



SOLOMON ISLANDS
NATIONAL PROVIDENT FUND



2013
ANNUAL REPORT

The Highlights

Total members with credit contribution balances

110,950

increase by 8% from 102,137 in 2012

20% interest paid to members
\$246.6 million credited to members accounts

24 new Executive Apartments

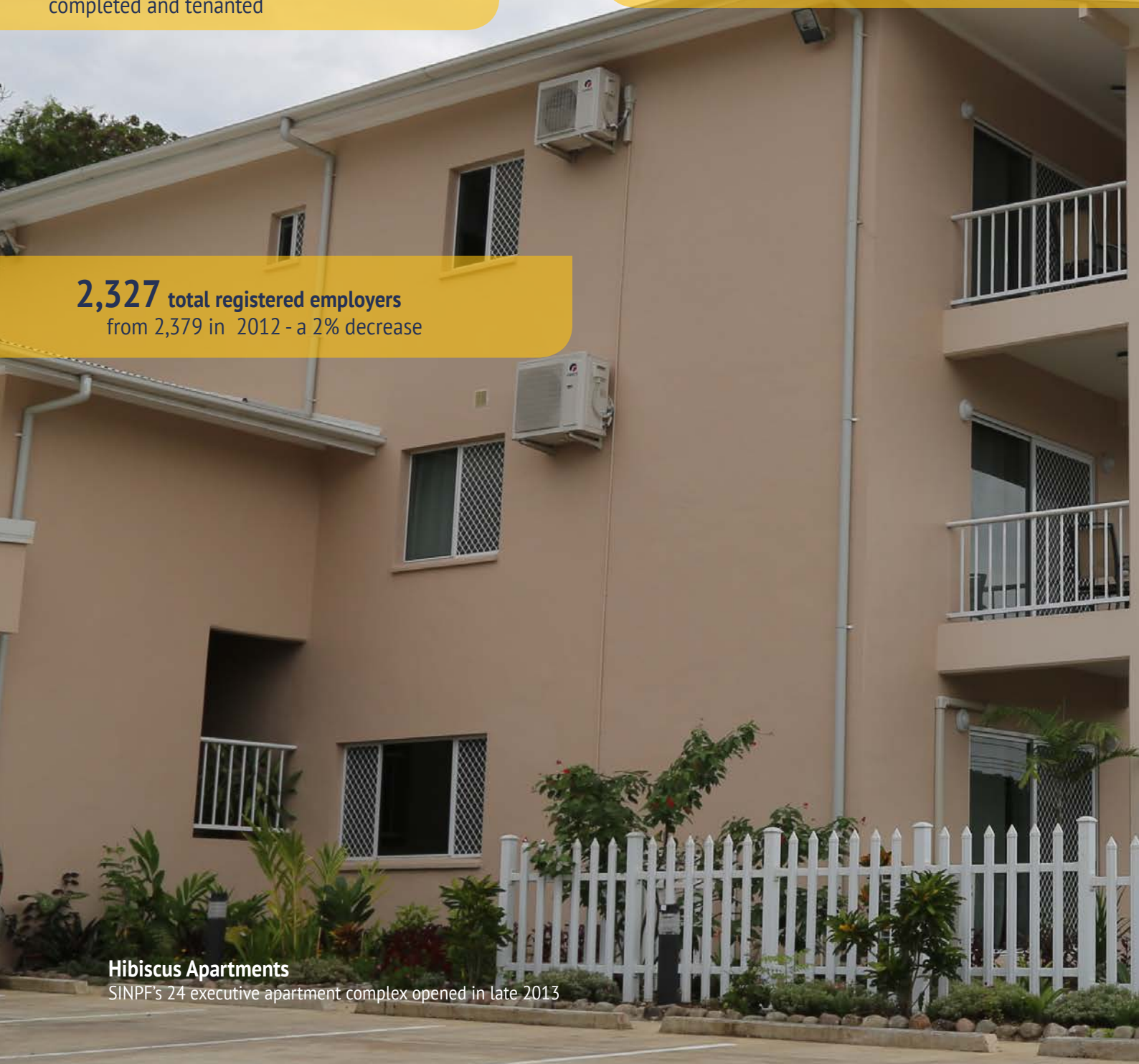
completed and tenanted

Total investment asset increased to **\$2.4 billion**
from \$1.44 billion in 2012

2,327 total registered employers
from 2,379 in 2012 - a 2% decrease

Hibiscus Apartments

SINPF's 24 executive apartment complex opened in late 2013



\$206.3 million collected in contribution
from \$191 million in 2012

\$836 million total investment income
from \$125 million last year

\$87.4 million total withdrawal benefits to members
from \$71.4 million last year

\$1.65 billion total members contribution
from \$1.3 billion in 2012



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Mission Statement

OUR VISION

A comfortable life during and after retirement through sustainable contribution growth

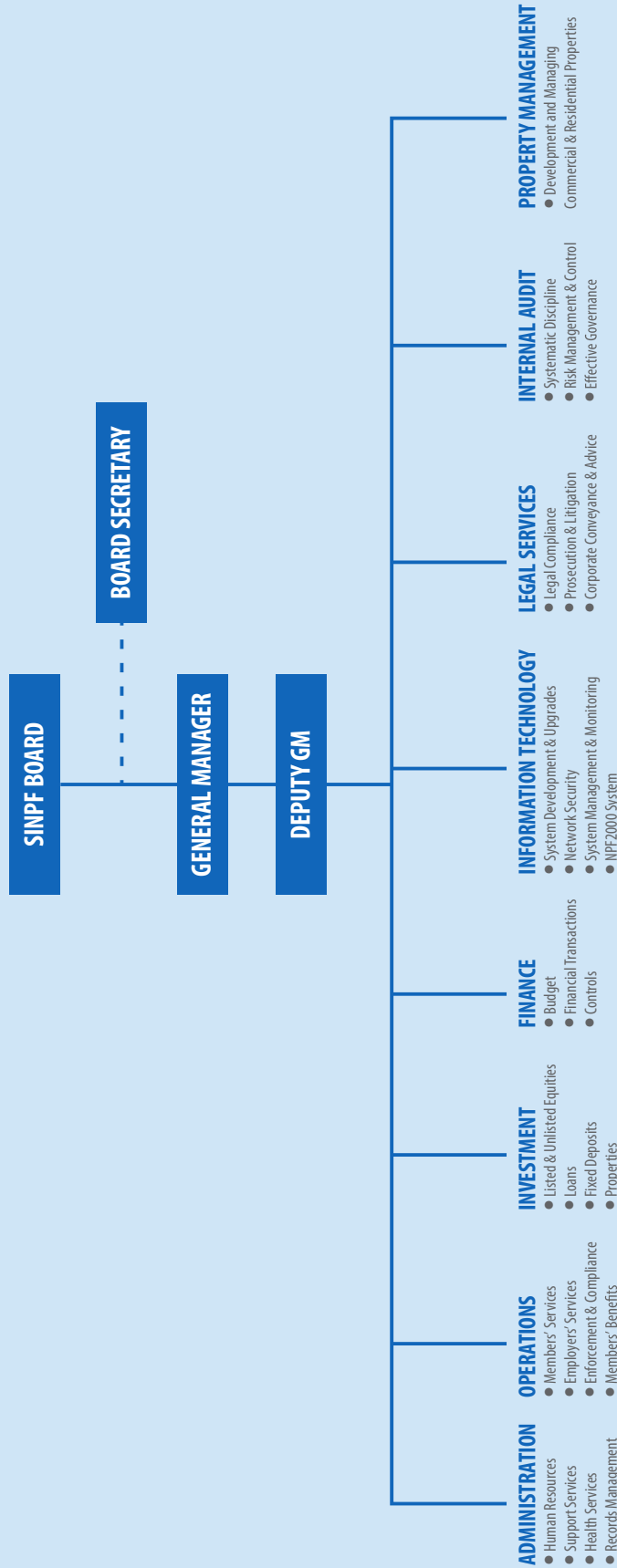
OUR MISSION

Achieve and deliver high returns and effective service delivery with satisfaction

STRATEGY & VALUES

- Committed to the best management practices with ethical conduct and integrity
- Preserve, protect and sustain growth of members' contribution wealth
- Partake in feasible commercial undertakings that yield high returns and also contribute to economic growth and social improvements
- Making prudent and sound investment decisions that contribute to financial growth and strength
- Minimise risks to avoid any potential adverse effects to members' funds
- Strictly adhere to good governance principles and practices
- Enhance human resources capacity through appropriate trainings to meet new challenges at work places and succession planning
- Improve and manage ICT to ensure effective governance process and quality customer services
- Pursue effective partnerships with stakeholders to utilize commercial potentials
- Identify and pursue staff welfare needs that promote motivation, productivity and retention
- Always be transparent, accountable and responsible for all actions taken

Organisational Structure



Board of Trustees



Mr. Baoro Laxton Koraua
CHAIRMAN

A Board Member of the Fund since 2012 representing Employers. Board Director of Solomon Telekom Ltd. Chairman of IT and Audit & Finance sub-Committees.



Mr. Peter Boyers
DEPUTY CHAIRMAN

A Board Member since 2010. His appointment was made at the discretion of Hon. Minister of Finance. Chairman of South Pacific Oil Ltd and Board Director of Soltuna Ltd and Sasape International Slipway Ltd. Member of the Investment & Credit sub-Committee.



Mr. Harry Kuma
MEMBER

A Board Member of the Fund since 2012 representing Employers. Board Director of Solomon Telekom Ltd. Chairman of IT and Audit & Finance sub-Committees.



Mr. Gideon Zoleveke (Jnr)
MEMBER

Joined the Board in early 2013. He represents the Employers. Board Director of South Pacific Oil Ltd and Member of Investment & Credit sub-Committee and Member of the Board's Taskforce Committee.



Dr. Alice Pollard
MEMBER

A Board Member of the Fund since early 2013. Her appointment was made at the discretion of Hon. Minister of Finance. Board Director of Heritage Park Hotel Ltd and Solomon Home Finance Ltd. Chairperson of Staff Welfare sub-Committee.



Dr. Levi Hou
MEMBER

A Board Member of the Fund since 2011. He represents the Employees. Board Director of South Pacific Oil Ltd. Member of Legal Affairs sub-Committee and member of Board's Taskforce Committee.



Ruth Alepio
BOARD SECRETARY

Board Secretary since 2001. She is a member of the NPF Management team.

Chairman's Letter

Honourable Minister
Ministry of Finance and Treasury
P.O. Box G26
Honiara
Solomon Islands

Dear Sir,

SOLOMON ISLANDS NATIONAL PROVIDENT FUND ANNUAL REPORT 2013

In accordance with Section 12(2) of Solomon Islands National Provident Fund Act 1973 (as amended), I have the honour to submit to you, on behalf of the Board of Trustees of Solomon Islands National Provident Fund, the Annual Report for the Financial Year ended 30th June 2013 which incorporates the Statement of Assets and Liabilities, Statement of Accounts and major development events and activities of the Fund during the financial period.

Thank you and we appreciate your continuous understanding, support and cooperation.

Yours faithfully,



Baoro Laxton Koraua

Chairman
Board of Trustees
Solomon Islands National Provident Fund



On behalf of my colleague board members, it is my pleasure to present this Annual Report of the Fund ending 30th June 2013. It is a report that reflects financial stability achieved, untiring commitment and sacrifices rendered by the Board, Management and Staff for the betterment of our members.

At the year end, the Fund achieved the highest ever financial results. These were driven by the gains emanating from the valuation of the Fund's higher performing domestic equity investments, dividends from equities and rentals received from commercial properties. Other encouraging upward trends were also realized with the contribution inflows and total investment portfolio assets.

Corporate Business Plans

We know the Fund operates in a business environment that entertains continuous changes. In this respect, a review of the Fund's Corporate

Business Plan was carried out during the year to ensure practical new strategic plans are re-aligned to the core focus – to protect, preserve and grow members' contribution savings for retirement. The Business Plan will encompass the appropriate risk management strategies that will seek to provide loss minimization to members' funds against any adverse events that may arise in the future. An assessment study was commissioned to identify the potential risk issues which will be the focus of the Business Plan. Given the Fund is relatively the largest financial institution in the country, we are determined to be proactive and prepared to ensure that revised risk management regimes are in place to manage potential opportunities and adverse effects. The Plan should be effective in 2014.

Legislation Review

The current National Provident Fund Act is out dated and does not provide an adequate legislative framework for the operations and prudential regulation of the Fund. The review will strengthen the governance and operations of the Fund in order to maximize returns to our members. Reform is vital to assist the Fund to become modern, efficient funds managers working in the best interest of its members.

The appointed Review Committee has considered the current Act and has proposed a number of reforms including Board structure; governance and reporting; funds and management operations; conditions for payment of benefits to members; pledging and prudential regulation by CBSI.

Wider consultations were carried out with members and other stakeholders in Honiara and the provinces seeking their constructive views on the reform agendas. It is envisaged that an amendment bill will be tabled in Parliament in 2014.

Members' Contribution Savings

As trustees of members' contributions we must ensure funds are collected, protected, preserved and further enhanced annually. The contribution collections continued to increase in the recent years. It is our ongoing commitment to make sure financial dues to members are duly collected from employers.

During the year, the Fund collected \$206.3 million compared to \$191 million last year – a slight increase of 7.4%. This represents a monthly

collection of about \$17.2 million. The uncommitted contribution funds are made available for investments in viable opportunities that will deliver better returns to our members.

Financial Performance

It is pleasing that I report very satisfactory financial results achieved notwithstanding the challenges experienced. The net income for the year totaled \$840 million compared to \$138 million in year 2012. The principal driver to this substantial income increase is the unrealized net gains on values of equity investments. The normal income flows also experienced reasonable increases compared to last year figures against a difficult economic backdrop in both the offshore and domestic markets. As a result of the financial improvements, the Fund realized a gross surplus totalling \$774 million compared to \$89 million last year – an 88.5% increase.

The Board with support from the Management, will continue with their commitment to strive harder to capitalize on the financial strength of the Fund as we move forward with focus in creating and delivering further growth of members' retirement wealth.

Interest Declared

The Board with its trusteeship responsibilities always strives to sustain and enhance the financial performance and growth of the Fund and thus deliver better rate of return to members. Given the substantial improvement to the financial performance during the year, the interest rate declared for members was 20%, the highest ever received by members. In monetary terms, a total of \$246.6 million was credited to members' accounts. Being mindful of compliance to solvency requirements and what adverse effect it may incur in future, the amount of \$527 million was ploughed back to general reserve.

Members' Benefits

The Board ensures at all times adequate level of liquidity is maintained to meet members' withdrawals. During the year \$87.4 million was delivered to withdrawing members – an increase of 18.3% from the previous year. Members who retired at age 50 years and over, dominated contribution withdrawals during the year. This demonstrates that a good number of members have reached retirement age thus they are eligible to withdraw their retirement savings to sustain

their livelihood. We envisage that the level of withdrawal will continue to increase annually as more members retire. The Fund has sufficient funds to meet this obligation and commitment.

Looking Ahead

The world economies will continue to be a concern proving difficult to predict. Notwithstanding global market uncertainties, we are confident that our proposed reform strategies and sound financial position will be the platform for the Fund's growth for better returns to our members. While this may be an advantage, we are always reminded of our fiduciary responsibility to protect and grow the members' savings for their retirement.

In Year 2014, we will focus on the formalization and implementation of the legislative and operational reform agendas to modernize operations to ensure efficiency and to create growth. In addition, we will continue to explore and identify potential commercial opportunities that will contribute to the growth of our members' retirement savings and also our responsibility to partake in the economic development of Solomon Islands.

Acknowledgment

These achievements would not have been possible without the cooperation and support from the hardworking Management team and Staff in implementing Board directions. I would like to thank fellow Directors for their commitment, dedication and sacrifice in providing strategic directions to ensure the Fund meets its objectives. Furthermore, I would like to thank the Government and stakeholders for their genuine support which has led to this successful financial year. My sincere appreciation goes to the General Manager for his leadership and the Management team for their contributions in implementing decisions to realize this year's pleasing results. My appreciation also goes to Staff for their continued commitment, support and loyalty in serving our valued members and clients of the Fund. Thank you all for facilitating yet another successful year.

Thank you all



Baoro Laxton Koraua

Chairman

Executive Team



Tony Makabo
GENERAL MANAGER



Mike Wate
DEPUTY GENERAL MANAGER



Aluta Kakadi
MANAGER OPERATIONS



Suzanne Orudiana
MANAGER IT



Enly Gani
MANAGER PROPERTY



Ishmael Kako
LEGAL COUNSEL



Areau Hivu
INTERNAL AUDITOR



Rose Karoa
MANAGER FINANCE



Alfred Sare
MANAGER ADMINISTRATION



Jennifer Lakoa
MANAGER ATG
INVESTMENTS

General Manager's Report



The Fund has performed well in 2013, achieving a substantial net surplus for our members in the midst of challenging global and domestic markets. The improved financial performance indicates another year of growth in our core investment portfolios. With this in mind, the Fund is well placed as a growing business with a very strong balance sheet to venture into viable commercial undertakings in the future. This has provided a strong foundation for the Board to meet its obligation - enhancing members' funds for retirement.

Equities

Some subsidiary companies which are either fully or partly owned by the Fund have performed well. This led to dividends received totaled \$113.7 million, nearly double the dividend income of \$67.4 million last year. Approximately 95% of the dividend incomes were received from the unlisted equities namely Solomon Telekom Ltd and South Pacific Oil Ltd. The remaining percentage was secured from the domestic unlisted and offshore listed equities and managed funds. We envisage enhanced dividend revenue once other equity investments realize their potentials in the future.

We are committed and determined to search for additional potential investments that will deliver higher returns for Fund members.

Properties

The income streams from rental properties increased to \$26 million from \$12.3 million the previous year. The investment assets include Anthony Saru building, NPF Plaza, Komifera Pako Building and the Executive Apartment. In addition, a capital gain valued \$9.6 million was realized as a result of revaluation of properties carried out during the year. Additional property is under construction at the cost of \$8 million, besides the NPF Plaza. This should be completed mid-2014. The property portfolio will continue to expand in the near future in response to market needs. The Fund will utilize its existing land assets to take advantage of such opportunities.

Interest

The interest income has experienced a reduction by 24% from the previous year due to very low interest rates offered by commercial banks. On the Bonds, the early reduction of the principal has contributed to the income reduction and the Fund will continue to experience this trend in future until fully repaid.

Corporate Governance

The Board and Management continue to uphold principles of good governance while exercising their mandate. As trustees of members' savings, this is a requirement and obligation. The continuous cooperation and teamwork culture displayed by the Board, Management team and Staff has been encouraging. Coupled with that is the clear sense of purpose and focus – to protect, preserve and sustainably grow members' savings by achieving higher returns on investments both in the domestic and offshore markets.

The Fund's code of ethics and other appropriate policy measures in place are strictly adhered to in ensuring prudent decisions are made. We believe this will be further strengthened when proposed changes to the current National Provident Fund Act are enacted. The legislative reform aims to strengthen governance and reporting, financial management, members' benefits and prudential requirements. It is envisaged the proposed legislative changes will come before Parliament in

2014.

A new Corporate Business Plan 2014-2016 is being formulated to supercede the current plan which lapsed at the end of 2013. The business plan is aimed at further strengthening financials, growing investment portfolio, mitigating risks and better our service delivery to members and clients. We are committed to the strategic goals underpinning the Business Plan and to implementing the activities.

Outlook

It has been a challenging year for the Fund's investment portfolios. We are of the opinion that investment markets will remain limited domestically and volatile offshore in 2014 and that this may continue over the next few years. We acknowledge the need to stay ahead of these conditions to continue achieving higher investment outcomes for members.

In planning for uncertainties, the Fund will stay focused on managing and growing our existing investment portfolios in an effective manner thus limiting exposures to and the impact of sudden adverse market conditions. Accordingly, the Fund will endeavor to secure any viable investments that may emerge to help deliver better returns to members in such uncertain economic and business environments. Our team, sound investment discipline and stringent governance structures will

help achieve another good financial year. The new business plan and legislative reform will support this intention.

Acknowledgment

Finally, on behalf of the Management team, I would like to express sincere thanks to the Chairman and Board Members for their unfailing support and directions given to us in pursuing the strategic goals and thus the achievement of our targets. The same goes to our dedicated and hardworking Staff for their contributions in realizing the achievements during the year. They have demonstrated their commitment, professionalism and loyalty to the Fund and its members.

My final words of thanks goes to our members, employers and service providers to the Fund. Thank you for your continued support, cooperation and understanding towards the betterment of our members and country as a whole.



Tony Makabo
General Manager



Governance Report

The Board

The Board members are appointed by the Hon. Minister of Finance as stipulated in the Solomon Islands National Provident Fund Act (Cap.109). They represent employers, employees, and the Crown while two members are appointed at the discretion of the Hon. Minister of Finance. Appointments to the Board have to meet the “fit and proper person” criteria which ensures a blend of experiences and skills required by the Fund to effectively facilitate a good governance process. The Board members retire by rotation - each will serve for two or three years and are also eligible for re-appointment upon consent.

All Directors are non-executive and independent of Management. The Board has the ability to delegate its powers and responsibilities to sub-Committees of the Board. Furthermore, the Board sets objectives and goals for the operations of the Fund, oversees management, regularly reviews the Fund's performance and monitors the affairs in the interests of members.

The Board is committed to achieving the highest standards of corporate governance and ethics. Likewise, the Board expects the same of the Management team and Staff. The Board sets the strategic direction for the Fund and meets every two months, convening extra/special meetings to discuss matters of importance when necessary. All matters pertinent to the Fund are deliberated on by the Board including, but not limited to the operations and financial performance of the Fund.

During the year, the Hon. Minister of Finance made new appointments and one re-appointment. Mr. Harry Kuma was re-appointed for a term of one year. New appointments included Dr. Alice Pollard and Mr. Gideon Zoloveke (Jnr) for terms of 3 years each.

Table 1: Board appointments

BOARD MEMBER	APPOINTMENT	DATE APPOINTED	TERM	REPRESENTING
Mr. Baoro Laxton Koraua	Chairman	7 March 2012	3 years	Employer
Mr. Peter Boyers	Deputy Chairman	11 October 2010	3 years	Minister's discretion
Dr. Levi Hou	Board Member	09 September 2011	3 years	Employees
Mr. Harry Kuma	Board Member	21 June 2012	1 year	Crown
Reappointed*		21 June 2013	1 year	
Dr. Alice Pollard	Board Member	29 March 2013	3 years	Minister's discretion
Mr. Gideon Zoloveke (Jnr)	Board Member	29 March 2013	3 years	Employer

The terms of the following Board Members expired and they were either replaced or renewed with some still vacant.

Table 2: Board members terms

Name	Term of Appointment	Representing
Rev. Mareta Tahu	26 January 2011 – 26 January 2013	Minister's discretion
Mrs. Leotina Harihiru	26 January 2011 – 26 January 2013	Employee
Mr. Josiah Manehia	26 January 2011 – 26 January 2013	Crown
Mr. Harry Kuma	26 January 2011 – 26 January 2013	Crown

Two Board positions still remain vacant and replacements are yet to be made. These new appointments should represent the Crown and Employees.

Meetings and Attendance

The Board is required to meet at least six times in a year. A total of 24 meetings were convened to deliberate on policy issues, investments and other governance matters submitted by management and sub-Committees. Out of the 24 meetings, five were held as scheduled while 19 were special meetings.

Table 3: Board Meetings

NO.	MEETING REF.	DATE	Mr. Baoro Koraua	Mr. Peter Boyers	Rev. Mareta Tahu	Mrs. Leotina Harihiru	Mr. Josiah Manehia	Mr. Harry Kuma	Dr. Levi Hou	Dr. Alice Pollard	Mr. Gideon Zoleveke (Jnr)
			MEETING ATTENDANCE								
01	No.SBM12/05	09.07.2012	✓	✓	✓	✓	-	-	-		
02	No.BM12/04	22.08.2012	✓	✓	✓	-	✓	✓	✓		
03	No.SBM12/06	20.09.2012	✓	✓	✓	-	✓	-	✓		
04	No.BM12/05	12.10.2012	✓	✓	✓	✓	✓	✓	✓		
05	No.SBM12/07	17.10.2012	✓	✓	✓	✓	-	✓	-		
	(Reconvened)	22.10.2012	✓	-	✓	✓	-	✓	-		
06	No.SBM12/08	22.11.2012	✓	✓	-	✓	✓	✓	✓		
07	No.BM12/06	04.12.2012	✓	✓	✓	✓	-	-	✓		
08	No.SBM12/09	11.12.2012	✓	✓	✓	✓	-	✓	✓		
09	No.SBM12/10	18.12.2012	✓	-	✓	✓	-	✓	-		
10	No.SBM13/01	16.01.2013	✓	✓	✓	✓	✓	-	✓		
11	No.SBM13/02	21.01.2013	✓	-	✓	✓	-	✓	✓		
12	No.SBM13/03	05.02.2013	✓	✓				✓	✓		
13	No.SBM13/04	15.02.2013	✓	✓				✓	✓		
14	No.BM13/01	22.02.2013	✓	✓				✓	✓		
15	No.SBM13/05	25.02.2013	✓	✓				✓	✓		
16	No.SBM13/06	11.03.2013	✓	✓				✓	✓		
17	No.SBM13/07	18.03.2013	✓	✓				✓	✓		
18	No.SBM13/08	22.03.2013	✓	✓				✓	✓		
19	No.SBM13/09	26.03.2013	✓	✓				✓	✓		
20	No.BM13/02	15.05.2013	✓	-				✓	✓	✓	✓
21	No.SBM13/10	17.06.2013	✓	-				✓	✓	-	✓
22	No.SBM13/11	24.06.2013	✓	✓				✓	✓	✓	✓
23	No.SBM13/12	28.06.2013	✓	✓				-	✓	✓	✓
	Total meetings attended		24/24	19/24	11/12	10/12	5/12	19/24	20/24	3/4	4/4

Traditionally the Board holds one meeting in each financial year out in the provinces. For this year, the Board held a meeting at the Tavanipupu Island Resort, Guadalcanal Province. This was to give the Board an opportunity to observe and ascertain better knowledge about Tavanipupu Island Resort, its level of services provided, and the quality of infrastructure developments pursued by the resort after it was assisted by the Fund through a loan finance.

Remuneration

Board members were paid monthly and sitting allowances. Pertinent to sitting allowances, it is only paid when Board members attend meetings. These entitlements were determined and approved by the Hon. Minister of Finance under section 5 of the SINPF Act. No changes to the allowances were made during the year. The last review of allowances for the Board members was made in 2010.

Table 4: Board remuneration

BOARD MEMBER	MEETINGS ATTENDED	SITTING EMOLUMENT	SITTING ALLOWANCE		MONTHLY EMOLUMENT
			2012	2013	
Mr. Baoro Laxton Koraua	24/24	\$1,500	\$9,000	\$36,000	\$1,357
Mr. Peter Boyers	19/24	\$1,300	\$14,300	\$24,700	\$1,250
Rev. Mareta Tahu	11/12	\$1,170	\$14,040	\$12,870	\$1,160
Mrs. Leotina Harihiru	10/12	\$1,170	\$5,850	\$11,700	\$1,160
Mr. Josiah Manehia	5/12	\$1,170	\$9,360	\$5,850	\$1,160
Mr. Harry Kuma	19/24	\$1,170	\$10,530	\$22,230	\$1,160
Dr. Levi Hou	20/24	\$1,170	\$5,850	\$23,400	\$1,160
Dr. Alice Pollard	03/04	\$1,170	-	\$3,350	\$1,160
Mr. Gideon Zoloveke (Jnr)	04/04	\$1,170	-	\$4,680	\$1,160

Subsidiaries and Board Directors

During the year the Board appointed its representatives as Board Directors in subsidiary companies which the Fund has invested in through shareholdings to ensure the interest of the Fund and its members are protected and that positive financial outcomes are achieved. The Fund observes a stipulation that allows its representation in Boards of subsidiary companies i.e. if the Fund holds 10% shareholding and above, then the Fund must have seat(s) in that Board according to number of shares held. Where there is shareholding less than 10%, then the Fund will not secure a seat in the Board. The subsidiary companies which the Fund has either minority or majority shareholding and therefore representatives in their Board are shown in Table 5.

Table 5: Board representation

SUBSIDIARY	SINPF SHAREHOLDING	SINPF REPRESENTATION
Solomon Telekom	64.7%	Mr. Harry Kuma (Chairman) Mr. Baoro Laxton Koraua Mr. Tony Makabo
South Pacific Oil Limited	100%	Mr. Peter Boyers (Chairman) Mr. Harry Kuma Mr. Tony Makabo Mr. Mike Wate Dr. Levi Hou Mr. Gideon Zoloveke (Jnr)

SUBSIDIARY	SINPF SHAREHOLDING	SINPF REPRESENTATION
Solomon Islands Home Finance Ltd	100%	Mr. Gabriel Suri (Chairman) Mr. Tony Makabo Dr. Alice Pollard Mr. Ishmael Kako Mrs. Jennifer Lakoa
Heritage Park Hotel Ltd	10%	Dr. Alice Pollard
Sasape International Shipyard Ltd	25%	Mr. Peter Boyers Mr. Mike Wate
Soltai Fishing & Processing Ltd	29%	Mr. Mike Wate Mr. Peter Boyers
Solomons Oceanic Cable Company Ltd	51%	Mr. Austin Holmes (Chairman) Mr. Mike Wate

Sub-Committees

The Board approved and established subcommittees to ensure there is sustainable and effective good governance and positive outcomes for the Fund. Each sub-Committee operates to an approved terms of reference which defines areas of focus and objectives to achieve. The committees meet regularly to consider, recommend, approve or reject important Board agenda items pertinent to policies and strategic actions that might affect the investment, finances and overall operations of the Fund. Subsequent to the meetings, a number of recommendations are submitted to the Board for considerations and decision-making.

Table 6: Board sub-committees

Sub-Committees	Membership
Investments & Credit Committee	Mr. Harry Kuma (Chairman) Mr. Peter Boyers Mr. Gideon Zoloveke (Jnr)
Staff Welfare Committee	Dr. Alice Pollard (Chairperson)
Audit and Finance Committee	Mr. Baoro Laxton Koraua (Chairman) Mr. Harry Kuma
Information Technology Committee	Mr. Baoro Laxton Koraua (Chairman) Mr. Harry Kuma
Legal Affairs Committee	Dr. Levi Hou
Board Task Force Committee	Mr. Gideon Zoloveke (Jnr) (Chairman) Dr. Alice Pollard Dr. Levi Hou

Investments & Credit Committee (ICC)

This Committee sets investment asset allocations, risk management strategies, monitors performance of the investments portfolio, immediately address any investment issues, assess investment proposals and make recommendations to the Board.

Staff Welfare Committee (SWC)

The Committee undertakes reviews, assesses and recommends all aspects of recruitment & selection,

retention, training, housing, remuneration awards, etc. to ensure the Fund has best-fit employees, retain committed and productive employees and motivational drive to deliver quality and reliable services to members and stakeholders.

Information Technology Committee (ITC)

The IT Committee assists the Board in the governance of the Fund through information storage and appropriate and timely dissemination to the Board, Management, staff, members and other stakeholders. The committee supports the overall functioning of departments and also business proposals, facilitating of responses to business opportunities.

Audit & Finance Committee (AC)

The Audit and Finance Committee undertakes monitoring exercises and ensures the Fund complies with statutory requirements and policies for reporting to Directors and Management. When issues such as oversight or failures arise, the committee pursues actions as appropriate.

Legal Affairs Committee (LAC)

The Legal Affairs Committee assesses legal issues and makes recommendations and/or advice to the Board for deliberations and decision-making. Furthermore, it monitors progress and recommends foreclosure of legal cases against clients in its reports to the Board.

Board Taskforce Committee (BTC)

This Committee is established by the Board to discuss governance matters not covered by other sub-Committees' terms of references, in particular the recruitment and selection of contracted managers and remuneration. The Committee also reviews targets and performance of contracted managers and makes recommendations to the Board for decisions.

Risk Management

The Board is committed to identifying and managing potential business risks. It has instituted a policy framework and measures to manage such risks that may affect the Fund. The framework is reviewed annually. To protect and ensure sustainable growth of members' financial wealth for retirement remains the prime focus of the Board.

Events

Chairman, Mr. Baoro Laxton Koraua was a guest speaker at the 4th Australian Solomon Business Forum held in October 2013 in Brisbane, Australia. The Forum was designed and convened to attract genuine investors to Solomon Islands.

In the year, SINPF also hosted a delegation comprising Board members and Management from Vanuatu National Provident Fund. The delegation was on a 'Look and Learn' program to observe and ascertain necessary information on SINPF's investment policies, strategies and types of investments pursued.

The delegation visited the Fund's equity investment facilities and explored potential investment opportunities which could be of interest for both Provident Funds. The delegation visited the Fund's subsidiary companies including South Pacific Oil Ltd, Solomon Telekom Company Ltd, Solomons Oceanic Cable Company and Solomon Islands Home Finance Ltd. Following the visit, a Memorandum of Understanding was formulated to facilitate necessary synergies and strategic actions to boost cross-investments in commercially viable opportunities in Solomon Islands and Vanuatu that will yield better rates of returns to their respective members.

Operations Report

The Operations Department's core functions cover: the provision of effective and reliable customer services to members and employers, effective management of members and employers database, collection of outstanding Form "A"s/electronic data interface contribution and surcharges arrears, registration of new members and employers, processing of members' 2/3rd pledges, processing of withdrawal payments, provision of educational awareness, carry out enforcement and compliance as required under the provisions of the NPF Act (Cap 109) and Regulations. Improvements have been satisfactory in these functional areas of the department.

Membership

Five thousand four hundred and one new members entered formal employment in the reporting period and are registered with the Fund. This is down by 8 % from 5,928 recorded for last financial year.

The total membership with the Fund continued to trend upwards this financial year. This indicates increased registration of members with less significant number of members ceasing membership with the Fund after withdrawing full contribution balance. At the end of the reporting period, the total accumulated membership had risen to 166,000 since the Fund's inception and this is up from 157,902 in the previous year – an increase of 9%. Out of the total membership, there are 110,952 members who have credit balances.

Pertaining to active membership, this has reached about 50,000 members - an increase by 14% compared to 44,072 in 2012. Active membership continued with a reasonable increase since Year 2009 as depicted in Table 7. It is believed this trend can be enhanced if further investments are made by both the public and private sectors in the domestic economy. On the other hand, non-active membership is gradually declining as more members are reaching their retirement age and withdrawing their retirement savings.

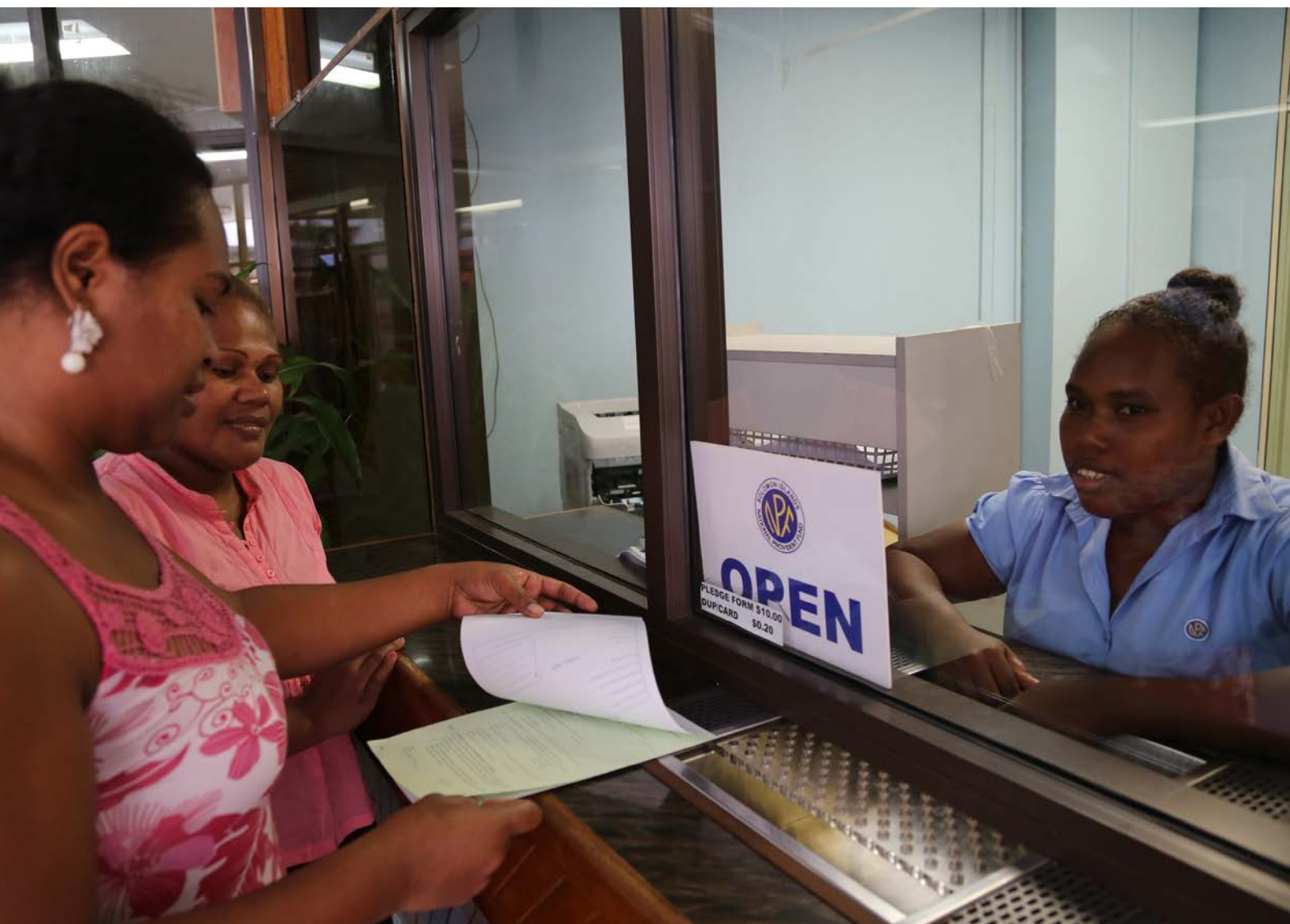


Table 7: NPF membership

Year	Total Accumulated Members	Members' Credit Balance	Active Members	Non-Active Members	Members' Balance (\$000,000)
2009	141,340	141,340	35,878	105,460	\$875.0
2010	147,246	147,246	39,480	107,749	\$985.0
2011	151,974	151,974	41,245	110,729	\$1,100.0
2012	157,902	102,137	44,072	58,065	\$1,292.3
2013	166,000	110,952	50,000	60,950	\$1,650.0

*Active refers to member with at least one paid contribution during the current financial year

On gender, men continue to make up the majority of Fund members as depicted in Table 8. This is approximately 71% of total membership. At the financial year end, male membership had increased by 8.3% from previous year. Accordingly male members continue to hold the majority of the financial savings valued at \$1.2 billion at the end of financial year.

Women as members comprise only 29% of the total membership, an increase by 7% from 30,310 in Year 2012. In value term, the female membership held \$0.47 billion which represents 30% of the total accumulated contribution held by the Fund.

Table 8: Grouped membership and contribution value (\$000,000)

Age Group	Male	Female	Total	Value-Male	Value-Female	Total Value
<=20	465	340	805	0.87	0.6	1.5
21-25	3,710	2,778	6,488	12	9	21.0
26-30	9,873	5,680	15,553	72	49	121.0
31-35	15,658	6,527	22,185	161	86	247.0
36-40	12,712	5,933	18,645	235	105	341.0
41-45	11,713	4,663	16,376	279	108	387.7
46-50	8,483	2,976	11,459	237	79	316.0
51-55	6,730	1,741	8,471	95	24	119.0
56-60	4,236	1,052	5,288	45	10	55.0
60+	4,700	980	5,680	35	6	41.3
Total	78,280	32,670	110,950	1,172.87	477.6	1,650.5

Pertaining to membership grouping, members in the age group 31 -35 years old make up the majority, followed by age group 36-40 years and then age group 41-45 years. In total, these age groups represent just slightly over 50% of total membership with the Fund. The age group 20 years and less holds the lowest contribution funds as shown in Figure 2.

On the value of financial savings held, the age group 41-45 years holds the highest followed by age group 36-40 years and then age group 46-50 years. These three age groups hold 63% of the total accumulated members' contributions. The lowest contribution value is held by the age group between 14 and 20 years as shown in Figure 3. This is the same scenario of ranking reported in 2012.

Figure 1: Contributions by gender

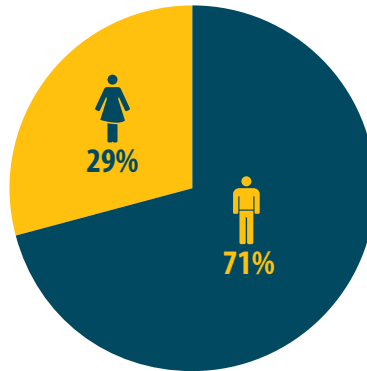


Figure 2: Membership by age group

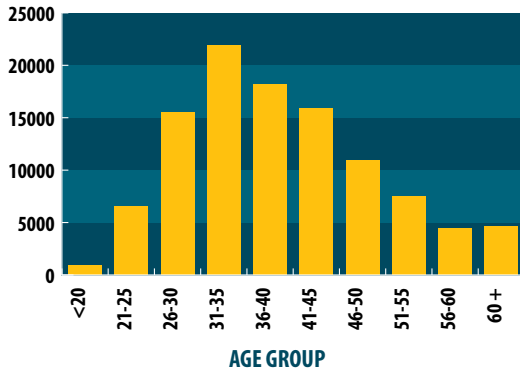
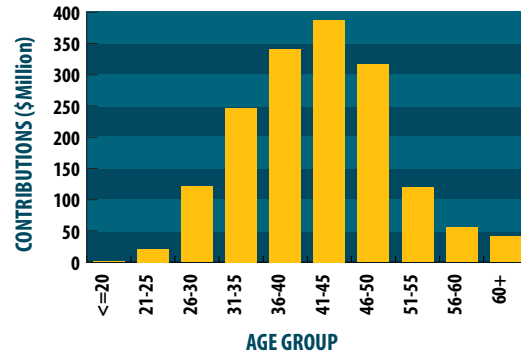


Figure 3: Contributions by age group



Withdrawal Grounds

Under the Solomon Islands National Provident Fund Act (Cap 109), there are six (6) withdrawal grounds which legally qualify member to withdraw his/her contribution savings. This includes:

- Normal retirement at age 50 years and above
- Death – beneficiaries claim the deceased member’s contribution savings
- Medical – incapacitated and unable to be re-employed
- Migrating – non-citizen migrating from Solomon Islands permanently
- Redundancy – member made redundant from employment
- Early retirement – member is 40 years plus and retiring from employment

During the year, 2800 members withdrew \$87.4 million of their retirement savings. This is an increase of 23% from \$71.4 million last year. Members who had reached retirement age at 50 years old or more accessed 60% of this amount, followed by those migrating (mostly expatriate employees) permanently from Solomon Islands (12%), members made redundant due to organization right-sizing or closures (8%), deceased members (5%), 40-years old & retired from formal employment (5%) and medically incapable to be re-employed (4%).

Table 9: Withdrawal grounds and values

Category of withdrawal	No of Withdrawals	%	Withdrawal Value (\$'000,000)	%
Normal Retirement	1329	47	52	60
Death	121	4	4	5
Medical	100	4	4	4
Migration	133	5	10	12
Redundancy	789	28	7	8
Early Retirement	36	1	4	5
Lenders Claim	179	6	3	4
Exemption	39	1	3	3
UDA	72	3	0	0
Total	2800	100	87	100

Indirect Withdrawals

There are other legal means members can access their savings in addition to the prescribed six withdrawal grounds mentioned earlier. These are as follows:

(a) Lenders' Claims

The Fund continued to provide an opportunity for members to pledge $\frac{2}{3}$ of total contribution balance as security against personal loans obtained from local Financial Institutions prescribed under the Financial Institutions Act. This is purposely to assist members to obtain credit facility to improve living standard while in employment. On the other hand, the legal provision permits a prescribed Lending Financial Institution to claim recoveries from member's $\frac{2}{3}$ contribution pledge if the loan is in default for more than six months. The Fund is obliged to make available to the lending institution the $\frac{2}{3}$ pledge.

Total accumulated contribution pledge at financial year end reached \$325 million, an increase of 20% from \$271 million last year. Figure 4 illustrates this increasing trend. Furthermore, 180 financial members are in loan defaults for more than six months. Thus, loan recoveries were pursued by banks. A total of \$3.2 million was paid from members' $\frac{2}{3}$ pledge of their contribution balance compared to \$5 million last year. This is 1% of the total amount pledged with the Lending Institutions compared to 1.8% the previous year.

Bank South Pacific holds 71% of members' total pledges followed by Westpac Banking Corporation (22%), ANZ Bank (4.7%) and National Provident Fund (2.5%). Minimal percentages are held by Credit Corporation Ltd and Development Bank of Solomon Islands as depicted in Figure 5.

Figure 4: Pledges vs lenders' claims (\$'000,000)

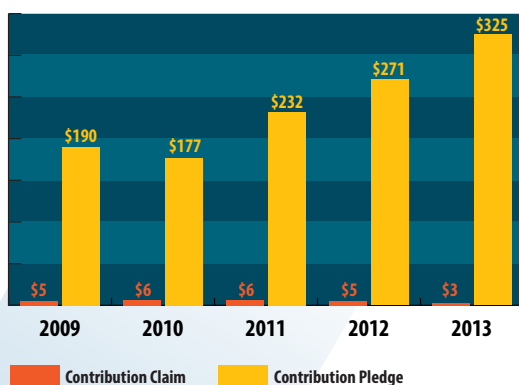
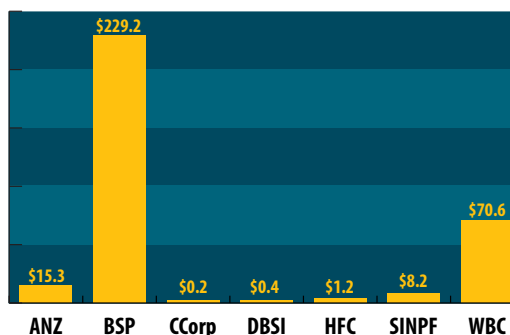


Figure 5: Pledges held by lenders (\$'000,000)



(b) Withdrawal Exemptions

Section 50 of the Solomon Islands National Provident Act empowers the Hon. Minister of Finance to exempt member not qualified under any of the prescribed six withdrawal grounds. During the year a total of 39 members were exempted in this manner. In so doing, these members were granted approval to withdraw their financial contributions from the Fund amounting to \$2.4 million – an increase from \$1.3 million in 2012. In the financial year 2011, an amount of \$0.9 million was paid to members under the same exemption criteria. This indicates a gradual increase annually in contribution withdrawals under the exemption grounds.

(c) Unclaimed Deposits (60 years old & over)

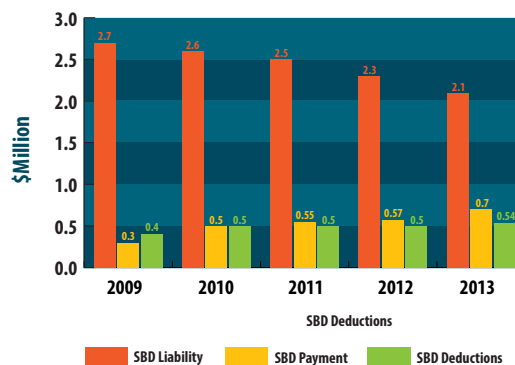
A member who has a credit account balance with the Fund at age 50 years and has not contributed for 10 years after attaining 50 years or more, will have his/her credit contribution balance transferred to the Unclaimed Deposit Account (UDA). This credit account will remain in the UDA for five years awaiting rightful members to make their withdrawals. If not claimed, then the credit account will be transferred to General Reserves of the Fund after such information is published in the media. At the end of the year, the UDA totaled \$2.6 million and total paid to members was \$296,000.

(d) Special Death Benefits

It is a statutory requirement that \$5.00 is deducted annually from all individual member’s credit balance with the Fund. No changes have been made to that particular provision in the Act. The total amount deducted from members in the year slightly exceeded \$0.5 million. The amount was transferred to Special Death Benefit (SDB) Reserves Account. The scheme was established to support the nominees/beneficiaries of a deceased member.

The maximum allowable SDB approved by the Board to be paid to the beneficiaries of deceased member has increased to \$10,000.00 from \$6,000. The increase will come into effect in 2014. The benefit is paid upon receiving application from the nominees/beneficiaries. During the year, a total of \$709,540 was paid to nominees of deceased members – up by 24% compared to \$572,450 in the previous year. This represents 120 members who had deceased compared to 123 the previous year. The SDB held by the Fund at financial year end stands at \$2.17 million, a reduction from \$2.3 million last year.

Figure 6: Special death benefits by liability, payments and deductions



Contribution Inflows & Withdrawals

The contribution receipts during the year reached \$206.3 million compared to \$191 million in year 2012, an increase of \$15.3 million. This represents contribution receipts of \$17 million received monthly. The contribution receipts continued to increase annually as membership continued to increase. As a consequence, the net contribution value also increased and these are funds available for investment purposes. The net contribution, after members’ withdrawals reached \$119 million at end of the financial year.

Table 10: Contributions and withdrawals

	2009	2010	2011	2012	2013
Contribution Receipts	\$121	\$139	\$162	\$191	\$206
Contribution Withdrawals	\$46	\$68	\$79	\$71	\$87
Net Contributions	\$75	\$71	\$83	\$120	\$119

Provincial Branches

The Fund has two Provincial Branches at Auki, Malaita Province and Gizo, Western Province. These Provincial Offices are agents of the Board to serve the members, employers and other stakeholders within the provinces. The Provident Fund Head Office manages the employers and employees in other Provinces and this is based on economic and financial consideration. Additional Provincial Offices will be established if economic activities necessitates a physical presence.

Total contribution received through the Provincial Offices reached \$4 million, surcharges fees \$375,200 and other receipts \$137,600. Total withdrawal payments facilitated by the Provincial Branches reached \$3.87 million. The Provincial Branch Offices at Gizo and Auki collected 2% of the Fund's total contribution receipts and 17% of the surcharge receipts.

Table 11: Contribution/surcharges/withdrawal by provincial branch

	NPF Auki Office	NPF Gizo Office	Total
Customer Enquiries	7,054	5,652	12,706
New Employers	21	26	47
New Members	164	146	310
Active Employers	42	70	112
Contribution Receipts	\$1,241,522.66	\$2,799,269.87	\$4,040,792.53
Surcharge Receipts	\$25,292	\$349,872.77	\$375,164.77
Other Receipts	\$83,395.55	\$54,205.49	\$137,601.04
Withdrawals	\$1,681,820.09	\$2,188,127.53	\$3,869,947.62
Operating Expense	\$208,759.76	\$190,957.06	\$399,716.82

Employer Services Unit

Employer Services Unit's core functions include sending of contribution and surcharge demand letters to employers, verification of Form "A"s/electronic data interface (EDI) postings of Form "A"s/EDIs, reconciliation of employers and members contribution accounts, reconciliation of employers surcharge accounts, clearance of members unidentified contribution accounts, publication in media of members Unidentified Deposit Accounts (UDI), follow up on compliance-issue cases, and recommendation of legal cases against employers for breach of NPF Act for necessary prosecution.

At year end, total active employers reached 2,327 - a 3% reduction compared to 2,379 last year. The decrease is the result of 261 employers confirmed to have ceased operations in respect of prior financial year 2012. This year, 207 new employers were registered. 60% of those registered businesses are located and operating in Honiara while the remaining 40% are located in various provincial locations. (Logging companies are operating in the provinces while their administrative offices are located in Honiara.)

Figure 7: Employer distribution by province

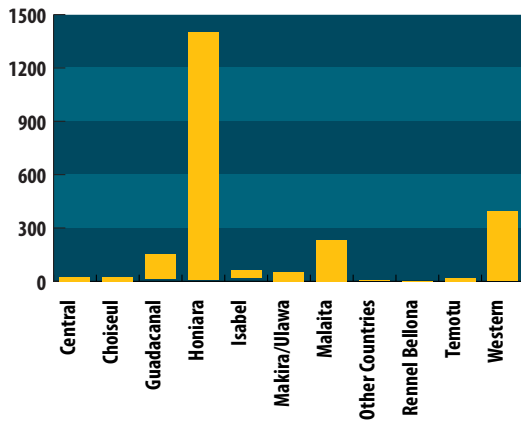


Figure 8: Employer operating status

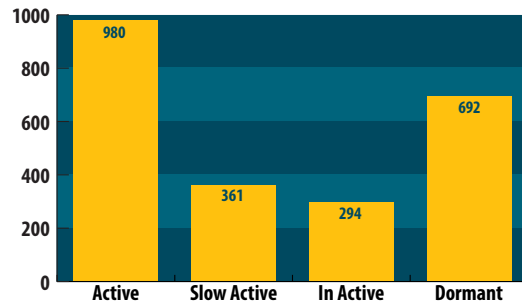
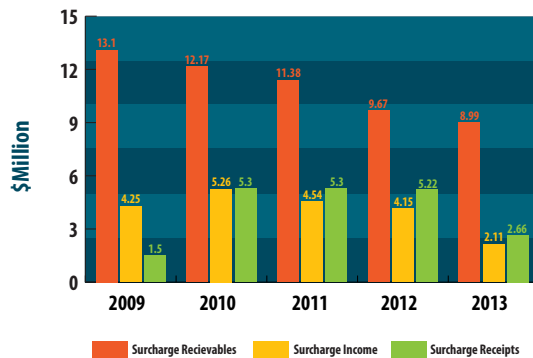


Figure 9: Surcharge, receivables, income receipts



Unidentified Contributions

In year 2013, a total of \$8.4 million was transferred to members’ unidentified account while \$6.2 million was transferred to members identified accounts. At year end, the unidentified contributions reached \$10.4 million, an increase of 20% as compared to the previous year balance of \$8.15 million. The increase is attributed to insufficient and inaccurate information provided by employers for workers, and unregistered employees in the workforce. The Fund will continue working closely with employers to reduce the level of unidentified contributions. The Fund will do this through more personal consultations with employers, especially Government, state-owned enterprises, logging and mining companies. The Fund has identified new strategies in an attempt to minimize this challenging problem. It is envisaged that employers will cooperate with the Fund to realize that objective.

Contribution Excess

Accumulated excess contributions reached \$31.4 million compared to \$28.7 million last year - an increase of 9%. Approximately, 50% of the excess contributions is owing to Government. The Board and Management is working closely with the Government and private sector employers to address this excess contributions by identifying employees not registered or non-submissions of Form “A”s. Furthermore, the Fund’s strategy now is to increase visitation programs to employers for submission of outstanding Form “A”s, and to educate employers to submit payments with Form “A”s/EDIs together to minimise excess contributions. To address this issue, the Fund proposed to institute a process whereby it will only accept contribution payments with Form

"A"s/EDIs along with regular reconciliation of Form "A"s with the Fund's contribution system template.

Contribution Underpayments

Unpaid contributions reached \$2.1 million, an increase from \$1.5 million in 2012. The Fund is pursuing smarter ways to ensure compliance by employers to pay arrears.

Enforcement & Compliance

To ensure what is owing to the Fund is paid, the staff carried out consultations and educational awareness with concerned employers both in Honiara and Provinces including Central Islands, Choiseul, Isabel, Makira Ulawa and Western Province. During the visits, staff also carried out registration of non-registered employees and thus reduced the number of unidentified members. As result of the visits to employers in the provinces, a substantial amount of contribution and surcharge arrears was collected. See Table 12 below.

Table 12: Inspectors - activities and results

Particulars	Honiara Region		Provincial Regions	
	Amount	No. of cases	Amount	No. of cases
Contribution Received	13,506,260	1076	433,505	
Surcharge Received	1,162,538	1545	188,970	
Other Receipts	845,456	0	0	12
Unidentified Clearance	454,620	424	0	8
Form "A" Collections	400	217	4	5
Member Registration	591	440	3	4
Employer Registration	3	45	3	3
Cases for Prosecution	20	1	0	0
Employers/Members Seminars	2	13	87	100

Investments Report

The SINPF Board Investments Objective

The SINPF Board investments objective is to deliver investment returns that will enable the Board to credit members' contribution balances with crediting rates that protects the value of their contributions over their membership term.

Since the membership of a member can go from 25 to 30 years, the investment horizon of the SINPF board is long term, and the core strategy is to buy and hold.

The investments return from SINPF's Investments Portfolio must meet all board costs and deliver crediting rates to members' contribution balances above the Solomon Islands inflation rate.

In forecasting future returns, the Board and Management, mindful of their trusteeship responsibility fully understand and appreciate that past performance and statistics do not guarantee future performance.

Understanding Investment Risk and Return

Return is the level of profit or loss generated by an investment and represents the reward for making that investment.

It makes no difference whether this has been generated by interest, rental, or dividend, realized capital gains/losses or unrealized capital gains/losses for our listed offshore equities, and realized and unrealized foreign exchange gains or losses.

A risk on the other hand is the failure to achieve the desired or projected rate of return on an investment or on SINPFB portfolio of investments. Risk can be mathematically measured by the standard deviation statistic. The term risk comes from an Italian word "risicare" which means "to dare" and are actions we dare to take to achieve our investment objective.

The Board and Management has always kept in balance, one of the main rules of investments, that the higher the potential reward, the higher the risk of losing money. And also they have kept in mind the reverse, the lower the risk the lower the potential return.

Some of the risks that warrant mitigating against include the following; currency risks, market risks, sector or industry risks, company specific risks, and credit risks.

(i) Strategic Asset Allocation

In managing the various risks from investments in order to protect member contribution balances against capital losses and secure enhanced returns on their retirement savings, the Board relied on its strategic asset allocation model, which it had approved in September 2007. The approved strategic asset allocation by risk categories is subject to review from time to time.



The asset allocation model enabled the board to invest its funds across different asset classes, markets, and currencies as follows; low risk low return investment asset class – 37%, medium risk medium return investment asset class – 28%, and high risk high return investment asset class – 35%. Due to exchange rate volatility, offshore cash and fixed term deposits are classified as medium risk medium return assets.

The current asset allocation guidelines are expected to be reclassified according to a more traditional method by apportioning assets into growth (equities and properties) and defensive (fixed income) assets.

Typical low risk low return investment assets are onshore cash and fixed term deposits, and government securities. Typical medium risk medium return investment assets are; offshore cash and fixed term deposits, loans, bonds, and properties. High risk high return investment assets are shares and equities.

By markets as is with risk category, the guidelines remain the same with 70% of the gross investment portfolio are to be domestically invested, and 30% to be invested offshore in the USA, Australia, Europe, and the Papua New Guinea financial markets and in their relevant underlying currencies. Target currency exposure guideline for the US dollar is 11%, PNG Kina 7%, AUD 6%, Euro 4%, and GBP 2%. These limits are subject to periodic review. This currency allocation provides a 'natural' hedge against exchange rate fluctuations.

Investing offshore diversifies the risk that if the Solomon Islands economy performs badly then our exposures in other markets will mitigate our domestic losses.

(ii) Market Risk

This is the risk that the market in one economy falls due to local or even international issues.

When this happens the return or the value of our investment assets in that market or economy will also fall. To mitigate this, the Fund has allocated 30% of its portfolio to be invested in various offshore markets of the largest economies in the world.

(iii) Sector or Industry Risks

This is the risk that an industry or sector fails in one, or a number of markets. An example of this is the failure of the technology sector in 2000 which was felt by nearly all of the global investment markets. To avoid this, the Fund's concentration risk guidelines is limited to 10% of the investments portfolio value in one sector or industry.

(iv) Company Specific Risks

The value of our investments and return in a company can vary due to changes in the management of the company, product lines, or changes to its environment. Any changes both internal and external to the company can cause movements to the return and in the valuation of our investment in that company. To mitigate this, concentration risk guideline to one particular underwriter is limited to 10% of the value of the investments portfolio. The concentration includes both equity and debts.

For example the deregulation of the Solomon Islands telecommunication industry in 2010 will in the future will have an impact on the previous monopoly company, Solomon Telekom Company Limited earnings and profitability due to competition.

(v) Credit Risks

When we invest in fixed interest (bonds) or debt securities (short or long term loans) there is the risk that the issuer of the fixed interest or debt securities may not meet its interest and principal repayment obligations. The primary and secondary sources of cash flow to finance principal and interest payments must be adequate. In regulated markets the SINPF will only invest in investment grade papers of at least B+ rated by any of the internationally recognized credit rating agencies such as Standard and Poor.

(vi) Interest Rate Risk

In a fixed interest market, an unexpected movement of market interest rates will result in the movement in the value of the security such as government or corporate bonds. For example the current high liquidity in

the domestic financial market has continued to depress interest rates on fixed term deposits to less than 0.2% per annum.

(vii) Currency Risk

SINPF liabilities are always going to 100% denominated in SBD and as are 70% of our current and long term investment assets. Having a portion of our portfolio in other currencies creates a currency exposure risk.

Currency movements relative to the SBD can cause changes in the value of our offshore investments when restated back into SBD. When the value of the SBD strengthens against any of the underlying currencies of the assets we invested in, the SBD value of that investment in that currency will fall. SINPF's approach to hedging its currency risk is through a "natural hedge".

Investment Performance

(i) Investment Returns

The fund recorded a total investment return of \$840,059,753 including other incomes such as surcharges for late payment of member contributions, the largest profit recorded so far in the Fund's history. This is a rate of return on our total investment portfolio of 35.6% compared to last year's level of 10% rate of return.

Largely responsible for this increase are the unrealized capital gains that resulted from the revaluations of our shares in South Pacific Oil Ltd and Solomon Telekom Company to \$625,500,000 and \$329,700,000 respectively. The total revaluation surplus of \$669,709,339 (the difference between the new revaluations amounts and at cost values recorded for SPOL at \$429,125,000 and STCL at \$240,584,338) passed through the Fund's profit and loss.

Cash dividends from our onshore and offshore equities, interest on domestic loans and bonds, and property rentals also performed strongly. On the downside there were unrealized losses from the depreciating value of some of the foreign currencies we have our investments in. These are assets denominated in PNG Kina and the AUD.

The SINPF Board as a result of this large surplus for distribution, credited members contributions with the highest crediting rate of 20% so far, giving members a real crediting rate of 14.8% after adjusting for inflation rate of 5.2%. The previous highest crediting rate was 18% declared in 2007 and 2008.

Table 13: Investment return by major asset

	2013	2012	2013 Income	2012 Income	2013	2012
Onshore Cash and fixed term deposits	\$400,767,341	\$462,508,304	\$4,438,814	\$11,093,461	1.1%	2.4%
Offshore cash and fixed term deposits	\$150,871,702	\$145,321,967	\$587,871	-\$4,041,996	0.4%	-2.8%
Government securities	\$83,950,962	\$97,517,186	\$1,818,273	\$3,594,379	2.2%	3.7%
Domestic loans and bonds	\$138,719,335	\$136,324,574	\$12,001,426	\$11,704,006	8.7%	8.6%
Investment Properties	\$276,539,591	\$215,850,853	\$35,794,501	\$19,746,845	12.9%	9.1%
Offshore equities	\$119,109,461	\$119,947,826	\$7,554,528	\$21,708,123	6.3%	18.1%
Domestic equities	\$1,170,931,599	\$265,718,023	\$777,653,149	\$62,154,043	66.4%	23.4%
Other income	\$0	\$0	\$211,190	\$11,956,088	0.0%	0.0%
	\$2,340,889,991	\$1,443,188,733	\$840,059,752	\$137,914,948	35.9%	9.6%

Domestic Cash and Fixed Term deposits

The return from our domestic cash and fixed term deposits continued to decline as free cash builds up earning no income, continues to build up and rates on fixed term deposits with commercial banks continue to decline below 0.2%.

Offshore Cash and Fixed Term Deposits

Our Euro fixed term deposits made a large improvement of more than \$4 million as the SBD depreciated against the Euro whilst the strengthening of the SBD against the USD, AUD, Kina and Pound Sterling reduces the large unrealized foreign exchange gains from our Euro. See Figure 10 on the next page.

SI Government (SIG) Securities

Whilst the government continued to pay the additional 1% to restructured bond holders on account of government's continued performance to collect above the agreed annual level of government revenues in the previous year, the declining income from this asset class is a result of another large down payment to bondholders in the year and the consistent reduction of the debt by the SIG.

Domestic Loans and Bonds (also include members housing and staff loans)

The increase in the income from these assets is attributable to the purchase of a new SPOL \$25 million debenture during the year in April.

The interest on members home loans are declining as the loans are paid down. As at 30 June 2013, the members home loan balance is just under \$8 million and within the next two to three years will be negligible.

Investment Properties

Rentals improved by just under \$17 million on account of the following; (1) Increases in rental rates, (2) the inclusion of the new lease to Sasape International Shipyard Ltd (SISL) for the rental of the upgraded and refurbished 500 ton slipway at Tulagi, Central Islands Province from September 2012, (3) the lease of the recently acquired properties at Town ground formerly owned by Providence Properties Limited, and (4) a \$9 million revaluation surplus recorded from the 2013 annual revaluations of our investment properties taken up by the Board on 30 June 2013.

Offshore Equities

The income from our offshore equities plummeted on account of the reduction in the share price of BSP shares, the weaker values of the PNG Kina, AUD and the USD. The prices of our units in the two Vanguard Index Funds in USA and Europe recorded positive gains, so as the price of our Australian UBS Share Fund unit.

Domestic Equities

Besides the large revaluation gains from restated values of our investments in SPOL and STCL, domestic cash dividends performed better as well than the previous year recording a record level of just under \$108 million.

The voluntary liquidation of Providence Properties Limited was finally completed during the year. The Fund recorded a realized capital gain of \$735,703 from the sale of the company assets.

Table 14: Investment return by risk return category

	2013	2012	2013 Return	2012 Return	2013	2012
Low risk low return	\$484,718,303	\$560,025,490	\$6,257,087	\$14,687,840	1.3%	2.6%
Medium risk medium return	\$566,130,628	\$497,497,394	\$48,383,799	\$27,408,855	8.5%	5.5%
High risk high return	\$1,290,041,060	\$385,665,849	\$785,207,676	\$83,862,166	60.9%	21.7%
Other	0	0	\$211,190	\$11,956,088	0.0%	0.0%
	\$2,340,889,991	\$1,443,188,733	\$840,059,752	\$137,914,948	35.9%	9.6%

Movements in prices of foreign currencies and prices of offshore shares and units in SBD

Figure 10: Prices of foreign currencies in SBD (\$000,000)

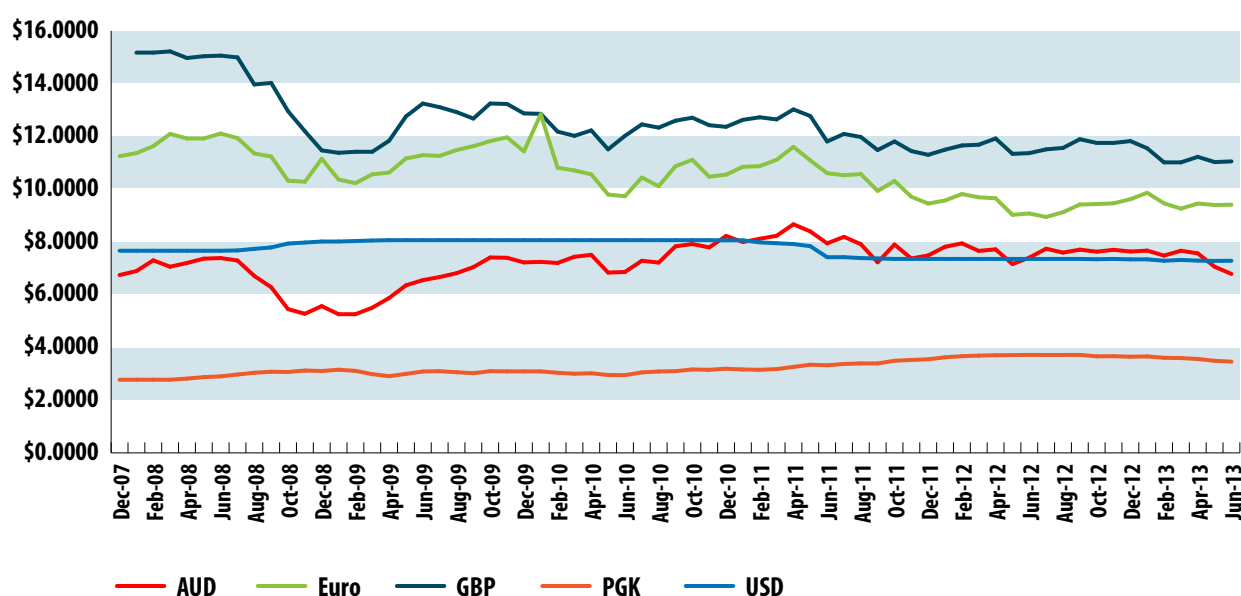


Table 15: Investment in currency (\$000,000)

	30 June 2013	30 June 2012
USD	\$7.2833	\$7.3529
AUD	\$6.7843	\$7.4019
Euro	\$9.4073	\$9.0744
GBP	\$11.0497	\$11.3636
PGK	\$3.4578	\$3.7147

Source: Commercial banks

At the end of the period the following currencies declined against the SBD; USD, AUD, Pound Sterling, and the PGK whilst the Euro appreciated against the SBD. This means that the SBD balances of our assets held in these currencies declined whilst the SBD value of our Euro-denominated assets increased.

INVESTMENTS

Figure 11: Prices of offshore shares and managed fund units in SBD (\$'000,000)

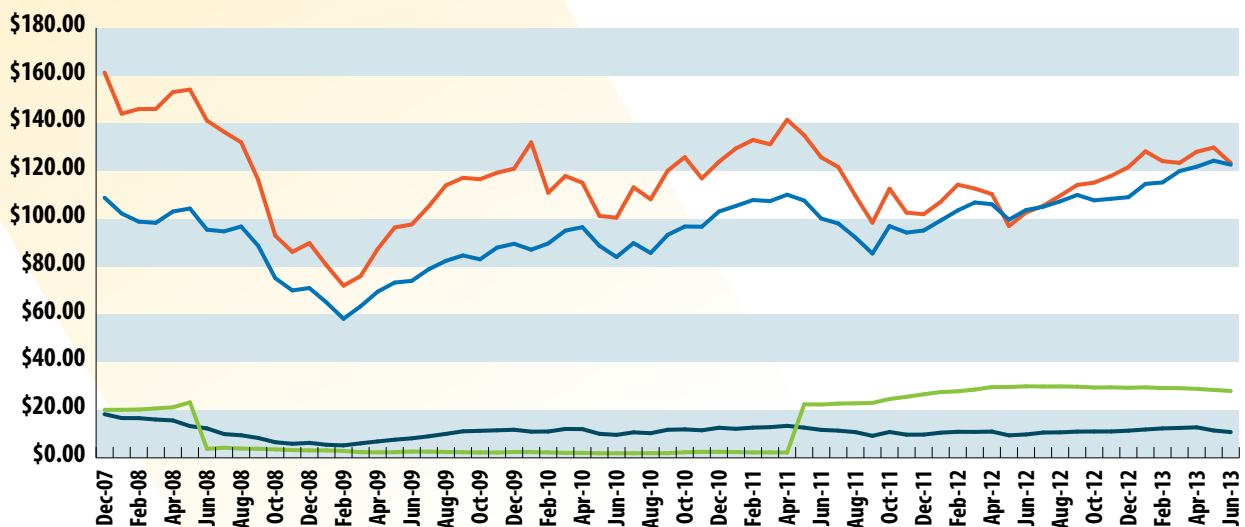


Table 16: Investments in stock (\$'000,000)

	30 June 2013	30 June 2012
Bank South Pacific	\$28.01	\$29.94
Vanguard US Stock Index Fund	\$122.72	\$103.73
Vanguard European Stock Index Fund	\$123.39	\$102.73
UBS Australian Share Fund	\$10.78	\$9.79

The Kina price of our BSP shares declined in 2013, in addition to the lower Kina value, reducing the SBD value and our return from our BSP shares. The prices of our units in the three managed funds as shown above in SBD rose during the year.

(ii) New Investments

The largest investment made during the year was for the purchase of GRP and Associate Ltd's 25% shares in South Pacific Oil Ltd for \$ 156,375,000. After the purchase in April 2013, the SINPF Board is now the single shareholder in the company bringing the total value of SINPF shares in SPOL to \$625.5 million. The Board approved the upgrade and the refurbishment of the NPF Plaza Food Court for \$8.125 million to convert the old huts into a double-level modern food and catering facility and creation of additional office spaces. South Pacific Oil Ltd finally issued its \$25 million debenture paper to SINPF during the year after liquidating its earlier \$20 million debenture in June 2013.

Additional investments were made to complete currently implemented investment property developments. These were for the completion of the executive apartments at Hibiscus Avenue for \$22.5 million and \$3 million for the completion of the 500 ton slipway upgrade at Tulagi, Central Islands Province. These additional costs brought up the total cost of building the apartments to \$68 million and the upgrade of the slipway to \$20,437,936. The leasing of the slipway by Sasape International Shipyard Ltd (SISL) commenced in September 2012. The executive apartments will come into the market in August 2013.

Soltai Fishing and Processing Company Limited changed its name to Soltuna Limited during the year and called for additional capital for the purchase of new equipment necessary for the company to increase production and throughput at the cannery, by introducing a second shift. Tri-Oceanic Overseas Holdings (TOOH), SINPF, and the Investment Corporation of Solomon Islands (ICSI) participated in the call by

INVESTMENTS

subscribing additional capital whilst the Western Province Executive (WPE) did not participate. SINPF bought additional shares worth \$3,067,907 representing 32.1% shares in the company up from 29% recorded in the previous period.

SINPF continued its participation in the UBS Australian Share Fund Distribution Reinvestment Plan (DRP) by investing its quarterly distribution to purchase additional units in the Fund. In the reporting period, 53,380 units were purchased worth AUD\$76,638.93, lifting our number of units in the Fund to 1,446,583.

All domestic and offshore existing term deposits that matured during year were renewed. Our dividends from kina denominated BSP share investments were reinvested in Australia.

As required by our external auditors and our supervisor the Central Bank of Solomon Islands, the Fund is required from time to time keep a fair value of its unlisted domestic shares previously recorded at cost on our balance sheet. The reasons being that these values do not reflect their true market values and in fairness to our members equity should be restated. Commencing in 2013 financial year the Fund revalued its two largest unlisted domestic investments, Solomon Telekom Company Ltd and South Pacific Oil Ltd and brought to account these assets' revaluations to our books on 30 June 2013.

The revaluations were independently performed by Australian based Ernst and Young (E&Y). The revaluation gains or losses were passed through our profit and loss for distribution to members. The accounting for these valuations are taken up under International Financial Reporting Standards (IFRS) 9 and 10.

The voluntary liquidation of Providence Properties Limited was finally completed during the year with the Fund making a realized capital gain of \$735,703 from the sale of the company assets.



(iii) Gross Investments Portfolio

The Fund’s gross investment portfolio surged to \$2.34 billion a growth of more than 62% on the previous year’s level of \$1.44 billion. The core drivers of this surge are the revaluations of our shares in South Pacific Oil Ltd and Solomon Telekom Company Ltd taken up and recorded at \$625.5 million and \$329.7 million respectively. Our investment properties are the 2nd largest contributor to this significant increase with the positive revaluations of our new properties such as the apartments, the slipway and older properties Komi Fera Pako Building and undeveloped properties.

Solomon Islands Government (SIG) securities comprising mostly of their restructured development bonds are consistently being paid by the government on time and according to arrangement. Offshore cash increased from the dividends from Bank South Pacific being reinvested in AUD term deposits. The increase in domestic bonds and loans is the net effect of the new SPOL \$25 million debenture after deducting for the receipt of the lesser face value \$20 million debenture.

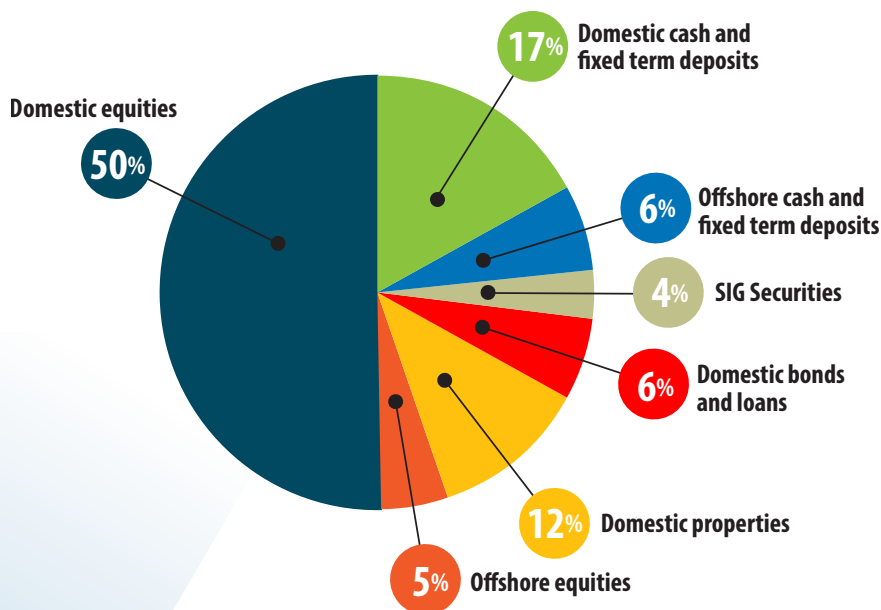
Domestic cash and fixed term deposits declined on account of the large payout to finance the acquisition of GRP and Associate Ltd 25% shares in SPOL.

Table 17: Gross investments portfolio by major asset (all markets)

	2013		2012		Change
Domestic cash and fixed term deposits	\$400,767,341	17%	\$462,508,304	32%	-13%
Offshore cash and fixed term deposits	\$150,871,702	6%	\$148,572,340	10%	2%
SIG Securities	\$83,950,962	4%	\$97,517,186	7%	-14%
Domestic bonds and loans	\$138,719,335	6%	\$136,324,573	9%	2%
Domestic properties	\$276,539,591	12%	\$215,850,852	15%	28%
Offshore equities	\$119,109,461	5%	\$116,697,452	8%	2%
Domestic equities	\$1,170,931,599	50%	\$265,718,022	18%	341%
	\$2,340,889,991	100%	\$1,443,188,729	100%	62%

Unlisted domestic equities now accounts for more than 50% of the portfolio followed by domestic cash and fixed term deposits, domestic properties, offshore cash and fixed term deposit, and domestic bonds and loans.

Figure 12: Gross investments portfolio by major assets class (all markets)



INVESTMENTS

Table 18: Investments portfolio by risk return category

	2013		2012	
Low risk low return	\$484,718,303	20.7%	\$560,025,490	38.8%
Medium risk medium return	\$566,130,628	24.2%	\$497,497,394	34.5%
High risk high return	\$1,290,041,060	55.1%	\$385,665,849	26.7%
Other	\$0	0.0%	\$0	0.0%
	\$2,340,889,991	100%	\$1,443,188,733	100%

Table 19: Gross investments portfolio by market

	2013		2012	
Solomon Islands	\$2,070,908,827	88%	\$1,177,918,937	82%
Australia (AUD)	\$77,505,948	3%	\$73,727,633	5%
USA (USD)	\$65,208,119	3%	\$61,156,756	4%
Papua New Guinea (Kina)	\$79,910,304	3%	\$85,197,102	6%
Europe (Euro)	\$31,437,009	1%	\$28,959,935	2%
United Kingdom (Pound Sterling)	\$15,892,164	1%	\$16,095,706	1%
Cash in various currencies	\$27,619	0%	\$132,661	0%
	\$2,340,889,991	100%	\$1,443,188,730	100%



Managing Director and World Bank Group Chief Financial Officer, Bertrand Badré and Soltuna General Manager Adrian Wickham on a visit to the company site in Noro.

INVESTMENTS

Table 20: Domestic gross investments portfolio

Cash and fixed term deposits	\$400,767,341	19%	\$462,508,304	39%
Government Securities	\$83,950,962	4%	\$97,517,186	8%
Properties	\$276,539,591	13%	\$215,850,852	18%
Loans and bonds				
South Pacific Oil Bond (1)	\$0	0	\$20,000,000	0
South Pacific Oil Bond (2)	\$25,000,000	0	\$0	0
Heritage Park Hotel Ltd	\$16,942,718	0	\$16,942,718	0
Soltuna Ltd	\$50,000,000	0	\$50,000,000	0
SI Home Finance Ltd	\$6,500,000	0	\$6,500,000	0
Sasape International Shipyard Ltd	\$5,714,170	0	\$5,431,560	0
Solomon Telekom Co Ltd	\$8,979,953	0	\$10,000,000	0
Tavanipupu Island Resort Ltd	\$15,000,000	0	\$15,000,000	0
Members housing loan	\$7,988,355	0	\$10,549,428	0
Staff loans	\$2,594,139	0	\$2,360,867	0
	\$138,719,335	0	\$136,784,573	12%
Domestic Equities				
Solomon Telekom Co Ltd	\$329,700,000	0	\$89,115,661	0
Providence Properties Ltd	\$0	0	\$6,245,403	0
South Pacific Oil Ltd	\$625,500,000	0	\$40,000,000	0
Solomon Islands Home Finance Ltd	\$13,866,987	0	\$13,866,987	0
Heritage Park Hotel Ltd	\$11,955,105	0	\$11,955,105	0
Soltuna Ltd	\$45,469,230	0	\$42,401,323	0
Sasape International Shipyard Ltd	\$882,834	0	\$2,500	0
Solomon Oceanic Cable Co Ltd	\$37,728,632	0	\$2,002,000	0
Dividend Receivables	\$105,828,811	0	\$60,129,043	0
	\$1,170,931,599	57%	\$265,718,022	23%
Total	\$2,070,908,827	100%	\$1,178,378,937	100%

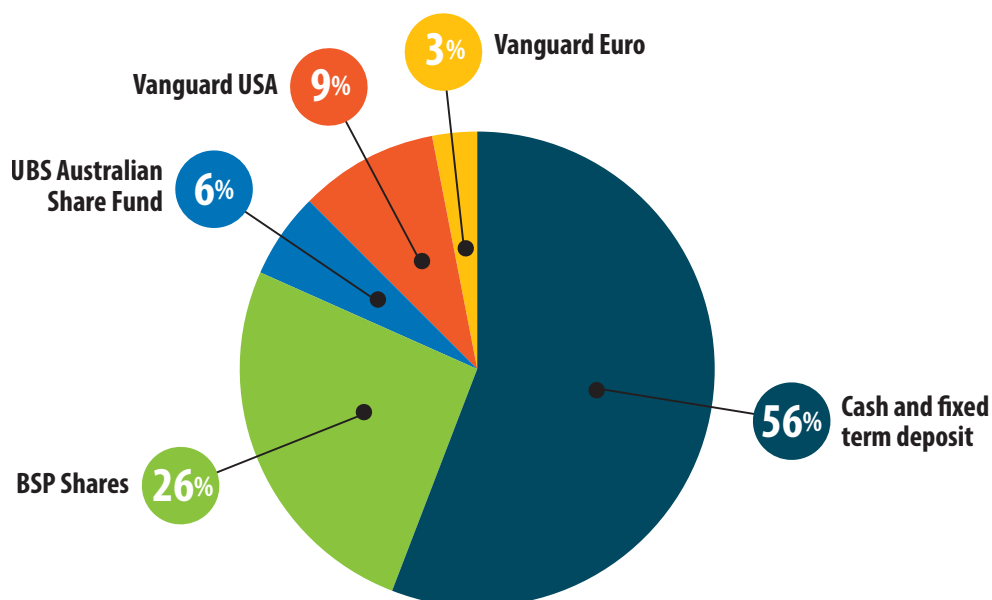
The total domestic portfolio as shown in Tables 15 and 17 represented more than 88% of the portfolio against a target guideline of 70% for domestic investments and 30% for offshore investments. The taking up of the new revaluation values for SPOL and STCL now poses a concentration risk to the Fund in terms of portfolio and risk management. Including debts and equities, both SPOL (28%) and STCL (14%) are beyond the 10% concentration risk guideline for one entity. Both accounted for a large chunk of the portfolio at 42%. Efforts are now being expended to develop and implement over a period of time the divestment of part of our shares in these two NPF cash cow companies.

Table 21: Offshore investments portfolio by major assets

Cash and fixed term deposit	\$150,871,702	56%	\$148,572,340	56%
BSP Shares (Kina)	\$70,020,775	26%	\$74,851,442	28%
UBS Australian Share Fund (AUD)	\$15,591,492	6%	\$13,637,089	5%
Vanguard USA (USD)	\$25,516,969	9%	\$21,567,082	8%
Vanguard Euro (Euro)	\$7,980,226	3%	\$6,641,840	3%
	\$269,981,163	100%	\$265,269,792	100%

Cash and cash deposits continue to dominate our offshore investments followed by our share investment in Bank South Pacific (BSP).

Figure 13: Offshore investments portfolio by major assets



Property Development & Management Report

The Property Development and Management Department's objectives remain unchanged despite the huge challenges experienced pertinent to development and management of commercial investment properties. These objectives include:

- Maximizing profitability and return from the Fund's commercial properties
- Sustaining quality standard properties to meet tenants requirements
- Preserving and enhancing the value of the Fund's properties.

The Fund's property portfolio continued to increase in size and value. In terms of value, the portfolio reached \$262.7million from \$215.8 million in the previous year.

Investment Properties

The Fund's investment properties in Honiara and Provinces have increased to 18, including three new properties that were added to the portfolio during the year. The new Executive Apartment Building, Hibiscus Avenue was completed and is now fully tenanted. The construction of NPF Plaza Food Court with office spaces as well has started and should be completed for occupation in mid -

2014.

At Tulagi town, the Fund undertook major repair work on 13 residential houses, including a management house. These are to be leased by Sasape International Slipway Ltd (SISL) to overcome housing shortage at Tulagi for its technical staff. The houses are near completion and should be available for occupation towards end of the year. The company has been facing housing difficulty since its establishment hence this housing development.

Staff Houses

The Fund manages its residential properties for staff use. There are 42 residential houses, including eight new staff duplexes at Tasahe Housing Estate. Out of the 42, 38 are located at Tasahe Housing Estate while four are located at various locations in Honiara. All residential houses at Tasahe Housing Estate are being occupied by staff while five are rented by RAMSI. In the provincial towns, four residential properties are located at Auki and Gizo and are occupied by staff.

Out of the total value of properties, the value of \$197.8 million is in respect of 10 commercial properties and five residential houses at Tasahe





Housing Estate being occupied by RAMSI personnel. The value excludes the land properties yet to be developed at Ranadi Industrial Estate and Rautamana, Honiara.

The value of the residential properties in Honiara and Provinces (Gizo and Auki) has increased to \$21,369,920 in this financial year due to additional duplexes been built and occupied by staff.

Up-keep of Fund Properties

Maintaining the required standard of the commercial properties of the Fund is a priority but one that remains very challenging. The Fund endeavors to maintain its properties to reasonable standard notwithstanding the fact that the Fund acknowledges the limited capacity it has. However, the Fund will continue to explore strategies i.e. human resource capacity building to ensure its properties meet quality standard anticipated. This is our ongoing commitment and challenge.

Services Outsourced

The Fund has outsourced some of its services to external contractors through tender process. The services outsourced including: internal and external cleaning of the commercial buildings, landscaping, garbage collection, security services, repairs and maintenance of gen-sets and lifts.

Internal Audit Report

The Internal Audit Department's principal function is to provide independent, objective assurance and consulting services designed to add value and improve the Fund's overall operations. Its purpose is to assist the Fund in accomplishing its goals by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. As part of the Fund's internal control framework, Internal Auditors assist Management and the Board through the Audit and Finance Board subcommittee in identifying, avoiding and mitigating risks.

The Internal Audit department provides valuable support in maintaining members', employers' and other stakeholders' confidence by performing independent and objective reviews, communicating such findings and making recommendations for appropriate actions and improvements to be initiated via its functional reporting line to the Audit and Finance Board sub-committee.

In pursuit to uphold trust and confidence in the Fund's operations, the periodic audit reviews are undertaken on specific operational matters including: conducting regular audit reviews on auditable areas founded on risk-based methodology.

As part of its strategic actions, the Audit team monitors the implementation of recommendations from external auditors and the Central Bank, reviews action plans to ensure the issues identified are addressed. Moreover the internal auditors examined account transactions, legal issues, statistical and accounting records in preparation for dividend declarations and external auditor's exercise at the financial year end.

Furthermore, internal auditors conducted investigations on specific areas as directed by the Board via the Audit and Finance Subcommittee. Investigation reports are then submitted for appropriate decisions and actions. The team also provided secretariat support to the Audit and Finance Subcommittee and also provided accounting and auditing advice as required.

Audit Reviews

Internal auditors performed audit examinations in specific areas;

- Staff accommodations and other benefits
- Staff tenancy agreements

- Staff Policy and Procedural Manual (SPPM) compliance
- Annual interests crediting and Special Death Benefits deductions
- Contribution Data Quality issues, and
- Spot-check tours to provincial branches
- Issues raised from review areas to be addressed by management.

Assessing Withdrawals

To enhance internal control within the members' benefit cycle, internal auditors were assigned to ensure all approved members' contribution withdrawal applications are authentic, complete and accurate in terms of documentations, process and computation of entitlements. In year 2013 2,842 contribution withdrawals were appraised by Internal Auditors. No major issue has been encountered and the withdrawals were correctly paid to rightful recipients.

Prudential Onsite

Central Bank of Solomon Islands (CBSI) conducts annual onsite prudential reviews on investments portfolios, finances, management and other operational areas to ensure the Fund complies with the Financial Institutions Act. This is to ensure members' savings for retirement is prudently managed and risk measures instituted to mitigate any potential risks that may arise.

During the year, CBSI conducted onsite prudential review on the investment portfolios of the Fund and raised some issues. The Department was tasked to monitor and review the concerned issues raised. At year end, Auditors undertook a review and noted that most of the issues have been satisfactorily addressed.

Audit Manual

During the year, a draft Audit Manual was formulated. The draft Manual was submitted and approved and adopted for use by Internal Auditors while carrying out internal auditing engagements and conduct. A review of the manual will be pursued as and when necessary in future.

Information Communication Technology Report

Upgrading the Fund's information technology network infrastructure to strengthen network security level and communication to enhance the operational functions of the Fund was the main focus during the period. This was coupled with hands-on ICT training for users to better equip them with appropriate knowledge and skills. In addition, the NPF2000 contribution system which deals with members' contribution data being upgraded to avoid compatibility issues as result of rapid changes in information communication technology. The upgrades were successfully implemented including.

Network Security

The Fund continued its efforts to provide efficient and robust network security and performance by acquiring new Fortigate and CISCO hardware. Four CISCO switches are now being managed as a single switch and have resulted in a significant improvement in the transfer of files in the system. Web access is also effectively managed which resulted in risk reduction from viruses and related security risks.

Wireless Access

Wireless access points have been set up for each floor of the NPF Building and thus the workstations with wireless connections are now able to access the network anywhere within the offices. A point to point wireless bridge was also set up between head office and other offices of the Fund which are located in other buildings. They

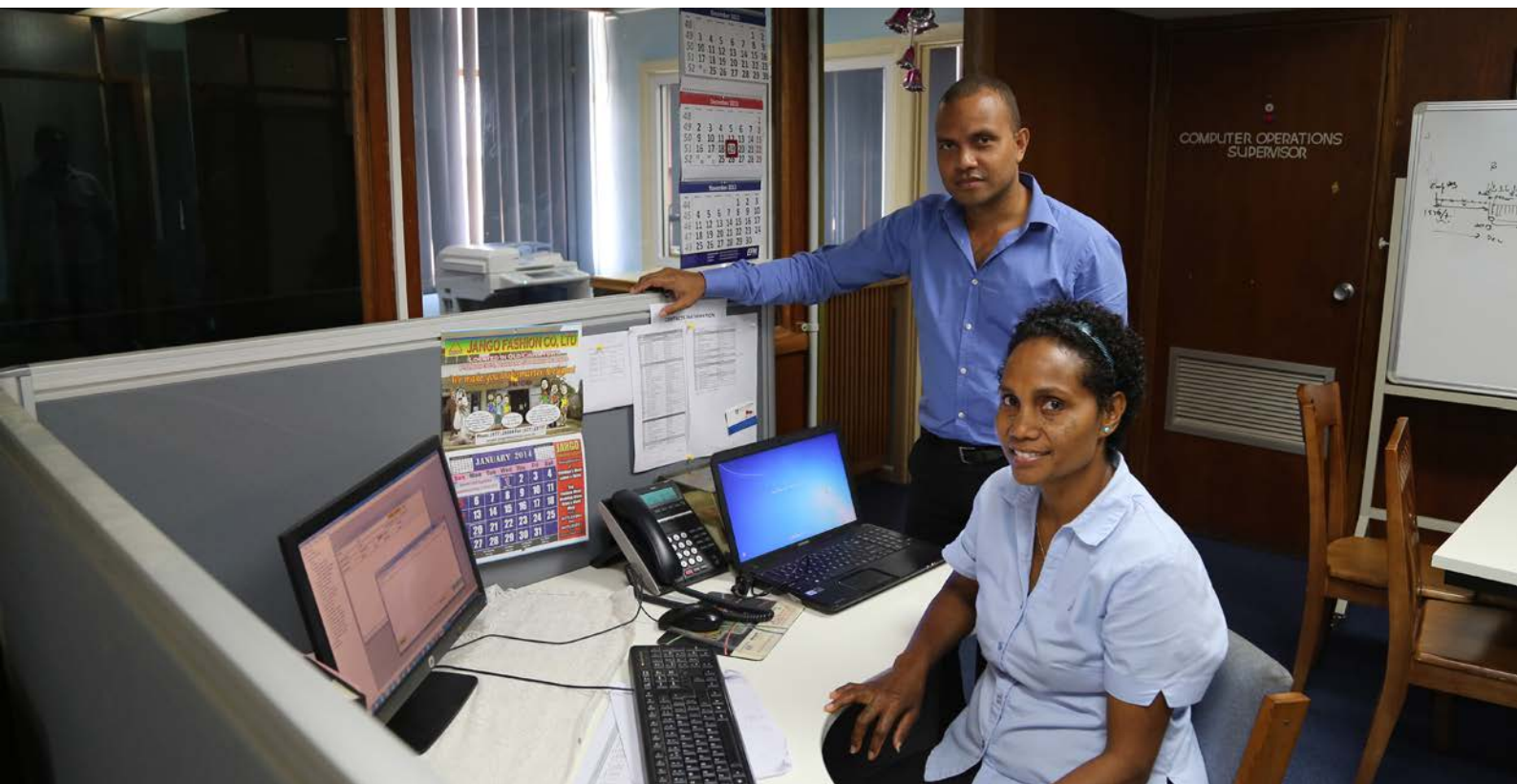
now have access to the central local area network (LAN).

Network Monitoring System

Monitoring systems have been installed to provide monitoring and logging of network performance, network element availability and temperature of the data centre room.

NPF2000 Contribution System

A progressive implementation of the Contribution system upgrade was done. Modules and functions were completed and deployed including, enquiries, registration, contribution processing and receipting functions. This was to address compatibility issues caused by the rapid change of technology both with the software used and hardware. Business improvements were implemented on the deployed functions which then led to efficient services to members.



Legal Services Report

The Legal Service Department is mandated to ensure that the governance and overall operations of the Fund comply with relevant legislations and regulations. These include Solomon Islands National Provident Act (CAP. 109), Financial Institutions Act, Companies Act/Company Rules, Trusteeship Act and the Labor Act. The department is also responsible for providing general legal advice and opinions to the Board and Management through the in-house and external counsels on issues ranging from prosecution, civil litigation and corporate conveyance. The external legal counsel are engaged only on specific legal assignments involving complex and technical legal matters which require overseas counsels at times complementing in-house counsels.

Defaults

A number of default payments by debtors were experienced during the year. From the recovery perspective, the Fund has a policy which allows borrowers to be prosecuted if intentionally in default on loans and arrears for more than 3 months. The counsels are tasked to prosecute clients not in compliance with investment policy guidelines. In 2013, 49 default housing loan cases were prosecuted by in-house counsels.

The outcomes were encouraging. Nine legal cases are fully extinguished by members while 35 member clients cleared their arrears and are current with their loans. Twenty-two member clients, who have existing court orders against them, were given reasonable timeframe to pursue loan repayments through installments while 20 clients who incurred arrears and have made repayments.

Regarding lease rentals, there are two rental arrear cases incurred by former tenants during the year. Necessary actions are being pursued for recovery.

Majority of employers are now aware of their statutory obligations and are fully committed in paying employees' contributions. The employers' responses and commitment to contribution payments are encouraging. During the year, 68 cases went through to prosecution. Some of these cases are continuations from previous years. It is encouraging to note that 15 cases were fully settled. Twenty-seven cases are now with enforcement orders with the Sheriff of the High Court and 26 cases pending before the Court at different stages.

It is pleasing that upon receiving consent orders, some employers had promptly settled contribution arrears, whilst others had made upfront payments when served with Court proceedings to extinguish outstanding arrears. On the other hand, there are employers who purposely refused to comply with their statutory obligations. This resulted in their cases pending before the courts while others were issued with enforcement orders.

External Counsel

The Fund outsourced two major legal cases to external legal counsels. The first case was concerning the refurbishment work on Anthony Saru Building outsourced to Suri Legal Practice. The proceedings have reached the letter of demand stage. The defendant has not responded and also been deregistered by Registrar of Companies for non-compliance with the Companies Act 2009.

The second was the South Pacific Oil Ltd case. This matter was outsourced to Sol-law Legal firm with the assistance of Murdoch Lawyers of Brisbane, Australia and DNS & Partners Lawyers in Honiara as the local agents. The proceeding was between two shareholders of SPOL - SINPF Board and GRP and Associates Ltd regarding some serious weakness in fiduciary responsibility leveled against the former Managing Director. The matter was settled by consent sanctioned by the High Court and SINPF as the major shareholder was able to purchase 25% shareholding of GRP Ltd in SPOL hence bringing the matter to conclusion.

Legal Advice

The in-house counsels provided legal advice to the Board and Management on general statutory operational aspects of the Fund from time to time. This is to safeguard the policy guidelines and implementation processes which must be consistent with the Solomon Islands National Provident Fund Act and other statutes.

Furthermore, it is the in-house legal counsel's responsibility to encourage employers to comply with the requirements of the Act. The counsels have been involved in vetting, drafting and negotiating contracts between the Board and external service Providers on a number of commercial undertakings implemented by the Fund.

Proceeding against Board

There were two cases filed against the Board. Firstly, the former tenant JAP Holdings Ltd –v- SINPF Board Civil case 52 of 2007. The matter is still at the pleading stages. The second matter is Gegeu & others–v- SINPF Board civil case 157 of 2013. This case involves the former tenants of the NPF Plaza leaf huts whereby the leaf-huts were demolished following the recommendation of Honiara City Council Environmental Health’s report on its condition. The Fund had responded positively to the Honiara City Council’s recommendations by demolishing the leaf-huts. SINPF Board is now constructing a new quality facility which will accommodate a food court and office spaces for leasing.



Administration & Human Resources Report

Training

The Fund continued with its commitment to enhance the capabilities of its human resources to ensure effective and efficient operations of the Fund. This is done by securing appropriate short and long-term training for its staff. During the year eight officers underwent full time studies with two taking up undergraduate degrees at East West Centre University (Hawaii) and another at USP Solomon Islands Centre. Six staff took up diploma studies in Finance and Administration at the Solomon Islands National University (SINU). During the financial year, five staff graduated with diplomas from SINU.

Short-term trainings were also offered and utilized. One staff attended the Australian Institute of Management and APTC training in Papua New Guinea and another attended the International Financial Reporting Standard training in Singapore. In-country, a number of staff attended short-term training programs such as Advance Forensic Accounting & Fraud Investigation, Master-class Change Management, Customer Care, Basic Financial Analysis on Investment, MYOB Accountright (Plus/Premier/Enterprise) and Practical Budgeting, Forecasting and Cost Control.

Recruitment

Emphasis is placed on recruiting and selecting the fit and proper person with the right and value-based competencies for jobs within the Fund. In the year, 10 new staff members were recruited and selected.

The total staff, including the managers, employed by the Fund stands at 107. Fifty-two percent are male and 48% are females.

Staff Accommodation

Providing accommodation to all staff is a very challenging task and thus four additional two-bedroom duplexes were built and occupied by eight staff. This brings the number of staff residential houses to 48.

Public Relation & Promotion

The Fund continued to educate its members and employers to understand more about the functions of the Fund through educational talks to organizations and through its SIBC radio program 'Current with NPF'.

Archives Section

The Fund plans to digitize all historical and current files to provide more spaces for office use. So far more than 11,000 files have been weeded and destroyed and 3,782 records indexed, while 3,610 records were accessioned. There is still a lot to be done to digitize all relevant documents for ease of reference and research should there be a need for such in the future.

Staff Clinic

The staff clinic was operational in 2012. As at 30th June 2013, a total of 1,622 patients were treated. This include staff, spouses and children. The clinical service had helped staff and Managers in terms of time (compared to waiting time at public health clinics). Moreover, the clinical service helped staff to reduce their medical costs.

There were a number of health awareness talks to staff about certain potential health risks and how to prevent non-communicable diseases carried out in collaboration with the Ministry of Health & Medical Services. Complementary to health awareness programs, the staff went through arranged general health checks to ensure the Fund has healthy and energetic human resources. As part of having a healthy workforce, a Sports and Health committee was established to promote and facilitate outdoor sporting activities for both staff and Managers.



Staff undergoes a blood pressure test

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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Statement By Directors

In accordance with a resolution of the directors of Solomon Islands National Provident Fund (“Fund”), we state that-

In the opinion of the directors:

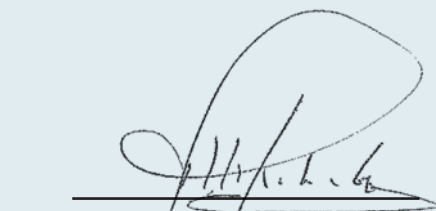
- a. the statement of net assets is drawn up so as to present fairly the state of affairs of the Fund as at 30 June 2013.
- b. the statement of changes in net assets is drawn up so as to present fairly the surplus of the Fund for the period ended 30 June 2013.
- c. the statement of changes in members funds is drawn up so as to present fairly the state of members’ contributions held by the Fund for the period ended 30 June 2013.
- d. the financial statements have been prepared in accordance with the provisions of the Solomon Islands National Provident Act 1973 as amended, International Financial Reporting Standards and other applicable standards in the Solomon Islands.



Baoro Laxton Koraua
Chairman of the Board



Peter Boyers
Director



Tony Makabo
General Manager (CEO)

Dated this 30th day of September 2013



Independent Auditor's Report

To the Board of Directors of Solomon Islands National Provident Fund

Scope

I have audited the accompanying financial report of Solomon Islands National Provident Fund ("Fund"), which comprises the statement of net assets as at 30 June 2013, and the statement of changes in net assets, statement of changes in members fund and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes and the statement by directors declaration, as set out on pages 1 to 31.

Management's Responsibility for the Financial Report

The Board of Directors and management of Solomon Islands National Provident Fund ("Fund") are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and with the requirements of the Solomon Islands National Provident Fund Act 1973, as amended, and other applicable laws and regulations. This responsibility includes implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting estimates made by the Board and management as well as evaluating the overall presentation of the financial report.

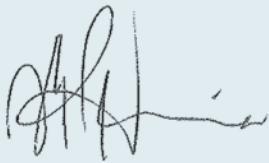
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Audit Opinion

In my opinion, the report of Solomon Islands National Provident Fund ("Fund"), presents fairly in all material respects of the Fund's financial position as at 30 June 2013 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying my opinion, I draw your attention to note 12 to the financial statements. The operations of the Fund and those similar enterprises operating in the Solomon Islands have been affected and may continue to be affected for the foreseeable future by the continuing social and economic uncertainties existing for enterprises operating in the Solomon Islands. The majority of the fund's assets are exposed to these uncertainties.



Edward Ronia
Auditor-General

Office of the Auditor-General
Solomon Islands
30 September 2013

STATEMENT OF NET ASSETS AS AT 30 JUNE 2013

	Note	June 2013 \$	June 2012 \$
RESERVES			
Revaluation Reserve	4 (a)	69,951,343	46,904,402
General Reserve	4 (b)	603,868,541	74,408,777
Total reserves		<u>673,819,884</u>	<u>121,313,179</u>
Represented by:			
INVESTMENTS			
Held to Maturity	6 (a)	639,728,851	599,673,323
Financial Assets at Fair Value	6 (b)	1,170,010,601	311,195,944
Investment Properties	6 (c)	212,438,000	106,404,765
Loans and Advances	6 (d)	87,783,592	94,121,207
Total Investments		<u>2,109,961,044</u>	<u>1,111,395,239</u>
OTHER ASSETS			
Cash	14	73,242,285	157,811,851
Receivables	5	119,655,313	78,848,653
Property, Plant and Equipment	8	77,750,915	115,804,056
Total other assets		<u>270,648,513</u>	<u>352,464,560</u>
LIABILITIES			
Creditors		1,177,317	1,502,051
Accruals and Provisions	9	10,026,320	8,066,560
Special Death Benefits		2,107,241	2,264,931
Members Contributions		1,693,478,795	1,330,713,078
		<u>1,706,789,673</u>	<u>1,342,546,620</u>
NET ASSETS		<u>673,819,884</u>	<u>121,313,179</u>

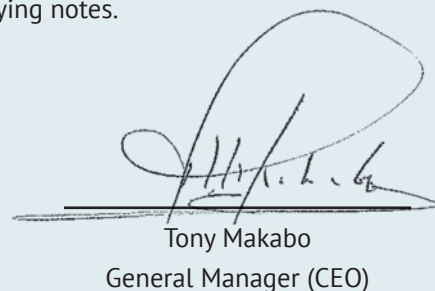
The above statement should be read in conjunction with the accompanying notes.



Baoro Laxton Koraua
Chairman of the Board



Peter Boyers
Deputy Chairman



Tony Makabo
General Manager (CEO)

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2013

		June 2013	June 2012
	Note	\$	\$
INVESTMENT INCOME			
Interest	3 (a)	21,914,723	28,974,032
Dividends	3 (b)	113,695,891	67,363,415
Rentals	3 (c)	26,224,322	16,884,917
Net gain/(loss) on changes in fair values of financial assets	3 (d)	674,241,164	11,835,040
Total investment income		<u>836,076,100</u>	<u>125,057,404</u>
OTHER INCOME			
Surcharges		2,117,862	4,156,788
Sundry	3 (e)	1,574,500	8,670,173
Gain on sale of fixed assets		291,291	30,583
Total other income		<u>3,983,653</u>	<u>12,857,544</u>
TOTAL INCOME		<u>840,059,753</u>	<u>137,914,948</u>
LESS: OPERATING EXPENDITURE			
Normal operating expenses	3 (f)	51,586,315	46,405,782
Members expenses		2,594,431	2,562,162
Doubtful debts		11,926,140	285,014
TOTAL EXPENDITURE		<u>66,106,886</u>	<u>49,252,958</u>
GROSS SURPLUS		<u>773,952,867</u>	<u>88,661,990</u>
LESS: APPROPRIATION			
Interest credited to members including trust Accounts		246,613,840	64,021,802
NET SURPLUS/(DEFICIT)		<u>527,339,027</u>	<u>24,640,188</u>

The above statement should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN MEMBERS' FUND AS AT 30 JUNE 2013

	Note	June 2013 \$	June 2012 \$
Opening Balance at 1 July		1,330,713,078	1,147,946,213
Add:			
Contributions received during the year		206,322,309	190,991,951
Interest on members accounts	2(e)	245,977,469	63,865,098
		<u>1,783,012,856</u>	<u>1,402,803,262</u>
Less:			
Contribution Withdrawals		87,374,668	71,425,368
Transfer to SDB reserve	2(d)	541,451	509,314
Transfer to general reserve		2,112,139	235,184
		<u>90,028,258</u>	<u>72,169,866</u>
Total changes in members fund		1,692,984,598	1,330,633,396
Add/(less): Adjustment to contribution account*		494,197	79,682
Balance at 30 June		<u><u>1,693,478,795</u></u>	<u><u>1,330,713,078</u></u>
Represented by:			
Identified		1,650,087,148	1,292,269,671
Unidentified		10,438,165	8,154,399
Contribution Creditors		31,370,977	28,683,688
Provisions - Contributions		1,582,505	1,605,320
		<u><u>1,693,478,795</u></u>	<u><u>1,330,713,078</u></u>

*Adjustment to contributors account relates to adjustment taken up in order to agree the contributors balances per NPF2000 to the general ledger balance maintained in MYOB. The closing balance of \$1,693,478,795 agrees to the NPF2000 contributors accounts at 30 June 2013.

The above statement should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013

	Notes	June 2013 \$	June 2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from investments and customers		48,058,945	58,195,871
Payments to suppliers and employees		(57,009,826)	(42,066,846)
Interest and benefits paid to members		(2,594,431)	(2,562,162)
NET CASH FLOWS FROM OPERATING ACTIVITIES	14 (b)	<u>(11,545,312)</u>	<u>13,566,863</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(42,268,766)	(66,904,265)
Investment portfolios - loans & Equities		(148,994,188)	40,620,023
NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES		<u>(191,262,954)</u>	<u>(26,284,242)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(Decrease) in contribution balance		118,948,241	119,627,626
Payment of special death benefits		(709,541)	(572,451)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		<u>118,238,700</u>	<u>119,055,175</u>
NET INCREASE/(DECREASE) IN CASH HELD		<u>(84,569,566)</u>	<u>106,337,796</u>
Add opening cash brought forward		157,811,851	51,474,055
CLOSING CASH CARRIED FORWARD	14 (a)	<u><u>73,242,285</u></u>	<u><u>157,811,851</u></u>

The above statement should be read in conjunction with the accompanying notes.

1. GENERAL INFORMATION

The Solomon Islands National Provident Fund Act (Cap 109) was established in 1973 as a superannuation or saving scheme for all employees who are members of the Fund. An employee is any person who has attained the age of 14 years of age, is not exempt and is employed under a contract of service, irrespective of the period for which a person is employed.

Employers are required to make a contribution of 12.5% of gross wages for each employee and may recover 5% of the contribution from the employee.

Benefits from the Fund are paid to members on attaining the age of 50 years, on death, are physically or mentally incapacitated from further employment, permanent emigration or attaining the age of 40 years and have permanently retired. In general the benefits paid to members is equal to their accumulated contributions plus interest allocated to them annually by the Board (refer note 2 below). In addition on death of a member, the beneficiary of the deceased member's estate is paid a special death benefit.

The balance of the contribution account at any time represents the total liability to members for all benefits (other than Special Death Benefit) in the event that all members become eligible for payment of benefit on that date.

The Fund is under the control of a Board. The Board's function and powers are those of a trustee.

The Fund is subjected to all the provisions of the Financial Institutions Act 1998.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Fund are based on International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASB except where the National Provident Fund Act (CAP 109) requires different treatment in which case the Act takes precedent. They are prepared under the historical cost basis and do not take into account changing money values except where stated. The accounting policies have been consistently applied over the reporting and comparative years.

The financial statements are expressed in the Solomon Islands dollar, rounded to the nearest dollar.

All accounts of the Fund are maintained on accrual account basis except the Contributions Account.

(b) Comparatives

All necessary information has been classified and presented to achieve consistency in disclosure with current financial year amounts and other disclosures.

(c) Members Contribution Account

The contribution account has been maintained on a cash basis where only monthly returns (Form A's) that are actually paid are posted to the account.

(d) Special Death Benefit (SDB)

As provided for in the Act, an amount is deducted from each member's account at 30 June each year in respect of Special Death Benefit to be paid to the beneficiaries of the member after the death of a member. The maximum sum payable on SDB for the year ended 30th June 2013 was \$6,000.

(e) Interest on Members Account

Interest credited to a member's account at 30 June in any one year is calculated on the balance standing to the credit of the member's account as at 1 July in the previous year. In accordance with Section 8 of the Solomon Islands National Provident Fund Act, the minimum interest rate to be credited to the

members account is 2.5%. Under Section 10 of the Act if the Fund is at any time unable to pay any sum which is required under the Act, then the sum required shall be advanced by the Government out of the Consolidated Fund and the Fund shall as soon as is practicable, repay to the Government the sum advanced.

(f) Property, plant and equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in the financial statements of the Fund, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, is transferred directly to retained earnings.

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value at 10% of cost. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives residual values and depreciation method is reviewed at the end of each annual reporting period. Intangible Assets in particular, computer software will amortize over 10 years in general and reviewed at least at each annual reporting period. The amortization over the useful life will be based on the pattern of benefits using straight line method.

The following estimated annual rates are used in the calculation of depreciation:

Buildings	5%
Office equipment	25%
Motor vehicles	25%
Plant and equipment	25%
Furniture and fittings	25%

(g) Income Tax

By virtue of Section 36 of the Solomon Islands National Provident Fund Act 1973 as amended, the Fund is exempted from income tax.

(h) Allowance for Doubtful Loans and Investments

Any allowance for bad and doubtful debts is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of receivables. Objective evidence that receivables are impaired includes observable data that come to the attention of the Fund about the following events:

- Significant financial difficulty to the debtor.
- A breach of contract, such as default or delinquency in payments.
- It becoming probable that the debtor will enter bankruptcy or other financial reorganization.

The amount of allowance is the difference between the carrying amount and the recoverable amount of the asset being the present value of expected cash flows discounted at the market rate of interest for similar borrowers. The amount of the provision is recognized as a charge in the statement of changes in net assets.

(i) Financial Instruments

Financial assets and financial liabilities are recognized when the Fund becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- (i) it has been acquired principally for the purpose of selling in the near term; or
- (ii) on initial recognition, it is a part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or
- (iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (ii) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's

documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at fair value through profit or loss are stated at fair value, with any gain or loss arising on remeasurement recognised in the changes in net assets. The net gain or loss recognised in the changes in net assets incorporates any dividend or interest earned on the financial asset.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of a debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at fair value through profit or loss.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates where that the group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective interest method less any impairment.

Available-for-sale financial assets

Where applicable, certain shares and redeemable notes held by the Fund would be classified as being available-for-sale and are stated at fair value at the end of each reporting period. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in statement of changes in net assets. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in the statement of changes in net assets for the period.

Dividends on available-for-sale equity instruments are recognised in the statement of changes in net assets when the Fund's right to receive payments is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The foreign exchange gains and losses that are recognised in the statement of changes in net assets are determined based on the amortised cost of the monetary asset. Other changes are recognised in equity.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such quoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of changes in net assets.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is held for trading if:

- (i) it has been acquired principally for the purpose of repurchasing it in the near term; or
- (ii) on initial recognition it is part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or
- (iii) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if;

- (i) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (ii) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's

documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

(iii) it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses on remeasurement recognised in the changes in net assets. The net gain or loss recognised in the statement of changes in net assets incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis

(j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and at bank.

(k) Foreign currency

Functional presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Fund operates ("the functional currency"). The financial statements are presented in Solomon Islands Dollars, which is the Fund's functional and presentation currency.

Transactions and balances

Foreign exchange transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the transaction at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of changes in net assets.

(l) Provisions

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made on the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(m) Payables

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Computer systems development costs

Costs incurred to develop and enhance the Fund's computer systems are capitalised to the extent that benefits do not relate solely to revenue that has already been brought to account and will contribute to the future earning capacity of the economic entity. These costs are amortised over the estimated economic life of four years using the straight-line method. Costs associated with maintaining computer software programs are recognised as an expense when incurred.

(o) Investment Property

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the changes in net assets in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in the changes in net assets in the period in which the property is derecognised.

3. INCOME AND EXPENSES

Net surplus/(deficit) for the year is arrived at considering the following:

	June 2013	June 2012
	\$	\$
(a) Interest income		
Cash at bank	82,605	129,157
Treasury bills	127,296	315,311
Bonds	2,780,377	5,285,637
Loans and advances	9,221,049	8,717,566
Investment securities: - Held to maturity	9,703,396	14,526,361
Total	21,914,723	28,974,032
(b) Dividend income		
Quoted shares	5,166,900	4,678,121
Unquoted shares	107,943,811	62,154,043
Managed funds	585,180	531,251
Total	113,695,891	67,363,415
(c) Rental income		
Investment properties	26,127,372	12,293,985
Others	96,950	4,590,932
Total	26,224,322	16,884,917
(d) Gain/(loss) from changes in fair values		
Investment Properties	9,570,179	3,255,654
Fair value through profit and loss	664,670,985	8,579,386
Total	674,241,164	11,835,040
(e) Sundry income		
Bad debts recovery	412,084	3,801,990
Risk premium fee- Bank South Pacific	313,696	564,592
Others	848,720	4,303,591
Total	1,574,500	8,670,173
(f) Operating expenses		
Board and management allowances	445,648	355,275
Utilities (water, electricity)	13,360,558	13,833,122
Repairs and maintenance	6,528,647	7,223,166
Land rates and rental charges	193,583	167,607
Administrative expenses	5,813,948	4,267,368
Depreciation expenses	4,804,500	4,210,067
Insurance expenses	835,589	551,247
Audit fees	485,486	507,642
Bank charges	55,907	58,847
Consultancy fees and expenses	6,601,633	3,958,939
Staff costs	12,460,816	11,272,502
Total	51,586,315	46,405,782

4. RESERVES AND OPERATING FINANCIAL PERFORMANCE

The following is a summary of the reserves held:

- **Revaluation Reserve**

The last revaluation was done on 16th June 2013. The revaluation surplus/loss is credited to the revaluation reserve. The next revaluation of the land and buildings will be carried out in the subsequent 3 years.

- **General Reserve**

General revenues less normal operational expenses are credited to the General Reserves unless otherwise appropriated.

The following items are credited to the reserve each year:

- Net unappropriated surplus from operation.
- Unallocated contributions outstanding more than 5 years from the Unclaimed Deposit Account, unidentified members contribution including other appropriated contribution related accounts.

In the event where the general reserve is in deficiency due to losses arising from operations, including shortfalls of surplus resulted from interests allocated to members' accounts, such losses are to be off set and recovered from subsequent earnings and future surpluses.

	June 2013 \$	June 2012 \$
(a) Revaluation Reserve		
Opening Balance	46,904,402	46,904,402
Add: Revaluation during the year	23,046,941	-
Balance at 30 June	<u>69,951,343</u>	<u>46,904,402</u>
(b) General Reserve		
Opening Balance	74,408,777	49,533,405
Transfers- Unclaimed Contributions including surcharge	2,120,739	235,184
Net surplus/(deficit) for the year	527,339,027	24,640,188
Balance at 30 June	<u>603,868,541</u>	<u>74,408,777</u>
Total reserve	<u><u>673,819,884</u></u>	<u><u>121,313,179</u></u>

5. RECEIVABLES

Interests	3,865,145	8,575,200
Rentals	10,958,606	2,952,148
Dividends	109,149,329	63,372,187
Surcharges	8,998,715	9,679,989
Others	1,335,251	1,351,090
	<u>134,307,046</u>	<u>85,930,614</u>
Less: Allowance for doubtful debts	<u>(14,651,733)</u>	<u>(7,081,961)</u>
	<u><u>119,655,313</u></u>	<u><u>78,848,653</u></u>

The allowance for doubtful debts of \$14,651,733 is provided against arrears on surcharges and rental charges.

6. INVESTMENTS

	June 2013 \$	June 2012 \$
(a) Held-to-maturity investments		
On shore deposits	335,021,171	312,087,688
Offshore deposits	154,256,718	149,028,450
Total deposits	489,277,889	461,116,138
Government securities	150,450,962	138,557,185
Total	639,728,851	599,673,323
The movement in investment securities held-to-maturity:		
Balance at beginning of year	599,673,323	584,825,177
Purchases	139,165,547	185,767,681
Disposals	(99,110,019)	(170,919,535)
Closing balance	639,728,851	599,673,323
(b) Financial assets carried at fair value through profit and loss		
Equity securities at fair value		
- Listed	104,907,813	105,606,964
- Unlisted	955,200,000	-
Total equities at fair value	1,060,107,813	105,606,964
Equity at cost		
- Unlisted	109,902,788	205,588,980
Total equities at cost	109,902,788	205,588,980
Less: Allowance for impairment of unlisted equities	-	-
Total equities at cost and fair value	1,170,010,601	311,195,944
The movement in investment securities carried at fair value through profit and loss:		
Balance at beginning of year	311,195,944	300,480,805
Purchases	611,980,008	310,134,435
Disposals	(422,874,689)	(307,998,682)
Gain/(loss) from change in fair value	669,709,338	8,579,386
Closing balance	1,170,010,601	311,195,944

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

	June 2013 \$	June 2012 \$
(c) Investment properties		
Land and buildings at valuation/cost		
Opening balance	106,404,765	90,149,111
Net book value (at cost) transfer from property, plant and equipment	-	-
Addition	96,463,056	13,000,000
Gain from fair value adjustment *	9,570,179	3,255,654
Closing valuation/cost balance	<u>212,438,000</u>	<u>106,404,765</u>
Closing written down value	<u>212,438,000</u>	<u>106,404,765</u>
(d) Loans and advances		
- Commercial loans	81,636,841	82,374,279
- Member schemes	7,988,355	10,549,428
- Staff schemes	2,594,139	2,360,867
Total gross loans and advances	<u>92,219,335</u>	<u>95,284,574</u>
Allowance for doubtful debts Net loans and advances	<u>(4,435,743)</u>	<u>(1,163,367)</u>
Net loans and advances	<u>87,783,592</u>	<u>94,121,207</u>
The break down is as follows:		
- Current	7,740,401	16,824,787
- Non current	80,043,191	77,296,420
Total	<u>87,783,592</u>	<u>94,121,207</u>

*Independent valuations of the Fund's Investment properties were performed by Value Solution Appraisal to determine the fair value of the land and buildings. The valuations, which conforms to international valuation standards, were determined by reference to the current market values of the land and buildings. The effective dates of the valuation was 14th June 2013.

7. AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG) & EQUITY INVESTMENTS

(a) GOVERNMENT SECURITIES

(i) Amortized Restructured Bonds

On 15 July 2004 a Deed was signed by SI Government and bond holders (Judgement Creditors) for the amortization of restructuring bonds (SINPF \$55.5m) that the Government owed and had fully defaulted on. Under the Deed it was agreed by the parties that the principal debts are rescheduled and repaid over 7 to 14 years. Based on the restructure new instruments on each amortized bonds were issued replacing the old certificates.

Upon the execution of the Deed, on the 15 July 2004 \$55.5 million owed to SINPF on restructuring bonds were restructured as follows:

- \$1.9 million was paid upfront as principal reduction
- The remaining principal of \$53.6 million was rescheduled into four new amortized bonds at 3.0% to 3.5% interest rates repayable over 7 to 14 years period as shown below..

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

Principal	Term	Rate	Installment	Maturity Date	Balance 30/06/13
5,550,000	7 yrs	3.00%	59,138	15/07/2011	-
11,100,000	10yrs	3.00%	97,732	15/07/2014	1,369,391
11,100,000	13yrs	3.00%	78,089	15/07/2017	3,791,936
25,850,000	15yrs	3.50%	53,009	15/12/2018	10,049,635
53,600,000			287,968		15,210,962

Nb: after 7 years monthly repayment on 14 years bond will increase to \$248,721 until debt is fully repaid.

The agreement provides for early repayment of outstanding principals provided the debts accrue no interest arrears, and such early principal repayments in aggregate shall not be less than \$5.0 million and such payments shall be paid to the bond holders *pari passu* in proportion to the aggregate face value of Restructuring Bonds held at the commencement of the Deed, (15 July 2004).

Under the Deed the original terms and conditions of restructuring Bonds that matured on 15 April 2001, 15 July 2002 and 15 April 2003 remained legally in force. However, subject to the compliance by the Government, the bond holders will not take any further steps to recover under the judgement and have agreed the present proceeding be adjourned *sine die*. In the event SI Government defaults under this Deed, by notice bond holders may re-activate the judgement and have proceedings brought for further judgement on the remaining tranches.

(ii) Amortized Treasury and Development Bonds

The Fund's investment in these securities consists of Bonds that were amortized on the Deed dated 2nd December 2004 between SI Government and SINPF. The debts were rescheduled over 7 to 15 years as shown below.

Principal	Term	Rate	Installment	Maturity	Balance 30/06/13
7,414,528	7 yrs	2.00%	94,665	15/11/2011	-
14,829,056	10yrs	2.00%	136,447	15/11/2014	2,287,078
14,829,056	13yrs	2.00%	108,029	15/11/2017	5,480,155
37,072,641	15yrs	2.50%	77,234	15/11/2019	30,342,702
74,145,281			416,375		38,109,935

NB: After 7 years monthly repayment on 15 years bond will increase to \$426,478 until debt is fully repaid.

The total principal Amortized Bond of \$74.1 million is made up of \$38.8 million converted from Treasury, Development and DBSI Bonds that were in default, and \$35.4 million in contribution arrears plus \$1.2m in surcharge arrears already booked and owing by the SI Government.

There is an option for early repayment on these bonds. In the event that additional principal early reductions are made, the repayment amounts shall be varied appropriated on each of the bonds based on the remaining terms.

(iii) Treasury Bills

The Fund tendered for treasury bills offered by the Central Bank of Solomon Islands on behalf of the Solomon Islands Government. At the end of the year, the balance of treasury bills held by the Fund was \$23,508,861. These were mostly 91 days treasury bills now secured at rates between 0.2% to 1.55%

(iv) SIG- Soltai now Soltuna Ammortising Bond

This debt relates to the Mortgage Debenture that formally Soltai Fishing and Processing now Soltuna Limited defaulted on which was settled and restructured by SI Government by a fresh Deed dated 31 March 2006.

Under the Deed \$10.0 million was amortised over 10 years at the interest rate equivalent to 90(91) day Treasury

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Bill weighted average yield. At the time the Deed was signed that rate was 5.02%. The sum of \$10.0 million is repayable over a 10 year period commencing on 1 April 2006 at \$106,163 per month. The remaining \$6.3 million from the original total published debt of \$16.3 million was settled up front in a lump sum payment at the signing of the Deed.

In relation to this same debt SINPF had earlier obtained judgement in its favour against Soltai, SIG and ICSI for the total sum of \$19.7 million. Under the Deed SINPF reserve its right to execute the judgement against Soltai, SIG and ICSI to recover the full judgement debt of \$19.7 million. SINPF will not require payment on the judgement sum if repayment of the Bond is not in default and Soltai, SIG and ICSI comply and fulfil their obligations under the Deed.

The Agreement provides for annual revision of interest on 1st April each year according to the Treasury Bills rate referred to above based on the last published Treasury Bill Auction results published prior to 1st April each year plus 1.5% but shall not exceed 7%.

The balance of the amortising bonds as at the end of the year was \$3,313,198.

(v) SIG-SICHE Ammortising Bond

This debt relates to SICHE's contributions and surcharge arrears owing to the Fund for the period from July 1999 to December 2003. SICHE was not able to pay its debts to the Fund due to financial difficulties. It relied heavily on the Government to assist in the settlement of these debts. The aggregate arrears was a total sum of \$9,522,946 comprising of:

- Contributions - \$3,494,628
- Surcharges - \$6,028,318

On 21st November 2006 the SI Government entered into a Deed with SINPF to settle the debts in full through a Bond. Under the Deed the debts were amortised over 10 years at the interest rate equivalent to 90(91) day Treasury Bill weighted average yield plus 2%. At the time the Deed was signed that rate was 5.5%.

The Agreement provides for an annual review of interest rate on 9th November each year according to the Treasury Bills rate referred to above based on the last published Treasury Bill Auction result published prior to 9th November each year plus 2% but shall not be less than 5% or more than 7%.

In addition, the Agreement provides for early repayments of the Bond on 9 November each year in multiples of \$2,000,000 with prior 90 days written notice.

The balance of the amortising bond at the end of the year was \$3,808,006.

(vi) Tavanipupu Island Resort Limited -Loan Agreement

This loan relates to a five year loan agreement with Tavanipupu Island Resort that was entered into on 22 February 2012 and matures on 22 February 2017. Under the agreement interest 12.5% is payable by Tavanipupu Island Resort annually in arrears on 15 June every year and the total loan amount of \$ 15,000,000 is repayable on 22 February 2017 as shown below.

No. of Instal.	Due Date	No. of Days	Loan Balance \$	Interest \$	Principal \$	Installment Amount \$	YTD Balance \$
	23/02/12		-	-	-	-	15,000,000
1	15/06/12	113	15,000,000	578,893	-	-	15,000,000
2	15/06/13	365	15,000,000	1,869,877	-	-	15,000,000
3	15/06/14	365	15,000,000	1,869,877	-	-	15,000,000
4	15/06/15	365	15,000,000	1,869,877	-	-	15,000,000
5	15/06/16	366	15,000,000	1,875,000	-	-	15,000,000
6	15/06/17	252	15,000,000	1,290,984	15,000,000	-	15,000,000

The agreement gives the option to the borrower of early redemption of the principal amount of the loan taken into account that such repayments will be charged with a 2% levied fee of the amount repaid by the borrower with a minimum reduction of \$2,000,000 in the case of any early repayments.

The agreement makes a further provision for any late interest payments by the borrower of 1.5% per month on the amount remaining unpaid until paid in full. An additional default rate of 1% per month will be charged in addition to the applicable interest in force at time of default when the loan is called up and demanded to be paid in full. Any interest including default interest plus any default cost will be accruing and charged to the outstanding loan balance until settlement.

In the event of default by the borrower which is not remedied within 30 days after service of notice of default and requiring default to be rectified was effected on the borrower, the lender shall have the right to convert debt into 51% of equity.

(b) SHARES

(i) SOLOMON ISLANDS HOME FINANCE LIMITED (SIHFL)

On the settlement date of 27th April 2009, the Fund's Board acquired from the SIG its fully paid shares of 5,109,091 in Solomon Islands Home Finance Limited (SIHFL) for \$ 13,866,987. SIHFL is wholly owned by the Fund.

During the year there is no changes to our shareholding in SIHFL. SIHFL is the Fund's vehicle to provide housing solutions for members of the Fund on commercial terms.

(ii) SOUTH PACIFIC OIL LIMITED (SPOL)

The Fund originally recorded its 40,000,000 paid up shares in SPOL at \$1 each for \$40 million, when it purchased its shares in November 2006.

In April 2013 under a high court sanctioned Deed of Settlement agreed with minority shareholder GRP & Associate Limited, the SINPF Board purchased GRP's 25% shares of 13,333,333 in SPOL for \$156,375,000. The valuation of SPOL was performed by Australian based Ernst & Young for \$625,500,000.

Commencing in 2013, the Board on the advise of its external auditors and supervisor the Central Bank of Solomon Islands adopted a policy to regularly revalue its unlisted domestic equities, beginning with its two large equity exposures South Pacific Oil Limited and Solomon Telekom Company Limited.

At the end of 30 June 2013 the SINPF Board is the sole 100% owner of the company. The SINPF Board on the advise of its external auditors and external regulator have taken the value of its 53,333,333 shares for \$625,500,000 as at 30 June 2013 under the applicable international financial reporting standard (IFRS) 9 and 10.

(iii) HERITAGE PARK HOTEL LIMITED (HPhL)

In 2010 the Board of the HPhL recommended and was agreed to by shareholders to restructure the company's capital structure by apportioning 70% of the paid up equity to shareholders loans and 30% to equity. SINPF exposure's immediately following the restructure were as follow; \$ 7,246,826 equity and \$ 16,909,260 in shareholder's loan for a total exposure of \$ 24,156,085. In that year as well the Fund reimbursed \$4,693,940 to CGA Limited, one of the shareholders in the company to ensure that SINPF's 20 shares in the company is maintained at 10% of the company's shareholding structure.

This lifted our total exposure in the company to \$ 28,897,824, with our equity recorded at \$ 11,955,105 and the loan at \$ 16,942,718.

In the same resolution, the shareholders further agreed that in the first 5 years the loan will be interest free whilst dividends only will be paid maximising the benefit of the company's 5 years tax holiday. Post 5 years, the loan will be charged at 1% below the domestic market lending rate and repayment to be determined by Board resolution. Post 5th year dividend policy will be determined by Board resolution.

(iv) BANK SOUTH PACIFIC LIMITED (BSP)

The Fund maintained its 2,500,001 shares in BSP during the year. The BSP share price at the end of the year was \$28.01 per share.

(v) SOLTUNA COMPANY LIMITED

In 2010 the SINPF Board purchased 68,456,617 shares in Soltai Fishing and Processing Company Limited for \$36,282,007 representing 29% of the company's shareholding. As well the Board also provided a \$50 million ten (10) year loan to the company, secured against all the company's fixed term properties and a 5 year government guarantee.

In April 2012, the company changed its name from Soltai Fishing and Processing Limited (Soltai) to Soltuna Company Limited.

The company in May 2012 issued additional shares to its shareholders. This is to acquire additional funds to complete the upgrade of its production capacity to process a throughput of 120 tonnes of fish per day. The Fund purchased its allotted shares of 18,543,383 at \$0.33 cents per share for a value of \$6,119,316 in June 2012. This brings the Fund's new total number of shares in the company to 87,000,000 for a value of \$42,401,323 at the end of 30th June 2012.

During the year in August the Board also purchased Western Province Executive 6,266,385 shares. This brings SINPF total number of shares in the company to 96,296,690 representing 32.1% of the company total shares. As at 30 June 2013, these were recorded in the Fund's books for \$45,469,230.01.

(vi) SASAPE INTERNATIONAL SHIPYARD LIMITED (SISL)

Under a joint venture agreement (JVA) entered into with Silentworld and Logistics Ltd, (SSL) an operating company Sasape International Shipyard Limited (SISL) was incorporated in February 2011 to lease and operate the slipway facilities at Base 2 at Tulagi, Central Islands Province, formerly owned by Sasape Marina Company Limited, a company wholly owned by the Solomon Islands Government (SIG). These assets were purchased by the SINPF after a successful joint bid was lodged by SSL and SINPF in 2010.

SINPF has a 25% share in SISL. During the year the SINPF Board fully subscribed its allotted 882,834 shares by purchasing the remaining unsubscribed 880,334 shares at \$1 each. At the end of the year SINPF Board is the owner of 882,834 shares worth \$882,834.

(vii) SOLOMON TELEKOM COMPANY LIMITED (STCL)

The Fund's equity investments in Solomon Telekom Company Limited remained unchanged during the year at 51,946,625 class A shares, representing 64.74% of the company's shareholding. These shares are recorded at cost at \$89,115,662 in our books.

The other shareholders are Cable & Wireless plc holding 26,138,272 class B shares representing 32.58%, and Investment Corporation of Solomon Islands holding 2,149,625 class A shares representing 2.68% of the company's ownership respectively.

As approved by the Board, the Fund's 64.74% shares of 51,946,625 in Solomon Telekom Company Limited was revalued by Australian based Ernst & Young for \$329,700,000. The Board as at 30 June 2013 has taken up this value of \$329,700,000 for its 51,946,625 shares in STCL.

(viii) PROVIDENCE PROPERTIES LIMITED (PPL)

In 2007, the SINPF Board purchased WMI (PNG) Limited 75,000 shares prior to Solomon Mutual Insurance Company Limited (SMI) coming under a court appointed manager, managing the scheme of arrangement to pay out all policy holders, close the insurance business of the company with amendments to the company's memorandum and articles of association, and changing the name of the company to Providence Properties Limited (PPL). The purchase of the shares from WMI (PNG) Ltd liquidators secured their support to agree with the scheme of arrangement proposed by the SINPF Board.

The court appointment manager having satisfied all the requirements under the scheme applied to the High Court for the termination of the scheme of arrangement in June 2010. The order granting the termination of scheme was made on 13th July 2010 allowing the management of the company to return to the PPL Board. The Board immediately approved the transfer of the shares from WMI (PNG) Limited to the SINPF Board and lodged the transfer of shares for registration with the Registrar of Companies.

Following the transfer of the shares, the SINPF Board holds 450,000 shares representing 90% of the company's shareholding, with the balance of 10% still remaining under Siva Kumaran's ownership.

At an Extra-ordinary General Meeting (EGM) in February 2012, the members of PPL approved the voluntary liquidation of the company. PPL was placed on voluntary liquidation on 9th July 2012 with the appointment of a Liquidator.

PPL was formally liquidated and wind up during the year in January 2013. The SINPF Board recovered all its equity investments of \$6,245,403 for its 450,000 shares after the company paid out all its debts and in addition made a capital gains of \$735,703.05.

(ix) SOLOMONS OCEANIC CABLE COMPANY LIMITED (SOCC)

The SINPF Board and its subsidiary Solomon Telekom Company Limited (STCL) incorporated a new company Solomons Oceanic Cable Company Limited (SOCC) on 15th September 2011. It is anticipated that SINPF Board will own 51% and STCL 49% of the company. SOCC will develop, operate, and own a submarine fibre optic cable network system that will greatly improve Solomon Islands connectivity to the rest of the world.

During the year SINPF finally completed the purchase its 5,100,000 allotted shares at US\$1.00 per share for US\$5,100,000 representing \$37,728,632 in SBD terms.

(x) OFFSHORE MANAGED FUNDS

The Fund has investments in three managed funds namely; UBS Australian Share Fund, Vanguard US 500 Stock Index Fund, and Vanguard European Stock Index Fund.

The Fund Manager must have assets more than USD \$1 billion and the individual fund must be more than USD\$ 250,000.

UBS Australian Share Fund covers the ASX 300 with most of the value invested in ASX 100 stocks. The Vanguard US Stock Index Fund in 500 stocks in the US S & P 500 Index, and the Vanguard European Stock Index Fund that follows the composition of the MSCI European Index in roughly 460 stocks.

At the end of the period the Fund has 1,446,582.65 units in UBS Australian Share Fund at the recorded price of \$ 10.78 per unit. During the year the Fund reinvested its quarterly distributions to purchase additional 53,380.37 units in the Fund under the Fund's Distribution Reinvestment Program (DRP).

The Fund continued to maintain the same level of units in Vanguard US 500 Stock Index Fund at 207,924, with a closing price of \$122.72 per unit recorded at the end of the year. The Fund as well maintained the same level of units in Vanguard European Stock Index Fund at 64,673.62 with a closing price per unit of \$123.39 at the end of the year.

These funds are selected based on their proven past track performance, and low fee structures.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings \$	Machinery and Equipment \$	Motor Vehicles \$	Furniture and fittings, computer and others \$	Total \$
At Cost/Valuation					
Balance at 1 July 2012	36,355,000	8,649,749	3,593,625	8,399,582	56,997,956
Additions/transfer from IAS	-	5,323,183	1,706,656	1,294,764	8,324,603
Revaluation increment	29,321,727	-	-	-	29,321,727
Transfer Disposal	(7,212,170)	(2,278,535)	(676,063)	(909,102)	(11,075,870)
Balance as at 30 June 2013	58,464,557	11,694,397	4,624,218	8,785,244	83,568,416
Accumulated Depreciation					
Balance as at 1 July 2012	5,549,169	5,681,575	1,973,054	6,717,907	19,921,705
Charges	1,663,001	1,698,399	633,861	809,239	4,804,500
Transfer/Disposal/ Adjustments	(7,212,170)	(2,109,226)	(608,454)	(1,241,543)	(11,171,393)
Balance as at 30 June 2013	-	5,270,748	1,998,461	6,285,603	13,554,812
Written Down Value As at 30 June 2013	58,464,557	6,423,649	2,625,757	2,499,641	70,013,604
Work in progress	5,637,236	-	-	2,100,075	7,737,311
Carrying Value as at 30 June 2013	64,101,793	6,423,649	2,625,757	4,599,716	77,750,915
Carrying Value as at 30 June 2012	105,675,501	5,158,845	1,620,571	3,349,141	115,804,058
				June 2013 \$	June 2012 \$
Aggregate depreciation recognized as expenses during the year					
Land and Buildings				1,663,001	1,663,002
Machinery equipment				1,698,399	1,036,382
Motor vehicles				633,861	521,130
Furniture and fittings, computer equipments and others				809,239	989,553
				4,804,500	4,210,067
Capital works in progress					
Balance as at 1 July 2012				78,727,806	31,098,736
Additions				33,944,164	45,438,399
Transfers/Capitalizing of projects				(104,934,659)	2,190,671
Balance as at 30 June 2013				7,737,311	78,727,806

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The Work in progress comprise of the following significant projects:

Residential land and building	4,319,155	3,372,736
Rental land and building	1,318,081	71,496,933
Computer project	2,100,075	1,667,466
Machine & Equipment not in use	-	2,190,671
	7,737,311	78,727,806

9. CURRENT LIABILITIES- ACCRUALS & PROVISIONS

Nominees trust account	3,997,583	3,192,646
Rental bond	2,769,940	2,441,534
Accruals and employee provisions	3,258,797	2,432,380
	10,026,320	8,066,560

10. RELATED PARTIES DISCLOSURE

Related Party Disclosures requires the disclosure of information relating to aggregate compensation of key management personnel. The key management personnel of the Fund are members of the Fund's Board and senior staff who have responsibility for planning, directing and controlling the activities of the Fund. In 2013, this group comprises of 16 in total, including the General Manager (CEO), 6 non-executive Fund Board Members, and 10 senior staff. The non-executive Fund Board Members should be eight (8) in total however, 2 is yet to be appointed by the Minister of Finance. Fees of the non-executive members of the Fund Board are determined by the Minister of Finance. The General Manager (CEO) contract is subject to review by the Board of trustees in terms of the Fund's policies. The Fund's Board of Directors determines the remuneration of other key executives. The key management personnel are:

The specified directors of the Fund during the year were:

Name	Appointment	Date of appointment	Term of appointment	Date appointment lapses	Representing
Mr. Baoro Laxton Koraua	Director Chairman	7th March 2012 30th March 2012	3 years	7th March 2015	Employer
Mr. Peter Boyers	Dep. Chairman	11th October 2010	3 years	11 October 2013	Minister's Discretion
Mr. Harry Kuma	Member	22nd June 2013	1 year	22nd June 2014	Crown
Dr. Levi Hou	Member	9th September 2011	3 years	8th September 2014	Employees
Mr. Gideon Zoleveke (Jnr)	Member	29 March 2013	3 years	29 March 2016	Employer
Dr. Alice Pollard	Member	29 March 2013	3 years	29 March 2016	Minister's Discretion

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

The specified executives of the Fund during the year were:

Names	Position
Tony Makabo	General Manager
Michael Wate	Deputy General Manager
Ruth Alepio	Board Secretary
Alfred Sare	Manager Administration
Suzanne Orudiana	Manager IT
Aluta Kakadi	Manager Operations
Areau Hivu	Internal Auditor
Ishmael Kako	Legal Counsel
Rose Karoa	Manager Finance
Enly Gani	Manager Property

The remuneration of the Fund's key management personnel were as follows:

Total remuneration is included in 'personnel expenses' as follows:	June 2013	June 2012
	\$	\$
Short-term employee benefits	4,251,312	2,759,309
Post-employment benefits	318,848	206,948
Total Compensation	4,570,160	2,966,257

Short-term benefits include cash salary, and in the case of staff, annual leave, motor vehicle benefits, car parking, health benefits and the fringe benefits tax paid or payable on these benefits.

Post-employment benefits include superannuation benefits and in the case of staff, health benefits. Other long-term benefits include long service leave. The components of remuneration are reported on an accrual basis.

As at 30 June 2013 loans by the Fund to key management personnel are as follows:

Housing Loan	64,820	163,814
Others	186,908	156,135
Total Loans	251,728	319,949

Major transactions with Government Organisations/Statutory Bodies for the year ended 30 June 2013 are as follows:

Name of company/organisation	Outstanding	Received	Total Form A's/SD
Solomon Islands Electricity Authority			
Contribution	(112,563)	3,450,190	3,337,627
Surcharge	90	71,712	71,802
Solomon Islands Water Authority			
Contribution	(5,476)	1,007,709	1,002,233
Surcharge	2,798	-	2,798
Total	(115,151)	4,529,611	4,414,460

Name of company/organisation	Outstanding	Paid	Total Purchases
	Goods and Service	Goods and Service	Goods and Service
Solomon Islands Electricity Authority	317,811	12,529,077	12,846,888
Solomon Islands Water Authority	248,437	1,059,602	1,308,039
Total	566,248	13,588,679	14,154,927

Related Party transactions

For related party investments in other companies in Solomon Islands, refer to note 7.

11. AUDITORS REMUNERATION

Fees totalling \$330,384 was provided in the accounts for audit services this year (\$429,132 last year). No other benefits were received by the auditors (Office of the Auditor General) during the year other than fees paid for normal accountancy services.

12. GOING CONCERN

The Fund is designed to provide retirement and saving benefits to its members and it operates within the parameters of the Solomon Islands economy. The Central Bank has reported that prospects for the Solomon Islands economy are positive, however warns that further economic growth depends on maintenance of law and order and the Government's commitment to reforms and policies to enhance employment and the living standards of all citizens.

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

13. CONTINGENT LIABILITY

(a) Deed between SINPF and BSP

Following the Deed signed on 26th March 2007, between Solomon Islands National Provident Fund and Bank of South Pacific Limited and for the purpose of satisfying the BPNG prudential guideline, and in consideration for BSP entering into the said Sale Agreement, SINPF undertake to guarantee the performance of the Solomon Islands Government Long Term Bonds of Forty Two Million Four Hundred and Ten Thousand Solomon Dollars (SBD42,410,000.00).

The balance to date of the long term bonds is \$16,730,435.18.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

(b) Civil Case between SINPF and Gegeu & Others.

In a civil case before the courts; Gegeu & others -v- SINPF Board High Court civil case number 157 of 2013, the former tenants of demolished NPF Food Courts sued the Fund for \$5,138,749. The SINPF Board is of the opinion that this claim has no basis and is applying to the courts to have this claim struck out.

14. RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and at bank.

a) Cash balance comprises of	June 2013 \$	June 2012 \$
Cash at bank	73,238,885	157,809,051
Cash on hand	3,400	2,800
	<u>73,242,285</u>	<u>157,811,851</u>

(b) Reconciliation of the operating Surplus/(Loss) after Interests to the net cash flows from operations:

	June 2013 \$	June 2012 \$
Net surplus/(deficit) after interests to members	527,339,027	24,640,188
<i>Adjustments for:</i>		
Depreciation expense	4,804,500	4,210,067
Annual interests to members	246,613,840	64,021,802
Bad and doubtful debts	7,569,771	(3,503,442)
Net gain/(loss) in changes in fair values of financial assets	(678,013,626)	(8,361,355)
Gain on disposal of fixed assets	(291,291)	(785,715)
Receivables and prepayments	(121,265,662)	(63,859,973)
Trade and provisions	1,698,129	413,884
Contributions (Interest Payable write back)	-	(3,208,593)
	<u>(11,545,312)</u>	<u>13,566,863</u>

15. EMPLOYEES

The number of full time permanent Fund employees as at 30th June 2013 is 107 (112 in 2012).

16. FINANCIAL INSTRUMENTS

Exposure to operational, credit, liquidity, interest rate, and currency risk arises in the normal course of the Fund's operations. The structure of the Fund's balance sheet is primarily determined by the nature of its statutory functions and commercial considerations. At the same time, the Fund continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the Fund is regulated by internal instructions and closely monitored by the Board.

(a) Credit risk

The Fund takes on exposure to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. Fund's maximum credit risk, excluding the value of collateral, is generally reflected in the carrying of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Credit risk on financial assets is minimized by dealing with recognized monetary institutions.

At balance sheet date concentrations of credit risk are noted for Bank South Pacific, ANZ Bank, and Westpac Bank.

The asset allocation at balance date is as follows:

	June 2013		June 2012	
	\$	%	\$	%
Assets				
Held to maturity	639,728,851	27%	599,673,323	41%
Financial assets at fair value	1,170,010,601	49%	311,195,944	21%
Investment properties	212,438,000	9%	106,404,765	7%
Loans and advances	87,783,592	4%	94,121,207	6%
Cash	73,242,285	3%	157,811,851	11%
Receivables	119,655,313	5%	78,848,653	5%
Property, plant and equipment	77,750,915	3%	115,804,056	8%
Total	2,380,609,557	100%	1,463,859,799	100%

The assets allocation range defines the high and low extremes within which each assets class may move in response to changing economic conditions. By approving an asset allocation range, the Board still maintain ultimate control over investment policy at the micro level while the Investment and Credit Sub-board Committee and Investment Manager are given the flexibility needed at operational level to quickly respond to and take advantage of changing economic circumstances to accept and consider investments for the Board and Ministerial approval.

The Investment Manager shall evaluate investment proposals to ensure viability and consistency with the approved investment strategy and prudential standards issued by Central Bank of Solomon Islands.

(b) Government security risk

The Fund has a significant exposure to the Solomon Islands Government (SIG) through its holding of government securities and bonds. The total holdings from SIG at 30 June 2013 is \$83,950,962 (June 2012: \$97,517,186).

(c) Foreign exchange risk

The Fund holds assets denominated in currencies other than Solomon Islands dollars, the functional currency. The Fund is therefore exposed to currency risk, as the value of the securities, and the dividends earned denominated in other currencies will fluctuate due to changes in exchange rates. The Fund manages this risk through regular review of its off-shore investment portfolio. The carrying amounts of the Fund's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Currency					Total \$
	SBD \$	AUD \$	USD \$	Euro \$	Others \$	
30 June 2013						
Assets						
Held to maturity	485,472,133	63,443,220	42,108,015	27,075,399	21,630,084	639,728,851
Financial assets at fair value	1,065,102,788	13,943,071	23,098,941	3,784,991	64,080,810	1,170,010,601
Investment properties	212,438,000	-	-	-	-	212,438,000
Loans and advances	87,783,592	-	-	-	-	87,783,592

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

Cash	73,242,285	-	-	-	-	73,242,285
Receivables	119,655,313	-	-	-	-	119,655,313
Property, plant and equipment	77,750,915	-	-	-	-	77,750,915
Total	2,121,445,026	77,386,291	65,206,956	30,860,390	85,710,894	2,380,609,557
Liabilities						
Creditors	1,177,317	-	-	-	-	1,177,317
Accruals and Provisions	10,026,320	-	-	-	-	10,026,320
Special Death Benefits	2,107,241	-	-	-	-	2,107,241
Members Contributions	1,693,478,795	-	-	-	-	1,696,478,795
Total	1,706,789,673	-	-	-	-	1,706,789,673
Net	414,655,353	77,386,291	65,206,956	30,860,390	85,710,894	673,819,884

30 June 2012

	Currency					Total \$
	SBD \$	AUD \$	USD \$	Euro \$	Others \$	
Assets						
Held to maturity	450,644,874	55,910,433	41,629,140	30,108,359	21,380,518	599,673,323
Financial assets at fair value	205,588,980	17,805,160	19,526,469	(1,622,764)	69,898,099	311,195,944
Investment properties	106,404,765	-	-	-	-	106,404,765
Loans and advances	94,121,207	-	-	-	-	94,121,207
Cash	157,811,851	-	-	-	-	157,811,851
Receivables	78,848,653	-	-	-	-	78,848,653
Property, plant and equipment	115,804,056	-	-	-	-	115,804,056
Total	1,209,224,386	73,715,593	61,155,609	28,485,595	91,278,616	1,463,859,799
Liabilities						
Creditors	1,502,051	-	-	-	-	1,502,051
Accruals and Provisions	8,066,560	-	-	-	-	8,066,560
Special Death Benefits	2,264,931	-	-	-	-	2,264,931
Member Contributions	1,330,713,078	-	-	-	-	1,330,713,078
Total	1,342,546,620	-	-	-	-	1,342,546,620
Net	(133,322,234)	73,715,593	61,155,609	28,485,595	91,278,616	121,313,179

(d) Foreign currency sensitivity analysis

The Fund is mainly exposed to the currency of Australian Dollar, US Dollar, GBP Pounds and PNG Kina.

The following table details the Fund's sensitivity to a 10% increase and decrease in the Solomon Dollar against the relevant foreign currencies. The 10% sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes listed shares and term deposits where the denomination of the investment is in a currency other than Solomon Dollar. A positive number below indicates an increase in net assets and where the Dollar strengthens 10% against the relevant currency. For a 10% weakening of the Dollar against the relevant currency, there would be a comparable impact on the net assets, and the balances below would be negative.

	AUD impact (000s)		USD impact (000s)		Euro impact (000s)		GBP impact (000s)		PGK impact (000s)	
	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease
Changes in net assets	(8,614)	(7,048)	7,246	(5,928)	3,493	(2,858)	1,766	(1,445)	8,879	(7,265)

(e) Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing; as a result, the Fund is not subject to significant amounts of interest rate risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash equivalents are invested at short-term market interest rates amounts of which are immaterial.

The credit risk on held to maturity investments is limited because the counter parties are banks with high credit-ratings assigned by international credit-rating agencies and the Solomon Islands government, a sovereign state. The Fund has no borrowing for which it has to pay interest expenses and its liability is limited only to members' contributions which receive interest earnings calculated on dividend basis. Accordingly an interest rate sensitivity analysis is not required.

The table below summarizes the Fund's exposures to interest rates risk. It includes the Fund's assets and liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

	Weighted average effective interest rate %	Up to 1 Year \$	1-5 Years \$	Over 5 years \$	Non-interest Bearing \$	Total \$
30 June 2013						
Assets						
Held to maturity	1.00%	430,873,626	124,904,263	83,950,962	-	639,728,851
Financial assets at fair value		-	-	1,170,010,601	-	1,170,010,601
Investment properties		-	-	-	212,438,000	212,438,000
Loans and advances		7,740,401	10,582,494	69,460,697	-	87,783,592
Cash		73,242,285	-	-	-	73,242,285
Receivables		-	-	-	119,655,313	119,655,313
Property, plant and equipment		-	-	-	77,750,915	77,750,915
Total		511,856,312	135,486,757	1,323,422,260	409,844,228	2,380,609,557
Liabilities						
Creditors		-	-	-	1,177,317	1,177,317
Accruals and Provisions		-	-	-	10,026,320	10,026,320
Special Death Benefits		842,897	632,172	632,172	-	2,107,241
Members Contributions		112,953,483	427,883,056	1,152,642,256	-	1,693,478,795
		113,796,380	428,515,228	1,153,274,428	11,203,637	1,706,789,673
Interest sensitivity gap		398,059,932	(293,028,471)	170,147,832	398,640,591	673,819,884

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

30 June 2012

Assets

Held to maturity	4.0%	415,341,091	111,144,278	73,187,954	-	599,673,323
Financial assets at fair value		-	-	311,195,944	-	311,195,944
Investment properties		-	-	-	106,404,765	106,404,765
Loans and advances		57,864,787	19,313,702	16,942,718	-	94,121,207
Cash		157,811,851	-	-	-	157,811,851
Receivables		-	-	-	78,848,653	78,848,653
Property, plant and equipment		-	-	-	115,804,056	115,804,056
	4.0%	<u>631,017,729</u>	<u>130,457,980</u>	<u>401,326,616</u>	<u>301,057,474</u>	<u>1,463,859,799</u>

Liabilities

Creditors		-	-	-	1,502,051	1,502,051
Accruals and Provisions		-	-	-	8,066,560	8,066,560
Special Death Benefits		566,233	679,479	1,019,219	-	2,264,931
Members Contributions		33,691,532	247,498,228	1,049,523,318	-	1,330,713,078
		<u>34,257,765</u>	<u>248,177,707</u>	<u>1,050,542,537</u>	<u>9,568,611</u>	<u>1,342,546,620</u>
Interest sensitivity gap		<u>596,759,964</u>	<u>(117,719,727)</u>	<u>(649,215,921)</u>	<u>291,488,863</u>	<u>121,313,179</u>

(f) Liquidity risk

The Fund invests the majority of the Fund's assets in investments that are not traded in an active market.

The Fund holds a security that is listed on the Port Moresby Stock Exchange and units in a UBS Managed Fund where more than 90% of the investment are required to be held in listed stocks. Those units are considered readily realizable while those listed on Port Moresby Stock Exchange are not due to the illiquidity of the market.

The liabilities of the Fund are long term in nature and are well structured in terms of benefits comprising of a mix of benefit commutation and a fortnightly contributions payable through out the life-time of the member. The table below summarizes the Fund's exposures to liquidity risk and maturity analysis of assets and liabilities:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

	Up to 1 month \$	1-3 months \$	3-12 months \$	1-5 years \$	Over 5 years \$	Total \$
30 June 2013						
Assets						
Held to maturity	-	55,850,432	375,023,193	124,904,263	83,950,962	639,728,851
Financial assets at fair value	-	-	-	-	1,170,010,601	1,170,010,601
Investment properties	-	-	-	-	212,438,000	212,438,000
Loans and advances	-	-	7,740,401	10,582,494	69,460,697	87,783,592
Cash	73,242,285	-	-	-	-	73,242,285
Receivables	4,194,927	12,232,320	103,228,067	-	-	119,655,313
Property, plant and equipment	-	-	-	-	77,750,915	77,750,915
Total	77,437,212	68,082,752	485,991,661	135,486,757	1,613,611,175	2,380,609,557
Liabilities						
Creditors	1,168,374	8,796	147	-	-	1,177,317
Accruals and Provisions	349,359	-	623,327	9,053,634	-	10,026,320
Special Death Benefits	210,725	295,014	337,158	632,172	632,172	2,107,241
Members Contributions	11,295,348	33,886,045	67,772,090	427,883,056	1,152,642,256	1,693,478,795
Total	13,023,806	34,189,855	68,732,722	437,568,862	1,153,274,428	1,706,789,673
Net liquidity gap	64,413,406	33,892,897	417,258,939	(302,082,105)	460,336,747	673,819,884

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

30 June 2012

Assets

Held to maturity	-	11,482,041	403,859,050	111,144,278	73,187,954	599,673,323
Financial assets at fair value	-	-	-	-	311,195,944	311,195,944
Investment properties	-	-	-	-	106,404,765	106,404,765
Loans and advances	-	-	57,864,787	36,256,420	-	94,121,207
Cash	157,811,851	-	-	-	-	157,811,851
Receivables	2,390,855	8,602,620	67,855,178	-	-	78,848,653
Property, plant and equipment	-	-	-	-	115,804,056	115,804,056
Total	160,202,706	20,084,661	529,579,015	147,400,698	606,592,719	1,463,859,799

Liabilities

Creditors	1,501,797	-	254	-	-	1,502,051
Accruals and Provisions	278,744	-	356,045	7,431,770	-	8,066,559
Special Death Benefits	141,558	198,181	226,494	679,479	1,019,219	2,264,931
Members Contributions	8,422,883	10,107,460	15,161,189	247,498,228	1,049,523,318	1,330,713,078
Total	10,344,982	10,305,641	15,743,982	255,609,477	1,050,542,537	1,342,546,620
Net liquidity gap	149,857,723	9,779,021	513,835,033	(108,208,779)	(443,949,819)	121,313,179

17. SUBSEQUENT EVENTS

There has not been any matter or circumstances that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operation of the Fund, the results of those operations, of the state of affairs of the Fund in future financial years.

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