

ANNUAL REPORT 2018

CORPORATE INFORMATION

Head Office: NPF Building, Mendana Avenue, Honiara, Solomon Islands

Branches: Auki, Malaita Province; Gizo, Western Province

Postal Address: PO Box 619, Honiara, Solomon Islands

Telephone/Fax: (677) 21659 / (677) 20484

Website: sinpf.org.sb

Email: info@sinpf.org.sb

Bank: Bank South Pacific Limited, PO Box 37, Honiara, Solomon Islands

External Auditor: Auditor General, Office of the Auditor General, PO Box G18, Honiara, Solomon Islands

LEGAL FRAMEWORK

A defined contribution fund

Established by the Solomon Islands National Provident Fund (SINPF) Act 1973, 3 of 1973

Commenced operations on 1st October 1976, as a statutory retirement savings scheme

Minister of Finance and Treasury appoints the Board, a Corporate Body

Members are obliged to contribute a minimum of 5% and multiple of 10% on voluntary basis

Employers are obliged to contribute 7.5% on behalf of employees

The Board is obliged to declare a minimum statutory crediting rate of 2.5% to members at or before end of each financial year

Financial year end 30th June

Minister of Finance and Treasury approves all new investments

In 2003, SINPF is deemed a licensed financial institution under the Financial Institutions Act (FIA) and

Subject to prudential reviews by the Central Bank of Solomon Islands (CBSI)

CHAIRMAN'S LETTER

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

31 January 2020

Dear Sir,

SOLOMON ISLANDS NATIONAL PROVIDENT FUND ANNUAL REPORT 2018

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 2018 which incorporates the Statement of Assets and Liabilities, Statement of Accounts and major development events of the Fund occurred during the financial period.

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

Yours faithfully



Peter James Boyers
Chairman

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Our Vision

Securing and enhancing our future

Our Mission

Achieve sustainable growth through real return and provision of quality services

Our Values

Ethical, responsible and professional conduct at all times

- In all we do we apply the highest personal, professional and ethical standards and together we act with transparency and consistency in a no-blame environment

Productivity, teamwork and striving for continuous improvement

- By harnessing the passion, skill and experience of the whole team we will prioritise and provide excellent service to all members and stakeholders.

Effective stewardship & leadership

Effective leadership is embedded at all levels within SINPF and is applicable to everyone.

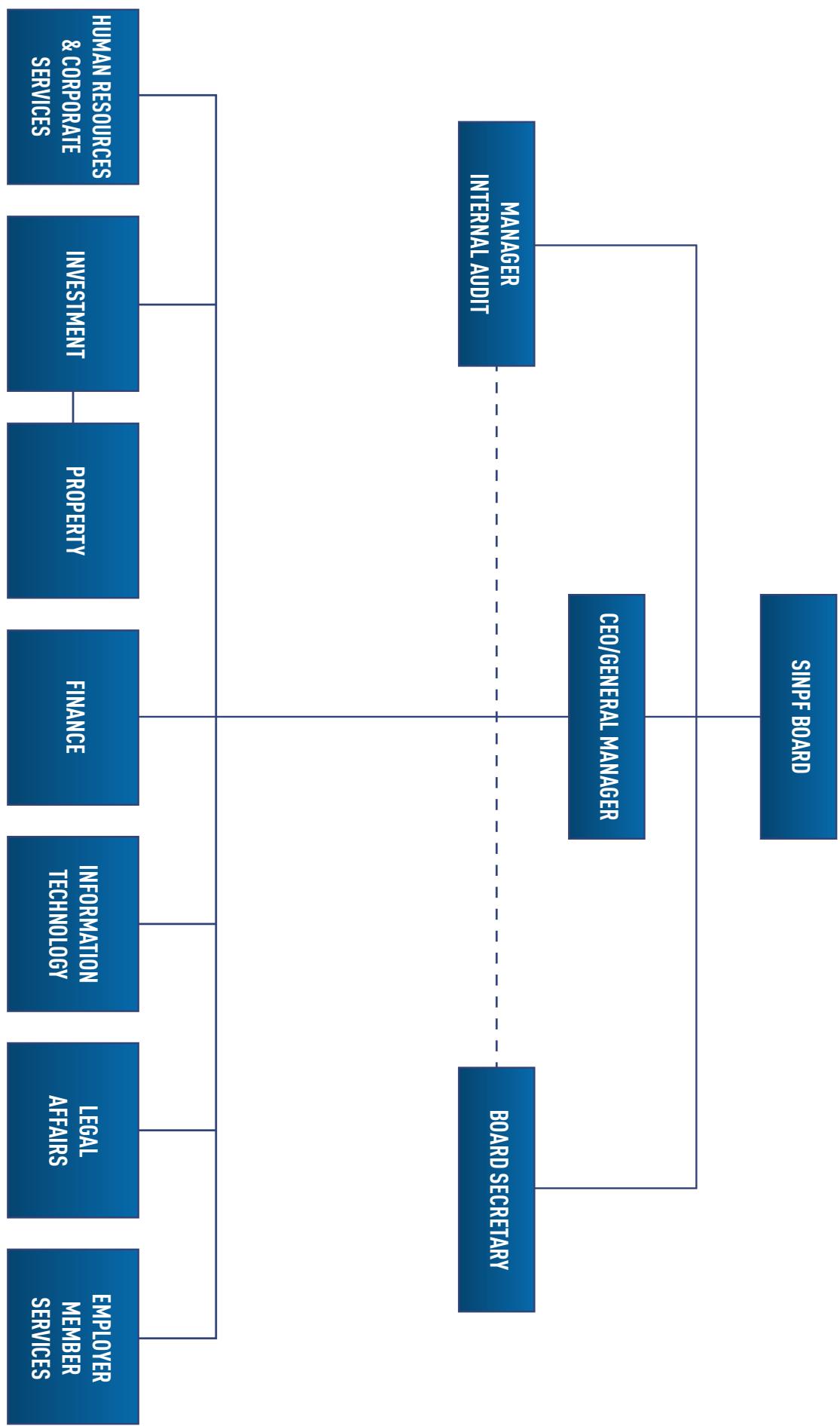
Passion to deliver results for members

- Constantly striving to make things better for members by identifying new knowledge, opportunities and smarter practices and by working together in effective, innovative and creative teams.

Our Corporate Objectives

- Making prudent investments with real returns to members – protecting and growing members' financial wealth and managing risk efficiently and effectively.
- Contributing to national infrastructure, economic and social development in the Solomon Islands by working in partnership with stakeholders and communities
- Delivering professional and excellent service at all times
- Developing and improving staff capacity and capability to meet all challenges and deliver agreed outcomes in a timely manner.
- Encouraging all Solomon Islanders to save for later life
- Exploring, developing and providing innovative products and services to members
- Committing to best practice and good governance

ORGANIZATION STRUCTURE AS AT 30TH JUNE 2018



BOARD OF TRUSTEES



Peter Boyers
Chairman

Appointed:
20 May 18 - 20 May 21

Representing:
Minister Discretion



Dr. Aaron Oritaimae
Deputy Chairman

Appointed:
1 Nov 17 - 1 Nov 20

Representing:
Employee



Gideon Zoloveke Jr.
Member

Appointed:
29 Mar 18 - 29 Mar 19

Representing:
Employer



Dr. Alice Aruhe'eta Pollard
Member

Appointed:
29 Mar 18 - 29 Mar 19

Representing:
Minister Discretion



Jerry Maiki Tengemoana
Member

Appointed:
14 April 16 - 14 April 18

Representing:
Minister Discretion



Julie Gegeu Haro
Member

Appointed:
14 April 16 - 14 April 18

Representing:
Employee



Dr. Levi Hou
Member

Appointed:
9 Sept 16 - 9 Sept 17

Representing:
Employee



George Alfred Kuper
Member

Appointed:
23 Oct 15 - 23 Oct 18

Representing:
Crown



Mckinnie Dentana
Member

Appointed:
23 Oct 15 - 23 Oct 18

Representing:
Crown



Antoinette Wickham
Member

Appointed:
26 Jun 18 - 26 Jun 21

Representing:
Employee



David Rupokets
Member

Appointed:
26 Jun 18 - 26 Jun 21

Representing:
Employer



Ruth Alepio
Board Secretary

KEY MANAGEMENT

Table 1: Management

| Name and Designate | Term Years | Appointment Date | Expiry Date of Appointment |
|--|------------|------------------|----------------------------|
| Mr.Tony Makabo, CEO/General Manager | 1.5 | 19 Aug 2016 | 31 Dec 2017 |
| Mr. Mike Wate, Deputy General Manager | 3 | 21 Aug 2017 | 20 Aug 2020 |
| CEO/General Manager | 3 | 1 Jan 2018 | 31 Dec 2020 |
| Ms. Ruth Alepio, Board Secretary | 3 | 1 Sept 2017 | 30 Aug 2020 |
| Mr.AlutaKakadi, Manager Employer and Member Services | 3 | 17 Nov 2016 | 16 Nov 2019 |
| Ms. Jennifer Lakoa, Manager Investments | 3 | 9 Aug 2017 | 8 Aug 2020 |
| Mrs. Rose Karoa, Manager Finance | 3 | 6 April 2015 | 6 April 2018 |
| Mrs. Suzanne Moli Orudiana, Manager IT | 3 | 24 Oct 2016 | 23 Oct 2019 |
| Mr. Manasseh Taloafiri, Manager HR and CS | 3 | 23 May 2016 | 22 May 2019 |
| Mrs. Areau Hivu, Manager Internal Audit | 3 | 21 Aug 2017 | 20 Aug 2020 |
| Mr.Ishmael Kako, Manager Legal Services | 3 | 9 Aug 2017 | 8 Aug 2020 |
| Mr. Bennett Pitakia, Manager Property Asset | 3 | 16 Nov 2015 | 15 Nov 2018 |



Sitting from right to left; Suzanne Orudiana (Manager IT), Ruth Alepio (Board Secretary), Tony Makabo (CEO/General Manager), Mike Wate (Deputy General Manager), Aluta Kakadi (Manager Employer and Member Services); Standing from left to right; Manasseh Taloafiri (Manager Human Resources and Corporate Services), Jennifer Lakoa (Manager Investments), Bennett Pitakia (Manager Property Assets), Areau Hivu (Manager Internal Audit), Ishmael Kako (Manager Legal Services) and Rose Karoa (Manager Finance)

2018 ACHIEVEMENTS AND HIGHLIGHTS

Membership and Employers

- 6,745 new members were registered during the year
- Accumulated registered membership increased to 183,421
- Total members with credit balances rose to 136,301
- Accumulated active members increased to 58,036
- Contributions received from Members and Employers increased to \$297.45 million
- Benefits paid to members surged to \$270.1 million
- 6.5% crediting rate declared for members
- \$160.5 million credited to Member Balances
- Value of Member Contributions grew to \$2.952 billion
- 368 new employers registered during the year
- Total accumulated registered employers was 3,437

Investments and Financial

- Acquisition of additional 10% shares in Heritage Park Hotel Limited (HPHL) for \$44 million
- Ministerial approval of 49% shareholding in Solomon Islands Submarine Cable Company Ltd for \$116,172,642.
- Gross Investments portfolio grow strongly to \$3.326 billion
- Gross income surged strongly to \$318.5 million
- Gross rate of return of 9.6%.

Governance and Operational

- Approval of the Fund's Board Charter in November 2017
- Approval of the Fund's Policy on Management of Complaints
- Performance of an Actuary on the Fund's Special Death Benefit (SDB) and Liabilities for the financial year ending 30 June 2017.

INFORMAL SECTOR

- Scale up of the informal sector retirement product youSave commenced in the 2nd half of the financial year.
- 2,589 new youSave savers registered and opened new savings accounts during the year
- Total youSave members reached 2,921 with total balances of \$1,794,738
- Preserved accounts worth \$ 989,694 whilst general accounts had a total balance of \$805,044
- The SINPF Board was awarded the 2017 Reuben J Summerlin Innovation Award in recognition of the Board's contribution to the Financial Inclusion-Informal Sector Superannuation for the development and launching of the youSave product for the informal sector.

CHAIRMAN'S MESSAGE

The Fund's financial performance during the year achieved a gross rate of return of 9.6% on the Fund's gross investments portfolio. The Fund's Net Asset grew by more than 9% to reach \$3.365 billion up from \$3.080 billion in 2017.

The excellent result was underpinned by strong performance from the Fund's domestic equity investments; South Pacific Oil Limited, Solomon Telekom Company Ltd, Heritage Park Hotel Ltd, and Soltuna Ltd and in the international equity exposure, Papua New Guinea based Bank South Pacific (BSP) and Vanguard US 500 Stock Index Fund.

The long dated government bonds also contributed to the strong financial performance.

The Hibiscus apartments' consistent above 90% occupancy continued to prop up our domestic property investments returns, whilst major refurbishments are currently being made to the Anthony Saru building, NPF building, and the Food Court.

This strong financial performance enabled my Board to declare a crediting rate of 6.5% adding more than \$160.5 million in interest to our members' accounts as at 1 July 2018. A surplus of \$60.45 million was ploughed back to the Fund's General Reserves (GR) bringing total General Reserves to \$305.8 million.

Total Reserves (TR) including asset revaluation reserves of \$100.3 million therefore increase to settle at \$406.1 million at the end of the financial year.

Both incoming contributions and payment of benefits increased during the year. Contributions surged to \$297 million up from \$279 million from the previous year, an increase of almost 6.5%. Total benefits paid to members reached \$270 million up on 2017 level by \$54 million or by 25% from \$216 million.

In terms of governance, the Board approved the Fund's comprehensive Board Charter during the year, setting another milestone to improve the governance at the highest level of the Fund. These policies are consistent with and in compliance to the Central Bank of Solomon Islands (CBSI) instructions to all financial institutions, issued from time to time by the CBSI.

There are known and emerging risks that my Board will diligently monitor through the Fund's risk management framework and risk register, ranging from our investment concentration risks, non performing investments, to operational and financial risks.

I would like to thank and acknowledged the support of the Minister of Finance and Treasury, the Governor of the Central Bank of Solomon Islands, Employee Organizations, Employer Organizations, and multilateral institutions for their support rendered to the Fund during the year.

During the year on 31 December 2017, Mr. Anthony Makabo retired from the Fund after 13 years of distinguished services to the Fund. Mr. Makabo has been the CEO/General Manager of the Fund during these 13 years, providing outstanding leadership to the Fund's excellent performance and growth.

I would also like to welcome Mr. Mike Wate as he assumed the leadership role as the Fund's CEO/General Manager from 1st January 2018 and my Board is looking forward to working closely with him during the term of his contract with the Board.

To my colleague board members, management, and staff of the Fund thank you for all your fine efforts and consistent hard work that produced a strong positive result for the year.



Peter James Boyers
Chairman

CEO/GENERAL MANAGER'S REPORT

Financial Performance

The Fund recorded a total gross income of \$318,493,005 more than double the result of \$120,293,296 achieved in the previous financial year. After adjusting for direct investment cost of \$44,275,397 and operating expenses of \$47,302,521 the operating profit available for distribution to members was \$226,915,087.

Direct investment costs increased by more than 90% on account of increased repairs and maintenance costs to investment properties, utilities (with electricity to be recovered from tenants) and adoption of new guidelines on provisions raised for dividend and loan receivables.

Operating expenses declined by 7.7% further improving the Fund's Management Expense Ratio (MER) to 1.41% of the Fund's net asset.

New Investments

Limited new investments were made during the year that included the Board purchase of additional 10% shares in Heritage Park Hotel Limited from CGA Development Ltd for \$44 million and the approval of 49% shares in Solomon Islands Submarine Cable Company Ltd (SISCCL) for \$116,172,642

Integrated Financial Management System Project (IFMS)

The Fund successfully launched its first ever Integrated Financial Management System (IFMS) in October 2017 after commencing the project in the 2016 financial year. This is a significant milestone in the Fund's financial reporting history.

Informal Sector youSave Product

The business case prepared for the implementation of the informal sector product was completed and presented to the Minister of Finance, the Board and key stakeholders in December 2017 seeking support for the product and outlining necessary investments required over time to make the product viable.

Acknowledgement

I would like on behalf of my management team and staff to acknowledge the direction, guidance and support from the Board of Trustees of the Fund, the support from our members and employers of the Fund, oversight from the Central Bank and the Ministry of Finance and Treasury, assistance and cooperation from the United Nations Capital Fund for Development (UNCDF), the Private Sector Development Initiative of the Asian Development Bank, and the Pacific Islands Financial Inclusion Program.

And finally I would like to thank my management team and staff for your fine efforts for a positive result achieved for the year.



Mike Wate
CEO/General Manager

THE FUND DURING THE YEAR

THE SINPF UNIVERSE

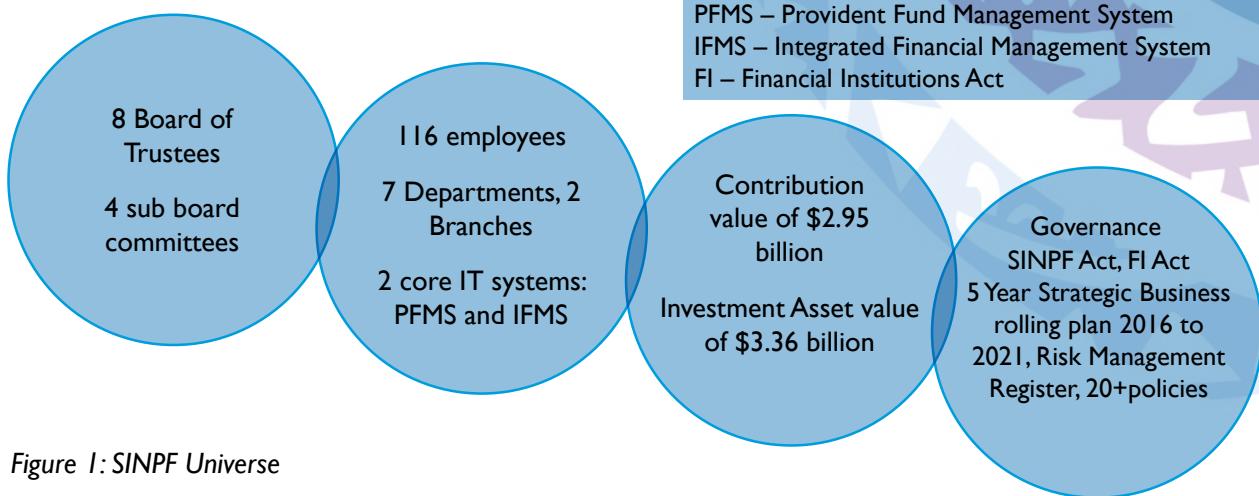


Figure 1: SINPF Universe

THE SINPF RISK UNIVERSE

The Fund's risk universe illustrated below summarizes who are the risk owners and shows how the risks are managed.

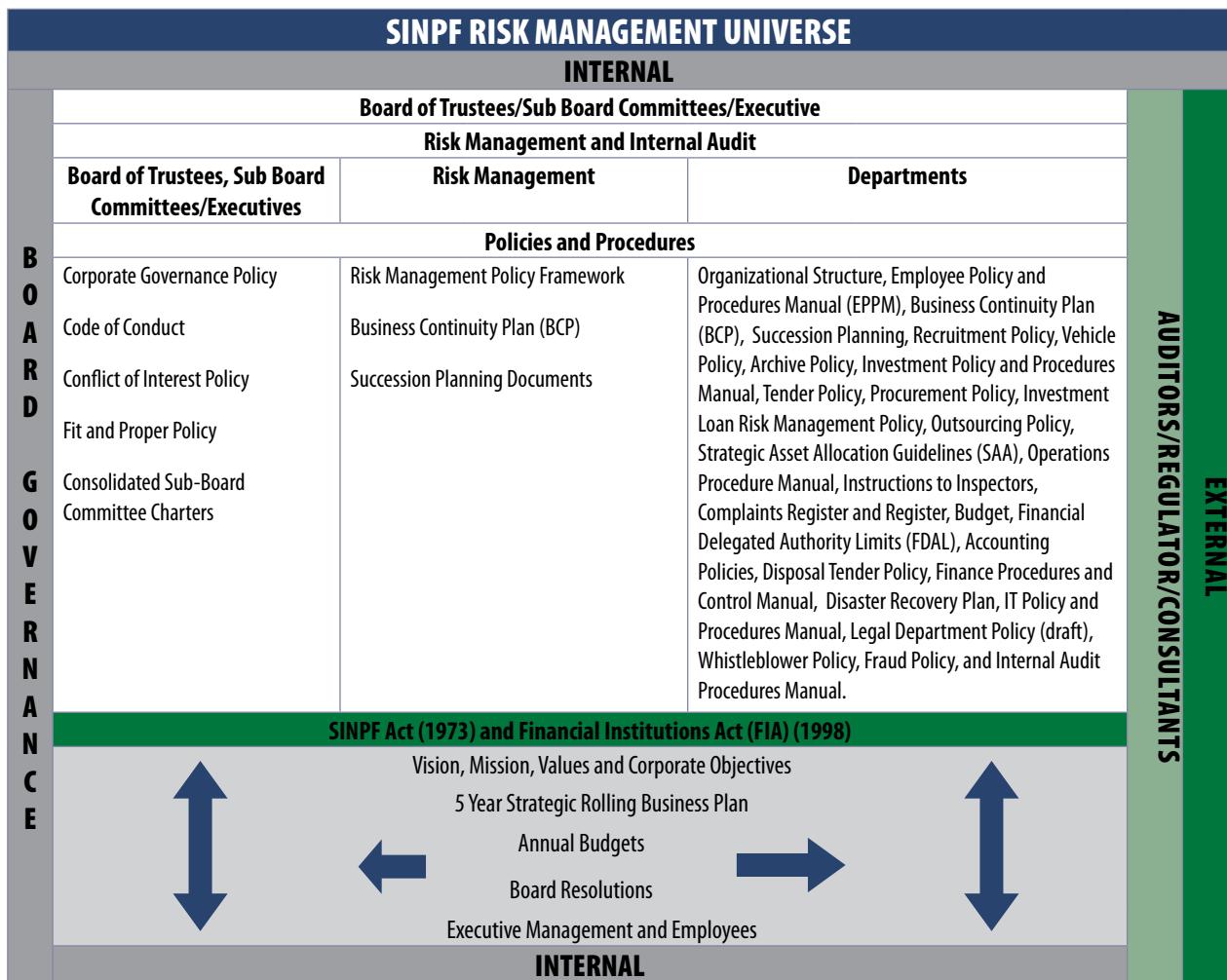


Figure 2: Risk Management Universe - Owners and Policies and Procedures

THE ECONOMY

The Solomon Islands economy as reported by the Central Bank of Solomon Islands for the 2018 calendar grew by around 3.9% driven by strong performances in the retail, transport, financial services, construction, forestry, fisheries, construction and manufacturing with positive export earnings from our key exports except copra.

The global economy slowed in 2008 driven by weak performances from Japan, European countries in particular Germany and Italy. The US economy though expanded in 2018 whilst China growth softened during the year to 6.6%.

Emerging economies growth was subdued by the trade tensions whilst the Australia economy grew by 2.8%. Papua New Guinea's economic growth remained weak at 0.4%.

The national headline inflation dipped to 2.4% for the 12 months period ending 30 June 2018.

The Board has investment exposures in the USA, Europe, United Kingdom, Australia, and Papua New Guinea economies. The performance of our offshore investments, are linked to the performance of these economies and their financial markets.

CORPORATE GOVERNANCE

The Board

The Fund is governed by a tripartite board and the Board is responsible for the management of the trustees and the investment of the Fund within the arm of the Fund's key Act, the Solomon Islands National Provident Fund Act (1973) and the Financial Institution Act (FIA) (1998).

Consisting of eight (8) trustees, the trustees are appointed by the Minister of Finance and Treasury, representing employers, employees, and the crown.

The Board met 17 times during the year with 6 being scheduled meetings whilst 11 are special board meetings.

The Board performed an Actuary on the Fund's Special Death Benefit (SDB) and Liabilities for the financial year ending 30 June 2017. The actuary is performed by Wehrhahn & Wehrhahn Consulting LLC and the was accepted by the Board in May 2018.

During the year the Board approved the Fund's comprehensive Board Charter and was implemented during the year.

The Board's 5 year strategic rolling business plan 2016-2021 was continued to be implemented during the year within a risk management framework.

Board Remuneration

Board remuneration are established by the Minister of Finance and no changes to the levels of remuneration were made during the year. The levels of remuneration currently in place were approved by the Minister of Finance in November 2016.

Table 2: Board Members Monthly and Sitting Allowances

| | Monthly Allowance | Sitting Allowance |
|-----------------|--------------------------|--------------------------|
| Chairman | \$2,500 | \$2,500 |
| Deputy Chairman | \$2,500 | \$2,500 |
| Member | \$2,500 | \$2,500 |

Board Attendance

Table 3: Board Attendance and Sitting Allowances (excluding other benefits)

| Name and Appointment | Appointment Date | Term Years | Expiry Date of Appointment | Total No of Board Meetings | No of meetings attended |
|---|------------------|------------|----------------------------|----------------------------|-------------------------|
| Peter James Boyers, Chairperson | 20-May-18 | 3 | 20-May-21 | 17 | 16 |
| Dr. Aaron Oritaimae, Deputy Chairperson | 01-Nov-17 | 3 | 01-Nov-20 | 17 | 10 |
| Gideon Zoleveke, Jr. Member | 29-Mar-18 | 1 | 29-Mar-19 | 17 | 16 |
| Dr. Alice Pollard, Member | 29-Mar-18 | 1 | 29-Mar-19 | 17 | 15 |
| Mr. Jerry Tengemoana, Member | 14-Apr-16 | 2 | 14-Apr-18 | 17 | 11 |
| Mrs. Julie Haro, Member | 14-Apr-16 | 2 | 14-Apr-18 | 17 | 9 |
| Dr. Levi Hou, Member | 09-Sep-16 | 3 | 09-Sep-17 | 17 | 1 |
| Mr. George Kuper, Member | 23-Oct-15 | 3 | 23-Oct-18 | 17 | 16 |
| Mr. Mckinnie Dentana, Member | 23-Oct-15 | 3 | 23-Oct-18 | 17 | 16 |
| Ms. Antoinette Wickham, Member | 26-Jun-18 | 3 | 26-Jun-21 | 17 | 0 |
| Mr. David Rupokets, Member | 26-Jun-18 | 3 | 26-Jun-21 | 17 | 0 |

Board Movements

Six (6) trustees' terms expired during the financial year.

Dr. Aaron Oritaimae representing employee was appointed a trustee on 11 November 2017 replacing Dr. Levi Hou whose term expired on 7th September 2017.

Members Peter James Boyers, Gideon Zoleveke Jr. and Dr. Alice Pollard terms expired during the year and were reappointed with Peter James Boyers appointed Chairman for another 3 years and Dr. Alice Pollard and Gideon Zoleveke Jr. appointed for another year.

Ms. Antoinette Wickham, employee and Mr. David Rupokets, employer replaced retiring members Mrs. Julie Haro and Mr. Jerry Tegemoana during the year on 26 June 2018.



Minister of Finance and Treasury, (now Prime Minister of Solomon Islands) Hon Manasseh Sogavare making a courtesy visit to the SINPF Head Office in Honiara. Assistant Manager Employers and Member Service Mr. Wilson Hano explaining the functions of the department to the Minister. Looking on are Mr. Mike Wate CEO/General Manager of the Fund, Mr. Aluta Kakadi Manager Employer and Member Services, and the Under Secretary of Finance and Treasury, Mr. Mckinnie Dentana.

Sub Board Committees and Board Taskforces

The board has established four sub-board committees and a working committee to deal with a particular matter or matters and or to have certain decision making authority as the Board may elect, to delegate to that sub-board committee. The four committees are; 1) Audit and Risk, 2) Investment and Credit Committee (ICC), 3) Information Technology Committee, and 4) Staff Welfare Committee and a working committee Board Taskforce Committee that deals with contracted manager matters.

During the year, a Medical taskforce was established to investigate the feasibility and viability of providing a higher level healthcare service in the country.

The sub-board committees and taskforces are chaired by Board members with membership drawn from management. The sub-board committees and taskforces can secure with Board endorsement external independent members with relevant expertise.

Board members and external members sitting on these committees are paid a sitting allowance of \$2,500 per sitting.

Table 4: Board and Management Membership on Sub-Board Committees

| | ICC | Audit and Risk | IT Comm | Staff Welfare | Board Taskforce | PITC | Medical Taskforce |
|------------------------|-----|----------------|---------|---------------|-----------------|------|-------------------|
| Mr. Peter James Boyers | | | | | | | |
| Mr.Gideon Zoleveke Jr. | | X | | X | X | | |
| Dr.Alice Pollard | | | | X | X | | |
| Dr. Levi Hou | | X | | | X | | |
| Mrs. Julie Haro | X | | | X | X | | X |
| Mr.Jerry Tengemoana | | | X | | X | X | |
| Mr. Mckinnie Dentana | X | | | | | | |
| Mr. George Kuper | | X | X | | | | X |
| Dr.Aaron Oritaimae | | X | | | | | |
| Mr. David Rupokets | X | | | | | | |
| Ms Antoinette Wickham | | | | | | X | X |
| Management | | | | | | | |
| Mr.Tony Makabo | X | | | X | | X | |
| Mr. Mike Wate | X | | X | X | | | X |
| Mr.Aluta Kakadi | | | X | | | | |
| Ms Jenny Lakoa | X | | | | | X | X |
| Mrs Rose Karoa | X | | X | X | | | |
| Mr. Ishmael Kako | X | | X | | | X | |
| Mrs Suzanne Orudiana | | | X | | | | |
| Mrs Areau Hivu | X | X | X | | | | |
| Mr. Manasseh Taloafiri | | | X | X | | | |
| Mr. Bennett Pitakia | X | | | | | X | |

MEMBERSHIP

Member Number and Balances

6,745 new members were registered during the year an increase of more than 12% on the previous year level of 6,005. The accumulated registered membership therefore increased to 183,421 an increase of 2.8% on the previous year's level.

Total members with credit balances increased by 3.7% from 131,482 to settled at 136,301 at the end of the financial year.

Active members increased to 58,036 up by 3.4% on the previous year level of 56,102.

Total contribution receipts for the year increased by 5.9% to \$295.7 million compared to the level recorded in the previous year of \$279.2 million.

Net contributions though declined to \$27.3 million, a reduction of 56% from the previous year's level of \$63.3 million as a result of higher benefit payout made during the year.

Member benefits payment increased by 25% to \$270.1 million from \$215.9 million for 6,275 beneficiaries, up by 19% on the previous year beneficiaries. Members retiring at 50 years and above continue to dominate benefit payments and increasing becoming significant, are lenders claims.

A crediting rate of 6.5%, compared to previous year 5.3%, was declared for a total interest of \$160.5 million. These were applied to member balances as from 1 July 2018 The real crediting rate for the year after adjusting for inflation is 4.1%.

Accumulated members fund increased by 6.9% to \$2.952 billion driven by net contribution receipts and the 6.3% credited to and compounded on member accounts from \$2.76 billion recorded at the end of the previous financial year.

Table 5: Key Membership Indicators

| | 2018 | 2017 |
|---|------------------------|------------------------|
| New Member registration | 6,745 | 6,005 |
| Total Accumulated Registered Members | 183,421 | 178,302 |
| Total Registered Members with Credit Balances | 136,301 | 131,482 |
| Total Accumulated Active Members | 58,036 | 56,102 |
| Total Member Contribution Receipts | \$295,731,636 | \$279,232,097 |
| Total Member Withdrawals – Number | 6,275 | 5,270 |
| Total Member Benefits Paid – Value | \$270,109,815 | \$215,957,623 |
| Total Net Contribution | \$27,342,836 | \$63,274,474 |
| Annual Interest Rate Credited To Members | 6.50% | 5.30% |
| Annual headline inflation rate to 30 June | 2.40% | 0.50% |
| Real Crediting Rate after adjusting for inflation | 4.10% | 4.80% |
| Total Annual Interest Credit To Members | \$160,499,937 | \$124,558,741 |
| Total Accumulated Members Fund | \$2,924,510,852 | \$2,727,030,688 |
| Unidentified Contributions | \$27,367,554 | \$33,444,780 |
| Total Member Funds | \$2,951,878,406 | \$2,760,475,468 |

Table 6: Member Benefit Payout by Withdrawal Grounds

| | 2018 | | 2017 | |
|--------------------------|--------------|----------------------|--------------|----------------------|
| | No | Value | No | Value |
| At 50 years | 2,579 | \$149,162,793 | 2,247 | \$129,892,771 |
| Death (including SDB) | 276 | \$13,638,145 | 309 | \$8,824,275 |
| Migration | 182 | \$17,500,950 | 151 | \$7,642,470 |
| Exemption | 229 | \$14,332,152 | 170 | \$13,347,006 |
| Incapacitated | 289 | \$11,610,243 | 164 | \$7,475,704 |
| Lenders Claim | 1,941 | \$50,726,970 | 1,105 | \$30,951,685 |
| Redundancy | 744 | \$9,771,351 | 1,062 | \$13,345,840 |
| Retirement at 40 years | 24 | \$3,349,263 | 46 | \$4,526,484 |
| Unclaimed Deposit | 0 | \$0 | 16 | \$35,307 |
| Adjustment after yr. end | 0 | \$17,948 | 0 | -\$83,919 |
| Total | 6,275 | \$270,109,815 | 5,270 | \$215,957,623 |

Membership Demography

The bulk of the membership at 65,831 are within the age of 31 years to 45 years representing 48% of the total membership with credit balances worth more than 57% of the total membership balances at \$1.66 billion. 26,909 members aged 51 years and over with credit balances of \$419,072,357 are eligible to withdraw their savings in full anytime at their choosing.

Table 7: 2018 Membership Demography

| Age group | Number | | | Value | | |
|----------------------------------|---------------|---------------|----------------|------------------------|----------------------|------------------------|
| | Male | Female | Total | Male | Female | Total |
| > 20 years | 662 | 544 | 1,206 | \$1,030,558 | \$757,547 | \$1,788,105 |
| 21-25 | 4,898 | 3,873 | 8,771 | \$14,694,451 | \$10,248,350 | \$24,942,801 |
| 26-30 | 9,830 | 6,516 | 16,346 | \$82,241,961 | \$64,257,055 | \$146,499,015 |
| 31-35 | 13,758 | 7,500 | 21,258 | \$245,628,351 | \$166,268,711 | \$411,897,062 |
| 36-40 | 17,212 | 7,220 | 24,432 | \$377,637,837 | \$205,301,603 | \$582,939,440 |
| 41-45 | 13,744 | 6,397 | 20,141 | \$459,753,167 | \$210,335,650 | \$670,088,817 |
| 46-50 | 12,384 | 4,854 | 17,238 | \$472,323,599 | \$192,943,830 | \$665,267,429 |
| 51-55 | 8,176 | 2,828 | 11,004 | \$169,871,646 | \$57,530,766 | \$227,402,412 |
| 56-60 | 6,374 | 1,612 | 7,986 | \$84,173,902 | \$22,036,570 | \$106,210,472 |
| 60 plus | 6,505 | 1,414 | 7,919 | \$72,515,478 | \$12,943,995 | \$85,459,473 |
| | 93,543 | 42,758 | 136,301 | \$1,979,870,950 | \$942,624,077 | \$2,922,495,026 |
| Unidentified | | | | | | \$27,367,554 |
| Adjustment after year end | | | | | | \$2,015,826 |
| Total Member Balances | | | | | | \$2,951,878,406 |

Member Pledging

7,728 new pledges were created during the year for pledge value of \$378.7 million for a total loan value of \$414.5 million bringing total accumulated number of pledges 9,143 worth \$422.1 million for a total loan value of \$543.0 million.

A record number of member borrowers defaulted on their loans during the year at 1,941, an increase of more than 75% on the previous year level of 1,105 lenders claims. 2018 default rate measured against total number of accumulated pledges is recorded at 21% whilst the loan default rate is recorded at 12%.

The bulk of the default occurred at the Bank South Pacific (BSP) and Pan Oceanic Bank (POB).

Table 8: 2018 Member Pledging

| | New Pledge | | | Accumulated | | |
|-----------------------------|--------------|----------------------|-------------------|--------------|----------------------|----------------------|
| | No | Pledge \$ | Loan \$ | No | Pledge \$ | Loan \$ |
| ANZ Bank | 649 | \$25,600,128 | \$15,270,425 | 1,176 | \$45,564,499 | \$30,882,442 |
| Bank South Pacific | 4,973 | \$223,709,055 | \$283,609,417 | 6,030 | \$249,383,075 | \$380,579,781 |
| Bred Bank Solomon | 34 | \$2,186,989 | \$5,539,795 | 14 | \$707,963 | \$1,514,820 |
| Credit Corporation (SI) Ltd | 34 | \$795,044 | \$1,677,000 | 19 | \$1,184,544 | \$2,792,063 |
| Solomon Housing | 5 | \$158,737 | \$184,789 | 3 | \$120,870 | \$93,519 |
| Pan Oceanic Bank | 1,965 | \$124,304,932 | \$104,781,901 | 1,824 | \$123,191,012 | \$124,559,501 |
| SINPF | 87 | \$1,939,058 | \$3,334,809 | 77 | \$1,989,480 | \$2,643,955 |
| WestPac Bank | 1 | 58,240 | \$71,063 | 0 | 00 | |
| Total | 7,728 | \$378,752,467 | \$414,469, | 9,143 | \$422,141,443 | \$543,066,081 |

Table 9: Member Pledge Default

| | 2018 | 2017 |
|-----------------------------|---------------------|---------------------|
| | Value | Value |
| ANZ Bank | \$1,743,211 | \$1,218,741 |
| Bank South Pacific | \$27,555,648 | \$8,383,991 |
| Bred Bank Solomon | \$0 | \$0 |
| Credit Corporation (SI) Ltd | \$0 | \$0 |
| Solomon Housing | \$56,503 | \$0 |
| Pan Oceanic Bank (POB) | \$20,574,375 | \$19,160,088 |
| SINPF | \$146,289 | \$136,675, |
| Westpac | \$718,844 | \$2,089,076 |
| Adjustment after year end | -\$67,900 | -\$36,886 |
| Total | \$50,726,970 | \$30,951,685 |

Member Services

Customer service and timely responding of member inquiries at our member and employer services counters are our outmost priority. To reduce the time and cost of members accessing information on the accounts safely and confidentially, the Fund will continue to invest in appropriately technology to achieve this key customer service objective.

Table 10: Member Inquiry

| Service Type | 2018 | 2017 |
|-------------------------|---------------|---------------|
| Member Balances Enquiry | 12,286 | 19,181 |
| Withdrawal Enquiry | 7,434 | 13,188 |
| 2/3rd Pledge Enquiry | 3,084 | 7,310 |
| Registration Enquiry | 10,016 | 6,267 |
| | 32,820 | 45,946 |

There is a reduction of 17% as compared to 2016 figure driven by reductions in member balances enquiry and 2/3rd NPF pledges. The reduction were mainly due to the introduction of SMS text balances to members on monthly basis and reduction of 2/3rd Contribution Pledge as financial institutions tightened up their credit assessment of member loan requests.

Members Unidentified Contribution

Members' total unidentified contributions allocated to members accounted \$5.1 million. Total outstanding at the end of 2018 financial year was \$10.1 million an increase of 3% over the 2017 level of \$9.6 million.

Contribution Underpayment

Total underpayment collected was \$630,274, an increase of 18% over 2017 amount of \$536,000.

Unallocated Contribution

Total unallocated contribution recorded at the end of 2018 was \$17.6 million, a reduction of 8% on the previous year level of \$16.38 million.

Uncollected Surcharge Receivables

Total surcharge receipts recorded at the end of 2018 was \$2.38 million with total surcharge collected at \$3.36 million with total surcharge income of \$3.24 million. Total surcharge receivables recorded at the end of 2018 was \$10.04 million, a decrease of 7% from the 2017 level of \$10.7 million.

SINPF Branches

The SINPF Board has established two SINPF Branch Offices in Auki, Malaita Province and in Gizo, Western Province.

These two decentralized branches serve the members and employers residing in these as agent of the SINPF Board to NPF members, NPF Employers in these two provinces.

Total manpower for each Branch Office is 3 officers.

Special Death Benefits (SDB)

Total special death benefits paid out in the financial year was \$702,550 a slight increase on the previous year's level of \$647,136, For an annual premium of \$5 the benefit paid out to each beneficiary was \$3,000.



KING SOLOMON DEV.LTD (Danny Wilfred) discusses the EDI submission process with Inspector Sade Sax Aku.

EMPLOYERS

New Employer Number and Classification

368 new registered employers were recorded in the year representing a decline of 15% on the previous year's level of 433 new employers.

Table 11: New Employer by Industry

| Industry Type | 2018 No. | 2017 No. |
|---|------------|------------|
| Agriculture/Livestock/Fishery | 25 | 13 |
| Transport Services | 15 | 24 |
| Bank & Financial Services | 2 | 1 |
| Manufacturing | 6 | 10 |
| Information Technology/Communication Services | 8 | 8 |
| Building & Construction | 53 | 24 |
| Education & Health & Medical Services | 7 | 9 |
| Hotels & Motels | 7 | 3 |
| Logging & Forestry | 10 | 10 |
| Mining & Prospecting | 4 | 2 |
| Public Administration | 0 | 5 |
| Other Services | 54 | 52 |
| Domestic/Personal Services | 58 | 175 |
| Wholesale & Retail Services | 119 | 97 |
| Total | 368 | 433 |

Accumulated registered employers increased to 3,437 driven by increases in the services and construction industries.

Table 12: Employer by Industry and Activity

| Industry | Active | Slow Active | In Active | Dormant | Total |
|--|--------------|-------------|------------|--------------|--------------|
| Agriculture/Livestock/Fishery | 33 | 10 | 30 | 54 | 127 |
| Transport Services | 67 | 16 | 19 | 25 | 127 |
| Business & Financial Services | 11 | 0 | 0 | 1 | 12 |
| Manufacturing | 17 | 1 | 5 | 9 | 32 |
| Information and Communication Services | 41 | 12 | 6 | 32 | 91 |
| Building & Construction | 64 | 39 | 39 | 98 | 240 |
| Education/Health and Medical Services | 87 | 7 | 13 | 29 | 136 |
| Hotels & Motels | 38 | 10 | 3 | 9 | 60 |
| Logging and Forestry | 86 | 16 | 17 | 33 | 152 |
| Mining & Prospecting | 7 | 3 | 5 | 6 | 21 |
| Public Administration | 45 | 2 | 5 | 14 | 66 |
| Other Services | 260 | 62 | 57 | 191 | 570 |
| Domestic/Personal Services | 116 | 49 | 146 | 642 | 953 |
| Wholesale & Retail Services | 479 | 127 | 77 | 167 | 850 |
| Total | 1,351 | 354 | 422 | 1,310 | 3,437 |

Accumulated Employer Number and Provincial Location

The bulk of the employers are in Honiara accounting for 59%, followed by Malaita Province at 16% and Western Province at 12%.

Table 13: Employer by Provincial Location

| Province | 2018 No. | 2017 No. |
|------------------|--------------|--------------|
| Central Province | 21 | 21 |
| Choiseul | 38 | 36 |
| Guadalcanal | 162 | 133 |
| Honiara | 2,109 | 1,834 |
| Isabel | 58 | 56 |
| Makira/Ulawa | 40 | 39 |
| Malaita | 502 | 483 |
| Other Countries | 3 | 2 |
| Rennell Bellona | 8 | 7 |
| Temotu | 118 | 115 |
| Unknown | 1 | 1 |
| Western Province | 377 | 358 |
| Total | 3,437 | 3,085 |



RYMAH PG PAINTING CONTRACTORS & SUPPLIERS (Norma Munamua) present a cheque payment of NPF contribution to Inspector Sade Sax Akau.

THE INFORMAL SECTOR

At the Pacific Financial Inclusion Innovation Summit in Port Moresby, PNG in August 2017, the 2017 Reuben James Summer Innovation Award was jointly awarded to the SINPF and Westpac Banking Corporation for their financial innovations to deepen financial inclusion in the Pacific.

In presenting the award, PFIP Acting Manager Mr. Krishnan Narasimhan said “youSave have proven significant contributions to reaching the underserved communities in Solomon Islands respectively and the potential SINPF hold in extending financial services to the rural and low- income households”.

The pilot phase of the informal sector youSave retirement product that commenced in the late 2017 financial year was concluded in October 2017. At its conclusion a business case was developed from the results of the pilot and presented to the Board in December 2017. The pilot was partly supported by the United Nations Capital Development Fund (UNCDF).

The Board accepted the recommendations of the report and agreed to upscale the youSave after the conclusion of the pilot.

Membership Balances and Withdrawals

2,689 new savers opened youSave accounts during the year bringing total savers to 2,921, following the scale up of the project in the second half of the financial year. Total youSave savings balance recorded at the end of the year reached \$1.79 million. Preserved accounts accounted for \$989,694 million whilst general accounts has a balance of \$805,044.

154 youSave members drew \$152,705 from their general accounts during the year.

Table 14: youSave Membership by Gender and Account Type

| Age group | Male -No. | Female - No. | Total | Male - Total Balance | Female - Total Balance | Total Preserved Balance | Total General Balance | Total Balance |
|--------------|--------------|--------------|--------------|----------------------|------------------------|-------------------------|-----------------------|--------------------|
| < 20 | 64 | 101 | 165 | \$27,656 | \$34,044 | \$61,700 | \$26,384 | \$88,083 |
| 21 - 25 | 114 | 152 | 266 | \$39,034 | \$33,866 | \$39,608 | \$33,292 | \$72,900 |
| 26 - 30 | 113 | 184 | 297 | \$79,091 | \$90,543 | \$94,582 | \$75,053 | \$169,635 |
| 31 - 35 | 157 | 233 | 390 | \$99,212 | \$132,331 | \$123,141 | \$108,402 | \$231,543 |
| 36 - 40 | 157 | 237 | 394 | \$81,411 | \$111,837 | \$105,432 | \$87,816 | \$193,248 |
| 41 - 45 | 184 | 262 | 446 | \$96,570 | \$110,243 | \$108,148 | \$98,665 | \$206,813 |
| 46 | 43 | 48 | 91 | \$29,292 | \$26,729 | \$30,975 | \$25,046 | \$56,021 |
| 47 | 30 | 45 | 75 | \$11,961 | \$24,191 | \$22,140 | \$14,013 | \$36,152 |
| 48 | 34 | 32 | 66 | \$91,828 | \$24,639 | \$59,053 | \$57,415 | \$116,467 |
| 49 | 32 | 39 | 71 | \$17,810 | \$31,867 | \$34,828 | \$14,850 | \$49,677 |
| > 50 | 322 | 338 | 660 | \$311,734 | \$262,465 | \$310,088 | \$264,110 | \$574,198 |
| Total | 1,250 | 1,671 | 2,921 | \$885,600 | \$882,754 | \$989,694 | \$805,044 | \$1,794,738 |

Table 15: youSave Withdrawals

| Age group | Number | Total General Account | Total Preserve Account | Total Withdrawal Value |
|--------------|------------|-----------------------|------------------------|------------------------|
| < 20 | 7 | \$8,850 | \$0 | \$8,850 |
| 21 - 25 | 13 | \$6,165 | \$0 | \$6,165 |
| 26 - 30 | 23 | \$19,120 | \$0 | \$19,120 |
| 31 - 35 | 20 | \$14,145 | \$0 | \$14,145 |
| 36 - 40 | 19 | \$16,950 | \$0 | \$16,950 |
| 41 - 45 | 20 | \$8,770 | \$0 | \$8,770 |
| 46 | 6 | \$5,700 | \$0 | \$5,700 |
| 47 | 3 | \$7,950 | \$0 | \$7,950 |
| 48 | 3 | \$1,550 | \$0 | \$1,550 |
| 49 | 5 | \$19,900 | \$0 | \$19,900 |
| > 50 | 35 | \$43,605 | \$775 | \$43,605 |
| Total | 154 | \$152,705 | \$775 | \$152,705 |

Following the conclusions and acceptance of the business case report, officials from the Attorney General Office, Ministry of Finance and Treasury, and SINPF commenced work on the proposed amendment to the SINPF Act to include savings (youSave) for the informal sector.



CEO/General Manager Tony Makabo, Senior Management team, and the youSave team receiving the 2017 James Summer Innovation Award at the SINPF Boardroom.

INVESTMENTS

Investment Performance

The Fund's investments performance improved during the year yielding a 9.6% gross return of \$318,493,005, up from the previous year's level of 3.9% or \$120,293,297. After deducting for direct investment and board operational costs, a total of \$226,915,087 was available for crediting to members.

The strong performance was led by the turnaround of Solomon Telekom Company Ltd together with other domestic equity investments South Pacific Oil Limited, Heritage Park Hotel Ltd, and Soltuna Ltd. International equity exposures, Papua New Guinea based Bank South Pacific Ltd and Vanguard US Stock Index Fund contributed strong returns as well.

Other drivers of the excellent performance include rentals on property investment Hibiscus Apartments and interest on the government's long dated development bonds.

Rental income remained subdued due to major refurbishments to flagship properties Anthony Saru and NPF Buildings whilst other offshore investments performance held back by market price and exchange rate volatilities.

Table 16: Gross Return by Major Asset Class and Performance

| Asset Classes | Investment Portfolio Value | | Returns | | Gross Return | |
|---------------------------------------|----------------------------|------------------------|----------------------|----------------------|--------------|--------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Domestic cash and fixed term deposits | \$875,548,737 | \$806,709,292 | \$7,326,683 | \$5,677,200 | 0.8% | 0.70% |
| Offshore cash and fixed term deposits | \$199,128,609 | \$197,914,191 | \$1,563,109 | \$1,480,664 | 0.8% | 0.75% |
| SIG Securities | \$170,166,054 | \$169,728,375 | \$11,391,039 | \$2,764,757 | 6.7% | 1.63% |
| Domestic bonds and loans | \$152,937,193 | \$170,117,689 | \$9,413,294 | \$22,737,635 | 6.2% | 13.37% |
| Domestic properties | \$351,468,513 | \$336,289,988 | \$24,551,458 | \$26,594,353 | 7.0% | 7.91% |
| Offshore equities | \$143,068,924 | \$133,761,136 | \$8,275,678 | \$7,204,179 | 5.8% | 5.39% |
| Domestic equities | \$1,419,106,037 | \$1,241,992,578 | \$84,678,462 | \$70,935,611 | 6.0% | 5.71% |
| Net Gains from changes in fair value | Not applicable | Not applicable | \$166,358,035 | -\$21,207,028 | NA | NA |
| Other Income | Not applicable | Not applicable | \$4,935,248 | \$4,105,925 | NA | NA |
| Total | \$3,311,424,067 | \$3,056,513,248 | \$318,493,005 | \$120,293,297 | 9.6% | 3.94% |

New Investments

The SINPF Board exercised its right of first refusal to purchase additional 10% shares from CGA Limited in Heritage Park Hotel Limited (HPHL) for \$44 million after obtaining approval from the Minister of Finance. This brought SINPFB shareholding to 20% in the company.

During the year the Australian Government offered to fund 2/3rd of the cost of the proposed undersea cable from Honiara to Sydney, Australia including connections to 3 domestic landings at Auki in the Malaita Province, Noro in the Western Province, and Taro in the Choiseul Province. To be known as the Coral Sea Cable System, the system would also include connecting to Port Moresby, Papua New Guinea.

With the commitment by the Australian Government, the financing plan for the Solomon Islands part of the system was finalized through the joint venture company Solomon Islands Submarine Cable Limited (SISCC). The SISCC is a joint venture between the Investment Corporation of Solomon Islands (ICSI)(51%) and SINPF Board (49%). The SISCC was established to connect faster and cheaper internet connectivity to the country.

The Board endorsed the Fund's 49% shareholding in SISCC for \$116,172,642 and was approved by the Minister of Finance. The SINPF Board equity of 49% is expected to be paid in the new financial year.

The Board also during the year commenced making the required investment in the major refurbishments of the Anthony Saru Building (ASB) and the NPF Plaza and the completion of the Food Court at the NPF building.

The Fund where required made additional investments in properties that needs to be maintain to a competitive level in terms of pricing and product quality to maintain occupancy.

A new French bank BRED commenced its commercial operations in Solomon Islands during the year after securing approval from the Central Bank of Solomon Islands. The Board at the end of year placed \$70 million on fixed term deposit with the new financial institution.

The Fund continued to place free cash in fixed term deposits and rolling over maturing deposits in both onshore and offshore in the approved markets and currencies.

Gross Investments Portfolio

The Fund's gross investment portfolio expanded by 8% to \$3,152,625,158 up on the previous year's level of \$3,056,513,248.

The growth is attributable to increase in fair values of our domestic equities; South Pacific Oil Limited, Soltuna Limited, and Heritage Park Hotel Limited and offshore equities; Kina denominated Bank South Pacific Ltd, Vanguard US Stock Index Fund, and European Stock Index Fund; and net increase in the revaluation of our domestic investment properties



Heritage Park Hotel frontage. The SINPF Board during the year increased its equity by an additional 10% in the hotel lifting its shareholding ownership to 20%.



New look GG Restaurant at the Heritage Park Hotel after a major facelift made during the year.

Gross Investments by Major Asset Class

Table 17: Cash and Fixed Term Deposits

| I Domestic Cash and fixed term deposits | 2018 | 2017 |
|--|------------------------|------------------------|
| Current Accounts | \$286,239,643 | \$296,207,854 |
| Fixed Term Deposits | | |
| ANZ | \$114,396,193 | \$128,200,880 |
| WBC | \$0 | \$68,750,989 |
| BSP | \$294,875,990 | \$205,564,085 |
| Credit Corporation | \$50,804,042 | \$45,731,121 |
| Pan Oceanic Bank | \$59,232,869 | \$62,254,363 |
| Total fixed term deposits | \$589,309,094 | \$510,501,438 |
| Total cash & fixed term deposits | \$875,508,737 | \$806,709,292 |
| 2 Offshore cash & fixed term deposits | | |
| Current Accounts (AUD,USD, EUR, GBP,PGK) | \$98,397,188 | \$78,539,181 |
| Fixed Term Deposits | | |
| ANZ Singapore (USD) | \$48,939,927 | \$47,508,911 |
| ANZ Brisbane (AUD) | \$37,050,083 | \$45,741,642 |
| ANZ Singapore (GBP) | \$3,977,968 | \$15,175,750 |
| ANZ PNG (PGK) | \$10,763,444 | \$10,948,707 |
| Total fixed term deposits | \$100,731,421 | \$119,375,010 |
| Total cash & fixed term deposits | \$199,128,609 | \$197,914,191 |
| Total overall Cash | \$384,636,831 | \$374,747,035 |
| Total overall fixed term deposits | \$690,040,515 | \$629,876,448 |
| Total overall fixed term deposits | \$1,074,677,346 | \$1,004,623,483 |

Overall cash and fixed term deposits increased by 7% on the 2017 levels. The pound sterling term deposit exposure was partially sold down during the year. The decline in the AUD and PGK deposits is attributed to the depreciation of these currencies against the Solomon Islands dollar.

Table 18: Government Securities

| | 2018 | 2017 |
|------------------------------------|----------------------|----------------------|
| Treasury Bills | \$20,166,054 | \$19,728,375 |
| Development Bonds | \$150,000,000 | \$150,000,000 |
| Total Government Securities | \$170,166,054 | \$169,728,375 |

Table 19: Private Sector Loans and Bonds

| | 2018 | 2017 |
|---|----------------------|----------------------|
| I Loans | | |
| Soltuna Limited | \$20,382,905 | \$27,954,142 |
| Heritage Park Hotel - Share holder Loan | \$25,109,148 | \$16,942,718 |
| Sasape Marina International Shipyard | \$4,832,019 | \$5,469,391 |
| STCL - Property Loan | \$0 | \$951,677 |
| SPOL Amortizing Loan | \$15,152,267 | \$19,869,484 |
| STCL Shareholders Loan | \$54,260,381 | \$65,000,000 |
| Urban Housing Scheme | \$3,759,897 | \$4,692,197 |
| Staff Micro-Loan Scheme | \$2,453,676 | \$2,251,184 |
| Total | \$125,950,293 | \$143,130,794 |
| 2 Bonds | | |
| Solomon Housing Ltd - D Bond 2 | \$6,500,000 | \$6,500,000 |
| Soltuna Limited Convertible bond | \$20,486,900 | \$20,486,900 |
| Total | \$26,986,900 | \$26,986,900 |
| Total Private Sector loans and Bonds | \$152,937,193 | \$170,117,694 |

Solomon Telekom Company Ltd consistently paid down its shareholders loan and repaid in full its property loan during the year, whilst Heritage Park Hotel Limited shareholder loan increased as a result of the additional 10% share acquisition made by the Fund during the year.

Table 20: Investment Properties

| | 2018 | 2017 |
|--------------------------------|----------------------|----------------------|
| Anthony Saru Building | \$38,500,000 | \$38,385,000 |
| Tavanipupu Island Resort | \$31,274,275 | \$31,274,275 |
| NPF Plaza | \$55,200,000 | \$55,200,000 |
| Komi Fera Pako Building | \$13,500,000 | \$13,100,000 |
| Hibiscus Executive Apartments | \$93,000,000 | \$92,000,000 |
| Rental Residences - Tasahe | \$6,039,999 | \$7,217,359 |
| Ex Sasape International - Comm | \$31,080,000 | \$30,476,000 |
| Ex Sasape Int.Rental residence | \$11,340,000 | \$11,274,000 |
| Townground Property | \$30,081,000 | \$30,000,000 |
| Rautamana Property | \$5,251,393 | \$6,084,107 |
| Lengakiki Land 1(Exec.Apart) | \$4,600,000 | \$4,600,000 |
| Lengakiki land 2 (Exec.Apart) | \$2,100,000 | \$2,017,643 |
| Work in Progress - Investments | \$24,081,845 | \$10,061,604 |
| Hibiscus CDB | \$4,700,000 | \$4,600,000 |
| Total | \$351,468,513 | \$336,289,988 |

Table 21: Offshore Equities

| | 2018 | 2017 |
|--|----------------------|----------------------|
| Bank South Pacific Ltd (Kina) | \$62,127,632 | \$60,440,977 |
| UBS Australian Share Fund (AUD) | \$18,285,088 | \$18,056,323 |
| Vanguard US Stock Index Fund (USD) | \$50,943,079 | \$44,182,066 |
| Vanguard European Stock Index Fund (EUR) | \$11,713,124 | \$11,081,770 |
| Total | \$143,068,924 | \$133,761,136 |

Table 22: Onshore Equities

| | 2018 | 2017 |
|-----------------------------------|------------------------|------------------------|
| Solomon Telekom Company Ltd | \$350,000,000 | \$263,444,063 |
| South Pacific Oil Limited | \$900,000,000 | \$839,398,000 |
| Solomon Housing Limited | \$20,999,000 | \$24,736,216 |
| Heritage Park Hotel Limited | \$66,000,000 | \$26,823,000 |
| Soltuna Limited | \$45,000,000 | \$37,876,088 |
| Solomon Oceanic Cable Company Ltd | \$15,669,411 | \$15,669,411 |
| Dividend Receivables | \$21,437,626 | \$34,045,800 |
| Total | \$1,419,106,037 | \$1,241,992,578 |

Except for Solomon Housing Limited (SHL) fair value, all our other unlisted domestic equities recorded positive revaluation gains.

Table 23: Offshore Investments by Foreign Currencies¹

| | 2018 | 2017 |
|----------------------------|----------------------|----------------------|
| US Dollar | \$99,883,006 | \$91,690,977 |
| Australian Dollar | \$55,335,171 | \$63,797,965 |
| Euro | \$11,713,124 | \$11,081,770 |
| Pound Sterling | \$3,977,968 | \$15,175,750 |
| PNG Kina | \$72,891,076 | \$71,389,684 |
| Cash in various currencies | \$98,397,188 | \$78,539,181 |
| | \$342,197,533 | \$331,675,327 |

¹ Includes equity, deposits and cash

The SBD value of PGK and Australian dollar investment assets went backwards as these two currencies depreciated against the Solomon Islands dollar during the financial year.

Table 24: Investments Portfolio by Market

| | 2018 | 2017 |
|----------|------------------------|------------------------|
| Offshore | \$342,197,533 | \$331,675,327 |
| Onshore | \$2,969,226,534 | \$2,724,837,921 |
| | \$3,311,424,067 | \$3,056,513,248 |

Offshore investments settled at just over 10% of the Fund's total investments portfolio at the end of the reporting period whilst more than 89% of the portfolio is invested onshore.

To Watch Investments

The Board has placed on its' to watch investment list the following; Tavanipupu Island Resort (TIR) property, the property investment in the slipway at Tulagi, Central Islands Province and Solomon Housing Limited.

During the year, the Board approved the outsourcing of the Tavanipupu Island resort and is in discussions with an external 3rd party to manage the resort whilst options for a partnership or an outright sale remains on the table for the Board.

The slipway at Tulagi, Central Islands Province, owned by the Fund is leased to Sasape International Shipyard Limited (SISL) is continued to be managed with the lessee for its lease payments. Furthermore the Board continued to consider further investments to maintain the slipway and related infrastructure to an adequate commercial level necessary for the lessee to generate adequate business.

Solomon Housing Ltd has a stock of completed residential homes that are yet to be sold hence limiting the 100% owned property company to generate adequate sales during the year. The company Board and management embarked on a strong marketing campaign to sell these homes and the efforts are expected to pay off in the next financial period.

Investment Governance

Following the approval and adoption of the Board's Investment Policy in 2017 financial year, the Board commenced preparing policies and guidelines for its property investments portfolio.

Membership on Investment Subsidiary Boards

To ensure that the Fund's domestic investment subsidiary corporate governance, financial reporting, vision and mission statements are consistent with the shareholder's vision and investment objective, members of the Board and senior management are appointed to their Boards. Furthermore by having SINPF Board and Senior Management on subsidiary boards ensures that there is always a direct link of information and update between the SINPF Board and its subsidiaries.

Recently the SINPF Board is also recommending independent members to the subsidiary boards as well. This is increasing becoming an acceptable governance trend that will balance the interest of the company with the interest of the shareholder.

Directors representing SINPF interests in subsidiaries are recommended by the Board and to be agreed to by the Minister of Finance.

Table 25: SINPF Board and Management on Investment Subsidiary Boards

| Subsidiary Boards | SINPF Shareholding | Names of Directors |
|-------------------------|--------------------|--|
| Solomon Telekom Co. Ltd | 97.32% | Mr. Adrian Wickham (Independent) Mr. Harry Kuma (Independent) Mr. George Kuper Mr. Jerry Tengemoana Mr. Kunal Nandan (Independent) |
| South Pacific Oil Ltd | 100% | Mr. Gideon Zoleveke Mr. George Kuper Mr. Mckinnie Dentana Dr. Levi Hou Mr. Tony Makabo Mr. Mike Wate |
| Heritage Park Hotel Ltd | 10% | Dr. Alice Pollard |
| Soltuna Ltd | 29% | Mr. Peter Boyers Mr. Mckinnie Dentana Dr. Aaron Oritaimae |
| Solomon Housing Ltd | 100% | Mrs. Julie G. Haro Dr. Alice Pollard Mr. Tony Makabo Mrs. Jennifer Lakoa Mr. Ishmael Kako |

Potential New Investments under Consideration

The Board secured support from the Private Sector Development Initiative (PSDI) of the Asian Development Bank during the year to review and reassess the Board's proposal to establish the non bank financial institution (NBFI) for members of the Fund. A revised submission is expected to be considered by the Board for endorsement to the Minister of Finance in the next financial year.

Preliminary work commenced on the potential to develop the Ex Solomon Housing Limited land on Hibiscus Avenue, Honiara for a 4 level commercial property whilst designing work continued on the proposed Solomon Telekom Sales Office in Auki, Malaita Province, for Minister of Finance consideration.

Further development on the Land Bank located at Panatina, East Honiara purchased in the previous financial year was put on hold due to litigation from people who claimed to be the original landowning tribe. Further work on access, surveying and fencing will recommence once the legal basis by the claimants are determined to have no legal basis.



Land Bank located at Panatina, East Honiara.

HUMAN RESOURCES AND CORPORATE SERVICES

The Fund is proud of the development and retention of its staff, recognizing staff as important assets in the organization. It entertains low staff turnover, believe in human resource capacity building, supporting and empowering staff, fosters teamwork and recognizes their performance through annual awards.

By the end of this reporting period, the total workforce of SINPF stands at 114 inclusive of Honiara head office, Auki branch, and Gizo branch. The slight drop in the total workforce were due mainly to eight (8) staff retiring after more than twenty (20) years of services with the Fund. The SINPF family sadly lost one of its members who passed away on the first month of this reporting period. To replace these retiring officers, seven (7) new recruits were appointed during the year.

Mr. Tony Makabo retired as General Manager on 31 December 2017 after 13 years of distinguished service with the Fund. Mr. Mike Wate, Deputy General Manager successfully took up the leadership role as from 1 January 2018 after the position was advertised. As a result of this movement, the Deputy General Manager position was abolished with a further review of this position to be made later.

Manager Finance, Mrs. Rose Karoa completed her contract during the year and was appointed for 3 years after the position was advertised and her application successful.

During the year, the Fund welcome back Assistant Manager IT after his successful completion of his Masters' Program in Information Systems majoring in Business Process Management. This was indeed a great achievement in improving the Fund's capacity.

The Fund had four (4) officers on long term training at the University of the South Pacific (USP) and Solomon Islands National University (SINU) whilst two senior officers undertook on part-time basis the MBA program offered by the USP at its centre in Honiara.

Seminar, conferences, and training

Deputy General Manager Mr. Mike Wate attended a 2 days' workshop on 25th – 26th July 2017 on Regional Solutions for Disaster Risk Finance in the Pacific. The Workshop was held in Suva, Fiji and was organized and funded by the Asia Development Bank (ADB) together with its Private Sector Development Initiative (PSDI).

Deputy General Manager, Mike Wate was invited to be a speaker at the 6th Pacific Tuna Forum held in Port Moresby PNG from 13th – 14th September 2017. Mr. Wate spoke on the topic of "Possibilities of investing in the fisheries sector by superfunds and financial institutions, a country experience.

General Manager Mr Tony Makabo attended the Pacific Provident Fund & Social Security Fund CEO Forum hosted by the Tuvalu National Provident Fund in Funafuti Tuvalu in October 2017.

Manager Employers & Members Services Mr. Aluta Kakadi, attend a training course on "Income Security for Older Persons in the Pacific" held in Nadi Fiji on 13th – 17th November 2017.

Manager Investments Mrs. Jennifer Lakoa attended the "i3 Portfolio Construction MasterClass 2018" program held in Nadi Fiji on 19th – 21 March 2018. The program was organized with the support of the Pacific Provident Fund and Social Security Forum (PPF&SSF) to executives of provident/trust funds in the Pacific Islands and Oceania region. Mrs. Lakoa was accompanied by Investment Officer Mr Bryan Dentana.

In conjunction with programs of the Pacific Provident Fund & Social Security Fund (PPF&SSF) a Fiduciary Essentials Training was organized specifically designed to support individuals in investment governance roles. The program was held 22nd March 2018 in Nadi Fiji Islands and was attended by Board Member Dr Aaron Oritaimae and General Manager & CEO Mr. Mike Wate.

Manager Finance Mrs. Rose Karoa and Assistant Manager Investments Mr Albert Afu attended the "AS FN 01 - Financial Modeling for Budgeting & Forecasting in Excel" held in Suva Fiji on 9th – 12th April 2018.

Manager Legal Services Mr. Ishmael Kako attended a 3 days Judicial & Legal Conference for Lawyers, Magistrates and Judges at the High Court on 23rd April – 25th April 2018. The conference was held in Honiara and conducted by the Court of Appeal Judge and Professor Mark Henaghan from the New Zealand Waikato University.

Manager Internal Audit Mrs. Areau Hivu and Manager Information Technology Mrs Suzanne Orudiana attended a Certified Information Systems Auditor (CISA) Examination Preparation workshop held in Suva Fiji on 21st – 24th May 2018.

A training on the new International Financial Reporting Standards IFRS 9, 15 and 16 was held in Honiara on 28th – 31st May 2018. Manager Finance Mrs Rose Karoa and Manager Internal Audit Mrs. Areau Hivu led a team of staff within the Finance, Internal Audit, Investments and Information Technology (IT) to attend this training.

CEO and General Manager Mr. Mike Wate attended the Pacific Investment CEO Forum 2018 held in the Cook Islands on 28th to 30th May 2018. At the Forum the Pacific Provident Funds & Social Security CEO Forum (PPFSSF) constitution was amended together with a new name Pacific Islands Investment CEO Forum (PIIF).



Manager Internal Audit Mrs. Areau Hivu (seventh from left) and Manager Information Technology Mrs Suzanne Orudiana (fifth from left) posing with attendees of the Certified Information Systems Auditor (CISA) Examination Preparation workshop held in Suva Fiji on 21st – 24th May 2018.

INFORMATION TECHNOLOGY

2018 has been another exciting financial year when in October 2007 the Fund finally deployed and successfully launch the Fund's first ever Integrated Financial Management System (IFMS). This is a major significant achievement of the Fund seeing through the successful migration and implementation of the Fund's first integrated financial management system.

The new informal sector product youSave was also successfully absorbed and managed under the Fund's contribution system, the Provident Fund Management System (PFMS)..

Major system upgrades have been carried out throughout the year at the NPF provincial branches at Auki and in Gizo. Member Services have been improved and membership cards can now be printed and delivered at the branch level. Both the branches can now have access to the Funds local area network, which then enable the two branches to access the Fund's Information Systems and other centralised services.

AUDIT, COMPLIANCE, AND RISK

During the year independent, objective assurance and consulting services to Board of Trustees and Management were performed on the effectiveness of risk management, internal controls and governance processes.

Compliance reviews were undertaken on extreme and high risk areas within the fund that included insurance, equity, procurement, customer complaints, use of board common seal, property locations and titles, staff welfare and tours to offsite offices and properties.

The monitoring of implementing the recommendations arising from the regular's onsite inspection and external auditor's management letter points were satisfactorily progressed during the year.

Performance reviews were also undertaken during the year on the internal audit procedural manual, quality assurance exercises on department's performances, and a review of the Board Consolidated Charter.

The risk management register was monitored and implemented under the Fund's Risk Management Framework, a component of the Fund's 2016 to 2021 Rolling Business Plan.

PUBLICITY

The publicity of SINPF was elevated through education and awareness talks through radio and print media. Through our publicity programs, our members and interested stakeholders are kept abreast with new developments evolving in the Fund.

The Public Relations Office has teamed up with other departments such as the YouSave team, Inspectorate and others to reach out to the public. There are various medium of publicity employed such as on the SIBC radio talks 'Current with NPF' and Awareness talks. There has been wide coverage of awareness and a new focus which was directed along with the informal sector project by reaching out to the villages and during Festivals such as the Yam Festival in South Malaita.



youSave staff Rodger Bird and Tony Laugwaro providing information to school students during an awareness program.

PHILANTHROPY

The Board annually set aside a limited budget for philanthropy purposes to support community issues and advocacy for health and education.

LITIGATION

The Legal Services department provides legal advise to the Board on all matters related to the management of the Fund including prosecution of willful defaulting employers and customers of the Fund.

The Board successfully used the threat of legal prosecution against defaulting employers and customers together with positive dialogue to successfully recover unpaid obligations and make good their accounts with the Fund.

During the year the Board continued to deal with illegal settlers occupying the Board land at Rautamana in Central Honiara and from people claiming ownership to the Board owned land at Panatina, East Honiara.

ACKNOWLEDGEMENT

The Board acknowledged the external support given to the Fund during the year; the Minister of Finance and Treasury, the Permanent Secretary of the Finance and Treasury and Staff of the Economic Reform Unit, the Governor and staff of the Financial Institutions Department of the Central Bank of Solomon Islands, United Nations Capital Development Fund (UNCDF) of the United Nations, the Private Sector Development Initiative (PSDI) of the Asian Development Bank (ADB), Wehrhahn & Wehrhahn Consulting LLC, employer associations including the Solomon Islands Chamber of Commerce and Industry (SICCI), and employee unions.



SOLOMON ISLANDS NATIONAL PROVIDENT FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

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**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

Statement By Directors

In accordance with a resolution of the Board of Directors of Solomon Islands National Provident Fund ("the Fund"), we state that-

In the opinion of the Directors:

- (a) the accompanying statement of changes in net assets is drawn up so as to give a true and fair view of the changes in net assets available to pay benefits of the Fund for the year ended 30 June 2018;
- (b) the accompanying statement of net assets is drawn up so as to give a true and fair view of the state of the affairs of the Fund at 30 June 2018;
- (c) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Fund for the year ended 30 June 2018;
- (d) at the date of this statement there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due;
- (e) all related party transactions have been recorded and adequately disclosed in the attached financial statements; and
- (f) the financial statements have been prepared in accordance with the provisions of the Solomon Islands National Provident Fund Act 1973 (as amended), International Financial Reporting Standards and other applicable standards in the Solomon Islands.


Peter Boyers
Chairman of the Board


Michael Wate
General Manager (CEO)


Gideon Zoleveke Jnr
Deputy Chairman

Dated at HONIARA this 3RD day of OCTOBER 2018.



Independent Auditors' Report to the Members of Solomon Islands National Provident Fund

Report on the Audit of the Financial Statements

Opinion

I have in joint consultation with the Board of Solomon Islands National Provident Fund (“the Fund”) contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of Solomon Islands National Provident Fund , which comprise the statements of net assets as at 30 June 2018, the statements of changes in net assets and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 20.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

Independent Auditors' Report to the Members of Solomon Islands National Provident Fund (continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. My conclusions is based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Legal and Regulatory Requirements

I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purposes of my audit.

In my opinion:

- proper books of account have been kept by the Fund, sufficient to enable financial statements to be prepared, so far as it appears from our examination of those books; and
- to the best of my knowledge and according to the information and explanations given to me the financial statements give the information required by the Solomon Islands National Provident Fund Act (CAP 109), in the manner so required.



Peter Lokay
Auditor General
4th October 2018

Office of the Auditor General
Honiara, Solomon Islands

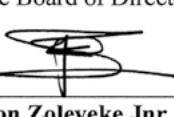
SOLOMON ISLANDS NATIONAL PROVIDENT FUND
STATEMENT OF NET ASSETS
AS AT 30 JUNE 2018

| | Note | June 2018 \$ | June 2017 \$ |
|---|-------------|---------------------|---------------------|
| ASSETS | | | |
| Investments | | | |
| <i>Financial investments</i> | | | |
| Commercial paper and treasury bills | 6 (a) (i) | 736,379,864 | 675,400,680 |
| Held-to-maturity investments | 6 (b) (ii) | 150,000,000 | 150,000,000 |
| Loans and advances | 6 (b) (i) | 118,070,413 | 137,243,880 |
| Equity investments | 6 (a) (ii) | 1,541,375,352 | 1,341,707,914 |
| <i>Non-financial investments</i> | | | |
| Investment properties | 6 (a) (iii) | 351,468,512 | 336,289,988 |
| | | <hr/> 2,897,294,141 | <hr/> 2,640,642,462 |
| OTHER ASSETS | | | |
| Cash and cash equivalents | 13 | 384,636,830 | 367,288,073 |
| Receivables | 5 | 29,860,679 | 51,058,335 |
| Property, plant and equipment | 7 (a) | 80,154,512 | 62,474,085 |
| Intangible assets | 7 (b) | 14,224,483 | - |
| | | <hr/> 508,876,504 | <hr/> 480,820,493 |
| TOTAL ASSETS | | | |
| | | <hr/> 3,406,170,645 | <hr/> 3,121,462,955 |
| LIABILITIES | | | |
| Accounts payable | 8 (a) | 3,219,490 | 448,064 |
| Other payables and accruals | 8 (b) | 7,198,367 | 6,955,823 |
| Employee entitlements | 8 (c) | 30,857,265 | 33,736,613 |
| TOTAL LIABILITIES (excluding net assets available to pay benefits) | | | |
| | | <hr/> 41,275,122 | <hr/> 41,140,500 |
| NET ASSETS AVAILABLE TO PAY BENEFITS | | | |
| | 4 (a) | <hr/> 3,364,895,523 | <hr/> 3,080,322,455 |
| <i>Represented by:</i> | | | |
| Allocated to members account | 4 (b) | 2,951,878,406 | 2,760,786,174 |
| Special death benefit | 4 (c) | (394,215) | (347,268) |
| Nominees trust account | 4 (d) | 7,302,076 | 6,136,791 |
| Reserves | 4 (e) | 406,109,256 | 313,746,758 |
| TOTAL MEMBERS FUNDS | | | |
| | | <hr/> 3,364,895,523 | <hr/> 3,080,322,455 |

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

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


Peter Boyers
Chairman of the Board


Gideon Zoleveke Jnr
Deputy Chairman


Michael Wate
General Manager (CEO)

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2018

| | Note | June 2018 | June 2017 |
|---|-------|-----------------------------|-----------------------------|
| | | \$ | \$ |
| INVESTMENT INCOME | | | |
| Interest income | 3 (a) | 29,694,124 | 32,660,257 |
| Dividend income | 3 (b) | 92,954,140 | 77,964,790 |
| Net (loss) / gain from changes in fair values | 3 (c) | 166,358,035 | (21,207,028) |
| Rental income | 3 (d) | 24,551,458 | 26,769,352 |
| | | <u>313,557,757</u> | <u>116,187,371</u> |
| LESS: DIRECT INVESTMENT EXPENSES | 3 (f) | <u>(44,275,397)</u> | <u>(23,208,213)</u> |
| NET RETURN ON INVESTMENTS | | 269,282,360 | 92,979,158 |
| Other income | 3 (e) | <u>4,935,248</u> | <u>4,105,925</u> |
| | | <u>274,217,608</u> | <u>97,085,083</u> |
| CONTRIBUTION REVENUE | | | |
| Unallocated contributions | | 17,635,078 | 11,322,303 |
| Members' contribution | | <u>279,817,573</u> | <u>267,909,794</u> |
| | | <u>297,452,651</u> | <u>279,232,097</u> |
| BENEFITS PAID AND EXPENSES INCURRED | | | |
| Benefits paid | 3 (h) | (270,109,815) | (215,957,623) |
| Operating expenses | 3 (g) | <u>(47,302,521)</u> | <u>(50,954,159)</u> |
| | | <u>(317,412,336)</u> | <u>(266,911,782)</u> |
| CHANGE IN NET ASSETS FOR THE YEAR | 4(f) | 254,257,923 | 109,405,398 |
| Other comprehensive income | | | |
| Items that will not be reclassified to changes in net assets | | | |
| Revaluation of property, plant and equipment | | <u>30,315,145</u> | <u>-</u> |
| TOTAL COMPREHENSIVE CHANGES IN NET ASSETS FOR THE YEAR | | <u>284,573,068</u> | <u>109,405,398</u> |
| Net assets available to pay benefits at the beginning of the financial year | | 3,080,322,455 | 2,970,917,057 |
| NET ASSETS AVAILABLE TO PAY BENEFITS INCLUDING OTHER COMPREHENSIVE INCOME AT THE END OF THE FINANCIAL YEAR | 4(a) | <u>3,364,895,523</u> | <u>3,080,322,455</u> |

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

| | Note | June 2018 \$ | June 2017 \$ |
|--|------|---------------------------|---------------------------|
| Cash flows from operating activities | | | |
| Contributions from members and employers | | 297,452,651 | 279,232,097 |
| Interest received | | 28,522,063 | 22,948,751 |
| Dividends received | | 105,562,315 | 84,462,344 |
| Rentals received | | 20,882,710 | 22,247,851 |
| Other income received | | 5,291,933 | 2,361,636 |
| Benefits paid to members | | (270,109,815) | (215,957,623) |
| Cash paid to suppliers and employees | | (71,772,904) | (58,142,049) |
| Net cash flows from operating activities | | 115,828,953 | 137,153,007 |
| Cash flows from investing activities | | | |
| Net acquisition of commercial paper, treasury bills and held-to-maturity investments | | (61,536,912) | (159,103,365) |
| Loans and advances repaid / (provided) | | 17,180,500 | 13,230,034 |
| Net acquisition of shares | | (33,909,958) | (366,045) |
| Proceeds from Solomon Island Government for unlisted equity | | - | 17,006,788 |
| Proceeds from sale of property plant and equipment | | 1,982,772 | - |
| Acquisition of investment properties | | (13,959,016) | (1,444,633) |
| Acquisition of property plant and equipment | | <u>(8,237,581)</u> | <u>(12,272,060)</u> |
| Net cash used in investing activities | | (98,480,195) | (142,949,281) |
| Net increase/ (decrease) in cash and cash equivalents | | 17,348,758 | (5,796,274) |
| Cash and cash equivalents at the beginning of the year | | <u>367,288,073</u> | <u>373,084,347</u> |
| Cash and cash equivalents at the end of the year | 13 | <u>384,636,831</u> | <u>367,288,073</u> |

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

1. GENERAL INFORMATION

Solomon Islands National Provident Fund (“the Fund”) is a defined contribution fund domiciled in the Solomon Islands. The Fund was established in 1973 under The Solomon Islands National Provident Fund Act (Cap 109) as a superannuation or saving scheme for all employees who are members of the Fund. The Fund is primarily involved in providing retirement benefits to its members. An employee is any person who has attained the age of 14, is not exempt and is employed under a contract of service, irrespective of the period for which a person is employed. The address of the Fund’s registered office is at NPF Building, Mendana Avenue, Honiara, Solomon Islands.

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, when members 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 are equal to their accumulated contributions plus interest allocated to them annually by the Board (refer note 2 (f) 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) and the Solomon Islands National Provident Fund Act (CAP 109) (“the Act”). The accounting policies have been consistently applied over the reporting and comparative year.

Management has concluded that the activities of the Fund meet the definition of an investment entity in accordance with the requirements of the amendments to IFRS 10, 12 and IAS 27. Consequently the Fund measures substantially all of its investments at fair value through the changes in net assets and therefore does not consolidate its subsidiaries.

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

Use of judgments and estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Fund’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

| | |
|---------------|---------------------------------------|
| Note 2 (k)(i) | - Valuations of equity securities |
| Note 2 (q) | - Valuations of investment properties |

(b) Comparatives

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Members contribution

Contributions from employers and members are recorded when control of the asset is ascertained which is upon receipt of the contribution schedule forms from the employers and the registration of the Forms by the Fund. The Fund does not accrue for contributions for which no contribution schedule forms are received or received but not registered as it is not able to reliably measure estimate the contributions balance.

The contributions shown in the statement of changes in net assets represents total contributions received/receivable from employers and members.

(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 following the death of any member to the beneficiaries of the member. The maximum sum payable for the year ended 30 June 2018 for each member was \$3,000 (2017:\$3,000).

(e) Nominee trust account

As provided for in the Act, if any person under eighteen years (other than the widow or widower) is nominated to receive an amount (or any portion of it) under section 32 then the amount or that portion shall remain in the Fund and shall be deemed to be held by the Board in trust for that person until he/she reaches the age of eighteen years.

(f) Interest on members account

Interest credited to a member's account at 30 June in any 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 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 and the Fund shall, as soon as is practicable, repay to the Government the sum advanced.

(g) Property, plant and equipment

Land and buildings are measured at fair value. The fair value is determined on the basis of independent valuations prepared by external valuation experts, based on current market prices (as appropriate). The valuations 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 value.

Subsequent costs are included in the asset's carrying amount or derecognised as a separate asset, as appropriate, only when it is probable the future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to changes in net assets.

Any revaluation increase arising on the revaluation of land and buildings is recognised in other comprehensive income (OCI) and 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 changes in net assets 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 general reserve.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (continued)

Plant and equipment, leasehold improvements and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on property, plant and equipment, including buildings but excluding freehold land. Depreciation is calculated on a straight line basis so as to write off the cost of the asset over its useful life. 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 methods are reviewed at the end of each annual reporting period.

The following annual rates are used in the calculation of depreciation for the current and prior year:

| | |
|---|---|
| Buildings | 5% |
| Machinery equipment and motor vehicles | 25% |
| Furniture, fittings, computer and other equipment | 25% |
| Leasehold improvements | Lower of term of lease or estimated useful life |

(h) Impairment of non-financial assets

Assets that have an indefinite life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its estimated recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Income tax

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

(j) Impairment of loans and investments

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

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

The amount of the impairment 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 allowance is recognised as a charge in the changes in net assets.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Financial instruments

Financial instruments comprise investments in equity, government and other fixed interest securities, term deposits, trade and other receivables, cash and cash equivalents, loans and advances, and trade and other payables. The Fund classifies their financial assets in the following categories: at fair value through changes in net assets, held-to-maturity investments and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through changes in net assets, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Fund's contractual rights to the cash flows from the financial assets expire or if the Fund transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Fund commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Fund's obligations specified in the contract expire or are discharged or cancelled.

(i) Financial assets at fair value through changes in net assets

This category has financial assets that are designated at fair value through changes in net assets at inception. This largely consists of equity investments which are managed and evaluated on a fair value basis in accordance with the Fund's investment strategy and reported by key management personnel on that basis. Upon initial recognition, attributable transaction costs are recognised in changes in net assets when incurred. Subsequent to initial recognition, financial instruments at fair value through changes in net assets are measured at fair value, and changes therein are recognised in the changes in net assets.

The fair values of quoted equity investments are generally based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Fund establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis making use of market inputs and relying as little as possible on entity-specific inputs.

(ii) Held to maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method. Government bonds with fixed interest rate are included under this category.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and advances, cash and cash equivalents and trade and other receivables are included under this category.

(l) Impairment of financial assets carried at amortised cost

The Fund assesses at each financial year end whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of financial assets carried at amortised cost (continued)

Delinquency in contractual receipts of principal or interest, cash flow difficulties experienced by the borrower, breach of loan covenants or conditions, initiation of bankruptcy proceedings, deterioration of the borrower's competitive position, and deterioration in the value of collateral are all factors which the Fund considers in determining whether there is objective evidence of impairment.

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it then includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the changes in net assets.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. 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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the changes in net assets.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Fund in the management of its short-term commitments.

(n) 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 currency 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 re-translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the changes in net assets.

(o) 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 cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Provisions (continued)

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.

(p) Other payables and accruals

Other payables and accruals are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods or services. Other payables and accruals are recognised at fair value and subsequently measured at amortised cost.

(q) Investment properties

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.

(r) Revenue Recognition

(i) Interest Income

Interest income is earned from investments such as government securities, other fixed securities, loans and advances and term deposits. Interest income is recognised using the effective interest method.

(ii) Property rentals

Property rental income from operating leases is recognised on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(iii) Dividend Income

Dividend income from investments is recognised when the right to receive payment is established.

(s) Expenses

(i) Benefits paid

Benefits paid include member withdrawals and other member payments. These are recognised upon payment of such benefits.

(ii) Other expenses

Expenses are recognised in the changes in net assets on an accrual basis.

(t) Employee entitlements

(i) Wages and salaries and sick leave

Liabilities for wages and salaries and incentives expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employee's services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Payments for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee entitlements (continued)

(ii) Long service leave, gratuity benefits and retirement benefits

Gratuity and retirement benefits are paid in respect of services provided up to the reporting date by employees and on retirement and/or on completion of their contractual term. The liability for long service leave, gratuity benefits and retirement benefits is recognised in employee entitlements measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

(u) Intangible assets

IT software

IT software which is purchased or implemented, is recorded at cost and is amortised over its estimated useful life.

| Asset | Rate |
|-------------------|------|
| Computer Software | 10% |

3. INCOME AND EXPENSES

| | June 2018 | June 2017 |
|--|--------------------|---------------------|
| (a) Interest income | | |
| Cash at bank | 155,949 | 88,971 |
| Treasury bills | 123,789 | 101,050 |
| Bonds | 11,267,250 | 4,399,924 |
| Loans and advances | 9,413,294 | 21,001,418 |
| Investment securities - commercial paper | 8,733,842 | 7,068,894 |
| Total | 29,694,124 | 32,660,257 |
| (b) Dividend income | | |
| Quoted shares | 7,710,635 | 6,618,616 |
| Unquoted shares | 84,678,462 | 70,760,611 |
| Managed funds | 565,043 | 585,563 |
| Total | 92,954,140 | 77,964,790 |
| (c) Gain / (loss) from changes in fair values | | |
| Investment properties | 1,158,283 | 6,860,464 |
| Equities | 156,362,628 | (48,758,171) |
| Net foreign exchange gain/(loss) | 8,837,124 | 20,690,679 |
| Total | 166,358,035 | (21,207,028) |
| (d) Rental income | | |
| Investment properties | 24,437,984 | 26,563,912 |
| Others | 113,475 | 205,440 |
| Total | 24,551,458 | 26,769,352 |
| (e) Other income | | |
| Bad debts recovery | 817,927 | 60,924 |
| Gain on sale of property, plant and equipment | 708,720 | - |
| Gain on sale of investment | - | 175,000 |
| Surcharge | 3,244,030 | 3,390,649 |
| Others | 164,571 | 479,352 |
| Total | 4,935,248 | 4,105,925 |

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3. INCOME AND EXPENSES (Continued)

| | June 2018 \$ | June 2017 \$ |
|--|--------------------|--------------------|
| (f) Direct investment expenses | | |
| Utilities (water and electricity) | 6,979,344 | 4,586,254 |
| Repairs and maintenance | 15,694,708 | 6,605,183 |
| Land rates and rental charges | 1,210,601 | 1,102,250 |
| Insurance | 1,195,686 | 879,827 |
| Management fees | 2,795,917 | 1,437,600 |
| Cleaning services | 1,156,765 | 1,034,963 |
| Valuation and consultation fees | 1,089,997 | 2,556,685 |
| Doubtful debts – loans and advances | 2,264,478 | 771,244 |
| Doubtful debts – dividend receivable | 9,759,163 | - |
| Doubtful debts – other receivables | 2,128,738 | 4,234,207 |
| Total | 44,275,397 | 23,208,213 |
| (g) Operating expenses | | |
| Board and management allowances | 1,185,741 | 1,250,720 |
| Utilities (water and electricity) | 1,312,154 | 1,745,137 |
| Repairs and maintenance | 712,225 | 1,879,912 |
| Land rates and rental charges | 29,000 | 174,950 |
| Administrative expenses | 10,415,007 | 6,544,100 |
| Doubtful debts – Surcharges and other receivables | 1,382,836 | 1,159,003 |
| Depreciation expense | 5,056,853 | 6,496,901 |
| Insurance expense | 162,188 | 299,104 |
| Audit fees | 358,840 | 359,010 |
| Bank charges | 63,310 | 81,353 |
| Consultancy fees and expenses | 1,225,397 | 1,731,687 |
| Staff expenses (refer below) | 25,398,970 | 29,232,282 |
| Total | 47,302,521 | 50,954,159 |
| <u>The breakdown of staff expenses are as follows:</u> | | |
| Wages and salaries | 14,769,440 | 14,543,256 |
| Contributions to SINPF | 1,212,124 | 1,063,031 |
| Employee benefits | 4,219,530 | 8,940,120 |
| Other staff costs | 5,197,876 | 4,685,874 |
| Total | 25,398,970 | 29,232,282 |
| (h) Member Benefits | | |
| Interest on withdrawal, trust and other members expenses | 5,144,688 | 8,253,992 |
| Contribution withdrawals (refer Note 4(b)) | 263,208,768 | 206,335,494 |
| Special death benefit payments (refer Note 4(c)) | 640,152 | 647,136 |
| Nominees trust payment (refer Note 4(d)) | 1,116,206 | 721,001 |
| Total | 270,109,815 | 215,957,623 |

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

4. NET ASSETS AVAILABLE TO PAY BENEFITS

The following is a summary of net assets available to pay benefits and movement in related accounts during the year:

• Revaluation Reserve

Revaluation of land and buildings (excluding investment properties) was carried out on 15 June 2018. The revaluation surplus/loss is credited to the revaluation reserve. The next revaluation of the land and buildings is expected to be carried out in the 2023 financial year.

• General Reserve

Revenue less normal operating expenses are credited to the General Reserve unless otherwise appropriated.

The following items are credited to this reserve each year:

- Net unappropriated surplus from operations; and
- Unallocated contributions outstanding more than 5 years from the unclaimed deposit account and unidentified members contribution including other appropriated contribution related accounts.

In the event that where the general reserve is in deficit due to losses arising from operations, including shortfalls resulting from interest allocated to members' accounts, such losses are to be offset and recovered from subsequent earnings and future surpluses.

| | June 2018 | June 2017 |
|--|----------------------|----------------------|
| | \$ | \$ |
| (a) Net assets available to pay benefits | | |
| Net assets available to pay benefits | <u>3,364,895,523</u> | <u>3,080,322,455</u> |
| <i><u>Represented by:</u></i> | | |
| Allocated to members' account | 2,951,878,406 | 2,760,786,174 |
| Special death benefit | (394,215) | (347,268) |
| Nominees trust | 7,302,076 | 6,136,791 |
| Reserves | <u>406,109,256</u> | <u>313,746,758</u> |
| | <u>3,364,895,523</u> | <u>3,080,322,455</u> |
| (b) Liability for accrued benefits | | |
| Balance at the beginning of the year | 2,760,786,174 | 2,566,146,462 |
| Contributions received from members and employers | 295,731,636 | 279,232,097 |
| Interest credited to members accounts | 160,499,937 | 124,567,631 |
| Benefits paid – withdrawals (refer Note 3(h)) | (263,208,768) | (206,335,494) |
| Transfer to nominees trust accounts (refer Note 4(d)) | (1,877,392) | (787,806) |
| Transfer to special death benefits (refer Note 4(c)) | (655,603) | (630,786) |
| Forfeited contributions transfer to general reserve (refer Note 4(e)) | (1,599,348) | (1,375,583) |
| Contributions received from members – YouSave | 1,721,015 | - |
| Other transfers / adjustments including Yousave | <u>480,755</u> | <u>(30,347)</u> |
| Balance at the end of the year | <u>2,951,878,406</u> | <u>2,760,786,174</u> |
| <i><u>Represented by:</u></i> | | |
| Allocated to members' accounts | 2,924,510,852 | 2,727,341,394 |
| Unidentified | <u>27,367,554</u> | <u>33,444,780</u> |
| | <u>2,951,878,406</u> | <u>2,760,786,174</u> |

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

4. NET ASSETS AVAILABLE TO PAY BENEFITS (CONTINUED)

| | June 2018 | June 2017 |
|--|---------------------------|---------------------------|
| | \$ | \$ |
| (c) Special death benefit | | |
| Balance at the beginning of the year | (347,268) | (299,479) |
| Transfer in from members account (refer Note 4(b)) | 655,603 | 630,786 |
| Transfer out benefit payments (refer Note 3(h)) | (640,152) | (647,136) |
| Transfer out to nominees trust (refer Note 4(d)) | (62,398) | (31,439) |
| Balance at the end of the year | <u>(394,215)</u> | <u>(347,268)</u> |
| (d) Nominees trust account | | |
| Balance at the beginning of the year | 6,136,791 | 5,741,235 |
| Transfer in from members account (refer Note 4(b)) | 1,877,392 | 787,806 |
| Transfer in from special death benefits (refer Note 4(c)) | 62,398 | 31,439 |
| Transfer out benefit payments (refer Note 3(h)) | (1,116,206) | (721,001) |
| Annual interest | 341,701 | 297,312 |
| Balance at the end of the year | <u>7,302,076</u> | <u>6,136,791</u> |
| (e) Reserves | | |
| (i) Asset revaluation reserve | | |
| Balance at the beginning of the year | 69,951,343 | 69,951,343 |
| Add revaluation during the year | 30,315,145 | - |
| Balance at the end of the year | <u>100,266,488</u> | <u>69,951,343</u> |
| (ii) General reserve | | |
| Balance at the beginning of the year | 243,795,415 | 329,377,496 |
| Transfers in from members account (refer Note 4(b)) | 1,599,348 | 1,375,583 |
| Transfers in / (out) | 60,448,005 | (86,957,664) |
| Balance at the end of the year | <u>305,842,768</u> | <u>243,795,415</u> |
| Total reserves | <u>406,109,256</u> | <u>313,746,758</u> |
| (f) Net change for the year | | |
| The net change for the year has been appropriated to accrued benefits and reserves as follows: | | |
| Change in net assets for the year attributable to members of the Fund: | <u>254,257,923</u> | <u>109,405,398</u> |
| Comprises net transfers to/(from): | | |
| Liability for accrued benefits | 191,092,232 | 194,639,712 |
| Special death benefit | (46,947) | (47,789) |
| Nominees trust | 1,165,285 | 395,556 |
| General reserves | <u>62,047,353</u> | <u>(85,582,081)</u> |
| | <u>254,257,923</u> | <u>109,405,398</u> |

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

5. RECEIVABLES

| | June 2018 | June 2017 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Interest receivables | 7,215,058 | 6,042,997 |
| Rental income receivables | 17,318,641 | 13,649,893 |
| Dividend receivables | 21,437,625 | 34,045,800 |
| Surcharge receivables | 10,040,053 | 10,723,699 |
| Other receivables | 5,235,171 | 5,616,930 |
| | <hr/> | <hr/> |
| Less: Allowance for doubtful debts | 61,246,548 | 70,079,319 |
| Total receivables | (31,385,869) | (19,020,984) |
| | <hr/> | <hr/> |
| | 29,860,679 | 51,058,335 |
| <u>Movement in allowance for doubtful debts is as follows:</u> | | |
| Balance at 1 July | (19,020,984) | (15,656,463) |
| Impairment loss recognised | (13,270,737) | (5,393,210) |
| Amounts written off against provision | 905,852 | 2,028,689 |
| Balance at the end of the year | <hr/> | <hr/> |
| | (31,385,869) | (19,020,984) |

The allowance for doubtful debts of \$31,385,869 (2017: \$19,020,985) is provided against arrears on surcharge receivables, dividend receivable, interest receivable and rental income receivables.

6. INVESTMENTS

| (a) Financial assets carried at fair value through changes in net assets | June 2018 | June 2017 |
|--|--------------------|--------------------|
| | \$ | \$ |
| (i) Commercial paper and treasury bills | | |
| On shore deposits | 589,309,094 | 510,501,438 |
| Offshore deposits | 100,866,728 | 119,383,342 |
| Total deposits | <hr/> | <hr/> |
| Treasury bills | 690,175,822 | 629,884,780 |
| Other fixed term debt securities (debentures) – Related parties | 19,217,142 | 18,529,000 |
| Total | 26,986,900 | 26,986,900 |
| | <hr/> | <hr/> |
| | 736,379,864 | 675,400,680 |

Due to the short term nature of these instruments, fair value approximate amortised cost.

The movement in commercial paper and treasury bills is as follows:

| | | |
|--|--------------------|--------------------|
| Opening balance | 675,400,680 | 664,344,109 |
| Net movement during the year | 66,892,090 | 8,412,953 |
| Foreign exchanges differences during the year (unrealised) | <hr/> | <hr/> |
| Balance at the end of the year | (5,912,906) | 2,643,618 |
| | <hr/> | <hr/> |
| | 736,379,864 | 675,400,680 |

(ii) Equity securities at fair value:

| | | |
|-------------------------------------|----------------------|----------------------|
| - Listed | 143,706,941 | 133,761,137 |
| - Unlisted | 1,397,668,411 | 1,207,946,777 |
| Total equities at fair value | 1,541,375,352 | 1,341,707,914 |

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

6. INVESTMENTS (CONTINUED)

| | June 2018 | June 2017 |
|--|----------------------|----------------------|
| | \$ | \$ |
| (a) Financial assets carried at fair value through changes in net assets (continued) | | |
| (ii) Equity securities at fair value (continued): | | |
| <u>The movement in investment securities carried at fair value through profit and loss is as follows:</u> | | |
| Balance at the beginning of the year | 1,341,707,914 | 1,388,194,355 |
| Acquisitions/(Redemption)/transfer during the year | 33,909,958 | (15,917,676) |
| Gain / (loss) from changes in fair value (refer Note 3(c)) | 156,362,628 | (48,758,171) |
| Exchange differences | 9,394,852 | 18,189,406 |
| Balance at the end of the year | 1,541,375,352 | 1,341,707,914 |
| (iii) Investment properties | | |
| Balance at the beginning of the year | 336,289,988 | 293,480,306 |
| Additions | 14,020,241 | 32,717,108 |
| Disposals | - | - |
| Transfers from property, plant and equipment | - | 3,232,110 |
| Gain from fair value adjustment * (refer Note 3(c)) | 1,158,283 | 6,860,464 |
| Balance at the end of the year | 351,468,512 | 336,289,988 |
| *Valuations of the Fund's investment properties were performed in house to determine the fair value of land and buildings (in the prior year, valuations of the Funds investment properties were performed by VHT Real Estate). The valuations were determined by reference to the current market values of the land and buildings. The effective date of the valuations was 30 June 2018 (the effective date of the prior years valuation was 16 June 2017). | | |
| (b) Financial Assets carried at amortised cost | | |
| (i) Loans and advances | | |
| - Commercial loans – Private entities | 4,832,019 | 5,469,391 |
| – Related parties (refer Note 9(b)) | 114,904,701 | 130,718,021 |
| - Member schemes | 3,759,897 | 4,692,197 |
| - Staff schemes | 2,453,676 | 2,251,184 |
| Total gross loans and advances | 125,950,293 | 143,130,793 |
| Allowance for doubtful debts | (7,879,880) | (5,886,913) |
| Net loans and advances | 118,070,413 | 137,243,880 |
| <u>Movement in allowance for doubtful debts is as follows:</u> | | |
| Balance at the beginning of the year | (5,886,913) | (8,967,308) |
| Impairment loss recognised (refer Note 3 (f)) | (2,264,478) | (771,244) |
| Amounts written off / recovery on foreclosure | 271,511 | 3,851,639 |
| Balance at the end of the year | (7,879,880) | (5,886,913) |
| The allowance for doubtful debts of \$7,879,880 (2017: \$5,886,913) is provided against commercial loans to private entities and member and staff schemes. | | |
| (ii) Held-to-maturity investments | | |
| Government securities – Related party (refer Note 17(a)) | 150,000,000 | 150,000,000 |

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

7(a) PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings (at valuation) | Machinery equipment & motor vehicles | Furniture, fittings, computer & other equipment | Work in progress | Total |
|------------------------------------|--------------------------------------|---|---|------------------|--------------|
| At cost / valuation | | | | | |
| Balance as at 1 July 2016 | 56,791,874 | 18,246,349 | 11,578,615 | 6,091,661 | 92,708,499 |
| Transfers from work in progress | - | 291,763 | 3,294,777 | (3,586,540) | - |
| Additions | - | 718,296 | 221,613 | 11,332,151 | 12,272,060 |
| Transfer to investment properties | (2,017,643) | - | - | (1,214,467) | (3,232,110) |
| Reclass to expenses | - | - | - | (129,502) | (129,502) |
| Balance as at 30 June 2017 | 54,774,231 | 19,256,408 | 15,095,005 | 12,493,303 | 101,618,947 |
| Balance as at 1 July 2017 | | | | | |
| Transfers from work in progress | 54,774,231 | 19,256,408 | 15,095,005 | 12,493,303 | 101,618,947 |
| Transfer to intangible assets | 3,277,558 | - | 1,203,192 | (4,480,750) | - |
| Additions | - | 770,894 | 286,625 | 7,180,062 | (14,224,483) |
| Revaluation increment | 30,315,145 | - | - | - | 8,237,581 |
| Forfeited accumulated depreciation | (13,778,104) | - | - | - | (14,224,483) |
| Disposals | (1,509,019) | (2,254,968) | (186,930) | - | 30,315,145 |
| Transfer to investment properties | - | - | - | (61,224) | (13,778,104) |
| Reclass to expenses | - | - | - | (255,686) | (3,950,917) |
| Balance as at 30 June 2018 | 73,079,811 | 17,772,334 | 16,397,892 | 651,222 | 107,901,259 |

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

7(a). PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Land and buildings (at valuation) \$ | Machinery equipment & motor vehicles \$ | Furniture, fittings, computer & other equipment \$ | Work in progress \$ | Total \$ |
|------------------------------------|---|--|---|--------------------------------|---------------------|
| Accumulated depreciation | | | | | |
| Balance as at 1 July 2016 | 9,348,186 | 14,641,997 | 8,859,542 | - | 32,849,725 |
| Expense for the year | 3,315,338 | 2,082,916 | 1,098,647 | - | 6,496,901 |
| Reclass to income | (201,764) | - | - | - | (201,764) |
| Balance as at 30 June 2017 | <u>12,461,760</u> | <u>16,724,913</u> | <u>9,958,189</u> | <u>-</u> | <u>39,144,862</u> |
| Balance as at 1 July 2017 | 12,461,760 | 16,724,913 | 9,958,189 | - | 39,144,862 |
| Expense for the year | 1,761,407 | 1,256,488 | 2,038,958 | - | 5,056,853 |
| Forfeited accumulated depreciation | (13,778,104) | - | - | - | (13,778,104) |
| Disposals | (445,063) | (2,051,705) | (180,096) | - | (2,676,864) |
| Balance as at 30 June 2018 | <u>-</u> | <u>15,929,696</u> | <u>11,817,051</u> | <u>-</u> | <u>27,746,747</u> |
| Carrying value | | | | | |
| Balance as at 30 June 2017 | 42,312,471 | 2,531,495 | 5,136,816 | 12,493,303 | 62,474,085 |
| Balance as at 30 June 2018 | <u>73,079,811</u> | <u>1,842,638</u> | <u>4,580,841</u> | <u>651,222</u> | <u>80,154,512</u> |

During the year, an independent valuation of the Fund's land and buildings was carried out by VHT Real Estate with an effective date of 15 June 2018 and a revaluation increment of \$30,315,145 was taken up. The valuations which were determined by reference to the current market values of land and buildings (refer Note 4).

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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FOR THE YEAR ENDED 30 JUNE 2018

7(b) INTANGIBLE ASSETS

| | Computer Software | \$ |
|--|----------------------|-------------------|
| Cost | | |
| Balance as at 1 July 2017 | | - |
| Additions | | 14,224,483 |
| Balance as at 30 June 2018 | | <u>14,224,483</u> |
| Amortisation and impairment | | |
| Balance as at 1 July 2017 and 30 June 2018 | | <u>-</u> |
| Carrying amount | | |
| At 1 July 2017 | | <u>-</u> |
| At 30 June 2018 | | <u>14,224,483</u> |

8. OTHER PAYABLES AND ACCRUALS AND EMPLOYEE ENTITLEMENTS

(a) Accounts payable

Accounts payable are principally comprised of amounts outstanding for trade purchases and on-going operational costs. Accounts payables are non-interest bearing and are normally settled on 30 - 60 day terms. The balance at year end was \$3,219,490 (2017: \$484,064). The increase mainly related to the amount payable to the vendor for the implementation of the new integrated system in the 2018 financial year

| | June 2018 | June 2017 |
|---------------------------------------|------------------|------------------|
| | \$ | \$ |
| (b) Other payable and accruals | | |
| Rental bond | 3,786,471 | 4,175,870 |
| Other accruals | <u>3,411,896</u> | <u>2,779,953</u> |
| | <u>7,198,367</u> | <u>6,955,823</u> |

(c) Employee entitlements

(Provision for early retirement benefits, annual leave and long service leave)

| | | |
|-------------|-------------------|-------------------|
| Current | 11,735,729 | 11,609,558 |
| Non-current | <u>19,121,536</u> | <u>22,127,055</u> |
| | <u>30,857,265</u> | <u>33,736,613</u> |

Movement in employee entitlements:

| | | |
|--------------------------------------|--------------------|--------------------|
| Balance at the beginning of the year | 33,736,613 | 22,127,055 |
| Created during the year | 970,356 | 12,656,816 |
| Utilised during the year | <u>(3,849,704)</u> | <u>(1,047,258)</u> |
| Balance at the end of the year | <u>30,857,265</u> | <u>33,736,613</u> |

9. RELATED PARTIES

(a) Board members and key management personnel

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 2018, this group comprises of 19 individuals, including the General Manager (CEO), 8 non-executive Board Members, and 10 senior staff. Fees of the non-executive members of the Fund Board are determined by the Minister of Finance. The General Manager's (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.

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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9. RELATED PARTIES (CONTINUED)

(a) Board members and key management personnel (continued)

The specified directors of the Fund during the year and up to the date of this report were:

| Names | Appointment | Date of Appointment | Term of appointment | Date appointment lapse | Representing |
|---------------------------|--------------------|---|------------------------------|---|-------------------------------------|
| Mr. Peter Boyers | Chairman | 14 April 2014 20 May 2015 20 May 2018 | 1 year 3 years 3 years | 20 May 2015 20 May 2018 20 May 2021 | Employer Ministers Discretion |
| Mr. Gideon Zoleveke (Jnr) | Deputy Chairman | 29 March 2013 29 March 2016 29 March 2018 | 3 years 3 years 1 year | 29 March 2016 29 March 2018 29 March 2019 | Employer |
| Dr. Aaron Oritaimae | Member | 1 November 2017 | 3 years | 1 November 2020 | Employee |
| Dr. Alice Pollard | Member | 29 March 2013 29 March 2016 29 March 2018 | 3 years 3 years 1 year | 29 March 2016 29 March 2018 29 March 2019 | Minister's Discretion |
| Mr. Jerry Maiki Tengemona | Member | 14 April 2014 14 April 2016 | 2 years 2 years | 14 April 2016 14 April 2018 | Minister's Discretion |
| Mrs. Julian Gegea Haro | Member | 14 April 2014 14 April 2016 | 2 years 2 years | 14 April 2016 14 April 2018 | Employee |
| Mr. George Kuper | Member | 23 October 2015 | 3 years | 23 October 2018 | Crown |
| Mr. Mckinnie Dentana | Member | 23 October 2015 | 3 years | 23 October 2018 | Crown |
| Ms Antonette Wickham | Member | 26 June 2018 | 3 years | 26 June 2021 | Employee |
| Mr David Rupokets | Member | 26 June 2018 | 3 years | 26 June 2021 | Employer |

The specified executives of the Fund during the year were:

| Names | Position |
|--------------------|--|
| Tony Makabo | General Manager and CEO (resigned on 31 December 2017) |
| Michael Wate | CEO from 1 January 2018, (Deputy General Manager until 31 December 2017) |
| Ruth Alepio | Board Secretary |
| Manasseh Taloafiri | Manager Human Resource & Corporate services |
| Suzanne Orudiana | Manager IT |
| Aluta Kakadi | Manager Employers and Members services |
| Areau Hivu | Manager Internal Audit |
| Ishmael Kako | Manager Legal Counsel |
| Rose Karoa | Manager Finance |
| Jennifer Lakoa | Manager Investment |
| Bennett Pitakia | Manager Property |

The remuneration / allowances of the Fund's directors and key management personnel were as follows :

| | June 2018 | June 2017 |
|-------------------------------|------------------|------------------|
| | \$ | \$ |
| Directors: | | |
| Sitting allowances | 660,548 | 694,600 |
| Other services and allowances | 525,193 | 550,559 |
| | 1,185,741 | 1,245,159 |

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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9. RELATED PARTIES (CONTINUED)

(a) Key management personnel (continued)

Key management personnel (executives):

| | | |
|------------------------------|-------------------------|-----------|
| Short-term employee benefits | 6,295,888 | 5,920,321 |
| Post-employment benefits | <u>1,524,110</u> | 3,841,150 |
| Total compensation | <u>7,819,998</u> | 9,761,471 |

Short-term benefits include cash salary, and in the case of staff, annual leave, long service 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, loans by the Fund to key management personnel are as follows:

| | June 2018 | June 2017 |
|-------|-----------------------|-----------|
| | \$ | \$ |
| Other | <u>222,152</u> | 131,180 |

(b) Related party transactions and balances

Details of the loans provided to related entities are set out below:

Loans and advances to related parties

| | | |
|--|---------------------------|-------------|
| Soltuna Company Limited | 20,382,905 | 27,954,142 |
| Heritage Park Hotel Limited | 25,109,148 | 16,942,718 |
| Solomon Telekom Company Limited | 54,260,381 | 65,951,677 |
| South Pacific Oil Limited | <u>15,152,267</u> | 19,869,484 |
| Total loans and advances to related parties (refer Note 6(b) (i)) | <u>114,904,701</u> | 130,718,021 |

In 2017, the Fund converted Solomon Telekom Company Limited's dividend receivables of \$65m into a commercial loan for a term of 5 years at an interest rate of 5% per annum.

Dividend receivables from related parties

| | | |
|---------------------------------|--------------------------|------------|
| Solomon Telekom Company Limited | <u>21,437,625</u> | 34,045,801 |
|---------------------------------|--------------------------|------------|

Commercial paper and treasury bills to related parties

| | | |
|---|--------------------------|------------|
| Solomon Islands Home Finance Limited - debenture | 6,500,000 | 6,500,000 |
| Soltuna Company Limited - debenture | <u>20,486,900</u> | 20,486,900 |
| Total commercial paper and treasury bills to related parties (refer Note 6(a)(i)) | <u>26,986,900</u> | 26,986,900 |

Held-to-maturity to related parties

| | | |
|----------------------------|---------------------------|-------------|
| Solomon Islands Government | <u>150,000,000</u> | 150,000,000 |
|----------------------------|---------------------------|-------------|

During the year, the Fund entered into various transactions with related parties. The aggregate value of transactions with related parties during the year is as follows:

Dividend income

| | | |
|---|--------------------------|------------|
| Solomon Telekom Company Limited | 11,678,462 | 9,760,611 |
| South Pacific Oil Limited | <u>73,000,000</u> | 61,000,000 |
| Total dividend income from related parties | <u>84,678,462</u> | 70,760,611 |

Interest income

| | | |
|--------------------------------------|------------------|-----------|
| Soltuna Company Limited | 3,597,203 | 4,453,295 |
| South Pacific Oil Limited | <u>1,130,786</u> | 1,809,634 |
| Solomon Islands Home Finance Limited | <u>520,098</u> | 713,053 |
| Solomon Telekom Company Limited | <u>2,979,138</u> | 118,299 |

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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| | | |
|---|-------------------|------------|
| Solomon Islands Government | 9,807,000 | 2,764,757 |
| Heritage Park Hotel Limited | 1,930,696 | 2,147,842 |
| Total interest income from related parties | 19,964,921 | 12,006,880 |

10. AUDITORS REMUNERATION

Fees totaling \$358,840 were provided in the accounts for audit services for the year ended June 2018 (2017: \$359,010). No other benefits were received by the auditors (Office of the Auditor General) during the year other than fees paid for normal auditing services.

11. 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.

12. CONTINGENT LIABILITY

At year end there is an open court case relating to land acquired by the Fund relating to Panatina Land Bank which was purchased for the amount of \$7.3million. The Fund does not believe a liability to the Fund will arise on settlement of the case and no provision has been recognised.

13. CASH AND CASH EQUIVALENTS

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

| | June 2018 | June 2017 |
|--------------|--------------------|-------------|
| | \$ | \$ |
| Cash at bank | 384,633,430 | 367,284,673 |
| Cash on hand | 3,400 | 3,400 |
| | 384,636,830 | 367,288,073 |

14. EMPLOYEES

The number of full time permanent Fund employees as at 30 June 2018 was 116 (2017: 113).

15. FINANCIAL INSTRUMENTS

Financial risk management

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 statement of net assets 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.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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15. FINANCIAL INSTRUMENTS (continued)

Financial risk management (continued)

(a) Credit risk

The Fund is exposed to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. The Fund's maximum credit risk, excluding the value of collateral, is generally reflected in the carrying value 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 at year end, if any.

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

At year end concentrations of credit risk are noted for Bank of South Pacific Limited, Australia and New Zealand Banking Group Limited, Westpac Banking Corporation Limited, Pan Oceanic Bank and Credit Corporation Limited. The asset allocation at reporting date is as follows:

| Assets | June 2018 | | June 2017 | |
|---|----------------------|-------------|------------------|----------|
| | \$ | % | \$ | % |
| Commercial paper, treasury bills and held-to-maturity investments | 886,379,864 | 63% | 825,400,680 | 60% |
| Loans and advances | 118,070,413 | 8% | 137,243,880 | 10% |
| Cash and cash equivalents | 384,636,830 | 27% | 367,288,073 | 26% |
| Receivables | 29,860,679 | 2% | 51,058,335 | 4% |
| Total | 1,418,947,786 | 100% | 1,380,990,968 | 100% |

The assets allocation range defines the high and low extremes within which each asset class may move in response to changing economic conditions. By approving an asset allocation range, the Board still maintain ultimate control over investment policies at the micro level while the Investment and Credit Sub-board Committee and Manager Investment are given the flexibility needed at an 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 Manager Investment shall evaluate investment proposals to ensure viability and consistency with the approved investment strategy and prudential standards issued by Central Bank of Solomon Islands.

Credit quality:

| Assets | Neither past due nor impaired (Gross) | | Impaired (Gross) | | Total (Gross) | |
|---|--|------------------|-------------------------|------------------|----------------------|------------------|
| | June 2018 | June 2017 | June 2018 | June 2017 | June 2018 | June 2017 |
| Commercial paper, treasury bills and held-to-maturity investments | 886,379,864 | 825,400,680 | - | - | 886,379,864 | 825,400,679 |
| Loans and advances | 114,904,701 | 130,718,021 | 11,045,592 | 12,412,772 | 125,950,293 | 143,130,793 |
| Cash and cash equivalents | 384,636,830 | 367,288,073 | - | - | 384,636,830 | 367,288,073 |
| Receivables | 8,783,471 | 36,592,260 | 52,463,077 | 33,487,059 | 61,246,548 | 70,079,319 |
| Impaired assets | | | | | June 2018 | June 2017 |
| Loans and advances | | | | | 11,045,592 | 12,412,772 |
| Receivables | | | | | 52,463,077 | 33,487,059 |
| Gross impaired assets | | | | | 63,508,669 | 45,899,831 |
| Less: Allowance for doubtful debts | | | | | (39,265,749) | (24,927,751) |
| | | | | | 24,242,920 | 20,972,080 |

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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15. FINANCIAL INSTRUMENTS (continued)

Financial risk management (continued)

(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 (treasury bills and government securities) at 30 June 2018 was \$169,217,142 (2017: \$169,728,375).

(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:

| 30 June 2018 | Currency | | | | | Total |
|---|----------------------|-------------------|--------------------|-------------------|-----------------------|----------------------|
| | SBD | AUD | USD | Euro | Others (GBP & PGK) | |
| Assets | \$ | \$ | \$ | \$ | \$ | \$ |
| Cash and cash equivalent | 285,905,279 | 23,839,650 | 16,996,071 | 23,149,853 | 34,745,977 | 384,636,830 |
| Commercial paper, treasury bills and held-to-maturity investments | 785,513,155 | 37,050,083 | 48,939,927 | - | 14,876,699 | 886,379,864 |
| Equity investments | 1,397,668,412 | 19,012,141 | 50,886,281 | 11,680,886 | 62,127,632 | 1,541,375,352 |
| Total | 2,469,086,846 | 79,901,874 | 116,822,279 | 34,830,739 | 111,750,308 | 2,812,392,046 |
| 30 June 2017 | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalent | 296,207,854 | 16,071,530 | 16,743,442 | 22,568,514 | 15,696,733 | 367,288,073 |
| Commercial paper, treasury bills and held-to-maturity investments | 706,017,338 | 45,658,019 | 47,508,911 | - | 26,216,412 | 825,400,680 |
| Equity investments | 1,207,946,777 | 17,966,311 | 44,182,066 | 11,081,770 | 60,530,990 | 1,341,707,914 |
| Total | 2,210,171,969 | 79,695,860 | 108,434,419 | 33,650,284 | 102,444,135 | 2,534,396,667 |

The foreign currencies that the Fund is mainly exposed to are Australian Dollar, US Dollar, Euro, GBP Pounds and PNG Kina currencies.

The following table details the Fund's sensitivity to a 10% strengthening and weakening of all major currency exposures against the Solomon Islands Dollar. 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 Islands Dollars. A positive number below indicates an increase in net assets where the foreign currency weakens by 10% against the Solomon Islands Dollar. A negative number below indicates a decrease in net assets where the foreign currency strengthens by 10% against the Solomon Islands Dollar.

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15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(c) Foreign exchange risk (continued)

| | AUD impact (000s) | | USD impact (000s) | | Euro impact (000s) | | GBP impact (000s) | | PGK impact (000s) | |
|-----------------------|-------------------|--------|-------------------|--------|--------------------|--------|-------------------|--------|-------------------|--------|
| | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% |
| | Strengthen | Weaken | Strengthen | Weaken | Strengthen | Weaken | Strengthen | Weaken | Strengthen | Weaken |
| Changes in net assets | | | | | | | | | | |
| 30 June 2018 | (7,264) | 8,878 | (10,625) | 12,987 | (3,166) | 3,870 | (1,414) | 1,728 | (8,745) | 10,688 |
| Changes in net assets | | | | | | | | | | |
| 30 June 2017 | (7,252) | 8,864 | (9,858) | 12,048 | (3,059) | 3,739 | (1,380) | 1,686 | (7,925) | 9,686 |

(d) Interest rate risk

The majority of the Fund's financial assets and liabilities are non-interest bearing. The portion of the Fund's financial assets that are interest bearing are at a fixed interest rate and 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.

The credit risk on commercial paper and treasury bills is limited because the counterparties 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 a dividend basis. Accordingly an interest rate sensitivity analysis is not required.

(e) 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, units in a UBS Managed Fund and Vanguard stocks 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 majority of 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 fortnightly contributions payable throughout the life-time of the member.

The table below summarizes the Fund's exposures to liquidity risk and maturity analysis of assets and liabilities:

| | Up to 1 month | 1 - 3 months | 3- 12 months | 1-5 years | Over 5 years | Total |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|----------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| 30 June 2018 | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | 384,636,830 | | - | - | - | 384,636,830 |
| Commercial paper, treasury bills and held-to-maturity investments | 41,169,048 | 195,489,117 | 405,183,253 | 94,538,446 | 150,000,000 | 886,379,864 |
| Loans and advances | - | - | - | 94,521,796 | 23,548,617 | 118,070,413 |
| Receivables | 1,365,197 | - | 28,495,482 | - | - | 29,860,679 |
| Total | 427,171,075 | 195,489,117 | 433,678,735 | 189,060,242 | 173,548,617 | 1,418,947,786 |
| Liabilities | | | | | | |
| Accounts payable | 3,170,798 | 39,931 | 8,761 | - | - | 3,219,490 |
| Other payables and accruals | - | 1,790,490 | 1,852,558 | 3,555,319 | - | 7,198,367 |
| Total | 3,170,798 | 1,830,421 | 1,861,319 | 3,555,319 | - | 10,417,857 |
| Net liquidity gap | 424,000,277 | 193,658,696 | 431,817,416 | 185,504,923 | 173,548,617 | 1,408,529,929 |

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15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(e) Liquidity risk (continued)

| | Up to 1 month | 1 - 3 months | 3- 12 months | 1-5 years | Over 5 years | Total |
|--|---------------|--------------|--------------|-------------|--------------|---------------|
| 30 June 2017 | \$ | \$ | \$ | \$ | \$ | \$ |
| Assets | | | | | | |
| Cash and cash equivalents | 367,288,073 | - | - | - | - | 367,288,073 |
| Commercial paper, treasury bills and held-to-maturity investments | 16,022,232 | 170,411,822 | 431,807,687 | 57,158,939 | 150,000,000 | 825,400,680 |
| Loans and advances | - | - | 951,677 | 101,812,202 | 34,480,001 | 137,243,880 |
| Receivables | 1,240,853 | - | 15,771,682 | 34,045,800 | - | 51,058,335 |
| Total | 384,551,158 | 170,411,822 | 448,531,046 | 193,016,941 | 184,480,001 | 1,380,990,968 |
| Liabilities | | | | | | |
| Accounts payable | 385,097 | 49,111 | 13,856 | - | - | 448,064 |
| Other payables and accruals | - | 1,363,317 | 1,416,636 | 4,175,870 | - | 6,955,823 |
| Total | 385,097 | 1,412,428 | 1,430,492 | 4,175,870 | - | 7,403,887 |
| Net liquidity gap | 384,166,061 | 168,999,394 | 447,100,554 | 188,841,071 | 184,480,001 | 1,373,587,081 |

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS

(a) SUBSIDIARIES

Management has concluded that the activities of the Fund meet the definition of an investment entity in accordance with the requirements of the amendments to IFRS 10, 12 and IAS 27. Consequently the Fund measures substantially all of its investments at fair value through the changes in net assets and therefore does not consolidate its subsidiaries.

| | Place of business | Ownership | Fair value June 2018 | Fair value June 2017 |
|---|-------------------|-----------|----------------------|----------------------|
| Subsidiaries | | | | |
| (i) South Pacific Oil Limited | Solomon Islands | 100% | 900,000,000 | 839,398,000 |
| (ii) Solomon Islands Home Finance Limited | Solomon Islands | 100% | 20,999,000 | 24,736,216 |
| (iii) Solomon Telekom Company Limited | Solomon Islands | 97.32% | 350,000,000 | 263,444,062 |
| (iv) Solomon Oceanic Cable Company Limited | Solomon Islands | 51% | 15,669,411 | 15,669,411 |
| Total fair value of subsidiaries | | | 1,286,668,411 | 1,143,247,689 |
| Other equity investments | | | | |
| (i) Heritage Park Hotel Limited | Solomon Islands | 20% | 66,000,000 | 26,823,000 |
| (ii) Soltuna Company Limited | Solomon Islands | 40.5% | 45,000,000 | 37,876,088 |
| (iii) Bank South Pacific Limited (Listed) | PNG | | 62,485,321 | 60,440,977 |
| (iv) Offshore managed funds (Listed) | US & Euro | | 81,221,620 | 73,320,160 |
| Total fair value of other equity investments | | | 254,706,941 | 198,460,225 |
| Total fair value of equity investments (refer Note 6 (a) (ii)) | | | 1,541,375,352 | 1,341,707,914 |

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)

(a) SUBSIDIARIES (CONTINUED)

Commencing in 2013, the Board adopted a policy to annually revalue its unlisted domestic equities, beginning with its two large equity exposures South Pacific Oil Limited and Solomon Telekom Company Limited. The valuations of all of the Fund's unlisted private equities for the 2018 financial year was carried out by Deloitte Australia. The valuations were carried out under the applicable International Financial Reporting Standard – IFRS 13 Fair Value Measurements.

(i) SOUTH PACIFIC OIL LIMITED (SPOL)

There were no changes to the shareholding of SPOL during the year. SINPF holds 100% (53,333,333 shares) of SPOL. As at 30 June 2018, the company was valued at \$900,000,000 (2017: \$839,398,000).

(ii) SOLOMON ISLANDS HOME FINANCE LIMITED (SIHFL)

During the year there were no changes to the shareholding in SIHFL. The Fund holds 5,109,091 fully paid shares in SIHFL and is wholly owned by the Fund. SIHFL is the Fund's vehicle to provide housing solutions for members of the Fund on commercial terms.

At 30 June 2018, the investment was revalued to market value of \$20,999,000 (2017: \$24,736,216) based on the valuation carried out.

(iii) SOLOMON TELEKOM COMPANY LIMITED (STCL)

During the year there were no changes to the shareholding in STCL. As at 30 June 2018, the Fund owned 77,764,218 A class shares or 97.32% of the STCL.

The other shareholder is the Investment Corporation of Solomon Islands holding 2,149,625 class A shares representing 2.68% of the STCL's ownership.

At 30 June 2018, the investment was revalued to market value of \$350,000,000 (2017: \$263,444,062) based on the valuation carried. STCL also owes the Fund \$75,698,006 as at 30 June 2018.

(iv) SOLOMONS OCEANIC CABLE COMPANY LIMITED (SOCC)

SOCC was established in 2011 by the SINPF Board and Solomon Telekom Company Limited (STCL) to develop, operate, and own a submarine fibre optic cable network system that will greatly improve Solomon Islands connectivity to the rest of the world. As at 30 June 2016, the Fund owns 51% and STCL owns 49% of SOCC however dissolved at year end to a new company, the Solomon Island Submarina Cable Co. Ltd (SICCL).

At 30 June 2018, the investment in SOCC was valued by management at \$15,669,411, anticipating equitizing the amount in a new company, SICCL.

(b) OTHER EQUITY INVESTMENTS

(i) HERITAGE PARK HOTEL LIMITED (PHPL)

During the year the Fund bought an additonal 20 shares in PHPL and now holds 40 shares, representing 20% of the company's share capital. This increased the value of investment to \$66,000,000, (2017: \$26,800,000).

PHPL also has a loan balance with the Fund which currently stands at \$25,109,148. The loan is accruing interest at the rate of 12.5% per annum.

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)

(b) OTHER EQUITY INVESTMENTS (CONTINUED)

(ii) SOLTUNA COMPANY LIMITED (SCL)

In 2016 financial year, the Fund purchased 49% of the new share issues totaling 147,000,000 shares for \$15,680,000. This brought the Fund's shareholding in Soltuna Ltd to 40.5%. The majority shareholder purchased the remaining 51% of the new issue of 153,000,000 shares for \$16,320,000. The other shareholders ICSI and Western Province shareholdings were diluted to 4.6% and 3.9% respectively.

At the end of June 2018, the Fund valued its investment in Soltuna at \$45,000,000 (2017: \$37,876,088) based on a valuation carried out by Deloitte.

Soltuna continues to repay its \$50 million loan according to loan arrangements. At the end of the year, the loan balance was \$20,382,905, a reduction of approximately \$29.7 million.

During the 2016 financial year the Fund purchased a convertible bond from Soltuna Ltd at \$20,486,900 that was priced at 5% interest per annum. Interest payments on the bond are being met by Soltuna Ltd as agreed.

(iii) 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 \$24.99 per share (\$10.01 Kina) giving a valuation of \$62,485,321 (2017: \$60,440,977).

(iv) 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.

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

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

At 30 June 2018 the Fund has 1,707,781 units (2017: 1,656,562 units) in UBS Australian Share Fund at the recorded price of SBD \$11.13 (2017: SBD \$10.85) per unit (AUD \$1.8714) (2017: AUD \$1.7765). During the year the Fund reinvested its quarterly distributions to purchase an additional 51,219 units in the Fund under the Fund's Distribution Reinvestment Program (DRP).

The Fund also maintained the same level of units in Vanguard European Stock Index Fund at 64,6734 with a closing price per unit of SBD \$180.69 (2017: SBD \$171.35) per unit (Euro 19.6868) (2017: Euro 19.1397) at the end of the year.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

17. TREASURY BILLS AND OTHER PRIVATE COMMERCIAL LOANS

(a) GOVERNMENT SECURITIES/DEVELOPMENT BONDS

| | June 2018 | June 2017 |
|---|--------------------|--------------------|
| | \$ | \$ |
| SIG Development Bond – Bullet Series | 120,000,000 | 120,000,000 |
| SIG Development Bond – Amortising Series | 30,000,000 | 30,000,000 |
| Total government securities/Bonds (refer Note 6 (a) (ii)) | 150,000,000 | 150,000,000 |

In 2017, the government issued Bonds to the Fund. The first bond amounting to \$120m was issued at 6.5% interest rate with a term of 15 years, maturing on 20 March 2032. The second bond amounting to \$30m was issued at 6.69% interest rate with a term of 10 years, maturing on 30 March 2027.

(b) TREASURY BILLS – CENTRAL BANK OF SOLOMON ISLANDS

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 \$19,217,142 (June 2017: \$18,529,000). These were mostly 182 days Treasury Bills at rates between 0.4% to 1.5%.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Valuation models

The fair values of financial assets and liabilities that are traded in active markets are based on quoted market prices or broker price quotations. For all other financial instruments, the Fund determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair values are less objective, and requires varying degrees of judgement depending on liquidity, uncertainty of market factors, pricing assumptions and other risk factors affecting the specific instrument.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

The objective of the valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The valuation techniques include net present value and discounted cashflow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques includes risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bonds and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Valuation framework

The Fund uses third party valuations to measure fair value. When third party information is used to measure fair value, then the Fund assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- If a number of quotes for the same financial instrument have been obtained, then how the fair value has been determined using those quotes.

(c) Fair value hierarchy – Financial instruments measured at fair value

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the statement of net assets.

| Financial assets at fair value through changes in net assets | Total | Level 1 | Level 2 | Level 3 |
|---|----------------------|--------------------|----------------------|--------------------|
| 30 June 2018 | | | | |
| <u>Equity investments</u> | | | | |
| - Energy | 900,000,000 | - | 900,000,000 | - |
| - Telecommunications | 365,669,411 | - | 350,000,000 | 15,669,411 |
| - Tourism and hospitality | 66,000,000 | - | - | 66,000,000 |
| - Manufacturing | 45,000,000 | - | - | 45,000,000 |
| - Financial services and others | 164,705,940 | 143,706,940 | - | 20,499,000 |
| Total financial assets at fair value through changes in net assets | 1,541,375,351 | 143,706,940 | 1,250,000,000 | 147,168,411 |
| 30 June 2017 | | | | |
| <u>Equity investments</u> | | | | |
| - Energy | 839,398,000 | - | 839,398,000 | - |
| - Telecommunications | 279,113,473 | - | 263,444,062 | 15,669,411 |
| - Tourism and hospitality | 26,823,000 | - | - | 26,823,000 |
| - Manufacturing | 37,876,088 | - | - | 37,876,088 |
| - Financial services and others | 158,497,353 | 133,761,137 | - | 24,736,216 |
| Total financial assets at fair value through changes in net assets | 1,341,707,914 | 133,761,137 | 1,102,842,062 | 105,104,715 |

There have been no transfers between the fair value hierarchies during the year.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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FOR THE YEAR ENDED 30 JUNE 2018

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the reconciliation from the opening balances to the closing balances for fair value measurements in level 3 of the fair value hierarchy.

| | June 2018 | June 2017 |
|---------------------------------------|--------------------|------------------|
| | \$ | \$ |
| Balance at 1 July | 105,104,715 | 119,240,637 |
| Fair value (losses) / gains * | 3,386,696 | 2,895,866 |
| Purchases | 39,177,000 | - |
| Disposals/Transfer | - | (17,031,788) |
| Balance at the end of the year | 147,668,411 | 105,104,715 |

*These gains and losses are recognised in the changes in net assets as net gain from financial instruments at fair value through changes in net assets.

(d) Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs as at 30 June 2018 in measuring financial instruments categorized as level 2 and level 3 in the fair value hierarchy.

| Description | Valuation technique | Unobservable Input | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|--|---|---|
| Unlisted private equity instruments (categorised in level 2) | <p><i>Discounted cash flows:</i> The valuation model considers the present value of expected future free cashflows, discounted using a risk-adjusted discount rate. The expected future free cashflows are determined by considering managements best estimate of revenue and EBITDA of the investee. The enterprise value determined under the DCF valuation is adjusted for surplus assets and net debt to arrive at an equity value.</p> | <ul style="list-style-type: none"> - Forcast annual revenue growth rate - Forcast EBITDA margin - Risk adjusted discount rate – i.e. weighted average cost of capital (WACC) | <p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> - The annual growth rate were higher (lower); - The EBITDA margin were higher (lower); or - The WACC were higher (lower). <p>Generally, a change in the annual growth rate is accompanied by a directionally similar change in EBITDA margin.</p> |

Unlisted private equity instruments which are categorised in level 3 are valued using the tangible net assets method and therefore are not sensitive to unobservable inputs.

(e) Financial instruments not measured at fair value

The financial instruments not measured at fair value through changes in net assets are short-term financial assets and financial liabilities including cash and cash equivalents whose carrying value approximates fair value.

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19. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The following new standards relevant to the Fund have been issued. The Fund does not intend to apply these standards until their effective dates:

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Fund is in the process of evaluating the potential effect of this standard.

IFRS 16 Leases

IFRS 16 removes the classification of leases as either operating leases or finance leases - for the lessee - effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements.

There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual returns.

Lessor accounting remains similar to current practice - i.e. lessors continue to classify leases as finance and operating leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The Fund is in the process of evaluating the potential effect of this standard.

There are no other standards, amendments or interpretations that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

20. SUBSEQUENT EVENTS

Subsequent to 30 June 2018, there were approvals made by the Minister of Finance through the Board for the purchase of a property from STCL and Shares in SICCL for the values of SBD 34,000,000.00 and SBD 116,000,0000 respectively.

Other than the above, there has not been any matters or circumstances that have 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 apart from the matters discussed elsewhere in the financial statements.

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