

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

40TH
ANNIVERSARY
1976 - 2016

ANNUAL REPORT

FOR SOCIAL SECURITY AND PROSPERITY

1st October 1976 - 1st October 2016

CORPORATE INFORMATION

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

Branches: Auki, Malaita Province; Gizo, Western Province

Postal Address: PO Box 619, Honiara, Solomon Islands

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

Website: sinpf.org.sb

Email: info@sinpf.org.sb

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

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

LEGAL FRAMEWORK

A defined contribution fund

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

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

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

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

Employers are obliged to contribute 7.5% on behalf of employees

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

Financial year end 30th June

Minister of Finance and Treasury approves all new investments

In 2003, SINPF is deemed a licensed financial institution under the Financial Institutions Act (FIA) and Subject to prudential reviews by the Central Bank of Solomon Islands (CBSI)

CHAIRMAN'S LETTER

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

31 January 2019

Dear Sir,

SOLOMON ISLANDS NATIONAL PROVIDENT FUND ANNUAL REPORT 2017

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 2017 which incorporates the Statement of Assets and Liabilities, Statement of Accounts and major development events of the Fund occurred during the financial period.

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

Yours faithfully



Peter James Boyers
Chairman



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Our Vision

Securing and enhancing our future

Our Mission

Achieve sustainable growth through real return and provision of quality services

Our Values

Ethical, responsible and professional conduct at all times

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

Productivity, teamwork and striving for continuous improvement

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

Effective stewardship & leadership

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

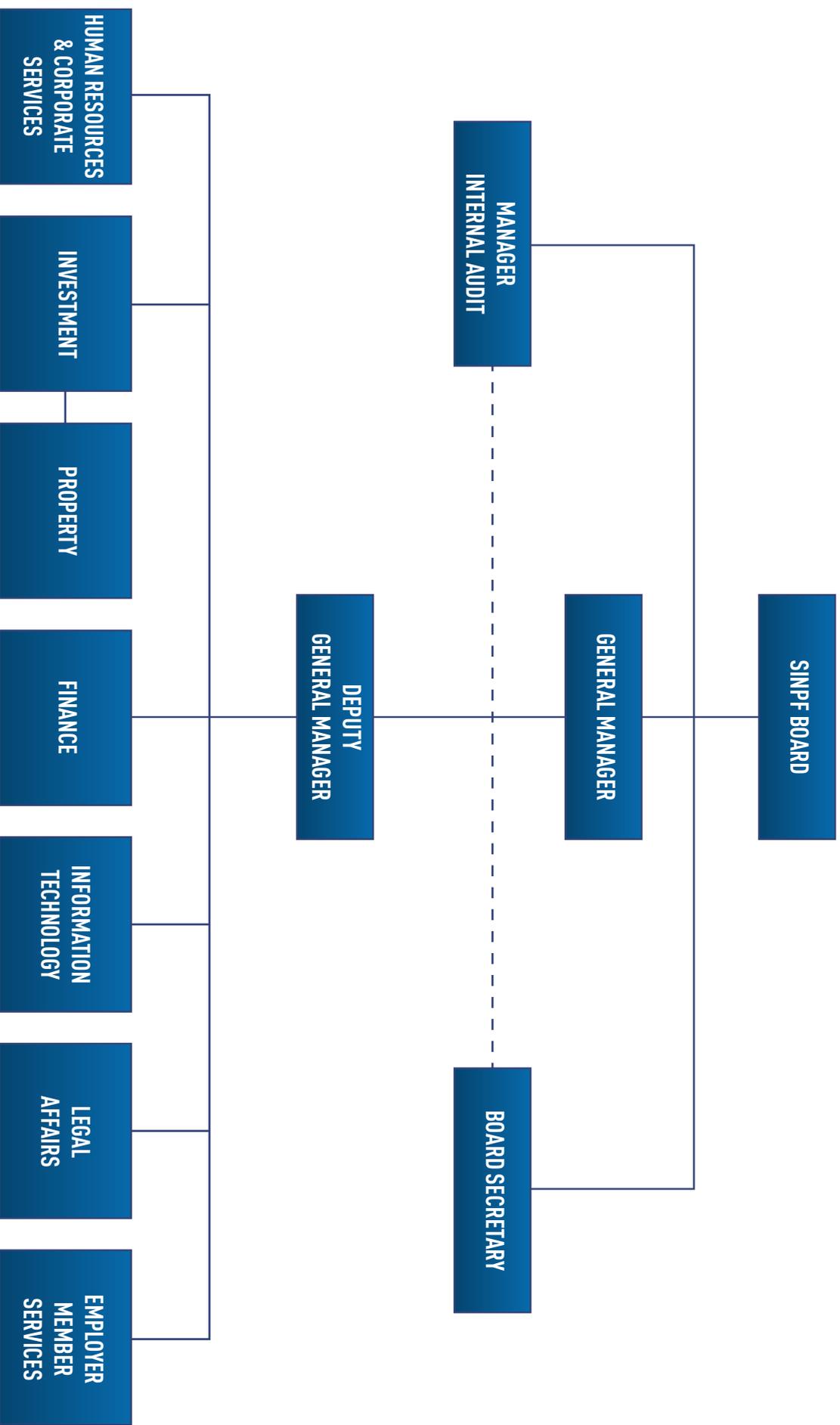
Passion to deliver results for members

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

Our Corporate Objectives

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

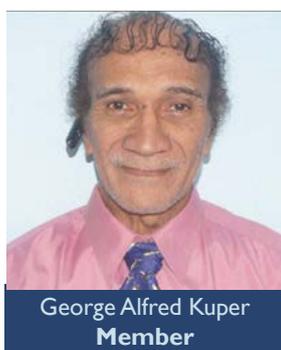
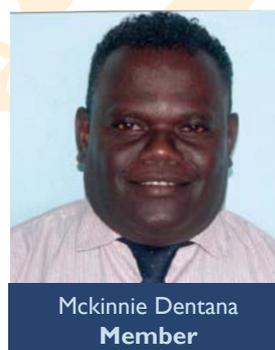
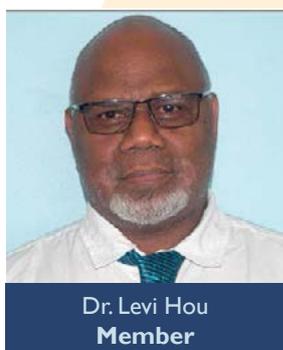
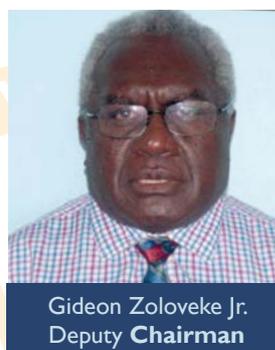
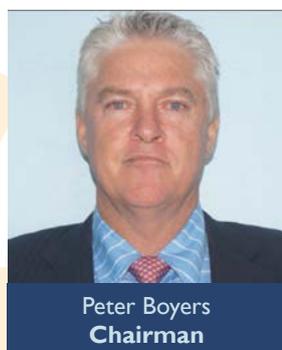
ORGANIZATION STRUCTURE



BOARD OF TRUSTEES

Table 1: Board Trustees

Name and Appointment	Appointment Date	Term Yrs	Expiry Date of Appointment	Representing
Mr. Peter James Boyers, Chairperson	20 May 15	3	20 May 18	Employer
Mr. Gideon Zoleveke, Jr. V/ Chairperson	29 Mar 16	2	29 Mar 18	Employer
Dr. Alice Pollard, Member	29 Mar 16	2	29 Mar 18	Minister Discretion
Mr. Jerry Tengemoana, Member	14 April 16	2	14 April 18	Minister Discretion
Mrs. Julie Haro, Member	14 April 16	2	14 April 18	Employee
Dr. Levi Hou, Member	9 Sept 14	3	9 Sept 17	Employee
Mr. George Kuper, Member	23 Oct 15	3	23 Oct 18	Crown
Mr. Mckinnie Dentana, Member	23 Oct 15	3	23 Oct 18	Crown



KEY MANAGEMENT

Table 2: Management

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



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

CHAIRMAN'S MESSAGE

The Fund's financial performance in the financial year ended 30 June 2017 was weak as the gross return on assets (ROA) fell to 4% from a strong level of 8% recorded in the previous financial year.

It has generally been a difficult year for parts of the Fund's investments portfolio in particular the weaknesses of our assets in the telecommunications and the commercial property sectors which held back the overall financial performance of the Fund.

Though it has been a difficult year and to smoother member returns above inflation a crediting rate of 5.3% was awarded to our members in 2017 supported by using part of the General Reserves (GR).

On a positive note the Fund's membership continued to grow with contribution balances reaching more than \$2.76 billion, with new contribution inflows of more than \$279 million, member benefit payments of just under \$216 million and a net contribution margin of more than \$63 million.

Though limited new investments were being made during the year, the Fund's investments portfolio continue to expand recording more than 4% increase to settle above \$3.055 billion.

On 1st October 2016 the Fund celebrated its' 40th year anniversary. My Board, Management and all stakeholders took time to reflect on the past successes and achievements, failures, and challenges of the Fund over the past 40 years.

The Fund started from a humble beginning of 18,669 members with contribution balances of around \$800,000 recorded at the end of the Fund's first financial period on 30 June 1977 and a first investment in the form of a term deposit placed with the then Hong Kong and Shanghai Banking Corporation.

Over the 40 year period and today at the end of 30 June 2017 we have an active membership base of more than 131,000 members with contributions worth more than \$2.76 billion. From the initial \$700,000 invested in 1977, today the Fund's investments portfolio had surpassed \$3.055 billion, invested across various assets, economies, and markets.

We all acknowledged that the next 40 years would not be easy but the lessons learned both from the Fund's successes and failures being celebrated during the anniversary, will be used by my Board, Management of the Fund, the Government, Employer and Employee associations as we chart a new future for the Fund.

The pillar of this new chart will be the new legislation reform of the 1976 SINPF Act. To date my Board will continue to strongly encourage the government of the day to progress the enactment of a new NPF Act. The new law is necessary to convert the Fund into a modern retirement fund with all the relevant governance, supervisory, and risk management processes in place to improve and protect management of members' funds, how and where they are invested, improve transparency and reporting, and improved delivery of services and communication to members of the Fund.

Though it has been a difficult year, the Fund's balance sheet and performance remains strong and robust and for these positive outcomes, I would like to thank and acknowledge the tireless work, support and cooperation of my colleagues on the Board and the support from management and staff of the Fund.

I would also like to thank and acknowledge the continued support and guidance from the Minister of Finance and Treasury and his team at the Ministry of Finance and the Governor and Staff of the Central Bank of Solomon Islands for their oversight of the Fund.



Peter James Boyers
Chairman

GENERAL MANAGER'S REPORT

Financial Performance

The Fund's financial performance during the year was subdued as parts of the Fund's investment portfolio performed below expectations.

A crediting rate of 5.3% was awarded to members for the financial year worth \$124,567,631 with \$86.6 million drawn out of general reserves to support the crediting.

A general reserve level of \$313.75 million was therefore maintained at year end representing more than 10% of the Fund's net asset guaranteeing up to 5 years of future 2.5% annual crediting.

Notwithstanding the softening in parts of the Fund's investment portfolio performance, the Fund's investments portfolio grew by 4% as new contribution inflows recorded at more than \$279.2 million were received, up from the previous year of \$255.34 million.

Members Funds under management grew to \$2.76 billion a growth of more than 7.5% on the previous financial year's level of \$2.56 billion.

Review of 5 year (2014-2019) Rolling Business Plan

Management reviewed the Fund's 5 year rolling business plan during the year. After the review the Board adopted and rolled over a new plan for another 5 year period 2016-2021 in December 2016. New strategic directions (SD's), and key performance indicators (KPI's) were added on and the risk register updated as new risks were identified and classified according to their likelihood of occurring and the expected magnitude of their consequences.



Workers at Soltuna Cannery, Noro, Western Province

Integrated Financial Management System Project (IFMS)

A significant progress of the rolling plan is the signing of a contract with Pronto Software Ltd after a rigorous process of tender and evaluations and subsequent weeks of hard work of setting up the server environment, training, data migration, and business simulations. By the end of the 2017 financial year, the IFMS was ready to go live in the 2018 financial year from 1st July 2018.

This will be a significant achievement as the Fund's ability to prepare timely monthly financial reporting will be greatly improved and therefore removing quite a number of risks related to financial reporting to Board and to the Regulator, Central Bank of Solomon Islands.

Results of the Survey on Extending Retirement Benefits to the Informal Sector

During the year result of the survey performed in the previous financial year showed that there is demand for retirement benefits in the informal sector.

After assessing the positive results of the survey, the Fund in partnership with United Nations Capital Development Program developed and launched in May 2017 a new retirement product named youSave targeting the hugely unserved informal sector, for trial as a pilot project.

Acknowledgement

I would like to thank the kind support and cooperation that the Fund had received from all contributing members and employers of the Fund during the year.

I would also like to thank the professional and regulatory support of the Central Bank of Solomon Islands in providing oversight to the Fund operations and the continuous support of the Permanent Secretary of the Ministry of Finance and his staff at the Economic Reform Unit (ERU).

The leadership and guidance provided by the Chairman and his Board are acknowledged with gratitude during a very challenging year. Finally to my management and staff at the Fund, thank you for being a great team in concluding a very tough year especially when the Fund has to go against quite a number of strong headwinds.



Mike Wate
Deputy General Manager
For the CEO/General Manager

2017 ACHIEVEMENTS AND HIGHLIGHTS

Membership and Employers

- 6,005 new members registered during the year, down on previous year's level of 7,418
- Accumulated registered membership increased by 2.5% to 178,302
- Accumulated active members slightly fell to 56,102 from 56,585 in the previous year
- Contributions received from Members and Employers increased to \$279.3 million in 2017, up by 9% in 2016 amount of \$255.3 million.
- Benefits paid to members increased to \$215.9 million in 2017 up from 2016 level of \$213.7 million
- Net contribution margin of \$63.3 million achieved for the year, an increase on the previous year's level of \$41.6 million.
- Crediting rate of 5.3% awarded to members, down from the previous year of 10%. After adjusting for inflation of 0.55 is a positive real crediting rate of 4.8%
- \$124.5 million in interest was credited to Member Balances in 2017 down by 41% from 2016 level of \$209.34 million.
- Value of Member Contributions grew by more than 7.5% from \$2.566 billion in 2016 to \$2.760 billion in 2017.
- 433 new employers registered during the year
- Total accumulated registered employers rose to 2,909
- Launching of the informal sector voluntary product youSave on 2nd May 2017
- New informal sector youSave pilot scheme 332 savers with a balance of \$86,702.

Investments

- Purchase of Solomon Islands Government 15 years \$150 million long term development bonds in March 2017
- Gross Investments portfolio grew by more than 4% from \$2.934 billion in 2016 to \$3.055 billion in 2017
- Gross income reduced to \$120.3 million in 2017 down by 55% from \$234.1 million in 2016.
- Average return on Investment Assets (ROA) was 3% in 2017 down from 9% in 2016.
- Approval of the Fund's new investment policy and procedures in April 2017

Governance and Operational

- Revision of the Fund's 5 year Strategic Rolling Business Plan 2014-2019 in August 2016 and approved in December 2016
- Revision of the Board and Management Code of Conduct
- Creation of Properties Technical and Infrastructure Committee to support the Sub Board Investment and Credit Committee in December 2016
- External Review of the Property Investments Division in January 2017
- Preparation of the Fund's Board Charter in January 2017

40 YEAR ANNIVERSARY

The Fund celebrated its 40th anniversary on 11th November 2016 to commemorate its' 40 years on 1st October 2016, with a march from the NPF Building Carpark to the former SMI Town Ground Property where the day celebrations took place.

Participating in the march and activities were representatives from all investment subsidiaries of the Fund that include; South Pacific Oil Ltd, Solomon Telekom Company Limited, Soltuna Ltd, Heritage Park Hotel Limited and Solomon Housing Ltd.

The theme of the 40th anniversary celebrations was appropriated "For Social Security and Prosperity".

The keynote address was delivered by the Minister of Finance and Treasury, Hon Snyder Rini. After highlighting the Fund's development, its' phenomenal growth, achievements, and failures of the past 40 years, the challenge is what will be the next 40 years be like.

In his closing remarks the Minister reminded the Chairman, Board, Management, and Staff of the NPF, that; "As we celebrate the past 40 years of the Fund's existence, remember they are now history. You must build on those past positive successes and avoid the mistakes of these years.

You should look to the future with confidence as you build up your capacity with new ideas and perspectives, and adopting new technologies to take on new challenges and secure new opportunities.

At the same time you must remain relevant to your core objective of providing adequate retirement benefits to your members during their working life, for their exit from employment."

Tributes were made to past Chairpersons, General Manager/CEO, and current long serving staff of the Fund.

Ms. Ruth Alepio, the current Board Secretary is the longest serving employee of the Fund with 40 years of service. Ms. Alepio joined the Fund on the commencement date of the Fund's operation. The other 2 longest serving employees of the Fund were Mrs. Maeva Sitai, Assistant Manager Human Resources & Corporate Services and Mr. Aluta Kakadi, Manager Employer and Member Services.



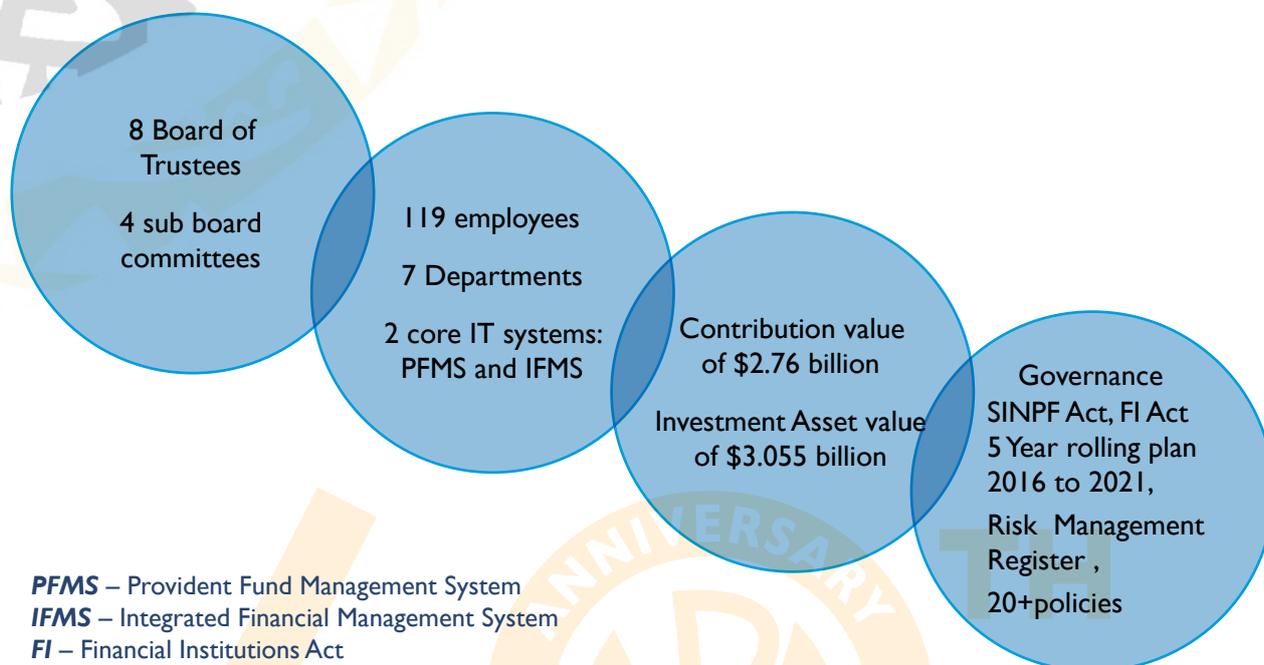
SINPF staff parading Honiara and marking the SINPF 40th Anniversary.



THE FUND DURING THE YEAR

THE SINPF UNIVERSE

Figure 1: SINPF Universe

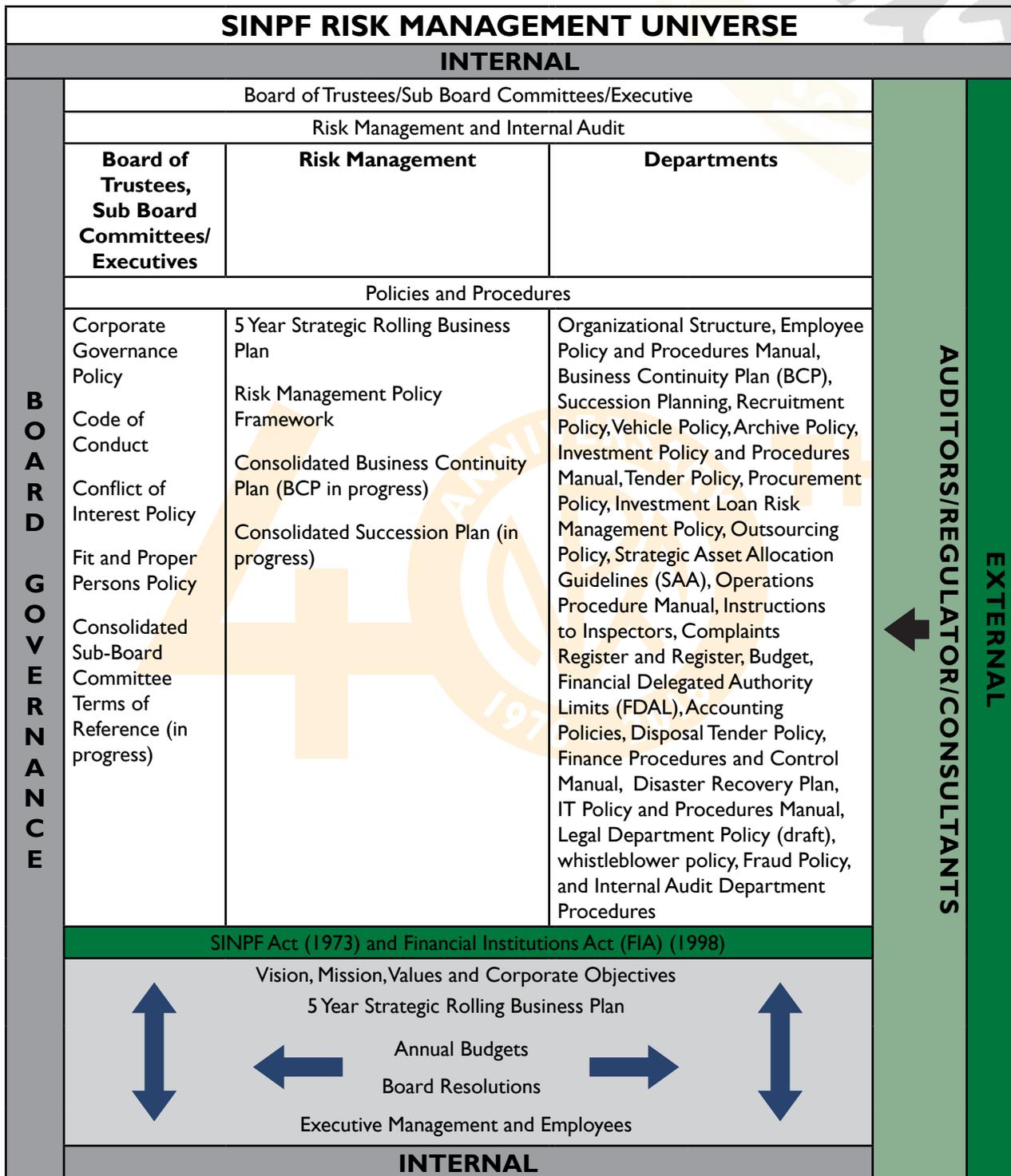


From left: Chairman, SINPF Board, Mr. Peter Boyers, handing over a cheque of \$150 million, for the purchase of Government Long Term Development Bonds to Minister of Finance & Treasury, Hon. Snyder Rini, in the presence of Ruth Alepio, SINPF Board Secretary (sitting). Back Standing from left: General Manager (Acting) SINPF, Mr. Mike Wate, Governor, CBSI, Mr. Denton Rarawa and Permanent Secretary Ministry of Finance, Mr. Harry Kuma. (March 20, 2017)

THE SINPF RISK UNIVERSE

The Fund’s risk universe illustrated in Figure 2 summarizes who are the risk owners and shows how the risks are managed.

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



THE ECONOMY

According to the Central Bank of Solomon Islands (CBSI), the Solomon Islands economy grew by 3.7% in the 2017 calendar year underpinned by a strong 3% growth in the global economy.

The strong domestic growth is driven largely by strong performances in the forestry, fisheries, manufacturing, financial services, and the wholesale & retail sectors. Production increased over the previous year because of higher volumes of fish catch, copra and coconut oil. This outweighed the weak performance in palm oil and cocoa. Log production levels remained high as in 2016.

The annual headline Inflation for the 12 month period ending 30 June 2017 measured on a 3 month moving average was 0.5%. On the foreign exchange rate front on an annual basis to 30 June 2017, the SBD was stable against the US dollar, declined against the Aussie Dollar, and Euro, and strengthened against the pound and the PNG Kina.

The SINPF Board has more than 80% of its investments in the domestic economy whilst just over 10% are held offshore in USA, Australia, Europe, the UK, and Papua New Guinea. Against the backdrop of the strong performance of both the domestic and the global economy, has influenced positively or in some sectors negatively, the performance of the Fund in terms of its investment and new employment creation.



Soltuna Cannery, Noro, Western Province: In 2016/17 the fisheries sector contributes about 18% to the country's gross domestic product (GDP) creating more than 2,400 employment opportunities. SINPF has an equity of 40.5% in the country's only cannery

CORPORATE GOVERNANCE

The Board

The Fund is governed by a tripartite board and the Board is responsible for the management of the trustees and the investment of the Fund within the arm bit of the Fund's key Act, the NPF Act and the Financial Institutions Act (FIA).

Consisting of 8 trustees, the trustees are appointed by the Minister of Finance and Treasury, representing employers, employees, and the crown. The Board met 19 times during the year with 6 being scheduled meetings whilst 13 are special board meetings.

As part of improving the Fund's governance structure, the Board updated and rolled out a new code of conduct for the Board and Management during the year and commenced the documentation of the Fund's Board and Committee Charter in January 2017.

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

	Board Meetings	Board Meetings Attended	Sitting Allowances Paid	Monthly Allowances	Total Allowances
Mr. Peter James Boyers	19	18	\$42,500	\$30,000	\$72,500
Mr. Gideon Zoleveke Jr.	19	19	\$43,500	\$29,200	\$72,700
Dr. Alice Pollard	19	16	\$35,000	\$28,000	\$63,000
Dr. Levi Hou	19	11	\$24,500	\$28,000	\$52,500
Mrs. Julie Haro	19	17	\$38,500	\$28,000	\$66,500
Mr. Jerry Tengemoana	19	15	\$34,500	\$28,000	\$62,500
Mr. Mckinnie Dentana	19	16	\$36,000	\$28,000	\$64,000
Mr. George Kuper	19	16	\$37,000	\$28,000	\$65,000
			\$291,500	\$227,200	\$518,700

No trustees retire during the financial year.

Sub Board Committees and Board Taskforces

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

During the year, a new working committee, Property & Infrastructure Technical Committee (PITC) was established to aid ICC perform in meeting the Fund's property investment objective.

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

	Investment & Credit Committee	Audit and Risk	Information Technology Committee	Staff Welfare Committee	Board Taskforce	PITC
Mr. Peter James Boyers						
Mr. Gideon Zoleveke Jr.		X				
Dr. Alice Pollard				X		
Dr. Levi Hou						
Mrs. Julie Haro	X			X		

	Investment & Credit Committee	Audit and Risk	Information Technology Committee	Staff Welfare Committee	Board Taskforce	PITC
Mr. Jerry Tengemoana			X			X
Mr. Mckinnie Dentana	X					
Mr. George Kuper			X			
Management						
Mr. Tony Makabo	X			X		X
Mr. Mike Wate	X		X			
Mr. Aluta Kakadi			X			
Ms. Jennifer Lako	X		X			
Mrs. Rose Karoa	X		X	X		
Mr. Ishmael Kako	X					X
Mrs. Suzanne Orudiana			X			
Mrs. Areau Hivu		X				
Mr. Manasseh Taloafiri				X		
Mr. Bennett Pitakia	X					X

5 year Strategic Rolling Business Plan 2016-2021

To provide the strategic and operational direction for the Fund on a 5 year rolling period, the Board reviewed its 5 year strategic rolling business plan (2014-2019) in September 2016 and roll out a new plan for the period 2016-2021 from 1st January 2017.

Risk Management Framework

As part of the strategic review of the Fund's rolling business plan, the Fund's risk register established and developed in 2014 under the Fund's risk management framework was updated with new risks added as they are identified by the Board and external stakeholders.

With the approval of the Fund's new investment policy, investment procedures and strategic asset allocation in April 2017, the Board will proceed on to develop and upgrade its property investment policy and guidelines.

MEMBERSHIP

Member number and balances

6,005 new members were registered during the year. The bulk of the new registration was recorded in the services industry. The accumulated registered membership therefore increased to 178,302, an increase of 2.5% on the previous year's level.

Total members with credit balances increased by 3% from 127,378 to settled at 131,482 at the end of the financial year.

Active members however slightly fell to 56,102 due to a clean up of the membership data base from the previous year level of 56,585.

Total contribution receipts for the year increased by 9% to \$279.2 million compared to the level recorded in the previous year of \$255.3 million.

Member withdrawals increased by 1% to \$215.9 million but fell in number to 5,290 from 5,416, with normal retirement at 50 years being the predominate ground for member benefit withdrawal.

A reduced but above inflation crediting rate of 5.3% was awarded to members for an interest amount of \$124.6 million that was credited to member accounts on 30th June 2017.

Accumulated members fund increased by 7.5% to \$2,760,475,468 driven by net contribution receipts and the 5.3% credited to and compounded on member accounts from \$2,566,146,462, recorded at the end of the previous financial year.

Table 5: Key Membership Indicators

	2017	2016
Total Accumulated Registered Members	178,302	174,137
Total Registered Members with Credit Balances	131,482	127,378
Total Accumulated Active Members	56,102	56,585
Total Member Contribution Receipts	\$279,232,097	\$255,339,052
Total Member Withdrawals - Number	5,270	5,416
Total Member Benefits Paid - Value	\$215,957,623	\$213,746,363*
Total Net Contribution	\$63,274,474	\$41,160,566
Annual Interest Rate Credited To Members	5.30%	10%
Annual headline inflation rate to 30 June	0.5%	2.9%
Real Crediting Rate after adjusting for inflation	4.8%	7.1%
Total Annual Interest Credit To Members	\$124,567,631	\$209,384,265
Total Accumulated Members Fund	\$ 2,727,341,394	\$2,552,305,015
Unidentified Contributions ¹	\$33,444,780	\$13,841,447
Total Member Funds	\$2,760,786,174	\$2,566,146,462

¹Also includes excess payments

* Excludes Trust withdrawal payments

Table 6: Member Benefit Payout by Withdrawal Grounds*

	2017		2016	
	No	Value	No	Value
At 50 years	2,247	\$129,892,771	2,362	\$127,606,625
Death (including SDB)	309	\$8,824,275	210	\$8,175,847
Migration	151	\$7,642,470	146	\$8,962,963
Exemption	170	\$13,347,006	80	\$6,400,653
Incapacitated	164	\$7,475,704	126	\$5,581,374
Lenders Claim	1,105	\$30,951,685	1,403	\$38,719,758
Redundancy	1,062	\$13,345,840	1,045	\$12,428,565
Retirement at 40 years	46	\$4,526,484	32	\$5,640,375
Unclaimed Deposit	16	\$35,307	57	\$230,203
Adjustment after yr. end	0	-\$83,919	0	\$0
Total	5,270	\$215,957,623	5,461	\$213,746,363

* Excludes Trust withdrawal payments

Membership Demography

The bulk of the membership at 65,100 are within the age of 31 years to 45 years representing 50% of the total membership with credit balances worth more than 58% of the total membership balances at \$1.58 billion.

Table 7: 2017 Membership Demography by Age and Gender

Age group	Number			Value		
	Male	Female	Total	Male	Female	Total
> 20 years	593	564	1,157	\$928,305	\$683,927	\$1,612,232
21-25	4,733	3,776	8,509	\$14,618,867	\$10,228,537	\$24,847,404
26-30	9,487	6,225	15,712	\$81,792,212	\$61,486,248	\$143,278,460
31-35	13,786	7,313	21,099	\$242,860,015	\$153,241,980	\$396,101,995
36-40	16,554	6,981	23,535	\$345,539,515	\$183,974,827	\$529,514,342
41-45	14,029	6,437	20,466	\$454,378,642	\$200,905,052	\$655,283,694
46-50	11,219	4,356	15,575	\$421,382,149	\$164,277,269	\$585,659,418
51-55	8,058	2,597	10,655	\$161,448,438	\$52,011,627	\$213,460,065
56-60	5,908	1,480	7,388	\$77,743,099	\$20,220,736	\$97,963,835
60 plus	6,066	1,320	7,386	\$66,881,118	\$12,482,087	\$79,363,205
	90,433	41,049	131,482	\$1,867,572,360	\$859,512,290	\$2,727,084,650
Unidentified¹						\$33,444,780
Adjustment after year end						\$256,744
Total Member Balances						\$2,760,786,174

¹Also includes excess payments

Member Pledging

9,263 new pledges were created for members with pledge value worth more than \$470.7 million during the year. This brings total outstanding pledge amount to \$508 million.

1,105 members defaulted on their loans with banks resulting in a total payout of \$30,951,685 pledged for

their defaulted loans. The year's default was lower than the previous year's delinquent level of \$38,719,758. The bulk of the defaults occurred at the Pan Oceanic Bank (POB).

Table 8: 2017 Member Pledging

	New Pledge			Accumulated		
	No	Pledge \$	Loan \$	No	Pledge \$	Loan \$
ANZ Bank	766	\$27,334,387	\$17,585,202	1,319	\$49,153,754	\$35,140,193
Bank South Pacific	5,402	\$226,704,783	\$242,234,713	7,649	\$287,677,520	\$267,815,841
Credit Corporation (SI) Ltd	7	\$419,446	\$1,450,915	11	\$676,779	\$1,931,535
Solomon Housing	8	\$243,675	\$217,696	6	\$236,600	\$222,489
Pan Oceanic Bank	2,998	\$214,152,691	\$174,329,658	2,195	\$152,287,685	\$139,187,697
SINPF	82	\$1,878,120	\$2,908,669	112	\$2,553,961	\$3,720,230
WestPac Bank	0	\$0	\$0	294	\$15,608,546	\$29,907,052
Total	9,263	\$470,733,102	\$438,726,853	11,586	\$508,194,845	\$477,925,037

Table 9: Member Pledge Default

	2017	2016
	Value	Value
ANZ Bank	\$1,218,741	\$732,868
Bank South Pacific	\$8,383,991	\$7,075,260
Credit Corporation (SI) Ltd	\$0	\$0
Solomon Housing	\$0	\$39,270
Pan Oceanic Bank	\$19,160,088	\$26,962,488
SINPF	\$136,675	\$94,452
WestPac Bank	\$2,089,076	\$3,824,162
Adjustment after year end	-\$36,886	-\$8,742
Total	\$30,951,685	\$38,719,758

Member Services

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

Table 10: Member Enquiries and Customer Service

Service Type	2017	2016
Member Balances Enquiry	19,181	21,342
Withdrawal Enquiry	13,188	11,711
2/3rd Pledge Enquiry	7,310	13,800
Registration Enquiry	6,267	6,531
	45,946	55,400

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

Members Unidentified Contribution

Members' total unidentified contributions allocated to members accounted for \$5 million. Total outstanding at the end of 2017 financial year is \$9.6 million.

Contribution Underpayment

Total contributions collected were \$94,273.74 with total outstanding as at 30th June 2017 amounting to \$536,000.

Unallocated Contribution

Total unallocated contribution recorded at the end of 2017 is \$16.38 million, a reduction of 31% as compared to \$23.89 million recorded in the previous financial year.

Uncollected Surcharge Receivables

Total surcharge receivables recorded at the end of 2017 is \$10 million with total surcharge collected at \$3.36 million.

SINPF Branches

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

These two decentralized branches serve the members and employers residing in these two provinces. Total manpower for each Branch Office is 3 officers.

Special Death Benefit (SDB)

Special death benefit (SDB) paid out in the year amounted to \$647,136 for a \$3,000 per benefit. With the reduction in the benefit to \$3,000, the total SDB payment reduced significantly on the previous 2016 payout of \$1,858,982.

The Board will perform an actuary on the Fund's future liability and the special death benefit in the new financial year to determine and consider various levels of benefit at various levels of premium.

EMPLOYERS

Employer Number and Classification

433 new registered employers were recorded in the year representing an increase of 9% on the previous year's level of 398 new employers.

Table 11: 2017 Employers by Industry

Industry Type	No
Agriculture/Livestock/Fishery	13
Transport Services	24
Bank & Financial Services	1
Manufacturing	10
Information Technology/Communication Services	8
Building & Construction	24
Education & Health & Medical Services	9
Hotels & Motels	3
Logging & Forestry	10
Mining & Prospecting	2
Public Administration	5
Other Services	52
Domestic/Personal Services	175
Wholesale & Retail Services	97
Total	433

Accumulated registered employers increased to 3,085 driven by increases in the services and construction industries.

Table 12: 2017 Employer by Industry and Activity

Industry	Active	Slow Active	In Active	Dormant	Total
Agriculture & livestock Production and fisheries	56	16	12	39	123
Transport Services	69	22	12	17	120
Business and Financial Services	55	35	5	14	109
Manufacturing	50	16	4	3	73
Information and Technology & Commun. Services	44	9	14	19	86
Building & Construction	60	43	34	64	201
Education & Health and & Medical Services	93	7	11	22	133
Hotels & Motels	37	4	7	16	64
Logging and Forestry	87	12	11	25	135
Mining and prospecting	6	5	6	1	18
Public Administration	45	4	7	13	69
Other Services	236	65	56	133	490
Domestic/Personal Services	126	114	129	499	868
Wholesale and Retail Services	348	68	76	104	596
	1,312	420	384	969	3,085

Employer Number and Provincial Location

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

Table 13: 2017 Employer by Provincial Location

Province	No.
Central Province	21
Choiseul	36
Guadalcanal	133
Honiara	1,834
Isabel	56
Makira/Ulawa	39
Malaita	483
Other Countries	2
Rennel/Bellona	7
Temotu	115
Unknown	1
Western Province	358
Total	3,085

THE INFORMAL SECTOR

On 2nd May 2017 the Board with the support of the Pacific Islands Financial Inclusion Project (PFIP) launched the youSave scheme or product for the informal sector. The youSave product has a general and preserved account. The preserved account is to build in provisions for future income at retirement age whilst the general account fulfills the medium term financial need to support current income or add extra income.

The launch followed the feasibility assessment of extending of superannuation coverage to the informal sector performed in the previous financial year by Holland based Micro Pension Consult (MPC). The report was finalized in April 2016 and accepted by the Board early in the 2017 financial year.

From the research, there are opportunities to offer workers in the informal economy of the Solomon Islands a pension product to support their financial need. A product with a preserved and general account characteristics was recommended to be trialed as a pilot project preferably with a sample size of 500 savers.

For the two months to 30 June 2017, 232 youSave accounts were opened with a total of \$118,072 contributions received. \$31,370 were paid out of the general account whilst a balance of \$86,702 standing to the youSave scheme.

The greatest challenge will be to make the youSave product easily accessible to people beyond our branch offices and to secure recurring savings from them.



youSave team and various public engagements

INVESTMENTS

Investment Performance

The Fund's investments performance fell for the year with a gross return of \$120,293,296.73 representing just under 4% on the Fund's total investments portfolio, down on the previous year's gross return of \$234,103,239 or 8%.

The low investment portfolio performance was attributable to the impact of a wide movement in the negative fair value of our equity in Solomon Telekom Company Limited (STCL) as at 30 June 2017 and lower rentals due to increased vacancies at some of our properties. Our investments assets in other parts of our portfolio performed generally well.

The key performing assets for the year were our domestic unlisted equities in the South Pacific Oil Limited, Heritage Park Hotel Limited and Soltuna Ltd and offshore, PNG Domiciled Bank South Pacific (BSP) and US Domiciled Vanguard US Index Fund,

Interest at 6% on our long dated \$150 million Government Development Bonds contributed strongly to the Fund's income for the year as well.

Table 14: Gross Return by Major Asset Class and Performance

Asset Classes	Investment Portfolio Value		Returns		Gross Return	
	2017	2016	2017	2016	2017	2016
Domestic cash and fixed term deposits	\$806,709,292	\$829,091,181	\$5,677,200	\$5,865,563	0.70%	0.71%
Offshore cash and fixed term deposits*	\$197,914,191	\$187,698,362	\$1,480,664	\$2,206,824	0.75%	1.18%
SIG Securities	\$168,529,000	\$17,592,646	\$2,764,757	\$639,931	1.63%	3.64%
Domestic bonds and loans	\$170,117,689	\$140,326,741	\$22,737,635	\$9,937,221	13.37%	7.08%
Domestic properties	\$336,289,988	\$293,480,307	\$26,594,353	\$28,099,081	7.91%	9.57%
Offshore equities	\$133,761,136	\$81,028,413	\$7,204,179	\$6,200,869	5.39%	7.65%
Domestic equities	\$1,241,992,578	\$1,369,506,919	\$70,935,611	\$113,524,598	5.71%	8.29%
Net Gains from changes in fair value	Not applicable	Not applicable	-\$21,207,028	\$64,647,706	NA	NA
Other Income	Not applicable	Not applicable	\$4,105,925	\$2,981,446	NA	NA
Total	\$3,055,313,873	\$2,918,724,569	\$120,293,297	\$234,103,239	3.94%	8.02%

* Excludes Foreign Exchange movements.

New Investments

During the year the major investments made include the purchase of a 2 series 15 year \$150 million government development bonds. Series 1 is a 15 year \$120 million bullet bond priced at 6.5% pa with interest paid bi-annually and principal paid in full at maturity. Series 2 is an amortizing \$30 million bond priced at 6.69% with a grace period of 5 years, with interest only to be paid during grace period. Both were issued on 27 March 2017.

The Fund where required made additional investments in properties that needed to be maintained to a competitive level in terms of pricing and product quality to maintain occupancy at our key investment properties. The Fund with the support of external expertise develop a property investment plan for the

major refurbishment of its key properties Anthony Saru Building and the NPF building and the development of its undeveloped properties in the Honiara Central Business District (CBD).

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

Gross Investments Portfolio

The Fund's gross investment portfolio expanded to \$3,055,313,873 up on the previous year's level by 4.7%.

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

Gross Investments by Major Asset Class

Table 15: Cash and Fixed Term Deposits

I Domestic Cash and fixed term deposits	2017	2016
Current Accounts	\$296,207,854	\$341,091,228
Fixed Term Deposits		
ANZ	\$128,200,880	\$127,203,825
WBC	\$68,750,989	\$68,502,376
BSP	\$205,564,085	\$205,090,059
Credit Corporation	\$45,731,121	\$45,376,512
Pan Oceanic Bank	\$62,254,363	\$40,736,953
Total fixed term deposits	\$510,501,438	\$486,909,725
Total cash & fixed term deposits	\$806,709,292	\$828,000,953
2 Offshore cash & fixed term deposits		
Current Accounts (AUD,USD, EUR, GBP,PGK)	\$78,539,181	\$33,760,705
Fixed Term Deposits		
ANZ Singapore (USD)	\$47,508,911	\$48,092,894
ANZ Brisbane (AUD)	\$45,741,642	\$58,096,890
ANZ Singapore (GBP)	\$15,175,750	\$17,295,053
ANZ PNG (PGK)	\$10,948,707	\$11,075,176
Total fixed term deposits	\$119,375,010	\$134,560,013
Total cash & fixed term deposits	\$197,914,191	\$168,320,718
Total overall Cash	\$374,747,035	\$374,851,933
Total overall fixed term deposits	\$629,876,448	\$621,469,738
Total overall cash and fixed term deposits	\$1,004,623,483	\$996,321,671

Table 16: Government Securities

	2017	2016
Treasury Bills	\$18,529,000	\$17,592,646
Development Bonds	\$150,000,000	\$0
Total Government Securities	\$168,529,000	\$17,592,646

Table 17: Private Sector Loans and Bonds

	2017	2016
1 Loans		
Tavanipupu Is Resort	\$0	\$20,422,483
Soltuna Limited	\$27,954,142	\$34,746,716
Heritage Park Hotel - Share holder Loan	\$16,942,718	\$16,942,718
Sasape International Shipyard Ltd	\$5,469,391	\$5,527,212
STCL - Property Loan	\$951,677	\$3,141,682
SPOL Amortizing Loan	\$19,869,484	\$25,000,000
STCL Shareholders Loan	\$65,000,000	\$0
Urban Housing Scheme	\$4,692,197	\$5,245,062
Staff Micro-Loan Scheme	\$2,251,184	\$2,375,061
Total	\$143,130,794	\$113,400,934
2 Bonds		
Solomon Housing Ltd - D Bond 2	\$6,500,000	\$6,500,000
Soltuna Limited Convertible bond	\$20,486,900	\$20,486,900
Total	\$26,986,900	\$26,986,900
Total Private Sector loans and Bonds	\$170,117,694	\$140,387,834

Table 18: Investment Properties

	2017	2016
Anthony Saru Building	\$38,385,000	\$37,200,000
Tavanipupu Island Resort	\$31,274,275	\$0
NPF Plaza	\$55,200,000	\$53,150,000
Komi FeraPako Building	\$13,100,000	\$13,100,000
Hibiscus Executive Apartments	\$92,000,000	\$90,140,000
Rental Residences - Tasahe	\$7,217,359	\$7,346,000
Ex Sasape International - Comm	\$30,476,000	\$29,976,000
Ex Sasape Int. - Rental residence	\$11,274,000	\$11,055,000
Townground Property	\$30,000,000	\$29,000,000
Rautamana Property	\$6,084,107	\$7,436,507
Lengakiki Land 1 (Exec. Apart)	\$4,600,000	\$3,700,000
Lengakiki land 2 (Exec. Apart)	\$2,017,643	\$0
Work in Progress - Investments	\$10,061,604	\$11,376,800
Hibiscus CDB	\$4,600,000	\$0
	\$336,289,988	\$293,480,307

Other properties purchased for future investments that are not yet classified or listed under investment properties include the Panatina land bank, a commercial undeveloped land purchased in Auki, Malaita Province for the construction of a Sales Office to be leased by the Solomon Telekom Company Limited, and several undeveloped lands at Tulagi, Central Islands Province.

The undeveloped land at Tulagi, Central Islands Province were bought together with the 2 slip ways and other developed residential properties through the government public sale in 2010 when the government liquidated its former owned Sasape Marina Limited.

These undeveloped lands will be transferred to investment properties once investment plans for these properties are approved by the Board.

Other commercial properties that are predominately used by the Fund such as the NPF building and the NPF Car Park are also not defined as investment properties.

These properties are accounted under the Fund own use properties.

The Board during the year approved the sale of the undeveloped residential lands in the Central Islands Province.

Table 19: Offshore Equities

	2017	2016
Bank South Pacific Ltd (Kina)	\$60,440,977	\$48,904,558
UBS Australian Share Fund (AUD)	\$18,056,323	\$15,512,171
Vanguard US Stock Index Fund (USD)	\$44,182,066	\$38,470,322
Vanguard European Stock Index Fund (EUR)	\$11,081,770	\$9,353,062
Total	\$133,761,136	\$112,242,129

Table 20: Onshore Equities

	2017	2016
Solomon Telekom Company Ltd	\$263,444,063	\$388,049,999
South Pacific Oil Limited	\$839,398,000	\$766,446,000
Solomon Housing Limited	\$24,736,216	\$25,297,373
Heritage Park Hotel Limited	\$26,823,000	\$26,800,000
Soltuna Limited	\$37,876,088	\$34,442,165
Sasape International Shipyard Ltd	\$0	\$25,000
Solomon Oceanic Cable Company Ltd	\$15,669,411	\$32,676,199
Dividend Receivables	\$34,045,800	\$99,014,200
Total	\$1,241,992,578	\$1,372,750,936

100% wholly owned subsidiary South Pacific Oil Limited celebrated its first 10 years of successful commercial operations on 26 November 2016.

Table 21: Offshore Investments by Foreign Currencies

	2017	2016
US Dollar	\$91,690,977	\$86,563,216
Australian Dollar	\$63,797,965	\$73,609,061
Euro	\$11,081,770	\$9,353,062
Pound Sterling	\$15,175,750	\$17,295,053
PNG Kina	\$71,389,684	\$59,979,734
Cash in various currencies	\$78,539,181	\$33,760,705
	\$331,675,327	\$280,560,831

Table 22: Investments Portfolio by Market

	2017	2016
Offshore	\$331,675,327	\$280,560,831
Onshore	\$2,820,949,831	\$2,638,163,739
	\$3,152,625,158	\$2,918,724,570

The Board has placed on its to watch investment list the following; the loan to Tavanipupu Island Resort Limited (TIRL), the 25% equity investment in Sasape International Shipyard Limited (SISL) and the property investment in the slipway at Tulagi, Central Islands Province.

During the year the Board is able to foreclose the TIRL loan with the titles of the resort finally being transferred to the Board towards the end of the financial year after 2 years of waiting for the transfers to be concluded in the Board's name. After the transfer the resort is owned and managed as a Fund's investment property.

The Board as part of its exit strategy disposed of its' 25% shares in Sasape International Shipyard Limited (SISL) for \$200,000 to the majority shareholder Silent World Limited (SWL). This is to allow the Board to concentrate on managing the lease to SISL for the Fund's shipyard and residential properties at Tulagi, Central Islands Province.

Investment Governance

The Board approved the Fund's new investment policy guidelines and strategic asset allocation (SAA) in April 2017 that will guide the Board and the Investments Committee (ICC) to consider new investments and for the management of the investments portfolio.

During the year, the Board accepted from the Property Infrastructure Committee, a subcommittee of the Investments Committee, a 5 year high level strategic plan for the development of the Fund's undeveloped properties in the Honiara Central Business District (CBD).

Membership on Investment Subsidiary Boards

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

The SINPF board also recommended independent members to be part of its subsidiary boards. This is an acceptable governance practice that balances the interest of the company with the interest of the shareholder.

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

Table 23: SINPF Board and Management on Investment Subsidiary Boards

Subsidiary Boards	SINPF Shareholding	Names of Directors
Solomon Telekom Co. Ltd	97.32%	Mr. Adrian Wickham (Independent) Mr. Harry Kuma (Independent) Mr. George Kuper Mr. Jerry Tengemoana

Subsidiary Boards	SINPF Shareholding	Names of Directors
South Pacific Oil Ltd	100%	Mr. Gideon Zoleveke Mr. George Kuper Mr. Mckinnie Dentana Dr. Levi Hou Mr. Tony Makabo Mr. Mike Wate
Heritage Park Hotel Ltd	10%	Dr. Alice Pollard
Soltuna Ltd	29%	Mr. Peter Boyers Mr. Mckinny Dentana
Solomon Housing Ltd	100%	Mrs. Julie G. Haro Dr. Alice Pollard Mr. Tony Makabo Mrs. Jennifer Lakoa Mr. Ishmael Kako

Potential New Investments under Consideration

The Board's consideration of its allotted 49% shareholding in the new joint venture submarine cable company with the Investment Corporation of Solomon Islands (ICSI) remained alive whilst waiting for the project's consultant team and the new company's chief executive officer (CEO) finalize the project's financing plan.

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

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

Staff Compliment

The Fund's permanent staff compliment as at 30 June 2017 was 119 consisting of 11 contracted officers. More than 41% of the employees are with the Employer and Member Services (EMSD), followed by Human Resources and Corporate Services (HRCSD) at 18%, Investment and Property at 14%, Finance at 13% and the balance in the smaller departments of Information Technology, Audit, Legal and Executive.

Deputy General Manager, Mike Wate completed his 9 month official leave of absence on secondment to the Solomon Islands Ports Authority (SIPA) on 31 January 2017 and resumed his position with the Fund on 1st February 2017. During the 9 month he was the Interim Chief Executive Officer for the Authority.

During the year four new officers were recruited while four employees exited the Fund, one on medical ground whilst the other 3 resigned.

Staff Gender

41% of the Fund's permanent employees included contracted managers are female

45% of the contracted managers are female. Of the 11 contracted managers 5 are female.

Staff Housing

The Board provided under its accommodation policy limited housing for its employees at the Tasahe Staff Residential Compound and transportation to and from the compound to the head office.

At the end of the financial year the Fund has 49 dwelling units in its stock of houses allocated to staff.

Capacity Building, Skills Upgrade and Acquisition of new Knowledge

The Board supported both its management and staff to upgrade their capacity and their skills levels through their participation at various programs, seminars, and workshops both in country and overseas.

Manager Investments Mrs Jennifer Lakoa attended a Project Management and Leadership & Empowerment courses offered by University of South Pacific (Honiara Campus) on short term part time basis in August and September 2016.

General Manager Mr Tony Makabo attended the Strengthening Pensions Systems workshop held in Suva Fiji on 2nd – 3rd November 2016 facilitated by Asian Development Bank Pacific Liaison Office in Australia.

Manager Investments Mrs Jennifer Lakoa and Manager Property Portfolio Mr Bennett Pitakia participated at an "Affordable Housing Australia" workshop held in Melbourne Australia on 14th to 16th November 2016. The workshop focused in exploring ways to deliver affordable housing in a restricted fiscal environment.

Manager Finance Mrs. Rose Karoa and Manager Internal Audit Mrs Areau Hivu attended ISIA/CPA trainings provided in country on 18th – 19th October 2016 and 2nd November 2016. The trainings are aimed to provide participants understanding on international financial reporting standards (IFRS), understanding risk management and soft skills for finance professionals.

Systems Network Administrator attended a training in Melbourne on installation, configuration and troubleshooting of VMware vSphere from 20 November 2016 to 3rd December 2016.

Various in house training were organized for staff on the Fund's Information System, on the use of Pronto and the Provident Fund Management System (PFMS), microsoft office spreadsheet, and training on the in house legal case management system.

Leadership Training

Managers and Assistant Managers of the Fund attended a one week training on High Performance Leadership from 31st October to 4th November 2016. The High Performance Leadership for a High Performing Culture training was aimed to empower and equip managers with appropriate skills and knowledge within the SINPF setting. The training was conducted by Chris Elphick of Learn Fast Pacific.

Long term Academic Training

Assistant Manager IT, Don Fakarii continued with his Masters Program in Information Technology at the Queensland University of Technology, Australia during the year whilst Senior Property Officer Mark Savi, Finance Officer Eric Bobby, and Assistant Internal Auditor Milton Babavari continued with their degree programs at the University of the South Pacific (USP).

Senior Investment Officer Hilda Aratara, Senior Publicity Officer Peter Psalm, Finance Officer Catherine Mesepitu, EMS Officers Leah Havea, and Kathryn Takana completed their degree and diploma programs from the University of the South Pacific (USP) in Fiji, University of Hawaii in the USA and the Solomon Islands National University (SINU) respectively.



Board member Alice Pollard, trainer Chris Elphick and Management Team.

INFORMATION TECHNOLOGY

The Fund in the financial year progressed and accelerated further its integrated financial management system (IFMS) project with the signing of a contract with Pronto in October 2016. Pronto Software was selected ahead of other software companies after a public tender and a rigorous comprehensive evaluation process.

By the end of 30 June 2017, the IFMS was ready to go 'live' in the new financial year 2018, after weeks of discovery workshops, training, migration of data, business simulation and setting up the server environment. The IFMS once implemented will greatly improve the Fund's financial reporting for management, board and external stakeholders.

The Fund also upgraded its contribution system (NPF2000) and renamed the system to Provident Fund Management System (PFMS). The upgrade was launched in November 2016 to coincide with the SINPF 40th Anniversary Celebrations. One of the major enhancements was the redesigning of the interface function of the PFMS to align with the new Pronto interface function.

As part of the Fund's disaster recovery plan (RDP) and business continue plan (BCP), two disaster recovery sites were commissioned at Kabia heights, Honiara and at Auki, Malaita Province.

The Auki branch network infrastructure is now able to connect direct with Honiara head office domain due to improved network infrastructure in Auki, Malaita Province. This means that all services that are made available at the head office is also available to the Auki branch through the same local area network (LAN).

With the launch of the YouSave informal sector pilot in May 2017, an additional module was successfully established within the PFMS to administer and manage the product.



Suzanne Orudiana, IT Manager (far left), with IT staff

AUDIT, COMPLIANCE, AND RISK

The Board regularly performed regular independent assessment on the state of governance, risk management, compliances to policy and relevant statutory obligations, and internal control of the Fund.

During the year an independent external assessment was performed on the fund's property investment division together with spot reviews on procurement, insurance, use of common seal register, and schedule and location of Board's properties.

Under the Board's risk management framework and 5 year rolling business plan, the Board kept a risk register that is continually being monitored and updated for changes in the identified risks and addition of new ones.

By performing these activities ensure that members, employers and stakeholders have confidence in the Fund's day to day operations and into the future.

The Audit and Risk functions are performed under the Internal Audit Department. In the new financial year the management of risk will be performed by a separate dedicated risk management officer.

PUBLICITY

The Fund performed quite a number of outreach and awareness programs through various communication mediums and at national or provincial events in various locations throughout the country. These efforts intensified in particular for the newly piloted youSave product for the informal sector that was rolled out as a pilot project towards the end of the financial year.

The Board maintained its weekly radio talk "Current with NPF" at the Solomon Islands Broadcasting Corporation (SIBC) radio talks.

PHILANTHROPY

The Board maintained a small donation budget for worthwhile community social causes that it supported during the year. The Fund annually receive huge number of requests for donations from communities and within the limited budget set aside each year can only support the most deserving cases.

As part of the Fund's 40th anniversary celebrations, supported the funding of much needed equipment for the Kilu'ufi Provincial hospital at Auki, Malaita Province

LITIGATION

The Board has no hesitation to prosecute employers who do not comply with their obligations to timely remit their employees' contributions and arrears. All defaulting employers will be dealt with equally across the board. The Fund is always amenable to negotiate out of court settlements that will benefit all parties.

During the year the Board maintained this approach and increasingly many employers are aware of the Board's resolve to ensure that they comply with their obligations.

ACKNOWLEDGEMENT

The Board and the Fund would like to acknowledge the support and cooperation that it received during the year from the following; the Minister of Finance and Treasury and his staff at the Economic Reform Unit (ERU), the Governor of the Central Bank of Solomon Islands and his staff at the Financial Institutions department, all employers and their employers, member unions, and the Solomon Islands Chamber of Commerce and Industry (SICCI).



SOLOMON ISLANDS NATIONAL PROVIDENT FUND

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

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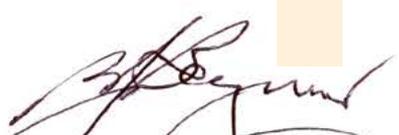
**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

Statement By Directors

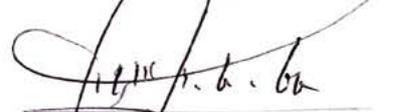
In accordance with a resolution of the Board of Directors of Solomon Islands National Provident Fund (“the Fund”), we state that-

In the opinion of the Directors:

- (a) the accompanying statement of changes in net assets is drawn up so as to give a true and fair view of the changes in net assets available to pay benefits of the Fund for the year ended 30 June 2017;
- (b) the accompanying statement of net assets is drawn up so as to give a true and fair view of the state of the affairs of the Fund at 30 June 2017;
- (c) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Fund for the year ended 30 June 2017;
- (d) at the date of this statement there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due;
- (e) all related party transactions have been recorded and adequately disclosed in the attached financial statements; and
- (f) the financial statements have been prepared in accordance with the provisions of the Solomon Islands National Provident Fund Act 1973 (as amended), International Financial Reporting Standards and other applicable standards in the Solomon Islands.



Peter Boyers
Chairman of the Board



Tony Makabo
General Manager (CEO)



Gideon Zoleveke Jnr
Deputy Chairman

Dated at HONIARA this 29TH day of SEPTEMBER 2017.



**Independent Auditors' Report to the Members of Solomon Islands National Provident Fund
Report on the Audit of the Financial Statements**

Opinion

I have in joint consultation with the Board of Solomon Islands National Provident fund (“the fund”) contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of Solomon Islands National Provident fund , which comprise the statements of net assets as at 30 June 2017, the statements of changes in net assets and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 20.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

In my opinion:

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



Peter Lokay
Auditor General
29 September 2017

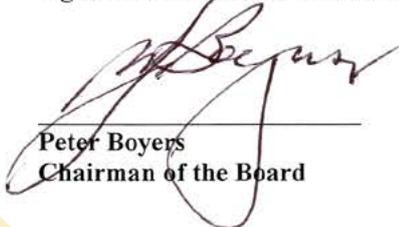
Office of the Auditor General
Honiara, Solomon Islands

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
STATEMENT OF NET ASSETS
AS AT 30 JUNE 2017**

	Note	June 2017 \$	June 2016 \$
ASSETS			
Investments			
<i>Financial investments</i>			
Commercial paper and treasury bills	6 (a) (i)	675,400,680	664,344,109
Held-to-maturity investments	6 (b) (ii)	150,000,000	-
Loans and advances	6 (b) (i)	137,243,880	104,372,531
Equity investments	6 (a) (ii)	1,341,707,914	1,388,194,355
<i>Non-financial investments</i>			
Investment properties	6 (a) (iii)	336,289,988	293,480,306
		<u>2,640,642,462</u>	<u>2,450,391,301</u>
OTHER ASSETS			
Cash and cash equivalents	13	367,288,073	373,084,347
Receivables	5	51,058,335	119,613,341
Property, plant and equipment	7	62,474,085	59,858,774
		<u>480,820,493</u>	<u>552,556,462</u>
TOTAL ASSETS		<u>3,121,462,955</u>	<u>3,002,947,763</u>
LIABILITIES			
Accounts payable		448,064	1,410,270
Other payables and accruals	8 (a)	6,955,823	8,493,381
Employee entitlements	8 (b)	33,736,613	22,127,055
TOTAL LIABILITIES (excluding net assets available to pay benefits)		<u>41,140,500</u>	<u>32,030,706</u>
NET ASSETS AVAILABLE TO PAY BENEFITS	4 (a)	<u>3,080,322,455</u>	<u>2,970,917,057</u>
Represented by:			
Allocated to members account	4 (b)	2,760,786,174	2,566,146,462
Special death benefit	4 (c)	(347,268)	(299,479)
Nominees trust account	4 (d)	6,136,791	5,741,235
Reserves	4 (e)	313,746,758	399,328,839
TOTAL MEMBERS FUNDS		<u>3,080,322,455</u>	<u>2,970,917,057</u>

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

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


Peter Boyers
Chairman of the Board


Gideon Zoleveke Jnr
Deputy Chairman


Tony Makabo
General Manager (CEO)

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2017**

	Note	June 2017 \$	June 2016 \$
INVESTMENT INCOME			
Interest income	3 (a)	32,660,257	18,649,538
Dividend income	3 (b)	77,964,790	119,725,467
Net (loss) / gain from changes in fair values	3 (c)	(21,207,028)	64,647,706
Rental income	3 (d)	26,769,352	28,099,080
		116,187,371	231,121,791
LESS: DIRECT INVESTMENT EXPENSES	3 (f)	(23,208,213)	(17,540,725)
NET RETURN ON INVESTMENTS			
		92,979,158	213,581,066
Other income	3 (e)	4,105,925	2,981,446
		97,085,083	216,562,512
CONTRIBUTION REVENUE			
Unallocated contributions		11,322,303	8,913,173
Members' contribution		267,909,794	246,425,879
		279,232,097	255,339,052
BENEFITS PAID AND EXPENSES INCURRED			
Benefits paid	3 (h)	(215,957,623)	(214,178,486)
Operating expenses	3 (g)	(50,954,159)	(50,244,981)
		(266,911,782)	(264,423,467)
CHANGE IN NET ASSETS FOR THE YEAR	4(f)	109,405,398	207,478,097
Other comprehensive income		-	-
TOTAL COMPREHENSIVE CHANGES IN NET ASSETS FOR THE YEAR		109,405,398	207,478,097
Net assets available to pay benefits at the beginning of the financial year		2,970,917,057	2,763,438,960
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR	4(a)	3,080,322,455	2,970,917,057

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 2017

	Note	June 2017 \$	June 2016 \$
Cash flows from operating activities			
Contributions from members and employers		279,232,097	255,339,052
Interest received		22,948,751	18,928,211
Dividends received		84,462,344	143,259,270
Rentals received		22,247,851	23,901,937
Other income received		2,361,636	3,051,958
Benefits paid to members		(215,957,623)	(214,178,486)
Cash paid to suppliers and employees		(58,142,049)	(45,690,672)
Net cash flows from operating activities		137,153,007	184,611,270
Cash flows from investing activities			
Net (acquisition) / redemption of commercial paper, treasury bills and held-to-maturity investments		(159,103,365)	26,089,019
Loans and advances repaid / (provided)		13,230,034	(19,457,197)
Net acquisition of shares		(366,045)	(16,193,216)
Proceeds from Solomon Island Government for unlisted equity		17,006,788	-
Proceeds from sale of property plant and equipment		-	200,495
Acquisition of investment properties		(1,444,633)	(7,377,699)
Proceeds from sale of investment property		-	6,800,000
Acquisition of property plant and equipment		(12,272,060)	(5,408,415)
Net cash used in investing activities		(142,949,281)	(15,347,013)
Net (decrease) / increase in cash and cash equivalents		(5,796,274)	169,264,257
Cash and cash equivalents at the beginning of the year		373,084,347	203,820,090
Cash and cash equivalents at the end of the year	13	367,288,073	373,084,347

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 2017

1. GENERAL INFORMATION

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

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

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

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

The Fund is under the control of a Board. The Board’s function and powers are those of a Trustee. The Fund is subjected to all the provisions of the Financial Institutions Act 1998.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements of the Fund are based on International Financial Reporting Standards (IFRS) and the Solomon Islands National Provident Fund Act (CAP 109) (“the Act”). The accounting policies have been consistently applied over the reporting and comparative years.

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

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

Use of judgments and estimates

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

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

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Comparatives

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

(c) Members contribution

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

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

(d) Special death benefit (SDB)

As provided for in the Act, an amount is deducted from each member's account at 30 June each year in respect of special death benefit to be paid following the death of any member to the beneficiaries of the member. The maximum sum payable for the year ended 30 June 2017 for each member was \$3,000 (2016:\$10,000).

(e) Nominee trust account

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

(f) Interest on members account

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

(g) Property, plant and equipment

Land and buildings are measured at fair value. The fair value is determined on the basis of independent valuations prepared by external valuation experts, based on current market prices (as appropriate). The valuations are recognized in the financial statements of the Fund, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair value.

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (continued)

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

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

Depreciation is provided on property, plant and equipment, including buildings but excluding freehold land. Depreciation is calculated on a straight line basis so as to write off the cost of the asset over its useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

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

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

(h) Impairment of non-financial assets

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

(i) Income tax

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

(j) Impairment of loans and investments

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

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

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Financial instruments

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

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

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

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

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

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

(ii) Held to maturity financial assets

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

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

(iii) Loans and receivables

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

(l) Impairment of financial assets carried at amortised cost

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

(m) Cash and cash equivalents

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

(n) Foreign currency

Functional presentation currency

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

Transactions and balances

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

(o) Provisions

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Provisions (continued)

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

(p) Other payables and accruals

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

(q) Investment properties

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

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

(r) Revenue Recognition

(i) Interest Income

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

(ii) Property rentals

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

(iii) Dividend Income

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

(s) Expenses

(i) Benefits paid

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

(ii) Other expenses

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

(t) Employee entitlements

(i) Wages and salaries and sick leave

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee entitlements (continued)

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

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

3. INCOME AND EXPENSES

	June 2017	June 2016
	\$	\$
(a) Interest income		
Cash at bank	88,971	32,796
Treasury bills	101,050	110,185
Bonds	4,399,924	3,610,682
Loans and advances	21,001,418	6,856,285
Investment securities - commercial paper	7,068,894	8,039,590
Total	32,660,257	18,649,538
(b) Dividend income		
Quoted shares	6,618,616	5,652,169
Unquoted shares	70,760,611	113,524,598
Managed funds	585,563	548,700
Total	77,964,790	119,725,467
(c) Gain/ (loss) from changes in fair values		
Investment properties	6,860,464	505,600
Equities	(48,758,171)	74,030,865
Net foreign exchange gain/(loss)	20,690,679	(9,888,759)
Total	(21,207,028)	64,647,706
(d) Rental income		
Investment properties	26,563,912	26,916,296
Others	205,440	1,182,784
Total	26,769,352	28,099,080
(e) Other income		
Bad debts recovery	60,924	87,677
Gain on sale of property, plant and equipment	-	200,495
Gain on sale of investment	175,000	-
Surcharge	3,390,649	2,233,705
Others	479,352	459,569
Total	4,105,925	2,981,446
(f) Direct investment expenses		
Utilities (water and electricity)	4,586,254	2,526,269
Repairs and maintenance	6,605,183	6,210,789
Land rates and rental charges	1,102,250	356,621
Insurance	879,827	853,628
Management fees	1,437,600	1,514,108
Cleaning services	1,034,963	1,024,484
Valuation and consultation fees	2,556,685	624,547
Doubtful debts – loans and advances	771,244	-
Doubtful debts –other receivables	4,234,207	4,430,279
Total	23,208,213	17,540,725

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

3. INCOME AND EXPENSES (Continued)

	June 2017	June 2016
	\$	\$
(g) Operating expenses		
Board and management allowances	1,250,720	938,443
Utilities (water and electricity)	1,745,137	1,339,740
Repairs and maintenance	1,879,912	1,902,750
Land rates and rental charges	174,950	165,568
Administrative expenses	6,544,100	6,473,543
Doubtful debts – Surcharges and other receivables	1,159,003	429,736
Depreciation expense	6,496,901	7,549,455
Insurance expense	299,104	559,041
Audit fees	359,010	359,210
Bank charges	81,353	63,061
Consultancy fees and expenses	1,731,687	1,298,526
Staff expenses (refer below)	29,232,282	29,165,908
Total	50,954,159	50,244,981

The breakdown of staff expenses are as follows:

Wages and salaries	14,543,256	10,989,456
Contributions to SINPF	1,063,031	826,232
Employee benefits	8,940,120	13,343,921
Other staff costs	4,685,874	4,006,299
	29,232,282	29,165,908

(h) Member Benefits

Interest on withdrawal, trust and other members expenses	8,253,992	7,311,046
Contribution withdrawals (refer Note 4(b))	206,335,494	203,870,747
Special death benefit payments (refer Note 4(c))	647,136	1,858,982
Nominees trust payment (refer Note 4(d))	721,001	1,137,711
Total	215,957,623	214,178,486

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

4. NET ASSETS AVAILABLE TO PAY BENEFITS

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

- Revaluation Reserve
The last revaluation of land and buildings (excluding investment properties) was carried out on 16 June 2013. The revaluation surplus/loss is credited to the revaluation reserve. The next revaluation of the land and buildings will be carried out in the 2018 financial year.
- General Reserve
Revenue less normal operating expenses are credited to the General Reserve unless otherwise appropriated.

The following items are credited to this reserve each year:

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

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

	June 2017	June 2016
	\$	\$
(a) Net assets available to pay benefits		
Net assets available to pay benefits	3,080,322,455	2,970,917,057
<u>Represented by:</u>		
Allocated to members' account	2,760,786,174	2,566,146,462
Special death benefit	(347,268)	(299,479)
Nominees trust	6,136,791	5,741,235
Reserves	313,746,758	399,328,839
	3,080,322,455	2,970,917,057
(b) Liability for accrued benefits		
Opening Balance	2,566,146,462	2,307,445,301
Contributions received from members and employers	279,232,097	255,339,053
Interest credited to members accounts	124,567,631	209,384,265
Benefits paid – withdrawals (refer Note 3(h))	(206,335,494)	(203,870,747)
Transfer to nominees trust accounts (refer Note 4(d))	(787,806)	(823,288)
Transfer to special death benefits (refer Note 4(c))	(630,786)	(609,293)
Forfeited contributions transfer to general reserve (refer Note 4(e))	(1,375,583)	(985,501)
Other transfers / adjustments	(30,347)	266,672
Balance at 30 June	2,760,786,174	2,566,146,462
<u>Represented by:</u>		
Allocated to members' accounts	2,727,341,394	2,552,305,015
Unidentified	33,444,780	13,841,447
	2,760,786,174	2,566,146,462

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

4.NET ASSETS AVAILABLE TO PAY BENEFITS (CONTINUED)

	June 2017 \$	June 2016 \$
(c) Special death benefit		
Balance at the beginning of the year	(299,479)	(21,727)
Transfer in from general reserve	-	1,100,000
Transfer in from members account (refer Note 4(b))	630,786	609,293
Transfer out benefit payments (refer Note 3(h))	(647,136)	(1,858,982)
Transfer out to nominees trust (refer Note 4(d))	(31,439)	(128,063)
Balance at the end of the year	<u>(347,268)</u>	<u>(299,479)</u>
(d) Nominees trust account		
Balance at the beginning of the year	5,741,235	5,461,546
Transfer in from members account (refer Note 4(b))	787,806	823,288
Transfer in from special death benefits (refer Note 4(c))	31,439	128,063
Transfer out benefit payments (refer Note 3(h))	(721,001)	(1,137,711)
Annual interest	297,312	466,049
Balance at the end of the year	<u>6,136,791</u>	<u>5,741,235</u>
(e) Reserves		
(i) Asset revaluation reserve		
Balance at the end of the year	<u>69,951,343</u>	<u>69,951,343</u>
(ii) General reserve		
Balance at the beginning of the year	329,377,496	380,602,497
Transfers in from members account (refer Note 4(b))	1,375,583	985,501
Transfers out	(86,957,664)	(52,210,502)
Balance at the end of the year	<u>243,795,415</u>	<u>329,377,496</u>
Total reserves	<u>313,746,758</u>	<u>399,328,839</u>
(f) Net change for the year		
The net change for the year has been appropriated to accrued benefits and reserves as follows:		
Change in net assets for the year attributable to members of the Fund:	<u>109,405,398</u>	<u>207,478,097</u>
<u>Comprises net transfers to/(from):</u>		
Liability for accrued benefits	194,639,712	259,686,662
Special death benefit	(47,789)	(277,752)
Nominees trust	395,556	279,689
General reserves	(85,582,081)	(52,210,502)
	<u>109,405,398</u>	<u>207,478,097</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

5. RECEIVABLES

	June 2017	June 2016
	\$	\$
Interest receivables	6,042,997	5,624,954
Rental income receivables	13,649,893	9,128,392
Dividend receivables	34,045,800	95,770,183
Surcharge receivables	10,723,699	8,668,890
Other receivables	5,616,930	16,077,385
	<u>70,079,319</u>	<u>135,269,804</u>
Less: Allowance for doubtful debts	<u>(19,020,984)</u>	<u>(15,656,463)</u>
Total receivables	51,058,335	119,613,341

Movement in allowance for doubtful debts is as follows:

Balance at 1 July	(15,656,463)	(11,940,842)
Impairment loss recognised	(5,393,210)	(4,860,015)
Amounts written off against provision	2,028,689	1,144,394
Balance at the end of the year	<u>(19,020,984)</u>	<u>(15,656,463)</u>

The allowance for doubtful debts of \$19,020,984 (2016: \$15,656,463) is provided against arrears on surcharge receivables, interest receivable and rental income receivables.

6. INVESTMENTS

(a) Financial assets carried at fair value through statement of changes in net assets	June 2017	June 2016
	\$	\$
(i) Commercial paper and treasury bills		
On shore deposits	510,501,438	487,029,150
Offshore deposits	119,383,342	132,735,413
Total deposits	629,884,780	619,764,564
Treasury bills	18,529,000	17,592,646
Other fixed term debt securities (debentures) – Related parties	26,986,900	26,986,900
Total	675,400,680	664,344,109

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

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

Opening balance	664,344,109	660,886,353
Net movement during the year	8,412,953	9,371,118
Foreign exchanges differences during the year (unrealised)	2,643,618	(5,913,362)
Balance at the end of the year	<u>675,400,680</u>	<u>664,344,109</u>

(ii) Equity securities at fair value:

- Listed	133,761,137	114,457,619
- Unlisted	1,207,946,777	1,273,736,736
Total equities at fair value	1,341,707,914	1,388,194,355

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

6. INVESTMENTS (CONTINUED)

	June 2017	June 2016
	\$	\$
(a) Financial assets carried at fair value through statement of changes in net assets (continued)		
<u>The movement in investment securities carried at fair value through profit and loss is as follows:</u>		
Opening balance	1,388,194,355	1,301,945,671
Acquisitions/(Redemption)/transfer during the year	(32,135,154)	16,193,126
Gain from changes in fair value (refer Note 3(c))	(48,758,171)	74,030,865
Exchange differences	34,406,884	(3,975,307)
Balance at the end of the year	1,341,707,914	1,388,194,355
(iii) Investment properties		
Opening balance	293,480,306	285,313,044
Additions	32,717,108	7,377,699
Disposals	-	(6,800,000)
Transfers from property, plant and equipment	3,232,110	7,083,963
Gain from fair value adjustment * (refer Note 3(c))	6,860,464	505,600
Balance at the end of the year	336,289,988	293,480,306
*Valuations of the Fund's investment properties were performed by external valuers VHT Real Estate to determine the fair value of land and buildings (in the prior year, valuations of the Funds investment properties was performed inhouse). The valuations, which conform to international valuation standards, were determined by reference to the current market values of the land and buildings. The effective date of the valuations was 16 June 2017 (the effective date of the prior years valuation was 16 June 2016).		
(b) Financial Assets carried at amortised cost		
(i) Loans and advances		
- Commercial loans – Private entities	5,469,391	20,422,483
– Related parties	130,718,021	85,357,815
- Member schemes	4,692,197	5,261,836
- Staff schemes	2,251,184	2,297,705
Total gross loans and advances	143,130,793	113,339,839
Allowance for doubtful debts	(5,886,913)	(8,967,308)
Net loans and advances	137,243,880	104,372,531
<u>Movement in allowance for doubtful debts is as follows:</u>		
Balance at the beginning of the year	(8,967,308)	(8,994,330)
Impairment loss recognised (refer Note 3 (f))	771,244	-
Amounts written off / recovery on foreclosure	2,309,151	27,022
Balance at the end of the year	(5,886,913)	(8,967,308)
The allowance for doubtful debts of \$5,886,913 (2016: \$8,967,308) is provided against commercial loans to private entities and member and staff schemes.		
(ii) Held-to-maturity investments		
Government securities – Related party (refer Note 17(a))	150,000,000	-

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

7. PROPERTY, PLANT AND EQUIPMENT

At cost / valuation	Land and buildings (at valuation) \$	Machinery equipment & motor vehicles \$	Furniture, fittings, computer & other equipment \$	Work in progress \$	Total \$
Balance as at 1 July 2015	60,791,874	17,813,077	11,151,220	5,648,279	95,404,450
Transfer from work in progress	-	103,015	95,523	(198,538)	-
Transfer to investment properties	-	1,313,112	369,420	3,725,883	5,408,415
Additions	(4,000,000)	-	-	(3,083,963)	(7,083,963)
Disposals	-	(982,855)	(37,548)	-	(1,020,403)
Balance as at 30 June 2016	56,791,874	18,246,349	11,578,615	6,091,661	92,708,499
Balance as at 1 July 2016	56,791,874	18,246,349	11,578,615	6,091,661	92,708,499
Transfers from work in progress	-	291,763	3,294,777	(3,586,540)	-
Additions	-	718,296	221,613	11,332,151	12,272,060
Transfer to investment properties	(2,017,643)	-	-	(1,214,467)	(3,232,110)
Reclass to expenses	-	-	-	(129,502)	(129,502)
Balance as at 30 June 2017	54,774,231	19,256,408	15,095,005	12,493,303	101,618,947

In 2013, an independent valuation of the Funds' land and buildings was carried out by Value Solutions Appraisal, and a revaluation increment was taken up. The valuations which conform to international valuation standards were determined by reference to the current market values of land and buildings (refer Note 4).

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)		Land and buildings (at valuation)	Machinery equipment & motor vehicles	Furniture, fittings, computer & other equipment	Work in progress	Total
		\$	\$	\$	\$	\$
ACCUMULATED DEPRECIATION						
Balance as at 1 July 2015		6,032,848	12,525,616	7,762,209	-	26,320,673
Expense for the year		3,315,338	3,099,236	1,134,881	-	7,549,455
Disposals		-	(982,855)	(37,548)	-	(1,020,403)
Balance as at 30 June 2016		9,348,186	14,641,997	8,859,542	-	32,849,725
Balance as at 1 July 2016		9,348,186	14,641,997	8,859,542	-	32,849,725
Expense for the year		3,315,338	2,082,916	1,098,647	-	6,496,901
Reclass to income		(201,764)	-	-	-	(201,764)
Balance as at 30 June 2017		12,461,760	16,724,913	9,958,189	-	39,144,862
CARRYING VALUE						
Balance as at 30 June 2016		47,443,688	3,604,352	2,719,073	6,091,661	59,858,774
Balance as at 30 June 2017		42,312,471	2,531,495	5,136,816	12,493,303	62,474,085

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

8. OTHER PAYABLES AND ACCRUALS AND EMPLOYEE ENTITLEMENTS

	June 2017	June 2016
	\$	\$
<u>(a) Other payable and accruals</u>		
Rental bond	4,175,870	4,137,175
Other accruals	2,779,953	4,356,206
	<u>6,955,823</u>	<u>8,493,381</u>
<u>(b) Employee entitlements</u>		
<i>(Provision for early retirement benefits, annual leave and long service leave)</i>		
Current	11,609,558	11,689,014
Non-current	22,127,055	10,438,041
	<u>33,736,613</u>	<u>22,127,055</u>
<u>Movement in provision for employee entitlements:</u>		
Balance at the beginning of the year	22,127,055	11,689,014
Created during the year	12,656,816	11,381,711
Utilised during the year	(1,047,258)	(943,670)
Balance at the end of the year	<u>33,736,613</u>	<u>22,127,055</u>

9. RELATED PARTIES

(a) Board members and key management personnel

Related party disclosures requires the disclosure of information relating to aggregate compensation of key management personnel. The key management personnel of the Fund are members of the Fund's Board and senior staff who have responsibility for planning, directing and controlling the activities of the Fund. In 2017, this group comprises of 19 individuals, including the General Manager (CEO), 8 non-executive Board Members, and 10 senior staff. Fees of the non-executive members of the Fund Board are determined by the Minister of Finance. The General Manager's (CEO) contract is subject to review by the Board of Trustees in terms of the Fund's policies. The Fund's Board of Directors determines the remuneration of other key executives.

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

Names	Appointment	Date of Appointment	Term of appointment	Date appointment lapse	Representing
Mr. Peter Boyers	Chairman	14 April 2014 20 May 2015	1 year 3 years	20 May 2015 20 May 2018	Crown Employer
Mr. Gideon Zoleveke (Jnr)	Deputy Chairman	29 March 2013 29 March 2016	3 years 3 years	29 March 2016 29 March 2018	Employer
Dr. Levi Hou	Member	9 September 2011 9 September 2014	3 years 3 years	8 September 2014 8 September 2017	Employees
Dr. Alice Pollard	Member	29 March 2013 29 March 2016	3 years 3 years	29 March 2016 29 March 2018	Minister's Discretion
Mr. Jerry MaikiTengemon a	Member	14 April 2014 14 April 2016	2 years 2 years	14 April 2016 14 April 2018	Minister's Discretion
Mrs. Jullian Gege u - Haro	Member	14 April 2014 14 April 2016	2 years 2 years	14 April 2016 14 April 2018	Employees
Mr. George Kuper	Member	23 October 2015	3 years	23 October 2018	Crown
Mr. Mckinnie Dentana	Member	23 October 2015	3 years	23 October 2018	Crown

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

9. RELATED PARTIES (CONTINUED)

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

The specified executives of the Fund during the year were:

Names	Position
Tony Makabo	General Manager and CEO
Michael Wate	Deputy General Manager
Ruth Alepio	Board Secretary
Manasseh Taloafiri	Manager Human Resource & Corporate services
Suzanne Orudiana	Manager IT
AlutaKakadi	Manager Employers and Members services
AreauHivu	Manager Internal Audit
Ishmael Kako	Manager Legal Counsel
Rose Karoa	Manager Finance
Jennifer Lakoa	Manager Investment
Bennett Pitakia	Manager Property

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

	June 2017	June 2016
	\$	\$
Directors:		
Sitting allowances	694,600	413,156
Other services and allowances	550,559	512,507
	1,245,159	925,663
Key management personnel (executives):		
Short-term employee benefits	5,920,321	4,515,456
Post-employment benefits	3,841,150	10,162,729
Total compensation	9,761,471	14,678,185

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

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

During the 2016 financial year the Fund amended its human resource policy to allow management and executives to be entitled to retirement benefits.

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

Other	131,180	227,808
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SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

9. RELATED PARTIES (CONTINUED)

(b) Related Party transactions and balances

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

	June 2017 \$	June 2016 \$
<u>Loans and advances to related parties</u>		
Soltuna Company Limited	27,954,142	34,746,203
Heritage Park Hotel Limited	16,942,718	16,942,718
Solomon Telekom Company Limited	65,951,677	3,141,682
South Pacific Oil Limited	19,869,484	25,000,000
Total loans and advances to related parties (refer Note 6(b) (i))	130,718,021	85,357,815

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

Dividend receivables from related parties

Solomon Telekom Company Limited	34,045,801	95,770,184
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Commercial paper and treasury bills to related parties

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

Held-to-maturity to related parties

Solomon Islands Government	150,000,000	-
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During the year, the Fund entered into various transactions with related parties. The aggregate value of transactions with related parties during the year is as follows:

	June 2017 \$	June 2016 \$
<u>Dividend income</u>		
Solomon Telekom Company Limited	9,760,611	63,258,338
South Pacific Oil Limited	61,000,000	53,990,260
Solomon Islands Home Finance Limited	-	276,000
Total dividend income from related parties	70,760,611	117,524,598
<u>Interest income</u>		
Soltuna Company Limited	4,453,295	5,193,181
South Pacific Oil Limited	1,809,634	1,125,982
Solomon Islands Home Finance Limited	713,053	847,315
Solomon Telekom Company Limited	118,299	245,745
Solomon Islands Government	2,764,757	639,931
Heritage Park Hotel Limited	2,147,842	2,087,842
Total interest income from related parties	12,006,880	10,476,452

10. AUDITORS REMUNERATION

Fees totaling \$358,010 were provided in the accounts for audit services as at June 2017 (2016: \$358,520). No other benefits were received by the auditors (Office of the Auditor General) during the year other than fees paid for normal auditing services.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

11. GOING CONCERN

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

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

12. CONTINGENT LIABILITY

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

13. CASH AND CASH EQUIVALENTS

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

	June 2017	June 2016
	\$	\$
Cash at bank	367,284,673	373,080,947
Cash on hand	3,400	3,400
	<u>367,288,073</u>	<u>373,084,347</u>

14. EMPLOYEES

The number of full time permanent Fund employees as at 30 June 2017 was 116 (2016: 116).

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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15. FINANCIAL INSTRUMENTS

Financial risk management

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

(a) Credit risk

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

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

At year end concentrations of credit risk are noted for Bank of South Pacific Limited, Australia and New Zealand Banking Group Limited, Westpac Banking Corporation Limited, Pan Oceanic Bank and Credit Corporation Limited.

The asset allocation at reporting date is as follows:

Assets	June 2017		June 2016	
	\$	%	\$	%
Commercial paper, treasury bills and held-to-maturity investments	825,400,680	60%	664,344,109	53%
Loans and advances	137,243,880	10%	104,372,531	8%
Cash and cash equivalents	367,288,073	26%	373,084,347	30%
Receivables	51,058,335	4%	119,613,341	9%
Total	1,380,990,968	100%	1,261,414,328	100%

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

Credit quality:

Assets	Neither past due nor impaired (Gross)		Impaired (Gross)		Total (Gross)	
	June 2017	June 2016	June 2017	June 2016	June 2017	June 2016
Commercial paper, treasury bills and held-to-maturity investments	825,400,680	664,344,109	-	-	825,400,679	664,344,109
Loans and advances	130,718,021	79,830,603	12,412,772	33,509,236	143,130,793	113,339,839
Cash and cash equivalents	367,288,073	373,084,347	-	-	367,288,073	373,084,347
Receivables	36,592,260	107,283,654	33,487,059	27,986,150	70,079,319	135,269,804

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15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(a) Credit risk (continued)

Impaired assets	June 2017	June 2016
Loans and advances	12,412,772	33,509,236
Receivables	33,487,059	27,970,933
Gross impaired assets	45,899,831	61,480,169
Less: Allowance for doubtful debts	(24,927,751)	(24,651,348)
	20,972,080	36,828,821

(b) Government security risk

The Fund has a significant exposure to the Solomon Islands Government (SIG) through its holding of government securities and bonds. The total holdings from SIG (treasury bills and government securities) at 30 June 2017 was \$169,728,375 (2016: \$17,592,646).

(c) Foreign exchange risk

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

30 June 2017	Currency					Total
	SBD	AUD	USD	Euro	Others	
Assets	\$	\$	\$	\$	(GBP & PGK)	\$
Cash and cash equivalent	296,207,854	16,071,530	16,743,442	22,568,514	15,696,733	367,288,073
Commercial paper, treasury bills and held-to-maturity investments	706,017,338	45,658,019	47,508,911	-	26,216,412	825,400,680
Equity investments	1,207,946,777	17,966,311	44,182,066	11,081,770	60,530,990	1,341,707,914
Total	2,210,171,969	79,695,860	108,434,419	33,650,284	102,444,135	2,534,396,667
30 June 2016						
Assets						
Cash and cash equivalent	342,062,030	20,150	2,051	21,905,832	9,094,284	373,084,347
Commercial paper, treasury bills and held-to-maturity investments	531,608,696	59,023,968	47,179,738	-	26,531,707	664,344,109
Equity investments	1,273,736,736	15,759,706	37,739,873	9,141,233	51,816,807	1,388,194,355
Total	2,147,407,462	74,803,824	84,921,662	31,047,065	87,442,798	2,425,622,811

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

The following table details the Fund's sensitivity to a 10% strengthening and weakening of all major currency exposures against the Solomon Islands Dollar. The 10% sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes listed shares and term deposits where the denomination of the investment is in a currency other than Solomon Islands Dollars. A positive number below indicates an increase in net assets where the foreign currency weakens by 10% against the Solomon Islands Dollar. A negative number below indicates an decrease in net assets where the foreign currency strenghtens by 10% against the Solomon Islands Dollar.

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

Financial risk management (continued)

(c) Foreign exchange risk (continued)

	AUD impact (000s)		USD impact (000s)		Euro impact (000s)		GBP impact (000s)		PGK impact (000s)	
	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
	Strengthen	Weaken	Strengthen	Weaken	Strengthen	Weaken	Strengthen	Weaken	Strengthen	Weaken
Changes in net assets										
30 June 2017	(7,252)	8,864	(9,858)	12,048	(3,059)	3,739	(1,380)	1,686	(7,925)	9,686
Changes in net assets										
30 June 2016	(6,797)	8,307	(7,720)	9,436	(2,826)	3,454	(1,421)	1,737	(6,528)	7,979

(d) Interest rate risk

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

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

(e) Liquidity risk

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

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

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

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15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(e) Liquidity risk (continued)

30 June 2016	Up to 1 month	1 - 3 months	3- 12 months	1-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$	\$
Assets						
Cash and cash equivalents	373,084,347	-	-	-	-	373,084,347
Commercial paper, treasury bills and held-to-maturity investments	27,599,303	173,257,794	217,863,329	218,636,783	26,986,900	664,344,109
Loans and advances	-	-	20,422,482	58,950,049	25,000,000	104,372,531
Receivables	-	127,864	11,682,659	107,802,818	-	119,613,341
Total	400,683,650	173,385,658	249,968,470	385,389,650	51,986,900	1,261,414,328
Liabilities						
Accounts payable	1,405,597	944	3,729	-	-	1,410,270
Other payables and accruals	-	4,356,206	-	4,137,175	-	8,493,381
Total	1,405,597	4,357,150	3,729	4,137,175	-	9,903,651
Net liquidity gap	399,278,053	169,028,508	249,964,741	381,252,475	51,986,900	1,251,510,677

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS

(a) SUBSIDIARIES

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

	Place of business	Ownership	Fair value June 2017	Fair value June 2016
Subsidiaries				
(i) South Pacific Oil Limited	Solomon Islands	100%	839,398,000	766,446,000
(ii) Solomon Islands Home Finance Limited	Solomon Islands	100%	24,736,216	25,297,373
(iii) Solomon Telekom Company Limited	Solomon Islands	97.32%	263,444,062	388,049,999
(iv) Solomon Oceanic Cable Company Limited	Solomon Islands	51%	15,669,411	32,676,199
Total fair value of subsidiaries			1,143,247,689	1,212,469,571
Other equity investments				
(i) Heritage Park Hotel Limited	Solomon Islands	10%	26,823,000	26,800,000
(ii) Soltuna Company Limited	Solomon Islands	40.5%	37,876,088	34,442,165
(iii) Bank South Pacific Limited (Listed)	PNG		60,440,977	51,816,807
(iv) Offshore managed funds (Listed)	US & Euro		73,320,160	62,640,812
Total fair value of other equity investments			198,460,225	175,724,784
Total fair value of equity investments (refer Note 6 (a) (ii))			1,341,707,914	1,388,194,355

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16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)

(a) SUBSIDIARIES (CONTINUED)

Commencing in 2013, the Board adopted a policy to annually revalue its unlisted domestic equities, beginning with its two large equity exposures South Pacific Oil Limited and Solomon Telekom Company Limited. The valuations of all of the Fund's unlisted private equities for the 2017 financial year were carried out by Baoro and Associates and Ernst & Young. The valuations were carried out under the applicable International Financial Reporting Standard – IFRS 13 Fair Value Measurements.

(i) SOUTH PACIFIC OIL LIMITED (SPOL)

There were no changes to the shareholding of SPOL during the year. SINPF holds 100% (53,333,333 shares) of SPOL. As at 30 June 2017, the company was valued at \$839,398,000 (2016: \$766,466,000) by Ernst & Young.

(ii) SOLOMON ISLANDS HOME FINANCE LIMITED (SIHFL)

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

At 30 June 2017, the investment was revalued to market value of \$24,736,216 (2016: \$25,297,373) based on the valuations carried out by Baoro and Associates.

(iii) SOLOMON TELEKOM COMPANY LIMITED (STCL)

During the year there were no changes to the shareholding in STCL. As at 30 June 2017, the Fund owned 77,764,218 A class shares or 97.32% of the STCL.

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

At 30 June 2017, the investment was revalued to market value of \$263,444,062 (2016: \$388,049,999) based on the valuation carried out by Ernst & Young. STCL also owes the Fund \$99,997,477 as at 30 June 2017.

(iv) SOLOMONS OCEANIC CABLE COMPANY LIMITED (SOCC)

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

At 30 June 2017, the investment in SOCC was valued by management at \$15,669,411. The Fund received a letter of comfort from the Solomon Islands Government assuring the Fund that they will recover the amount through equitizing the amount in a new company, Solomon Islands Submarine Cable Company Limited (SISCCCL).

(b) OTHER EQUITY INVESTMENTS

(i) HERITAGE PARK HOTEL LIMITED (HPhL)

During the year there were no changes to the Fund's ownership interest in HPhL. The Fund continues to hold 20 shares in HPhL, representing 10% of the company's share capital. The Fund has adopted a value of \$26,823,000 as at 30 June 2017 (2016: \$26,800,000) for its 10% shareholding based on the valuation carried out by Baoro and Associates.

HPhL also has a loan balance with the Fund which currently stands at \$16,942,718. The loan was interest free up till August 2015 in order to maximise the benefit of HPhL's 5 year tax holiday. The tax holiday has now expired and the loan is accruing interest at the rate of 12.5% per annum.

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)

(b) OTHER EQUITY INVESTMENTS (CONTINUED)

(ii) SOLTUNA COMPANY LIMITED (SCL)

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

At the end of June 2017, the Fund valued its investment in Soltuna at \$37,876,088 (2016: \$34,442,165) based on a valuation carried out by Baoro and Associates.

Soltuna continues to repay its \$50 million loan according to loan arrangements. At the end of the year, the loan balance was \$27,954,142 a reduction of approximately \$22.1 million.

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

(iii) SASAPE INTERNATIONAL SHIPYARD LIMITED (SISL)

Sasape International Shipyard Limited (SISL) was incorporated in February 2011 for the purposes of leasing and operating the slipway facilities at Base 2 at Tulagi, Central Islands Province. The assets at Base 2 Tulagi were purchased by SINPF after a successful joint bid was lodged by SSL and SINPF in 2010.

As at 30 June 2017 SINPF sold its 25% shareholding in SISL to Silent World. The investment in SISL at year end was \$nil (2016: \$25,000)

(iv) BANK SOUTH PACIFIC LIMITED (BSP)

The Fund maintained its 2,500,001 shares in BSP during the year. The BSP share price at the end of the year was \$24.18 per share (9.4 Kina) giving a valuation of \$60,440,977 (2016: \$51,816,807).

(v) OFFSHORE MANAGED FUNDS

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

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

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

At 30 June 2017 the Fund has 1,656,562 units (2016: 1,601,142 units) in UBS Australian Share Fund at the recorded price of SBD \$10.85 (2016: SBD \$9.86) per unit (AUD \$1.7765) (2016: AUD \$1.6654). During the year the Fund reinvested its quarterly distributions to purchase an additional 55,419 units in the Fund under the Fund's Distribution Reinvestment Program (DRP).

The Fund also maintained the same level of units in Vanguard European Stock Index Fund at 64,673 with a closing price per unit of SBD \$171.35 (2016: SBD \$141.96) per unit (Euro 19.1397) (2016: Euro 16.2263) at the end of the year.

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17. TREASURY BILLS AND OTHER PRIVATE COMMERCIAL LOANS

(a) GOVERNMENT SECURITIES/DEVELOPMENT BONDS

	June 2017	June 2016
	\$	\$
SIG Development Bond – Bullet Series	120,000,000	-
SIG Development Bond – Amortising Series	30,000,000	-
Total government securities/Bonds (refer Note 6 (a) (ii))	<u>150,000,000</u>	<u>-</u>

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

(b) TREASURY BILLS – CENTRAL BANK OF SOLOMON ISLANDS

The Fund tendered for treasury bills offered by the Central Bank of Solomon Islands on behalf of the Solomon Islands Government. At the end of the year, the balance of Treasury Bills held by the Fund was \$18,529,000 (June 2016: \$17,592,646). These were mostly 182 days Treasury Bills at rates between 0.2% to 1.5%.

(c) OTHER PRIVATE COMMERCIAL LOANS

Tavanipupu Island Resort Limited (TIRL) –Loan Agreement

On 22 February 2012, TIRL defaulted on its 3rd scheduled interest payments of 12.5% on its \$15 million loan obtained from the Fund. Consequently, SINPF called up the loan following the default prior to the maturity of the loan and applied to the Courts for default judgement against the borrower.

The parties entered into a court sanctioned out of court settlement agreement dated 14 October 2014 that allows the Fund to take management control of TIRL and also to have the title of the mortgaged property transferred to the Fund.

Under the agreement the shareholders of TIRL have the option to buy back the property from the Fund up to 30 September 2016. If they do not take up their option to purchase back the property by the end of the period, the Fund will also fully own the company. During the redemption period the Fund and the shareholders of TIR can sell the property to a purchaser agreed to by both parties.

At year end, the shareholders had not exercised the option to buy back the property at 30 September 2016 and the TIR loan was foreclosed. The Fund now fully owns the property and an amount of \$31,274,275 is included in the investment property balance at year end.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Valuation models

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

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

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18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

(b) Valuation framework

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

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

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

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

Financial assets at fair value through statement of changes in net assets	Total	Level 1	Level 2	Level 3
30 June 2017				
<u>Equity investments</u>				
- Energy	839,398,000	-	839,398,000	-
- Telecommunications	279,113,473	-	263,444,062	15,669,411
- Tourism and hospitality	26,823,000	-	-	26,823,000
- Manufacturing	37,876,088	-	-	37,876,088
- Financial services and others	158,497,353	133,761,137	-	24,736,216
Total financial assets at fair value through statement of changes in net assets	1,341,707,914	133,761,137	1,102,842,062	105,104,715

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value hierarchy – Financial instruments measured at fair value (continued)

30 June 2016	Total	Level 1	Level 2	Level 3
<u>Equity investments</u>				
- Energy	766,446,000	-	766,446,000	-
- Telecommunications	420,726,098	-	388,049,999	32,676,099
- Tourism and hospitality	26,800,000	-	-	26,800,000
- Manufacturing	34,442,165	-	-	34,442,165
- Shipping	25,000	-	-	25,000
- Financial services and others	139,754,992	114,457,619	-	25,297,373
Totalfinancial assets at fair value through statement of changes in net assets	1,388,194,255	114,457,619	1,154,495,999	119,240,637

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

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

	June 2017	June 2016
	\$	\$
Balance at 1 July	119,240,637	101,227,570
Fair value (losses) / gains *	2,895,866	2,333,067
Purchases	-	15,680,000
Disposals/Transfer	(17,031,788)	-
Balance at the end of the year	105,104,715	119,240,637

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

(e) Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs as at 30 June 2017 in measuring financial instruments categorized as level 2 and level 3 in the fair value hierarchy.

Description	Valuation technique	Unobservable Input	Inter-relationship between significant unobservable inputs and fair value measurement
Unlisted private equity instruments (categorised in level 2)	<i>Discounted cash flows:</i>		
	The valuation model considers the present value of expected future free cashflows, discounted using a risk-adjusted discount rate. The expected future free cashflows are determined by considering managements best estimate of revenue and EBITDA of the investee. The enterprise value determined under the DCF valuation is adjusted for surplus assets and net debt to arrive at an equity value.	- Forecast annual revenue growth rate - Forecast EBITDA margin - Risk adjusted discount rate – i.e. weighted average cost of capital (WACC)	The estimated fair value would increase (decrease) if: - The annual growth rate were higher (lower); - The EBITDA margin were higher (lower); or - The WACC were higher (lower). Generally, a change in the annual growth rate is accompanied by a directionally similar change in EBITDA margin.

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

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18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Financial instruments not measured at fair value

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

19. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

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

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

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

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

20. SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operation of the Fund, the results of those operations, of the state of affairs of the Fund in future financial years apart from the matters discussed elsewhere in the financial statements.

