|--------|--------------|--------------------|
| FEMALE | 28,947 | VUV 10,745,990,601 |
| MALE | 47,037 | VUV 17,924,819,948 |

TABLE 8.2: TOTAL MEMBER BALANCES BY GENDER 2020

The biggest age group amongst members is 31-40 years of age at 20,862 members. However the age group with the most savings is those aged 41-50 years, who together have VT 8,757,438,163. Overall savings decreased in 2020 due to the introduction of the Age 47 Partial Withdrawal Scheme.

| AGE | MEMBER COUNT | VNPf BALANCE 2020 |
|-------|--------------|-------------------|
| 14-20 | 977 | VUV 17,909,240 |
| 21-30 | 16,623 | VUV 1,677,749,134 |
| 31-40 | 20,286 | VUV 6,600,681,019 |
| 41-50 | 17,597 | VUV 8,757,438,163 |
| 51-60 | 10,253 | VUV 4,097,755,778 |
| 61-70 | 3,338 | VUV 389,555,741 |
| 71-80 | 974 | VUV 50,493,989 |
| 80+ | 174 | VUV 7,017,485 |

TABLE 8.3: TOTAL MEMBER BALANCES BY AGE GROUP 2020





INFORMAL SECTOR

With 70-80 per cent of the population of Vanuatu living a subsistence lifestyle, a large proportion of the population has no social security. VNPf therefore embarked on a new project in 2019 to create a new scheme in which self-employed workers such as market vendors, fishermen, kava bar owners and store owners, could join VNPf as voluntary contributors. This also includes seasonal workers who work overseas.

Voluntary membership will allow for informal sector workers to save for their retirement and gain them access to the same VNPf benefits afforded by other members.

There are 1,521 voluntary members registered so far and VT 11,521,215 in contributions collected since the Informal Sector Unit was established in 2019. The amount collected in 2020 was less than in 2019 due to financial hardship experienced by members, likely caused by COVID-19

| ITEM | 2020 | 2019 |
|------------------------|---------------|---------------|
| VOLUNTARY MEMBER COUNT | 1,521 | 888 |
| CONTRIBUTIONS | VUV 5,318,537 | VUV 6,201,678 |

TABLE 8.4: VOLUNTARY MEMBERS AND CONTRIBUTIONS

Mobile Services

From 2020, VNPf Services are now being provided from two VNPf-branded buses, which are connected to VNPf systems and tour rural villages in Efate and Santo. Voluntary Members can continue to make contributions

into their VNPf accounts by visiting the Mobile Services bus.

Voluntary Members can also access VNPf benefits such as annual interest, loans, Special Death Benefit and a new social benefit scheme to be launched in 2021.

Seasonal Workers

With the steady increase in seasonal workers visiting New Zealand to work, VNPf has reached an agreement with the New Zealand Government regarding the workers' superannuation, which is normally deducted from their salaries if they do not opt out. Seasonal workers going to New Zealand can now choose to register as Voluntary Members with VNPf before they leave Vanuatu so that all superannuation funds will be deposited into their VNPf accounts and in Vatu currency. A similar agreement is being negotiated with the Australian Government.

Central Market Branch

A new VNPf branch was opened at the Port Vila Central Market to encourage market vendors to register and make monthly voluntary contributions into their VNPf accounts.

Regular members and employers can also visit this branch to access VNPf services. VNPf staff conduct regular awareness activities with vendors at the Central Market to help educate about the importance of saving and how voluntary members can access VNPf member benefits.



MOBILE SERVICES



CONTRIBUTIONS

Contributions collection is growing owing to a renewed focus on enforcement and collecting unpaid contributions. In 2020, VT 2,350,505,518 was collected, representing a 16 per cent decrease on collections from 2019 but a 6 per cent increase from 2018 collections.

The decrease in 2020 collections can be directly contributed to the widespread loss of employment experienced due to the COVID-19 pandemic.

Surcharges collected in 2020 amounted to VT 27,958,942 which was less than surcharges collected in 2019 at VT 63,752,284 and is likely a reflection of increased employer follow-ups and waiving of surcharges as a way of providing some financial relief to businesses.

The total value of VNPF assets is greater than the members' fund, indicating that if the Fund were to liquidate, it will be able to pay out its members' savings.

| COLLECTIONS | 2020 | 2019 | 2018 |
|---------------|-------------------|-------------------|-------------------|
| CONTRIBUTIONS | VUV 2,094,540,000 | VUV 2,389,352,103 | VUV 2,227,753,475 |
| SURCHARGES | VUV 27,958,942 | VUV 63,752,284 | VUV 65,321,417 |

TABLE 8.5: CONTRIBUTIONS AND SURCHARGES COLLECTED





OPENING HOURS
MONDAY TO FRIDAY
From 8.00 am to 3.00 pm
WALK-INS WELCOME

**VANUATU
NATIONAL
PROVIDENT
FUND**



Vanuatu National
Provident Fund

NEW BRANCH
PORT VILA CENTRAL MARKET

CUSTOMER SERVICE

VNPF provides customer service by various means, including in person, telephone, email and Facebook. The most sought-after services were for the printing of member statements, ID card requests and member withdrawal application forms.

| CUSTOMER SERVICE | MEMBER COUNT 2020 |
|------------------------------|----------------------|
| PRINT OF MEMBER STATEMENT | 7,675 |
| ID CARD REQUEST | 3,804 |
| MEMBER WITHDRAWAL FORM | 2,179 |
| NEW MEMBER REGISTRATION | 1,723 |
| B37 | 1,623 |
| CHANGE OF MEMBER DETAILS | 1,034 |
| ASSISTANCE WITH FORMS | 972 |
| FOLLOW UP MEMBER APPLICATION | 876 |
| FOLLOW UP ON WITHDRAWAL | 746 |
| OTHER ENQUIRIES | 3,631 |

TABLE 8.6: CUSTOMER SERVICES 2020

A total of VT 1,057,983,511 was withdrawn by members from their VNPF accounts in 2020.

Specifically, 912 members made full withdrawals of their savings upon reaching retirement age, which amounted to VT 572,986,751.

Partial withdrawals were made by 138 members upon reaching retirement age, amounting to VT 93,487,039. These members were continuing to work beyond retirement age.

Upon emigrating from Vanuatu permanently, 76 members withdrew all of their savings, representing VT 77,300,256.

Withdrawals due to medical reasons were made by 55 members and totalled VT 31,777,450.

VT 103,714,147 was withdrawn by 196 members due to member deaths in 2020.

WITHDRAWALS

According to the VNPF Act, members may withdraw from their VNPF accounts for any the following reasons:

- Old or retirement age (full or partial)
- Immigration
- Medical (physically or mentally incapable of engaging in employment)
- Death

MEMBER LOANS

Member Financial Services Limited (MFSL) was a subsidiary company until it was absorbed into VNPF's organisational structure in 2020. Many of VNPF's members and employers experienced extreme financial hardship due to TC Harold and the COVID-19 pandemic in 2020, leading to mass jobs losses, especially in the tourism sector, which led to a sharp rise in the number of member loans. MFSL loans are guaranteed by the VNPF savings of members.

| TYPE | WITHDRAWALS 2020 | WITHDRAWAL VALUE 2020 | 2019 | 2018 |
|-------------------|------------------|-----------------------|-----------------|-----------------|
| MEDICAL | 55 | VUV 31,777,450 | VUV 51,404,577 | VUV 47,599,967 |
| DEATH | 196 | VUV 103,714,147 | VUV 43,393,905 | VUV 107,872,325 |
| IMMIGRATION | 76 | VUV 77,300,256 | VUV 115,232,260 | VUV 79,037,895 |
| OLD AGE (PARTIAL) | 138 | VUV 93,487,039 | VUV 63,323,415 | VUV 49,414,671 |
| OLD AGE | 912 | VUV 572,986,751 | VUV 667,791,997 | VUV 643,933,516 |
| AGE 47 | 439 | VUV 178,717,868 | - | - |
| TOTAL | 1816 | VUV 1,057,983,511 | VUV 941,146,154 | VUV 927,838,374 |

TABLE 8.7: MEMBER WITHDRAWALS BY TYPE

OPERATIONS

EMPLOYERS

VNPF offered members interest-free loans to provide immediate financial relief following TC Harold and at the beginning of the COVID-19 crisis. 27,092 members took advantage of the COVID-19 Hardship loan, while 2,227 members took out the TC Harold Hardship loan.

The Members Education Support Scheme (MESS) is another loan scheme, which provides immediate financial assistance to VNPF members for educational purposes through an MoU between VNPF, MFSL and the Ministry of Education and Training. It allows parents who are VNPF members to finance their children's education, using their retirement savings as a loan guarantee.

In total, members took out 3,789 loans against their VNPF savings in 2020, not including those in relation to COVID-19 and TC Harold. Loans are typically taken out to help pay for school fees, housing materials, personal expenses and traditional ceremonies, such as weddings and funerals. Currently VT 1,374,416,415 is outstanding in member loans.

The current number of active employers is 7,768 including 3,298 new employers registered in 2020. The spike in new registrations in 2020 is a reflection of a new requirement of the Department of Customs and Inland Revenue (DCIR) that businesses must register with VNPF in order to renew business licenses and be eligible for the COVID-19 Government Stimulus Package.

| EMPLOYERS | 2020 | 2019 | 2018 |
|---------------|-------|-------|-------|
| NEW EMPLOYERS | 3,298 | 1,136 | 935 |
| TOTAL | 7,768 | 4,488 | 3,475 |

TABLE 8.9: EMPLOYER COUNT BY YEAR

INSPECTIONS

More than 1,000 employer inspections were carried out and 1,361 employer phone calls were made in 2019

to ensure contributions were paid. The Santo branch conducted 411 inspections in 2019. VT ***** was recovered by legal means in 2020.

| ITEM | 2020 | 2019 | 2018 |
|-----------------|-----------------|-----------------|-----------------|
| NEW LOANS | 3,789 | 4,022 | 5,158 |
| NEW LOANS VALUE | VUV 498,372,699 | VUV 499,489,378 | VUV 576,596,346 |
| INTEREST PAID | VUV 49,258,485 | VUV 59,904,870 | VUV 59,966,395 |

TABLE 8.8: MEMBER LOANS, VALUES AND INTEREST PAID



9 | CORPORATE SERVICES

HUMAN RESOURCES

VNPF has a total of 147 full-time and casual staff across the three branches. Seventeen new staff members were hired in 2020. As part of the action plan to tackle some of VNPF's major challenges, three new Executive Management positions were created to oversee Finance, Investment and Property, Corporate Services and Operations.

PROFESSIONAL DEVELOPMENT

VNPF invests in staff trainings in order to develop expertise and increase staff professional capacity in their respective roles. Due to the COVID-19 global pandemic, all planned overseas trainings were unable to go ahead, however in-house refresher trainings were conducted to maintain skillsets and continue upskilling staff.

| STAFF COUNT | SEMINAR | LOCATION |
|-------------|---|----------|
| 4 | RED MONEY TRAINING | VANUATU |
| 1 | IFRS UPDATES & IMPACT OF COVID-19 ON FINANCIAL STATEMENTS | VANUATU |
| 1 | PROCUREMENT | ONLINE |

TABLE 9.1: STAFF TRAININGS 2020

MARKETING & COMMUNICATIONS

This department works to maintain VNPF's positive image to members, stakeholders, shareholders and the general public. It supports other departments with public awareness through the creation of brochures, flyers, posters and banners, and managing media relations.

Social media was a key communications platform in 2020 for members who were awaiting hardship loans after TC Harold and at the beginning of the COVID-19 crisis.



 | Q&A

Q. What is the Members Education Support Scheme (MESS)?
 A. MESS provides immediate financial assistance to VNPf members for educational purposes through an MoU between VNPf, Members Financial Services Limited (MFSL) and the Ministry of Education and Training. It is a loan scheme, assisting parents who are VNPf members to finance their children's education based on three years of studies, renewable. The loan must be repaid over five years at an interest rate of 4 per cent, however the interest rate may vary depending on the loan amount. If the loan is not repaid in time, or the student ceases study, legal action may be taken to recover any money owed.

Stay up to date with the VNPf Q&A every Friday in the Daily Post. Got a question? Please submit it to media@vnpf.com.vu

Q. Qu'est-ce que le Programme de Soutien à l'Éducation des Membres (MESS)?
 R. MESS fournit une aide financière immédiate aux membres de la CNPV à des fins éducatives par le biais d'un Protocole d'Accord entre la CNPV, Members Financial Services Limited (MFSL) et le Ministère de l'Éducation et de la Formation. Il s'agit d'un système de prêt qui aide les parents membres de la CNPV à financer l'éducation de leurs enfants sur la base de trois années d'études renouvelables. Le prêt doit être remboursé sur cinq ans à un taux d'intérêt de 4 pour cent, mais le taux d'intérêt peut varier en fonction du montant du prêt. Si le prêt n'est pas remboursé à temps ou si l'étudiant cesse ses études, une action en justice peut être intentée pour recouvrer toute somme due.

Restez à jour avec les questions et réponses VNPf tous les vendredis dans le Daily Post. Avez-vous une question? Veuillez le soumettre à media@vnpf.com.vu

Q. Wanem emi Mema Edukesen Sapot Skim (MESS)?
 A. MESS emi provaedem kwik faenensol asistens long VNPf Mema long pepes blong sapotem edukesen blong olgeta tru long wan MOU bitwin VNPf, Mema Faenensol Sevis Limitet (MFSL) mo Ministri blong Edukesen mo Trening. Emi wan lon skim we i asistim ol peren we oli memba blong VNPf blong faenensem stadi blong ol pikinini blong olgeta long 3 yia, mo we yu save rinium. Yu mas pem bak lon long 5 yia long wan intres ret blong 4%, be intres ret i save jenj depending long amaan blong lon. Sapos yu no pem lon long taem, o sapos studen i stop blong stadi, bae yu save pas long kot blong pem evri mari we yu owem.

Bae yu stap apdeit wetem VNPf Q&A evri Fraedei long Daily Post. Yu git wan kwesten? Yu sabmitim i kam long media@vnpf.com.vu



ABOVE: VNPf GENERAL MANAGER AND RADIO HOST KIZZY KALSAKAU

Facebook was particularly helpful in communications when more than 27,000 member loan payments were ready for collection. Lists of identification numbers of cheques were also posted in various locations around Port Vila, while lists for outer island branches were developed and sent directly to the branches for local dissemination. Calls were made to around 7,000 members over the phone, while 200 queries were received over email and

1,000 queries over the Facebook Messenger application.

Through a new partnership with the Daily Post newspaper, the VNPf now has a weekly question and answer (Q&A) column printed in English, French and Bislama, answering common questions asked by the general public. This column is also posted on the Vanuatu National Provident Fund and VNPf Voice Facebook pages. The General Manager or other VNPf staff member make weekly appearances on Buzz Radio 96.3FM to discuss current affairs, new products and issues around the VNPf.

Old brochures and forms were rebranded in 2020. The marketing team assisted in providing approximately 3,000 brochures and support for the operations team during awareness activities, including creating awareness presentations on specific topics and taking photos of



| AWARENESS | 2020 COUNT |
|-------------------------|------------|
| FORUMS | 7 |
| PUBLIC NOTICES | 48 |
| EXPRESSIONS OF INTEREST | 7 |
| PRESS RELEASES | 14 |
| JOB VACANCY NOTICES | 27 |

TABLE 9.2: AWARENESS ACTIVITIES 2020

ICT

The members and employers online portal was launched in 2020, allowing VNPF customers access to many services online and saving time and money spent visiting the VNPF office in person.

Visits to the new VNPF website have grown 167 per cent between 2019 and 2020. In 2020, 45,423 members and 42 employers visited the online portal.

| ACTIVITY | 2020 | 2019 |
|-----------------|--------|-------|
| VNPF WEBSITE | 13,847 | 5,182 |
| MEMBERS KIOSK | 45,423 | - |
| EMPLOYER PORTAL | 42 | - |

TABLE 9.3: ICT ACTIVITIES

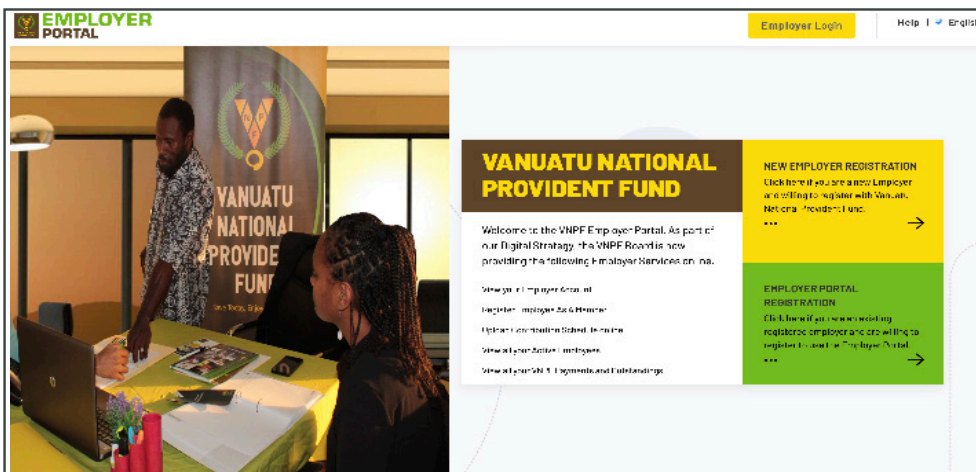


FIGURE 9.1: VNPF ONLINE EMPLOYER PORTAL

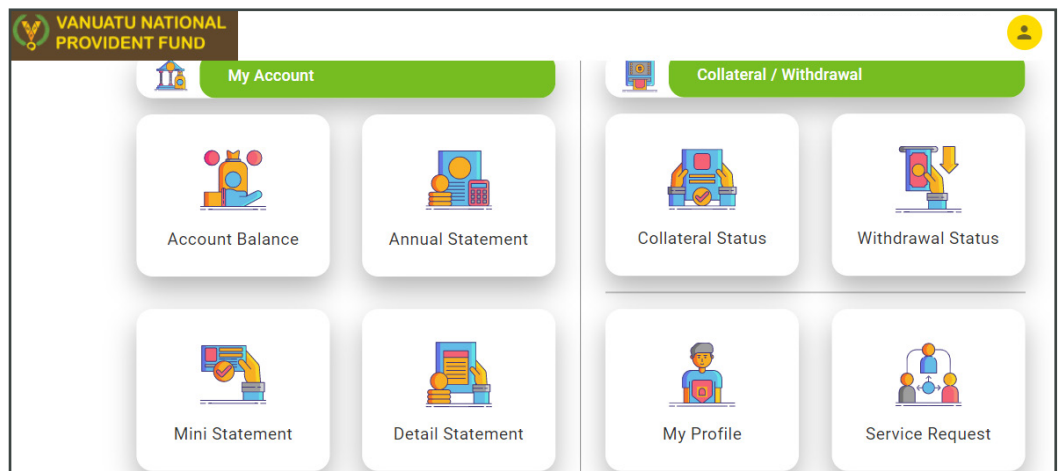


FIGURE 9.2: VNPF ONLINE MEMBER PORTAL

10 | BRANCHES

The Vanuatu National Provident Fund (VNPF) currently has branches operating in Santo, Tanna and Malekula to serve members and employers residing in rural provinces. These branches provide the following services to their customers:

- Member services
- Employer services
- Nominated beneficiary updates
- Processing of ID cards
- Withdrawal applications
- MFSL loan applications

Withdrawal and loan applications through MFSL can be processed at the various branch locations, with payments arranged by the VNPF Head Office in Port Vila and the Santo branch office.

With the expansion of VNPF services into the informal sector, outer island branches have increased in importance as most of the Vanuatu population resides in the rural islands and lives a subsistence lifestyle. There was therefore a strong focus in 2020 on awareness activities in rural villages in the outer islands around voluntary membership with VNPF for informal sector workers such as farmers, fishermen, market vendors, drivers, store owners and others who are not formally employed.

Due to the small VNPF teams operating in the rural branches, some operational activities were affected in 2020 due to the mass loan payouts in response to TC Harold and the COVID-19 pandemic, which required maximum staff capacity as applications needed to be processed quickly. TC Harold also caused some damage to systems at the Santo branch, which also affected operations temporarily.

RIGHT: SANTO BRANCH
TEAM



BRANCHES

MEMBER RELATIONS

The Santo, Malekula and Tanna branches have a growing membership, which has led to increasing contributions collected at each branch. In 2020, there was a strong push to encourage informal sector workers to join, with new voluntary registrations amounting to 30 per cent of the total of new regular member registrations.

Contributions and surcharges collection are managed by individual branches. In 2020, there was a particular focus on Mobile Services in remote locations, which resulted in elevated levels of informal contributions.

Informal Sector

A new VNPf Mobile Services bus was purchased for the Santo branch, enabling VNPf staff to visit villages around Santo to conduct awareness and register new members and other VNPf services to existing members and employers. The bus is expected to make regular visits to various villages on the island so that Voluntary Members can continue to make contributions into their retirement savings accounts.

Member Loans

Through Member Financial Services Limited (MFSL), the Santo branch processed 130 loans for members in 2020. Malekula and Tanna branches processed 92 and 86 applications, respectively. Payments for loans are arranged through the VNPf Head Office in Port Vila.

The VNPf Santo branch increased its financial capability in time for the COVID-19 and TC Harold Hardship Loans by developing the ability to produce cheques. This allowed for quicker processing of member loans and withdrawals.

Awareness Activities

The VNPf Santo branch manages various kinds of awareness raising activities using media such as Facebook, TV, radio, SMS and public awareness campaigns at different locations. Two awareness sessions were held in Santo and one on Tanna in 2020 to promote the new Employers' Portal and Members' Kiosk to help encourage more members and employers to seek VNPf services online.

| ITEM | SANTO | MALEKULA | TANNA |
|------------------------|-----------------|----------------|---------------|
| NEW MEMBERS | 634 | 205 | 175 |
| NEW VOLUNTARY MEMBERS | 216 | 5 | - |
| TOTAL MEMBERS | 6,293 | 1,363 | 2,757 |
| CONTRIBUTIONS | VUV 130,122,638 | VUV 10,260,693 | VUV 4,838,786 |
| SURCHARGES | VUV 5,104,810 | VUV 105,853 | VUV 2,832,234 |
| INFORMAL CONTRIBUTIONS | VUV 1,268,508 | VUV 55,890 | VUV 45,800 |

TABLE 10.1: VNPf BRANCH MEMBERS AND COLLECTIONS 2020

Member Withdrawals

At the three branches, 409 members submitted withdrawal applications, including 276 in Santo, 28 in Malekula and 105 in Tanna. These applications were processed at the respective branches and payments arranged by the VNPf Head Office in Port Vila and the Santo branch office.

The VNPf Santo branch also coordinated an awareness session for boat transport services on Malo Island in partnership with Sanma Province and the Office of the Maritime Regulator (OMR). Twenty-one boat owners and drivers were present at the awareness session. Awareness activities have also been carried out on Tanna Island, aimed at informal sector workers and promoting the importance of saving for retirement.

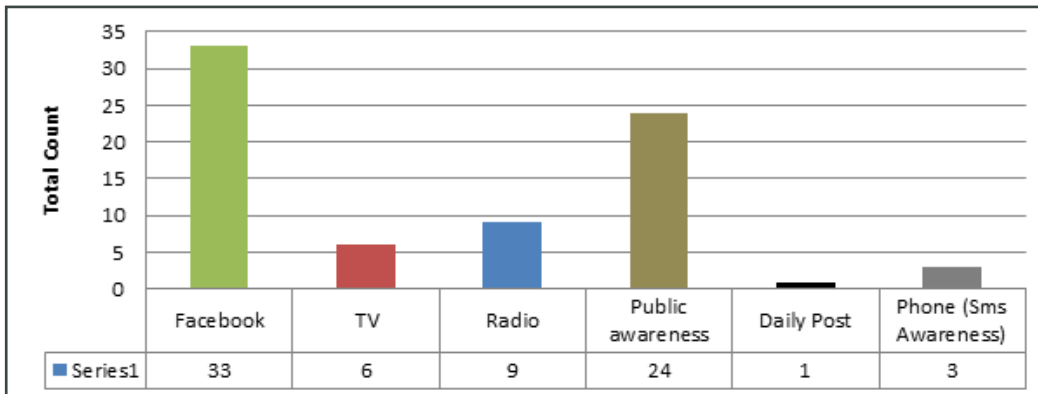


FIGURE 10.1: SANTO BRANCH AWARENESS ACTIVITIES 2020

EMPLOYER RELATIONS

The Santo branch had 111 new employers register in 2020, while 31 and 61 new employers registered with the Malekula and Tanna branches, respectively. There are now more than 2,000 employers registered in Santo.

| EMPLOYERS | SANTO | MALEKULA | TANNA |
|-----------------|-------|----------|-------|
| NEW EMPLOYERS | 111 | 31 | 61 |
| TOTAL EMPLOYERS | 2,072 | 261 | 154 |

TABLE 10.2: VNPF BRANCHES TOTAL EMPLOYERS

Compliance has been a key area of focus for the Santo branch, which has resulted in more inspections and more collections of contributions and surcharges from employers.

An SMS reminder system was successfully executed during 2020 to remind employers about their contribution payment obligations. This has been especially useful to stay in touch with employers that reside in more rural and inaccessible areas. Employers are also being encouraged at awareness sessions to start using the Employers' Portal in order to access VNPF services, which will save them time and money from travelling to the VNPF branch, and reduce the number of customers coming to the branch.

Although there is an increase in new member registrations, employer contributions are not reflective of this due to employer non-compliance.



LEFT: MOBILE SERVICES LAUNCH IN HOG HARBOUR, SANTO.

BRANCHES

INSPECTIONS

Across the branches, 440 employers were inspected, including 214 in Santo, 106 in Malekula and 120 in Tanna. Nine court cases were filed against non-compliant employers, including 5 in Santo, 3 in Malekula and 1 in Tanna.

A joint operation with the OMR resulted in seven ships being inspected regarding employer contributions.

Legal training was conducted for VNPf staff at the branches on how to start a case file, including collecting evidence and witness statements, and filing a case in court. The first-ever criminal case was filed in Tanna as a result of this training.

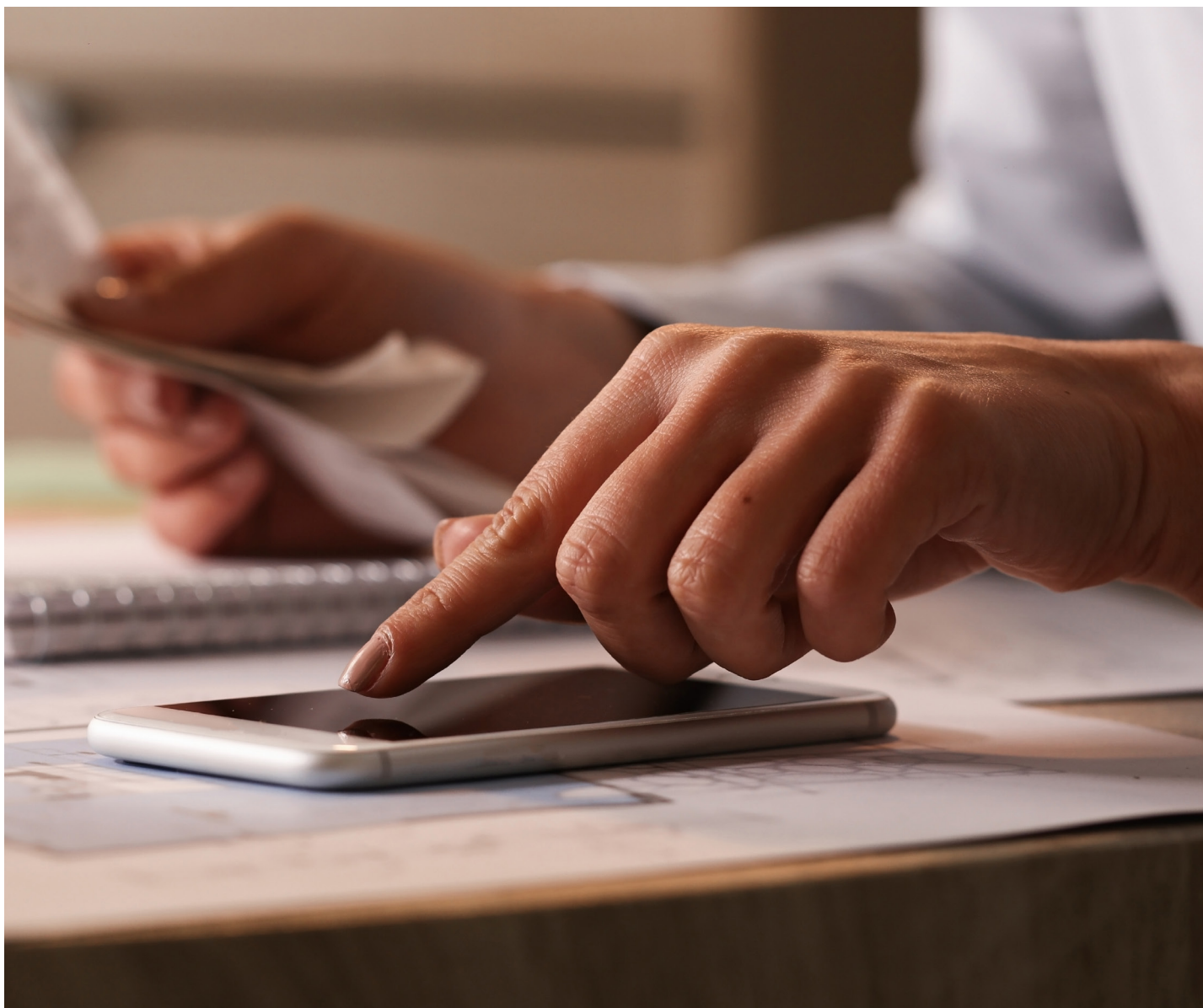
Access to employers in rural areas remains a serious challenge for inspections due to the remote locations, limited mobile network and changing employer contact details.



LEFT: EGAN PROPERTY IN SANTO, ABOVE: VNPf STAFF AT BELERU PROPERTY IN SANTO, RIGHT: BOUFFA FARM, EFATE



11 | FAENANSOL STETMEN





**Vanuatu National Provident
Fund Board of Trustees' report**

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Vanuatu National Provident Fund Board of Trustees' report

The Board of Trustees present their report with the financial statements of Vanuatu National Provident Fund ("the Fund") for the year ended 31 December 2020 and report as follows:

Board members

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

| <u>Name</u> | <u>Position</u> | <u>Date first appointed</u> | <u>Date appointment ended/ ending</u> |
|-----------------|-----------------|-----------------------------|---------------------------------------|
| Allen Lew | Chairman | 2-Nov-16 | 2-Nov 19 |
| Letlet August | Chairman | 6-Feb-20 | |
| Jack Maite | Member | 2-Nov-16 | |
| Willie Karie | Member | 2-Nov-16 | |
| John Ezra | Member | 12-Apr-18 | |
| Antoine Boudier | Member | 28-Feb-19 | |

Operation of the Fund

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

Principal Activities

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

Operating results

The benefits accrued as a result of the operations of the Fund for the year ended 31 December 2020 amounted to a profit of Vatu 183,543,000 (2019: Vatu 808,222,000).

Reserves

For the 2020 financial year interest credited to members' accounts amounted to Vatu 266,748,000 (2019: Vatu 225,764,000). In 2020, Vatu 5,557,000 (2019: Vatu nil) was paid out to members in the form of interest on withdrawals and subsequent to year-end the Board declared an annual interest of 1.3% percent amounting to Vatu 266,748,000 (2019: 1 percent) (2019: Vatu 225,764,000).

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.

Significant events during the year

In March 2020, the World Health Organisation announced the spread of the Novel Coronavirus (COVID-19) virus to be a pandemic. The impact of the spread of this virus has disrupting travel and businesses in Vanuatu and throughout the world. Management has taken actions to ensure that the impact of COVID-19 is minimised across all aspects of the Fund's operations. The challenges presented by COVID-19 are fluid and continue to change on almost a daily basis.

Vanuatu National Provident Fund Board of Trustees' report

Significant events during the year (continued)

During the financial year, the pandemic had minor effects on the Fund's results of operation. With respect to future operating results it is not possible at this time to predict, with any degree of precision, the effects of the pandemic. Consequently, accounting estimates and assumptions, particularly those relating to valuation of equity securities and estimates of expected credit losses on financial assets require management judgements concerning the effects of the economic downturn and recovery, which are inherently imprecise.

Events subsequent to balance date

Subsequent to year-end the Board declared an annual interest of 1.3% percent amounting to Vatu 266,748,000 (2019: 1 percent) (2019: Vatu 225,764,000).

Other than the above, 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.

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 disclosed in the financial statements.

Other circumstances

At the date of this report, the Board members are not aware of any circumstances not otherwise dealt within 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 member or with a firm of which he is a member, or with an entity in which he has a substantial financial interest.

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

[Chairman]

[Board member]

Date: 1st February, 2023

Vanuatu National Provident Fund Statement by the Board


In the opinion of the Board of Trustees:

- a. the accompanying statement of net assets are drawn up so as to give a true and fair view of the state of affairs of the Fund as at 31 December 2020;
- b. the accompanying statement 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 2020;
- c. the accompanying statement of changes in members funds and reserves are drawn up so as to give a true and fair view of the changes in members funds and reserves of the Fund for the year ended 31 December 2020;
- d. the accompanying statement 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 2020;
- e. at the date of this statement there are reasonable grounds to believe that the Fund 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.

Date at Port Vila 1st day of February, 2023.

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



[Chairman]

[Board member]



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"), which comprise the statement of net assets as at 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in member funds and reserves and the statement of cash flows for the year then ended, and notes 1 to 28 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 2020, and of its financial performance, changes in member funds and reserves and its 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 the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and 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 comprises the information included in the Board of Trustees' 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS 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.



Independent Auditor's Report To The Members of Vanuatu National Provident Fund

Report on Audit of the Financial Statements

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 skepticism 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 2012 (CAP 189); and
- ii. The Board, Board members and staff members have given all the information, explanations and assistance necessary for the purposes of the audit.


KPMG
KPMG
Chartered Accountants

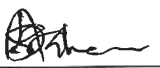
Suva, Fiji
1 February, 2023

Vanuatu National Provident Fund
Statements of Net Assets
As at 31 December 2020

| | Note | 2020 Vatu (000's) | 2019 Vatu (000's) |
|---|-------|-------------------------|-------------------------|
| Assets | | | |
| Cash and cash equivalents | 15 | 760,180 | 4,168,422 |
| Other receivables | 16 | 2,248,086 | 421,278 |
| Term deposits | 12(a) | 1,575,272 | 4,023,633 |
| Government securities | 12(b) | 4,762,440 | 2,082,098 |
| Loans and advances | 12(c) | 2,846,504 | 2,109,365 |
| Investments in controlled entities | 14(a) | 4,737,757 | 2,088,717 |
| Investments in joint ventures and associates | 14(b) | 1,515,149 | 2,930,082 |
| Other equity investments | 14(c) | 310,583 | 633,704 |
| Investment properties | 13 | 3,783,358 | 3,445,309 |
| Property plant and equipment | 17 | 674,059 | 601,218 |
| Total assets | | 23,213,388 | 22,503,826 |
| Liabilities | | | |
| Creditors and payables | 18 | 159,199 | 131,742 |
| Employee entitlements | 19 | 96,480 | 90,605 |
| Lease liabilities | 11 | 32,131 | 32,498 |
| Total liabilities (excluding net assets available to pay benefits) | | 287,810 | 254,845 |
| Net assets available to pay benefits | | 22,925,578 | 22,248,981 |
| Net assets available to pay benefits is represented by: | | | |
| General reserve | 20(a) | 590,684 | 679,446 |
| Revaluation reserve | 20(b) | 96,013 | 96,013 |
| Member funds | 20(c) | 22,161,549 | 21,397,370 |
| Special death benefit reserve | 20(d) | 77,332 | 76,152 |
| | | 22,925,578 | 22,248,981 |

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


 Chairman of the Board


 Member

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

Vanuatu National Provident Fund
Statement of profit or loss and other comprehensive income
For the year ended at 31 December 2020

| | Note | 2020 Vatu (000's) | 2019 Vatu (000's) |
|---|------|-------------------------|-------------------------|
| Investment income | | | |
| Interest income | 5 | 421,858 | 430,108 |
| Property rental income | | 185,552 | 176,100 |
| Dividend income | | 29,222 | 104,372 |
| Change in fair value of investments | 6 | (125,393) | 406,285 |
| Total investment income | | 511,239 | 1,116,865 |
| Allowance for impairment (loss)/reversal | | (47,200) | 14,065 |
| Impairment of investments and investment properties | | (4,218) | - |
| Interest on lease liabilities | 11 | (2,968) | (3,002) |
| Direct investment expenses | 7 | (119,164) | (78,913) |
| Net return on investments | | 337,689 | 1,049,015 |
| Other revenue | | | |
| Surcharge revenue | | 28,895 | 61,571 |
| Other revenue | 8 | 285,238 | 9,531 |
| | | 314,133 | 71,102 |
| Expenses incurred | | | |
| Administrative and other expenses | 9 | (468,279) | (311,895) |
| | | (468,279) | (311,895) |
| Profit for the year | | 183,543 | 808,222 |
| Other comprehensive income, net of tax | | - | - |
| Total comprehensive income for the year | | 183,543 | 808,222 |
| Profit available for allocation | | 183,543 | 808,222 |
| Net benefits allocated to members' accounts | | (272,305) | (225,764) |
| (Loss)/profit taken to reserves | | (88,762) | 582,458 |

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 2020

| | Member Funds Vatu (000's) | Special Death Benefit Reserve Vatu (000's) | Revaluation Reserve Vatu (000's) | General Reserve Vatu (000's) | Total Vatu (000's) |
|--|---------------------------------|---|--|------------------------------------|-----------------------|
| Balance as at 1 January 2019 | 19,745,111 | 63,043 | 96,013 | 96,988 | 20,001,155 |
| Contributions from employers and members | 2,353,501 | - | - | - | 2,353,501 |
| Interest credited to member accounts | 225,764 | - | - | (225,764) | - |
| Transfer to/(from) members | (23,159) | 23,159 | - | - | - |
| Benefit payments | (903,847) | (10,050) | - | - | (913,897) |
| Total comprehensive income for the year | | | | | |
| Profit for the period | - | - | - | 808,222 | 808,222 |
| Total comprehensive income for the year | | | | | |
| Balance as at 31 December 2019 | 21,397,370 | 76,152 | 96,013 | 679,446 | 22,448,981 |
| Balance as at 1 January 2020 | 21,397,370 | 76,152 | 96,013 | 679,446 | 22,248,981 |
| Contributions from employers and members | 2,094,540 | - | - | - | 2,094,540 |
| Interest credited to member accounts | 272,305 | - | - | (272,305) | - |
| Transfer to/(from) members | (21,446) | 21,446 | - | - | - |
| Benefit payments | (1,581,220) | (20,266) | - | - | (1,601,486) |
| Total comprehensive income for the year | | | | | |
| Profit for the period | - | - | - | 183,543 | 183,543 |
| Total comprehensive income for the year | | | | | |
| Balance as at 31 December 2020 | 22,161,549 | 77,332 | 96,013 | 590,684 | 22,925,578 |

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
Statement of cash flows
For the year ended 31 December 2020

| | Note | 2020 Vatu (000's) | 2019 Vatu (000's) |
|--|------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Contributions received | | 2,094,540 | 2,353,501 |
| Interest received | | 291,229 | 96,975 |
| Dividends received | | 20,224 | 94,392 |
| Property rental received | | 185,552 | 176,100 |
| Other income received | | 314,132 | 71,101 |
| Withdrawal payments to members | | (1,601,486) | (913,897) |
| Payment of lease liabilities | | (3,112) | (3,152) |
| Payments to suppliers and employees | | (2,424,711) | (251,371) |
| Net cash (used in)/provided by operating activities | | <u>(1,123,632)</u> | <u>1,623,649</u> |
| Cash flows from investing activities | | | |
| Net government securities (acquired)/matured | | (2,700,000) | 324,707 |
| Net term deposits matured | | 2,491,511 | 1,182,105 |
| Acquisition of investment properties | | (189,195) | (317,048) |
| Acquisition of property plant and equipment | | (104,468) | (37,507) |
| Net movement in loans to related parties | | (574,937) | 246,474 |
| Net movement in loans to quasi government bodies | | (20,861) | (59,731) |
| Acquisition of equity investments | | (1,186,516) | - |
| Net cash (used in)/from investing activities | | <u>(2,284,466)</u> | <u>1,339,000</u> |
| Net (decrease)/increase in cash and cash equivalents | | (3,408,098) | 2,962,649 |
| Cash and cash equivalents at the beginning of the year | | 4,172,163 | 1,209,514 |
| Cash and cash equivalents at the end of the year | 15 | <u>764,065</u> | <u>4,172,163</u> |

The statement of cash flows is 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 2020
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 and comprises 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 National Provident Fund Act ("the Act"). Management has concluded that the activities of the Fund meet the definition of an investment entity in accordance with the requirements of the amendments 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 1st February, 2023.

2.2 Basis of accounting

These financial statements have been prepared under the historical cost basis, except for the following items, which are measured on an alternative basis on each reporting 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) New standards, interpretations and amendments

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 2020. The adoption of the new amended standards and interpretations did not have a material effect on the Fund.

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendments to IFRS 3);
- Definition of Material (Amendments to IAS 1 and IAS 8); and
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

(b) 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:

| <i>New standards or amendments</i> | <i>Effective date</i> |
|--|------------------------------|
| COVID-19-Related Rent Concessions (Amendment to IFRS 16) | 1 January 2021 |
| Interest Rate Benchmark Reform – Phase 2 | 1 January 2021 |

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020
2 Basis of preparation (continued)

2.3 Functional and presentation currency

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

2.4 Level of rounding

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

2.5 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)(f) - Impairment of financial assets

Note 3 (i) – Equity investments at FVTPL

Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Fund has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2020 about future events that the Board of Trustees believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Fund. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements. The significant accounting estimates particularly impacted by these associated uncertainties are predominantly related to the recoverable amount assessments of non-financial assets and expected credit losses for trade and other receivables and contract assets.

3 Significant accounting policies

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

(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.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020
3 Significant accounting policies (continued)

(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.

(ii) Other expenses

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 (para 46) of the Vanuatu National Provident Fund Act (CAP 198).

(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. 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.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020
3. Significant accounting policies (continued)

(f) Leases

At inception of a contract, the Fund assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Fund assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Fund has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Fund has the right to direct the use of the asset. The Fund has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Fund has the right to direct the use of the asset if either:
 - the Fund has the right to operate the asset; or
 - the Fund designed the asset in a way that predetermines how and for what purpose it will be used.

i. As a lessee

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- lease payments in an optional renewal period if the Fund is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Fund is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Fund changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Fund presents right-of-use assets that would not previously have met the definition of investment property in ‘property, plant and equipment’ and lease liabilities in ‘loans and borrowings’ in the statement of financial position (see note 13).

Short-term leases and leases of low-value assets

The Fund has elected not to recognise right-of-use assets and lease liabilities for short-term leases of space that have a lease term of 12 months or less and leases of low-value assets. The Fund recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020
3. Significant accounting policies (continued)

(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.

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 |

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

(a) 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.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020
3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(a) Recognition and initial measurement (continued)

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.

(b) Classification and subsequent measurement

Financial assets

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.

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

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;

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020
3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(b) Classification and subsequent measurement (continued)

Financial assets: Business model assessment (continued)

- 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.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

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.

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

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.

Vanuatu National Provident Fund

Notes to the financial statements

For the year ended 31 December 2020

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(b) Classification and subsequent measurement (continued)

Financial assets: Subsequent measurement and gains and losses (continued)

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.

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 held all equity investments at FVTPL and measured none at FVOCI.

(c) 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.

(d) 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(i) (c)) 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(i) (f)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

(e) 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.

(f) Impairment

Financial instruments

The Fund recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost.

No impairment loss is recognised on equity investments.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020
3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(f) Impairment (continued)

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 Standards & Poor’s.

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.

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.

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. 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 120 days past due;
- the restructuring of a receivable by the Fund on terms that the Fund would not consider otherwise;

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020
3. Significant accounting policies (continued)

(i) Financial instruments (continued)

(f) Impairment (continued)

- 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.

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 2020

| | 2020 | 2019 |
|--|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| 5 Interest income | | |
| Term deposits | 50,324 | 103,506 |
| Government securities | 201,773 | 169,909 |
| Commercial loans | 136,888 | 137,057 |
| Call accounts | 8,192 | 11,452 |
| Collateral | 24,681 | 8,184 |
| | <u>421,858</u> | <u>430,108</u> |
| 6 Changes in fair value of investments | | |
| Gain from changes in fair value of investment properties | 154,917 | 160,732 |
| (Loss)/gain from changes in fair value of equity investments | (240,090) | 264,354 |
| Unrealised exchange loss | (40,220) | (18,801) |
| Net gain | <u>(125,393)</u> | <u>406,285</u> |
| 7 Direct investment expenses | | |
| Building maintenance | 40,687 | 25,293 |
| Utilities | 12,892 | 1,560 |
| Insurance | 27,334 | 20,345 |
| Land rent and municipal taxes | 21,309 | 17,995 |
| Consultancy and professional fees | 16,942 | 13,720 |
| | <u>119,164</u> | <u>78,913</u> |
| 8 Other revenue | | |
| Gain on sale of fixed assets | 49,533 | - |
| Processing fees | 2,617 | 8,372 |
| Other sundry income | 233,088 | 1,159 |
| | <u>285,238</u> | <u>9,531</u> |
| 9 Administrative and other expenses | | |
| Depreciation | 35,909 | 16,963 |
| Travelling | 11,083 | 5,717 |
| Legal fees | 19,420 | 746 |
| Auditor's remuneration | 6,511 | 12,452 |
| Board expenses (refer Note 21(a)) | 13,966 | 3,003 |
| Public relations | 5,463 | 1,997 |
| Computer software maintenance | 23,371 | 17,237 |
| Utilities | 7,953 | 16,047 |
| Telephone and communications | 16,460 | 12,049 |
| Stationery | 2,268 | 4,134 |
| Other administrative expenses | 38,499 | 20,433 |
| Interest expense | 2,406 | - |
| Personnel expenses (refer Note 10) | 284,970 | 201,117 |
| | <u>468,279</u> | <u>311,895</u> |

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020

| | 2020 | 2019 |
|------------------------------|---------------------|---------------------|
| | <u>Vatu (000's)</u> | <u>Vatu (000's)</u> |
| 10 Personnel expenses | | |
| Salaries and wages | 207,513 | 145,371 |
| VNPF contributions | 7,872 | 5,945 |
| Severance pay | 13,091 | 10,365 |
| Gratuity | - | 334 |
| Allowances | 39,582 | 24,163 |
| Other staff related expenses | 16,912 | 14,939 |
| | <u>284,970</u> | <u>201,117</u> |

Key management compensation is disclosed under Note 21 (b).

11 Lease liabilities

The Fund leases land and buildings. Information about leases for which the Fund is a lessee is presented below

Maturity analysis – contractual undiscounted cash flows

| | | |
|--------------------------------------|----------------|----------------|
| Less than one year | 3,112 | 3,152 |
| One to five years | 12,449 | 12,610 |
| More than five years | 133,099 | 136,071 |
| Total undiscounted lease liabilities | <u>148,660</u> | <u>151,833</u> |

Lease liabilities included in the statement of net assets

| | | |
|-------------|---------------|---------------|
| Current | 159 | 166 |
| Non-current | 31,972 | 32,332 |
| | <u>32,131</u> | <u>32,498</u> |

Amounts recognised in profit or loss

| | | |
|-------------------------------|--------------|--------------|
| Interest on lease liabilities | <u>2,968</u> | <u>3,002</u> |
|-------------------------------|--------------|--------------|

Amounts recognised in the statement of cash flows

| | | |
|-------------------------------|--------------|--------------|
| Total cash outflow for leases | <u>3,112</u> | <u>3,152</u> |
|-------------------------------|--------------|--------------|

Real estate leases

The Fund leases land and buildings for its commercial investments and residential sites respectively. The leases of these land and buildings typically run for a period of between five to ten years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term. Some leases provide for additional rent payments that are based on changes in the consumer price indices or rent reviews.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020

| | 2020 | 2019 |
|---|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| 12 Financial investments | | |
| (a) Term deposits | | |
| Term deposits - local currency | 1,140,945 | 3,220,417 |
| Term deposits - foreign currency | 442,999 | 804,713 |
| | <u>1,583,944</u> | <u>4,025,130</u> |
| Less: Provision for impairment | (8,672) | (1,497) |
| | <u>1,575,272</u> | <u>4,023,633</u> |
| <i>Movement in term deposits during the year is as follows:</i> | | |
| Balance as at 1 January | 4,023,633 | 5,097,347 |
| Net movement during the year | (2,390,456) | (1,046,175) |
| Unrealised exchange loss | (50,730) | (12,864) |
| Change in provision for impairment | (7,175) | (14,675) |
| Balance as at 31 December | <u>1,575,272</u> | <u>4,023,633</u> |

Maturity represented as gross:

| | | |
|------------------|------------------|------------------|
| Less than 1 year | 848,899 | 2,758,479 |
| 1 to 5 years | 735,045 | 1,266,651 |
| | <u>1,583,944</u> | <u>4,025,130</u> |

The carrying amounts of term deposits approximate their fair value.

| | 2020 | 2019 |
|-------------------------------------|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| (b) Government securities | | |
| Government bonds (refer Note 22(i)) | 4,800,000 | 2,100,000 |
| Less: Provision for impairment | (37,560) | (17,902) |
| | <u>4,762,440</u> | <u>2,082,098</u> |

Movement in government securities during the year is as follows:

| | | |
|------------------------------------|------------------|------------------|
| Balance as at 1 January | 2,082,098 | 2,404,036 |
| Purchased during the year | 3,000,000 | - |
| Matured during the year | (300,000) | (324,707) |
| Change in provision for impairment | (19,658) | 2,769 |
| Balance as at 31 December | <u>4,762,440</u> | <u>2,082,098</u> |

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020

| | 2020 | 2019 |
|--|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| 12 Financial investments (continued) | | |
| (b) Government securities (continued) | | |
| <i>Maturity represented at gross:</i> | | |
| Less than 1 year | 100,000 | 300,000 |
| 1 to 5 years | 4,700,000 | 1,800,000 |
| | <u>4,800,000</u> | <u>2,100,000</u> |

The fair value of government bonds in the current year is Vatu 5,368,979,000 (2019: Vatu 2,435,033,000). The carrying value is determined based on amortised cost.

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

| Type | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|------------------|---|---------------------------------|---|
| Government bonds | <i>Market comparison:</i> 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 |

| | 2020 | 2019 |
|--|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| (c) Loans and advances | | |
| Loans to subsidiaries (refer note 21(d)) | 972,667 | 982,507 |
| Loans to investees (refer note 21(d)) | 909,581 | 113,359 |
| Loans quasi-government | 849,819 | 874,757 |
| Loan to Telecom Vanuatu Limited | 800,000 | 804,077 |
| | <u>3,532,067</u> | <u>2,774,700</u> |
| Less: Provision for impairment | <u>(685,563)</u> | <u>(665,335)</u> |
| | <u>2,846,504</u> | <u>2,109,365</u> |

Maturity of gross loans and advances represented as:

| | | |
|----------------------|------------------|------------------|
| Less than 1 year | 284,127 | 91,539 |
| 1 to 5 years | 1,514,880 | 1,280,546 |
| Greater than 5 years | 1,733,060 | 1,402,615 |
| | <u>3,532,067</u> | <u>2,774,700</u> |

Movement in provision for loan impairment:

| | | |
|---------------------------|----------------|----------------|
| Balance as at 1 January | 665,335 | 663,462 |
| Created during the year | 20,228 | 1,873 |
| Balance as at 31 December | <u>685,563</u> | <u>665,335</u> |

Vanuatu National Provident Fund

Notes to the financial statements

For the year ended 31 December 2020

12 Financial investments (continued) (c) Loans and advances (continued)

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 principal 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, representing a total of Vatu 25,460,000 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 92,336,000 of interest was capitalised and a grace period extended as part of AVOL's recovery after Cyclone PAM. This second loan was 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%.

With the on-going Covid-19 pandemic and its impact on the aviation industry (boarder closures and flight suspensions), AVOL was unable to meet repayments in 2020. The Fund has recorded Vatu 127,473,000 of impairment in 2020 (2019: Vatu 107,245,000) against the loan provided to AVOL.

| | 2020 Vatu (000's) | 2019 Vatu (000's) |
|---|----------------------|----------------------|
| 13 Investment properties | | |
| Balance at 1 January | 3,445,309 | 2,937,618 |
| Recognition of right-of-use asset on initial application of IFRS 16 | - | 32,649 |
| Adjusted balance at 1 January | 3,445,309 | 2,970,267 |
| Additions | 138,615 | 208,810 |
| Additions to work-in-progress | 92,223 | 108,238 |
| Disposals | (76,000) | - |
| Movement in impairment and depreciation | (5,630) | (2,528) |
| Write-off to expense | - | (210) |
| Fair value gain | 188,841 | 160,732 |
| Balance at 31 December | <u>3,783,358</u> | <u>3,445,309</u> |

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.

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.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020
13 Investment properties (continued)

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.

| <i>Valuation technique</i> | <i>Significant unobservable inputs</i> | <i>Inter-relationship between key unobservable inputs and fair value measurement</i> |
|--|---|---|
| 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 capitalization model. The capitalisation rate has been developed using three techniques: extracted from comparable sale, debt coverage method and a band of investment method. | <ul style="list-style-type: none"> — Expected market rental growth 2% - 5% — Annualised vacancy and credit loss allowance, 0% - 23% — Market based management fee, 0% - 7% — Capitalisation rates – 3.5% - 7% | The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> — void periods were shorter (longer); — the occupancy rate were higher (lower); — rent-free periods were shorter (longer); or — the capitalisation rates were lower (higher). |

| | 2020 | 2019 |
|--|---------------------|---------------------|
| | <u>Vatu (000's)</u> | <u>Vatu (000's)</u> |
| 14 Equity Investments | | |
| Equity securities are valued in accordance with Note 3(i) of the financial statements. | | |
| <i>Maturity: Greater than 1 year</i> | | |
| (a) Investment in controlled entities | | |
| Investment in controlled entities | <u>4,737,757</u> | <u>2,088,717</u> |
| Refer to note 21 (c) for details of controlled entities. | | |
| <i>Maturity: Greater than 1 year</i> | | |
| (b) Investment in joint ventures and associates | | |
| Investment in joint ventures | 477,462 | 525,075 |
| Investment in associates | <u>1,037,687</u> | <u>2,405,007</u> |
| | <u>1,515,149</u> | <u>2,930,082</u> |

Vanuatu National Provident Fund

Notes to the financial statements

For the year ended 31 December 2020

14 Equity Investments (continued)

(b) Investment in joint ventures and associates (continued)

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.

| | <u>2020</u> <u>Vatu (000's)</u> | <u>2019</u> <u>Vatu (000's)</u> |
|-------------------------------------|------------------------------------|------------------------------------|
| (c) Other equity investments | | |
| <i>Greater than 1 year</i> | | |
| Investment in unlisted entities | - | 315,664 |
| Investment in unit trust | 310,583 | 318,040 |
| | <u>310,583</u> | <u>633,704</u> |

In 2019, the Fund also had investments in unlisted companies where the Fund owned less than 20% of the equity interest. Consequently, the Fund had assessed that it did not have significant influence over these entities and accounted for them at fair value.

(d) Valuation of equity investments

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 entity being valued. The independent valuers provide the fair value of the Fund's equity investments annually.

Fair value hierarchy (continued)

The fair value measurement for investment in controlled entities, investment in equity investments and investment in other equity investments amounting to Vatu 6,253 million (2019: Vatu 5,334 million) 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 311 million (2019: Vatu 318 million) has been categorised as Level 1 fair value based on quoted prices.

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.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020

14 Equity Investments (continued)

Valuation technique and significant unobservable inputs (continued)

| <i>Valuation technique</i> | <i>Significant unobservable inputs</i> | <i>Inter-relationship between key unobservable inputs and fair value measurement</i> |
|---|--|---|
| <i>Market comparison technique:</i> The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee and the expected future maintainable earnings of the investee. The estimate is adjusted for the effect of control, size, country risk and the non-marketability of the equity securities. | <ul style="list-style-type: none"> • Adjusted market multiple (4 – 6x) • Forecasted earnings • Price-to-Book ratio (1.20x) • Recoverable amount of the net tangible assets | The estimated fair value would increase/ (decrease) if any of the significant unobservable inputs were changed. Generally, a change in the annual growth rate is accompanied by directionally similar change in future maintainable dividends and earnings. |
| <i>Net tangible assets:</i> The valuation model is based on the recoverable amount of the net tangible assets of the business encompassing the equity security | | |

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.

| | 2020 | 2019 |
|---------------------------------|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| Balance at beginning of year | 5,334,463 | 5,108,908 |
| Gain included in profit or loss | | |
| - Net change in fair value | (242,436) | 225,555 |
| Additions | | |
| - Share purchase in NBV | 800,000 | - |
| - Share purchase in UNELCO | 335,154 | - |
| - Share purchase in PMC | 25,725 | - |
| Balance at end of year | <u>6,252,906</u> | <u>5,334,463</u> |

Sensitivity analysis

For the fair values of equity securities, a reasonably possible change of 10% at the reporting date to one of the significant unobservable inputs, holding other inputs constant would have the following effects:

| | Increase | Decrease |
|--------------------------|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| Adjusted market multiple | 173,500 | (173,500) |
| Forecasted earnings | 104,100 | (104,100) |
| Price-to-Book ratio | 40,644 | (40,644) |

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020

| | 2020 | 2019 |
|-------------------------------------|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| 15 Cash and cash equivalents | | |
| Cash on hand | 4,776 | 1,724 |
| Cash at bank - local currency | 738,606 | 4,158,607 |
| Cash at bank - foreign currency | 20,683 | 11,832 |
| | <u>764,065</u> | <u>4,172,163</u> |
| Less: Provision for impairment | (3,885) | (3,741) |
| | <u>760,180</u> | <u>4,168,422</u> |
| 16 Other receivables | | |
| Interest receivable | 206,713 | 144,174 |
| Receivable from related parties | 45,377 | 64,102 |
| Surcharge receivable | 71,626 | 71,626 |
| Other receivables | 1,992,667 | 202,296 |
| Insurance prepayment | 2,859 | 2,314 |
| Other prepayments | 1,399 | 9,325 |
| | <u>2,320,641</u> | <u>493,837</u> |
| Less: Provision for impairment | (72,555) | (72,559) |
| | <u>2,248,086</u> | <u>421,278</u> |
| <u>Analysed as:</u> | | |
| Less than 1 year | <u>2,248,086</u> | <u>421,278</u> |

Vanuatu National Provident Fund
Notes to the financial statements
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17 Property plant and equipment

| | Land and buildings (at valuation) (Vatu 000's) | Computer equipment (Vatu 000's) | Furniture and fittings (Vatu 000's) | Motor vehicles (Vatu 000's) | Other equipment (Vatu 000's) | Work in progress (Vatu 000's) | Total (Vatu 000's) |
|--|--|---------------------------------|-------------------------------------|-----------------------------|------------------------------|-------------------------------|--------------------|
| Cost | | | | | | | |
| Balance as at 1 January 2019 | 716,357 | 155,877 | 59,481 | 19,500 | 47,609 | 49,360 | 1,048,184 |
| Additions | 210 | 3,384 | 1,634 | 3,800 | 5,910 | 22,570 | 37,508 |
| Transfers | 10,085 | 42,083 | - | - | - | (53,516) | (1,348) |
| Balance as at 31 December 2019 | 726,652 | 201,344 | 61,115 | 23,300 | 53,519 | 18,414 | 1,084,344 |
| Balance as at 1 January 2020 | 726,652 | 201,344 | 61,115 | 23,300 | 53,519 | 18,414 | 1,084,344 |
| Additions | 22,000 | 10,298 | 1,477 | 27,960 | 14,436 | 74,499 | 150,670 |
| Disposals | (46,458) | (2,287) | - | (4,250) | - | (641) | (53,636) |
| Transfers | - | 64,193 | - | - | - | (64,193) | - |
| Balance as at 31 December 2020 | 702,194 | 273,548 | 62,592 | 47,010 | 67,955 | 28,079 | 1,181,378 |
| Accumulated depreciation | | | | | | | |
| Balance as at 1 January 2019 | 215,285 | 151,390 | 56,926 | 8,753 | 37,136 | - | 469,490 |
| Depreciation expense | 2,045 | 1,290 | 1,022 | 4,890 | 4,389 | - | 13,636 |
| Balance as at 31 December 2019 | 217,330 | 152,680 | 57,948 | 13,643 | 41,525 | - | 483,126 |
| Balance as at 1 January 2020 | 217,330 | 152,680 | 57,948 | 13,643 | 41,525 | - | 483,126 |
| Depreciation expense | 9,559 | 9,309 | 1,382 | 6,695 | 6,025 | - | 32,970 |
| Disposals | (2,240) | (2,287) | - | (4,250) | - | - | (8,777) |
| Balance as at 31 December 2020 | 224,649 | 159,702 | 59,330 | 16,088 | 47,550 | - | 507,319 |
| Carrying amount | | | | | | | |
| Carrying amount as at 1 January 2019 | 501,072 | 4,487 | 2,555 | 10,474 | 10,473 | 49,360 | 578,694 |
| Carrying amount as at 31 December 2019 | 509,322 | 48,664 | 3,167 | 9,657 | 11,994 | 18,414 | 601,218 |
| Carrying amount as at 31 December 2020 | 477,545 | 113,846 | 3,262 | 30,922 | 20,405 | 28,079 | 674,059 |

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020

| | 2020 | 2019 |
|----------------------------------|----------------|----------------|
| | Vatu (000's) | Vatu (000's) |
| 18 Creditors and payables | | |
| Creditors and accruals | 159,199 | 131,742 |
| | <u>159,199</u> | <u>131,742</u> |
| Analysed as: | | |
| Less than 1 year | 159,199 | 131,742 |
| | <u>159,199</u> | <u>131,742</u> |
| 19 Employee benefits | | |
| Provision for severance pay | 78,427 | 77,975 |
| Provision for annual leave | 18,053 | 12,630 |
| | <u>96,480</u> | <u>90,605</u> |
| Analysed as: | | |
| Less than 1 year | 96,480 | 90,605 |
| | <u>96,480</u> | <u>90,605</u> |

20 Reserves

(a) General reserve

Under section 33 of the Vanuatu National Provident Fund Act, "there shall be an account known as the General Reserve which shall be credited with -

- (a) any income of the fund remaining unappropriated at the end of any financial year; and
- (b) any other monies prescribed to be so credited by regulations made under the Act."

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

- Net profit from operations is credited to the general reserve; and
- Interest on member accounts is debited from general reserve and credited to member accounts.

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

(b) Revaluation reserve

Revaluation of the Fund's land and buildings classified as property plant and equipment was carried out in 2015. The revaluation surplus was credited to the revaluation reserve.

In 2018 a building was transferred from property, plant and equipment to investment properties because it was no longer used by the Fund and was fully leased to a third party. Immediately before the transfer, the Fund had remeasured the property to fair value and recognised a gain of Vatu 18,134,000 in the revaluation reserve.

Management do not believe that there is a significant change in property values and accordingly have not sought a revaluation during 2020. The next revaluation of the land and buildings is scheduled for the 2021 financial year.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020

| | | 2020 | 2019 |
|---|-----|---------------------|---------------------|
| | | <u>Vatu (000's)</u> | <u>Vatu (000's)</u> |
| 20 Reserves (continued) | | | |
| (c) Member funds | | | |
| Total members funds | | 22,161,549 | 21,397,370 |
| <u>Total member funds are split as follows:</u> | | | |
| Members - Retirement account | 50% | 11,080,773 | 10,698,684 |
| Members - Investment account | 25% | 5,540,388 | 5,349,343 |
| Members - Medi-save account | 25% | 5,540,388 | 5,349,343 |
| | | 22,161,549 | 21,397,370 |

(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.

21 Related parties

(a) Board of directors

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

| Name | Position | Date first appointed | Date appointment ended/ ending |
|-----------------|-----------------|-----------------------------|---------------------------------------|
| Allen Lew | Chairman | 2-Nov-16 | 2-Nov-19 |
| Letlet August | Chairman | 6-Feb-20 | |
| Jack Maite | Member | 2-Nov-16 | |
| Willie Karie | Member | 2-Nov-16 | |
| John Ezra | Member | 12-Apr-18 | |
| Antoine Boudier | Member | 28-Feb-19 | |

| | 2020 | 2019 |
|--------------------------|---------------------|---------------------|
| | <u>Vatu (000's)</u> | <u>Vatu (000's)</u> |
| Board sitting allowances | 7,104 | 1,834 |
| Other board expenses | 6,862 | 1,169 |
| | 13,966 | 3,003 |

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Notes to the financial statements
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21 Related parties (continued)

(a) Board of directors (continued)

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

(b) Key management

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

| <u>Names</u> | <u>Position</u> | <u>Entity</u> |
|-------------------|----------------------------|---------------------------------|
| Parmod Achary | General Manager | Vanuatu National Provident Fund |
| Stephen Daniel | Manager Finance | Vanuatu National Provident Fund |
| John Naviti | Manager Branches | Vanuatu National Provident Fund |
| Jackson Leesa | Manager Employer Relations | Vanuatu National Provident Fund |
| Patricia Kalpokas | Manager Corporate services | Vanuatu National Provident Fund |
| Reynold Amkori | HR Team Leader | Vanuatu National Provident Fund |

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

| | <u>2020</u> | <u>2019</u> |
|---------------------|---------------------|---------------------|
| | <u>Vatu (000's)</u> | <u>Vatu (000's)</u> |
| Short term benefits | <u>25,512</u> | <u>31,897</u> |

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

(c) Identity of other related parties

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

| <u>Entity</u> | <u>Interest</u> | <u>Classification</u> |
|--|-----------------|-----------------------|
| Member Financial Services Limited (MFSL) | 100.00% | Subsidiary |
| VNPF Property Holdings Limited (VNPF-HL) | 100.00% | Subsidiary |
| Bouffa Limited (Bouffa) | 100.00% | Subsidiary |
| National Bank of Vanuatu (NBV) | 56.00% | Subsidiary |
| Bay Developments Limited (BDL) | 50.00% | Joint venture |
| VNBR Limited (VNBR) | 50.00% | Joint venture |
| Union Electric Company Limited (UNELCO) | 49.00% | Associate |
| Private Medical Center (PMC) | 49.00% | Associate |
| Interchange Limited (ICL) | 37.50% | Associate |

Vanuatu National Provident Fund
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21 Related parties (continued)

(c) Identity of other related parties (continued)

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 8.50% (2019: 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 farmland, 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 January 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 of 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.

Interchange Limited (ICL)

The Vanuatu National Provident Fund (VNPF) in partnership with Interchange Holdings Limited, Vanuatu Posts Limited, Vanuatu Government and Fidelity Fund 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.

Vanuatu National Provident Fund
Notes to the financial statements
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21 Related parties (continued)
(c) Identity of other related parties (continued)

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 14.4%.

In September 2020, VNPF purchased an additional 35,143 shares which now represents a 56% interest in NBV amounting to a total consideration paid of Vatu 800,000,000.

Union Electric Company Limited (UNELCO)

UNELCO is a locally incorporated Company, initially having 2 shareholders; 60% of the shares is owned by ENGIE and 40% is owned by VNPF. UNELCO is the only Electricity Supplier in Vanuatu holding 4 geographical concessions, being Efate Island, two administrative centres in Norsup, Malekula and Lenakal, Tanna for the provision of electricity and supply of water.

In January 2020, VNPF purchased an additional 7,453 shares which together with existing shares now represent a 49% interest in UNELCO amounting to a total consideration paid of Vatu 335,154,000.

| | 2020 | 2019 |
|---|---------------------|---------------------|
| | <u>Vatu (000's)</u> | <u>Vatu (000's)</u> |
| (i) <u>Interest income</u> | | |
| The amount of interest income charged to related parties during the year is as follows: | | |
| Member Financial Services Ltd | 20,504 | 20,488 |
| Interchange Limited | 19,346 | 6,871 |
| | <u>39,850</u> | <u>27,359</u> |
| (ii) <u>Rental income</u> | | |
| The amount of rental charged to related parties during the year is as follows: | | |
| Member Financial Services Ltd | - | 2,378 |
| | <u>-</u> | <u>2,378</u> |
| (iii) <u>Dividends from investees</u> | | |
| The amount of dividend income from related parties during the year is as follows: | | |
| Interchange | 20,224 | - |
| UNELCO | - | 94,392 |
| | <u>-</u> | <u>94,392</u> |
| The amount of shared services and processing fees charged to related parties during the year is as follows: | | |
| Member Financial Services Ltd | - | 8,372 |
| | <u>-</u> | <u>8,372</u> |

Vanuatu National Provident Fund
Notes to the financial statements
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21 Related parties (continued)

(d) Loan balances owed to the Fund by its investees

| | 2020 | 2019 |
|-------------------------------|--------------|--------------|
| | Vatu (000's) | Vatu (000's) |
| Member Financial Services Ltd | 533,480 | 550,209 |
| Bouffa Limited | 439,187 | 432,298 |
| Interchange Limited | 909,581 | 113,359 |
| | 1,882,248 | 1,095,866 |
| Provision for loan impairment | (558,090) | (558,090) |
| | 1,324,158 | 537,776 |

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 were due after which repayment of principal and interest commenced. The loan is secured against the assets of the company. As at year end, a provision of Vatu 216,484,000 (2019: Vatu 216,484,000) 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. As at year end, a provision of Vatu 341,606,000 (2019: Vatu 341,606,000) 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.

22 Government securities

(i) Government bonds

Government bonds held by the Fund as at 31 December 2020 were as follows:

| Bond series | Term | Principal (Vatu 000's) | Coupon rate | Issue date | Maturity date |
|-------------|------|---------------------------|-------------|------------|---------------|
| 002/12 | 10 | 700,000 | 8.25% | 07/06/12 | 07/06/22 |
| 005/12 | 10 | 400,000 | 8.25% | 27/12/12 | 27/12/22 |
| 002/13 | 10 | 400,000 | 8.55% | 01/08/13 | 01/08/23 |
| 002/15 | 6 | 100,000 | 8.25% | 04/04/15 | 04/04/21 |
| 001/16 | 7 | 200,000 | 7.50% | 28/01/16 | 28/01/23 |
| 001/20 | 10 | 2,000,000 | 5.00% | 07/09/20 | 07/09/30 |
| 001/20 | 10 | 1,000,000 | 5.00% | 07/09/20 | 07/09/30 |
| | | 4,800,000 | | | |

Vanuatu National Provident Fund
Notes to the financial statements
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22 Government securities (continued)

Government bonds held by the Fund as at 31 December 2019 were as follows:

| Bond series | Term | Principal (Vatu 000's) | Coupon rate | Issue date | Maturity date |
|--------------------|-------------|-----------------------------------|--------------------|-------------------|----------------------|
| 002/12 | 10 | 700,000 | 8.25% | 07/06/12 | 07/06/22 |
| 005/12 | 10 | 400,000 | 8.25% | 27/12/12 | 27/12/22 |
| 002/13 | 10 | 400,000 | 8.55% | 01/08/13 | 01/08/23 |
| 002/15 | 6 | 100,000 | 8.25% | 04/04/15 | 04/04/21 |
| 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 |
| | | 2,100,000 | | | |

23 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 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 impact of COVID-19 is also expected to have a significant impact on the economy.

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.

24 Auditor's remuneration

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

| | 2020 | 2019 |
|--|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| <u>KPMG:</u> | | |
| Vanuatu National Provident Fund (the Fund) | <u>3,740</u> | <u>6,885</u> |
| <u>Other auditors:</u> | | |
| Subsidiaries | <u>2,771</u> | <u>5,567</u> |
| 25 Commitments and contingent liabilities | | |
| (a) Commitments | | |
| Capital expenditure commitment | <u>203,092</u> | <u>121,016</u> |

Vanuatu National Provident Fund
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25 Commitments and contingent liabilities

(b) Contingent liabilities

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 by the claimants on these claims are low. Accordingly, 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 lessor

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

| | 2020 | 2019 |
|--|--------------------|--------------------|
| | Vatu (000s) | Vatu (000s) |
| Not later than 1 year | 124,097 | 197,506 |
| Later than 1 year but not later than 5 years | 294,015 | 376,924 |
| Later than 5 years | 15,489 | 62,341 |
| | <u>433,601</u> | <u>636,771</u> |

Amounts recognised in profit or loss

During 2020, rentals of Vatu 185,552,000 (2019: 176,100,000) were included in ‘Investment income’. Direct investment expenses were as follows:

| | 2020 | 2019 |
|-------------------|--------------------|--------------------|
| | Vatu (000s) | Vatu (000s) |
| Land rent expense | <u>9,162</u> | <u>106</u> |

26 Significant events during the year

In March 2020, the World Health Organisation announced the spread of the Novel Coronavirus (COVID-19) virus to be a pandemic. The impact of the spread of this virus is disrupting travel and businesses in Vanuatu and throughout the world. Management has taken actions to ensure that the impact of COVID-19 is minimised across all aspects of the Fund’s operations. The challenges presented by COVID-19 are fluid and continue to change on almost a daily basis.

During the financial year, the pandemic did not have significant effects on the Fund’s results of operation. With respect to future operating results, it is not possible at this time to predict, with any degree of precision, the effects of the pandemic. Consequently, accounting estimates and assumptions, particularly those relating to valuation of equity securities and estimates of expected credit losses on financial assets, require management judgements concerning the effects of the economic downturn and recovery, which are inherently imprecise.

Other than the above, 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.

Vanuatu National Provident Fund
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27 Subsequent events

Subsequent to year-end the Board declared an annual interest of 1.3 percent amounting to Vatu 266,748,000 (2019: 1 percent) (2019: Vatu 225,764,000).

Additionally, in July 2021, the Fund purchased an additional 50% shareholding in VNBR for a total consideration of Vatu 463,000,000. Following this acquisition, VNPF now has a 100% shareholding in VNBR.

Other than the above, 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.

28 Financial risk management

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.

| | 2020 | 2019 |
|---------------------|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| Term deposits – USD | 251,560 | 168,950 |
| Term deposits – AUD | 242,169 | 635,763 |

The following exchange rates were applied during the year

| | Year-end spot-rate | |
|-----|---------------------------|-------------|
| | 2020 | 2019 |
| USD | 0.0092 | 0.0091 |
| AUD | 0.0121 | 0.0130 |

Vanuatu National Provident Fund
Notes to the financial statements
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28 Financial risk management (continued)

(i) Market risk

(a) Currency risk (continued)

Sensitivity analysis

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

| | 2020 | 2019 |
|----------------------|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| 10 % increase in USD | 27,951 | 18,772 |
| 10 % decrease in USD | (27,951) | (18,772) |
| 10 % increase in AUD | 26,908 | 70,640 |
| 10 % decrease in AUD | (26,908) | (70,640) |

(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:

| | 2020 | 2019 |
|---------------------------------|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| Loans to controlled entities | 972,667 | 982,507 |
| Loans to investees | 909,581 | 113,359 |
| Loans quasi-government entities | 849,819 | 874,757 |
| Loan to Telecom Vanuatu Limited | 800,000 | 804,077 |
| | 3,532,067 | 2,774,700 |

(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.

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.

Vanuatu National Provident Fund
Notes to the financial statements
For the year ended 31 December 2020

28 Financial risk management (continued)
(ii) Credit risk (continued)

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.

| | 2020 | 2019 |
|------------------------------|---------------------|---------------------|
| | Vatu (000's) | Vatu (000's) |
| Cash and cash equivalents | 1,397,755 | 4,168,422 |
| Term deposits | 1,575,272 | 4,023,633 |
| Government securities | 4,762,440 | 2,082,098 |
| Loans and advances | 2,846,504 | 2,109,365 |
| Receivables and other assets | 1,056,036 | 421,278 |
| | <u>11,638,007</u> | <u>12,804,796</u> |

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

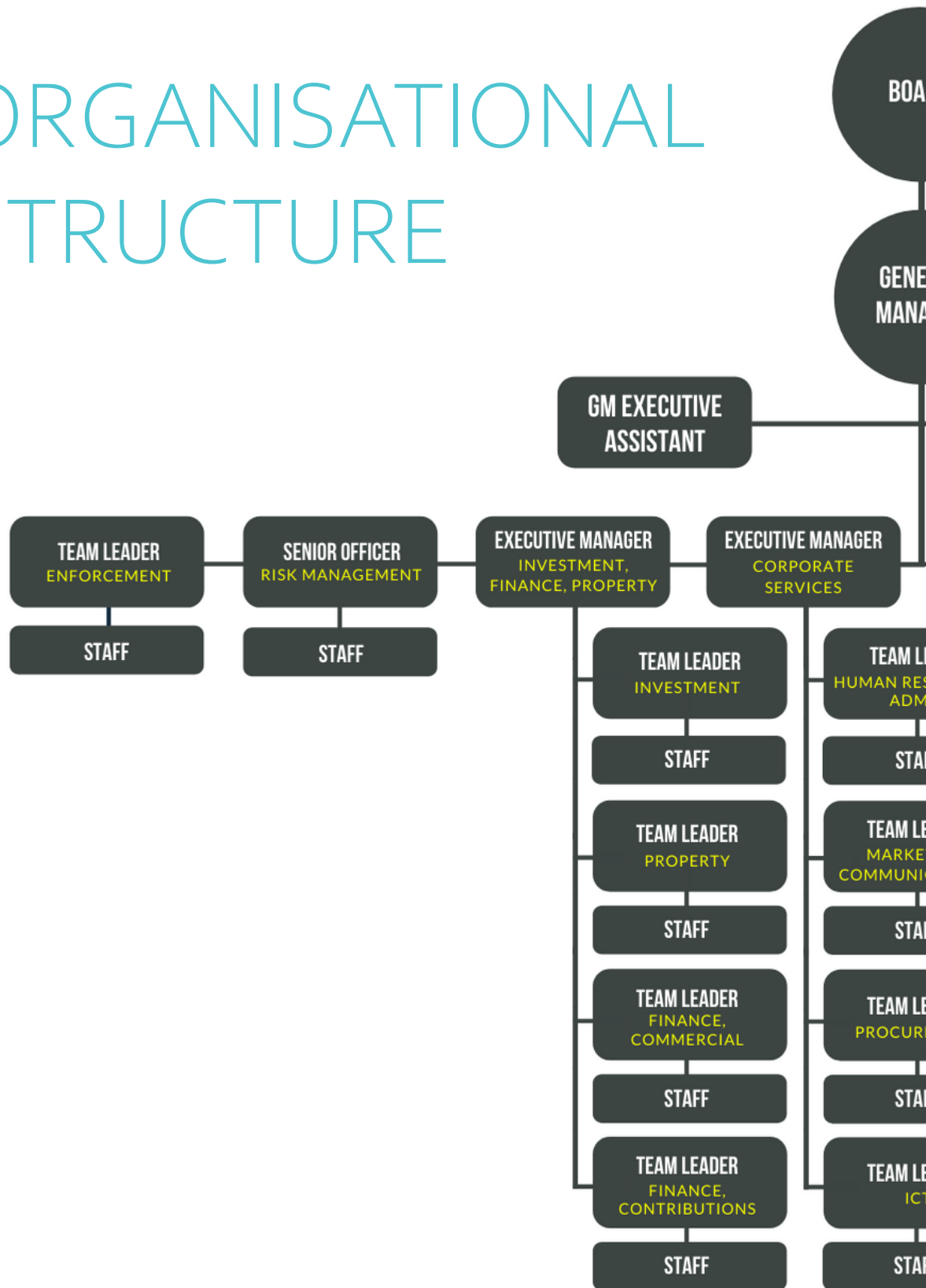
(iii) Liquidity risk

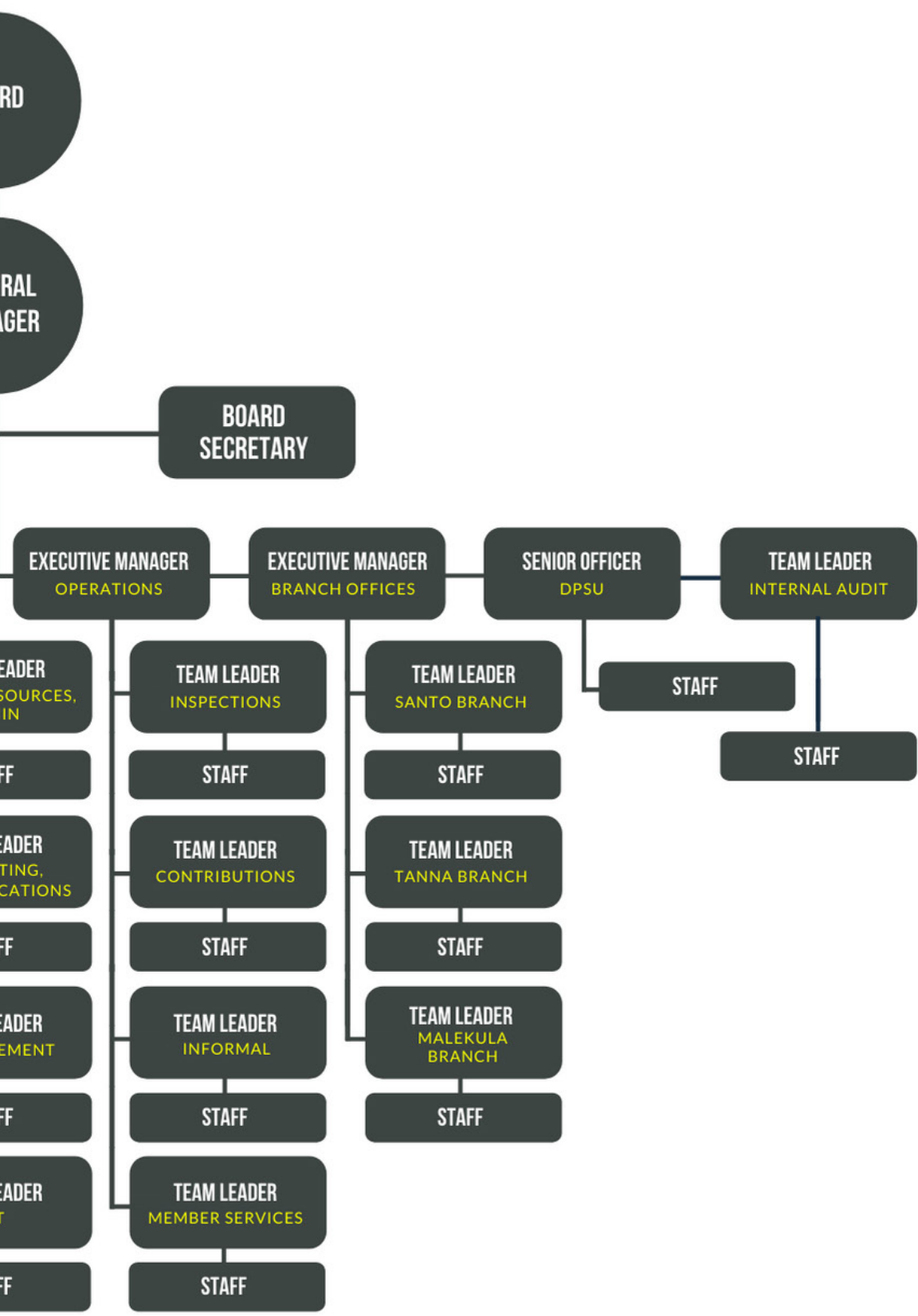
Liquidity risk is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient 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 of creditors and payables and employee entitlements have contractual maturities of less than 1 year.

Capital management

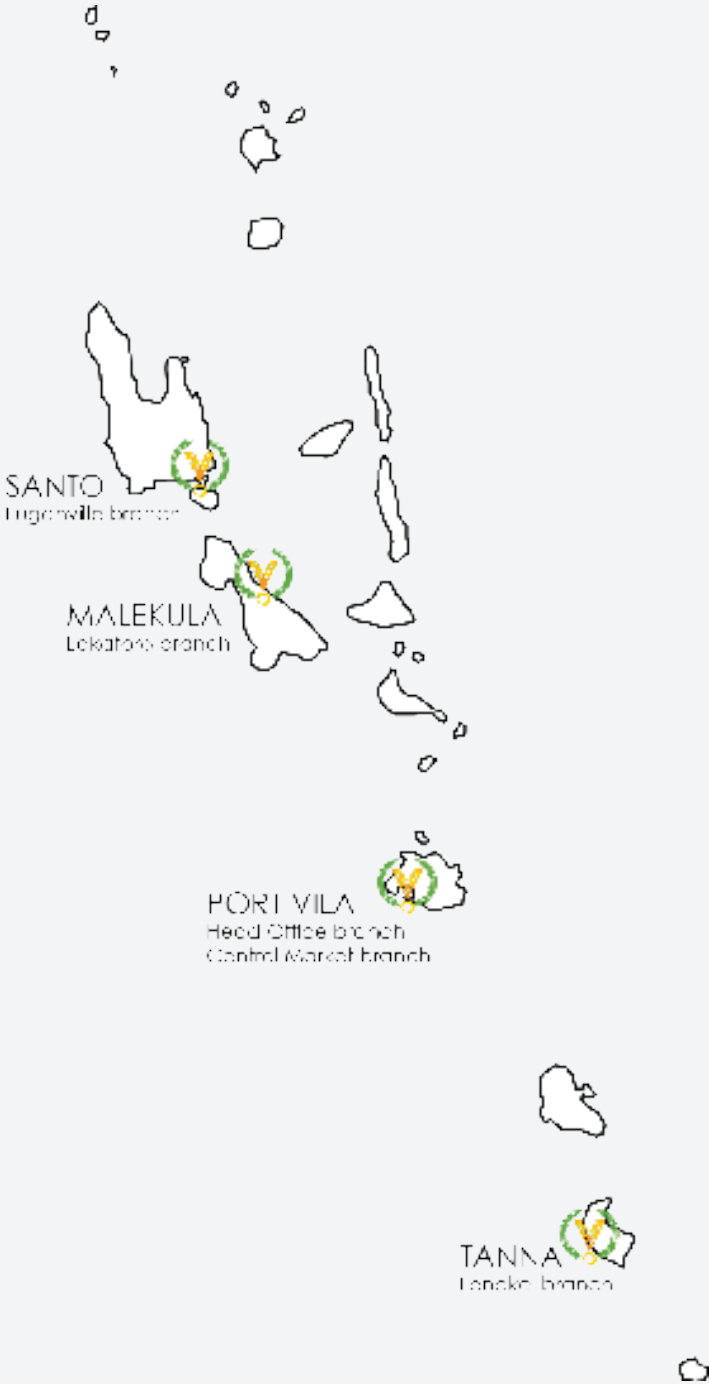
The Fund pursues an active approach to capital management, which is designed to protect the interests of members.

11 | ORGANISATIONAL STRUCTURE





BRANCH LOCATIONS



COVER PHOTO: BOUFFA FARM, EFATE ISLAND. PHOTOGRAPHER: ROGGERY VARI.



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