TUVALU NATIONAL PROVIDENT FUND

ANNUAL REPORT 2016

Honourable Minister
Ministry of Finance and Economic Development
Government Buildings
Vaiaku

Dear Sir,

Tuvalu National Provident Fund Annual Report 2016

It is with great honour that I present to you the Annual Report of the Tuvalu National Provident Fund for the financial year end 31 December 2016.

The report provides information on the operation and performance of the Fund during the year and also highlights the major events and activities of the Fund during the reported financial period.

On behalf of the TNPF Board, we thank you for your continuous understanding and support.

Yours faithfully,

Vavau Fatuuga
Chairman
Board of Management
Tuvalu National Provident Fund

Contents

Our Vision

A life-time saving Fund that is cherished by all members

Our Mission

"To invest productively the contributions received so members and their dependants can enjoy the greatest benefit of their life-time before and during retirement".

Our Values

Teamwork	We are supportive of each other's efforts and share the same objectives
Loyalty	We are loyal to one another and show respect to all our members
Passion	Our shared passion is to deliver results on time to the satisfaction of our members
Excellence	We strive to achieving high standards of customer service
Accountability	We take ownership of our actions and we strive to be transparent in our decisions
Trust	As custodians of members funds, we value the trust of our members on what we do and we capitalize the relationship with members on that trust
Integrity	We resolve to do what is right for our customers even when no one is looking

Highlights

- The Fund reported a consolidated net profit of $3,068,815 for the year.
- The Board declared an interest rate of 5 per cent to be credited to all members' accounts for the year 2016. The decision resulted in the crediting of $2,521,485 to members accounts.
- The Fund established a new subsidiary company to manage its new hotel property investment.
- The Board reviewed the human resource needs of the Fund during the year.
- 290 new members were registered during the year.
- 6 new employers were registered during the year.
- The Fund received $6,510,223 as total member contributions during the year compared to $7,354,214 in 2015, a decrease of 11.48%.
- Total benefit withdrawals paid out during the year amounted to $4,339,987 compared to $6,424,986 paid out in 2015.
- The Fund's loans portfolio increased by 5.50% to $9,003,921 during the year
- The total member's fund increased by 9.86% to $59,008,978 during the year.
- The Fund's total investment portfolio increased by 10.29% to $58,216,400 during the year.
- Total assets of the Fund increased by 10.55% to $59,879,277 during the year.

Our Board

The Board has tripartite representation and is composed of six Board members, two representing the Public Service, two from employees and two from employers. All Board members are appointed by the Minister for Finance & Economic Development under section 6(2) of the TNPF Act.

The Board has a statutory responsibility to ensure sustainable growth and preservation of member's wealth for retirement through prudent investment decisions and ethical good governance practices.

The Board Members who were in office during the period are as follow:

Names	Appointments	Representative
Mr. Vavau Fatuuga	Chairman	Public Service
Mr. Temate Melitiana	Board Member	Public Service
Mr. Petaia Meauma	Board Member	Employers
Mr. Katepu Laoi	Board Member	Employers
Dr. Miliama Simeona	Board Member	Employees
Mr. Pugameau Taufilo	Board Member	Employees
Ms. Palipa H Lauti	Chairperson	Public Service (resigned 16/2/2016)

Ms. Palipa H Lauti resigned from her position as Board Member & Chairperson on 16th February 2016. Ms. Lauti was replaced by Mr. Vavau Fatuuga.

The Board of Management had 10 meetings (both scheduled and extraordinary) during the year.

Our Staff

Note: The following Officers namely Mr. Kiatoa Ulika, Ms. Lafita Paeniu and Mr. Lusama Uoli were not present when the above photo was taken.

List of Staff employed by the Fund during the year:

Names	Position	Names	Position
Penielu Teo	General Manager & CEO	Tutokotahi Opapo	Accounts Officer
Siava Tekafa	Manager Finance & Member Services	Lessa Lui	Loans Recovery Officer
Kiatoa N Ulika	Manager Corporate Services	Veronica Lutelu	Customer Service Officer I
Siale Paueli	Senior Enforcement Officer	Malofou Kaokoro	Customer Service Officer II
Manaima Tauati	Senior Accountant	Nakala Ioane	Loans Officer
Tuitala Lasifo	IT Officer	Lafita Paeniu	Secretary
Kiliata Peleti	Data Service Officer	Tofikai Eti	Accounts Clerk
Kiuniu Aselu	Data Entry Operator	Etimoni Timuani	Messenger
Peau Taasi	Client Relations Officer	Samuelu Hauma	Cleaner
Tioti Maatia	Accounts Business Officer	Lusama Uoli	Market Clerk

Chairman's Report

I am pleased to report another profitable year for the Fund. Despite the extreme volatility in the global capital markets as experienced during the year, the Fund was able to record a consolidated net profit of $3,068,815 for the year. The Board declared a rate of interest of 5% to be credited to members' accounts for the reported financial year. The total dividend paid from profits to member's individual accounts during the year amounted to $2,521,485. The remaining $547,330 were transferred into the reserve funds. The Fund's total investment portfolio (including offshore and local investments) increased by 10.29% to $58,216,400 while total assets of the Fund increased by 10.55% to $59,879,277. Total member's fund increased by 9.86% to $59,008,978 during the year. The Fund's offshore investment portfolio that makes up 77.57% of the Fund's total investment strategy reported a net return of 6.9% during the year, while the member's small loans scheme that makes up 15.47% of the Fund's total investment strategy reported a return of 10.25% for the year.

The Fund continued to diversify its local investment during the year. During the year, the Fund acquired the assets of the Vaiaku Lagi Hotel through a concession agreement signed by the Fund's Board and Government of Tuvalu (Government) in December 2016. The concession agreement gives TNPF the rights to manage and administer the assets of the Vaiaku Lagi Hotel (VLH) and its hotel business for a minimum period of 25 years, with possible extension to a maximum period of 45 years. The initial concession fee paid by the Fund to Government for the investment arrangement amounted to $840,913. The Fund's hotel investment business is currently managed by a newly established subsidiary company of TNPF, the 'TNPF Investment Holdings Ltd'. The Fund currently operates its hotel & lodging business under the trade name 'Funafuti Lagoon Hotel'.

On behalf of the Board, I take this opportunity to thank the Management team and Staff of the Fund for their commitment and hard work during the year. I offer my special appreciation to the General Manager for his exceptional leadership and to Management for its outstanding contributions during the year. I also wish to acknowledge with gratitude the support that the Fund is getting from Government, employers, employees, members of the private sector and to all those who have contributed to the Fund. Finally, I wish to thank my fellow Board members for their advice, loyalty and support during the year as I look forward to a prosperous future of TNPF and its members.

Vavau Fatuuga
Chairman

Chief Executive Officer's Report

The year was another successful one for the Fund and its members. The Fund reported a consolidated net profit of $3,068,815 for the year. The reported return on member's contribution fund is 5.46%. The Fund's offshore investment strategy reported a gross return of 6.9% during the year. The Fund's membership continued to grow, with 290 new members registered during the year. In terms of financial growth, the total members fund grew by 9.86% to $59,008,978 during the year. Likewise, total assets of the Fund also increased by 10.55% to $59,879,277 during the year.

In 2016, the Fund responded to 288 claims for benefit withdrawals, 5,565 loan applications and 1,580 applications for MEDU withdrawals.

Management with Board's approval reviewed the human resource needs of the Fund during the year. The aim of the review was to assess the current staffing needs of the Fund. The review emphasis was to identify areas and responsibilities where there exists staff overloads, identify duties that need to be re-distributed or delegated to other positions, identify areas where there are no clear accountability or if gaps (loopholes) in responsibilities exist and to identify new staffing needs.

Overall, it has been another successful year for the Fund. I take this opportunity to thank all members of the Board for their leadership and guidance that led to the Fund realizing good financial results during the year. I would also like to record my appreciation for the support and assistance that has been forthcoming from Government, Employers, all stakeholders and especially all members during the year.

Finally, I would like to take this opportunity to thank the Management and Staff for another year of good performance and the Board of Management for their valuable guidance, support and outstanding leadership during the year.

Penielu P. Teo
Chief Executive Officer

Overview of Operations

Membership

The Fund recorded 290 new members who registered during the year compared to 297 the previous year. The total number of registered members of the Fund as at 31 December 2016 reached 6,427 (2015 – 6,137). From those registered, around 3,958 are considered active members.

Employers

A total of 6 new employers were registered during the year, bringing the total number of registered employers to 347 (2015 – 341). Out of this number about 139 employers are considered active and contributed to the Fund during the year.

Growth of the Fund

Year End	Annual contribution ($)	Total members' credit ($)	Number of members
1984	145,910	1,677,870	1,136
1985	239,542	1,847,463	1,302
1986	279,472	2,130,788	1,913
1987	284,991	2,520,634	2,349
1988	348,933	2,841,207	2,646
1989	343,294	3,355,975	2,974
1990	378,750	4,076,556	3,164
1991	485,890	4,299,175	3,182
1992	668,961	5,240,336	3,241
1993	795,647	6,048,890	3,268
1994	643,555	6,899,359	3,287
1995	912,003	7,347,583	3,334
1996	785,333	8,094,935	3,376
1997	1,206,821	8,828,682	3,519
1998	1,279,968	10,018,061	3,538
1999	1,596,799	10,727,919	3,573
2000	2,554,855	12,918,586	3,726
2001	2,624,234	14,707,376	3,859
2002	2,994,661	15,313,348	4,267
2003	3,815,165	18,035,826	4,892
2004	3,220,414	21,623,307	5,343
2005	2,867,305	24,322,730	5,626
2006	3,435,203	28,004,214	5,851
2007	3,448,518	31,089,756	6,227
2008	3,936,902	32,406,919	6,585
2009	3,907,439	33,020,594	6,773
2010	4,230,324	36,064,320	5,099
2011	4,806,440	39,104,297	5,250
2012	4,380,528	42,500,702	5,442
2013	4,605,732	45,901,064	5,646
2014	5,196,065	48,903,798	5,840
2015	7,354,214	51,394,909	6,137
2016	6,510,223	56,140,647	6,427

Contributions

Contributions collected during the 2016 financial year amounted to $6,510,223 (2015 – $7,354,214). The completion of major projects like the runway and road upgrades early in the year resulted in the drop of contributions recorded in the current year compared to the past year.

The average monthly contributions is A$542,518 (2015 – $612,851).

Interest (Dividend) Declared to Members

The Board declared a dividend of 5 per cent (5%) to be credited to all members' accounts for the financial year 2016. The total amount credited to members account amounted to $2,521,485.

Withdrawals

Currently, there are eight (8) withdrawal grounds available for members to withdraw their funds. These include:

Retirement Benefit
Retirement benefit is payable as a lump sum to a member who has attained the age of 45 years and retires from employment.

Emigration
Emigration benefit is payable to a member who leaves Tuvalu with no intention of returning. Members who have gained citizenship or permanent residence in country of migration are entitled to 100% withdrawal of total balance. Members without permanent residence status can access up to 50% of balance, provided members balance is in excess of $1,000. Members accessing 50% can apply for withdrawal of remaining balance after 12 months of absence from the country.

Death
Death benefit is payable to a person nominated by a deceased member under the Provident Fund (Nominations) Regulations 1984.

Incapacity
Incapacity benefit is payable to a member who is physically or mentally incapable of engaging in further employment or to a person authorized to act on member's behalf.

Housing
Housing benefit is payable to a member who has attained the age of 45 and has an intention to construct or renovate his/her own private house.

Retirement Pension
Retirement pension benefit is payable as a monthly pension to a member who retires from employment and elects to take a retirement pension in lieu of part or all of the retirement benefit. The benefit can also be payable to a member who has attained the age of 65, whether or not retired and elects to take a retirement pension.

Recovery for bad and doubtful debts
This withdrawal benefit is payable as a direct deduction from a members retirement fund to clear or offset a members outstanding loan with the Fund.

Medical and Educational benefit (MEDU
The MEDU benefit is a benefit that is payable directly from a member's MEDU account for the purpose to finance a member or member's dependants medical and/or educational services in accordance with conditions laid out by way of policy.

Total withdrawals made by members during the year amounted to $4,339,987 (2015 – $6,424,986). The breakdown of withdrawals made under each category during the financial year is summarized below -

Type of Benefit	Amount ($)
Retirement	1,974,704
Emigration	534,201
Death	101,533
Incapacity	26,029
Housing	269,776
Recovery for bad and doubtful debts	590,941
MEDU benefits	842,803
Total	**4,339,987**

Enforcement

The Fund's enforcement committee had been instrumental during the year, working closely with the enforcement team in making sure non-complying employers are dealt with accordingly. Routine inspections are carried out on defaulting clients and reminder letters are issued accordingly. Visits to defaulting Employers on the outer islands were also carried out during the year.

Investments

Offshore
The Fund's offshore investment portfolio experienced significant growth during the year, increasing from $42,252,791 in 2015 to finish at $45,167,376 in 2016. It was the equity component of the offshore portfolio that recorded good growth compared to last year. The Fund maintained its objective based asset allocation strategy during the year and also retained the AMP Capital Extended Multi-Asset Fund and Schroders Real Return Fund as fund managers.

Loans
The Fund's loan portfolio continued to produce a consistent positive return for the Fund. The loan portfolio also increased significantly during the year from $8,535,150 in 2015 to $9,003,921 in 2016. The loans portfolio gave the Fund a return of 10.25% during the year.

Commercial market property
The Fund's commercial market property investment collected $44,716 in total revenues, a huge increase compared to $27,500 reported in 2015. All rooms of the market property were occupied during the year and this contributed to the increase in revenues. Plans to construct three additional rooms at the ground floor in 2017 are underway.

Hotel property investment

The Fund diversified its investments during the year by acquiring on a lease basis all major assets of the Vaiaku Lagi Hotel, a state-owned statutory entity. The acquisition was made possible through a concession agreement signed between the Fund's Board and Government of Tuvalu (Government) in December 2016. The agreement gives the Fund the rights to manage and administer the assets of the Vaiaku Lagi Hotel (VLH) and its hotel business for a minimum period of 25 years, with possible extension to a maximum period of 45 years. To manage its hotel business, the Fund established a subsidiary company called 'TNPF Investment Holdings Ltd' to manage its hotel & lodging business. The Fund uses the trade name 'Funafuti Lagoon Hotel' for its hotel and lodging business. The Fund paid to Government an initial lease fee of $840,913 plus improvements agreed under the above investment arrangement.

The Fund's total investment portfolio as at 31 December 2016 amounted to $58,216,400 (2015 - $52,785,512). A breakdown of the Fund's overall investment strategy is presented below:-

Fund Manager / Portfolio Type	Amount ($)	Weighting (%)
Schroder Real Return Fund	21,929,808	37.66
AMP Capital Extended Multi-Asset Fund	23,237,568	39.91
Members Small Loans	9,003,921	15.47
Fixed IBD Term Deposits with NBT	2,086,260	3.59
Property Market Investment	719,815	1.24
Investments in Subsidiary (TNPF Investment Holdings Ltd)	1,239,003	2.13
Shares in TCS	25	0
Total	**58,216,400**	**100**

Human Resource Development

Motivating employees to achieve higher qualifications has always been Management's priority.

Senior officer, Ms. Siava Tekafa pursued postgraduate training during the first half of the year under the Australian Award Pacific Scholarship, pursuing a Master of Commerce (Professional Accounting) course offered at the University of the South Pacific, Suva, Fiji. The Officer managed to complete the requirements of the programme during the year and also graduated during the second half of the year.

Four officers of the Fund attended the 2nd Annual Portfolio Construction MasterClass educational Conference that was held at Denarau, Fiji. Staff who attended the conference were Penielu Teo, Kiatoa Ulika, Siale Paueli and Tioti Maatia. The three days educational Forum was organized and coordinated by the Investment Innovative Institute [i3]. Hosted by the Fiji National Provident Fund, the conference provided a unique learning Platform on issues that surrounded the global investment environment.

The Association of Superannuation Funds of Australia (ASFA)

The Fund renewed its membership with ASFA during the year. The General Manager (Mr. Penielu Teo), Manager Finance (Ms. Siava Tekafa) and IT Officer (Mr. Tuitala Lasifo) attended the ASFA summit and Super Expo held in the Gold Coast, Australia during the year. The National Conference and Super Expo is ASFA's flagship event and is renowned as the largest superannuation and pension industry event staged in the Asia-Pacific region.

Membership in other Professional Organizations

Management encouraged eligible employees to become members of various professional organizations as their memberships will benefit the Fund. The Fund's General Manager, Mr. Penielu P. Teo is a full Chartered Accountant (CA) member of the Fiji Institute of Accountants (FIA). Through his membership, the Fund receives reading materials, accounting journals and special reports on conferences and short courses conducted by FIA during the year.

Tables of Statistics
(1984 to 2016)

Table 1: Contributions

Presented below is the breakdown of contributions, annual contributions and average contributions from 1984 to 2016.

Year	Number of contributors	Annual contributions (AUD)	Average annual contribution per member (AUD)
1984	1,136	145,910	128
1985	1,302	239,542	184
1986	1,913	279,472	146
1987	2,349	284,991	121
1988	2,646	348,933	132
1989	2,974	343,294	115
1990	3,162	378,750	120
1991	3,182	485,890	153
1992	3,241	668,961	206
1993	3,268	795,647	243
1994	3,287	643,555	196
1995	3,334	912,003	273
1996	3,376	785,333	233
1997	3,519	1,206,821	343
1998	3,538	1,279,968	362
1999	3,573	1,596,799	447
2000	3,726	2,554,855	686
2001	3,859	2,624,234	680
2002	4,267	2,994,661	702
2003	4,892	3,815,165	780
2004	5,343	3,220,414	603
2005	5,626	2,867,305	509
2006	5,851	3,435,203	587
2007	6,227	3,448,518	553
2008	6,585	3,936,902	598
2009	6,773	3,907,439	577
2010	5,099	4,230,324	830
2011	5,250	4,806,440	915
2012	5,442	4,380,528	805
2013	5,646	4,605,732	816
2014	5,840	5,196,065	889
2015	6,137	7,354,214	1,198
2016	6,427	6,510,223	1,013

Table 2: Interest rates

Presented below is the breakdown of interest rates declared, bonus, amounts credited, and average amounts credited to members accounts from 1984 to 2016.

Year	Declared Interest rate (%)	Amounts credited (AUD)	Average amount credited per member (AUD)
1984	6.5	109,061	96
1985	7.5	124,540	96
1986	8	157,836	83
1987	10	229,149	98
1988	12	302,128	114
1989	13.5	397,850	134
1990	14	497,574	157
1991	14	595,489	187
1992	14	643,380	199
1993	14	777,946	238
1994	9	605,564	184
1995	8	597,270	179
1996	9.5	728,090	216
1997	10.5	894,214	254
1998	10.5	983,091	278
1999	4	418,220	117
2000	2.45	305,742	82
2001	2.45	364,678	95
2002	0	0	0
2003	1.5	274,979	56
2004	4.5	931,147	174
2005	6.5	1,484,485	263
2006	7	1,832,003	313
2007	5	1,532,451	246
2008	0	0	0
2009	1	331,887	49
2010	5	1,722,287	336
2011	4	1,522,249	290
2012	8	2,955,766	543
2013	8	3,186,668	564
2014	5.26	2,292,875	392
2015	3	1,378,100	225
2016	5	2,521,485	392

Table 3: Inflows and Outflows

Presented below is the breakdown of expenditure, total contributions, income and percentage of expenditure to total contributions plus income from 1984 to 2016.

Year	Expenditure (AUD	Total contributions (AUD)	Income (AUD)	Percentage of Expense to contributions plus income (%)
1984	10,914	145,909	125,076	4.03
1985	17,247	239,542	258,141	3.47
1986	24,620	279,472	293,780	4.29
1987	25,122	284,991	423,665	3.55
1988	27,743	348,933	525,598	3.17
1989	33,052	343,394	448,185	4.17
1990	39,754	378,750	551,572	4.27
1991	45,257	485,890	717,711	3.76
1992	62,359	668,961	768,557	4.34
1993	47,085	795,647	112,7001	2.44
1994	553,339	643,555	569,659	45.6
1995	179,327	912,003	744,085	10.83
1996	198,203	785,333	659,253	13.72
1997	308,351	1,206,821	1,560,652	11.14
1998	331,597	1,279,968	1,248,125	13.12
1999	289,020	1,596,799	106,568	16.96
2000	575,464	2,554,855	1,049,399	15.97
2001	1,262,277	2,624,234	1,391,073	31.44
2002	1,794,421	2,994,661	885,147	46.25
2003	483,133	3,815,165	1,066,376	9.90
2004	332,057	3,220,414	2,358,233	5.95
2005	362,028	2,867,305	2,615,651	6.60
2006	507,548	3,435,203	2,908,735	8.0
2007	484,976	3,448,518	1,890,621	9.08
2008	522,483	3,936,902	802,993	11.02
2009	508,005	3,907,439	4,010,786	13.00
2010	595,811	4,230,324	2,939,954	8.30
2011	721,924	4,806,440	2,289,524	10.10
2012	650,378	4,380,528	4,181,919	7.59
2013	687,903	4,605,732	4,278,028	7.74
2014	776,028	5,196,065	3,788,322	8.64
2015	840,626	7,354,214	2,350,734	8.66
2016	901,696	6,510,223	3,970,511	8.60

Table 4: Investments

Presented below is the breakdown of net assets, total investment and percentage of investment to net assets from 1984 to 2016.

Year	Net Assets (AUD)	Total Investment Portfolio (AUD)	Percentage of Investments to Net Assets (%)
1984	1,677,869	0	0
1985	2,015,933	1,736,878	86.15
1986	2,411,037	2,166,095	89.84
1987	2,967,739	2,495,312	84.08
1988	3,485,033	2,998,382	86.03
1989	4,021,985	3,398,402	84.49
1990	4,761,380	3,826,426	80.36
1991	5,064,310	4,450,136	84.49
1992	6,084,937	5,174,117	85.03
1993	7,072,620	6,667,883	94.27
1994	7,329,563	6,516,884	88.91
1995	7,808,451	7,191,764	92.10
1996	8,233,421	8,230,736	99.90
1997	9,148,852	8,830,023	96.51
1998	10,599,156	9,867,615	93.10
1999	10,816,077	9,915,161	91.67
2000	12,998,052	11,914,141	91.66
2001	14,801,842	13,391,074	90.47
2002	15,422,814	13,937,458	90.37
2003	18,160,292	16,001,722	88.11
2004	21,966,741	20,370,774	92.73
2005	25,262,106	24,570,258	97.26
2006	29,527,032	28,652,195	97.03
2007	32,465,281	31,793,222	97.92
2008	29,389,177	28,596,218	97.30
2009	33,645,436	32,750,044	97.34
2010	36,259,320	34,886,189	96.00
2011	39,600,601	36,632,056	92.50
2012	43,763,700	43,250,442	98.82
2013	47,387,513	46,886,628	98.94
2014	51,105,409	50,436,769	98.70
2015	53,713,607	52,785,512	98.27
2016	59,008,978	58,216,400	98.66

Table 5: Member's Fund

Presented below is the growth trend in members fund and number of members from 1984 to 2016.

Year	Number of Members	Members Fund (AUD)	Members growth rate (%)	Members Fund growth rate (%)
1984	1,136	1,677,870	0	0
1985	1,302	1,847,463	14.61	10.10
1986	1,913	2,130,788	46.92	15.13
1987	2,349	2,520,634	22.79	18.29
1988	2,646	2,841,207	12.64	12.71
1989	2,974	3,355,975	12.39	18.11
1990	3,164	4,076,556	6.39	21.47
1991	3,182	4,299,175	0.57	5.46
1992	3,241	5,240,336	1.85	21.89
1993	3,268	6,048,890	0.83	15.42
1994	3,287	6,899,359	0.58	14.05
1995	3,334	7,347,583	1.42	6.49
1996	3,376	8,094,935	1.25	10.17
1997	3,519	8,828,682	4.24	9.06
1998	3,538	10,018,061	0.54	13.47
1999	3,573	10,727,919	0.99	7.09
2000	3,726	12,918,586	4.28	20.42
2001	3,859	14,707,376	3.57	13.85
2002	4,267	15,313,348	10.57	4.12
2003	4,892	18,035,826	14.64	17.78
2004	5,343	21,623,307	9.22	21.02
2005	5,626	24,322,730	5.29	12.48
2006	5,851	28,003,472	3.99	15.13
2007	6,227	31,089,756	6.42	11.02
2008	6,585	29,070,897	5.74	- 6.49
2009	6,773	33,520,594	2.85	15.30
2010	5,099	36,064,320	-24.7	7.50
2011	5,250	39,190,501	2.96	8.66
2012	5,442	42,587,283	3.65	8.67
2013	5,646	47,387,513	3.75	7.98
2014	5,840	51,105,409	3.44	7.85
2015	6,137	53,713,607	5.08	5.10
2016	6,427	59,008,978	4.73	9.86

Table 6: Income and Benefits Paid

Presented below is the breakdown of total benefits paid out as compared to income earned from 1984 to 2016.

Year	Total Benefits Paid (AUD)	Total Income Earned (AUD)
1984	65,637	125,076
1985	162,540	258,141
1986	152,892	293,780
1987	123,405	423,665
1988	330,656	525,598
1989	225,261	448,185
1990	156,348	551,572
1991	858,762	717,711
1992	386,832	768,557
1993	606,164	1,127,001
1994	398,650	569,659
1995	1,061,049	744,085
1996	766,071	659,253
1997	1,367,288	1,560,652
1998	1,073,680	1,248,125
1999	1,209,149	577,174
2000	833,657	1,049,399
2001	964,240	1,391,073
2002	1,468,581	885,147
2003	1,649,806	1,066,376
2004	1,426,843	2,358,233
2005	1,811,933	2,615,651
2006	1,642,443	2,908,735
2007	1,895,427	1,890,621
2008	2,693,968	802,993
2009	3,148,940	4,010,786
2010	3,455,983	2,939,954
2011	3,076,102	2,289,524
2012	3,834,089	4,181,919
2013	4,725,026	4,278,028
2014	4,641,681	3,788,322
2015	6,424,986	2,350,734
2016	4,339,987	3,970,511

Table 7: Benefits Withdrawals

Presented below is the breakdown of total benefits paid out of each of the following benefit categories from 1984 to 2016.

Year	Retire- ment (AUD)	Age & Other Claims (AUD)	Emigration (AUD)	Women's Home (AUD)	Incapacity (AUD)	Death (AUD)	Housing (AUD)	Pension (AUD)	Recover y Bad Debts (AUD)	Member s Home (AUD)	MEDU Benefit	Total (AUD)
1984	20,431	29,303	4,001	7,933	0	0	0	3,969				65,637
1985	145,508	4,262	4,249	2,412	0	601	0	5,508				162,540
1986	56,081	46,350	28,346	15,239	19	1,442	0	5,415				152,892
1987	33,568	5,205	67,174	2,231	0	9,803	0	5,424				123,405
1988	196,959	46,901	47,004	26,823	0	6,106	0	6,863				330,656
1989	71,257	45,907	49,702	13,629	0	38,431	0	6,336				225,262
1990	45,066	8,446	65,852	20,041	0	2,649	0	8,292				150,346
1991	692,721	24,967	75,925	18,526	0	39,050	0	7,571				858,760
1992	239,099	34,871	53,943	34,126	10,607	6,664	0	7,518				386,828
1993	464,414	29,902	40,772	39,047	0	23,308	0	8,721				606,164
1994	246,811	2,951	76,255	36,120	0	27,788	0	8,725				398,650
1995	630,631	13,442	105,214	243,624	10,235	49,182	0	8,725				1,061,053
1996	325,189	4,401	227,251	178,185	5,960	16,365	0	8,720				766,071
1997	749,755	157,201	223,881	168,143	4,551	61,146	0	2,611				1,367,288
1998	587,151	184,963	145,149	75,420	4,742	73,922	0	2,333				1,073,680
1999	402,951	509,562	152,660	128,059	0	11,177	0	4,740				1,209,149
2000	408,334	81,285	107,086	66,452	4,616	66,330	96,817	2,738				833,658
2001	450,374	0	198,247	51,309	0	165,373	96,199	2,738				964,240
2002	974,078	0	42,976	207,867	23,299	42,510	175,113	2,738				1,468,581
2003	1,169,377	0	53,745	275,168	1,451	40,361	109,704	2,738				1,652,544
2004	828,132	0	68,690	249,617	78,786	83,166	118,452	2,875				1,429,718
2005	1,018,581	0	138,087	298,234	41,569	180,325	135,137	2,875				1,814,808
2006	890,554	4,367	110,955	326,633	17,244	49,411	241,133	2,875				1,643,172
2007	776,831	0	294,043	409,897	5,807	184,449	221,573	2,875				1,895,475
2008	1,278,307	0	388,455	453,841	5,988	88,703	460,000	2,875	18,674			2,696,843
2009	1,625,968	0	254,988	236,182	79,679	53,824	263,200	2,875	150,240	484,859		3,151,815

2010	2,466,619	13,540	227,762	119,137	53,320	96,157	60,806	2,875	330,713	0	87,929	3,455,983
2011	2,071,819	0	296,034	0	39,227	140,309	65,925	2,875	211,882	0	250,906	3,078,977
2012	2,633,418	0	430,861	0	74,499	99,547	51,352	2,875	113,989	0	430,423	3,836,964
2013	2,107,524	0	908,305	0	16,330	184,721	141,428	2,875	872,960	0	493,758	4,727,901
2014	2,418,800	0	615,248	0	20,178	144,317	198,933	2,875	700,923	0	543,282	4,644,556
2015	2,214,253	0	632,395	0	45,427	1,835,571	214,603	2,875	798,583	0	684,155	6,427,862
2016	1,974,704	0	534,201	0	26,029	101,533	269,776	2,875	590,941	0	842,803	4,342,862
TOTAL	**30,215,265**	**1,247,826**	**6,669,456**	**3,703,895**	**569,563**	**3,924,241**	**2,920,151**	**146,923**	**3,788,905**	**484,859**	**3,333,256**	**57,004,340**

Notes:

(1) The Age benefit ceased in year 2001, given changes made to the TNPF Act.
(2) Effective from the year 2003, pension instalments were no longer paid out as direct withdrawal from the member's fund, however, the payments were treated as general expenses of the Fund.
(3) The Women's Home Benefit ceased in year 2010, given changes made to the TNPF Act.
(4) The MEDU benefit was introduced as a new benefit in the year 2010.

Table 8: Special death benefit fund (SDBF)

Presented below is the breakdown of amounts credited into the special death benefit Fund (SDBF) compared to total payments paid out of the SDBF fund from 1984 to 2000.

Year	Income (AUD)	Interest (AUD)	Payment (AUD)	Total fund (AUD)
1984	0	0	0	0
1985	5,958	300	251	6,007
1986	6,400	713	1,352	11,768
1987	8,500	1,317	550	21,035
1988	10,500	3,014	1,850	32,699
1989	12,626	4,083	1,350	48,058
1990	13,025	6,508	2,200	65,392
1991	0	3,944	2,700	66,636
1992	0	3,033	3,100	66,593
1993	0	2,063	3,400	47,476
1994	0	0	1,834	45,642
1995	0	0	4,538	41,104
1996	0	0	1,184	39,920
1997	0	0	3,558	36,362
1998	0	0	4,927	31,435
1999	0	0	3,277	28,158
2000	0	0	28,158	0

Note:

The special death benefit reserve fund (SDBF) was closed at the end of the year 2000 and the balance of the reserve fund was distributed to all members who contributed. From the year 2001, the Fund continued to finance special death benefit payments under the direct expense of the Fund. The arrangement continued until the benefit was discontinued on 1st August 2007.

Financial Statements

For the year ended 31 December 2016

Tuvalu National Provident Fund and its Subsidiary

Contents

Tuvalu National Provident Fund and its Subsidiary

Directors' report

In accordance with a resolution of the board of directors, the directors herewith submit the financial statements of Tuvalu National Provident Fund ("the Fund") and the consolidated financial statements of the Fund and its subsidiary ("the Group") for the year ended 31 December 2016 and report as follows:

Directors

The names of directors in office at the date of this report and at any time during the financial year and up until the date the financial statements were authorised for issue are as follows:

Mr Vavau Fatuuga – Chairman (appointed 16 February 2016)
Ms Palipa Lauti (resigned 16 February 2016)
Dr Miliama Simeona
Mr Petaia Meauma
Mr Pugameau Taufilo
Mr Temate Melitiana (resigned 20 March 2017)
Mr Katepu Laoi

State of affairs

In the opinion of the directors, the accompanying statements of financial position give a true and fair view of the state of affairs of the Fund and the Group as at 31 December 2016 and the accompanying statements of comprehensive income, statements of changes in equity and statements of cash flows give a true and fair view of the results, changes in equity and cash flows of the Fund and the Group for the year then ended.

Operating results

The net gain as a result of operations of the Fund for the year ended 31 December 2016 amounted to $3,059,242 (2015: $1,510,108). The consolidated result for the Group attributable to members for the year ended 31 December 2016 was a gain of $3,068,815.

Interest earned by members

An interest rate of 5% (2015: 3%) on members' balance was declared by the Board.

Reserves

The board approved the transfer of undistributed gains to the following reserves during the year:

- $522,757 (2015: $117,008) to the Dividend Equalisation Reserve.
- $15,000 (2015: $15,000) to the Insurance Reserve.

Principal activities

The principal activities of the Fund during the course of the financial year were receiving and managing contributions on behalf of its members, providing personal loans to members secured against the members' contribution and investing in interest bearing deposits, bonds, the money market and equity through professional fund managers.

On 30 November 2016 the Fund entered into a concession agreement with the Government of Tuvalu in respect of the long-term operation of the Vaiaku Lagi Hotel at Funafuti. Following the Fund's successful bid, a subsidiary company, TNPF Investment Holdings Limited, was incorporated in order to assign the Funds rights and obligations under the concession agreement to the subsidiary company. The principal activities of the subsidiary entity were those of operation of hotel and its facilities.

Except for the above, there were no other significant changes in the nature of the activities during the year.

Current asset

The directors took reasonable steps before the Fund's and the Group's financial statements were made out to ascertain that the current assets were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of operation. At the date of this report, the directors are not aware of any circumstances which would render the values attributable to the current assets in the financial statements to be misleading.

Tuvalu National Provident Fund and its Subsidiary

Directors' report (continued)

Receivables

The directors took reasonable steps before the Fund's and the Group's financial statements were made out to ascertain that all known bad debts were written off and adequate allowance was made for impairment losses.

At the date of this report, the directors are not aware of any circumstances which would render the above assessment inadequate to any substantial extent.

Related party transactions

In the opinion of the directors, all related party transactions have been recorded in the books of the Fund and its subsidiary and adequately disclosed in the financial statements.

Going concern

The financial statements of the Fund and the Group have been prepared on the basis of going concern, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of operation.

Events subsequent to balance date

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Fund or the Group, the results of those operations or the state of affairs of the Fund or the Group in subsequent financial years.

Other circumstances

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

Unusual circumstances

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

Significant events during the year

On 30 November 2016 the Fund entered into a concession agreement with the Government of Tuvalu in respect of the long-term operation of the Vaiaku Lagi Hotel at Funafuti. Following the Fund's successful bid, a subsidiary company, TNPF Investment Holdings Limited, was incorporated in order to assign the Funds rights and obligations under the concession agreement to the subsidiary company.

The financial effect of the above events have been incorporated in the financial statements for the year ended 31 December 2016.

Directors' interests

No director 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 directors shown in the Fund's financial statements) by reason of a contract made with the Fund or a related corporation with the director or with a firm of which he/she is a member, or in a company in which he/she has a substantial financial interest.

Dated at Vaiaku, Funafuti this 23rd day of August 2017

Signed in accordance with a resolution of the directors.

Director.................................... Director....................................

Tuvalu National Provident Fund and its Subsidiary

Statement by directors

In the opinion of the directors:

(a) the accompanying statements of comprehensive income are drawn up so as to give a true and fair view of the results of the Fund and the Group for the year ended 31 December 2016;

(b) the accompanying statements of changes in equity are drawn up so as to give a true and fair view of the changes in equity of the Fund and the Group for the year ended 31 December 2016;

(c) the accompanying statements of financial position are drawn up so as to give a true and fair view of the state of affairs of the Fund and the Group as at 31 December 2016;

(d) the accompanying statements of cash flows are drawn up so as to give a true and fair view of the cash flows of the Fund and the Group for the year ended 31 December 2016;

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

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

Dated at Vaiaku, Funafuti this 23rd day of August 2017

Signed in accordance with a resolution of the directors.

Director.................................... Director....................................

Tuvalu National Provident Fund and its Subsidiary

Statements of comprehensive income

For the year ended 31 December 2016

	Notes	Consolidated 2016 $	The Fund 2016 $	2015 $
Income				
Net interest income	5	784,847	784,847	606,734
Movement in net market value of investments				
Unrealised gain on investments		2,694,042	2,694,042	1,447,178
Investment income		220,543	220,543	11,043
Other operating income	6	271,079	218,347	285,779
		3,970,511	3,917,779	2,350,734
Expenses				
Personnel expenses	7	520,502	511,030	462,033
Depreciation		45,944	45,944	44,995
Other operating expenses	8	331,148	301,563	333,598
Gain from operations		3,072,917	3,059,242	1,510,108
Income tax expense	9(a)	4,102	-	-
Other comprehensive income		-	-	-
Net gain for the year attributable to members of the Fund		3,068,815	3,059,242	1,510,108

The statements of comprehensive income are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 49.

Tuvalu National Provident Fund and its Subsidiary

Statements of changes in equity

For the year ended 31 December 2016

	Notes	Consolidated 2016 $	The Fund 2016 $	The Fund 2015 $
Contributions				
Balance at 1 January		51,394,909	51,394,909	48,903,798
Add: contributions received during the year	19(a)	6,510,223	6,510,223	7,354,214
Add: pension fund	19(a)	27,558	27,558	30,015
Add: transfers from statement of comprehensive income	19(a)	3,059,242	3,059,242	1,510,108
Add: advance distribution accounts	19(a)	49,772	49,772	157,999
Add: transfer from unallocated contributions	19(a)	-	-	14,921
Less: transfer to unallocated contributions	19(a)	(2,303)	(2,303)	-
Less: administrative service fees	19(a)	(21,010)	(21,010)	(19,152)
Less: member withdrawals	19(a)	(4,339,987)	(4,339,987)	(6,424,986)
Less: transfer to dividend equalisation reserve	19(a)	(522,757)	(522,757)	(117,008)
Less: transfer to insurance reserve	19(a)	(15,000)	(15,000)	(15,000)
Balance at 31 December		56,140,647	56,140,647	51,394,909
Unallocated member contributions		67,403	67,403	82,324
Transfer from/(to) contributions	19(b)	2,303	2,303	(14,921)
		69,706	69,706	67,403
		56,210,353	56,210,353	51,462,312
Insurance reserve				
Balance at 1 January		210,000	210,000	195,000
Transfer from statement of comprehensive income	21	15,000	15,000	15,000
Balance at 31 December		225,000	225,000	210,000
Dividend equalisation reserve				
Balance at 1 January 2016		2,041,295	2,041,295	1,924,287
Transfer from statement of comprehensive income	21	522,757	522,757	117,008
Balance at 31 December 2016		2,564,052	2,564,052	2,041,295
Total reserves		2,789,052	2,789,052	2,251,295
Retained earnings				
Balance at 1 January		-	-	-
Transfer from statement of comprehensive income	21	9,573	-	-
Balance at 31 December		9,573	-	-
Total member's funds at 31 December		59,008,978	58,999,405	53,713,607

The statements of changes in equity are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 49.

Tuvalu National Provident Fund and its Subsidiary
Statements of financial position
As at 31 December 2016

	Notes	Consolidated 2016 $	The Fund 2016 $	The Fund 2015 $
Current assets				
Cash and cash equivalents	10	3,166,252	3,100,732	2,097,147
Other receivables	11	404,061	453,619	480,043
Inventories		25,903	15,187	-
Total current assets		3,596,216	3,569,538	2,577,190
Noncurrent assets				
Financial assets	12(a)	54,171,322	54,171,322	50,787,966
Investments in subsidiary	12(b)	-	836,400	-
Property, plant and equipment	13	152,921	152,921	66,605
Intangible assets	14	1,239,003	-	-
Investment property	15	719,815	719,815	734,894
Total noncurrent assets		56,283,061	55,880,458	51,589,465
Total assets		59,879,277	59,449,996	54,166,655
Current liabilities				
Trade creditors and accruals	16(a)	47,684	30,168	28,193
Employee entitlements	17	7,492	7,492	10,004
Deferred income	18	7,826	7,826	7,826
Financial liability	16(b)	24,080	-	-
Current tax liability	9(b)	4,102	-	-
Total current liabilities		91,184	45,486	46,023
Noncurrent liabilities				
Employee entitlements	17	59,439	59,439	53,533
Financial liability	16(b)	374,010	-	-
Deferred income	18	345,666	345,666	353,492
Total noncurrent liabilities		779,115	405,105	407,025
Total liabilities		870,299	450,591	453,048
Net assets		59,008,978	58,999,405	53,713,607
Members' funds				
Contributions	19	56,210,353	56,210,353	51,462,312
Reserves	20	2,789,052	2,789,052	2,251,295
Retained earnings		9,573	-	-
Total members' funds		59,008,978	58,999,405	53,713,607

Signed in accordance with the resolution of the directors:

Director.................................. Director..................................

The statements of financial position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 49.

Tuvalu National Provident Fund and its Subsidiary

Statements of cash flows

For the year ended 31 December 2016

	Notes	Consolidated 2016 $	The Fund 2016 $	The Fund 2015 $
Cash flows from operating activities				
Contributions received		6,537,781	6,537,781	7,384,229
Interest received		784,847	784,847	606,734
Other income received		310,980	265,389	224,165
Payment of benefits		(4,311,225)	(4,311,225)	(6,286,139)
Payment to suppliers and employees		(826,413)	(800,855)	(713,937)
Net cash from operating activities		2,495,970	2,475,937	1,215,052
Cash flows from investing activities				
Net increase in small members loan		(468,771)	(468,771)	(341,876)
Payment for investment properties		(3,306)	(3,306)	-
Payment for property, plant and equipment		(113,875)	(113,875)	(7,491)
Advance to related party		-	(50,000)	-
Shares in subsidiary acquired		-	(836,400)	-
Payment for service concession		(840,913)	-	-
Net cash used in investing activities		(1,426,865)	(1,472,352)	(349,367)
Net increase in cash and cash equivalents		1,069,105	1,003,585	865,685
Cash and cash equivalents at 1 January		2,097,147	2,097,147	1,231,462
Cash and cash equivalents at 31 December	10	3,166,252	3,100,732	2,097,147

The statements of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 30 to 49.

1. Reporting entity

Tuvalu National Provident Fund (the "Fund") is a national superannuation fund domiciled in Tuvalu. The address of the Fund's registered office is Funafuti, Tuvalu.

The consolidated financial statements of the Fund as at and for the year ended 31 December 2016 comprise the Fund and its controlled entity ("the Group").

The principal activities of the Fund during the course of the financial year were receiving and managing contributions on behalf of its members; providing personal loans to members secured against the members' contribution; and investing in interest bearing deposits, bonds, and money market and equity through professional fund managers.

On 30 November 2016 the Fund entered into a concession agreement with the Government of Tuvalu in respect of the long-term operation of the Vaiaku Lagi Hotel at Funafuti. Following the Fund's successful bid, a subsidiary company, TNPF Investment Holdings Limited, was incorporated in order to assign the Funds rights and obligations under the concession agreement to the subsidiary company. The principal activities of the subsidiary entity were those of operation of hotel and its facilities.

Except for the above, there were no other significant changes in the nature of the activities during the year.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Fund and the Group (being the Fund and its subsidiary) have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") as adopted by the International Accounting Standards Board ("IASB") and the provisions of the National Provident Fund Act 1984.

The financial statements were approved by the Board of the Directors on 23 August 2017

Standards, amendments and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. The following new standard relevant to the Group has been issued. The Group does not intend to apply this new standard until its effective date:

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in *IAS 39 Financial Instruments: Recognition and Measurement.* IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is yet to assess the potential impact on the financial statements resulting from the application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

The standard will provide a single source of requirements for accounting for all contracts with customers (except for some specific exceptions, such as lease contracts, insurance contracts and financial instruments) and will replace all current accounting pronouncements on revenue. New revenue disclosures are also introduced. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group is yet to assess the potential impact on the financial statements resulting from the application of IFRS 15.

2. Basis of preparation (continued)

(b) Basis of measurement

The financial statements of the Fund and the Group have been prepared on the basis of historical cost and do not take into account changing money values or current valuation of non-current assets, except for the valuation of investments in pooled managed funds through profit and loss which is measured at fair value.

The accounting policies have been consistently applied by the Group and except where there is a change in accounting policy are consistent with those of the previous year.

(c) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Group's functional currency, and have been rounded to the nearest dollar.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3. Significant accounting policies

(a) Basis of consolidation

Subsidiaries

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

Transactions eliminated on consolidation

Intra group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

(b) Foreign currency transactions

Foreign currency transactions are translated into the Australian currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held at call with financial institutions and other short term highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3. Significant accounting policies (continued)

(d) Other receivables

Other receivables are recognised initially at fair value and comprise of receivables from employers with respect to surcharges less allowance for doubtful debts, and receivables from Government with respect to the subsidy in relation to the capital expenditure on the TNPF Market Building and prepayments.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses. The cost of inventories is based on the first-in-first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(f) Property, plant and equipment

<u>Recognition and measurement</u>

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

<u>Subsequent expenditure</u>

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

<u>Depreciation</u>

Items of property, plant and equipment are depreciated using the straight line method, at rates which will write off the costs of those assets over their expected useful lives. The method of write off and the rates used are those considered appropriate to each class of asset. The annual depreciation rates are as follows:

	Depreciation rates
Office Furniture and Equipment	5%, 15%, 20% & 33%
Buildings	3.6%

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

3. Significant accounting policies (continued)

(g) Financial assets

(i) Non-derivative financial assets

The Group initially recognises loans and advances on the date they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risk and rewards of the ownership of the financial asset are transferred. Any interest in such financial asset that is created or retained by the Group is recognised as a separate asset or liability.

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

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

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in the profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in the profit or loss.

Financial assets designated as at fair value through profit or loss comprise investment in managed funds that otherwise would have been classified as available-for-sale.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, other receivables and loans and advances.

Members' small loans include direct finance provided to members through term loans. Interest is charged at 8.75% per annum.

Members' small loans are carried at principal balances outstanding. Interest income is brought to account using the effective interest rate method. The loans are secured against the members' contributions to the Fund.

(ii) Fair Value Measurement

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 and the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument.

3. Significant accounting policies (continued)

(g) Financial assets (continued)

(ii) Fair Value Measurement (continued)

A market is regarded as "active" if transactions for the asset or liabilities take place with sufficient frequency and volume to provide pricing information on an on-going basis.

(iii) Derecognition

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

Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset and consideration received is recognised in profit or loss. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and it intends to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis when permitted under IFRSs e.g. for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit or loss.

Note 12 provides a reconciliation of line items in the statement of financial position to the categories of financial instruments, as defined by IFRS 9.

(h) Impairment

(i) Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss events(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Financial assets measured at amortised cost

As the loans and advances of the Fund are secured against the members' contributions there is no impairment recorded in respect of these loans and advances. The loans and advances balance of a member is not to exceed 30 percent of the contribution balance at any point in time.

(i) Investment property

Investment property is property held to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or service or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of material and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing cost. Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

3. Significant accounting policies (continued)

(i) Investment property (continued)

Investment property and equipment are depreciated using the straight line method, at rates which will write off the cost of those assets over their expected useful lives. The method of write off and the rates used are those considered appropriate to each class of assets. The annual depreciation rates are as follows:

	Depreciation rates
Furniture and equipment	5%, 15%
Buildings	2%

(j) Trade creditors and accruals

Trade and other payables are stated initially at fair value. A provision is recognised in the statement of financial position when the Group has legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(k) Employee benefits

Wages, salaries and employee entitlements

Liabilities for wages, salaries and employee entitlements are recognised and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to the reporting date.

(l) Revenue

Interest income

Interest income earned from investments such as term deposits and members' small loans are brought to account using the effective interest rate method.

Income from pooled managed funds

Income from pooled managed funds comprises of unrealised gains and dividend income relating to investments. Movement in the market value of the investments are brought to account in the profit or loss.

Fees and surcharges

Fees and surcharges comprising of loan application fee and surcharges on member contributions are recognised when the related services have been provided to the members.

Deferred income

Grants that compensate the Group for the cost of an asset or future expenses are initially recognised as a liability in the statements of financial position as deferred income, when reasonable assurance exists that the grant will be received and the Group will comply with the conditions attached to the grant. The deferred income is then released to the profit or loss as amortization of deferred income, commensurate with depreciation of the associated asset or the release of associated expenditure to the profit or loss.

Service concession arrangements

Revenue related to provision of hotel accommodation, public bar facilities, restaurant services and related activities under the service concession arrangement is recognised on the following basis; revenue from the rooms, restaurants and bars sales is recognised in the profit or loss when goods/services have been provided to the customers and revenue from the rendering of service is recognised in the profit or loss when the service has been rendered to the customer.

3. Significant accounting policies (continued)

(m) Expense recognition

All expenses are recognised in the profit or loss when the service has been performed.

(n) Income tax

The Provident Fund is exempt from income tax under section 32 of the National Provident Fund Act 1984. This exemption does not apply to any subsidiary.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(o) Intangible assets – service concession arrangements

The Group recognises an intangible asset arising from a service concession arrangement when the initial payment by the Group is made as consideration for a right to charge for use of the concession infrastructure. Where the Group is required to make a combination of fixed and variable payments over the concession period to acquire the right to charge for use of the concession infrastructure, the Group includes the fair value of the fixed element of the payments in the cost of the intangible asset and recognises a corresponding financial liability (refer note 16(b)) at inception of the agreement. Variable payments are expensed as they are incurred.

Subsequent to initial recognition, the intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses.

The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period. The concession term for the Group 25 years.

3. Significant accounting policies (continued)

(p) Contributions

Contributions from employers and members are recorded on a cash basis.

(q) Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in current year presentation.

4. Financial risk management

Introduction

The Group is committed to the management of risk to achieve sustainability of service to its members, employment of its staff and net surplus attributable to members and, therefore, takes on controlled amounts of risk when considered appropriate.

The Group has exposure to the following risk:
- Market risk
- Liquidity risk
- Credit risk
- Operational risk

Implementation of risk management strategy and the day to day management of risk is the responsibility of the General Manager, supported by the management of the Fund. The following sections describe the risk management framework components:

Market risk

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

The Group's operations are subject to the risk of interest rate fluctuations to the extent that investments re-price at different times or in differing amounts. Risk management activities are aimed at optimising gain on investment; at given market interest rate levels consistent with the Group's business strategies.

Market risk is the potential for change in the value of assets on and off the statement of financial position caused by a change in the value, volatility or relationship between market rates and prices.

Market risk arises from the mismatch between assets and liabilities, both on and off statement of financial position, and from controlled trading undertaken in pursuit of returns.

The Fund procures the service of an international fund manager based in New Zealand to manage its investment in overseas pooled managed funds. International Fund Managers report on a quarterly basis to the management of the Fund. The Fund will devise appropriate investment strategies to maximise the returns on these investments. The management of the Fund reports to the Board on a regular basis.

Market risk includes currency, price and interest rate risk, which are explained as follows:

i. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has no currency risk exposure on its financial instruments as all financial instruments are denominated in the functional currency (Australian Dollars).

4. Financial risk management (continued)

Market risk (continued)

ii. Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments of a specific type traded in the market.

The table below summarises what the market values would be, given a +/- 10% and +/- 20% change in returns each month, as well as a one standard deviation change per month, from a starting value as at 30 June 2012. Thus the change in returns are compounded each month over a 54 month period.

Consolidated and the Fund

	Actual FUM as at 31/12/2016 $	10% Increase $	10% Decrease $	20% Increase $	20% Decrease $	1 Std Dev Increase $	1 Std Dev Decrease $
AMP Capital Extended	23,237,568	24,107,552	22,403,929	25,003,957	21,594,875	23,574,596	22,912,179
Schroder Australian Equity Fund	21,929,808	22,596,672	21,281,444	23,282,527	20,651,101	22,126,711	21,734,550
Total	45,167,376	46,704,224	43,685,373	48,286,484	42,245,976	45,701,307	44,646,729
% Change		3.40%	-3.28%	6.91%	-6.47%	1.18%	-1.15%

iii. Interest rate risk

Interest rate risk is the potential for a change in interest rates to change net interest earnings, in the current reporting period and in future years. Fair value interest rate risk arises from the potential for a change in interest rates to cause a fluctuation in the fair value of financial instruments. Interest rate risk arises from the structure and characteristics of the Group's assets, liabilities and equity, and in the mismatch in re-pricing dates of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net interest earnings in the long term.

At the reporting date the interest rate profile of the Group and the Fund's interest-bearing financial instruments was:

	Consolidated	The Fund	
	2016	2016	2015
Fixed rate instruments	$	$	$
Short term deposit	2,086,260	2,086,260	1,262,652

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

4. Financial risk management (continued)

Liquidity risk

Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both:

- the risk of being unable to fund assets at appropriate maturities and rates; and
- the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Group assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy.

The Group manages this risk by holding a pool of readily tradable investment assets and term deposits with quality credit counterparties to provide for any unexpected patterns in cash movements and by seeking a diverse and stable funding base.

All the financial liabilities of the Group are payable within twelve months and hence the exposure to liquidity risk is minimal.

To control liquidity risk in terms of member withdrawals, the Fund has implemented measures in place to restrict withdrawals for certain benefits only. The major portion of the member withdrawals is retirement which is controlled by maintaining adequate cash in the general operating account. The Fund also holds highly liquid term deposits with an original term of one month to use in cases of liquidity issues.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group is subject to credit risk through its lending and investing activities.

The Group's primary exposure to credit risk arises through its loans to members. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statements of financial position. Lending standards and criteria are defined for loans provided to members of the Fund. The Fund relies primarily on the integrity of members and their ability to meet the obligations to the Fund.

The major concentrations of credit risk arise in relation to the Group's offshore investments. Exposure to credit risk on these investments is monitored by management on an on-going basis. The Group has an investment manager (Eriksen& Associates Limited) that provides investment advice.

Collateral for loans to members is held through the members' contribution. However, for offshore investments no collateral is held as security and no other credit enhancements exist. The Group's financial assets exposed to credit risk amounted to the following:

		Consolidated	**The Fund**	
	Notes	**2016**	**2016**	**2015**
		$	**$**	**$**
Cash and cash equivalents	10	3,166,252	3,100,732	2,097,147
Investments :				
- investments in pooled funds	12	45,167,401	45,167,401	42,252,816
- loans and advances	12	9,003,921	9,003,921	8,535,150
		57,337,574	57,272,054	52,885,113

4. Financial risk management (continued)

Operational risk

The Group's operational risk management framework supports the achievement of the Group's financial and business goals.

Operational risk is defined as the risk of economic gain or loss resulting from:
- inadequate or failed internal processes and methodologies;
- people;
- systems; or
- external events.

There are policies and procedures which staff are required to comply with, which also incorporates controls and systems to minimise operational risk. The General Manager is closely involved in the operational management of the Group on a daily basis. The Board also meets monthly to discuss and approve process or policies to strengthen the operational environment.

		Consolidated	The Fund	
		2016	**2016**	**2015**
		$	**$**	**$**
6.	**Net interest income**			
	Interest on members small loans	772,823	772,823	736,573
	Interest on member contributions	(49,772)	(49,772)	(157,999)
	Interest on term deposits	61,796	61,796	28,160
		784,847	784,847	606,734
7.	**Other operating income**			
	Surcharges	30,235	30,235	98,754
	Loan approval fees	112,740	112,740	109,540
	Hotel income	46,033	-	-
	TNPF Market – Rental	44,716	44,716	27,590
	Withdrawal fees	21,010	21,010	19,152
	Release of deferred income	7,826	7,826	30,001
	Miscellaneous income	8,519	1,820	742
		271,079	218,347	285,779
7.	**Personnel expenses**			
	Salaries and wages	389,797	381,556	342,815
	Provident fund contributions	39,492	38,261	32,942
	Allowance and entitlements	30,295	30,295	37,431
	Rent	45,115	45,115	33,633
	Staff bonus	15,803	15,803	15,212
		520,502	511,030	462,033
8.	**Other operating expenses**			
	Auditors - remuneration	10,000	10,000	10,000
	- other disbursement	4,600	4,600	4,600
	Bank charges	5,797	5,763	5,244
	Board expenses	24,185	23,705	13,856
	Doubtful debts-surcharge	57,499	57,499	34,210
	Electricity	16,908	16,908	17,337

	Consolidated	The Fund	
	2016	**2016**	**2015**
8. Other operating expenses (continued)	**$**	**$**	**$**
Office expenditure	20,240	18,993	15,479
Food and beverage	16,436	-	-
Portfolio management charge	16,365	16,365	31,323
Repairs and maintenance	12,136	11,850	12,636
Sponsorship	8,340	8,340	9,128
Training	33,452	33,452	29,511
Travelling, meals and accommodation	48,363	48,363	48,527
Telecommunications	8,799	8,799	7,184
TNPF market	15,836	15,836	11,064
Impairment cost – TNPF Building	-	-	74,414
Other	32,192	21,090	9,085
	331,148	301,563	333,598

9. Income tax

(a) Income tax expense

The amount of income tax attributable to the financial year differs from the amount prima facie payable on the profit. The difference is reconciled as follows:

Gain before tax	3,072,917	3,059,242	1,510,108
Prima facie tax payable @ 30% (2015: 30%)	921,875	917,773	453,032
Exempt income	917,773	917,773	453,032
Income tax expense	4,102	-	-
Total income tax expense is made up of:			
Current income tax expense	4,102	-	-
Income tax expense	4,102	-	-

(b) Current tax liability

Balance at 1 January	-	-	-
Current income tax expense	4,102	-	-
Balance at 31 December	4,102	-	-

10. Cash and cash equivalents

Cash on hand	4,767	4,569	2,140
Cash at bank	1,075,225	1,009,903	832,355
Term deposits	2,086,260	2,086,260	1,262,652
	3,166,252	3,100,732	2,097,147

	Consolidated 2016 $	The Fund 2016 $	The Fund 2015 $
11. Other receivables			
Sundry debtors	233,320	232,878	230,305
Less: allowance for doubtful debts	(220,878)	(220,878)	(163,379)
	12,442	12,000	66,926
Receivable from Government	391,319	391,319	391,319
Receivable from related party	-	50,000	-
Prepayments	300	300	6,669
	404,061	453,619	480,043
Allowance for doubtful debts			
Balance at 1 January	163,379	163,379	129,169
Additional provision recognised	57,499	57,499	34,210
Balance at 31 December	220,878	220,878	163,379
12(a) Financial assets			
Fair value through profit or loss			
Investment in pooled funds			
Shares in Tuvalu Co-operative Society Limited	25	25	25
Schroder Australian Equity Fund	21,929,808	21,929,808	20,537,137
AMP Capital Extended	23,237,568	23,237,568	21,715,654
Total investment in pooled funds	45,167,401	45,167,401	42,252,816
Loans and advances			
Members' Small Loans	9,003,921	9,003,921	8,535,150
Total investments	54,171,322	54,171,322	50,787,966

Shares

Two shares of $10 and $15 each are held in Tuvalu Co-operative Society Limited, a locally incorporated organisation. Dividend is recorded in the financial statements when received.

Fair value through profit of loss

The investments other than shares in Tuvalu Co-operative Society Limited are managed by International Fund Managers based in Australia. The portfolio of investment includes equity, properties, bonds and other fixed interest products. The investments are recorded at the market value as at reporting date.

Loans and advances

Members small loans comprise of loans made to members of the Fund. These loans attract an annual interest rate of 8.75 per cent (2015: 8.75 per cent). The loans are secured against the member's contribution.

Determining fair values

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1: Quoted market price (unadjusted) in active market for an identical assets or liabilities.

Level 2: Inputs other than quoted prices included in 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: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

12(a) Financial assets (continued)

Determining fair values

The table below analyses financial assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Consolidated and the Fund

	Level 1 $	Level 2 $	Level 3 $	Total $
Listed equities	45,167,401	-	-	45,167,401
Balance as at 31 December 2016	45,167,401	-	-	45,167,401
Listed equities	42,252,816	-	-	42,252,816
Balance as at 31 December 2015	42,252,816	-	-	42,252,816

	Consolidated	The Fund	
	2016	2016	2015
12(b) Investments in subsidiary	$	$	$
TNPF Investment Holdings Limited	-	836,400	-

The Fund has 100% equity holding in TNPF Investment Holdings Limited. TNPF Investment Holdings Limited's place of incorporation and business is Tuvalu.

11. Property, plant and equipment

Consolidated and the Fund

	Buildings $	Office furniture & equipment $	Total $
Cost			
Balance at 1 January 2015	261,060	323,126	584,186
Acquisitions	-	7,491	7,491
Balance at 31 December 2015	261,060	330,617	591,677
Acquisitions	85,915	27,960	113,875
Balance at 31 December 2016	346,975	358,577	705,552
Depreciation			
Balance at 1 January 2015	221,879	276,259	498,138
Depreciation charge for the year	9,417	17,517	26,934
Balance at 31 December 2015	231,296	293,776	525,072
Depreciation charge for the year	10,190	17,369	27,559
Balance at 31 December 2016	241,486	311,145	552,631
Carrying amount			
At 1 January 2015	39,181	46,867	86,048
At 31 December 2015	29,764	36,841	66,605
At 31 December 2016	105,489	47,432	152,921

12. Intangible assets

Service concession arrangements

	Consolidated 2016 $	The Fund 2016 $	2015 $
Cost			
Balance at 1 January	-	-	-
Acquisitions	1,239,003	-	-
Balance at 31 December	1,239,003	-	-
Amortisation			
Balance at 1 January	-	-	-
Amortisation charge for the year	-	-	-
Balance at 31 December	-	-	-
Carrying amount			
At 1 January	-	-	-
At 31 December	1,239,003	-	-

On 30 November 2016, the Fund (being the "Concession Holder") entered into a service concession agreement ("the agreement") with the Government of Tuvalu. The Government of Tuvalu owned, through a public enterprise company called Vaiaku Lagi Hotel, a 20 bedroom Hotel with associated dining and function facilities at Funafuti.

Under the agreement, the Concession Holder and the Government of Tuvalu have agreed terms on which the Hotel will be made available and the Concession Holder will operate and further develop and use them before returning them to the Government of Tuvalu. The Concession Holder will be responsible to ensure that the refurbishment of the Hotel occurs as outlined in the agreement as soon as possible and that maximum practicable continuing use of the assets is achieved. The Government of Tuvalu considers that the refurbishment of the Hotel in accordance with the Programme and its ongoing operation by an experienced private sector operator is essential to the Government of Tuvalu's intentions to provide quality accommodation for tourists, diplomats and a function centre for local and regional events.

In consideration of for entering into the Agreement, the Concession Holder:

- paid to the Government of Tuvalu a sum of $790,000 within two business days of executing the agreement; and
- paid to the Government of Tuvalu on settlement date a sum of $50,913 for chattels and consumables.

In addition to the payments made by the Concession Holder, the Concession Holder must also pay a Concession Fee equal to 3% of the Gross Revenue derived from the Hotel and the Land. The Concession Fee is payable in respect of Gross Revenue charged by the Concession Holder or any affiliate whether in Tuvalu or elsewhere, and shall be paid quarterly in arrears within one month of the end of each quarter. The minimum Concession Fee payable in respect of each year, starting with the calendar year commencing 1 January 2017 irrespective of total Gross Revenue for that or any other year, is $25,000 and the final payment in respect of each year must bring the Concession Fee up to this amount if necessary. The minimum Concession Fee does not apply in respect of any period before 1 January 2017.

14. Intangible assets (continued)

Service concession arrangements (continued)

Both the parties agreed that the Agreement be for a term of 25 years commencing on the date of the Agreement and ending 31 December 2040. If the Concession Holder is not in breach of any of its obligations under the Agreement and the Agreement has not been terminated, the Concession Holder has the right to extend the Agreement for a further 20 years. A renewal fee of fifty percent of the then current concession fee is payable on exercise of the right.

For the year ended 31 December 2016, the Group has recognised revenue of $46,033, consisting of revenue generated from the operation of the Hotel and related facilities and ultimately recognised a profit of $6,976.

15. Investment property

Consolidated and the Fund

	Buildings $	Office furniture & equipment $	Total $
Cost			
Balance at 1 January 2015	874,199	4,341	878,540
Acquisitions	-	-	-
Balance at 31 December 2015	874,199	4,341	878,540
Acquisitions	3,306	-	3,306
Balance at 31 December 2016	877,505	4,341	881,846
Depreciation and impairment			
Balance at 1 January 2015	49,537	1,634	51,171
Depreciation charge for the year	17,484	577	18,061
Impairment for the year	74,414	-	-
Balance at 31 December 2015	141,435	2,211	143,646
Depreciation charge for the year	17,808	577	18,385
Balance at 31 December 2016	159,243	2,788	162,031
Carrying amount			
At 1 January 2015	824,662	2,707	827,239
At 31 December 2015	732,764	2,130	734,894
At 31 December 2016	718,262	1,553	719,815

	Consolidated	The Fund	
	2016	2016	2015
	$	$	$
16 (a) Trade creditors and accruals			
Trade creditors	9,034	117	117
Accruals	37,860	29,261	27,286
Other current liabilities	790	790	790
	47,684	30,168	28,193
16 (b) Financial liability			
Service concession arrangements	398,090	-	-
Represented by:			
Current	24,080	-	-
Noncurrent	374,010	-	-
	398,090	-	-
17. Employee entitlements – annual and long service leave			
Balance at 1 January	63,537	63,537	50,115
Expense recognised in profit or loss	3,394	3,394	13,422
Balance at 31 December	66,931	66,931	63,537
Represented by:			
Current			
Annual leave	7,492	7,492	10,004
Non-Current			
Long service leave	59,439	59,439	53,533
18. Deferred income			
Opening balance	361,318	361,318	-
Additions	-	-	391,319
Amounts released to other income (note 6)	(7,826)	(7,826)	(30,001)
	353,492	353,492	361,318
Disclosed in the financial statement as follows:			
Current	7,826	7,826	7,826
Non current	345,666	345,666	353,492
	353,492	353,492	361,318

Deferred income consists of the government subsidy in relation to the capital expenditure on the TNPF Market Building.

			Consolidated 2016 $	The Fund 2016 $	The Fund 2015 $
		Notes			
19.	**Contributions**				
	Allocated members contribution	19(a)	56,140,647	56,140,647	51,394,909
	Unallocated members contribution	19(b)	69,706	69,706	67,403
			56,210,353	56,210,353	51,462,312
(a)	**Allocated members contribution**				
	Balance at 1 January		51,394,909	51,394,909	48,903,798
	Add: Contributions received from members		6,510,223	6,510,223	7,354,214
	Pension fund		27,558	27,558	30,015
	Operating surplus attributable to members	21	3,059,242	3,059,242	1,510,108
	Advance distribution accounts	19(c)(a)	49,772	49,772	157,999
	Transfer from unallocated members contribution	19(b)	-	-	14,921
			61,041,704	61,041,704	57,971,055
	Less: Withdrawals	22	(4,339,987)	(4,339,987)	(6,424,986)
	Administrative service fees		(21,010)	(21,010)	(19,152)
	Transfer to dividend equalisation reserve	21	(522,757)	(522,757)	(117,008)
	Transfer to unallocated members contribution	19(b)	(2,303)	(2,303)	-
	Transfer to insurance reserve	21	(15,000)	(15,000)	(15,000)
	Balance at 31 January		56,140,647	56,140,647	51,394,909
(b)	**Unallocated members contribution**				
	Balance at 1 January		67,403	67,403	82,324
	Transfer from/(to) allocated members contribution		2,303	2,303	(14,921)
	Balance at 31 December		69,706	69,706	67,403

(c) Interest credited on members' account

Interest is credited on members' account at the rate of 5% for the year ended 31 December 2016 (2015: 3%)

1. The advance distribution accounts are accounts which were withdrawn before establishment of 2016 interest rate. The interest paid is based on the previous year's rate.
1. Interest credited on members' account is calculated on the member's balance prior to crediting of the current year's interest.

19. Contributions (continued)

(d) Distribution of investment income

The total surplus from the change in market value of investments in pooled managed funds totalled $2,694,042 for the year ended 31 December 2016 (2015: $1,447,178) and realised loss from investments in managed funds for the year ended 31 December 2016 totalled $nil (2015: $nil)

20. Reserves

Insurance reserve represents amounts set aside as self-insurance cover for the Tuvalu National Provident Fund building. Dividend equalisation reserve represents undistributed gain to members.

21. Operating surplus

	Consolidated	The Fund	
	2016	2016	2015
	$	$	$
Net gain for the year attributable to members	3,068,815	3,059,242	1,510,108
Transfer to dividend equalisation Reserve	(522,757)	(522,757)	(117,008)
Transfer to insurance reserve	(15,000)	(15,000)	(15,000)
Transfer to members contribution accounts	(2,521,485)	(2,521,485)	(1,378,100)
Transfer to retained earnings	(9,573)	-	-
Balance	-	-	-

22. Withdrawal of contributions

The following withdrawals by category were made during the year:

Retirement	1,974,704	1,974,704	2,214,253
Emigration	534,201	534,201	632,395
Death	101,533	101,533	1,835,571
Incapacity	26,029	26,029	45,427
Housing	269,776	269,776	214,603
Recovery for bad and doubtful debts	590,941	590,941	798,583
MEDU	842,803	842,803	684,154
	4,339,987	4,339,987	6,424,986

23. Commitment and contingencies

Contingent liabilities and capital expenditure commitments not otherwise provided in the financial statements amounted to $nil (2015: $nil).

24. Related parties

Identity of related parties

The Fund is directly controlled by the Government of Tuvalu which wholly owns the Fund through the National Provident Fund Act 1984. The Fund also has related party relationship with its directors and executive officers.

Transactions with related parties

Other receivables from related parties

Government of Tuvalu	391,319	391,319	391,319
TNPF Investment Holdings Limited	-	50,000	-
	391,319	441,319	391,319

24. Related parties (continued)

Transactions with related parties (continued)

The following were directors of the Fund during the year:

Mr Vavau Fatuga – Chairman (appointed 16 February 2016)
Ms Palipa Lauti (resigned 16 February 2016)
Dr Miliama Simeona
Mr Petaia Meauma
Mr Pugameau Taufilo
Mr Temate Melitiana (resigned 20 March 2017)
Mr Katepo Laoi

The terms and conditions of transactions with directors and their director-related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

	Consolidated	**The Fund**	
	2016	**2016**	**2015**
	$	**$**	**$**
Loans to director	68,626	68,626	54,938
Board expenses	24,185	23,705	13,856
Contributions	402,309	402,309	358,901

During the year the following persons were the key management personnel identified as personnel with the greatest authority and responsibility for planning, directing and controlling the activities of the Fund:

General Manager (Mr Penielu Teo);
Manager Finance (Ms Siava Tekafa) ;
Manager Corporate Services (Mr Kiatoa Ulika).

The aggregate compensation of the key management personnel comprises of loans and advances, contributions and short term benefits and are set out below:

Loans	113,568	113,568	105,424
Contribution	392,527	392,527	361,117
Short term benefit	102,323	102,323	92,781
Long term benefit	35,490	35,490	31,287

25. Subsequent events

There has not arisen in the interval between the end of financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to affect significantly the operations of the Fund and the Group, the results of those operations, or the state of affairs of the Fund and the Group, in subsequent financial years.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TUVALU NATIONAL PROVIDENT FUND

Opinion

We have audited the accompanying financial statements of Tuvalu National Provident Fund ("the Fund") and the consolidated financial statements of Tuvalu National Provident Fund and its subsidiary ("the Group), which comprise the statements of financial position as at 31 December 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 25.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund and of the Group as at 31 December 2016, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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 Group and 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 Group or Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TUVALU NATIONAL PROVIDENT FUND (CONTINUED)

- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

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

In our opinion,

i) proper books of account have been kept by the Fund, so far as it appears from our examination of those books;

ii) the financial statements are in agreement with the books of account; and

iii) to the best of our information and according to the explanations given to us the financial statements give the information required by the National Provident Fund Act 1984 in the manner so required.

f Eli Lopati
Auditor General
Government of Tuvalu