



**SOLOMON ISLANDS NATIONAL  
PROVIDENT FUND**

**ANNUAL REPORT 2012**

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# THE HIGHLIGHTS

- ⌘ Gross surplus of \$88.7 million was realized, an increase of about 1% on gross surplus the previous year 2011;
- ⌘ Members were credited with 6% interest added to their contribution balances thus leaving \$24.7 million to strengthen the Fund' general reserve;
- ⌘ The Fund's Balance Sheet Net Assets enhanced to \$121.3 million from \$96.4 million in the previous year;
- ⌘ Continued growth in annual contributions by 18% from \$161.6 million last year to \$190.9 million this financial year;
- ⌘ Continued growth with a record level of total members' contributions by 18% from \$1.1 billion to \$1.3 billion at the end of this financial year;
- ⌘ New investments approved and implemented during the year reached \$147.7 million in investable areas including: equities, commercial properties, loans and fixed term deposits in banks;
- ⌘ Continued growth in total record investments portfolio by 14.9% from \$1.23 billion in year 2011 to \$1.44 billion this financial year;
- ⌘ High growth in cash liquidity in the banking system from \$376.9 million in the previous ar to \$462.5 million within the domestic economy this financial year, representing 20% of the total domestic liquidity within the banks.

## CHAIRMAN'S LETTER

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

Dear Sir,

### **SOLOMON ISLANDS NATIONAL PROVIDENT FUND ANNUAL REPORT 2012**

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 2012 which incorporates the Statements of Incomes and Expenditures, Assets and Liabilities, notes on the Accounts and major development events and activities undertaken by the Fund during the financial year.

Thank you very much for your continuous understanding, support and cooperation.

Yours faithfully,

Solomon Islands National Provident Fund



**Mr. Baoro Laxton Koraua**  
Chairman  
Board of Trustees

### OUR VISION

Realize a comfortable life during working life and after retirement.

### OUR MISSION

Contribute to the economic development thus sustain financial growth and better investment returns to members.

### OUR CORE VALUE

- ⌘ Committed to the best management practices with ethical conduct and integrity;
- ⌘ Preserve, protect and sustain growth to members' contribution values;
- ⌘ Partake in feasible commercial developments that will contribute to the economic growth of Solomon Islands as a responsible financial institution;
- ⌘ Maintain prudent investment decisions and sound management practices to ensure sustainable financial growth of the Fund and members' wealth;
- ⌘ Enhance human resource capacity to maximize their potentials to further improve performance and services with excellence;
- ⌘ Always adhere to exercising Good Governance principles and Employment Practices;
- ⌘ Develop a strong, honest and motivated workforce to maintain high productivity;
- ⌘ Sustain effective partnership with all stakeholders to facilitate commercial opportunities that will create and deliver needed economic and social benefits;
- ⌘ Always accountable and taking ownership of all actions taken for the benefit of members.

### CORPORATE GOVERNANCE

The roles and responsibilities of the Board as Trustees are defined in the Fund's Act. The Board, with the support of its Sub-committees, is responsible to the members for the overall performance of the Fund including its strategic direction; establishing goals for management; and monitoring the achievement of those goals with the view to optimizing the Fund's overall performance, return and increasing members' contribution wealth. The Board is committed to achieving the highest standards of corporate governance and ethics and they expect similar from management and staff. All strategic policy matters are discussed by the Board, including, but not limited to the overall operations, investment and financial performance of the Fund. The Code of Conduct and Conflict of Interest policies are in place and are being complied with pertinent to when undertaking the Fund's business affairs by the Board, Management and staff of the Fund.

### BOARD COMPOSITION

Solomon Islands National Provident Fund (SINPF) is established by an Act of Parliament. It is administered by a Board of Trustees duly appointed by the Minister of Finance & Treasury to make prudent decisions on behalf of the Members of the Fund. They are required to ensure members' funds are preserved, protected and sustain growth over time.

As prescribed by the SINPF Act, the maximum number of Board of Trustees is eight. They include: two persons representing the Crown, two persons representing Employers, two persons representing Employees and two persons are appointed under the discretion of Hon. Minister of Finance & Treasury.

During the 2011-2012 Financial Year, some changes took place to the composition of the Board of Trustees. Dr. Levi Hou was appointed in September 2011 replacing Mr. Joses Tuhanuku whose term with the Board lapsed in August 2011. Mr. Austin Holmes' term with the Board lapsed in February 2012. Subsequently, he was replaced by Mr. Baoro Laxton Koraua in March 2012. Mr. Koraua was appointed as the new Chairman of the Board of Trustees. The appointments of Mr. Harry Kuma and Mr. Yoshiyuki Sato as Board Directors expired on 21<sup>st</sup> June 2012. Mr. Kuma's appointment was renewed for a further two years term while Mr. Sato has declined renewal of his directorship due to business commitments. With these changes made, the membership of the Board as at 30<sup>th</sup> June 2012 stood at seven. This leaves one vacancy still to be filled in the Board of the Fund. The Hon. Minister of Finance & Treasury has been informed of the vacancy to be filled.

## BOARD OF TRUSTEES

**Table 1: Board of Trustees and Appointment Tenure**

NAME	APPOINTMENT	APPOINTED DATE	TERM OF APPOINTMENT	EXPIRY DATE	REPRESENT
Austin Holmes	Chairman	27/02/2010	2 years	27/02/2012	Employer
Baoro Laxton Koraua	Member Chairman	07/03/2012 30/03/2012	3 years	27/03/2015	Employer
Peter Boyers	Deputy Chairman	11/10/2010	3 years	11/10/2013	Minister's Discretion
Yoshiyuki Sato	Member	21/06/2010	2 years	21/06/2012	Employer
Harry Kuma	Member	21/06/2010 21/06/2012	2 years 1 year	21/06/2012 21/06/2013	Crown
Josiah Manehia	Member	26/01/2011	2 years	26/01/2013	Crown
Rev. Mareta Tahu	Member	26/01/2011	2 years	26/01/2013	Minister's Discretion
Leotina Harihiru	Member	26/01/2011	2 years	26/01/2013	Employee
Dr. Levi Hou	Member	09/09/2011	3 years	09/09/2014	Employee

## BOARD SCHEDULED MEETINGS

The scheduled meetings of the Board are to be held at least every two months during a financial period. The Board meets on other occasions as necessary to deal with important agenda matters requiring timely decisions and implementation. The Board has a policy of rotating its meetings between locations where the Fund has a presence in the Provinces. On these occasions, the Board would have the opportunity to visit subsidiary company operations (if an SINPF commercial investment exists in the province). The Board also uses the opportunity to meet and discuss with Provincial Premiers, officials and other stakeholders on any potential commercial issues of mutual interest. The Chairman, in consultation with General Manager and Board Secretary, determines meeting agendas for discussions.

A total of twelve Board Meetings were held during the financial year, including a meeting held in Tulagi, Central Islands Province. At the Tulagi Meeting, the Board and Executive Management had the opportunity to meet with the Premier and officials, since the Fund has just made significant infrastructure investment (the largest slipway in the country) in the Province. A familiarization tour was organized and executed for the Board and Management to see the current status of the Sasape slipway 2 facilities which was undergoing full refurbishment and expansion to be commercially operational in the second half of Year 2012.

## BOARD ALLOWANCES

Monthly and sitting allowances are paid to the Board in fulfilling their duties for the Fund in respect to attending meetings. These financial entitlements were approved by the Hon. Minister of Finance & Treasury under the applicable provisions of the SINPF Act. No changes were made to the level of Board allowances during the financial year. The following allowances were paid to the Board of Trustees during the Financial Year 2011/2012 are shown on Table 2.

**Table 2: Board Meetings and Remuneration**

Name of Board Member	Meetings Attended /Total Held	Sitting Base Emolument	Total Sitting Allowances		Monthly Base Emolument
			2011	2012	
Austin Holmes	05/06	\$ 1,500.00	\$12,000.00	\$ 18,000.00	\$1,357.00
Peter Boyers	11/12	\$ 1,300.00	\$10,400.00	\$ 14,300.00	\$1,250.00
Yoshiyuki Sato	06/12	\$ 1,170.00	\$ 4,680.00	\$ 7,020.00	\$1,160.00
Harry Kuma	09/12	\$ 1,170.00	\$ 3,510.00	\$10,530.00	\$1,160.00
Josiah Manchia	08/12	\$ 1,170.00	\$ 5,850.00	\$ 9,360.00	\$1,160.00
Rev. Mareta Tahu	12/12	\$ 1,170.00	\$ 8,190.00	\$14,040.00	\$1,160.00
Leotina Harihiru	09/12	\$ 1,170.00	\$ 5,850.00	\$10,530.00	\$1,160.00
Dr. Levi Hou	05/12	\$ 1,170.00	-	\$ 5,850.00	\$1,160.00
Baoro Laxton Koraua	06/06	\$ 1,500.00	-	\$ 9,000.00	\$1,357.00

## BOARD DIRECTORS IN SUBSIDIARIES

During the financial year, the Board appointed its representatives as Directors on the Board of subsidiary Companies where the Fund holds ten percent or more shareholding. The directors appointed by SINPF Board, to be on subsidiary boards, are there as ears and eyes for the SINPF Board on the subsidiary companies, to protect members' funds and add value to the Funds' investments. Currently, the Fund had made equity investments in a number of industry sectors within the local economy as shown in table 3. The subsidiary companies which the Fund holds less than ten percent do not require Board's representation.

**Table 3: Subsidiary Companies and SINPF Board Representatives**

SUBSIDIARY /ASSOCIATE COMPANY	SINPF SHARE-HOLDING	SINPF REPRESENTATIVES	
<b>Solomon Telekom Co. Ltd</b>	64.7%	John Beverley MBE Austin Holmes Tony Makabo	Chairman Director Director
<b>South Pacific Oil Limited</b>	85%	Josiah Manehia Peter Boyers Rev. Mareta Tahu Harry Kuma	Chairman Director Director Director
<b>Solomon Islands Home Finance Ltd</b>	100%	Gabriel Suri Austin Holmes Leotina Harihiru Ishmael Kako Jennifer Lakoa	Chairman Director Director Director Director
<b>Heritage Park Hotel</b>	10%	Josiah Manehia	Director
<b>Providence Properties Ltd</b>	90%	Gabriel Suri Mike Wate Austin Holmes Harry Kuma	Chairman Director Director Director
<b>Sasape International Shipyard Ltd</b>	25%	Peter Boyers Mike Wate	Director Director
<b>Soltai Fishing &amp; Processing Ltd</b>	29%	Mike Wate Peter Boyers	Director Director
<b>Solomons Oceanic Cable Company Ltd</b>	51%	Austin Holmes Mike Wate	Chairman Director

## BOARD SUB-COMMITTEES & MEMBERSHIP

The Board has established Sub-committees whose functions and powers are governed by their respective terms of references or charters. The Chairman of the sub-committees must be a Member of the Board of Trustee. Each member should be capable of making a valuable contribution to the sub-committee.

**Table 4: Board Membership on Sub-Committees**

Investments & Credit Committee	Finance & Audit Committee	Information Technology Committee	Welfare Committee	Legal Affairs Committee	Board Task Force Committee
H. Kuma	B. Koraua	B. Koraua	J. Manehia	Y. Sato	J. Manehia
P. Boyers	H. Kuma	H. Kuma	L. Harihiru	Dr. L. Hou	Rev. M. Tahu
Rev. M. Tahu					L. Harihiru

During the year, the Board reviewed membership on the Board's Sub-committees within the Fund as an important part of good governance. The revised Sub Committee Memberships are shown in table 4.

arising in the course of their duties. Any advice so received is made available to the Board and Management. This is to ensure that appropriate and prudent decisions are made for the benefit of the Fund and its members.

## POLICY DEVELOPMENT

The Fund, in keeping with its principles of good governance practices, continues to develop, review and approve a number of Corporate Policies as Guidelines to facilitate prudent decision-making. During the period, the Board approved a new policy on tendering while the accounting policies and procedures manual was reviewed and amended purposely to ensure consistency with International Financial Reporting Standards on depreciable assets.

## BOARD ACCESS TO INFORMATION & ADVICE

All Board of Trustees have unrestricted access to the Fund's records and information and receive regular financial and operational reports to enable them to carry out their duties effectively. The Board recognizes that in certain circumstances individual Directors may need to seek independent professional advice, at the expense of the Fund, on matters

## RISK MANAGEMENT

The Fund's risk management activities are aligned to the achievement of the Fund's objectives, goals and strategic Business Plans. The Board, in consultation with management, is continually monitoring risks to the Fund's investments, to ensure that members' funds are protected and enhanced in the medium to long term. Examples of risks that the Board monitors and build strategies around them are to minimize any negative impacts on the Fund's investments includes but not limited to, credit risks, market risks, interest risks, specific industry risks, foreign currency risks, operational risks, and many more. A number of measures have been put in place to manage these risks. The Board is satisfied that the current risk management programmes in place are working.

## SEMINARS/TRAINING FOR EXECUTIVES

The Fund is committed and will continue to encourage and implement capacity building

of its important human resources to equip them with the required knowledge and skills in order to face current and future challenges in their respective responsibilities. The following programs were identified and utilized during the year:

# Mr. Ishmael Kako, Legal Counsel attended a 2-days training on “Strategic Contract Risk Management” in July 2011, held in Sydney, Australia;

# Delegation led by Mr. Tony Makabo attended the 7<sup>th</sup> Pacific Provident Fund and Social Security CEO Forum hosted by NASFUND Limited, Papua New Guinea 22nd – 24th August 2011 with theme “Lifting Fund’s Performance to Building a Stronger Pacific Community”. He was accompanied by Deputy General Manager - Mr. Mike Wate and Manager Information Technology - Mrs. Suzanne Orudiana;

# Mr. Austin Holmes, Chairman of the Board and Assistant Manager Investments (Analyst) Jennifer Lakoa

attended the 3rd Australia Solomon Islands Business Forum in October 2011 organized by the Australia Pacific Islands Business Council. Mr. Holmes was among the Speakers on the program titled “Investments made by National Provident Funds and their Impacts”;

# Manager Administration Mr. Alfred Sare attended a 2 days’ workshop on People and Performance at the Australian Institute of Management, Australia;

# Manager Internal Audit, Ms. Areau Hivu attended a 5 days’ South Pacific Asia Conference on internal auditors theme “Experienced + Corrected + Value = Assurance”, Sydney organized by Institute of Internal Audit, Australia;and

# Seven Managers were trained on “Power Point Presentation skills” through an MS Power Point 2010 for two days’ facilitated by an External Trainer

## EXECUTIVE MANAGEMENT TEAM

## CHAIRMAN'S REPORT

**Baoro Laxton Koraua**  
**Chairman**

On behalf of the Board of Trustees, I am pleased to present this Annual Report for the financial year ending 30th June 2012. This is another satisfactory financial result reflecting a reasonable growth in the domestic economy notwithstanding the downward growth caused by financial crisis in euro-economies, slow recovery in USA and slowdown in China along with the emerging economies.

The Fund's total investments portfolio continued to experience satisfactory growth as a result of increased cash inflows from members' contributions, dividend receipts and other income streams. With attempts to remain focused in protecting members' contribution wealth and increasing the Fund's profitability, the Board was able to deliver a crediting rate of 6% to the members.

### MEMBERS' FINANCIAL CONTRIBUTIONS

The Fund's principal objectives are to preserve, deliver reasonable returns and sustain growth to members' contribution for retirement. The growth of members' contributions has reached unmatched level at the end of the financial year compared to last year. The financial membership with credit balances reached 102,137 and they hold a total contribution value and interest balance of \$1.3 billion as at 30 June 2012, after adjusting contributions been withdrawn by members. This is an unmatched contribution balance level ever recorded. It is envisaged this growth trend will be sustained annually in future. With the strong growth in contribution inflows, there are adequate funds available for the Board to invest in viable commercial opportunities.

During this year, an amount of \$190.9 million of contributions was received compared to \$161.6 million recorded last year. A substantial net contribution value was made available for

investing in potential viable investments by the Board of Trustees.

### SOLID GROWTH – INVESTMENTS PORTFOLIO

The Fund's investments portfolio, including offshore, have grown to a new record level. The total investments portfolio of the Fund stood at \$1.4 billion by year ending 30th June 2012, an increase of \$129.6 million from the level reached at the beginning this financial year of \$1.1 billion. This growth of investments portfolio experienced was fuelled by new funds from increased net contribution inflows, return on investments, interest on loans and bonds, government securities, fixed term deposits in banks, rentals from commercial properties, positive revaluations of PNG and Australian investments and positive revaluations of the domestic commercial properties. The annual growth of the Fund's investments portfolio looks positive for the future.

As part of risk management strategy, the Fund's investments portfolio are well diversified as noted later in this report and these are aimed to minimize any possible adverse effects on the investment assets of the Fund. The growth of investments portfolio is clear testimony of the approved investment policy which guides the Board to pursue prudent and secure investment that deliver good returns to members. The Board and management are proactive in seeking potential investments for better returns while on the other hand, they are mindful of potential risks that may arise.

In the year, the Board had made some investments which totalled \$147.7 million and this is detailed later in the report. Most investments are undertaken within the domestic economy.

### MEMBERS' INTEREST

The Board's investment decisions were made

on new undertakings guided by the Fund's investment policy guidelines and risk return strategies that foremost must enable the Board to achieve its objectives i.e. to deliver reasonable return to members over their membership term with the Fund which ranges over a period of between 25 to 30 years. Thus, it must be understood that the Fund's investment horizon is long-term.

### WIDER ECONOMIC & SOCIAL BENEFIT

Besides satisfying the risk return for members' wealth creation, there are also wider economic and social benefits that the Board is mindful of, which these new investments are expected to stimulate. These include: the creation of direct and indirect new employment, foreign exchange earnings from exports and import substitution, food security, and improving the level and quality of the national capital infrastructure such as the construction of a high quality hotel, slipway expansion, communication and commercial properties.

### HIGH LIQUIDITY & LIMITED DOMESTIC OPPORTUNITIES

It is common with compulsory superannuation, pension and provident funds (particularly in small developing economy like Solomon Islands), that the Fund has a large component of members' funds not able to be invested productively to meet the Fund's investment objectives. This is principally due to limited domestic viable investment opportunities in the economy. As a result, a large portion of the Fund's investment portfolio are placed in cash and fixed term deposits in the commercial banks earning negligible low returns. In this financial year, this amount is edging up to \$462 million in the domestic economy representing about 32% of the total investments portfolio, earning returns were below legal crediting rate of 2.5%. The Board is committed in seeking viable investment opportunities that deliver higher returns to members.

### INVESTMENT RETURN

The investment return of \$137.9 million was achieved for this financial year 2012 compared to \$135.5 million on the previous year level. These returns were driven mainly by dividends from equity investments, rentals on commercial properties and interests on loans, bonds and government securities. This year's return could have been higher had it not been for:

(a) the weakness on offshore investments denominated in US dollars, AUD, Euro, and the pound sterling. These weaknesses are caused by the Eurozone countries debt crisis and USA slow economic recovery; and

(b) the large falls on domestic fixed term deposit interest rates which now stand at 0.25% for a twelve month term deposit.

Adjusting for expenses/costs of looking after members' funds and managing the investments, the Board has distributed \$64 million to members, thus leaving \$24.7 million ploughed back to general reserves.

### OUR CHALLENGES

One of the most important challenges, in the New Financial Year, is to have SINPF Act amended and passed in Parliament as soon as practicable. A taskforce has been established comprising of representatives from: Employers, Unions, Solomon Islands Government, Central Bank and the Fund. The review is progressing. There are competing views of what the Fund should and can do and these are expected to be taken on board for consideration during the review. A wider consultation with members and stakeholders to seek views of members are envisaged to be pursued, once the taskforce has completed its review.

The high liquidity in the domestic financial market has reduced interest rates on fixed term

deposits to levels not seen before, as rates go down as low as 0.25% for a 12 months term deposit. In this respect, the Board with the support of management will proactively seek out investment opportunities to ensure portions of the Fund's excess liquidity are invested in viable investments that will support the Fund's objective to deliver satisfactory returns on the members' contributions.

### LOOKING AHEAD

The Board will endeavour to prudently and efficiently manage the Fund's billion dollar investments in both offshore and domestic economies to realize better returns. However, the Board predicts there will be a mix investment environment in the next financial year. On the external front, the euro-zone financial crisis will continue to impact negatively on some of the Fund's offshore investments while on the domestic side, the economy will perform well and we envisage that this will continue. Our Board is fully committed to take advantage of the continued investment growth to further the role of the Fund as a major player in the economic and social development of Solomon Islands. In so doing, this will bring about future economic growth, wealth creation for members and employment opportunities for Solomon Islanders.

### ACKNOWLEDGMENT

On behalf of the Board of Trustees, I wish to acknowledge the General Manager, Executive Management team and the Staff for their untiring dedication and commitment towards the success of the Fund, thus helping to achieve great results for the year ended June 2012.

I also wish to record my sincere thanks to my colleague Directors on the Board for their invaluable support, contributions and demonstration of genuine team spirit during the year.

With their continued efforts, support and

commitments, the Fund will be well-placed to meet the challenges ahead.

Towards the end of the financial year, the Board had farewelled two former Directors – Mr. Austin Holmes and Mr. Yoshi Sato after completing their tenure in Office as Board of Trustees. On behalf of the Board, Management team and Staff of the Fund, I would like to take this opportunity express our great appreciation for their valuable contributions and commitments they have rendered to the Fund.

Finally but not the least, we take this opportunity to thank the Honourable Minister of Finance & Treasury Hon. Rick Houenipwela and his staff for their continued support, understanding and professionalism during the year.

Thank you all.

## GENERAL MANAGER'S REPORT

**Tony Makabo**  
**General Manager & CEO**

Positive improvements were realized during the financial year notwithstanding the continued financial problem in Euro-zone economies, slow economic recovery in USA and slowdown in the Asian economies. These improvements were in areas of investments, contributions and other supporting functions of the Fund. The Board and Management are committed to sustain further positive developments and growth of the Fund with the aim to deliver higher returns to members in future.

### THE ECONOMY

In 2011, Solomon Islands' economy recorded a robust growth of around 10.7% in real terms compared to 7% GDP growth recorded in the previous year. This impressive economic growth was driven by our export sector, in particular logging but also supported by international prices of our cash crops higher except for cocoa. Global economic growth in 2011 was estimated at 3.8% by the IMF.

Inflationary pressures in the first half of the year declined as the prices of oil and other non-oil imported commodities eased and thus reducing the domestic inflation to close at 7.1% at the end of the financial year 2012 (calculated on annual 3 month moving average). This is 0.2 percentage points below the previous year's inflation rate of 7.3%.

At the end of the financial year, the country's official gross foreign reserves have moved up further to \$3,500 million driven on the back of strong donor support, investments and export inflows. This level of reserves is equivalent to 9.8 months of import compared to 9.3 months import cover a year ago. On the pricing of Solomon dollar, the Central Bank of Solomon Islands (CBSI) adopted an exchange rate policy that aimed to stabilize the value of the SBD against the USD. At the end of the

financial year, the SBD value against the USD was \$7.36. The SBD appreciated against the USD, AUD, Euro, and the pound sterling while the Kina appreciated against the SBD. The domestic economy is projected to expand at a slower growth rate of between 5-6% in 2012 and this was estimated by CBSI predicated on growth from the non-logging commodity sector i.e. the construction industry, fisheries, and telecommunications. The IMF has revised downward its forecast for the global economic economy growth to 3.5% due to the Euro-zone countries continued financial problems, the risk of the US economy recovery is losing steam and slowdown in China and other emerging economies' slower economic growth.

### OPERATIONS

The operations Department is fully committed to provide quality, effective and reliable customer services to the members and employers pertinent to member's registration, collection of contribution receipts and facilitation of members' benefit payments.

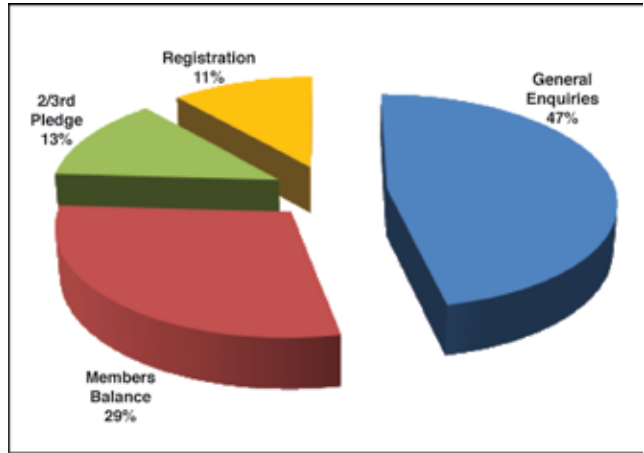
The untimely submissions of Form "A" Schedules and lack of Electronic Data Interface from employers to the Fund are the department's continuous challenges, coupled with incomplete and inaccurate information about members on Form "A" schedules and EDIs from employers. This is the main reason the Fund continues to hold unidentified contributions on its Balance Sheet. The staff are committed to exercise regular consultations with employers to create better understanding and commitment to minimize these concerns. In response, the employers are obligated to perform their statutory duties to ensure the employees' contribution payments to the Fund are current.

### MEMBERS SERVICES

The total member clients served during the financial year reached 58,096. This

represents 27,134 members making general enquiries about the functions and objectives of the Fund and 16,976 members enquired about contribution balances. A total of 7,358 members have made enquiries and obtained pledge forms to pledge 2/3 of their contribution balances with banks. The representation by percentage in terms of services offered to members can be seen in chart 1.

Chart 1: Customer Services



MEMBERS & EMPLOYERS' ENQUIRY

MEMBERSHIP REGISTRATION

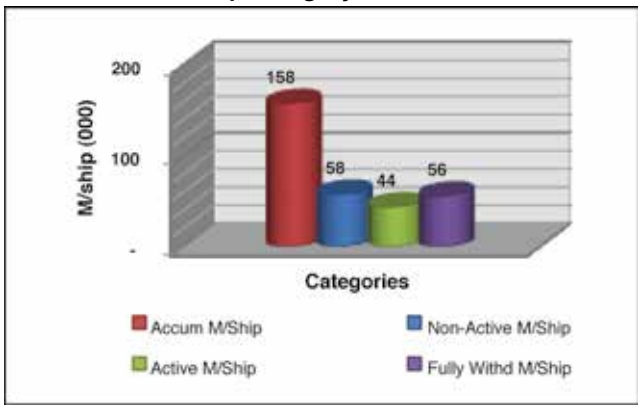
During the Financial Year, 5,928 new members were registered and this brought the total registered membership with the Fund to 157,902. The trend of newly registered membership in the past five years is seen in chart 2. The total membership with credit contribution balances stood at 102,137 members and 55,765 members have fully withdrawn their benefits from the Fund.

Total active membership is 44,072 members, i.e. they are actively contributing to the Fund during 2012 financial year and the non-active members are members with credit balances who have not paid their contributions for the last 24 months), reached 58,065 as shown in chart 3.

Chart 2: New Members Registered



Chart 3: Membership Category



AGE GROUPS AND CONTRIBUTION VALUES

The age group 31 to 40 years represented the highest number of the Fund's members at year end. This is followed by age group from 41 to 50 years old and then age group 14 to 30 years old. The age group 51 to 60 years old and above represented the lowest number of the Fund's membership.

On contribution value held by these age groups, the age group from 41 to 45 years old held the highest contribution value followed by the age group from 36 to 40 years old and 46 to 50 years old. The age group with the least contribution value is the age group from 20 years old and below. Combining the age groups from 36 to 50 years old, these members held about 64% of the total contributions by the Fund while 36% was held by the remaining age groups as depicted in table 5.

Pertaining to gender, the male group continue

**Table 5: Grouped Membership and Contribution Values in \$'000,000**

Age Group	Male	Female	Total M/Ship	Value-Male	Value-Female	Total Value
<=20	470	396	866	0.70	0.60	1.30
21-25	3,804	2,692	6,496	10.30	7.80	18.10
26-30	9,783	5,447	15,230	61.60	39.50	101.10
31-35	14,584	6,333	20,917	128.80	67.90	196.70
36-40	12,050	5,580	17,630	200.40	88.30	288.70
41-45	10,257	4,098	14,355	214.10	82.30	296.40
46-50	7,761	2,565	10,326	181.30	57.50	238.80
51-55	5,338	1,355	6,693	68.30	15.70	84.00
56-60	3,282	860	4,142	30.50	6.90	37.40
60 plus	4,495	987	5,482	25.60	4.20	29.80
<b>Total</b>	<b>71,824</b>	<b>30,313</b>	<b>102,137</b>	<b>921.60</b>	<b>370.70</b>	<b>1,292.30</b>

Note: The total accumulated identified contribution amount at the end of the financial year is \$1.29 billion and this exclude: the members' unidentified contributions which amounted to \$8.2 million, excess contributions without Form A schedules valued \$28.7million and provision of contributions \$1.6 million.

to dominate the membership with the Fund. In terms of contribution value, the male members continue to hold about 71% of the total contribution value while female members hold 29%.

## MEMBERS' WITHDRAWALS

There are six (6) grounds for members to withdraw their financial contribution savings under the SINPF Act that do not require Ministerial or Board deliberations. Beside the six withdrawal grounds, there are other legal avenues for withdrawals. One of the grounds is that where a member failed to qualify under the normal grounds of withdrawals, a member can apply to the Minister of Finance & Treasury for granting exemption under Section 50 of the NPF Act, which then enables a member to withdraw contribution savings. The other ground is when commercial Banks and/or other Institutions legally claim the 2/3<sup>rd</sup> Pledge of the member's contribution value if the member defaulted in loan repayments beyond six months. Lastly, a member can apply for withdrawal even after his/her funds have been transferred to Unclaimed Deposits.

The total withdrawal payments during the financial period stood at \$71.4 million. This is a reduction from \$79.3 million last year or 11% reduction. In terms of withdrawal applications submitted, 2,680 withdrawal applications were received, a decrease from 3,253 withdrawal

applications received in the previous year. The contribution withdrawals trend over the past five years against contribution receipts for the same period is depicted in chart 4 and table 6. The contribution receipts continued to enjoy upward trend while the withdrawals by members reduced this financial year and this resulted in higher net contribution receipts being available for investments in future.

**Chart 4: Contribution Receipts verses Withdrawals**



## NORMAL RETIREMENT (50 YEARS & RETIRED)

The normal retirement (50 years old and more) withdrawal ground accounted for 47% of all applications. In monetary terms, this represents 63% of the withdrawal payments made to members. The Fund anticipated that more members who joined the Fund in the early 1980s would be entitled to make withdrawals under this withdrawal ground. However, current trends show that a significant portion of this

age group remain working and opted to leave their contributions with the Fund to realize better financial gains to their contribution wealth compared to negligible interest offered by the local financial institutions.

The total approved payments and applications during the financial year for normal retirement over the past three financial years are shown in Charts 5 & 6.

Chart 5: Withdrawal Payments

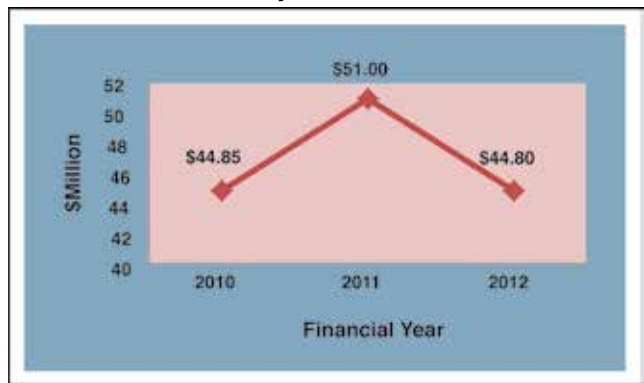
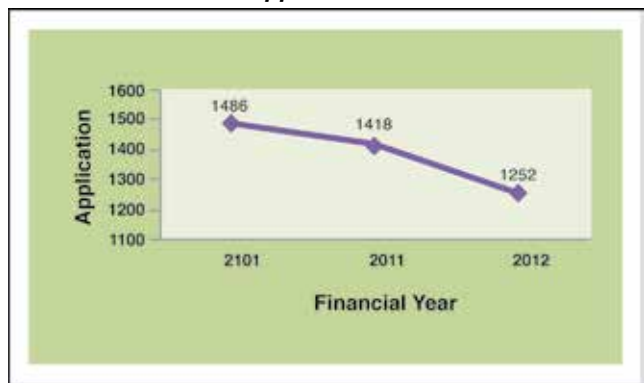


Chart 6: Withdrawal Applications



## DEATH

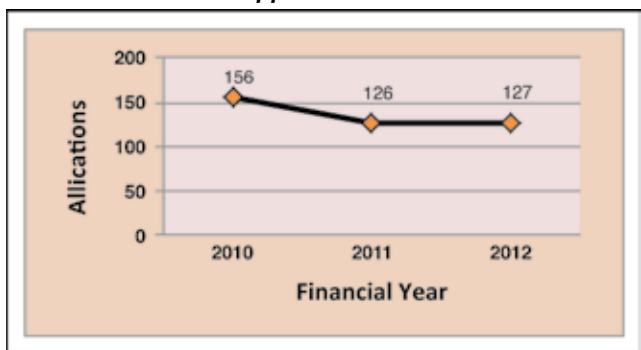
Upon the death of a member, a nominee or benefactor is eligible to withdraw the deceased member's contribution savings held by the Fund. In the year, there were 123 withdrawal applications received and this represents a total of \$3.3 million paid to the beneficiaries in respect to 123 members who had deceased. The monetary value increased by 64% compared to last financial year of \$1.2million as shown in chart 7 and 8. The increase was due to some senior members who had substantial contribution balances had

died during the year.

Chart 7: Withdrawal Payments



Chart 8: Withdrawal Applications



## PERMANENTLY INCAPACITATED

A member who is mentally or physically incapacitated, and is incapable of securing further employment is eligible to withdraw his/her contribution savings with the Fund. However, the withdrawal application submitted under this withdrawal ground must have supported documents from a medical practitioner stating that the member is no longer fit for employment.

A total of 80 withdrawal applications were received and \$2.6 million was paid under this category of withdrawal. The movements in applications and payouts during the last three years are shown in charts 9 and 10.

Chart 9: Withdrawal Payments

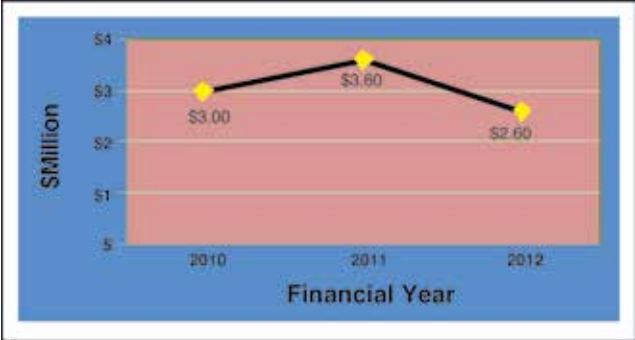


Chart 12: Withdrawal Applications

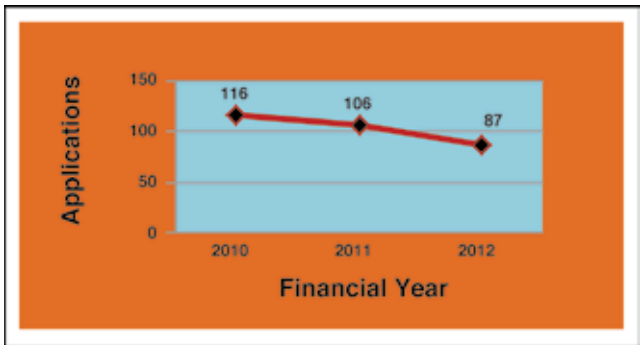
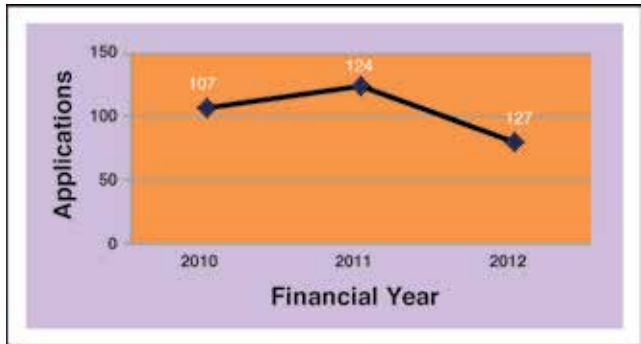


Chart 10: Withdrawal Applications



REDUNDANCY OR UNFAIR DISMISSAL

Members who are made redundant or unfairly dismissed from employment can apply to withdraw their contribution savings with the Fund. In this case, the employer must satisfy the requirements of the Labour Act and SINPF Act to qualify for the member to withdraw his/her contribution savings.

MIGRATION

A non-citizen or Solomon Islander who is married to a non-citizen and is leaving Solomon Islands with no intention of returning, is eligible to withdraw under migration grounds. For a Solomon Islander, the member will withdraw only 50%, and the remainder will be withdrawn after twelve months. There were 87 withdrawal applications approved totalling \$6.17 million paid to members under this category of withdrawal (refer to Chart 11 & 12).

For unfair dismissal, the decision of Trade Dispute will determine whether the terminated member is qualified or not to withdraw his/her contribution funds. A total of 664 withdrawal applications were received and approved under this category during the year amounting to \$5.2 million. There is a decrease for both the withdrawal applications and contribution payments as depicted in charts 13 and 14.

Chart 11: Withdrawal Payments

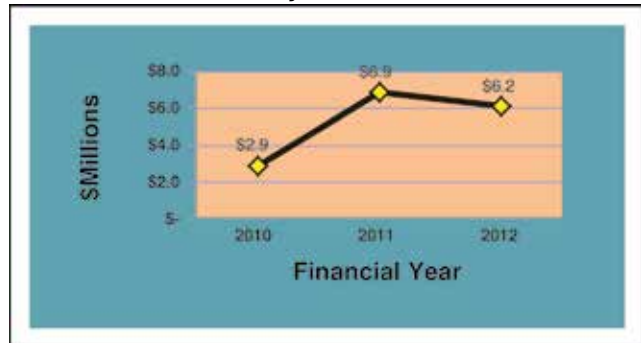


Chart 13: Withdrawal Payment

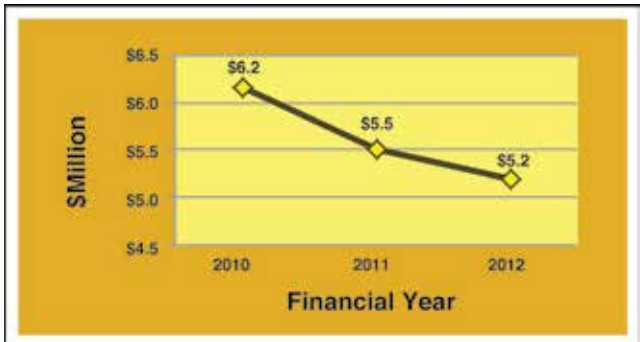
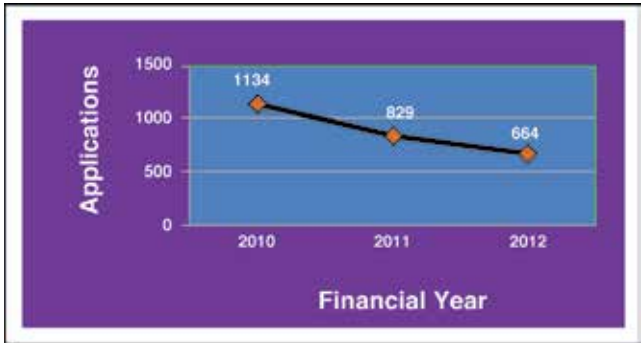


Chart 14: Withdrawal Applications



**EARLY RETIREMENT (40 YEARS AND RETIRED)**

Members who have reached 40 years old and retire, may apply to withdraw their contribution savings under this ground. There were 26 withdrawal applications approved amounting to \$2.7 million paid compared to \$3.6 million paid in the last financial year as shown in charts 15 and 16.

Chart 15: Withdrawal Payments



Chart 16: Withdrawal Applications



**LENDERS CLAIM**

Section 35(3) and (4) under the SINPF Act provides an opportunity for members to pledge 2/3rd of total contribution balance against

personal loans with a prescribed lending financial institution in Solomon Islands. This legal provision allows the Lending Financial Institutions to claim the member's 2/3rd Contribution Pledge. A total of 303 claims were received for a sum of \$5 million paid to commercial banks as depicted in Charts 17 and 18.

Chart 17: Withdrawal Payments

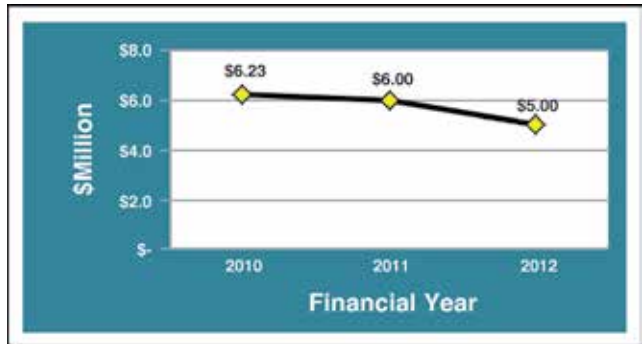


Chart 18: Withdrawal Applications



**EXEMPTION**

Section 50 of the SINPF Act empowers the Minister of Finance & Treasury to exempt a member who is not qualified to withdraw under the six withdrawal grounds. During this financial period, the total submissions approved by the Hon Minister of Finance and Treasury after consultations with SINPF Board were 127 for a total of \$1.3 million.

**UNCLAIMED DEPOSIT ACCOUNT**

A member who has a credit account balance with the Fund at the age of 50 years and not contributing for the past 10 years, will have his/her credit balance transferred to the Unclaimed Deposit Account (UDA). This credit

account will remain in the UDA for five years and if not claimed within the five years, then the credit balance will be transferred to the General Reserves. Though, this may be the case, a member knowing that he/she has a credit balance can make a claim. During the year, there were 119 applications received and approved for \$276,231.

ACCUMULATED MEMBERS’ PLEDGES

According to Section 35 (3) of the SINPF Act, a member can pledge up to two-thirds contribution savings as a way of guaranteeing micro-loans from the Lending Financial Institutions. The total accumulated members’ pledge made against loan borrowings from the prescribed financial institutions reached \$271 million - an increase from \$232 million committed last financial year 2011 as depicted in Chart 19 and 20. The accumulated pledges to the Lending Financial Institutions include: Bank of South Pacific which holds 79% or \$214 million of the total pledges made by members, followed by Westpac Banking Corporation holding 17% or \$46 million, and ANZ Bank which holds 3% or \$9 million. SINPF holds 1 % or \$3 million

Chart 19: Accumulated Pledges

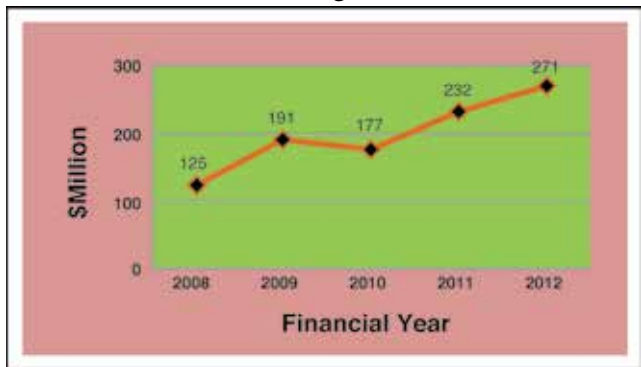
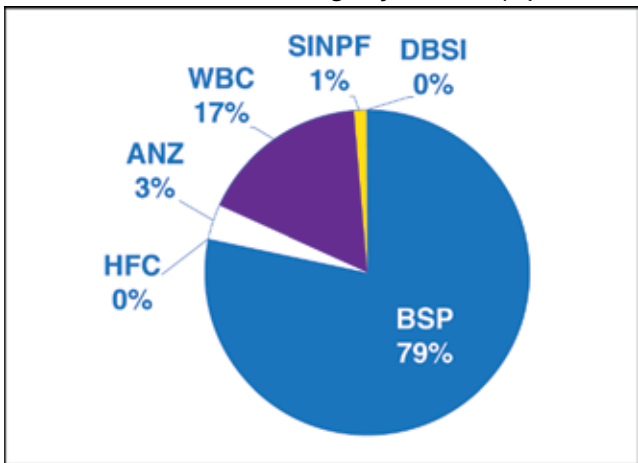


Chart 20: Accumulated Pledge by Lenders (%)



EMPLOYERS

Total active employers reached 2,379 from 2,264 in the last financial period, reflecting an increase of 231 new employers registered. There were 116 employers who ceased operations during the year. 79% of the employers have head offices in Honiara and about 70% of their commercial operations carried out in the provinces. Refer to Chart 21 and Table 7.

Chart 21: Active Employers

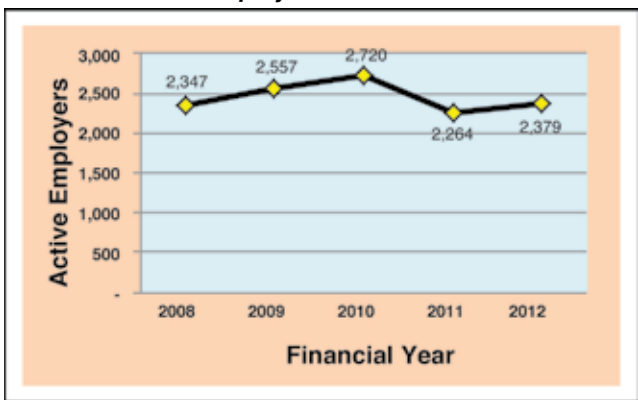


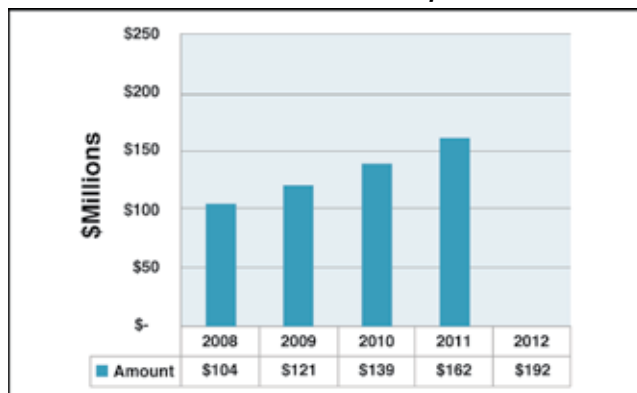
Table 7: Employers by Provinces

PROVINCE	EMPLOYERS	%
Central Province	27	1%
Choisuel	20	1%
Guadacanal	80	3%
Honiara City Council	1891	79%
Isabel	34	1%
Makira/Ulawa	55	2%
Malaita	100	4%
Other Countries	4	0%
Rennel Bellona	3	0%
Temotu	15	1%
Western Province	150	6%
TOTALS	2379	100%

## MEMBERS' CONTRIBUTIONS

The total contribution receipts for the financial year reached \$190.9 million, an increase of 18% from the previous year's receipts valued at \$161.6 million. Chart 22 depicts total annual contribution receipts for the last five years. The increasing trend over the years is a reflection of improved compliance and most importantly, the commitment from the good employers in respect of their employees.

Chart 22: Annual Contribution Receipts



In light of the annual increase inflows of members' contributions to the Fund over the recent years, the total accumulated identified contribution balance in respect of all the members' accounts being held by the Fund has grown to \$1.3 billion from \$1.1 billion recorded in the last financial year, an increase of 18% as indicated in Chart 23.

Chart 23: Total Accumulated Contributions



## UNIDENTIFIED CONTRIBUTIONS

During the financial year, a total amount valued at \$4.3 million was transferred to unidentified contributions. These unidentified contributions are mainly attributed to employers not providing accurate and sufficient information about the members' registration details and/or non-registration of new employees who entered the workforce and had their NPF deductions paid to the Fund, without registration being completed.

The Fund is continuously working closely with the employers to ensure unidentified contributions are minimized through proper identification of the rightful members owning the funds. In this respect, a total of \$5.5 million of unidentified contributions were transferred to the rightful members' identified accounts during the year, which helped reduce the ever increasing unidentified deposit balance. At the end of the year, the closing balance for unidentified contributions reached \$8.15 million, a reduction of 12.8% from the previous financial year of \$9.35 million.



SINPF staff discussed unidentified contributions Contribution (Debtors) Underpayment.

A total of unpaid contribution reached \$1.5 million as compared to \$4.7 million recorded last year. This is a substantial decrease of 68%. The Fund is pursuing smarter ways of compliance in order for employers to be committed to meet their obligations to pay contribution arrears.

To further reduce underpayment by employers, a number of provincial tours were carried out to reach employers and employees in the provinces.



Clearance of unidentified contributions

During the year, a total of seven provincial tours were conducted. The tours were carried out in: Western Province, Makira Ulawa Province, Temotu Province, Central Island Province, Isabel Province and Choiseul Province. Seminars were also held for employers and members to have better understanding

about their responsibilities toward the Fund and the Fund's services to them. Beside the educational awareness programs undertaken, it was an opportune time for registration of new employees, collections of contributions and surcharge arrears due to the Fund are carried out.



Member's Registration, Clearance of Unidentified cases

### CONTRIBUTION (CREDITORS) EXCESS

The balance of contribution excess has reached \$28.7 million. This represents non-submission of Form "A" schedules by employers and thus resulted in overpayment of contributions. Again, the Fund's management is working closely with the government agencies and private sector employers to collect the outstanding Form "A"s which are aimed to clear the excess contributions.



Employee Awareness & Registration

Apart from the Fund's radio programs, the Fund has taken a major step forward to organize and educate employers about their duties

and responsibilities under the provision of the NPF Act and Regulations through employer/employee seminars. Towards the end of the year, the Fund conducted a one day seminar for fifteen employers in Honiara.

### **SPECIAL DEATH BENEFIT RESERVE ACCOUNT**

The Fund deducts \$5.00 from individual members per financial year and then transferred the total amount to Special Death Benefit Reserves Account. The establishment of this account is purposely to support the nominees of a deceased member of the Fund.

The current approved maximum Special death Benefit to be paid to the beneficiaries of the deceased member is \$6,000.00. In 2012 financial year, a total of \$572, 450 was paid to the nominees. This is an increase of 3% compared to \$558,710 in the previous year. There were 123 deceased members during the year.

A total amount of special death benefits (SDB) held by the Fund as at the end of the year reached \$2.3 million compared to \$2.5 million last year 2011, a slight reduction by 8%.

# INVESTMENTS

The financial year continue to be positive for the Fund with investment returns remaining buoyant but settled lower at 9% of our investments portfolio from the previous year's level of 11.0%. Strong performances are recorded from the domestic equity investments, private sector loans and bonds, domestic property investments, and our equity in Kina denominated Bank South Pacific shares. On the downside, income from the dominant domestic fixed term deposits portfolio reduced significantly as interest rates plummeted and on the offshore front, the continued weaknesses in the euro and pound sterling denominated investments.

The high liquidity in the domestic financial market has reached proportions not experienced before, representing more than 19% of our gross domestic product (GDP) (source: CBSI), with the significant portion of these originating from the Fund, earning returns as low as 0.25% per annum in stark contrast to the legal crediting rate of 2.5% and the inflation rate of 7.1%. Interest rates on offshore fixed term deposits in US Dollar, Euro, and pound sterling remained below 1% per annum. As reported in 2011 report, the debt problems in the euro zone (Greece, Spain, Ireland, Portugal, and Italy) were in crisis proportions, with Greece eventually seeking out support from the European Central Bank.

## THE OBJECTIVES

The Board's investment objective is to: (a) deliver investment returns that enables the Board to credit members' contribution balances with crediting rates that protects the value of their contributions' over their membership term. Since the membership of a member can go from twenty five to thirty years, the investment horizon of the Board therefore is long term, and the core strategy is to buy and hold, (b) the returns from Investments Portfolio must meet all the Fund's costs and importantly to deliver crediting rates

to members' contribution balances above the domestic' inflation rate. In forecasting future returns, the Board and management are mindful of their trusteeship responsibility and fully understand and appreciate that the past performance and statistics do not guarantee future performance.

## UNDERSTANDING INVESTMENT RISKS AND RETURNS

Return is the level of profit or loss generated by an investment and represents the reward for making that investment. It makes no difference whether this has been generated by interest, rental, or dividend, realized capital gains/losses or unrealized capital gains/losses for our listed offshore equities, and realized and unrealized foreign exchange gains or losses.

Risk, on the other hand, is the failure to achieve the desired or projected rate of return on an investment or on SINPFB portfolio of investments. The Board and management have always kept in balance, one of the main rules of investments, that the higher the potential reward, the higher the risk of losing money. And also they have kept in mind of the reverse, the lower the risk the lower the potential return. Some risks that need mitigation against include: currencies, markets, sectors or industries, company specifics, and credit risks.

## STRATEGIC ASSET ALLOCATION

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

are as follow; low risk low return investment asset class– thirty seven per cent (37%), medium risk medium return investment asset class – twenty eight per cent (28%), and high risk high return investment asset class – thirty five per cent (35%). Due to exchange rate volatility, offshore cash and fixed term deposits are classified as medium risk medium return assets.

The asset allocation guidelines remained unchanged during the year.

Typical low risk low return investment assets are: on shore cash and fixed term deposits, and government securities. Typical medium risk medium return investment assets are: offshore cash and fixed term deposits, loans, bonds, and properties, and high risk high return investment assets are shares and equities, in particular in unlisted companies.

The market listing guidelines remain the same, with seventy per cent (70%) of the gross investment portfolio to be invested domestically, and thirty per cent (30%) to be invested offshore financial markets in the USA, Australia, Europe, and Papua New Guinea and in their currencies. Target currency exposure guideline for the US dollar is 11%, PNG Kina 7%, AUD 6%, Euro 4%, and GBP 2%. These limits are subject to periodic review. This currency allocation provides a “natural” hedge against exchange rate fluctuations. Investing offshore diversifies the risk that if the Solomon Islands’ economy performs badly then our exposures in other markets will mitigate our domestic losses.

### MARKET RISKS

Market risk is the risk associated with investing in an economy. When too many investments are being invested in one market, then risk is high. For example, 70% of our investments are domestic. The performance of these investments relies heavily on the performance of the SI economy. This is the risk that the market in one economy falls due to local or

even international issues. When this happen the return on or the value of our investment asset in that market or economy will also fall.

### SECTOR OR INDUSTRY RISKS

This is the risk that an industry or sector fails in one, or a number of markets. As an example of this, the failure of the technology sector in 2000 was felt by nearly all of the global investment markets. In the domestic market, SINPF will hold no more than 10% of its investment portfolio value in one sector or industry.

### COMPANY SPECIFIC RISKS

The value of our investments and return in a company can vary due to changes in the management of the company, product lines, or changes to the environment. Any changes both internal and external to the company can cause movements to the return and in the valuation of our investment in that company i.e. the deregulation of the Solomon Islands telecommunication industry in 2010 has had an impact on the previous monopoly company, Solomon Telekom Company Limited earnings and profitability. As above, SINPF exposure to one underwriter will be no more than 10% of its investments portfolio value.

### CREDIT RISKS

When we invest in fixed interest (bonds) or debt securities (short or long term loans) there is the risk that the issuer of the fixed interest or debt securities may not meet its interest and principal repayment obligations.

### INTEREST RATE RISK

In a fixed interest market, an unexpected movement of market interest rates will result in the movement in the value of the security such as government or corporate bonds. The current interest rates in the domestic market in Solomon Islands is a classic example of interest rate risks, whereby the Fund is now getting as low as 0.15 for investments in

interest bearing accounts in the domestic banking system.

### CURRENCY RISK

SINPF liabilities are always going to be one hundred per cent (100%) denominated in SBD and as are seventy per cent (70%) of our current and long term investment assets. Having a portion of our portfolio in other currencies creates a currency exposure risk. Currency movements relative to the SBD can cause changes in the value of our offshore investments when restated back into SBD. When the value of the SBD strengthens against any of the underlying currencies of the assets we invested in, the SBD value of that investment in that currency will fall.

### NEW INVESTMENTS

The Fund continued to be cash positive as incoming contributions are higher than member's contribution withdrawals and strong cash receipts from the investment activities. In this regard, the Fund endeavours to identify potential and feasible investments to further enhance profitability and return to members. The new investments approved and pursued during the year include:

(a) Purchase of two properties worth \$13,000,000 from Providence Properties Limited (PPL) (former SMI Ltd). PPL is expected to be liquidated in the financial year 2012 - 2013.

One of the properties (at Town Ground) is rented out to tenants. The Board will be considering potential investment concepts for further commercial development of the property.

(b) Purchase of \$6.5 million debenture from wholly owned Solomon Islands Home Finance Limited (SIHFL). The proceeds of the debenture would be used by the company to construct new additional residential homes for sale.

(c) Purchased land adjacent to the 24 Executive Apartments' development at Hibiscus Avenue for \$2 million. The vacant property will be considered for the future expansion of the apartments. The purchase of the property protects the value of apartments business, as there is the risk of illegal occupancy occurring on the vacant property and furthermore, a different owner will develop the property that may be detrimental to the apartment's business.

(d) Purchased 5 year secured \$15 million convertible bond from Tavanipupu Island Resort Limited (TIR). TIR would use the bond to upgrade its 8 existing bungalows and construct 2 new bungalows at high standard level to meet the target market demands.

(e) Granting of \$10 million short term loan to Solomon Telekom Company Limited. STCL would use the proceeds of the loan to part finance the purchase of the BSP building at Mud Alley for its office use.

(f) Purchased 2,002,000 shares in Solomons Oceanic Cable Company Limited worth \$2,002,000, representing 50.05% of the company shares. This company will develop, operate, and own a new submarine fibre optic cable system in Solomon Islands. Further investments will be made in the next financial year to implement the laying of the undersea cables and the development of the new telecommunications network.

(g) Purchased additional 18,543,383 shares priced at 33 cents per share for a total value of \$6,119,316 in Soltuna Ltd. Soltuna Ltd (formerly Soltai Fishing and Processing Company Limited). The company made a call for additional capital to enable it to purchase additional and new replacement equipment necessary for the introduction of a 2nd shift to lift production and productivity at the cannery.

(h) An additional investment of \$5,102,000

for the completion of the upgrade and refurbishment of the Sasape Base 2 slipway from 200 tons to 500 tons. The slipway infrastructure is fully owned by the Fund. The slipway will be fully operational in the next financial year.

(i) Additional equipment loan of \$1,898,000 to Sasape International Shipyard Limited (SISL) for use in the commercial operations of the 500 ton slipway.

(j) The investment of the Fund's distributions from UBS Australian Share Fund under the Fund's distribution reinvestment plan (DRP). Additional units of 50,010.34 were purchased for \$531,250 and,

(k) New investments in AUD denominated fixed term deposits in ANZ Bank Brisbane, Australia sourced from our dividends received from Kina denominated Bank South Pacific (BSP) Shares.

Surplus domestic cash of \$85.6 million were placed on cash and additional fixed term deposits with the domestic commercial banks and financial institutions. This increased the Fund's liquidity in the financial system to \$462,508,304 from the previous year's level of \$376,909,608. This represents about 20% of the total domestic financial system liquidity.

Most of the maturing deposits were rolled-over on new term deposits and the same applied to the offshore fixed term deposits.

## GROSS INVESTMENTS PORTFOLIOS

The Fund's gross investments portfolio surged by 17.5% during the year recording the strongest growth in the recent past by more than \$214.7 million on the previous year's level of \$1,228,437,608. This growth is driven by strong cash flows from member contributions and investment receipts invested in new investments, annual revaluation gains on domestic commercial investment properties, improved prices in the offshore USD and Kina equity exposures, and the weaker SBD value against the Kina. The portfolio balances by major investment asset class make-up, risk categories, major investment vehicles, and by markets shows the following at the end year as shown in tables 8 to 11 and charts 24 to 31.

The Fund continues to hold a conservative portfolio with the bulk of the investments invested in both onshore and offshore cash holdings, accounting for 42% of the investments portfolio up by 1% on the previous level of 41%, with local cash and fixed term deposits at 32% and offshore cash and fixed term deposits at 10%. The next highest component is the domestic equities at 18% followed by

**Table 8: Investment Portfolio by Major Investment Asset Class for all Markets**

Major Asset Class	2012 Investments Portfolio	2011 Investments Portfolio	2012 Proportion Of asset to total portfolio	2011 Proportion Of asset to total portfolio
Local cash & fixed term deposit	\$462,508,304	\$376,909,608	32%	32%
Offshore cash & fixed term deposit	\$145,321,967	\$128,634,116	10%	10%
SIG securities	\$97,517,186	\$102,357,994	7%	8%
Members and staff loans	\$12,910,295	\$15,834,332	1%	1%
Private Sector Loans and Bonds	\$123,414,279	\$100,431,470	9%	8%
Properties	\$215,850,853	\$151,800,071	15%	12%
Domestic Equities <sup>1</sup>	\$265,718,023	243,421,523	18%	20%
Offshore equities <sup>1</sup>	\$119,947,826	\$109,048,494	8%	9%
Total	\$1,443,188,733	\$1,228,437,608	100%	100%

<sup>1</sup>Includes dividends declared but not yet received

**Table 9: Investments Portfolio by Major Risk Category for all Markets**

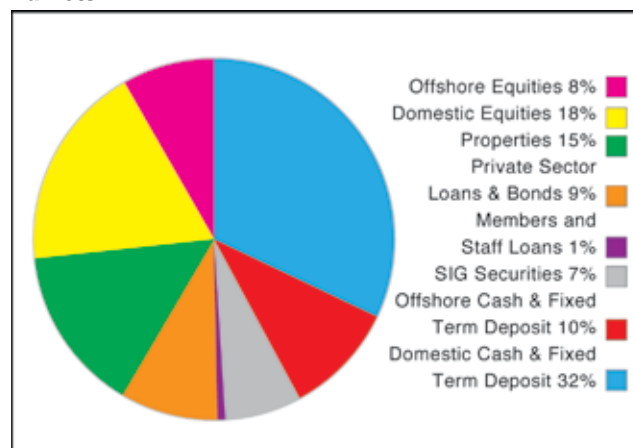
Major Risk Category	2012 Investments Portfolio	2011 Investments Portfolio	2012 Proportion of Risk to total portfolio	2011 Proportion of Risk to total portfolio
Low Risk/Low Return	\$560,025,490	\$479,267,602	39%	39%
Medium Risk/Medium Return	\$497,497,394	\$396,699,989	34%	32%
High Risk/High Return	\$385,665,848	\$352,470,017	27%	29%
Total	\$1,443,188,733	\$1,228,437,608	100%	100%

properties at 15% and private sector loans and bonds slightly increase to 9% from last year level as shown in Chart 24.

The value of our government securities, members and staff loans exposures as expected declined, while all the other major asset classes recorded increases over their levels recorded in the prior year. The biggest expansion is recorded by properties at 42% with continued disbursement of funds for Sasape Slipway Upgrade and Executive Apartments, followed by private sector loans and bonds, domestic cash and fixed term deposits by 23%. Offshore cash and deposits grow more than 13% with offshore equities recording an increase of 10%.

In the next financial year, the Fund will revalue the value of its domestic equity investments commencing with South Pacific Oil Ltd and Solomon Telekom Ltd which the Fund holds more than 50% shares. This is to ascertain the current market value of the shares held by the Fund. The shares have not been revalued since the establishment of those entities. Potentially, this will lift higher the value of the domestic equity investments.

**Chart 24: Portfolio by Major Investments Assets for all Markets**



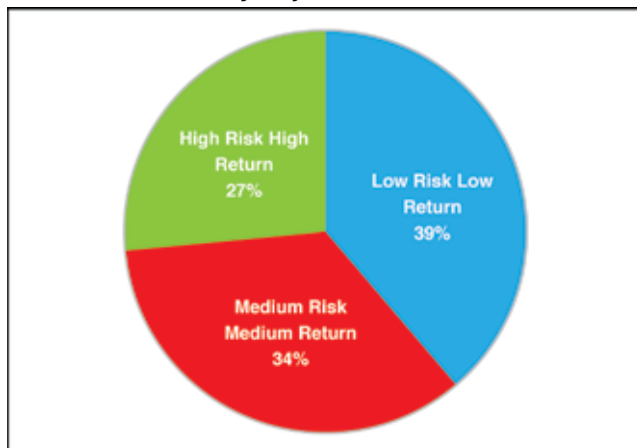
## INVESTMENT BY RISK CATEGORY FOR ALL MARKETS

The Fund pursue its investments by employing risk spread strategies which aimed to mitigate any potential risks that may affect its investment assets as depicted in table 9.

The low risk low return composition of the investments portfolio remained at 39% as was in the previous year. Against the guideline, low risk assets are overweight by 2%. The medium risk assets moved to 34% and is now overweight by 6% against the target limit of 28%. High risk assets composition slightly reduced to 26% and is underweight by 9%. The biggest increase is recorded by medium risk medium return assets by 25% from over \$396 million in the previous year to \$497 million, with low risk low return assets recording an increase of 17% and high risk high return assets notching an increase of 9% on levels recorded in 2011. The low risk assets are domestic cash, domestic fixed term

deposits, and Solomon Islands Government Securities. Medium risk assets are offshore cash and fixed term deposits, loans and bonds, and domestic properties and high risk assets are all our domestic and offshore equity exposures. Refer to Chart 25.

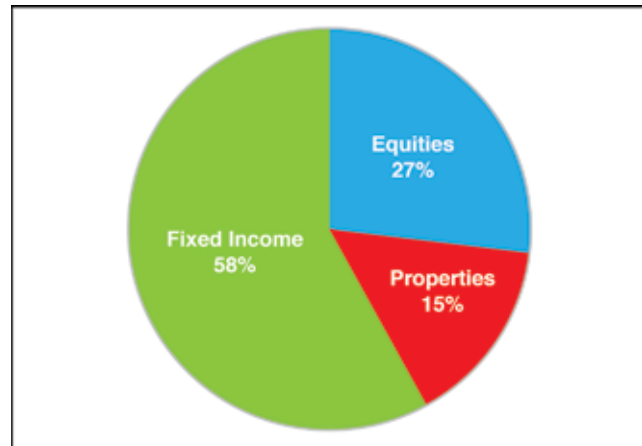
**Chart 25: Portfolio by Major Risks for all Markets**



**Table 10: Investments Portfolio by Major Investment Vehicle for all Markets**

Major Invest. Vehicles	2012 Invest. Portfolio	2011 Investments Portfolio	2012 Proportion of investment vehicle to total portfolio	2011 Proportion of investment vehicle to total portfolio
Fixed Income	\$841,672,031	\$724,167,520	58%	59%
Properties	\$215,850,853	\$151,800,071	15%	12%
Equities	\$385,665,848	\$352,470,017	27%	29%
Total	\$1,443,188,733	\$1,228,437,608	100%	100%

**Chart 26: Portfolio by Major Investment Vehicles for all Markets**



## INVESTMENT VEHICLES FOR ALL MARKETS

Fixed income or interest dominated the portfolio at 58% of the total investments portfolio, down from 59% in the previous financial year. Fixed income include all cash and fixed term deposits, government bonds and treasuries, and member/staff/private sector loans and bonds. Equities edged slightly downwards to 27% of the portfolio, while properties surged to 15% of the investments portfolio as shown in Chart 26 and Table 10.

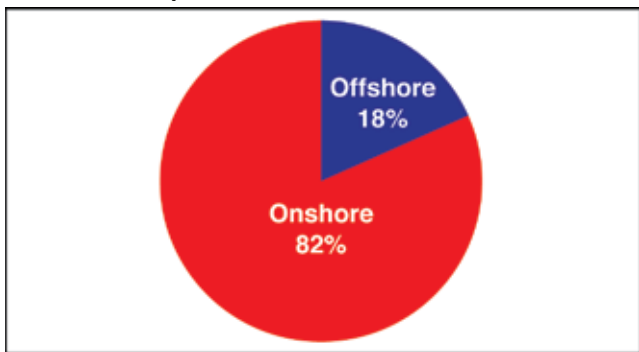
**Table 11: Investments Portfolio by Market**

Markets	2012 Investments Portfolio	2011 Investments Portfolio	2012 Proportion of market to total investments Portfolio	2011 proportion of market to total investments portfolio
Onshore	\$1,177,918,940	\$990,754,998	82%	81%
Offshore	\$265,269,793	\$237,682,610	18%	19%
Total	\$1,443,188,733	\$1,228,437,608	100%	100%

The domestic investments portfolio now accounted for 82% of the total investments portfolio, up by 1% on the previous financial year's proportion of 81% as the offshore investments composition of the total portfolio continued its decline as shown in table 11 and chart 27.

The value of the offshore sector investments increased by 11.6% on the previous year's level, while the onshore investment assets value increased by 18.9% on the 2011 value. The wide gap will continue to persist as the global economy in particular the USA, UK, and Eurozone economies continued to remain weak thus affecting the valuations of our investments in these economies.

Chart 27: Composition of the Portfolio Market



The Fund has limited ability to align the portfolio to the approved offshore guideline of 30%, as the purchase of foreign currencies is subject to the CBSI Exchange Control Regime.

The charts 28 to 30 further depict the various components of the Fund's investments portfolio by major domestic investment assets, major offshore investment assets, and the underlying currencies of our offshore investments.

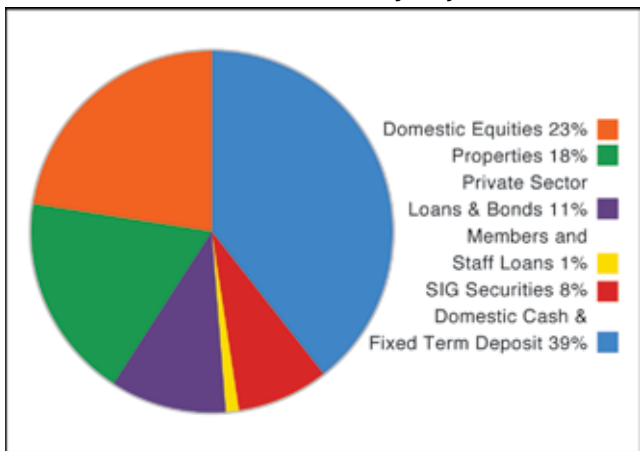
DOMESTIC INVESTMENTS BY MAJOR ASSETS

The composition of our domestic investments portfolio is currently heavy on cash and fixed term deposits at 39%, followed by equities at 23% and properties at 18%. The private sector loans and bonds took up 11%, with government securities at 8% and staff loan at

the low end at 1%.

The latter two investment asset class investments will decline as they are being paid down with no further new investments made in these two asset classes.

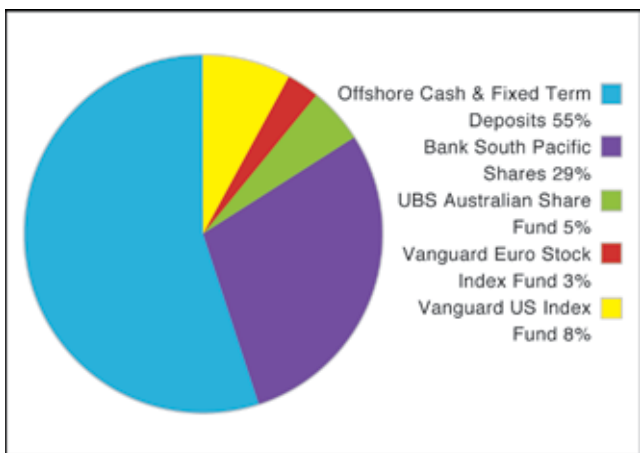
Chart 28: Domestic Investments by Major Asset Class



OFFSHORE INVESTMENTS BY MAJOR ASSET CLASS

Offshore cash and fixed term deposits in various currencies dominated the offshore investments at 55%, followed by Bank South Pacific (BSP) shares at 29%. The 3 managed funds accounted for the remaining 16% of the offshore investments portfolio.

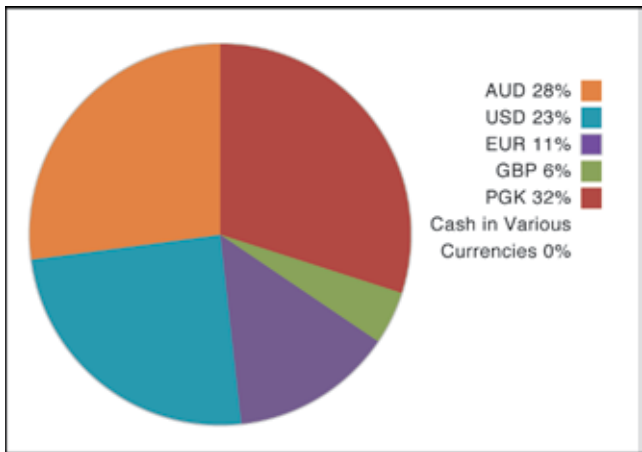
Chart 29: Offshore Investment Portfolio by Major Asset Class



OFFSHORE INVESTMENTS BY FOREIGN CURRENCIES

The Fund’s largest foreign currency exposure is kina at 32% against all the other offshore currency exposure as depicted in chart 30. The target Kina exposure guideline is only 23%. There is an overweight of 9%. The appreciation of the Kina and BSP share price contributed to this overweight even though partial sale down of BSP shares were implemented in the past two financial years. The US dollar is at 23% against a target guideline of 37% showing an underweight of 14%. AUD is at 28% against a target guideline of 20%, an overweight of 8%, while the euro currency has an exposure of 11% underweight by 2% against the target guideline of 13%. The pound sterling is at 6% against a target guideline of 7%.

Chart 30: Offshore Investment Assets by Foreign Currencies



However, this difficulty has been eased by the Bank’s own buy back share program which continued during the year. Holding a large exposure to a single asset in a single currency and to a developing economy, potentially poses a considerable risk to our investments portfolio.

GROSS INVESTMENTS RETURNS

The Fund’s investments return declined but remained buoyant at \$137.9 million against last year’s performance of \$135.5 million. This represents a gross rate of return on total investment assets of 9.0% (excluding other

income) on the total investments portfolio compared to the 11% return achieved in the previous year. Other nonrelated investment income of \$11,956,088 for surcharges, write back of provisions for member contributions and write back of provisions related to Deed for Settlement between the Solomon Islands Government and the NPF Board in 2004.

The Fund’s returns from onshore equities and private sector loans and bonds increased on the levels achieved last year whilst the return from properties and offshore equities is maintained around the same level in the previous year. A large reduction in returns in our domestic cash and fixed term deposits is recorded while the Fund made a loss on our offshore cash and fixed term deposit assets on account of very low domestic interest rates, for the former and the strengthening of the SBD against the AUD, USD, GBP, and Euro, for the later.

The domestic and offshore equities contributed almost 60% of the Fund’s 2012 income with rates of return of 23% and 18% respectively. Refer to Table 12 and Chart 31.

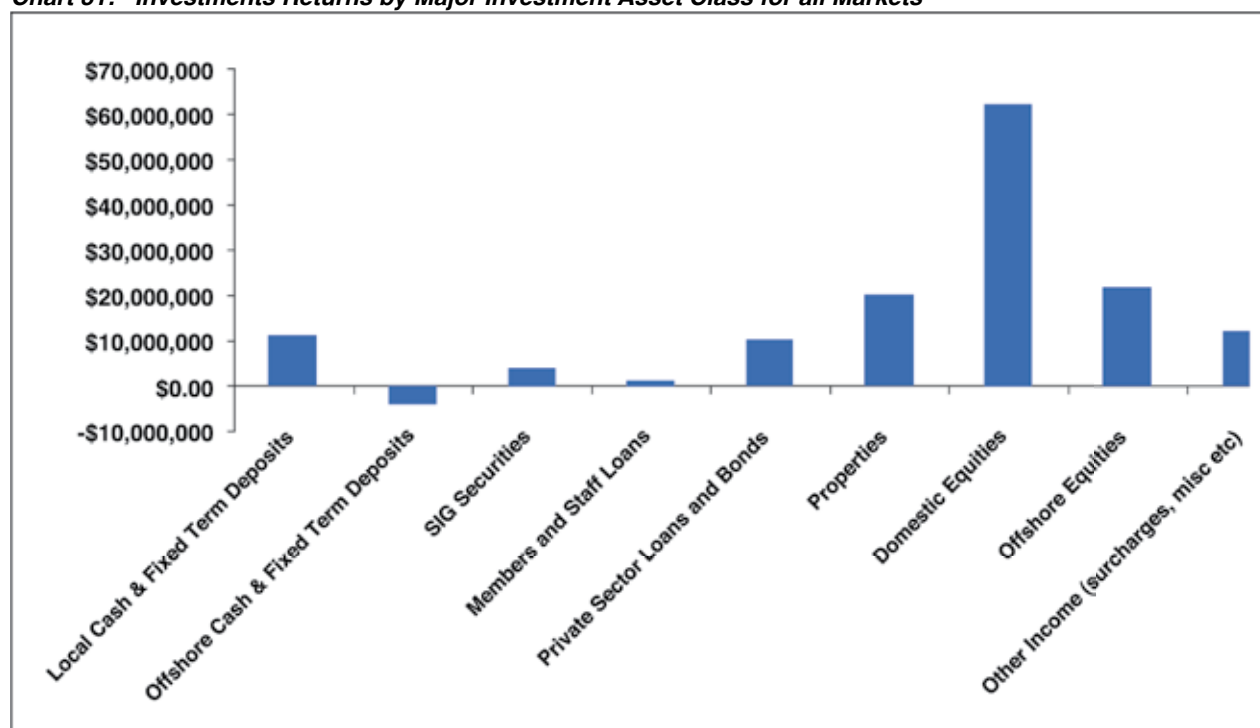
**Table 12: Investments Gross Returns by Major Investment Assets for all Markets**

Major Investment Asset Class	2012 Investments Portfolio	2011 Investments Portfolio	2012 Returns	2011 Return	2012 rate of return	2011 rate of return
Local cash & fixed term deposit	\$462,508,304	\$376,909,608	\$11,093,461	\$20,062,015	2%	5%
Offshore cash & fixed term deposit	\$145,321,967	\$128,634,116	<b>-\$4,041,996</b>	\$7,038,184	-3%	5%
SIG securities	\$97,517,186	\$102,357,994	\$3,594,379	\$5,261,686	4%	5%
Members and staff loans	\$12,910,295	\$15,834,332	\$1,472,894	\$1,312,297	8%	8%
Private Sector Loans and Bonds	\$123,414,279	\$100,431,470	\$10,231,112	\$6,756,854	8%	7%
Properties	\$215,850,853	\$151,800,071	\$19,746,845	\$20,562,917	9%	14%
Domestic Equities	\$265,718,023	\$243,421,523	\$62,154,043	\$48,033,313	23%	20%
Offshore equities	\$119,947,826	\$109,048,494	\$21,708,123	\$21,892,004	18%	20%
Other Income (surcharges, miscellaneous etc)	\$0	\$0	\$11,956,088	\$4,542,240	0%	0%
<b>Total</b>	<b>\$1,443,188,733</b>	<b>\$1,228,437,608</b>	<b>\$137,914,948</b>	<b>\$135,461,510</b>	<b>9%</b>	<b>11%</b>

**Table 13: Investment Returns by Major Risk**

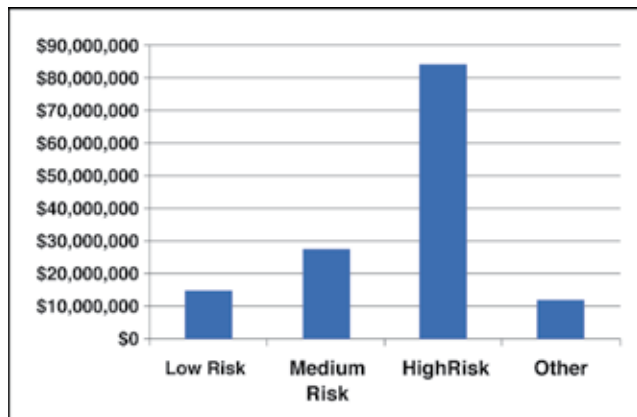
Major Risk Category	2011 Investments Portfolio	2010 Investments Portfolio	2012 Investment Return	2011 Investment Return	2012 Investment Rate of Return	2011 Investment Rate of Return
Low Risk	\$560,025,490	\$479,267,602	\$14,687,840	\$25,323,701	3%	5%
Medium Risk	\$497,497,394	\$396,699,989	\$27,408,855	\$35,670,253	5%	9%
High Risk	\$385,665,848	\$352,470,017	\$83,862,165	\$69,925,316	22%	20%
Other	\$0	\$0	\$11,956,088	\$4,542,240	0%	0%
<b>Total</b>	<b>\$1,443,188,733</b>	<b>\$1,228,437,608</b>	<b>\$137,914,948</b>	<b>\$135,461,510</b>	<b>9%</b>	<b>11%</b>

**Chart 31: Investments Returns by Major Investment Asset Class for all Markets**



Except for the high risk investment assets both low and medium risk assets have recorded reduced earnings of 42% and 7% respectively on 2011 levels. Risky assets earnings have surged by 24%. The low risk low return assets which accounted for about 40% of the Fund's investments portfolio earned a rate of return on assets of 3%, while the return on the medium risk medium return assets recorded a rate of return of 5%. The high risk investments secured a rate of return of 22% for the year, contributing to almost 60% of the Fund's income as depicted in Table 13 and Chart 32.

**Chart 32: Investment Returns by Major Risk Category for all Markets**



This measure looks at the portfolio return by major investment vehicles namely fixed income or interest, properties, and equities as shown in Table 14 and Chart 33. On this measure, the large reduction in fixed income return is attributable to the lower earnings of our domestic cash and fixed term deposits and losses on our offshore cash and fixed term deposits.

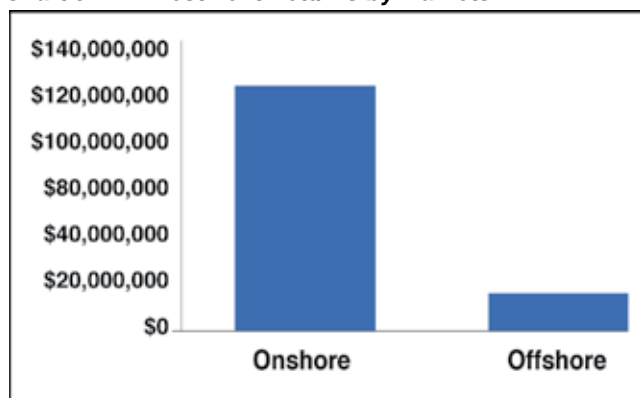
**Chart 33: Investment Returns by Major Investment**



**Table 14: Investment Returns by Major Investment**

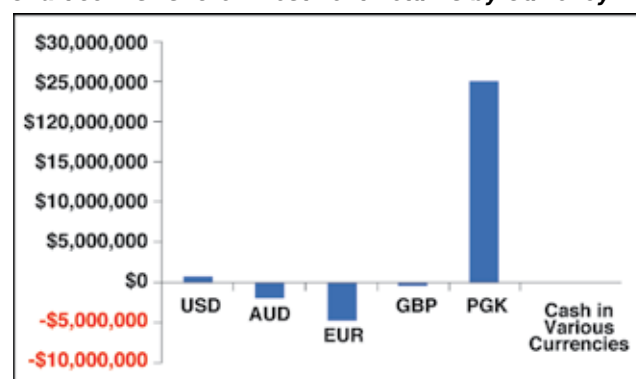
Major Investment Vehicles	2012 Investments Portfolio	2011 Investments Portfolio	2012 Investments Return	2011 Investment Return	2012 Investment Rate of Return	2011 Investment Rate of Return
Fixed Income	\$841,672,031	\$724,167,520	\$22,349,850	\$40,431,037	3%	6%
Properties	\$215,850,853	\$151,800,071	\$19,746,846	\$20,562,917	9%	14%
Equities	\$385,665,848	\$352,470,017	\$83,862,165	\$69,925,316	22%	20%
Other Income	\$0	\$0	\$11,956,088	\$4,542,240	0%	0%
Total	\$1,443,188,733	\$1,228,437,608	\$137,914,948	\$135,461,510	9.5%	11%

**Chart 34: Investment Returns by Markets**



The domestic income has surged to \$120 million during the year compared to the previous year's level of \$107 million, while the Fund's income from the offshore investments slumped to \$17.7 million, down from 2011 level of \$28.5 million as depicted in Table 15 and Chart 34.

**Chart 35: Offshore Investment Returns by Currency**



During the year, the Kina and USD denominated investment assets have recorded positive returns while all the over foreign denominated currency investment assets went backwards with the euro denominated assets registering the biggest fall. The Australian currency fell from its high historical levels achieved in year 2011 as depicted in Chart 35.

**Table 15: Investment Returns by Markets**

Markets	2012 Investments Portfolio	2011 Investments Portfolio	2012 Investment Return	2011 Investment Return	2012 Investment Rate of Return	2011 Investment Rate of Return
Onshore	\$1,177,918,940	\$990,754,998	\$120,248,821	\$106,897,621	10%	11%
Offshore	\$265,269,793	\$237,682,610	\$17,666,127	\$28,563,889	7%	12%
Total	\$1,443,188,733	\$1,228,437,608	\$137,914,948	\$135,461,510	9.5%	11%

**Table 16: Offshore Investment Returns by Foreign Currency**

Foreign Currency	2012 Investments Portfolio	2011 Investments Portfolio	2012 Investment Return	2011 Investment Return	2012 Invest. Rate of Return	2011 Invest. Rate of Return
US dollar	\$61,156,755	\$60,454,384	\$753,414	\$200,163	1%	0%
Australian Dollar	\$73,727,633	\$61,689,679	-\$2,464,370	\$10,618,812	-3%	17%
Euro	\$28,959,935	\$33,941,846	-\$5,001,124	\$4,421,123	-17%	13%
Pound sterling	\$16,095,706	\$16,564,875	-\$458,721	-\$139,032	-3%	-1%
PNG Kina	\$85,197,103	\$64,938,048	\$24,862,207	\$13,769,257	29%	21%
Cash in various Currencies	\$132,661	\$93,778	-\$25,281	\$59,867	-19%	64%

Income from this category of investment assets fell by almost 50% as deposit rates offered by commercial banks slumped to below 1% as liquidity in the financial system dramatically increased as shown in Table 17.

The exception was the Kina which appreciated against the SBD at the end of the financial year. All the other foreign currencies had depreciated against the SBD from levels reached at the end of the previous year. This has wiped out all the income recorded from interest earned on these deposits and going further into negative territory at -\$4 million. The cash rates in the developed economies like the USA and the Eurozone countries remained at historically low levels below 1% set by their Central Banks in their efforts to stimulate their economies. Cash rates in Australia though reducing during the year remained attractive at 5% as shown in Table 18.

**Table 17: Offshore Cash & Fixed Term Deposits Investment Returns**

Fixed term deposits by foreign currencies	2012 Investments Portfolio	2011 Investments Portfolio	2012 Interest	2012 Unrealised FX gains/(losses)	2012 Total Investment Return	2011 Total Investment Rate of Return	2012 Invest. rate of return	2011 Invest rate of return
Cash - Various Currencies	\$132,661	\$93,778	\$5,714	-\$30,995	-\$25,281	\$59,866	-19.1%	64%
USD FTD	\$39,589,673	\$39,623,256	\$367,274	-\$349,814	-\$17,460	-\$3,151,589	0%	-8%
AUD FTD	\$60,090,544	\$45,965,052	\$3,094,360	-\$3,491,962	-\$397,602	\$7,455,520	-0.1%	16%
Euro FTD	\$22,318,095	\$25,807,509	\$243,860	-\$3,752,487	-\$3,508,627	\$2,787,680	-16%	11%
GBP FTD	\$16,095,706	\$16,564,875	\$166,160	-\$624,880	-\$458,721	-\$139,032	-3%	-1%
Kina Securities – PGK	\$7,095,288	\$579,646	\$0	\$330,775	\$330,775	\$25,739	0.5%	4%
Total	\$145,321,967	\$128,634,116	\$3,871,368	-\$7,8919,363	-\$4,016715	\$7,038,184	-3%	5%

**Table 18: SIG Securities Investment Returns**

SIG Securities	2012 Investments Portfolio	2011 Investments Portfolio	2012 Investment Return	2011 Investment Return	2012 Invest. Rate of Return	2011 Invest. Rate of Return
SIG Restructured bonds	\$25,025,072	\$34,426,263	\$1,043,558	\$1,663,341	4.2%	5%
SIG Amortized bonds	\$45,166,820	\$50,797,273	\$1,192,918	\$1,842,694	2.6%	4%
SIG – Soltai Amortized bonds	\$4,416,520	\$5,463,647	\$206,675	\$289,795	4.7%	5%
SIG – SICHE Amortized bonds	\$4,850,289	\$5,811,141	\$271,326	\$408,530	5.6%	7%
Treasury bills	\$18,058,486	\$5,859,670	\$315,310	\$274,609	1.8%	5%
Guarantee of Ex NBSI - SIG bonds	\$0	\$0	\$564,592	\$782,718	0%	0%
Total	\$97,517,187	\$102,357,994	\$3,594,379	\$5,261,687	3.6%	5%

## LOANS

The government made advance down payments on its long dated restructured bonds during the year reducing significantly the government's stock of debt with the Fund (excluding treasury bills). This, as expected, reflected the lower income earned from these assets as the interest is charged and paid on the reducing bond balances. The Fund continued to enjoy the 1% additional bonus interest rate linked to the government's revenue collection performance. The Government surpassed the agreed level which has triggered the award of the bonus for a total of 3.5% paid on the restructured bonds. The government also consistent in making its monthly payments on these restructured bonds.

The Fund actively participated for the weekly Treasury bill tendered by the CBSI on behalf of the Government. By the end of the year the Fund's holding reached more than \$18 million, mostly 91 day treasury bills.

Though the Fund's holding increased considerably, the interest rates on these bills also declined to a low level, and thus limiting the increase in income from these assets.

**Table 19: Members and Staff Loans**

Loans	2012 Investments Portfolio	2011 Investments Portfolio	2012 Interest	2012 Recovery	2012 Total Investment Return	2011 Total Investment Return	2012 Invest. Rate of Return	2011 Invest. Rate of Return
Members Housing Loans	\$10,549,428	\$12,391,927	\$874,005	\$437,176	\$1,311,181	\$1,112,855	12.4%	9%
Staff	\$2,360,867	\$3,442,405	\$115,641	\$46,072	\$161,713	\$199,443	7%	6%
<b>Total</b>	<b>\$12,910,295</b>	<b>\$15,834,332</b>	<b>\$989,646</b>	<b>\$483,248</b>	<b>\$1,472,894</b>	<b>\$1,312,298</b>	<b>11.4%</b>	<b>8%</b>

**Table 20: Private Sector Loans and Bonds**

Loans & Bonds	2012 Investments Portfolio	2011 Investments Portfolio	2012 Interest	2012 Recovery	2012 Total Investment Return	2011 Total Investment Return	2012 Invest. Rate of Return	2011 Invest. Rate of Return
Providence Properties Ltd Loan	\$0	\$4,089,337	\$642,730	\$0	\$642,730	\$210,526	15.7%	11%
Soltai Fishing & Processing Ltd Loan	\$50,000,000	\$50,000,000	\$5,507,946	\$0	\$5,507,946	\$4,415,068	11%	9%
Sasape International Shipyard Ltd Loan	\$5,431,560	\$3,070,000	\$384,673	\$0	\$384,673	\$78,888	7%	3%
Heritage Park Hotel Ltd Shareholders Loan	\$16,942,718	\$16,942,718	\$0	\$0	\$0	\$0	0%	0%
South Pacific Oil Ltd Bond	\$20,000,000	\$20,000,000	\$1,468,493	\$0	\$1,468,493	\$1,600,000	7.3%	8%
Solomon Home Finance Ltd Debenture Loan	\$6,040,000	\$6,040,000	\$787,357	\$0	\$787,357	\$297,863	13%	5%
Solomon Telekom Co. Ltd Loan	\$10,000,000	\$0	\$531,704	\$0	\$531,704	\$0	5.3%	0%
Tavanipupu Island Resort Convert. Bond	\$15,000,000	\$0	\$660,868	\$0	\$660,868	\$0	4.4%	0%
<b>Total</b>	<b>\$136,324,574</b>	<b>\$100,142,055</b>	<b>\$6,756,854</b>	<b>\$0</b>	<b>\$9,983,770</b>	<b>\$6,756,854</b>	<b>7.3%</b>	<b>9%</b>

The Members Urban Loan Scheme continued to decline as loan repayments are made by member customers on their mortgages and bad debt recoveries. This portfolio is expected to come down to a negligible level within the next 5 years. Returns from members' loan have improved at 11.4% as a result of strong loan portfolio management, the recovery and turnaround of delinquent loans as shown in table 19.

The Fund's income from private sector loans portfolio as shown in table 20 has increased in the year partly due to the settlement of the Providence Properties Limited loan in full, the issuance of a new loan to Solomon Telekom Co Limited (STCL) at 8% interest and the purchased of a 12.5% secured convertible bond from Tavanipupu Island Resort Limited (TIR). Interest accrued and paid on these 2 debt securities were only for 6 and 4 months for STCL and TIR respectively.

The interest free shareholders loan to Heritage Park Hotel is part of the original equity paid into the company that was restructured in September 2010 by the Board of the company in a strategy to improve return to equity and to take advantage of the 5 years tax free status on profits given to the hotel.

The benefits of this restructuring will be felt when repayment on the shareholder's loan commence after the expiry of the 5 year tax holiday and interest charged at the applicable lending rate in force in the market at that time. This is the 2<sup>nd</sup> year of the five year period.

## PROPERTY INVESTMENT

The investment properties are classified under International Accounting Standard (IAS) 40 which includes: Anthony Saru Building, NPF Plaza, KomiFeraPako building, and 5 residential executive houses at Tasahe currently leased for rental income. As required under the standard, the annual revaluations of these properties have resulted in another surplus of \$3,225,650 that was passed through the Fund's profit and loss for distribution to members. This was lower than the previous year's revaluation surplus of over \$6 million.

**Table 21: Domestic Properties Investment Returns**

Commercial Properties	2012 Valuation /cost	2011 Valuation /cost	2012 Rental	2012 Other Income	2012 Total Return	2011 Total Return	2012 Invest . Rate of Return	2011 Invest . Rate of Return
Anthony Saru Building	\$34,000,000	\$31,347,889	\$5,675,098	\$0	\$5,675,098	\$4,879,603	17%	14%
NPF Plaza	\$28,800,000	\$28,713,100	\$2,646,004	\$0	\$2,646,004	\$2,433,499	9%	8%
Commercial service charges <sup>2</sup>	\$0	\$0	\$1,079,398	\$0	\$1,079,398	\$1,035,961	0%	0%
Commercial property cost recovery <sup>3</sup>	\$0	\$0	\$4,590,932	\$0	\$4,590,932	\$3,747,340	0%	0%
Recovery of bad debts	\$0	\$0	\$0	-\$393,726	-\$393,726	\$0	0%	0%
NPF Building	\$16,087,500	\$17,078,354	\$1,322,788	\$0	\$1,322,788	\$1,070,586	8%	6%
Branch offices	\$841,667	\$875,814	\$0	\$0	\$0	\$0	0%	0%
Komi Fera Pako	\$5,000,000	\$4,867,607	\$421,607	\$0	\$421,607	\$352,779	8%	7%
Residential buildings	\$12,946,665	\$17,010,417	\$12,000	\$0	\$12,000	\$762,000	0%	4%
Tasahe Rental Properties	\$3,900,000	Included above	\$837,000	\$0	\$837,000	Included above	21%	0%
Staff rent	\$0	\$0	\$88,940	\$0	\$0	\$38,156	0%	0%
Commercial land	\$11,400,000	\$15,305,750	\$0	\$0	\$0	\$192,648	0%	1%
NPF Car Park	\$4,270,000	Included above	\$200,849	\$0	\$200,849	Included above	5%	0%
Base 1 Tulagi	\$4,396,000	\$4,476,000	\$10,500	\$0	\$10,500	\$0	0%	0%
Base 2 Tulagi	\$5,488,765	\$5,514,730	\$0	\$0	\$0	\$0	0%	0%
Base 1 Shore line	\$80,000	\$0	\$0	\$0	\$0	\$0	0%	0%
Ex-G Club	\$13,000,000	\$0	\$0	\$0	\$0	\$0	0%	0%
Work in progress	\$75,640,256	\$26,610,411	\$0	\$0	\$0	\$0	0%	0%
Capital Revaluation Gains/(Losses)	0	0	\$0	\$3,225,654	\$3,225,654	\$6,049,346	0%	0%
<b>Total</b>	<b>\$215,850,853</b>	<b>\$151,800,072</b>	<b>\$16,884,917</b>	<b>\$2,861,928</b>	<b>\$19,746,845</b>	<b>\$20,542,917</b>	<b>9%</b>	<b>14%</b>

<sup>2</sup> 10% service charges imposed on all commercial tenants only (excluding residential property tenants)

<sup>3</sup> Recovery of all electricity charges paid on behalf of commercial tenants only (excluding residential property tenants)

The rental income has surged strongly on the previous year's level as all the investment properties are fully occupied with higher rentals negotiated with tenants who renewed leases during the year. As a result of lower revaluation surplus, the total return from this investment vehicle declined to \$19.7 million compared to last year's return of more than \$20 million, representing a gross rate of return of 9% and this is down from the previous year's gross rate of return of 14% as shown in Table 21.

During the year, the major refurbishments were made to the NPF Plaza. Reinvesting in the existing investment properties is necessary to maintain the quality and price competitiveness of our commercial offering, as market competition intensified with the opening of new commercial properties in Honiara. The Sasape Base 2 slipway, Tulagi and related infrastructure refurbishment continued during the year with completion set to compete in the new financial year. The construction of the 24 unit Executive Apartments progressed in the year with revisions had to be made to the apartments' completion date.

Once these two investments come on stream in the new financial year, the rental incomes are expected to be further enhanced. Rental for the Sasape new upgraded 500 ton slipway has been agreed at 12% on the cost of the property and total cost of the upgrade. Strong interest has been expressed and received for the lease of the new Executive Apartments by credible potential tenants.

### DOMESTIC EQUITIES

The Fund's domestic cash cows like Solomon Telekom Company Ltd (STCL) and South Pacific Oil Limited (SPOL) have declared the highest level of dividends so far for a combined total of more than \$60 million. This represented 34% and 75% rate of return on initial paid up capital respectively for STCL and SPOL as depicted in table 22.

In the second year of commercial operations of Heritage Park Hotel Ltd, the company return to shareholders is about the same level of income it paid to its members in 1st year, representing a 17% return on the restructured capital or just over 7% on the total original paid up capital. On the overall, the rate of return from the Fund's domestic equities is 30.2% which is up by 6.2% on the previous year return of 24%. It is expected that once income from Sasape International Shipyard Limited (SISL) and Soltuna Ltd started flowing in, then the domestic equity investment income will be enhanced.

Providence Properties Limited (PPL) will shortly be liquidated in the 2<sup>nd</sup> quarter of the new financial year. We may expect some realised capital gains from our 90% shares. We expect minimal equity income from Solomon Islands Home Finance Limited as we will derive the majority of our return from debt instruments issued to or purchased from the company. The Fund's equity in Solomons Oceanic Cable Company Limited (SOCC) will increase as the project develops and to lay the undersea fibre optic submarine cables commences in Year 2013.

After the positive turnaround in 2011 following the aftermath of the global financial crisis (GFC), the poor performance influenced by the crisis coming out of the Eurozone countries and slower global growth, negatively impact on our equity exposures in Europe and Australia. All have recorded lower incomes with the Fund's European and Australian exposures going further into the red as shown in table 23. The BSP kina denominated share investment has continued its strong performance.

This is adding more than \$8 million to the level of income achieved in 2011 to \$24.5 million, representing a rate of return of 40%, the return from the US equity exposure in Vanguard Index Fund was also in positive territory. The strong performance by BSP share mitigated the poor performance in the other sectors of the offshore equity portfolio. Thus enabling the

## Solomon Island National Provident Fund

**Table 22: Domestic Equities Investment Returns**

Domestic Equities	2012 Investments Portfolio	2011 Investments Portfolio	2012 Investment Return	2011 Investment Return	2012 Investment Rate of Return	2011 Investment Rate of Return
Solomon Telekom Co	\$89,115,661	\$89,115,661	\$30,129,043	\$25,953,860	34%	29%
Providence Properties	\$6,245,403	\$6,245,403	\$0	\$0	0%	0%
South Pacific Oil	\$40,000,000	\$40,000,000	\$30,000,000	\$20,000,000	75%	50%
Solomon Home Finance	\$13,866,987	\$13,866,987	\$0	\$0	0%	0%
Heritage Park Hotel	\$11,955,105	\$11,955,105	\$2,025,000	\$2,060,000	17%	17%
Soltai Fishing & Co.	\$42,401,323	\$36,282,007	\$0	\$0	0%	0%
Sasape International Shipyard	\$2,500	\$2,500	\$0	\$0	0%	0%
Solomons Oceanic Cable	2,002,000	\$0	\$0	\$0	0%	0%
	\$205,588,980 <sup>4</sup>	\$197,467,663 <sup>1</sup>	\$62,154,043	\$48,013,860	30.2%	24%

<sup>4</sup> Dividend Receivables are excluded in the calculation of the rate of return on total equity investments as were in previous years.

Fund to record around the same level of return achieved in the previous year but significantly lower. The Fund completes the final sale down of the last approved parcel of BSP shares at a profit for a total capital and exchange rate realized gains of \$4.6 million

**Table 23: Offshore Rquity Exposures Investment Returns**

Offshore Listed Equity Exposures	2012 Investments Portfolio	2011 Investments Portfolio	2012 Dividend	2012 Unrealized /Realized capital gains /(losses)	2012 Unrealized /Realized FX gains /(losses)	2012 Total Invest- ment Return	2011 Total Investment Return	2012 Invest. rate of return	2011 Invest. rate of return
Bank South Pacific	\$74,851,442	\$61,494,164	\$4,678,211	\$15,237,724	\$4,615,586	\$24,531,432	\$13,744,774	40%	22%
Vanguard US 500 S&P 500 Stock Index Fund	\$21,567,082	\$20,831,128	\$0	\$898,384	-\$162,430	\$735,954	\$3,351,752	3.4%	15%
Vanguard European Stock Index Fund	\$6,641,840	\$8,134,337	\$0	-\$229,904	-\$1,262,593	-\$1,492,497	\$1,633,442	-18%	20%
UBS Australian Share Fund	\$13,637,089	\$15,724,627	\$531,251	-\$1,071,551	-\$1,526,467	-\$2,066,767	\$3,163,292	-13%	20%
Total	\$116,697,453	\$106,184,256	\$5,209,372	\$5,209,372	\$1,664,097	\$21,708,123	\$21,893,260	18.6%	20%

**Chart 36: Vanguard US Stock Index Fund Unit Price and USD Currency in SBD**



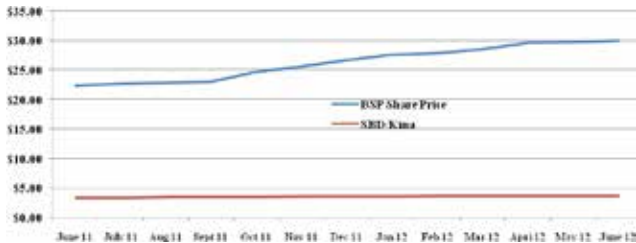
Chart 37: Vanguard Euro Stock Index Fund Unit Price and Euro Currency in SBD



Chart 38: UBS Australian Share Fund Unit Price and AUD Currency in SBD



Chart 39: BSP Share Price and the PGK Currency in SBD



The SBD prices of our units in the three managed funds had settled mixed on the levels recorded 12 months ago in 2011. The BSP share and the unit price of our US Vanguard US S&P 500 Stock Index Fund settled higher while other two foreign our equity exposures slid backwards.

	Price per Unit or Share	
	30 June 12	30 June 11
Vanguard US S&P 500 Stock Index Fund	SBD\$103.73	SBD\$100.19
Vanguard European Stock Index Fund	SBD\$102.70	SBD\$125.78
UBS Australian Share Fund	SBD\$9.79	SBD\$11.71
Bank South Pacific	SBD\$29.94	SBD\$22.32

Source: Individual Managed Fund's published prices and the Port Moresby Stock Exchange

Chart 40: GBP Currency in SBD



At the end of the financial period, the SBD appreciated against the USD, the AUD, Euro, and the pound, and depreciated only against the Kina.

Average Mid rates	June 12	June 11
1 USD\$	SBD 7.3529	SBD 7.4184
1 AUD\$	SBD 7.4019	SBD 7.9428
1 Euro	SBD 9.0174	SBD10.6045
SBD10.6045	SBD11.3636	SBD11.8064
1 PGK	SBD 3.714	SBD 3.3212

Source: Domestic Commercial Banks

In measuring the performance of one of the attributes of the Fund's offshore exposures, this meant that in terms of their underlying currency, the Fund booked foreign exchange (FX) unrealised losses on its pound, euro, AUD and USD denominated assets. The Fund has recorded FX unrealised gains only on our Kina exposures.

IMPAIRED INVESTMENT ASSETS

The Investments impaired assets continue to decline from \$1.8 million in year 2011 to \$1.76 million by the end of the period.

Positive movements and improvements were achieved for the Fund's potential losses in the members' urban housing and ex-staff loans portfolio.

However, these improvements are set back with additional provisioning being made for rent receivables during the year, as some of the unpaid rentals have weak chances of recovery in full. This has been a rewarding

experience for bringing it down to a negligible level from \$50 million recorded seven years ago.

## PROPERTY DEVELOPMENT & MANAGEMENT

The department maintained its commitment to ensure planned developments of viable properties are pursued in a timely manner and also there is an effective and efficient management of property investments to high standard and value. In so doing, the Fund's property investments will contribute to the income streams for better return to members.

The Fund sustains its responsibility to effectively maintain the nine commercial/investment properties it owns in Honiara including: Anthony Saru Building, NPF Plaza Building, NPF Building, Komifera Pako Building, former Sasape Marina Ltd properties, Tulagi recently acquired and two vacant lands being used as paid car park. A new 24 Executive Apartments is under construction. This is envisaged to be completed in the latter part of Year 2012. The Rautamana land at the outskirt of Honiara is still to be developed. In the meantime, there is a concept plan for housing development being undertaken and that physical development will be carried out soon. The former SMI building is now under NPF's commercial and investment properties after the foreclosure of all the necessary legal requirements in June 2012. Currently, the property is fully tenanted with lease rental payments being contributing to the overall income stream of the Fund.

The department also manages the Fund's residential properties for the staff both in Honiara and Provinces i.e. Auki and Gizo. There are two new 2 bedroom duplexes for staff being built at Tasahe and this should be completed during financial year 2012.

## VALUES OF PROPERTIES

The valuation of commercial properties,

residential houses and two provincial branch offices was undertaken in the year. The value ascertained amounted to \$105.7 million as seen in table 24.

**Table 24: Value of Commercial and Residential Houses**

No	Commercial/investment	Value (\$)
1	Anthony Saru Building	34,000,000
2	NPF Plaza Building	28,800,000
3	Komi Fera Pako Building	5,000,000
4	Parking Area	4,270,000
5	Executive Apartment	7,000,000
6	Ranadi Land	3,000,000
7	Rautamana Land	1,400,000
8	Tasahe – RAMSI Houses	3,880,000
9	Tasahe Housing Estate	13,025,000
10	Residential Houses	3,235,000
11	Office & Residential - Auki	1,245,000
12	Office & Residential - Gizo	900,450
	<b>Total</b>	<b>\$105,755,450</b>

Source: SINPF 2008 & 2012 valuation reports

The commercial properties are inclusive of the five residential at NPF Tasahe Housing Estate (rented to RAMSI personnel) still sustains full occupancy. The Fund will continue to embark on upgrading the conditions of its buildings to acceptable standard by undertaking required refurbishment programs to sustain potential tenants. In so doing, this will sustain the acceptable level of income to enhance returns to members of the Fund.

## MAINTENANCE OF PROPERTIES

The department has undertaken refurbishment of Auki and Gizo Branch Offices and NPF Plaza during the financial year. The Plaza's internal refurbishment will be completed in the next financial year. Continuous minor repairs and maintenance were undertaken on commercial and residential properties when defects were reported or identified during inspections. The defects vary from Electrical, Plumbing, air-conditioning and carpentry.

The Fund's personnel are mandated to maintain good surroundings of the commercial properties and to ensure the surroundings of the properties are conducive for the tenants

and the general public to use. This service will be outsourced in the next financial year.

### OUTSOURCING OF SERVICES

There are certain operational services Fund have been outsourced to external contractors who have the right knowledge and skills and commitment to carry out needed services. The services rendered by external contractors including: internal cleaning of commercial buildings, landscaping of garden flowers, garbage collection, security personnel, provision of office flowers, maintenance of lifts and generation and air-conditioning.

### ADMINISTRATION & HUMAN RESOURCES

The Fund's Administration Department continues to play a vital role in facilitating and supporting the effective and efficient operations of the technical functions to realize planned objectives in timely manner. One principal focus of the department during the financial year was the human resource capacity building of potential staff to acquire appropriate knowledge and skills to meet current and future challenges in their fields of responsibilities. Thus, this would optimize productivity, improved financial performance and returns. This is an ongoing commitment by the Fund to ensure that staff maximise their potentials for better work performance and outcomes. In this respect, a number of appropriate training programs both overseas and locally were identified and utilized.

### HUMAN RESOURCES DEVELOPMENT

In terms of long-term training, seven staff being enrolled for Diplomas in Business Finance and Business Administration at Solomon Islands College of Higher Education (SICHE), while one staff enrolled in bachelor's degree in Commerce at the University of the South Pacific (SI) Campus. At the end of last academic year, one staff graduated with a diploma in Business Finance from SICHE.

Appropriate overseas short seminars/workshops which are aimed to better equip staff have been attended during the year. One property staff attended a certificate 3 (block 1 & 2) in systems electrician in Papua New Guinea under APTC arrangement sponsored by Australian Government.

To further improve management skills and knowledge at the supervisory level, two staff attended the "Effective People Management" training at the Australian Institute of Management. Two staff have attended a two days training on "Meridian payroll system" in Australia which was facilitated by Payroll Solutions, Australia and thereafter, the IT systems personnel continued with knowledge and skills upgrading training on the Exchange Server 2007 offered by New Horizons Learning Centre, Australia.

As the Fund continues to strive to ensure its human resources are better equipped to keep up with the changing business environment and required knowledge and expertise, the staff trained on the core competencies and soft skills to increase innovation and effectiveness. The trainings conducted are:

✱ Eighteen (18) Assistant Managers and Senior staff attended the "Leading and Empowerment" training offered by USP (SI) Campus;

✱ Training on how to formulate and implement Key Result Areas (KRAs) and Key performance Indicators (KPIs) to twenty Assistant Managers and Senior Officers together was undertaken in parallel with implementation of the new Performance Appraisal System with the aim of rewarding performance. Each department had one day outing to enable individual staff to discuss their KPIs with their superiors thus realize better understanding and expectation when it comes to performance appraisals at the end of the financial year;

✱ Seven (7) staff attended International Computer Driver's License offered by IPAM, Ministry of Public Service, Honiara;

✱ Three Assistant Managers attended the Master Class Change Management offered by External Trainers;

✱ Refresher training on the NPF2000 contribution system was conducted to get users familiarize with recent changes to the system. Staff from Operations, Finance, Internal Audit and IT departments attended; and

✱ Seven (7) Managers trained on Power point presentation to improve their skills through MS PowerPoint 2010 training facilitated by an External Trainer.

### PUBLICITY

Pertaining to public relations and educational awareness, the Administration has aired fifty three SINPF radio awareness programs through Solomon Islands Broadcasting Corporation. These awareness programs are targeting members and employers across the country. As part of the Fund's ongoing public relations and wider community support, the Fund assisted the First Lady Charity in their fight against breast cancer. Some Managers and staff visited the Children's ward presenting little gifts to sick and newly born children.

### RESIDENTIAL HOUSING

The Fund endeavours to provide reasonable quality accommodation to its staff not having residential houses of their own. There are forty-eight staff houses currently owned by the Fund. They are located in Honiara, Gizo and Auki. Forty one houses are occupied by staff while seven houses are commercially rented to private tenants. The forty eight houses include the two newly completed duplexes which are aimed to house four additional staff with their families. It is envisaged that two

additional new duplexes will be built at the Tasahe Housing Estate in the next financial year to meet additional staff housing needs.

### HUMAN RESOURCES

Total number of staff employed by the Board during the financial year reached 112. Ten staff retired while new recruitment is been carried out to fill human resource gaps within the organization. Staff turnover within the Fund is consistently minimal. The Fund endeavours to be equal employment opportunity compliant and currently it has 44.7 % of its total human resources being females while 55.4% are male.

During the year, the Fund established a health clinic which is aimed to sustain a healthy workforce and high productivity by staff. The clinic would also avoid waiting queues at public health clinics thus resulting in reduced working hours and low productivity. It also assisted the staff from huge spending on medical costs when seeking consultations from private medical clinics. Since its establishment in January 2012 with the approval from Ministry of Health & Medical Services, the clinic nurse has attended to 629 sick cases. The patients are staff, their spouses and children.

### ARCHIVES

The Archiving of the old documents/records is progressing well during the year. The ultimate goal is to preserve and maintain the Fund's historical records for easy access and retrieval to meet the Funds intended purposes now and in the future. Among other initial tasks undertaken included: weeding of closed and ceased files which were left unattended since 2003, this had been the major task during the year. This is now nearing completion. Since the reestablishment of the archiving function two years ago, a lot had been achieved notwithstanding that there are only two personnel involved. During the year, there were 11,284 records de-accessioned while 3,782 records were indexed and 3,610

records were accessioned. The Archive team is working towards digitizing all archive records commencing next financial year 2012-2013.

### **INFORMATION & COMMUNICATION TECHNOLOGY**

During the period, the department has concentrated and committed to Audit on Systems and their integration, demand for Employee Attendance Monitoring and tackling the issues of updated members' balances for Provincial Branch Offices. The results are very positive and encouraging. The investment made on acquisition and implementation of these systems comes with an expectation of success. Such is measured by operational efficiency, quality of information and communications.

#### **EMPLOYEE MONITORING SYSTEM**

Employee Monitoring System (integrated with Meridian system) was implemented to automate and monitor Employee clocking. With the system, the employees can now be tracked for lateness or absence from office. As Meridian is the main Payroll system, both systems needed to integrate seamlessly and one of the main task was to complete this process and ensure the correct data is passed on to the payroll system. The systems have been successfully implemented during the period. The access control to the main entrance door and the executive door have been successfully installed. The staff and tenants were issued with proximity cards with restrictions of times allowed to enter and leave the building. The access control also restricts unauthorized visitors to the offices.

#### **INTEGRATION OF PROGENESIS WITH MYOB**

One of the Fund's risk management strategies is to ensure all information systems are integrated with the General Ledger System (MYOB). This year, the integration of Progenesis( Property Management system

with MYOB) was carried out and completed successfully. Previously, it was difficult to have both systems having the same financial balances prior to any form of export of the required information. The integration of other stand-alone systems is progressing well, the ultimate objective being the realization of an optimum integration system within the Fund.

#### **ASSET MANAGEMENT SYSTEM**

Prior to utilizing the Asset Management System (ASM), the financial records and actual transactions of all assets are kept on excel spread sheet thus inputs and management of data were done manually. Unfortunately, this is time consuming, especially when there is a need to meet timely reporting and decision to be made. Now with ASM, the data are able to transfer and new asset entries are done with and valuable archive information for future references. Having a DMS will keep digital copies of information documents and this will facilitate an effective retrieval of needed information as and when such need arises. Scanning of all back log and current information documents is an ongoing exercise now until all documented information are digitized and stored.

#### **BETTER SERVICES - ACCESSING LIVE CONTRIBUTION BALANCES**

The access of Live Contribution Balances from the NPF Branch Offices in Auki and Gizo been achieved i.e. members can now have access to their up-to-date contribution balances in the Provincial Branches. In the past, the updating of members' contribution balances in the Provincial Branches was carried out through quarterly visits by IT staff to update the stand-alone databases. Prior to connecting branch offices to Honiara Contribution Data base, this service was found to be unsatisfactory as members always enquire or request their current balances. Pertaining to contribution system transferred to new hardware, the connections from Branches to the Head Office database now made accessing updated

information more efficiently as result of a newly installed hardware with web based application.

### INTERNAL AUDIT

The internal audit is an objective assurance and consulting activity designed to add value and improve the Fund's operations to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In so doing, the Audit continues with its commitment to play a pivotal role within the Fund's internal control framework to deliver the following objectives:

- ⌘ Provides independent opinions to the Board and Management on risk management, control and governance principles;
- ⌘ Offers reassurance on the systems and processes which the management relies upon;
- ⌘ Gives assurance on accuracy and reliability of financial and management information;
- ⌘ Provides assurance on level of compliance by management and staff pertaining to the SINPF Act and other relevant legislations, Staff Procedures & Policies Manual and other applicable in-house approved policies; and
- ⌘ Where appropriate, offer relevant recommendations to the Board through Board Audit and Finance Subcommittees and Management for improvements to be pursued.

In realizing these objectives, there were a number of activities that have been carried out and these include:

- ⌘ Conduct internal audit reviews on selected auditable areas based on the

risk-based methodology;

- ⌘ Monitor implementations of External Auditors and CBSI's Prudential Review recommendations for updates on issues that need to be resolved;
- ⌘ Investigate and report any possible suspected allegations of fraud;
- ⌘ Examine transactions, accounting records, statistical, and legal records ; and
- ⌘ Provide logistic support to the Board's Audit and Finance Subcommittees.

### AUDIT REVIEWS

Pertinent to the reviews, there were examinations and assessments on activities within the Fund's operations. These include: (a) the operational, financial transactions and performance, enforcement and compliance and information systems environment, (b) spot-checks undertaken at the Provincial Branches, and (c) assessment of members' withdrawal applications to ensure all is in order.

Results from reviews were communicated to Management and Board Audit and Finance Committee along with recommendations for improvements and corrections. The issues raised had been addressed.

### ASSESSMENTS OF WITHDRAWAL APPLICATIONS

Thorough assessments of members' contribution withdrawal process were undertaken to uphold the controls within the members' benefit cycle. This is to ensure there are complete documentations as required and accurate calculations of withdrawal funds without any errors prior to payments made. So far, the contribution withdrawals made to members were paid correctly.

### EXTERNAL AUDITORS AND CBSI PRUDENTIAL REVIEW ISSUES

At the end of the financial year, 30 June 2012, the results from the reviews of issues that have been raised by external auditors were addressed and resolved. Issues which have been raised in the prudential review report in respect of Head Office and Gizo Branch Office were adequately addressed and resolved. Management is commended for their positive responses in resolving the issues within the financial year. The issues resolved include: formulation of policies, Board subcommittees' terms of references and other minor matters. The Fund is continuously committed to comply with legal requirements, governance principles and operational policies instituted by the Board.

### LEGAL SERVICES

The Legal Services Department maintained effective provision of legal advice and opinions to the Board and Management on issues ranging from prosecution, civil litigation and corporate conveyance. The external Legal Counsel are engaged at times only on specific legal assignments involving complex legal commercial matters with support from the In-house Counsels.

### LOAN DEFAULTS

The Fund has a policy which provides for the prosecution of any borrowers who have defaulted on their loans and that arrears have accrued beyond 3 months period. The department is tasked with a duty to prosecute in order for the Board to comply with that policy statement. During the period, there were 49 default housing loan cases being prosecuted by the In-house Counsels. The outcome of the default legal cases that have been pursued were encouraging i.e. five legal cases fully extinguished by member clients while fourteen others have cleared their respective arrears and are now current with loan balances. It is pleasing to note that twenty-five member

clients have gone to the extent of making advanced repayments to further reduce loan balances, while in the meantime, there are about five member clients who are currently in arrears with their repayments. The Fund has continuously putting pressure on the member clients to perform their obligations to extinguish the arrears.

### TENANT AND EMPLOYER DEFAULTERS

On the lease rentals, there were four arrear cases incurred by former tenants during the year. All arrear cases were pursued with legal action. One has been fully settled and legal proceedings discontinued whilst the other three now have judgment orders entered against them and are now awaiting Enforcement Orders from the High Court for execution.

The majority of employers are now fully aware of their statutory obligation and commitment to pay members' contributions when due and thus they are current with contribution payments to the Fund. This reflects some level of improved relationship between the Fund and employers. During the year, there are fifty-four cases that have been prosecuted. Some of these cases are continuation from the previous year. Nine cases were fully settled by employers while five cases were settled through Consent Orders. Twenty-three cases are now with enforcement orders with the Sheriff of the High Court and seventeen cases are pending before the Court at different stages. It is encouraging to note that upon receiving consent orders, some employers promptly settled their contribution arrears, whilst others have made upfront payments when served with Court proceedings to extinguish outstanding arrears. On the other hand, there are employers who purposely refuse to comply with their statutory obligation thus resulting in a number of legal cases pending before the Courts while some are issued with enforcement orders.

### SERVICES BY EXTERNAL COUNSELS

During the financial period, the Fund has outsourced two (2) major legal cases to external Legal Counsels. The legal proceedings concerning the Ranadi land which was outsourced to Primo Afeau Lawyers, had reached eviction stage. However, the Defendant appealed the decision to the Court of Appeal. The Court of Appeal has dismissed the appeal.

Another case is the South Pacific Oil Ltd (SPOL) which is being handled by Sol-law Legal Firm as well as Overseas Counsel and DNS & Partners Lawyers in Honiara. The proceeding is between two shareholders of SPOL regarding some serious weakness in fiduciary responsibility being alleged against the former Managing Director. The matter is currently progressing in the High Court.

### PROVISION OF LEGAL ADVICE

Apart from Court work, the Legal Department provides legal advice to the Board and Management on general statutory operational aspects of the Fund from time to time when the need arise, in particular the Operations, Finance and Investment Departments which directly handles contribution receipts and withdrawals and investment matters. This is to ensure the policy guidelines and implementation processes are consistent with the SINPF legislation and other statutes.

The department is responsible for soliciting employers to comply with the requirements of the SINPF Act. In addition, the department is involved in vetting, drafting and negotiating contracts between the Board and Service Providers in the investment projects that have been implemented or about to be implemented.

### ACKNOWLEDGEMENT

In light of the positive achievements realized during the year, I would like to acknowledge the advice, directions and support of the

Board of Trustees. Furthermore, I do sincerely thank the Management team and the staff for their untiring contributions and efforts during the financial year 2012. I look forward to their ongoing support in years ahead. The year ahead may present many challenges to the Fund and its members, but I am confident that with the support of the Board, Management team and the committed and dedicated staff throughout the Fund, we will be well placed to meet these challenges to achieve better results for our very valuable members.

Thank you all.

**SOLOMON ISLANDS  
NATIONAL PROVIDENT FUND**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2012**

## Statement By Directors

### Statement By Directors


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

In the opinion of the directors:

- (a) the statement of net assets is drawn up so as to present fairly the state of affairs of the Fund as at 30 June 2012.
- (b) the statement of changes in net assets is drawn up so as to present fairly the profit of the Fund for the period ended 30 June 2012.
- (c) the statement of changes in members funds is drawn up so as to present fairly the state of members' contributions held by the Fund for the period ended 30 June 2012.
- (d) the financial statements have been made out in accordance with the provisions of the Solomon Islands National Provident Act 1973 as amended, International Financial Reporting Standards and other applicable standards in the Solomon Islands.



**Baoro Koraua**  
Chairman of the Board



**Tony Makabo**  
General Manager (CEO)



**Peter Boyers**  
Director

Dated this 20th day of September 2012

Solomon Islands Office  
of the Auditor-General



# Independent Auditor's Report

To the Board of Directors of Solomon Islands National Provident Fund

## Scope

I have audited the accompanying financial report of Solomon Islands National Provident Fund ("Fund"), which comprises the statement of net assets as at 30 June 2012, and the statement of changes in net assets, statement of changes in members fund and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes and the statement by directors declaration, as set out on pages 1 to 30.

## Management's Responsibility for the Financial Report

The Board of Directors and management of Solomon Islands National Provident Fund ("Fund") are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and with the requirements of the Solomon Islands National Provident Fund Act (Cap 109) and other applicable laws and regulations. This responsibility includes implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

## Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting estimates made by the Board and management, as well as evaluating the overall presentation of the financial report.

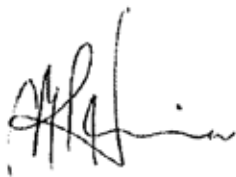
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Audit Opinion

In my opinion, the report of Solomon Islands National Provident Fund ("Fund"), presents fairly in all material respects of the Fund's financial position as at 30 June 2012 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

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



Edward Ronia  
Auditor-General

Office of the Auditor-General  
Solomon Islands

27 September 2012

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

#### 4. RESERVES AND OPERATING FINANCIAL PERFORMANCE

The following is a summary of the reserves held:

☐ **Revaluation Reserve**

The last revaluation was done on 31<sup>st</sup> May 2009. The revaluation surplus/loss is credited to the revaluation reserve. The next revaluation of the land and buildings will be carried out in the subsequent 3 years.

☐ **General Reserve**

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

The following items are credited to the reserve each year:

- ☐ Net unappropriated surplus from operation.
- ☐ Unallocated contributions outstanding more than 5 years from the Unclaimed Deposit Account.

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

	June 2012	June 2011
	\$	\$
<b>(a) Revaluation Reserve</b>		
Opening Balance	46,904,402	46,904,402
Balance at 30 June	<u>46,904,402</u>	<u>46,904,402</u>
<b>(b) General Reserve</b>		
Opening Balance	49,533,405	40,429,313
Transfers – Unclaimed Contributions	235,184	132,702
Net surplus/(deficit) for the year	24,640,188	8,971,390
Balance at 30 June	<u>74,408,777</u>	<u>49,533,405</u>
Total reserve	<u><b>121,313,179</b></u>	<u><b>96,437,807</b></u>

#### 5. RECEIVABLES

Interests	8,575,200	22,288,256
Rentals	2,952,148	682,237
Dividends	63,372,187	48,843,046
Surcharges	9,679,989	11,386,190
Others	1,351,090	1,631,051
	<u>85,930,614</u>	<u>84,830,780</u>
Less: Allowance for doubtful debts	<u>(7,081,961)</u>	<u>(10,605,694)</u>
	<u><b>78,848,653</b></u>	<u><b>74,225,086</b></u>

The allowance for doubtful debts of \$7,081,961 is provided against arrears on surcharges and rental charges.

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

	June 2012	June 2011
	\$	\$
<b>6. INVESTMENTS</b>		
(a) Held-to-maturity investments		
On shore deposits	312,087,688	325,883,761
Offshore deposits	149,028,450	130,675,978
Total deposits	461,116,138	456,559,739
Government securities	138,557,185	128,265,438
<b>Total</b>	<b>599,673,323</b>	<b>584,825,177</b>
The movement in investment securities held-to-maturity:		
Balance at beginning of year	584,825,177	570,578,503
Purchases	185,767,681	198,760,242
Disposals	(170,919,535)	(184,513,568)
Closing balance	599,673,323	584,825,177
(b) Financial assets carried at fair value through profit and loss		
Equity securities at fair value		
- Listed	105,606,964	103,013,141
Total equities at fair value	105,606,964	103,013,141
Equity at cost		
- Unlisted	205,588,980	197,467,664
Total equities at cost	205,588,980	197,467,664
Less: Allowance for impairment of unlisted equities		
<b>Total equities at cost and fair value</b>	<b>311,195,944</b>	<b>300,480,805</b>
The movement in investment securities carried at fair value through profit and loss:		
Balance at beginning of year	300,480,805	259,043,753
Purchases	310,134,435	356,574,758
Disposals	(307,998,682)	(336,248,024)
Gain/(loss) from change in fair value	8,579,386	21,110,318
<b>Closing balance</b>	<b>311,195,944</b>	<b>300,480,805</b>

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	Note	June 2012 \$	June 2011 \$
(c) Investment properties			
Land and buildings at valuation/cost			
Opening balance		90,149,111	74,385,000
Net book value (at cost) transfer from property, plant and equipment		-	(720,000)
Addition		13,000,000	10,434,765
Gain from fair value adjustment *		3,255,654	6,049,346
Closing valuation/cost balance		106,404,765	90,149,111
<b>Closing written down value</b>		<b>106,404,765</b>	<b>90,149,111</b>
(d) Loans and advances			
- Commercial loans		82,374,279	74,391,470
- Member schemes		10,549,428	12,391,927
- Staff schemes		2,360,867	3,442,405
Total gross loans and advances		95,284,574	90,225,802
Allowance for doubtful debts		(1,163,367)	(1,646,613)
<b>Net loans and advances</b>		<b>94,121,207</b>	<b>88,579,189</b>
The break down is as follows:			
- Current		16,824,787	5,117,996
- Non current		77,296,420	83,461,193
<b>Total</b>		<b>94,121,207</b>	<b>88,579,189</b>

\*Independent valuations of the Fund's Investment properties were performed by Value Solution Appraisal to determine the fair value of the land and buildings. The valuations, which conforms to international valuation standards, were determined by reference to the current market values of the land and buildings. The effective dates of the valuation was 1<sup>st</sup> June 2012.

#### 7. AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG)

##### (a) GOVERNMENT SECURITIES

###### (i) Amortized Restructured Bonds

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

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

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

Principal	Term	Rate	Installment	Maturity Date	Balance 30/06/2012
5,550,000	7 yrs	3.00%	59,138	15/07/2011	-
11,100,000	10 yrs	3.00%	97,732	15/07/2014	2,407,801
11,100,000	13 yrs	3.00%	78,089	15/07/2017	4,556,616
25,850,000	15 yrs	3.50%	53,009	15/12/2018	18,060,654
<b>53,600,000</b>			<b>287,968</b>		<b>25,025,071</b>

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**
**AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG) - continued**

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

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

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

**(ii) Amortized Treasury and Development Bonds**

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

Principal	Term	Rate	Installment	Maturity Date	Balance 30/06/2012
7,414,528	7 yrs	2.00%	94,665	15/11/2011	-
14,829,056	10 yrs	2.00%	136,447	15/11/2014	3,862,944
14,829,056	13 yrs	2.00%	108,029	15/11/2017	6,655,215
37,072,641	15 yrs	2.50%	77,234	15/11/2019	34,648,661
<b>74,145,281</b>			<b>416,375</b>		<b>45,166,820</b>

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

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

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

**(iii) Treasury Bills**

The Fund recommenced tendering 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 \$18,058,486. These were mostly 91 days treasury bills now secured at rates between 1.2% to 2.8%.

**(iv) SIG – Soltai Ammortising Bond**

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

Under the Deed \$10.0 million was amortised over 10 years at the interest rate equivalent to 90(91) day Treasury Bill weighted average yield. At the time the Deed was signed that rate was 5.02%. The sum of \$10.0 million is repayable over a 10 year period commencing on 1 April 2006 at \$106,163 per month. The remaining \$6.3 million

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

from the original total published debt of \$16.3 million was settled up front in a lump sum payment at the signing of the Deed.

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

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

The balance of the ammortising bonds as at the end of the year was \$4,416,520.

#### (v) SIG – SICHE Ammortising Bond

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

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

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

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

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

The balance of the ammortising bond at the end of the year was \$ 4,850,289.

#### (vi) Tavanipupu Island Resort Limited –Loan Agreement

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

No. of Instal.	Due Date	No. of Days	Loan Balance	Interest	Principal	Instalment Amount	YTD Balance
	23/02/12		15,000,000	-	-	-	15,000,000
1	15/06/12	113	15,000,000	578,893	-	-	15,000,000
2	15/06/13	365	15,000,000	1,869,877	-	-	15,000,000
3	15/06/14	365	15,000,000	1,869,877	-	-	15,000,000
4	15/06/15	365	15,000,000	1,869,877	-	-	15,000,000
5	15/06/16	366	15,000,000	1,875,000	-	-	15,000,000
6	22/02/17	252	15,000,000	1,290,984	15,000,000	-	15,000,000

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

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

#### (b) SHARES

##### (i) SOLOMON ISLANDS HOME FINANCE LIMITED(SIHFL)

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

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

##### (ii) SOUTH PACIFIC OIL LIMITED (SPOL)

The Fund had fully paid up its allotted 40,000,000 shares at \$1 per share.

The shareholders agreement provides, subject to performance, for GRP Limited to increase its share proportion by 5% in new share issues. After the fourth year, GRP is allowed to increase its shares to the maximum of 25%. This is done to protect the interest of the Fund as a substantive contributor of initial capital, and to ensure that SINPF retains majority control over the company.

At the end of the financial year, the Fund's shareholding was diluted to 79.17%.

##### (iii) HERITAGE PARK HOTEL LIMITED (HPhL)

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

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

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

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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#### (iv) BANK SOUTH PACIFIC LIMITED (BSP)

During the year, our PNG domiciled broker Kina Securities sold down a further 255,341 shares, leaving a balance of 2,500,001 shares at the end of June 2012. These shares were sold at a profit emanating from positive capital gains and exchange rate movements.

The BSP share price at the end of the year was \$29.94 per share.

#### (v) SOLTUNA COMPANY LIMITED

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

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

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

The Board also approved the purchase of Western Province Executive 6,266,385 shares in the event the Province is not in a position to purchase these shares.

#### (vi) SASAPE INTERNATIONAL SHIPYARD LIMITED (SISL)

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

SINPF has a 25% share in SISL worth \$2,500 priced at \$1 per share with SSL owning 75% of the shares. The company under a renewable 10 year lease with the SINPF will operate and run the slipway commercial operations.

#### (vii) SOLOMON TELEKOM COMPANY LIMITED (STCL)

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

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

#### (viii) PROVIDENCE PROPERTIES LIMITED (PPL)

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

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

At an Extra-ordinary General Meeting (EGM) in February 2012, the members of PPL approved the voluntary liquidation of the company.

#### (ix) SOLOMONS OCEANIC CABLE COMPANY LIMITED (SOCC)

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

At the close of the financial year, SINPF Board owns 2,000,002 shares priced at \$1 each for a value of \$2,000,002, representing 50.05% of the company shares.

#### (x) OFFSHORE MANAGED FUNDS

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

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

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

At the end of the period the Fund has 1,393,202 units in UBS Australian Share Fund at the recorded price of \$ 9.79 per unit. During the year the Fund reinvested its quarterly distributions to purchase additional 50,010.34 units in the Fund under the Fund's Distribution Reinvestment Program (DRP).

The Fund continued to maintain the same level of units in Vanguard US 500 Stock Index Fund at 207,924, with a closing price of \$103.73 per unit recorded at the end of the year. The Fund as well maintained the same level of units in Vanguard European Stock Index Fund at 64,673.62 with a closing price per unit of \$102.69 at the end of the year..

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

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

#### 8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings \$	Machinery and Equipment \$	Motor Vehicles \$	Furniture and fittings, computer equipments and others \$	Total \$
<b>AT COST / VALUATION</b>					
Balance as at 1 July 2012	36,355,000	7,281,959	2,790,865	8,216,779	54,644,603
Additions/tranfer from IAS 40	-	3,659,926	802,760	182,803	4,645,489
Revaluation increment	-	-	-	-	-
Transfer/Disposal	-	(2,292,136)	-	-	(2,292,136)
Balance as at 30 June 2012	<u>36,355,000</u>	<u>8,649,749</u>	<u>3,593,625</u>	<u>8,399,582</u>	<u>56,997,956</u>
<b>ACCUMULATED DEPRECIATION</b>					
Balance as at 1 July 2012	3,886,166	5,134,825	1,612,433	5,935,411	16,568,835
Charges	1,663,002	1,036,382	521,130	989,553	4,210,067
Transfers/Disposal/Adjustments	-	(489,632)	(160,509)	(207,057)	(857,198)
Balance as at 30 June 2012	<u>5,549,168</u>	<u>5,681,575</u>	<u>1,973,054</u>	<u>6,717,907</u>	<u>19,921,704</u>
<b>Written Down Value</b>					
<b>As at 30 June 2012</b>	<u><b>30,805,830</b></u>	<u><b>2,968,174</b></u>	<u><b>1,620,571</b></u>	<u><b>1,681,675</b></u>	<u><b>37,076,252</b></u>
Work in progress	74,869,669	2,190,671	-	1,667,466	78,727,806
Carrying Value					
As at 30 June 2012	105,675,500	5,158,845	1,620,571	3,349,141	115,804,056
<b>Carrying Value</b>					
<b>as at 30 June 2011</b>	<u><b>62,473,296</b></u>	<u><b>2,145,243</b></u>	<u><b>1,178,432</b></u>	<u><b>3,375,642</b></u>	<u><b>69,172,613</b></u>

	June 2012 \$	June 2011 \$
Aggregate depreciation recognized as expense during the year:		
Land and buildings	1,663,002	1,663,000
Machinery and equipment	1,036,382	814,947
Motor vehicles	521,130	377,863
Furniture and fittings, computer equipments and others	989,553	913,250
	<u>4,210,067</u>	<u>3,769,060</u>
Capital works in progress		
Balance as at 1 July 2012	31,098,736	10,748,679
Additions	45,438,399	20,350,057
Transfers – Machine not in use	2,190,671	-
<b>Balance as at 30 June 2012</b>	<u><b>78,727,806</b></u>	<u><b>31,098,736</b></u>
The Work in progress comprise of the follow significant projects:		
Residential land and building	3,372,736	-
Rental land and building	71,496,933	30,004,462
Computer project	1,667,466	1,094,274
Machine & Equipment not in use	2,190,671	-
	<u>78,727,806</u>	<u>31,098,736</u>

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**
**9. CURRENT LIABILITIES – ACCRUALS & PROVISIONS**

Nominees trust account	3,192,646	3,059,272
Rental bond	2,441,534	1,702,834
Accruals and employee provisions	2,432,380	3,090,923
Provision for interest overpaid	-	2,923,579
	<u>8,066,560</u>	<u>10,776,608</u>

**10. RELATED PARTIES DISCLOSURE**

Related Party Disclosures requires the disclosure of information relating to aggregate compensation of key management personnel. The key management personnel of the Fund are members of the Fund's Board and senior staff who have responsibility for planning, directing and controlling the activities of the Fund. In 2012, this group comprises 18 in total, including the General Manager (CEO), 8 non-executive Fund 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 (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 executive. The key management personnel are:

The specified directors of the Fund during the year were:

Names	Appointment	Date of appointment	Term of appointment	Date appointment lapse	Representing
Mr. Austin Holmes	Chairman	27 <sup>th</sup> February 2010	2 years	27 <sup>th</sup> February 2012	Employer
Mr. Baoro Koraua	Director Chairman	7 <sup>th</sup> March 2012 30 <sup>th</sup> March 2012	3 years	7 <sup>th</sup> March 2015	Employer
Mr. Peter Boyers	Deputy chairman	11 <sup>th</sup> October 2010	3 years	11 <sup>th</sup> October 2013	Minister's discretion
Rev. Mareta Tahu	Member	26 <sup>th</sup> January 2011	2 year	26 <sup>th</sup> January 2013	Minister's discretion
Ms Leotina Harihiru	Member	26 <sup>th</sup> January 2011	2 years	26 <sup>th</sup> January 2013	Employees
Mr. Josiah Manehia	Member	26 <sup>th</sup> January 2011	2 years	26 <sup>th</sup> January 2013	Crown
Mr. Harry Kuma	Member	21 <sup>st</sup> June 2010 21 <sup>st</sup> June 2012	2 years 1 year	21 <sup>st</sup> June 2012 21 <sup>st</sup> June 2013	Crown
Mr. Yoshiyuki Sato	Member	21 <sup>st</sup> June 2010	2 years	21 June 2012	Employer
Dr. Levi Hou	Member	9 <sup>th</sup> September 2011	3 years	8 <sup>th</sup> September 2014	Employees

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

The specified executives of the Fund during the year were:

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

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

	June 2012	June 2011
	\$	\$
Total remuneration is included in 'personnel expenses' as follows:		
Short-term employee benefits	2,759,309	2,491,853
Post-employment benefits	206,948	104,002
Total Compensation	<u>2,966,257</u>	<u>2,595,855</u>

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

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

As at 30 June 2012 loans by the Fund to key management personnel are as follows:

Housing Loan	163,814	214,335
Others	156,135	359,725
Total Loans	<u>319,949</u>	<u>574,060</u>

Major transactions with Government Organisations / Statutory Bodies for the year ended 30 June 2012 are as follows:

<b>Name of company/organisation</b>	<b>Outstanding</b>	<b>Received</b>	<b>Total Form A's/SD</b>
<b>Solomon Islands Electricity Authority</b>			
Contribution	(264,908)	2,477,326	2,212,418
Surcharge	998,338	2,502,148	3,500,486
<b>Solomon Islands Water Authority</b>			
Contribution	(1,928)	762,763	760,835
Surcharge	(12,302)	66,026	53,724
<b>Total</b>	<b>719,200</b>	<b>5,808,263</b>	<b>6,527,463</b>

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

<b>Name of company/organisation</b>	<b>Outstanding</b>	<b>Paid</b>	<b>Total Purchases</b>
	Goods and Service	Goods and Service	Goods and Service
Solomon Islands Electricity Authority	1,152,294	12,199,756	13,352,050
Solomon Islands Water Authority	99,938	895,432	995,370
<b>Total</b>	<b>1,252,232</b>	<b>13,095,188</b>	<b>14,347,420</b>

**Related Party transactions**

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

**11. AUDITORS REMUNERATION**

Fees totaling \$275,000.00 was provided in the accounts for audit services this year (\$787,072 last year). No other benefits were received by the auditors (Office of the Auditor General) during the year other than fees paid for normal accountancy services.

**12. GOING CONCERN**

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

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

**13. CONTINGENT LIABILITY**
**(a) Deed between SINPF and SIG**

During the financial year, the Deed signed on 2nd December 2004, as per Note 7(a) (ii) between Solomon Islands National Provident Fund and Solomon Islands Government was resolved and party concern formally revoke the order concern to ascertain that the interest for the periods of 1999 to 2004 has been paid by the National Provident Fund and it is no longer an issue, therefore paving the way for a revocation order and put the matter to rest. On that note, provision taken over the years of \$3,208,593.22 was cleared by writing it back to the Profit and Loss Statement.

**(b) Deed between SINPF and BSP**

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

The balance to date of the long term bonds is \$29,780,847.49.

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

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

	June 2012 \$	June 2011 \$
(a) Cash balance comprises of:		
Cash at bank	157,809,051	51,471,255
Cash on hand	2,800	2,800
	<u>157,811,851</u>	<u>51,474,055</u>
(b) Reconciliation of the operating Surplus/(Loss) after Interests to the net cash flows from operations:		
	June 2012 \$	June 2011 \$
Net surplus/(deficit) after interests to members	24,640,188	8,971,390
<i>Adjustments for:</i>		
Depreciation expense	4,210,067	3,769,060
Annual interests to members	64,021,802	78,884,952
Bad and doubtful debts	(3,503,442)	710,104
Net gain/(loss) in changes in fair values of financial assets	(8,361,355)	(25,352,466)
Gain on disposal of fixed assets	(785,715)	(187,449)
Receivables and prepayments	(63,859,973)	(53,342,050)
Trade and provisions	413,884	651,978
Contributions (Interest Payable write back)	(3,208,593)	-
	<u>13,566,863</u>	<u>14,105,519</u>

#### 15. EMPLOYEES

The number of full time permanent Fund employees as at 30 June 2012 remain at 112 as in 2011.

#### 16. SUBSEQUENT EVENTS

The events that has arisen since the end of the financial year that will significantly affected, or may significantly affect, the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years are highlighted below.

**Provident Properties Limited** - The company was placed under voluntary liquidation with the appointment of a liquidator on 9<sup>th</sup> July 2012.

**Soltuna Limited** - After securing Ministerial approval in August 2012, the Board purchased Western Province Executive 6,266,385 unsubscribed shares for \$2,067,907 on 28 August 2012, bringing SINPF shares to 93,266,385 to a total exposure level in Soltuna Ltd of \$44,469,385.

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### 17. FINANCIAL INSTRUMENTS

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

#### (a) Credit risk

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

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

At balance sheet date concentrations of credit risk are noted for Bank South Pacific, ANZ Bank, and Westpac Bank. The asset allocation at balance date is as follows:

	June 2012		June 2011	
	\$	%	\$	%
<b>Assets</b>				
Held to maturity	599,673,323	41%	584,825,177	46%
Financial assets at fair value	311,195,944	21%	300,480,805	24%
Investment properties	106,404,765	7%	90,149,111	7%
Loans and advances	94,121,207	6%	88,579,189	8%
Cash	157,811,851	11%	51,474,055	4%
Receivables	78,848,653	5%	74,225,086	6%
Property, plant and equipment	115,804,056	8%	69,172,613	5%
<b>Total</b>	<b>1,463,859,799</b>	<b>100%</b>	<b>1,258,906,035</b>	<b>100%</b>

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

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

#### (b) Government security risk

The Fund has a significant exposure to the Solomon Islands Government (SIG) through its holding of government securities and bonds. The total holdings from SIG at 30 June 2012 is \$97,517,186 (June 2011: \$102,357,994).

#### (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:

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	Currency					Total \$
	SBD \$	AUD \$	USD \$	Euro \$	Others \$	
<b>30 June 2012</b>						
<b>Assets</b>						
Held to maturity	450,644,874	55,910,433	41,629,140	30,108,359	21,380,518	599,673,323
Financial assets at fair value	205,588,980	17,805,160	19,526,469	(1,622,764)	69,898,099	311,195,944
Investment properties	106,404,765	-	-	-	-	106,404,765
Loans and advances	94,121,207	-	-	-	-	94,121,207
Cash	157,811,851	-	-	-	-	157,811,851
Receivables	78,848,653	-	-	-	-	78,848,653
Property, plant and equipment	115,804,056	-	-	-	-	115,804,056
<b>Total</b>	<b>1,209,224,386</b>	<b>73,715,593</b>	<b>61,155,609</b>	<b>28,485,595</b>	<b>91,278,616</b>	<b>1,463,859,799</b>
<b>Liabilities</b>						
Creditors	1,502,051	-	-	-	-	1,502,051
Accruals and Provisions	8,066,560	-	-	-	-	8,066,560
Special Death Benefits	2,264,931	-	-	-	-	2,264,931
Members Contributions	1,330,713,078	-	-	-	-	1,330,713,078
<b>Total</b>	<b>1,342,546,620</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,342,546,620</b>
<b>Net</b>	<b>(133,322,234)</b>	<b>73,715,593</b>	<b>61,155,609</b>	<b>28,485,595</b>	<b>91,278,616</b>	<b>121,313,179</b>
<b>30 June 2011</b>						
<b>Assets</b>						
Held to maturity	454,281,755	38,292,997	41,312,910	29,845,285	21,092,250	584,825,197
Financial assets at fair value	197,467,664	11,717,117	20,831,128	8,134,337	62,330,559	300,480,805
Investment properties	90,149,111	-	-	-	-	90,149,111
Loans and advances	88,579,189	-	-	-	-	88,579,189
Cash	51,474,055	-	-	-	-	51,474,055
Receivables	74,225,086	-	-	-	-	74,225,086
Property, plant and equipment	69,172,613	-	-	-	-	69,172,613
<b>Total</b>	<b>1,025,349,472</b>	<b>50,010,114</b>	<b>62,144,038</b>	<b>37,979,622</b>	<b>83,422,809</b>	<b>1,258,906,035</b>
<b>Liabilities</b>						
Creditors	1,281,408	-	-	-	-	1,281,408
Accruals and Provisions	10,776,608	-	-	-	-	10,776,608
Special Death Benefits	2,463,999	-	-	-	-	2,463,999
Members Contributions	1,147,946,213	-	-	-	-	1,147,946,213
<b>Total</b>	<b>1,162,468,228</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,162,468,228</b>
<b>Net</b>	<b>(137,118,756)</b>	<b>50,010,114</b>	<b>62,144,038</b>	<b>37,979,622</b>	<b>83,422,809</b>	<b>96,437,807</b>

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### Foreign currency sensitivity analysis

The Fund is mainly exposed to the currency of AUD, USD, Euro, GBP and PGK

The following table details the Fund's sensitivity to a 10% increase and decrease in the Solomon Islands dollars against the relevant Foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and 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. Where the SBD strengthen by 10% against the relevant foreign currency, a downside of the amount indicated below will reduce profit and equity by that amount. For a 10% weakening of the Solomon Islands dollar against the relevant currency, there would be a comparable positive impact that will improve profit and other equity by that same amount. The plus or minus amounts in the relevant currency are as noted below:

	AUD impact (000s)		USD impact (000s)		Euro impact (000s)		GBP impact (000s)		PGK impact (000s)	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Changes in net assets	(1,476)	1,758	2,021	2,548	(18,186)	2,211	(934)	309	39,815	30,733

### (d) Interest rate risk

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

The credit risk on held to maturity investments is limited because the 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 dividend basis. Accordingly an interest rate sensitivity analysis is not required.

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

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	Weighted average effective interest rate %	Up to 1 Year \$	1-5 years \$	Over 5 years \$	Non Interest Bearing \$	Total \$
<b>30 June 2012</b>						
<b>Assets</b>						
Held to maturity	4.0%	415,341,091	111,144,278	73,187,954	-	599,673,323
Financial assets at fair value		-	-	311,195,944	-	311,195,944
Investment properties		-	-	-	106,404,765	106,404,765
Loans and advances		57,864,787	19,313,702	16,942,718	-	94,121,207
Cash		157,811,851	-	-	-	157,811,851
Receivables		-	-	-	78,848,653	78,848,653
Property, plant and equipment		-	-	-	115,804,056	115,804,056
	4.0%	631,017,729	130,457,980	401,326,616	301,057,474	1,463,859,799
<b>Liabilities</b>						
Creditors		-	-	-	1,502,051	1,502,051
Accruals and Provisions		-	-	-	8,066,560	8,066,560
Special Death Benefits		566,233	679,479	1,019,219	-	2,264,931
Members Contributions		33,691,532	247,498,228	1,049,523,318	-	1,330,713,078
		34,257,765	248,177,707	1,050,542,537	9,568,611	1,342,546,620
<b>Interest sensitivity gap</b>		596,759,964	(117,719,727)	(649,215,921)	291,488,863	121,313,179
<b>30 June 2011</b>						
<b>Assets</b>						
Held to maturity	5.07%	224,103,339	182,456,400	178,265,438	-	584,825,177
Financial assets at fair value		-	-	300,480,805	-	300,480,805
Investment properties		-	-	-	90,149,111	90,149,111
Loans and advances		5,117,996	72,558,474	10,902,718	-	88,579,188
Cash		51,474,055	-	-	-	51,474,055
Receivables		-	-	-	74,225,086	74,225,086
Property, plant and equipment		-	-	-	69,172,613	69,172,613
	5.07%	280,695,390	255,014,874	489,648,961	233,546,810	1,258,906,035
<b>Liabilities</b>						
Creditors		-	-	-	1,281,408	1,281,408
Accruals and Provisions		-	-	-	10,776,608	10,776,608
Special Death Benefits		616,000	739,200	1,108,800	-	2,464,000
Members Contributions		160,712,470	275,507,091	711,726,652	-	1,147,946,213
		161,328,470	276,246,291	712,835,452	12,058,016	1,162,468,228
<b>Interest sensitivity gap</b>		119,366,920	(21,231,417)	(223,186,491)	221,488,794	96,437,807

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**

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

	Up to 1 month \$	1 - 3 months \$	3- 12 months \$	1-5 years \$	Over 5 years \$	Total \$
<b>30 June 2012</b>						
<b>Assets</b>						
Held to maturity	-	11,482,041	403,859,050	111,144,278	73,187,954	599,673,323
Financial assets at fair value	-	-	-	-	311,195,944	311,195,944
Investment properties	-	-	-	-	106,404,765	106,404,765
Loans and advances	-	-	57,864,787	36,256,420	-	94,121,207
Cash	157,811,851	-	-	-	-	157,811,851
Receivables	2,390,855	8,602,620	67,855,178	-	-	78,848,653
Property, plant and equipment	-	-	-	-	115,804,056	115,804,056
<b>Total</b>	<b>160,202,706</b>	<b>20,084,661</b>	<b>529,579,015</b>	<b>147,400,698</b>	<b>606,592,719</b>	<b>1,463,859,799</b>
<b>Liabilities</b>						
Creditors	1,501,797	-	254	-	-	1,502,051
Accruals and Provisions	278,744	-	356,045	7,431,770	-	8,066,555
Special Death Benefits	141,558	198,181	226,494	679,479	1,019,219	2,264,931
Members Contributions	8,422,883	10,107,460	15,161,189	247,498,228	1,049,523,318	1,330,713,078
<b>Total</b>	<b>10,344,982</b>	<b>10,305,641</b>	<b>15,743,982</b>	<b>255,609,477</b>	<b>1,050,542,537</b>	<b>1,342,546,620</b>
<b>Net liquidity gap</b>	<b>149,857,723</b>	<b>9,779,021</b>	<b>513,835,033</b>	<b>(108,208,779)</b>	<b>(443,949,819)</b>	<b>121,313,179</b>
<b>30 June 2011</b>						
<b>Assets</b>						
Held to maturity	30,000,000	-	194,103,339	182,456,400	178,397,994	584,825,177
Financial assets at fair value	-	-	-	-	300,480,805	300,480,805
Investment properties	-	-	-	-	90,149,111	90,149,111
Loans and advances	-	-	5,117,996	72,558,474	10,902,718	88,579,188
Cash	51,474,055	-	-	-	-	51,474,055
Receivables	2,946,320	2,267,117	68,203,886	807,762	-	74,225,085
Property, plant and equipment	-	-	-	-	69,172,613	69,172,613
<b>Total</b>	<b>84,420,375</b>	<b>2,267,117</b>	<b>267,425,221</b>	<b>255,822,636</b>	<b>649,103,241</b>	<b>1,258,906,030</b>
<b>Liabilities</b>						
Creditors	1,234,951	29,189	8,041	9,227	-	1,281,408
Accruals and Provisions	450,988	227,511	1,459,287	6,999,403	1,639,419	10,776,608
Special Death Benefits	154,000	215,600	246,400	739,200	1,108,800	2,464,000
Members Contributions	40,178,117	48,213,741	72,320,611	275,507,091	711,726,652	1,147,946,212
<b>Total</b>	<b>42,018,056</b>	<b>48,686,042</b>	<b>74,034,339</b>	<b>285,254,921</b>	<b>714,474,871</b>	<b>1,162,468,228</b>
<b>Net liquidity gap</b>	<b>42,402,319</b>	<b>(46,418,925)</b>	<b>193,390,882</b>	<b>(27,432,283)</b>	<b>(65,504,186)</b>	<b>96,437,807</b>

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

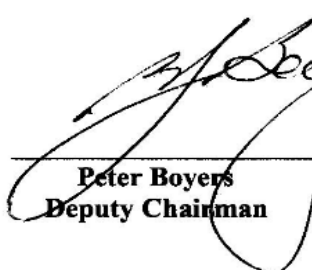
### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	Note	June 2012 \$	June 2011 \$
<b>RESERVES</b>			
Revaluation Reserve	4 (a)	46,904,402	46,904,402
General Reserve	4 (b)	74,408,777	49,533,405
Total reserves		<u>121,313,179</u>	<u>96,437,807</u>
<b>Represented by:</b>			
<b>INVESTMENTS</b>			
Held to maturity	6 (a)	599,673,323	584,825,177
Financial assets at fair value	6 (b)	311,195,944	300,480,805
Investment properties	6 (c)	106,404,765	90,149,111
Loans and advances	6 (d)	94,121,207	88,579,189
Total investments		<u>1,111,395,239</u>	<u>1,064,034,282</u>
<b>OTHER ASSETS</b>			
Cash	14	157,811,851	51,474,055
Receivables	5	78,848,653	74,225,086
Property, plant and equipment	8	115,804,056	69,172,613
Total other assets		<u>352,464,560</u>	<u>194,871,753</u>
<b>LIABILITIES</b>			
Creditors		1,502,051	1,281,408
Accruals and Provisions	9	8,066,560	10,776,608
Special Death Benefits		2,264,931	2,463,999
Members Contributions		<u>1,330,713,078</u>	<u>1,147,946,213</u>
		<u>1,342,546,620</u>	<u>1,162,468,228</u>
<b>NET ASSETS</b>		<u>121,313,179</u>	<u>96,437,807</u>

The balance sheet should be read in conjunction with the accompanying notes.



**Baoro Koraua**  
Chairman of the Board



**Peter Boyers**  
Deputy Chairman



**Tony Makabo**  
General Manager (CEO)

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**
**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 2012**

	<b>Note</b>	<b>June 2012 \$</b>	<b>June 2011 \$</b>
<b>INVESTMENT INCOME</b>			
Interest	3 (a)	28,974,032	35,093,480
Dividends	3 (b)	67,363,415	52,631,946
Rentals	3 (c)	16,884,917	14,513,571
Net gain/(loss) on changes in fair values of financial assets	3 (d)	11,835,040	27,159,664
Total investment income		<u>125,057,404</u>	<u>129,398,661</u>
<b>OTHER INCOME</b>			
Surcharges		4,156,788	4,548,974
Sundry	3 (e)	8,670,173	1,326,426
Gain on sale of fixed assets		30,583	187,449
Total other income		<u>12,857,544</u>	<u>6,062,849</u>
<b>TOTAL INCOME</b>		<u>137,914,948</u>	<u>135,461,510</u>
<b>LESS: OPERATING EXPENDITURE</b>			
Normal operating expenses	3 (f)	46,405,782	43,960,855
Members expenses		2,562,162	1,644,467
Doubtful debts		285,014	1,999,846
<b>TOTAL EXPENDITURE</b>		<u>49,252,958</u>	<u>47,605,168</u>
<b>GROSS SURPLUS</b>		<u>88,661,990</u>	<u>87,856,342</u>
<b>Less: Appropriation</b>			
Interest credited to members including trust Accounts		64,021,802	78,884,952
<b>NET SURPLUS/(DEFICIT)</b>		<u>24,640,188</u>	<u>8,971,390</u>

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

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### STATEMENT OF CHANGES IN MEMBERS' FUND AS AT 30 JUNE 2012

	Note	June 2012 \$	June 2011 \$
Opening Balance at 1 July		1,147,946,213	985,350,251
Add:			
Contributions received during the year		190,991,951	161,625,253
Interest on members accounts	2(e)	63,865,098	78,678,994
		<u>1,402,803,262</u>	<u>1,225,654,498</u>
Less:			
Contribution Withdrawals		71,425,368	79,325,514
Transfer to SDB reserve	2(d)	509,314	507,469
Transfer to general reserve		235,184	132,702
		<u>72,169,866</u>	<u>79,965,685</u>
Total changes in members fund		1,330,633,396	1,145,688,814
Add/(less): Adjustment to contribution account*		79,682	2,257,399
Balance at 30 June		<u><u>1,330,713,078</u></u>	<u><u>1,147,946,213</u></u>
<b>Represented by:</b>			
Identified		1,292,269,671	1,113,687,223
Unidentified		8,154,399	9,356,640
Contribution Creditors		28,683,688	23,261,002
Provisions - Contributions		1,605,320	1,641,348
		<u><u>1,330,713,078</u></u>	<u><u>1,147,946,213</u></u>

\* Adjustment to contributors account relates to adjustment taken up in order to agree the contributors balances per NPF2000 to the general ledger balance maintained in MYOB. The closing balance of \$1,330,713,078 agrees to the NPF2000 contributors accounts at 30 June 2012.

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 2012**

		June 2012	June 2011
	Notes	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from investments and customers		58,195,871	57,289,649
Payments to suppliers and employees		(42,066,846)	(41,539,663)
Interest and benefits paid to members		(2,562,162)	(1,644,467)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	14 (b)	<u>13,566,863</u>	<u>14,105,519</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(66,904,265)	(34,289,374)
Investment in loan portfolios & members etc		<u>40,620,023</u>	<u>(50,119,410)</u>
<b>NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES</b>		<u>(26,284,242)</u>	<u>(84,408,784)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase/(Decrease) in contribution balance		119,627,626	84,153,145
Payment of special death benefits		<u>(572,451)</u>	<u>(558,710)</u>
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		<u>119,055,175</u>	<u>83,594,435</u>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		106,337,796	13,291,170
Add opening cash brought forward		<u>51,474,055</u>	<u>38,182,885</u>
<b>CLOSING CASH CARRIED FORWARD</b>	14 (a)	<u><u>157,811,851</u></u>	<u><u>51,474,055</u></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 2012

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#### 1. GENERAL INFORMATION

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

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

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

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

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

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

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (a) Basis of preparation

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

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

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

##### (b) Comparatives

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

##### (c) Members Contribution Account

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

##### (d) Special Death Benefit (SDB)

As provided for in the Act an amount is deducted from each member's account at 30 June each year in respect of Special Death Benefit to be paid to the beneficiaries of the member after the death of a member. The maximum sum payable on SDB for the year ended 30th June 2012 was \$6,000.

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

### (e) Interest on Members Account

Interest credited to a member's account at 30 June in any one year is calculated on the balance standing to the credit of the member's account as at 1 July in the previous year. In accordance with Section 8 of the Solomon Islands National Provident Fund Act, the minimum interest rate to be credited to the members account is 2.5%. Under Section 10 of the Act if the Fund is at any time unable to pay any sum which is required under the Act, then the sum required shall be advanced by the Government out of the Consolidated Fund and the Fund shall as soon as is practicable, repay to the Government the sum advanced.

### (f) Property, plant and equipment

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

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

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

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

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

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

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

### (g) Income Tax

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

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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#### (h) Allowance for Doubtful Loans and Investments

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

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

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

#### (i) Financial Instruments

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Fund financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

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

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

##### Held-to-maturity investments

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

##### Available-for-sale financial assets

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

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the statement of changes in net assets, and other changes are recognised in equity.

#### Loans and receivables

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

Interest is recognised by applying the effective interest rate.

#### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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

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

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

#### Financial liabilities

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

#### Financial liabilities at fair value through profit or loss

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

#### Other financial liabilities

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

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

## SOLOMON ISLANDS NATIONAL PROVIDENT FUND

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

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#### (j) Cash and cash equivalents

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

#### (k) Foreign currency

##### Functional presentation currency

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

##### Transactions and balances

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

#### (l) Provisions

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

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

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

#### (m) Payables

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

#### (n) Computer systems development costs

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

#### (o) Investment Property

Investment property is carried at fair value and changes in fair value are accounted for through the profit and loss.

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2012**
**3. INCOME AND EXPENSES**

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

	June 2012 \$	June 2011 \$
<b>(a) Interest income</b>		
Cash at bank	129,157	111,566
Treasury bills	315,311	274,609
Bonds	5,285,637	10,671,799
Loans and advances	8,717,566	1,230,119
Investment securities:		
- Held to maturity	14,526,361	22,805,387
<b>Total</b>	<b>28,974,032</b>	<b>35,093,480</b>
<b>(b) Dividend income</b>		
Quoted shares	4,678,121	4,153,776
Unquoted shares	62,154,043	48,033,313
Managed funds	531,251	444,857
<b>Total</b>	<b>67,363,415</b>	<b>52,631,946</b>
<b>(c) Rental income</b>		
Investment properties	12,293,985	10,766,231
Others	4,590,932	3,747,340
<b>Total</b>	<b>16,884,917</b>	<b>14,513,571</b>
<b>(d) Gain/(loss) from changes in fair values</b>		
Investment Properties	3,255,654	6,049,346
Fair value through profit and loss	8,579,386	21,110,318
<b>Total</b>	<b>11,835,040</b>	<b>27,159,664</b>
<b>(e) Sundry income</b>		
Bad debts recovery	3,801,990	371,592
Risk premium fee – Bank South Pacific	564,592	782,718
Others	4,303,591	172,117
<b>Total</b>	<b>8,670,173</b>	<b>1,326,427</b>
<b>(f) Operating expenses</b>		
Board and management allowances	355,275	456,588
Utilities (water, electricity)	13,833,122	10,990,648
Repairs and maintenance	7,223,166	10,793,832
Land rates and rental charges	167,607	352,249
Administrative expenses	4,267,368	4,204,405
Depreciation expenses	4,210,067	3,769,060
Insurance expenses	551,247	564,693
Audit fees	507,642	275,000
Bank charges	58,847	56,876
Consultancy fees and expenses	3,958,939	2,966,785
Staff costs	11,272,502	9,530,719
<b>Total</b>	<b>46,405,782</b>	<b>43,960,855</b>