



LUMANAI

MANUIA



ANNUAL REPORT 2019

Main Office

Samoa National Provident Fund
Levels 1, 3 & 4, SNPF Building
Apia, SAMOA

Phone: (685) 21241 or 64800

Fax: (685)20888

Email: info@npf.ws

Website: www.npf.ws

Salelologa Branch, Savaii Island

Phone: (685) 64800 or 51321, 51427

Fax: (685) 51326

Email: afa@npf.ws

STATEMENT TO PARLIAMENT

31 October 2019

Honourable Speaker
Legislative Assembly of Samoa
MULINUU

Dear Sir,

In pursuant of Section 15 of the Samoa National Provident Fund's Act, I present to the Legislative Assembly for discussion, the Samoa National Provident Fund's Annual Report for the financial year ending 30 June 2019.

The main objective of the Samoa National Provident Fund is to improve coverage of the scheme to include all workers in the country, collect contributions promptly and invest these funds to generate returns for members. The guiding principle behind this broad objective is to maximise returns for members whilst at the same time ensuring minimal risk to those returns.

Inspired to accomplish its **VISION**: Providing for a Secured Quality Living

And **MISSION**:

- ✓ To extend coverage to all workers
- ✓ To provide efficient and effective services through best practices
- ✓ To maximise benefits to members

Yours faithfully



Hon Sili Epa Tuioti
MINISTER OF FINANCE

TABLE OF CONTENTS

STATEMENT TO PARLIAMENT	2
TABLE OF CONTENTS	3
HIGHLIGHTS FOR 2019	4
BOARD OF DIRECTORS	5
CHAIRMAN'S REPORT	6
EXECUTIVE MANAGEMENT	7
CHIEF EXECUTIVE OFFICER'S REPORT.....	8
A. HIGHLIGHTS FOR THE YEAR	8
B. OVERVIEW OF OPERATING PERFORMANCE AND RESULTS	9
MEMBER SERVICES.....	9
CORPORATE SERVICES.....	10
LEGAL SERVICES.....	12
INFORMATION AND COMMUNICATIONS TECHNOLOGY.....	13
INTERNAL AUDIT.....	13
C. OVERVIEW OF FINANCIAL PERFORMANCE AND RESULTS	14
FINANCE DEPARTMENT.....	14
INVESTMENT DEPARTMENT.....	16
D. CAPITAL EXPENDITURE AND PROJECTS	19
E. FUTURE RISKS AND UNCERTAINTIES	19
F. OUTLOOK FOR THE NEXT YEAR	20
FINANCIAL STATEMENTS	22

HIGHLIGHTS FOR 2019

Members' Contribution collected increased by **4.6%** from \$79.2 million in 2018 to \$82.9 million

Net profit for the year has increased by **16%** from \$45.3 million to \$52.8 million.

Total Net Assets increased by **8%** from \$696 million to \$752 million

Total Investment Income was \$58 million; an increase of **16%** when compared to \$49 million in 2018

177 total new Employers were registered during the year

35,052 Active members, an increase of 2,343 when compared to 32,709 last year

Gain on Offshore Investment recorded was \$4.2 million

Interest declared of 9.1% to the value of \$54 million

BOARD OF DIRECTORS



Leasiosiofa'asisina Oscar Malielegaoi
CHAIRMAN



Masoe Norman Wetzell
Employers' Representative



Seulupe Michelle Macdonald
Employers' Representative



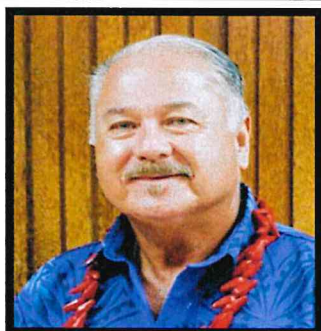
Rev Sunita Afereti Uili
Churches' Representative



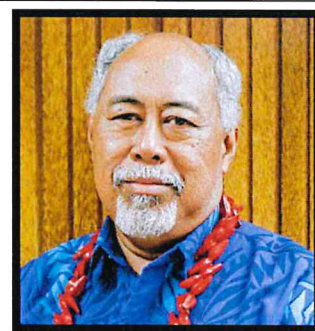
Margaret Fruean Misiolo
Public Sector Employees Representative



Lealiiee Rudi Ott
Private Sector Employees Representative



Galumalemana Patrick Rasmussen
Manufacturers Association Representative



Salā Pesamino Niupulusu
Farmers Representative

CHAIRMAN'S REPORT

I am happy to report on another successful year. The Fund reported an increase of 16% in investment income compared to the last year and this contributed to a record profit for 2019.

Lending policies were amended allowing for competitive interest rates and terms and conditions to take advantage of opportunities available and to be an effective and competitive player in the financial services market.

ACTIVITIES AND PERFORMANCE OF THE FUND

Operating and Financial Performance

Members contribution collected during the year was \$82.9 million, an increase of 4.6% when compared to \$79.2 million in the previous year. Despite a moderate GDP growth rate of 0.5% experienced in our country by the end of the financial year, the Fund had a strong financial year demonstrated by the 16% growth in reported profits. The net asset value has grown by 8% to \$752 million at year end.

Future Outlook

The Fund continues to foresee improvement in its financial performance and position as a direct result of new investment decisions this year. We will continue to monitor our expansionary efforts relative to our investments offshore and lending products. It is also important to manage risks relative to each investment activity. The Board shall ensure that the Fund has the adequate portfolio mix to ensure that we earn the expected returns for our members.

CAPITAL & DIVIDEND INFORMATION

In a tough and challenging economic environment, the Board was nevertheless able to declare interest of 9.1% for members. The cost to the Fund was \$54 million tala.

DIRECTORS' INFORMATION

The Board endeavours to uphold the highest level of corporate governance as to ensure the protection of the best interests of its members. The Board held 11 meetings, the Investment Committee held 4 meetings and the Audit Committee held 4 meetings during the year.

The Board will continue to work with the management team to achieve better targets and milestones for the Fund.



Leasiosiofa'asisina Oscar Malielegaoi
CHAIRMAN - BOARD OF DIRECTORS

EXECUTIVE MANAGEMENT



LR: - Faalogo Luana Esera (Chief Financial Officer), Sheena Lesa (Manager ICT), Lautimuia Larina Lemisio (Manager Corporate Services), Pauli Prince Suhren (Chief Executive Officer), Fautuaalii Sefo Fautuaalii (Manager Senior Citizens Benefit Fund), Lealali Mapuona Multalo (Manager Internal Audit), Siligatusa Limasene Samau Tupou (Chief Investment Officer), Sine Lafaialii Korua (Manager Legal), **Inset photo** - Maposua Tanya Toailoa-Lagaia (Manager Member Services)

CHIEF EXECUTIVE OFFICER'S REPORT

It is with great pleasure that I report on the performance of the Fund for this financial year ending 30 June 2019. The Board and staff have worked immensely hard to enhance overall performance this year and I am happy to report that those efforts have paid off to make 2019 a very successful year.

A. HIGHLIGHTS FOR THE YEAR

Notable achievements accomplished during the year include:

(i) Annual Dividend

The Board declared a dividend for members this year of 9.1% with a record total cost of \$54 million tala.

(ii) Record Profit

Profit for the year was \$52.8 million tala; a 16% increase from the previous year's profit and the first time the Fund has breached the \$50 million mark for net profit.

(iii) Competitive Lending Products

The revised lending strategy was a success this year proven by a growth of circa 10% in the Investment Loans Portfolio at year end. We have taken an all-inclusive approach to assist our members from every sector, at any salary level to acquire assets essential for their family development fostering sustainable development in the long term.

It has also opened opportunities for Small Medium Enterprises and bigger companies to access affordable finance for business development. Our various loan products have assisted many members to acquire vehicles, land, housing and many employers for business development and expansion.

(iv) New Funds Management System (FMS) and Financial Management Information System (FMIS), Human Resource Management System (HRMS)

The new *Funds Management System* achieved initial operational capability on 6th May 2019. Core components of this system includes Members, Employers, Pensioners and Parliamentary Pension and Small Loans and Short-Term loans. Business performance and processes have been revolutionised since implementation of the new system.

(v) Contribution Increase from 7% to 10%

Legislation was successfully amended to increase minimum contribution from 7% to 10% of Gross Salaries & Wages effective gradually from July 2019 to July 2021. The increase of contributions ensures that members will have more funds available to them at retirement and even more so as the Fund plans to build on its reputation of paying out high yield dividends in the future.

(vi) New Offshore Investments

The Fund invested \$10 million SAT with *Unit Trust of Fiji* in September 2018. Furthermore, it invested \$6.6 million SAT in the successful regional company *Amalgamated Telecom Holdings (ATH)* further consolidating the funds considerable stocks in local and regional telecommunications assets. Finally, the Fund secured a new \$10 million USD equity investment into Bank South Pacific (BSP) regional company headquartered in Papua New Guinea.

These new investments are expected to provide a cumulative internal rate of return on equity for our investments which in turn enhances portfolio diversification and promotes rapid revenue growth.

B. OVERVIEW OF OPERATING PERFORMANCE AND RESULTS

MEMBER SERVICES

Active Members

The number of active members at year end was 35,052 an increase of 2,343 or 7% when compared to the previous year of 32,709. The number of active members has been consistent over the years. However, there was a significant increase in voluntary members from 33 to 724. This success is largely from the seasonal workers in New Zealand who, through a partnership with the Ministry of Commerce Industry and Labour and the employers in NZ, have opted to continue their contribution payments on a voluntary basis. This will provide these members and their families with many benefits including access to credit facilities and loan schemes available at the Fund. We believe that there are still many workers who have yet to register as members of the Fund, and thus an awareness campaign encouraging members to register will be continued in the new financial year.

Contributions

Members' Contributions collected during the year was \$82.9 million, an increase of 4.6% when compared to \$79.2 million in the previous year. This boost can be attributed to the increase of salaries in the public sector which was implemented on 1 January 2019.

Withdrawals

Withdrawals made during the year totalled \$55.02 million, an increase of 6% as compared to \$48.7million in the previous year. The bulk of withdrawals are for members turning 55 followed by citizens departing Samoa mainly through success in the Quota scheme.

Employers

Employer numbers was 1820 at year's end, compared to 1791 last year, thus an increase of 29 or 1.6%. A total of 177 new employers registered this year. Some employers struggle to meet their obligations in paying employees' contributions, but despite this, most are amenable to paying off their outstanding in instalments. In recovering outstanding contributions, the Fund places importance on building relationships with employers so that there is a mutual effort to remedy the situation. However, when employers have significant outstanding in addition to being non-responsive then these matters are handled by the Legal Department to ensure all legal avenues are explored to ensure members' interests are protected.

Death Benefit

The Special Death Benefit is \$5,000. Total Death benefits paid out during the year was \$822,083 an increase of 5% when compared to the previous year at \$782,795.

Pension Scheme

For the Retiree Pension Scheme, 144 pensioners remained at year end, a slight decrease of 2.7% when compared to 148 in the previous year. A total of 98 beneficiaries remained at year end, a notable decrease of 21 or 17.6% when compared to 119 in the previous year. There was no new pensioner (i.e. a member who opted for a life-time pension as opposed to a full withdrawal of contributions) for the entire year. The total cost of the retiree pension for the year was \$471,565, a decrease of 19.3% when compared to \$584,294 in the previous year. The pension pool was \$2.6 million at year end, a decrease of 15% from \$3.07 million in the previous year. No transfer was made to the Pension Pool during the financial year.



STAFF TRAINING ON THE NEW SYSTEM FMS (FUND MANAGEMENT SYSTEM)



CORPORATE SERVICES

HUMAN RESOURCES



Our Corporate Services division oversees the various aspects of human resource management within the Fund, such as compliance with labour laws and employment regulations, administration of employee benefits and recruitment and retention of employees. We also ensure that employees are well-versed in their area of expertise and essentially our purpose is to maximize productivity by optimizing the effectiveness of our employees.

The division encourages further studies to attain higher qualifications whereby flexible hours are offered so that employees can attend lectures and tutorials during working hours. Financial rewards are offered for courses successfully passed and for completion of qualification. Special leaves for study and exams are benefits available for employees who are willing to develop themselves academically. The Fund also offers an Education Loan Scheme that the staff can utilize for payment of tuition fees and to purchase much-needed resources such as text books and laptops.



Staff Development

We organised an annual training programme for staff and we covered the following areas:

- ✓ Investment refresher on Small Loans and Short-Term Loan Offsets
- ✓ Funds Management System pre and post trainings
- ✓ Blackrock Offshore Investment
- ✓ Induction program for new recruits
- ✓ External trainings provided by the Public Service Commission and Chamber of Commerce
- ✓ Leadership trainings

Employment performance appraisals were done whereby the performance of each individual staff member was evaluated and measured focusing on their objectives, expectations and result areas. Rewards in terms of bonuses were based on performance quality.

CUSTOMER SERVICES

Customer service is very important in the Fund's daily operations focusing on delivering and providing a professional service to the country and the most helpful assistance in all areas of our mandate. Management has continuously addressed this issue with the staff to improve customer satisfaction level through our regular management and staff meetings.

Our website and Facebook page have been regularly updated to cater for our members. The Fund continues to monitor the quality of our customer service delivery to the public through:

- ✓ Staff Performance Assessment
- ✓ Monthly and Quarterly Management Meetings
- ✓ Monthly staff meetings
- ✓ Customer care in-house and local external trainings

LEGAL SERVICES

The Legal department is in charge of all legal matters for the Fund, in particular; the recovery of funds from loan accounts transferred from the Investment division, recovery of members' contributions from employer accounts and also to provide opinions and advice to the Board and Management and represent the Fund in any legal proceedings involving the Fund.

The total value of Investment loans with the Legal Department at the beginning of the financial year was \$13.3 million. At the end of this financial year, total investment loans with Legal department had increased to \$16.7 million or 25.76% of the investment loan portfolio. This is mainly due to the transfer of several new files during and close to the end of the financial year for legal recovery.

Collection of members' contributions was also pursued by the department. At the beginning of the year, arrears relative to members' contributions was \$33,756.77. This was reduced to just \$1,953.99 at the end of the financial year.

Contributions receipts were also decreased by 44.75% from \$293,883.00 to \$162,355.98 at the end of financial year. Surcharge payments decreased by 36% from \$31,145.00 to \$19,801.00 and this is also the case with outstanding surcharges by 9% from \$223,684.15 the previous year to \$204,507.03 this financial year.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

ICT has played a significant role in the way the Fund performs and carries out its processes to become more efficient, effective and innovative through flexibility and mobility. It has also influenced the way we effectively and efficiently perform our duties, improve work flow and gradually moving towards digitizing all the Funds core operations.

Fund Management System

The Fund Management System (FMS) was successfully implemented and utilized by the Fund in May 2019. The FMS maintains and processes all NPF members, employers, pensioners, parliamentary pension scheme and member loans such as short-term loans and small loans. Staff trainings were completed throughout the pre-implementation and post-implementation stages to enable familiarity of users to the new system.

New VMWare Server for backup

The Fund acquired 1 hardware VM Ware server as a backup host for its virtual environment

New UPS 5KVA

Three (3) 5KVA power supply units were acquired to provide a stable power source for a number of hours to the ICT servers in case of outages at the SNPF Plaza, Vaitele and Savaii. These extra hours will allow ICT team to safely power down the machines and avoid damages to ICT equipment.

INTERNAL AUDIT

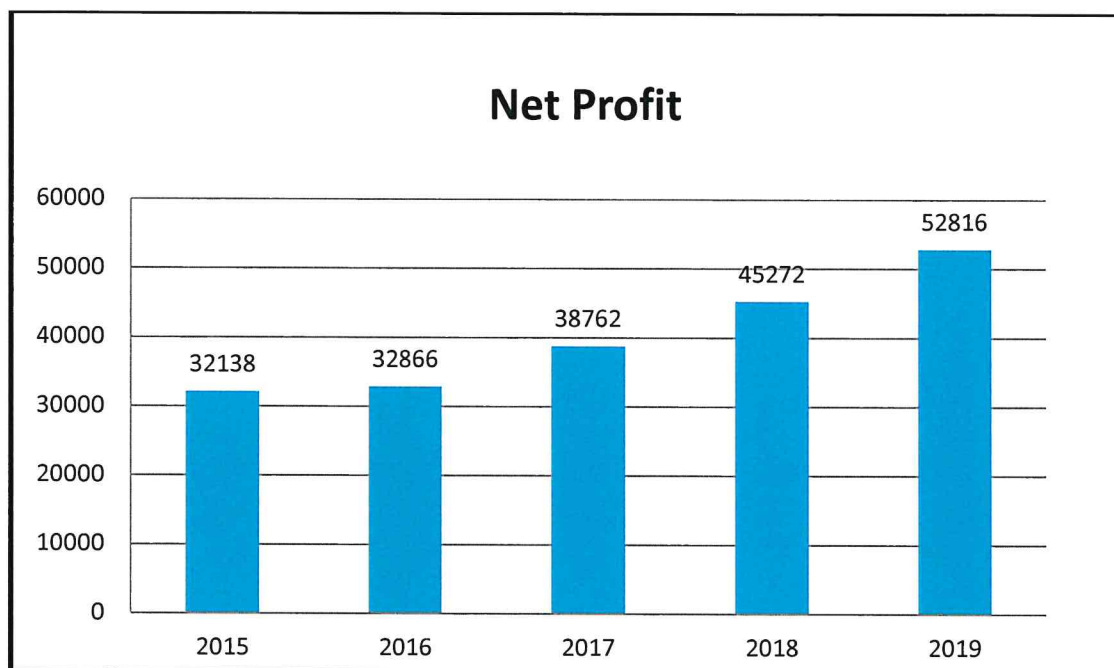
In the financial year reported, Internal Audit maintained its committed to its central functions of assuring the Management and Board of the efficiency and integrity of its systems of risk management, internal controls and governance processes. These we have endeavoured to diligently by way of executing our reviews, appraisals and checks on a regular basis. We had focused mainly on areas which inherently has higher risk of fraud and error and could affect the achievement of the Fund's overall objectives.

The Internal audit function has been led by the Audit Committee on its activities this year. We have carried out quarterly meetings with the Internal Audit reporting on its findings and the Committee resolving on matters for improvements in business processes.

C. OVERVIEW OF FINANCIAL PERFORMANCE AND RESULTS

FINANCE DEPARTMENT

Financial performance



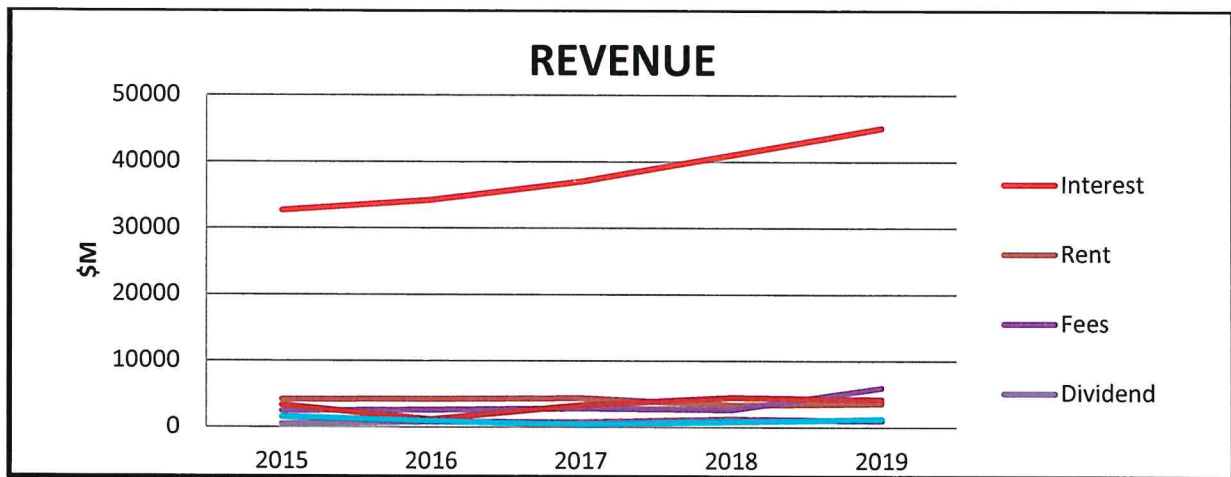
Graph 1

For 2019, the Fund has successfully achieved 16% growth of Net Profit compared to the previous year – surpassing the \$50 million mark for the first time in its history; after surpassing the \$40 million mark just last year.

Revenue

An overview of the past five years illustrates the Fund's heavy reliance on the interest revenue from its lending portfolio and its growth over the years as shown in the Graph below. The major revenue components where the Fund generates its income are primarily interest earned from loans portfolio, rental properties and gains from offshore equity investments.

A total \$44.2 million was generated from the loans portfolio during the year. In addition, interest earned from term deposits invested during the financial year contributed \$1.8 million. Rental income from SNPF various properties earned \$3.6 million revenue for the Fund. Despite the limited opportunities to diversify its earning capacity, the Fund's offshore investment performed quite well this financial year earning \$4.1 million.



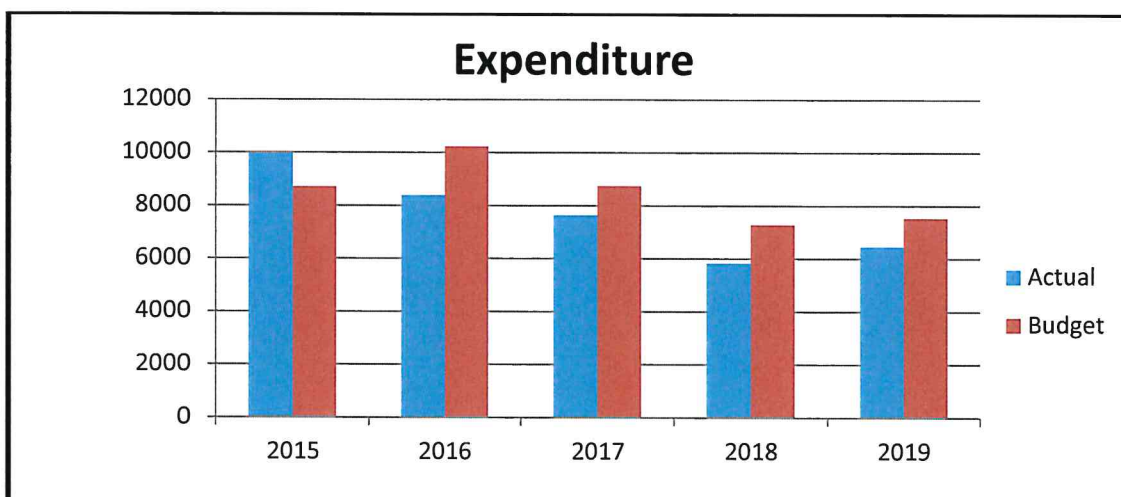
Graph 2

Expenditure

Total expenditure (exclusive of depreciation) for this year is 11% higher compared to 2018 actual expenditure but is still 14% lower than the what was budget for the year. Total spending is primarily driven by three major expenditures: 1) Personnel costs 2) Foreign Exchange (FX) losses on offshore investments 3) Operating costs

Personnel costs were significantly increased due to the Government general wage increase of 2% approved by Cabinet which came into effect in January 2019 after the budget was prepared and approved. FX loss on offshore investments significantly high due to unfavourable rates received during the year. Other increases were due to increase in operating costs, depreciation and doubtful debts.

All in all though, actual expenditure is still at a much lower level in 2019 than was the case in the years 2015 to 2017.



Graph 3

Financial position

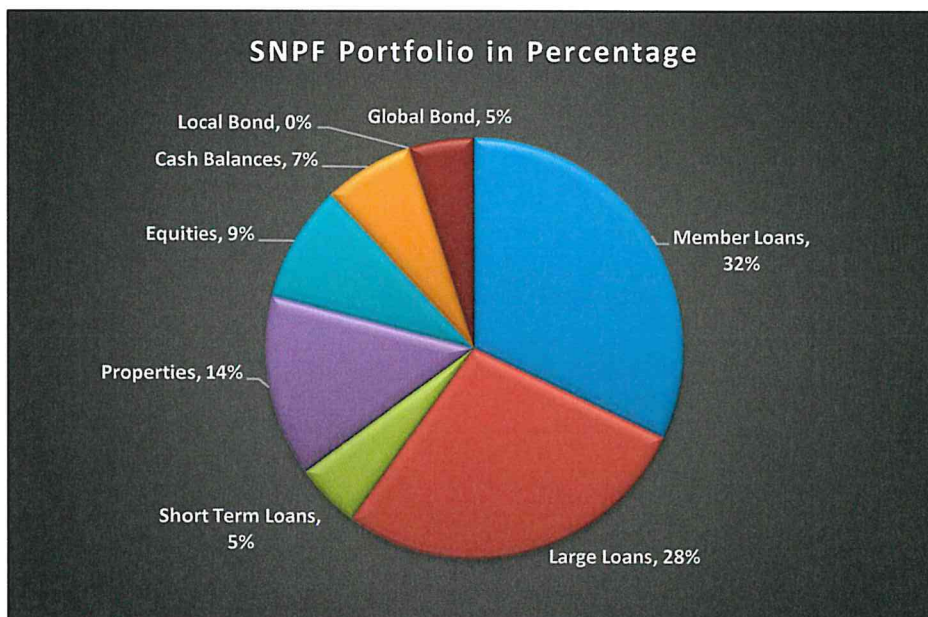
The Fund's operational activities generated a healthy net cash inflow of \$9.8 million. The bulk of this cash inflow is derived mainly from contributions collected during the year less withdrawals by members. For its investment activities, net cash outflow of \$33.6 million was required for loan disbursements, purchase of new fixed assets and new offshore equity investments. Overall, the Fund recorded cash and bank balances of \$52.4 million as of June 2019.

While total assets increased significantly to \$756.8 million, total liabilities also increased to \$4.5 million. The resultant increase in net assets of \$57 million was mainly attributed to the \$23 million increase in equity investments and in \$50 million growth in lending portfolio. The increase in total liabilities was recorded to due to the existing provisions as well as employer accounts holding receipts remittances awaiting contribution schedules to offset receipts.

INVESTMENT DEPARTMENT

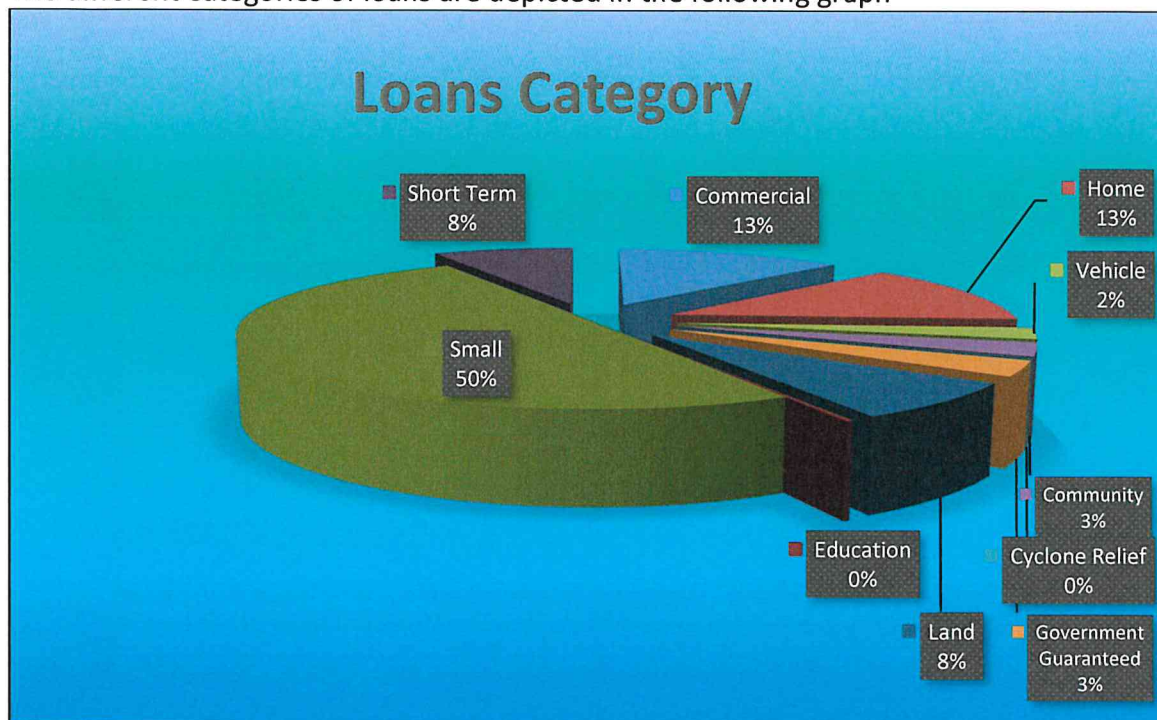
INVESTMENT PORTFOLIO

The Investment Portfolio for the financial year continues to adhere to the Strategic Investment Framework (SIF) targets with the overarching aim of maximising returns for the Fund. The value of the Investment portfolio at year end is \$736.4 million tala. It is primarily made up of loans and advances which account for over 65% of the total portfolio, properties at 14%, offshore investment of 5% and other investment asset classes (16%) to achieve a well-diversified portfolio.



Graph 4

The different categories of loans are depicted in the following graph



Graph 5

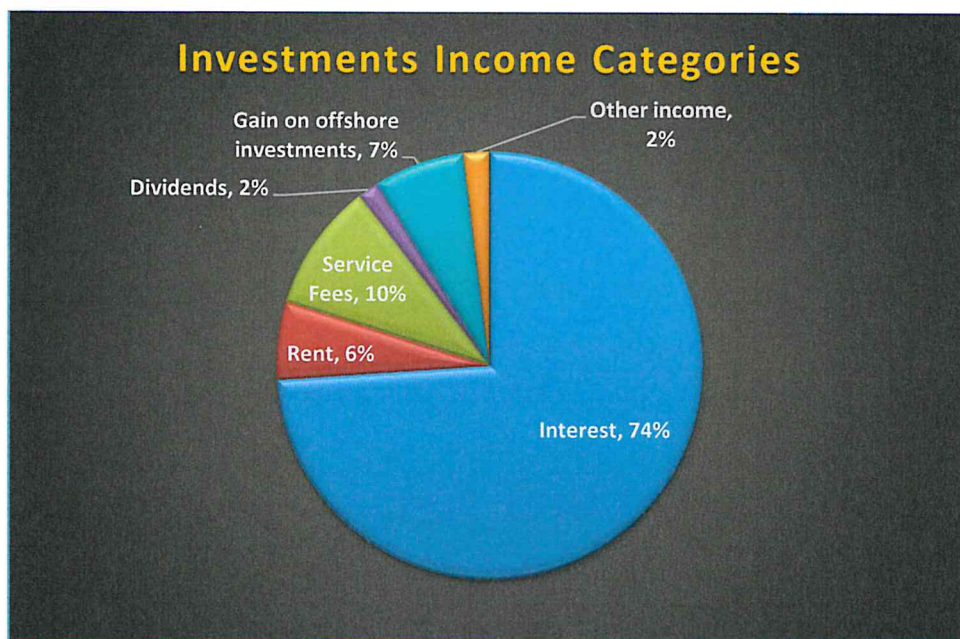


**One of the Fund's
Community Projects**



INVESTMENT INCOME CATEGORIES

Income investment categories are depicted in graph below.

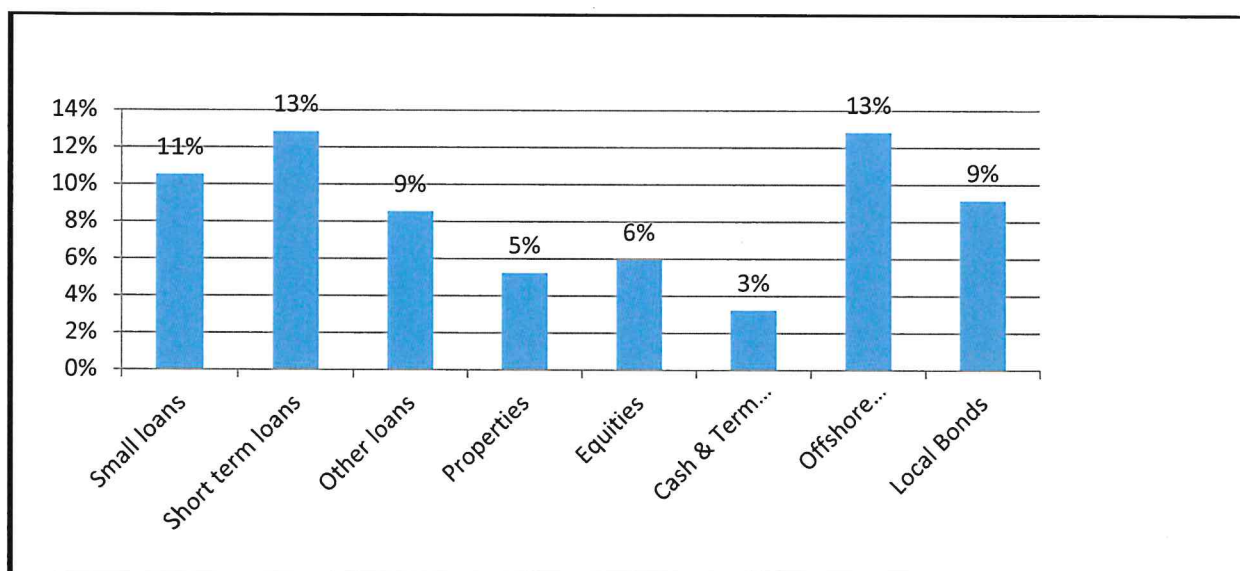


Graph 6

Interest on loans remains the main income category that funds the annual interest payable to members.

It is the intention of Management to maintain and increase the substantial loans portfolio to continue to assist members and employers from all walks of society, to achieve their dreams and aspirations whilst contributing to the overall national interest of the country by stimulating economic activity and gross domestic product.

Graph 7 below illustrates the respective Rates of Return (weighted average) on each asset class of investment. The Rates of Return (RoR) are derived by taking the income over an average of each asset class in the Investment Portfolio during the year.



Graph 7

D. CAPITAL EXPENDITURE AND PROJECTS

Major capital expenditures/payments incurred during this financial year are as follows:

Table 1

Category	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year to Date
Land & Building	37,786	69,292	118,872	10,018,392	10,244,342
Motor Vehicle	281,500	347,000	-		628,500
Computer System	-	-	-	32,294	32,294
Fixture & Fittings	80,304	-	-	150,419	230,723
Plant & Equipment	75,110	63,260	61,720	19,415	219,505
WIP*	2,884	-	238,199	260,218	501,301
Total	477,584	479,552	418,791	10,480,738	11,856,665
*Work in progress - Building Renovations and Replacement of Fund's system					

E. FUTURE RISKS AND UNCERTAINTIES

Economic Instability

The economy is slowly recovering and the economic activity is currently satisfactory. However, there is still the risk that any downturn in the economy will lead to a reduction in economic activity which will in turn lead to unemployment. Thus, this will directly cause reduction in our membership and contributions by employers.

Credit Risk and Loan Arrears

Continuous review of relevant policies and guidelines in lending as well as providing appropriate staff training for effective recovery of loan accounts in arrears. Even with the proper controls in place, there are borrowers who default on their loans resulting in credit risk. Other related issues involve

delays in foreclosures of some major non-performing loans, or during advertisement of foreclosed properties, the current market values of some properties cannot be met by potential buyers.

Opportunities for Investment (Local / Overseas)

The Central Bank of Samoa has accepted a proposal from the Fund to allow overseas investment for higher returns, but they will control the amount of funds being sent overseas. The Fund will examine legislation to increase the potential for offshore investment to 20% of the portfolio. In the pipeline for the new year are regional co-investment opportunities with our partners in the Pacific Island Investments Forum (PIIF).

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings and asset values caused by fluctuations in foreign exchange rates. Foreign exchange fluctuations can arise from the day-to-day purchase of foreign currency, and also at month end when converting assets held in foreign currency to Tala for reporting purposes. Management closely monitors these transactions on a daily basis and hedging is also used to minimize this Foreign exchange exposure.

Low Deposit Rates

In terms of domestic term deposits, the Fund is experiencing an average of 4% - 6% per annum. This is still low compared to the high interest rates on fixed deposits experienced by the Fund before the economic crisis which was average at 7% to 9% annually.

F. OUTLOOK FOR THE NEXT YEAR

The basic and overarching principle that will premise all decision making at the Fund as mooted and established in 2017 is twofold and applied in unison;

1. Maximise returns for its members
2. Minimise the risk to those returns

From these principle tenets we can foresee the following broader strategies for the new year;

Continuous Review Investment Strategies

It is important that investment strategies are constantly reviewed for higher revenues in the long run. Major revenue is generated from the lending portfolio and the Fund has to ensure that lending products are attractive and responsive to any market demands. The latest iteration of this established policy is the focus on expanding offshore investment.

Management & Continuation of the Offshore Investment Strategy

About 6% of our Investment Portfolio is invested offshore with our fund manager BlackRock in Australia. Management has added 3 new offshore investments this year with the Unit Trust of Fiji, Amalgamated Telecom Holdings and the regional Bank South Pacific. These investments will be fine-tuned in the coming year to maximise return for the Fund.

Fiscal Prudence

The Finance Department will continue to spearhead efforts to reduce costs and maintain the lowest appropriate level of expenditure.

FINAL THOUGHTS

When I examine the ever increasing success of this place, I continue to be in awe of the amazing Grace of our Lord Jesus Christ and his persistent favour on the Samoa National Provident Fund. To him ALONE be the glory, honour, praise and thanksgiving for yet another resoundingly prosperous year.

I thank and acknowledge the great vision and unwavering support of the Chairman and the Board of Directors for the work of the Fund this year.

I also want to thank my committed management team for assisting me in formulating strategy to lift the standard of performance within the Fund and for their strong leadership guaranteeing that all our plans come to fruition. It is indeed an accolade to work with and alongside the best management team in the country.

Last but not least, I express my deep gratitude and thanks to all my staff for their hard work and steadfast dedication that has made it possible to achieve all our targets.

Yours sincerely,



Pauli Prince Suhren
CHIEF EXECUTIVE OFFICER