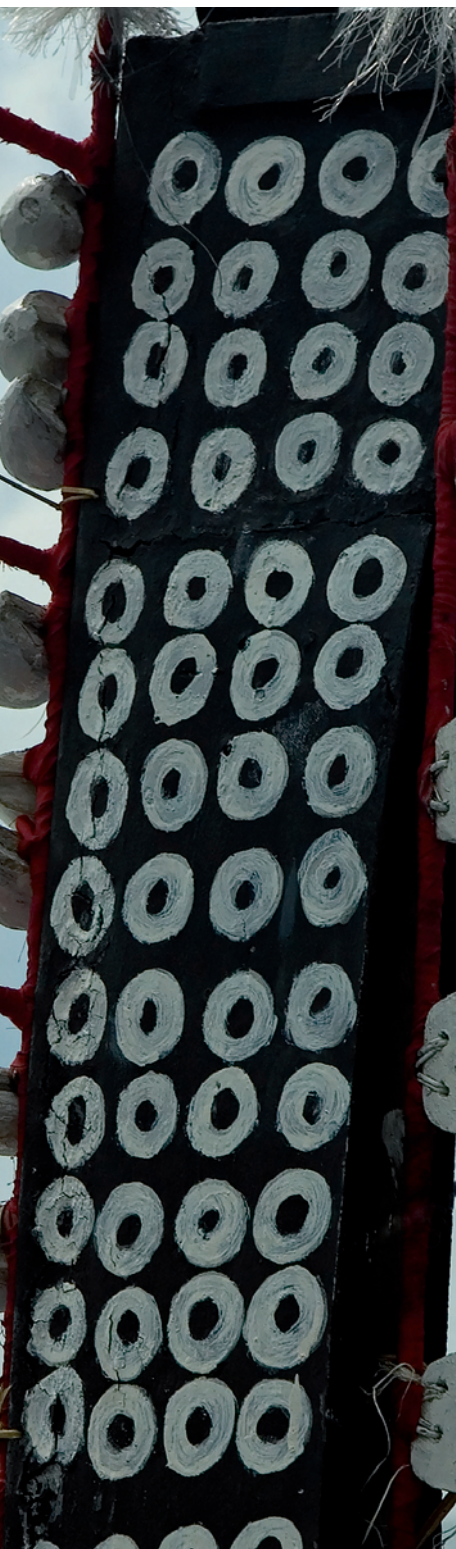
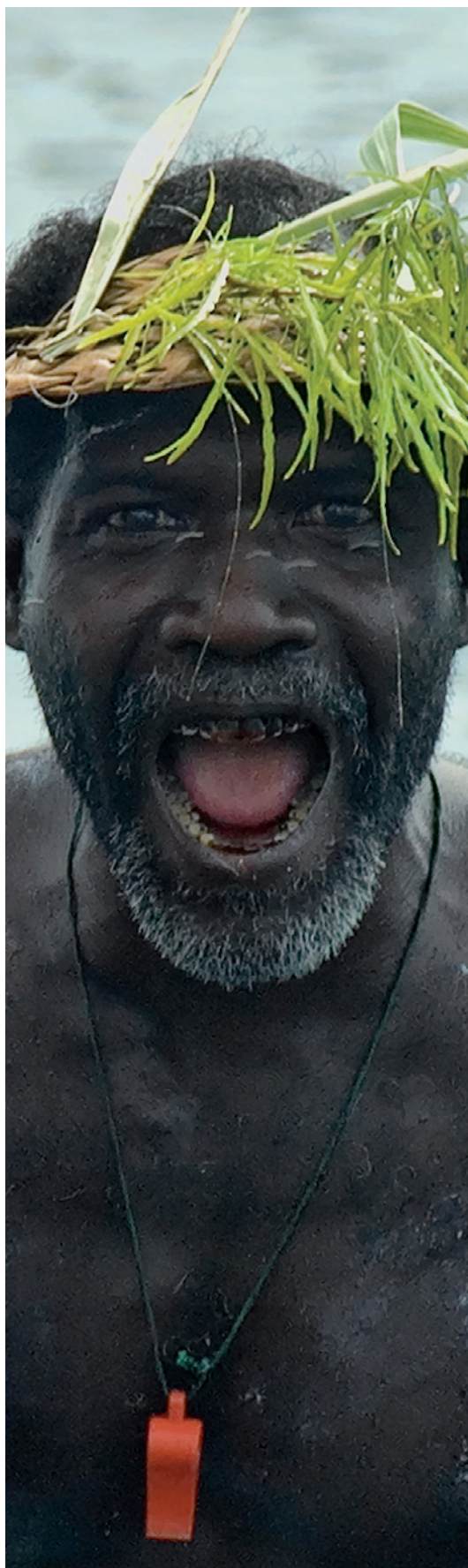




SOLOMON ISLANDS NATIONAL PROVIDENT FUND Annual Report 2007





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P.O. Box 466, Honiara

Bank South Pacific Limited,
P.O. Box 37, Honiara
(now called Bank South Pacific.)

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Office of the Auditor General,
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Honiara, Solomon Islands.

PriceWaterHouseCoopers,
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NO
LASTING
PEACE
WITHOUT
SOCIAL
JUSTICE.

NO
SOCIAL
JUSTICE
WITHOUT
SOCIAL
SECURITY.



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

Solomon Islands.

Dear Sir,

Solomon Islands National Provident Fund Annual Report 2007

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 2007 which incorporates the Statement of Assets and Liabilities, Statement of Accounts and major development events and activities of the Fund during the financial period.

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

Yours faithfully,

Solomon Islands National Provident Fund
Adrian E. Wickham
Chairman
Board of Trustees



Our Vision

Sustaining growth of members' wealth to enjoy better living standard and peace of mind during working life and in retirement.

Our Mission

- ✦ Commitment and professionalism in delivery of quality and reliable services;
- ✦ Enhance and sustain members' financial wealth and growth;
- ✦ Support, promote and facilitate delivery of Social Security Benefits;
- ✦ Partake in economic and social developments in Solomon Islands as a responsible financial institution;
- ✦ Make prudent investment decisions and sound management of members' funds;
- ✦ Enhance knowledge and skills of staff to utilize their potential to maximize their services to the Fund;
- ✦ Exercising Good Governance and Employment Practices;
- ✦ Promote and pursuing cohesive teamwork culture that creates greater job satisfaction and achievements.

Our Core Values

- ✦ Members can have confident and trust in the integrity of SINPF hence these principles:
- ✦ We will provide quality and professional services to high standard promptly on cohesive manner;
- ✦ We will exercise and sustain fairness, honesty and integrity respect for others in whatever we do for the Fund and its members;
- ✦ We will exercise sound management practices and prudential investment policies of funds we are entrusted with;
- ✦ We will act accountably and prudently to enhance and sustain sound financial growth;
- ✦ We will fulfill growth of wealth and social security benefits to members;
- ✦ We will partake in desired developments as good corporate citizen for the benefit of Solomon Islanders;
- ✦ We will enhance employees capacities and to fulfill their potentials in meeting future challenges and opportunities;
- ✦ We will perform the business affairs of the Fund on ethical, responsible and teamwork manner with commitment;



Highlights

- ✦ Total accumulated Members' contribution balances increased by 21% to \$620.0 million from \$489.0 million in Financial Year 2006;
- ✦ Annual New Membership increased by 25.7% to 6,152 as compared to 4,570 in FY2006;
- ✦ Withdrawal applications by Members facilitated and approved stood at 1,748 representing a total amount withdrawn of \$36.6 million;
- ✦ Total surplus realized prior to interest credited to Members surged to \$117.3 million compared to \$23.7 million in FY2006 – an increase by 79.8%;
- ✦ Total amount credited to Members stood at \$80.2 million compared to \$16.0 million in FY2006 – an increase by 80%;
- ✦ Total Net worth of the Fund increased to \$56.5 million as compared to \$19.3 million in 2006 – an increase of 65.8% as a result of \$37.1 million transferred to General Reserve;
- ✦ Total investment portfolio increased to record level of 23% to \$656.8 million from \$503.2 million in FY2006;
- ✦ SINPF acquired \$34.6 million worth of 2.3 million of shares in Bank of South Pacific Limited (BSP), Papua New Guinea;
- ✦ Efficiency Ratio (cost per income earned) has greatly improved at 17% compared to 48% in FY2005;
- ✦ Solomon Telekom Limited paid \$19.5 million dividends to SINPF – reflection of 21% rate of return on investment made;
- ✦ Malaita & Western Provincial Governments' impaired loan debts totaling \$30.8 million fully extinguished by National Government;
- ✦ Solomon Islands Electricity Authority loan of \$18.0 million been paid by S.I. Government while remaining \$10.0 million being amortized through Garnishing Deed arrangement;
- ✦ CEMA impaired loan debts been fully extinguished;
- ✦ New Investment Policy and Guidelines been approved and adopted for both domestic and offshore investments.



Board of Trustees

The Board of Trustees has the fiduciary responsibility to ensure sustainable growth and preservation of members' wealth for retirement through prudent decisions and ethical good governance practices.

The Board has tripartite representation composed of eight Board members representing: two from Government, two from employees, two from employers and two appointed at the discretion of the Honorable Minister of Finance & Treasury. Each Board of Trustee is appointed by Hon. Minister of Finance & Treasury under Solomon Islands National Provident Fund Act (Cap.109).

The Board of Trustees being in Office during the period are as follow:

Names	Appointment	Representative
Adrian Wickham	Chairman	Employers
Austin Holmes	Deputy Chairman	Minister's Discretion
Ivan Dyer	Member	Minister's Discretion
Luma Darcy	Member	Crown
Ronald Unusi	Member	Crown
Charles Ashley	Member	Employers
Anna Halea (Mrs)	Member	Employees
Jane Tozaka (Mrs)	Member	Employees

The appointments of Mr. Ivan Dyer, Mr. Ronald Unusi and Mr. Luma Darcy were renewed on 24th April 2007 after their term in Office lapsed on the same month. Mr. Adrian Wickham was appointed the Chairman following the resignation of Mr. John Beverley on 23rd February 2007 and replaced by Mr. Austin Holmes as Deputy Chairman. The appointment of Mr. Gabriel Suri was revoked on 24th April 2007 and thereafter replaced by Mr. Charles Ashley.

The Board of Trustees has had twenty (20) meetings (both scheduled and extraordinary) during the financial year.

The Board approved and established five sub-committees to assist the Board in its deliberation and decision-making process. The Committees include: Credit & Investment, Information Technology, Legal Affairs, Audit & Compliance and Welfare. Each Sub-committee is comprised of Board members and Executive Management of the Fund



Chairman

Adrian Wickham



Deputy Chairman

Austin Holmes



Director

Ivan Dyer



Director

Ronald Unusi



Director

Luma Darcy



Director

Charles Ashley



Director

Anna Halea



Director

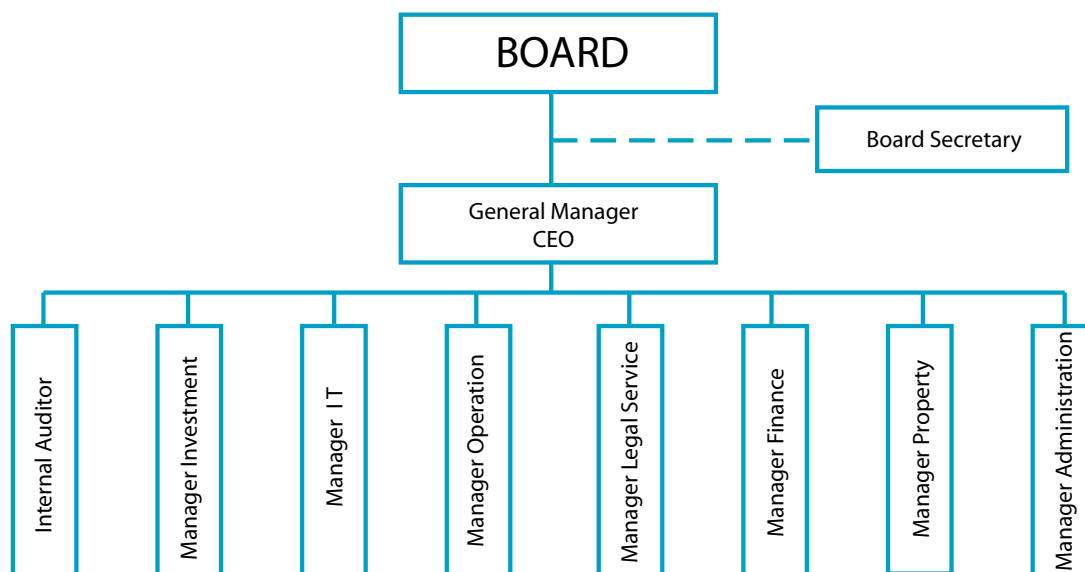
Jane Tozaka



Management Team

Names	Position
Tony Makabo	General Manager & CEO
Ruth Alepio (Ms)	Board Secretary to SINPF Board
John Joi Veo	Manager Finance
Michael Wate	Manager Investment
Gary. Faaitoa	Manager Legal Services
George. Hoatamauri	Manager Properties
Aluta Kakadi	Manager Operations
Suzanne Orudiana (Mrs.)	Manager Information Technology
Areau Hivu (Mrs.)	Manager Internal Audit
Alfred Sare	Manager Administration

Corporate Structure





General Manager / CEO

Tony Makabo



Board Secretary

Ruth Alepio



Manager Finance

John V Joi



Internal Auditor

Areau Hivu



Manager Property

George Hoatamauri



Manager Investment

Michael Wate



**Manager
Information Technology**

Susan Orudiana



Manager Operations

Aluta Kakadi



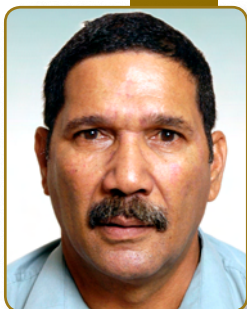
**Manager
Administration**

Alfred Sare

**Manager
Legal Services**

Gary Fa'aitoa





Impressive record-breaking results achieved - an impetus for financial success and growth for the Fund in future

Chairman's Report

On behalf of the Board of Trustees of Solomon Islands National Provident Fund, I am very pleased to report that the results achieved during the Financial Year ending 30 June 2007 was extraordinarily satisfactory. During the period, the Fund realized gross surplus of slightly more than \$117.3 million thus reflecting an increase of 80% as compared to \$23.7 million in the previous Financial Year figures. In this connection, a record-breaking rate of interest of 18% has been awarded to members valued at \$80.2 million credited to members – an increase of 80% as compared to previous figures. The remaining \$37.1 million been transferred to the General Reserve in the Fund's Balance Sheet. This confirms the Fund is firmly established with strong financial management and growth in future.

There are a number of important attributes that led to this surge and strong financial performance of the Fund including:

- ✦ Sale of 49% shares owned by Solomon Islands National Provident Fund (SINPF) in National Bank of Solomon Islands Limited with subsequent acquisition of shares in Bank South Pacific /Papua New Guinea resulting in payment of special dividend of \$15.7 million and substantial realized capital gain valued at \$26.3 million as a result of shares sold. The Fund now become 12th top shareholder of the Bank South Pacific;
- ✦ Write-backs of provisions valued at \$40.6 million following subsequent settlements of commercial loans owed by Malaita and

Western Provincial Governments, Solomon Islands Electricity Authority (SIEA) and other loans owed to SINPF;

- ✦ Dividend payments of \$19.5 million from Solomon Telekom Limited in respect of 64.7% shares held by SINPF – an encouraging return of 22%;
- ✦ Interest income derived from commercial loans amounting to \$25.1 million – an increase of 37%;

In light of significant improvement in cash liquidity emanating from contribution receipts, settlements and regularization of impaired public sector debts, the Fund remain committed to search, identify and invest in feasible investment opportunities that exist in the domestic and overseas credit and capital markets. In so doing, the Board with support from Management has made additional acquisition of shares in Solomon Telekom Ltd resulting in 64.7% shareholding by the Fund thus resulting with an impressive 22% rate of return to the Fund. Further significant acquisition of 95% shares been undertaken in South Pacific Oil Ltd (SPOL) valued at about \$22 million - a new entity taking over from the former Shell Company (SI) Ltd. It is envisaged that SPOL would declare a satisfactory rate of return to the Fund in next Financial Year and beyond. These acquisitions allowed the Fund to have major controlling interest in these entities.

Whilst there are still limited viable investment opportunities available in the domestic economy notwithstanding its positive gradual growth



during the period, the Board is determined to venture into the offshore credit and capital markets through reputable and globally recognized Fund Managers that would yield reasonable return on members' funds. In pursuing this agenda, the Board and Management have had series of consultations with the Central Bank of Solomon Islands and Ministry of Finance & Treasury seeking their understanding and approvals. It is planned that 30% of the total investment portfolios of the Fund would be invested offshore for better investment return to enhance members' wealth. On the onshore side, there are major portion of the total investment assets been invested locally in different classes of assets.

The Fund continues to enjoy good working relationship with the Solomon Islands Government (SIG) to ensure that the public sector impaired debts are extinguished or regularized. As result of this relationship, SIG fully extinguished Malaita and Western Provincial Governments' debts amounting to \$23.9 million owed to the Fund whilst payment of \$18.5 million was made to the Fund in respect of SIEA total debt of \$28.5 million. The remaining balance of \$10.0 million were amortized over a five year period at an interest rate of 5% per annum through garnishee of the Authority's electricity bills due by the Fund. Furthermore, SIG's assisted in the payment of the Solomon Islands College of Higher Education's contributions and surcharge arrears amounting to \$9.5 million which is been amortized over a 10 year period at an interest rate of 5.5% (interest rate equivalent to 90(91) days

Treasury Bill weighted average yield plus 2%). The assistance rendered to the public sector organizations did contribute greatly to further improvement of the Fund's financial performance. In this respect, I would like to thank the Government for its foresight, cooperation and support it has provided in clearing and regularizing most of the public sector impaired debts owed to the Fund over the years.

For the future, I am confident that the Fund is now well positioned to partake in any future feasible economic developments that will deliver reasonable rates of return to members and betterment of Solomon Islands. I believe and hope that more investment opportunities will emerge in near future as the domestic economy continues its positive growth path. This is the future challenge before us however the Board, Management and staff are striving to ensure the Fund operates profitably in fulfilling its primary objectives – enhancing members' wealth and at the same time act as a catalyst to economic and social developments in the country.

On behalf of the SINPF Board I wish to acknowledge the professionalism and commitment of the executive management team and the efforts of the staff that enabled the Fund to achieve the record breaking results during the Financial Year. As to my fellow Board of Trustees – your ongoing commitment, support and confidence in the Fund is sincerely appreciated.

Adrian E. Wickham
Chairman



Successful results achieved - a reflection of right policy directions, commitments and professionalism displayed by Board, Management and staff as a team

General Manager's Report

It has been a very successful year for the Fund since its inception. The successful results have emanated from practical changes to policy direction and strategies and the manner in which they are professionally implemented to achieve the key results envisaged. Teamwork and commitments exerted by the Board, Management and staff are some of the attributes to the success.

The fundamental area of focus is the growth of members' wealth with the Fund. During the period, the growth of members' funds has reached a record level of \$620 million. The positive growth has been contributed by \$85.8 million contribution receipts (in spite of slight increase in withdrawals amounted \$36.6 million) and \$80.2 million representing 18% been declared to members on their contribution balance' accounts with the Fund. The major factors for increase in contribution inflows are from increase new membership by 26% and improved working relationship with Employers to fulfill their legal obligations in paying employees' contributions when due.

Turning to the Fund's financial performance, the audited results showed an impressive income of \$141.6 million compared to \$45.9 million recorded in the previous year – an increase of 67%. The main attributes to the increase are highlighted in the Chairman's report. On the operating expenditure, there is slight increase by 9% from the previous year figure though cost control measures and efficient use of available resources have enable the Fund to keep is expenditure to less than 50% efficiency ratio as a benchmark to meet operations of the Fund. However, the Fund has successfully achieved 17% efficiency ratio (meaning cost per income earn for SINPF) compared to 48% efficiency ratio in the previous year. The Board and Management are committed to ensure that the efficiency ratio of the Fund will remain low thus allowing members to receive maximum benefits in future.

One of major achievements during the year was the successful transformation of the Fund's major impaired investments (not earning return in past years) to performing status. The notable achievements include: (a) the sale of 49% SINPF shares in National Bank of Solomon Islands Limited to Bank of South Pacific Limited (b) SI Government fully extinguished the Provincial Governments' loan debts and (c) 64% payment of Solomon Islands Electricity Authority loan debts by SI Government. The funds from these proceeds received have now been invested in some performing investment assets stipulated under the adapted new Investment Policy & Guidelines with reasonable expected return in future.



The Fund has exercised a culture that is focusing on teamwork, continuous learning and performance orientation with better results. This has been achieved through meetings, discussions and trainings. Pertinent to staff training, there are a number of staff who have been undergoing undergraduate trainings in both local and overseas learning institutions whilst others have attended short courses and conferences. These are aimed to keep updated with global trends, acquiring new appropriate knowledge and practices to further improve the effectiveness and efficiency of the Fund.

The SINPF Board and Management are fully aware that this successful Financial Year cannot be realized without the outstanding support of the Government, employers, workers, unions, suppliers and the general public. We will ensure that these relationships are sustained through ongoing dialogue and communication in years ahead. In this respect, we would like to accord our great appreciation for that support and we sincerely believe that this will continue in future.

The achievements realized cannot be overstated. It is a tribute to the wisdom of the Board of Trustees, the management and staff that contributions for the financial well being of members of the Fund is well and truly in place. We believe the Fund can do more. We will continue to search, investigate and assess feasible options that can increase returns and social benefits to members in years to come.

Finally, may I take this opportunity to thank the Management and staff for another year of exceptional commitment and performance and the Board of Trustees for their valuable guidance, support and understanding during the year.

Tony Makabo
General Manager & Chief Executive



The Economy

The world economy grew by 5.4% in 2006 and projections for 2007 though positive is expected to fall but remaining at a high of 4.9%, as governments attempt to limit inflationary and oil price pressures.

Growth in the global economy were being and are expected to be driven by the expanding economies of China and India and other Asian developing economies excluding Japan with rates averaging more than 7%.

This means the demand for our primary products has and will continue to remain buoyant in 2006 and into 2007. Copra and cocoa production declined during 2006 but the resumption of palm oil and kernel production, increased forest export volumes and positive results from the domestic fishing companies should provide the impetus for the domestic economic growth of 6.1% in 2006 and this level of growth performance is expected to continue in 2007.

Strong donors' support, continued implementation for Government's reform agenda and the continued RAMSI presence has provided the favorable backdrop for the sustained improvement in our domestic economy. As a result, the SI Government's revenue expanded and stabilized again in 2006 and is expected to continue in 2007.

Inflation is running at around 7% to 8% and Central Bank of Solomon Islands (CBSI) instituted policy framework aiming to control inflation around the Y2006 level. Domestic liquidity remained at high levels thus prompting CBSI to support SINPFB offshore investments program to mop up the excess liquidity. SINPFB is the single largest domestic investor and growth in domestic investment opportunities continues to lag behind the rate at which contributions are being accumulated in the Fund. As new employment opportunities are created and new employees registered, there will be an upward increase of contribution inflows to the Fund.

On the external front, CBSI and Government maintained a crawling peg regime against a basket of currencies with important emphasis of stabilizing the SBD against the USD, primarily to mitigate inflationary pressures and ensure that SI exports remain competitive. Foreign reserves closed at just \$800 million in 2006 and this level been seen through into 2007 with expectation to grow further in future.



There are still risks to the improvement we have experienced in domestic economy in particular, the continued friction between Solomon Islands and Canberra as it can cloud the environment for investor confidence and new foreign direct investments. We do hope the relationship will drastically improve in the near future.

Against the backdrop of improving domestic economy and the inherent risks associated with a small country with political, economic and legal structures that can heavily be susceptible to internal and external shocks, the SINPF Board continue to be mindful of its' trusteeship and fiduciary responsibilities thus employing better risk management systems and approaches as it pursues investment strategies to secure better returns and enhancing members' wealth retirement.

The Fund has developed and utilized cross-functional teamwork culture from the Board, Management and staff from all departments to ensure financial dues to members collected on timely manner. This would have to be sustained in the years ahead. Public relationship between the Fund and Employers has shown improvements resulting in contributions and arrears paid, especially employers experiencing substantial debt arrears in the past. This has led to adequate improvement in contribution payments.

Other important allied functions under the pervue of Operations that showed satisfactory improvements included: membership registration and withdrawals. The Operations Department continued pursuing its commitment and focus to provide quality customer service to members promptly at all times. Further improvement strategies through Information Technology applications been studied and assessed for implementation as soon as practical.

Overview of Operations

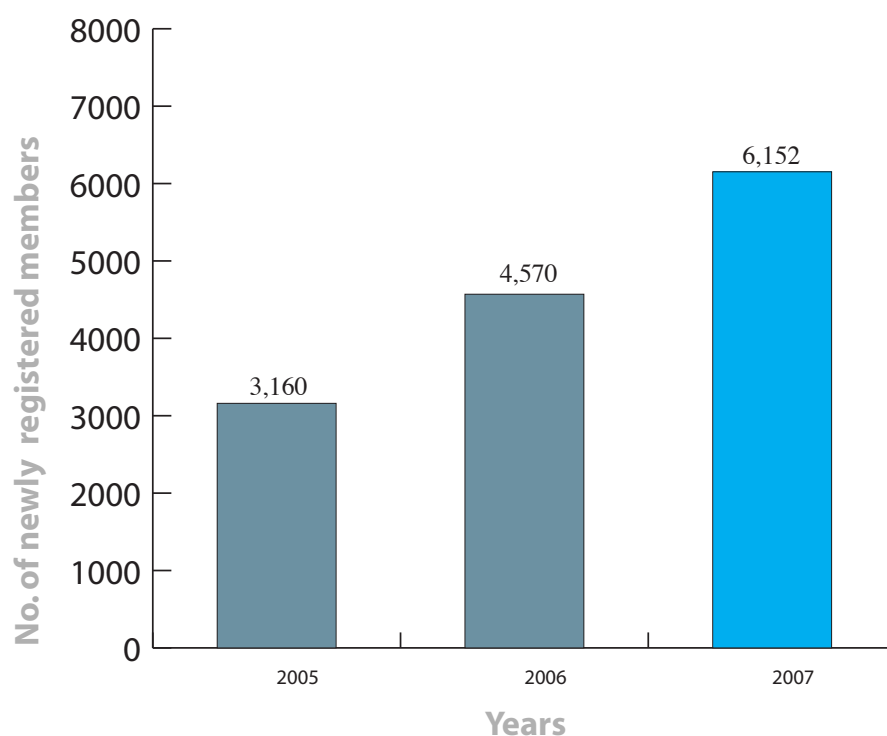
Membership

New employees registered during financial year reached 6,152 compared to 4,570 in the previous period – an increase of 26%. This is a reflection of gradual growth in the domestic economy that influenced positive growth in employment. The total numbers of members of the Fund as at June 2007 reached 130,356. The growth of new membership continued since 2006 and expected to be enhanced in near future.

In terms of age groups, members with age ranging from 35 - 39 years continue to dominate the total membership with the Fund, standing at 16.4%. Age group from 30 - 34 years accounted for 15% and 40 - 44 years is 14%. The least age group with fewest registered employees are within 18 to 24 years of age.

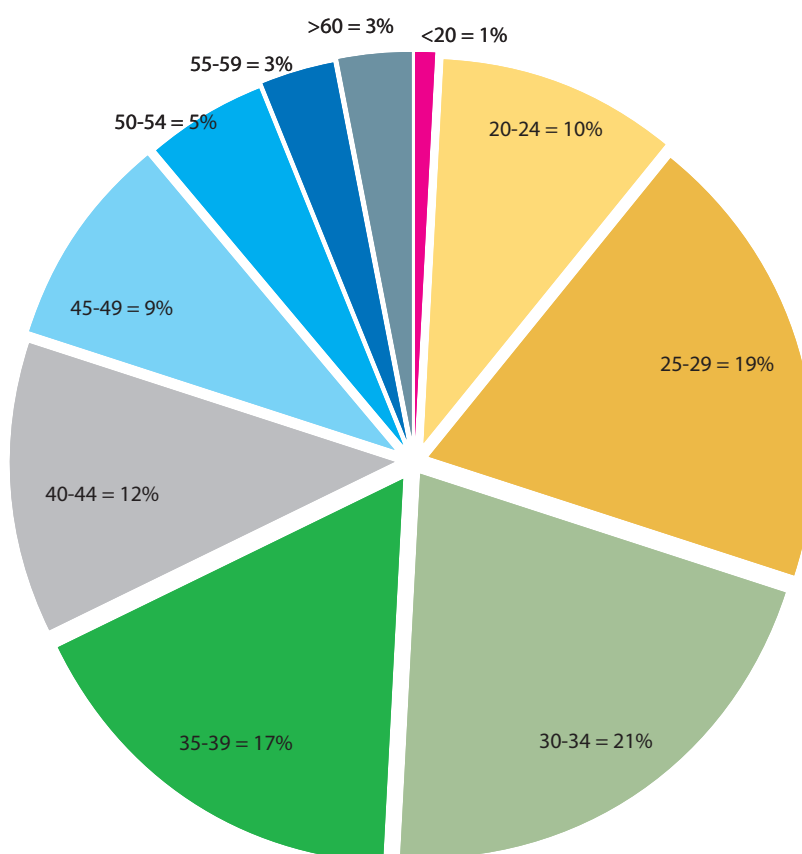
From gender perspective, male employees continue its domination at 73% as at end of June 2007 with 27% in favor of females. This depicts a slight increase for male by 2% with a reduction by 2% in respect of female employees.

Newly Registered members: 2003 - 2006





Accumulated Active Membership by Age-group & percentage



Age Group	Male	Female	Total
18 – 1	186	140	326
20 – 24	2,964	1,900	4,864
25 – 29	7,746	4,180	11,926
30 – 34	13,090	6,650	19,740
35 – 39	15,016	6,304	21,670
40 – 44	13,685	5,060	18,645
45 – 49	13,110	3,610	16,720
50 – 54	9,184	2,290	11,674
55 – 59	6,940	1,970	8,910
60 & above	13,797	2,330	16,127
Total	95,718	34,637	130,356

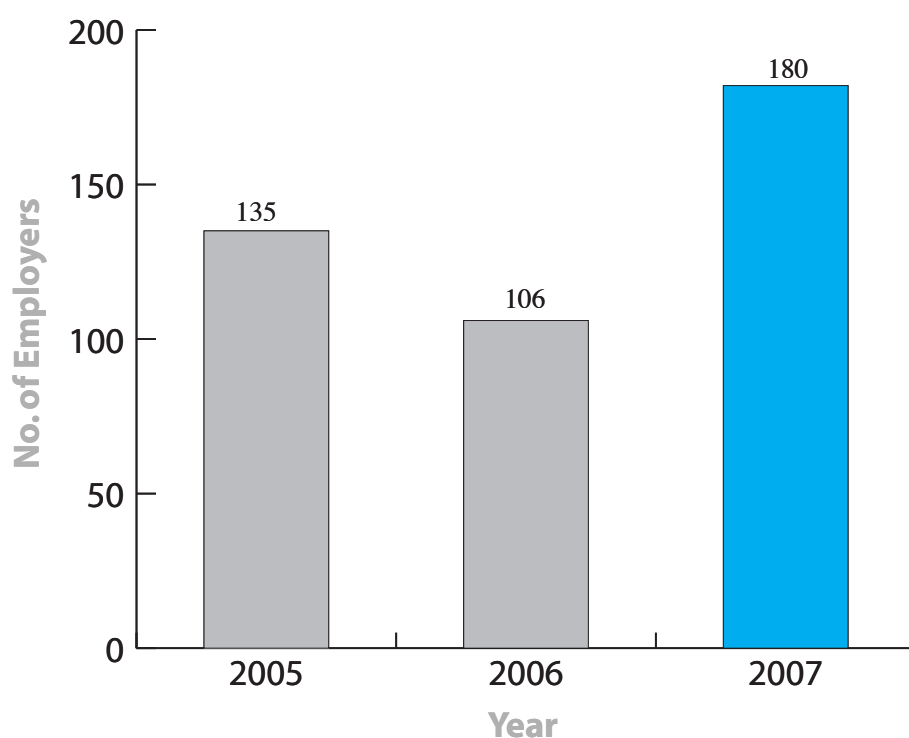


Employers

New Employers registered during the financial year stands at 183 compared to 106 in the previous year – an increase of 42% thus leading to active employers to 2,160 in total. This positive upward trend reflects growth and investment confidence in the domestic economy notwithstanding the short-term negative effects emanating from “Black Tuesday” incidents in Year 2006.

Most employers are involved in wholesale and retail businesses representing 25% of the total followed by 10.3% for education/health/social services sector. The least is 0.3% for the mineral exploration/mining sector which hopefully will be enhanced when Gold Ridge mining come to full operations soon.

Newly Registered employers by Year





Active Employers by Industry sectors by % as at June 2007

Industry Sector	%
Agriculture	6.0
Transport	4.0
Manufacturing	7.0
Financial Institutions	0.4
Public Administration	3.0
Building Construction	5.0
Information Tech/communication	1.5
Education/Health/Social services	10.0
Power/Water	1.0
Other Services	28.0
Hospitality/restaurants	3.5
Logging/Milling	5.3
Mining/exploration	0.3
Wholesale/Retailing	25.0
Total	100.0

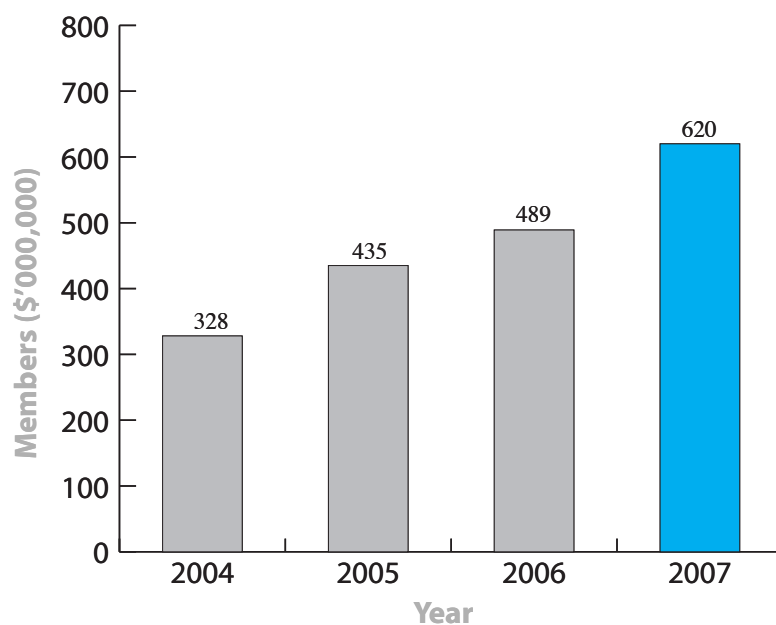
Contributions

Total contributions collected during the financial year reached \$85.8 million or about \$7.1 million collected monthly. In comparison to last year, the contributions increased by \$21.1 million or 25%. The growth is attributed to increase in membership, regularization of SICHE contribution arrears and continuous improved relationship aimed at improving employer responsiveness and overall collection efficiency.

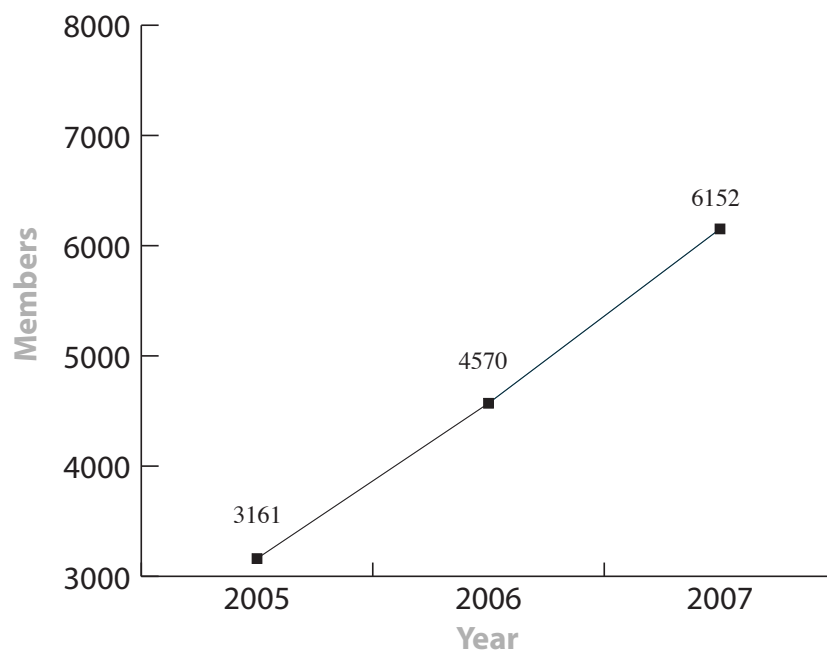
The total accumulated members' contributions surged to about \$618.0 million compared to \$489.0 million in the previous year – an increased of 21%. The total contributions is inclusive of \$80.2 million or 18% interest rate been declared and credited to all members of the Fund this financial year. The members' contributions have experienced continuous upward trend in the recent years until now. This is expected to continue in years ahead if the domestic economy sustains its positive growth and employment creation – presumably this may be achieved through the rural development strategy of the Government and other productive developments.



Growth of Total Members' Contributions:



Newly Registered Membership





Withdrawals

Currently, there are seven (7) withdrawal grounds available for members to withdraw their funds. These include:

- ✦ Ground 1 Attaining retirement at 50 years and above
- ✦ Ground 2 Death of a member
- ✦ Ground 3 Permanent physical & mental incapacity
- ✦ Ground 4 Member permanently leave Solomon Islands
- ✦ Ground 5 Redundancy
- ✦ Ground 6 40 years and permanently retired from employment
- ✦ Ground 7 Other Claims - pledges

Total withdrawals are invested in the local economy by members during the financial year amounted to \$36.6 million compared to \$25.1 million in the previous year – an increase of 31%. The amount withdrawn represents a total of 1,758 withdrawal applications approved. This depicts an increase of 15% compared to the previous year. Retirement at 50 years and above continue to dominate the withdrawal applications which is 58% of the total amount withdrawn.

The Fund has continued to maintain more than adequate liquid funds at all times to facilitate members' withdrawals and pledge claims.

Inspectorate

Enforcement of compliance under the legal provisions of the SINPF Act is an important function of the Fund to ensure what is due to members are fully paid and in timely manner. During the year, \$10.2 million contributions (current and arrears) are collected which represent about 12% of the total contributions directly received by the Fund. These collections materialized during the 1,970 visits made to employers by the inspectors.

The Fund is committed to continuously improve its service delivery to the members. During the period, a self-enquiry "Touch-screen" for members were installed, tested and to be fully operational soon. The new facility should enable members to have direct access to their individual contribution balance by having individual secret code numbers. Furthermore, a new membership card machine was purchased to facilitate the provision of creating new quality membership cards with a member's photograph enclosed. Members will be issued with the new membership card in next financial year thus allowing the existing membership card to be discarded.

Activities executed during inspections are shown below:

Activity Performed	Number	Amount Collected (\$'000)
Collection of Contributions		10,200
Collection of Surcharges		773
Other Receipts Collected		5,900
Unidentified Contribut. Cleared - Form A	86	
Collection of Form "As"	4,357	
Registration of Employers	97	
Registration of Employees	1,376	
Routine/Survey Visits	1,970	
Statement of Witness	30	

Members' Benefits

Interest Earned by Members

At end of the Financial Year, the Board declared a satisfactory annual interest rate of 18% (4% for 2006) and credited to all members' accounts with the Fund. In monetary term, the amount paid to members totaled \$80.2 million compared to \$15.94 million – an increase of 80% over the previous year.

A statutory minimum rate to be credited to members' accounts as stipulated under the SINPF Act is 2.5%.

Return to Members in % and Amount: 2004 – 2007

Financial Year	Amount Credited (\$)	Interest Declared (%)
2004	7,837,950	2.6
2005	8,945,390	2.5
2006	15,948,900	4.0
2007	80,200,000	18.0

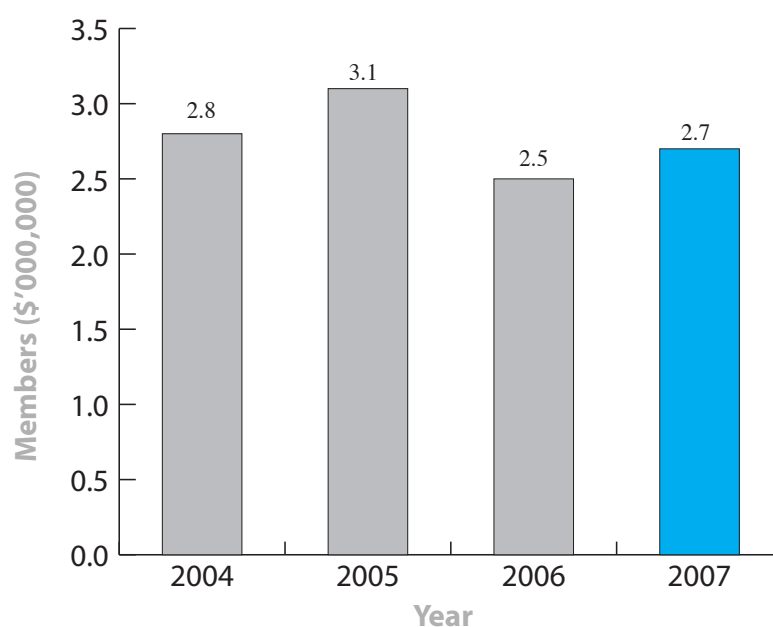


Member's Pledge

Pledges are made in respect of micro-loans borrowed by members from prescribed financial institutions to meet individual needs including: ANZ Bank, Bank South Pacific (formerly NBSI), Westpac Banking Corporation, Solomon Islands Home Finance Ltd, Development Bank of Solomon Islands and SINPF. 2/3 of member's contribution balance is pledged against loans borrowed. This is an important form of assistance rendered by the Fund to its members in securing micro-loans from financial institutions to meet their various individual and family needs.

Total accumulated amount being pledged against micro-loans borrowed by members surged slightly above \$77.0 million compared to \$23.7 million from the previous year – an increase of 69%. This represents total approved pledge applications of 4,240. Majority pledges amount to \$47.9 million been held by Bank South Pacific followed by Westpac Bank holding \$17.4 million. The remaining amount is spread amongst other financial institutions.

Despite the privilege of pledging 2/3 contribution balance to secure micro-loans, default rates remain a challenge. During the period, the Fund paid claims valued \$2.7 million to the financial institutions – a small increase of 7.9% from previous year figure. The claim payments represent 3.5% of the total amount pledged. The bar chart below depicts the financial claims made in the recent past years.





Special Death Benefit

The Board has increased the Death Benefit maximum from \$2,500 to \$3,500 during the period. The special death benefit fund is collected by the Fund from members' annual contributions at \$5.00 per member under Section 9 of SINPF Act.

During the year, a total amount of \$142,000 (\$156,430 for Y2006) was paid to beneficiaries of deceased members. This left the total accumulated special death benefit unused to approximately \$2.6 million – a slight upward movement from previous year figure.

Housing Scheme

During the period, there are 377 members undertook housing mortgage loans under the Urban and Rural Housing Scheme with the Fund which representing only 0.3% of the total membership. The home loans borrowed by members stood at \$29.5 million.

Investment

The principle rationale is to preserve members' wealth with sustainable growth in the long term future. With this objective in mind, the investment strategies employed in commercial opportunities must deliver positive returns without putting members' funds at risk.

The Fund has transformed sizeable impaired investment in the recent past to performing status. Thus the overall investment achieved a record return of \$141.6 million and from that total amount some \$80.2 million were credited to members' contribution accounts while \$37.1 million were transferred to general reserve. The remaining balance is used for financing

the Fund's operational requirements.

The impressive financial results were attributed to:

- ✦ Successful conclusion of sale of Fund's shares in National Bank to Bank South Pacific where capital gains of \$26.4 million and special dividends and capital reduction of \$15.7 million were realized;
- ✦ Dividends payout by Solomon Telekom Ltd to SINPF valued at \$19.5 million;
- ✦ Write-backs of provisions amounting to \$40.6 million as result of full and partial settlements of loans owed by two Provincial



Governments, Solomon Islands Electricity Authority and Development Bank; and

- Improved recovery on rental arrears and bad debts incurred under Members' Urban and Rural Housing Scheme for members.

During the year, the Fund made further investments both domestic and offshore. About \$63 million have been invested in fixed term deposits in domestic financial institutions and rolling over slightly over AUD1.0 million fixed term deposits. Additionally, \$9.5 million in respect of Solomon College of Higher Education unpaid employees' contribution and surcharges been regularized and amortized over five years at an interest rate linked to movement of the 91 days treasury bill WAY with a lower limit of 5%. A further \$10 million were amortized and repayable by Solomon Islands Electricity Authority over five years at 5% per annum. The Fund really acknowledged the Solomon Islands Government for its assistance in this respect.

Pertinent to equity investments, the Fund made its first offshore equity investment in Bank South Bank of \$34.8 million at K4.69 per share on 27 April 2007 thus becoming 12th top shareholder. Further share acquisition is made in a locally incorporated company – South Pacific Oil Ltd where the Fund took up shares valued at \$21.7 million representing 95% of the total shares of the company.

To support the Scheme of Arrangement endorsed by High Court of Solomon Islands, the Fund has purchased WMI's 15% shareholding valued at \$2.5 million. A private Accountant has been appointed as Scheme Manager to managed SMI Ltd (Under Administration). To allow the Scheme to realize its objectives, the Fund provide a \$3 million loan to the Scheme Manager to support payouts to insurance policyholders and company creditors. The loan is being secured by a registered 1st charge over the SMI Ltd commercial property (former G-Club) to become property of the Fund



Bank South Pacific -the former National Bank of Solomon Islands



South Pacific Oil Company Limited



At the end of the Financial Year, the Fund has equity investments in four companies both listed and unlisted namely: Bank South Pacific, Solomon Telekom Limited, South Pacific Oil Limited and Solomon Mutual Insurance Limited (though it is still under Court Appointed Scheme Manager).

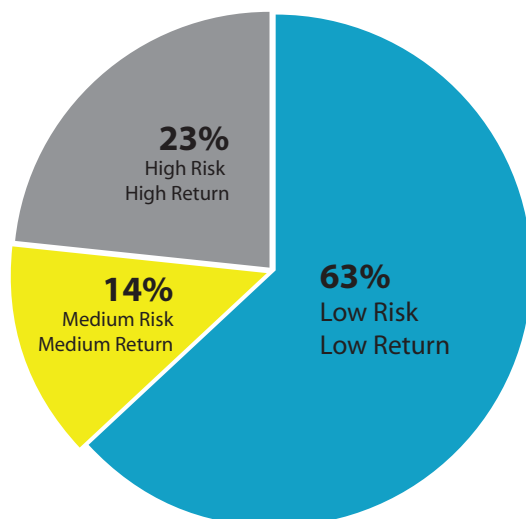
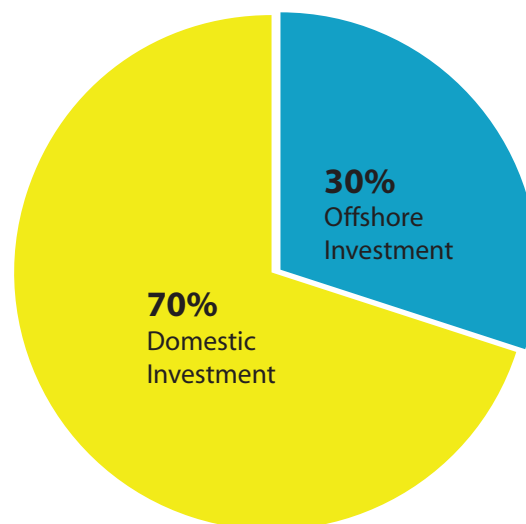
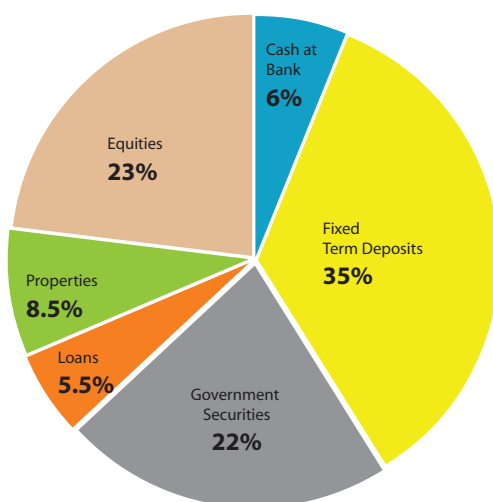
Since the Fund undertook offshore investments, the Fund adopted the "Mark to Market Accounting under IAS39" whereby the market price of investments are valued at that prices prevailing at the end of the reporting period. In this instance, the SINPF revalued its shares in BSP at the end of June 2007 at \$12.98 per share (K5.05 per share) thus resulting in an unrealized share capital gain of \$2.7 million.

On property investments, existing investment amounts to \$54.8 million with 10% returns during the year. Substantial investments are required to enhance these properties' value in order to attract higher rentals in near future. A feasibility assessment on the commercial properties to improve quality standards and returns will be commissioned. The Fund further acquired commercial land at Ranadi Industrial Estate at a cost of \$3.0 million to build commercial/industrial warehouses for lease to local entrepreneurs. The Board further approved an investment of about \$48 million to construct a 24 Unit Executive rental apartment to meet upper market residential segment in Honiara. The construction of these projects should start in FY 2007/08.

Total investment portfolios of the Fund being categorized by asset class and risk groups to protect members' funds and ensure that better returns are realized. A newly approved Investment Policy and Guidelines highlighting a temporary asset allocation model and risk management for both its onshore and offshore investments in the following categories: 34% low risk low return, 33% medium risk medium return and 33% high risk high return. Furthermore, it is approved that 70 percent

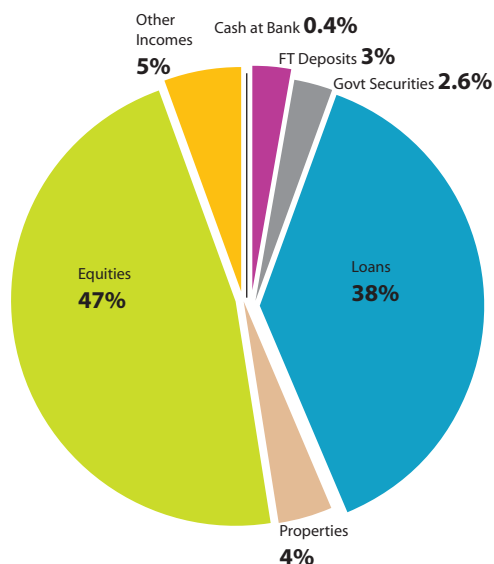
of the total investment assets would be invested domestically and 30 percent offshore.

At the end of the financial year, the low risk low return assets accounted for 63% of the total investment portfolios followed by high-risk high return assets at 23%. The medium risk medium return accounted for 24%. These investment asset allocation scenarios can be depicted in the charts below. However, the Board will pursue prudent investment decisions that will realign the total investment portfolios according to the approved asset allocation and market exposure.

*Investment Assets by Risk**Investment By Market Exposure**Investment By Asset Class*

Total income derived from all investments to the Fund by asset class surged to \$141.6 million. Equity investment portfolio is the major player in generating income which accounted for slightly above \$66.3 million followed by commercial loans amounting to \$53.7 million while about \$21 million are generated by fixed term deposits, Government securities and properties together. This is illustrated in the chart below:

The domestic interest bearing deposit rates offered by commercial banks continued to sustain low rates however, there was slightly improvement to 3% during the year whilst Credit Corporation maintained its rates at 5% per annum. Term deposit in Australian currency secured 6.4% per annum.

Investment Income by Asset Class

Property Management

The commercial and residential property overdue rentals have experienced satisfactory reduction as a result of aggressive recovery strategies pursued since the past two years. Rental arrears as at June 2007 amount to \$1.1 million (\$2 million for 2006) – 46% reduction from last year. About 35% of the arrears represent 54 tenants in past years who could not be located.

There are major and minor maintenance repairs undertaken on the Fund's properties at substantial costs. The external refurbishment of Anthony Saru Building was completed - including the installation of three new air-conditioning units whilst new air-conditioning units are also installed at NPF and Komifera Pako buildings. Five residential houses been repaired and maintained to sustain

an acceptable standard. Further repair works on commercial and residential properties are planned and budgeted in the next Financial Year. The Board is committed to strengthening property management capacity to enhance and maintain the quality standard of the Fund's properties. Thus, it would justify imposing satisfactory competitive rentals to enhance returns from property investments. A feasibility study has been commissioned to provide strategies to facilitate making prudent decisions and how property investments are effectively and efficiently managed in the long-term future.



Fund's Administration

Human Resources

Success of an organization in realizing planned objectives heavily depends on the quality of its human resources available. In this connection, the Fund places emphasis on developing its human resource to acquire the right skills and knowledge to undertake new challenges and responsibilities thus achieving expected target results.

During the period, thirty-three staff pursued academic training either on full or part-time in various learning institutions both overseas and locally. Two staff undertook undergraduate training at the University of South Pacific (USP), Fiji. One graduated with Bachelor in Management at end of Year 2006 and another should graduate in Bachelor in Accounting by end of Year 2007. In terms of Diploma qualification, four staff graduated from SICHE at end of Year 2006. Eight staff continued with full-time Diploma studies in finance and administration at SICHE and seven pursued part-time studies.

Five staff pursued part-time undergraduate degree studies in Accounting and Management and two staff undertook full-time Diploma in Accounting/banking and management at USP Centre, Honiara whilst one undertook part-time Diploma studies. At certificate level, two staff pursuing management and legal studies on part-time basis at USP, Centre.

Pertinent to short-courses, three Managers have attended one-week leadership program held in Honiara.

Manager IT and Assistant Manager IT have attended Information Technology courses in Brisbane to keep abreast with IT developments and changes.

At end of June 2007, the Fund's total staff stood at 99 (98 for 2006). Mr. Lottie Aumana, Manager Information Technology passed away and was dearly missed by the Board, Management, staff and members of the Fund. The vacant position has been advertised and filled.

The training of staff both on long-term and short-term studies/courses is an ongoing commitment by the Fund to realize professionalism and better investment returns to members in future.

Information Technology

The Fund's information communication technology is slowly improving to realize dissemination of "real-time" information internally for decision-making and also to members and customers. In achieving these objectives, some IT infrastructure and systems were installed, configured and enhanced. The enhancement of NPF2000 will now facilitate:

- a) production of member's photo identification card;
- b) establishment of Touch-Screen to facilitate members' enquiries on contribution balances;
- c) availability of employer & employee statements either hard-copy or email;
- d) reduction of human errors on employer & employee journals;
- e) contribution sub-ledger ready for



implementation and so forth.. A number of improvement strategies are still to be completed to fully meet the Fund's requirement in near future.

A new General Ledger software accounting system – MYOB will be installed, configured and immigration of accounting data from Attache' in the near future. The Fund has opted to use MYOB system for its accounting needs.

The IT Sub-committee and Management will soon develop a 5 Year Plan for Information Systems/Application to ensure all business requirements of the Fund are computerized as far possible and, and moreover, all necessary information are expected to be readily available on request. In this respect, the Fund is determined to provide quality, accurate and timely information to its members and customers.

Internal Audit

Internal Audit has undertaken monthly audit reviews and inspections to identify any weaknesses that might emerge within operations of the Fund and moreover, to ensure strict compliance to the applicable legislations, policies and procedures and principles of Good Governance. During the year, a number of reviews were undertaken on the Fund's records and internal control procedures at NPF Head Office and two Provincial Branches – Auki and Gizo. Furthermore, Internal Audit has been mandated to supervise and monitor implementation of recommendations contained in CBSI supervisory report and external auditors' management letters in resolving issues raised. These issues raised have been in the majority successfully addressed thus positively contributed to further enhancement of the operations of the Fund. One outstanding issue that needs addressing is the Information Technology systems and this being addressed and will continue in next financial year.

Legal Services

The Internal and External Legal Counsels continued to play a vital role in the provision of legal services to the Board and Management to ensure effectiveness and efficiency operations of the Fund. During the year, there are about eighty-nine urban housing loans in default (three months and above in arrears) and legal actions at different stages are being pursued to ensure debt recovery is practically realized. Furthermore, there are seventeen former tenants who rented SINPF properties with unpaid rental arrears being legally pursued for possible recovery. The Fund has undertaken legal strategies with some success to demonstrate its committed to recovery of any debts rightly owing to it.

General provision of legal advice and activities continued to be rendered to the Board and Management of the Fund. The services rendered including; contribution and surcharge fee arrears, member's withdrawal, preparation and registration of rental lease documents, vetting legal documents, monitoring outsourced legal cases and other general legal advice as and when requested.



Statement by Directors

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

In the opinion of the directors:

- (a) the statement of assets and liabilities is drawn up so as to present fairly the state of affairs of the Fund as at 30 June 2007,
- (b) the statement of income and expenditure is drawn up so as to present fairly the profit of the Fund for the period ended 30 June 2007,
- (c) the statement of contributions is drawn up so as to present fairly the state of members' contributions held by the Fund for the period ended 30 June 2007; and
- (d) the financial statements have been made out in accordance with the provisions of the Solomon Islands National Provident Act 1973 as amended, and applicable Accounting Standards in the Solomon Islands.

Adrian E Wickham
Chairman of the Board

Luma Darcy
Director

Tony Makabo
General Manager (CEO)

Auditor's Report



REPORT OF THE AUDITOR-GENERAL

To: Honourable Gordon Darcy Lilo, MP
Minister for Finance and Treasury
Department of Finance and Treasury

Scope

The accompanying financial statements of the Solomon Islands National Provident Fund (herein also referred to as the "Fund") for the financial year ending 30th June 2007 have been audited under my direction pursuant to section 47(2) (b) of the Public Finance and Audit Act [Cap. 120]. The Fund's directors are responsible for the preparation and presentation of the financial report and the information they contain. The independent audit of these financial statements has been conducted in order to express an opinion on them.

The audit has been conducted in accordance with the International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free of material misstatement. The procedures included examination, on test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to for an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with the applicable Accounting Standards and the statutory requirements in the Solomon Islands so as to present a view which is consistent with my understanding of the Fund's financial position, the results of its operations and its sources and application of funds.

The audit opinion expressed in this report has been formed on the above basis.

Basis for Qualified Audit Opinion

Signed financial statements were prepared and audited by 3rd October 2007. Under section 9(3) of the Financial Institutions Act 1998, the Fund is required to submit to the Central Bank within three months after the close of its financial year a copy of its audited annual balance sheet and profit and loss statement together with any notes thereon and a copy of the report of the external auditor made pursuant to section 9(2) of the Act. The date of this report is not within the stipulated time required under the Act.

As a consequence, the audited financial statements were not provided to the Bank within three months after the end of the 2007 financial year as required under section 9(3) of the Financial Institutions Act 1998.

Qualified Audit Opinion

In my opinion, except for the matter described in the preceding paragraph, the accompanying financial statements are in agreement with the books of account kept by the Fund and are properly drawn up so as to give a true and fair view of the Fund's state of affairs as of 30th June 2007 and of its profit for the financial year ended on that date, and are in accordance with the applicable accounting standards in the Solomon Islands and the provisions of the Solomon Islands National Provident Act [Cap. 109].

Emphasis of Matters

Without qualifying my opinion, I draw your attention to Note 9 to the financial statements. The operations of the Fund and those similar enterprises operating in the Solomon Islands have been affected and may continue to be affected for a foreseeable future by the continuing social and economic uncertainties existing for enterprises operating in the Solomon Islands. The majority of the fund's assets are exposed to these uncertainties. I also draw your attention to Note 10 to the financial statements regarding the contingent liability of the Fund should the members take legal action to recover the interest not credited to the member's contribution.



Floyd Augustine Fatai
Auditor-General

Office of the Auditor-General
P O box G18
Honiara
Solomon Islands

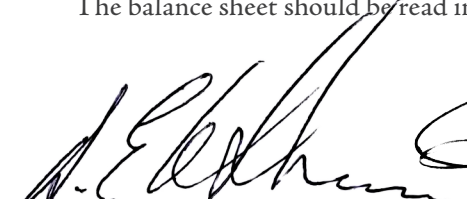
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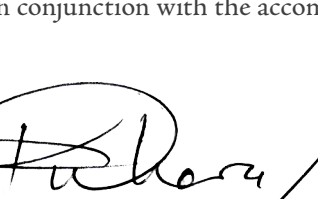
Statement of Assets and Liabilities

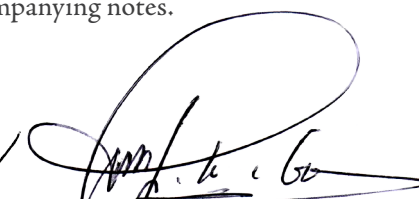
as at 30 June 2007

	Notes	June 2007 (\$)	June 2006 (\$)
Reserves			
Revaluation Reserve	2	21,135,293	21,135,293
General Reserve	2	35,426,500	(1,843,387)
Total Reserves		56,561,793	19,291,906
Represented by:			
Current Assets			
Cash		41,339,902	9,238,555
Receivables	3	23,436,425	10,504,961
Investments	4	236,037,288	175,446,172
		300,813,615	195,189,688
Non-current Assets			
Investments	5(a)	353,157,379	298,312,873
Property, plant and equipment	6	26,233,366	20,245,115
		379,390,745	318,557,988
Total Assets		680,204,360	513,747,676
Current Liabilities			
Creditors		360,082	449,374
Accruals and Provisions	7	3,021,055	2,674,624
		3,381,137	3,123,998
Non-current Liabilities			
Special Death Benefits	1(b)	2,563,620	2,556,648
Members Contributions		617,697,810	488,775,124
		620,261,430	491,331,772
Total Liabilities		623,642,567	494,455,770
Net Assets		56,561,793	19,291,906

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


 Adrian E Wickham
 Chairman of the Board


 Luma Darcy
 Director


 Tony Makabo
 General Manager / CEO



Statement of Income and Expenditure

for the period ended 30 June 2007

	June 2007 (\$)	June 2006 (\$)
Investment Income		
Interests	25,136,580	15,664,729
Dividends	36,512,916	7,655,504
Rentals	5,519,931	5,742,117
	67,169,427	29,062,350
Other Income		
Surcharges	7,474,382	1,997,259
Sundry	40,633,872	10,235,506
Gain On Equity	26,353,374	-
Profit On Sale Of Assets	-	4,488,308
	74,461,628	16,721,073
Total Income	141,631,055	45,783,423
Less: Operating Expenditure		
Normal Operating Expenses	22,317,259	19,304,370
Members Expenses	763,092	291,932
Doubtful Debts	1,208,226	2,497,442
Total Expenditure	24,288,577	22,093,744
Gross Surplus/(Deficit)	117,342,478	23,689,679
Less: Appropriation		
Interests Credited To Members	80,197,022	15,940,782
Net Surplus/(Deficit)	37,145,456	7,748,897

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

Statement of Contributions

as at 30 June 2007

	Notes	June 2007 (\$)	June 2006 (\$)
Opening Balance At 1 July		488,775,124	434,679,178
Opening Balance Adjustment		(164,406)	(72)
Adjusted Opening Balance At 1 July		488,610,718	434,679,106
Add: Contributions Received During The Year		85,788,625	64,569,383
Interests On Members Accounts	1(c)	80,197,022	15,940,782
		654,596,365	515,189,271
Less: Contribution Withdrawals		36,593,124	25,075,211
Transfer To Sdb Reserves	1(b)	418,967	301,764
Transfer To General Reserves	2(b)	124,431	-
		37,136,522	25,376,975
		617,459,843	489,812,296
Less: Prior Year Difference And Others		237,967	1,037,172
Balance At 30 June		617,697,810	488,775,124
Represented By:			
Identified		589,116,072	458,586,715
Unidentified		4,175,735	5,563,965
Contribution Creditors	1(a)	24,406,003	24,624,444
		617,697,810	488,775,124

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



Statement of Cash Flows

for the period ended 30 June 2007

	Notes	June 2007 (\$)	June 2006 (\$)
Cash Flows from Operating Activities			
Receipts from investments and customers		92,067,196	44,403,198
Payments to suppliers and employees		(18,512,616)	(17,668,550)
Interest and benefits paid to members		(763,092)	(291,932)
Net Cash Flows from Operating Activities	(B)	72,791,488	26,442,716
Cash Flows from Investing Activities			
Acquisition of Property, Plant and Equipment		(7,596,544)	(1,666,440)
Investment in loan portfolios & members etc		(81,950,664)	(62,909,781)
Proceeds from sale of Property, Plant and Equipment		-	135,200
Net Cash Flows Provided By/ (Used In) Investing Activities		(89,547,208)	(64,441,021)
Cash Flows From Financing Activities			
Increase/(Decrease) in contribution balance		49,269,062	38,456,928
Payment of Special Death Benefits		(411,995)	(156,431)
Net Cash Flows Provided By Financing Activities		48,857,067	38,300,497
Net Increase/(Decrease) In Cash Held		32,101,347	302,192
Add opening cash brought forward		9,238,555	8,936,363
Closing Cash Carried Forward	(A)	41,339,902	9,238,555
(a) Reconciliation of cash			
Cash balance comprises:			
- Cash at bank		41,339,902	9,238,535
- Cash on hand		1,020	1,020
Closing cash balance		41,339,902	9,238,555

	Notes	June 2007 (\$)	June 2006(\$)
(b) Reconciliation of the operating Surplus/(Loss) after Interests to the net cash flows from operations:			
Net Surplus/(Loss) after Interests to Members		37,145,456	7,748,856
Add: Non-cash Expenditures			
Depreciation of Fixed Assets		3,324,292	3,724,299
Annual Interests to Members		80,197,022	15,940,782
Bad and Doubtful Debts		1,431,436	2,497,441
Increase/(Decrease) in Accounts Payable		257,141	(2,153,311)
Write-off		-	1,622,182
		85,209,891	21,631,393
Less: Non-cash Income			
Net Exchange gains		4,816,696	-
Net (Loss)/Gain on Disposal of Fixed Assets		-	(4,488,308)
(Increase)/Decrease in Account Receivable		18,393,789	1,550,775
Capital gains		26,353,374	-
Net Surplus/(Loss) from Operation		72,791,488	26,442,716



Notes to and forming part of the financial statements

for the period ended 30 June 2007

Note 1: Summary of Significant Accounting Policies

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

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

Benefits from the Fund are paid to members on attaining the age of 50 years, on death, are physically or mentally incapacitated from further employment, permanent emigration or attaining the age of 40 years and have permanently retired. In general the benefits paid to members is equal to their accumulated contributions plus interest allocated to them annually by the Board (refer note 1 (C) 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.

The accounts of the Fund have been drawn up in accordance with the requirements of the Applicable Accounting Standards in the Solomon Islands. They have been prepared on the basis of historical cost and do not take into account changing money values or, except where stated current valuation of assets. Except where stated, the accounting policies have been consistently applied.

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

**(a) Members Contribution Account**

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

(b) Special Death Benefit (SDB)

As provided for in the Act an amount is deducted from each member's account at 30 June each year in respect of Special Death Benefit to be paid to the beneficiaries of the member after the death of a member. The maximum sum payable on SDB for the period ending 30th June 2007 was \$3,500.

(c) Interest on Members Account

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

(d) Fixed Assets and Depreciation

- ✦ Fixed assets have been stated at cost or at valuation less depreciation.
- ✦ Leasehold lands are amortized over the period of the lease.
- ✦ Buildings are depreciated on a straight line basis so as to write off their cost over the period of the lease of the land on which they are situated.
- ✦ Other assets are depreciated at rates considered adequate to extinguish the book value of each asset over its estimated useful life.

(e) Income Tax

By virtue of Section 38A of the Solomon Islands National Provident Fund Act 1973 as amended, the incomes of the Fund are exempted from income tax.

(f) Provision for Doubtful Loans and Investments

Except where a specific provision is established all bad loans are written off against profit and loss account in the period in which they are recognized. A provision for doubtful loans which is determined by many factors including value of security held, credit assessment of borrowers, current economic conditions and past loss experience is maintained against specific doubtful loans. Increases or decreases on the provision are charged against the profit and loss.

(g) Investments

Investments are valued at cost and no allowance has been made where market values are higher than cost.



Notes to and forming part of the financial statements

for the period ended 30 JUNE 2007

Note 2: Reserves and Operating Financial Performance

The following is a summary of the reserves held:

• Revaluation Reserve

On 30 September 2003 the directors revalued certain land and buildings.

The increase in valuation arising was credited to the revaluation reserve and therefore does not effect members' account balances.

• General Reserve

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

The following items are credited to the reserve each year:

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

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

	June 2007 (\$)	June 2006 (\$)
(a) Revaluation Reserve		
Opening Balance	21,135,293	21,135,293
Add: Revaluation during the year	-	-
Balance at 30 June	21,135,293	21,135,293
(b) General Reserve		
Opening Balance	(1,843,387)	(9,592,284)
Transfers - Unclaimed Contributions	124,431	-
Profit/Loss for the year	37,145,456	7,748,897
Balance at 30 June	35,426,500	(1,843,387)
TOTAL RESERVES	56,561,793	19,291,906



Note 3: Current Assets - Receivables

	June 2007 (\$)	June 2006 (\$)
Interests	1,436,791	962,593
Rentals	1,030,050	2,261,049
Dividends	18,393,789	7,655,504
Surcharges	6,036,316	5,423,337
Others	2,687,990	127,778
	29,584,936	16,430,261
Less: Provision for Doubtful Debts	6,148,511	5,925,300
	23,436,425	10,504,961

The provisions of \$6,148,511 is provided against arrears on interests, surcharges and rents that were valued at \$ 8.7 million as at 30th June 2007. This is provided based on general provisioning calculated at 20%, 50% and 100% according to aging of the debts in line with the prudential guidelines of the Financial Institutions Act.

Note 4: Current Assets - Investments

	June 2007 (\$)	June 2006 (\$)
Term Deposits	232,346,044	169,287,407
Less: Provisions	1,098,664	1,129,385
	231,247,380	168,158,022
Loans Current Portion Due Within 12 months		
Quasi Government	377,572	534,323
Provincial Government	-	1,958,926
Members' Schemes	3,704,923	4,228,055
Staff Schemes	707,413	566,846
	4,789,908	7,288,150
Total Current Assets	236,037,288	175,446,172



Note 5 (a) Non-current Assets - Investments

	Note	June 2007 (\$)	June 2006 (\$)
Rental Land and Buildings - at cost		-	-
At Directors Valuation - 2003		34,585,000	34,585,000
		34,585,000	34,585,000
Less: Accumulated Depreciation		5,174,500	3,458,500
Net Book Value		29,410,500	31,126,500
Shares		153,113,767	101,365,662
Less: Provisions		937,500	937,500
		152,176,267	100,428,162
Government Securities	5(b)	145,236,893	132,719,898
		297,413,160	233,148,060
Loans:			
Quasi Government		5,840,526	26,250,791
Provincial Governments		-	16,172,301
Members' Schemes		22,485,396	27,812,767
Staff Schemes		2,561,708	2,928,313
		30,887,630	73,164,172
Less: Provision for Doubtful Debts		4,553,911	39,125,859
		26,333,719	34,038,313
Total Non-Current Assets - Investments		353,157,379	298,312,873

Note 5:(b) Amount due by SI Government

I) Investment in Treasury Bills Securities

These comprised of short-term investments in the local securities market. The securities market is regulated and operated by the Central Bank on behalf of the SI Government. Treasury bills are restricted to a maximum of 90 days.

II) Investment in Amortized Restructured Bonds.

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

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

- \$1.9 million was paid upfront as principal reduction, and



- * The remaining principal of \$53.6 million was rescheduled into four new amortized bonds at 2.0% to 2.5% interest rates repayable over 7 to 14 years period as shown below.

Principal	Term	Maturity Date	Rate	Period Instalment	Balance 30/06/07
5,550,000	7 yrs	15/07/11	2.0%	70,859.26	3,320,121
11,100,000	10 yrs	15/07/14	2.0%	102,134.93	8,064,424
11,100,000	13 yrs	15/07/17	2.0%	80,863.17	8,829,001
25,850,000	14 yrs	15/12/18	2.5%	53,854.17	25,419,776
53,600,000				307,711.53	45,633,322

Nb: after 7 years monthly repayment on 14 years bond will increase to \$248,720.63 until debt is fully repaid.

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

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



III) Investment in Amortized Treasury and Development Bonds.

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

Principal	Term	Rate	Instalment	Maturity Date	Balance 30/06/07
7,414,528.13	7 yrs	2.0%	94,664.51	15/11/11	4,802,095
14,829,056.25	10 yrs	2.0%	136,447.27	15/11/14	11,286,337
14,829,056.25	13 yrs	2.0%	108,029.24	15/11/17	12,190,303
37,072,640.63	15 yrs	2.5%	77,234.07	15/11/19	36,795,378
74,145,281.26			416,375.09		65,074,113

Nb: After 7 years monthly repayment on 15 years bond will increase to \$426,477.85 until debt is fully repaid.

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

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

(IV) Settlement of Soltai Debt

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

Under the Deed \$10.0 million was amortised over 10 years at the interest rate equivalent to 90(91) day Treasury Bill weighted average yield. At the time the Deed was signed that rate was 5.02%. The sum of \$10.0 million is repayable over a 10 year period commencing on 1 April 2006 at \$106,163 per month. The remaining \$6.3 million from the original total published debt of \$16.3 million was settled up front in a lump sum payment at the signing of the Deed.

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



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

(V) Settlement of Solomon Islands College of High Education (SICHE) Contributions and Surcharge Debts

This debt relates to SICHE's contributions and surcharge arrears owing to the Fund for the period from July 1999 to December 2003. SICHE was not able to pay its debts to the Fund due to financial difficulties. It relied heavily on the Government to assist in the settlement of these debts. The aggregate arrears was a total sum of \$9,522,946.17 comprising of:

Contributions - \$3,494,628.04, and
 Surcharges - \$6,028,318.13.

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

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

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

So far the Government has not defaulted on the repayments and because of that the directors are of the view that the debt is recoverable and is fairly stated in the accounts

(VI) Solomon Islands Electricity Authority (SIEA) Deed of Settlement

SIEA was not able to service its loan repayments to the Fund for a considerable period due to financial difficulties. Most of these loans were supported and guaranteed by the Government.

On 24th April 2002 SINPF obtained a Court Judgement in its favour on this debt against SIG and SIEA for an aggregate sum of \$16,323,058.51. Despite the Judgement the loans continue to be in default and on 30 April 2007 the total debt has increased to \$28,535,864.33. Eventually, by the Deed dated 23 May 2007 an agreement was reached to settle this debt.

As agreed in the Deed SI Government paid an upfront sum of \$18,535,864.33 as full satisfactory settlement towards its guarantees.



The remaining balance of \$10 million was converted into a Bond, repayable monthly over a five year period at the interest rate of 5% pa. Under the Deed SIEA is responsible for repaying the Bond, and that current arrangements relating to electricity bills off-sets and the garnishee on Soltai Fishing & Processing Limited's electricity bills continue to apply.

Note 5:(c) Settlement of Provincial Government Loans

These represent loans granted to Western and Malaita provinces for infrastructure development and shipping services at various times in the past. Most of these loans were scheduled for 20 years period at 14% interest rate, and were secured by specific assets that were mortgaged, and were guaranteed by the Government.

Initially, the loans were adequately serviced and were paid on time as and when they were due. However, in 1998 the country went into economic recession and the loans started to fall in arrears. The problem was deepened by the ethnic tension that took place in 1999, and was made worse by the coup that followed in May 2000. Because of that the loans remained defaulted since 1998 and continued to be impaired up to 2006.

In December 2006 the Government intervened and came to the assistance of the provinces by settling the debts in full on 22nd December 2006 through a one off direct payment of \$23.87 million. As such, provincial government loans were fully settled in this financial year.

Note 5:(d) Shares in South Pacific Oil Limited

In this financial year the Fund and a private firm, GRP Limited acquired the Shell Company (Pacific Islands) Limited and incorporated a company South Pacific Oil Limited (SPOL). The Fund owns 95% and GRP Limited 5% of the share in SPOL. GRP Limited is in charge of managing the business and the technical affairs of the company.

The shareholders agreement provides for GRP Limited to increase its share proportion in due course, but such variation in the share structure of SPOL is sanctioned and can only take place after 5 years, and that GRP is allowed to increase its shares to the maximum of 25%. This is done to protect the interest of the Fund as a substantive contributor of initial capital, and to ensure that SINPF retains majority control over the company.

At the close of business on 30 June 2007 the Fund has so far invested \$21.69 million in SPOL representing issued and paid up capital of 21,694,818 shares at \$1 per share.

**Note 5:(e) Transfer of NBSI Shares to BSP Limited**

On 15 April 2007 Bank of South Pacific (BSP) acquired control of the National Bank of Solomon Islands (NBSI). Following that, SINPF was offered to invest the proceeds from the sale of NBSI to BSP.

Having considered and satisfied itself with the assessments, including the risks and opportunities, the Board saw that there's strong potential in BSP and decided to invest in the Bank. As such, the Fund invested \$38.55 million from the sale of its shares in NBSI to BSP. That represents 2,944,555 share at K4.695 per share. BSP is a listed company in the Port Moresby Stock Exchange and according to share holdings at that time, SINPF is amongst the top 20 major shareholders in the Bank.



Note 6: Non-current Assets - Property, Plant And Equipment

	June 2007 (\$)	June 2006 (\$)
Commercial Land and Buildings - at cost	33,390	40,615
At Directors Valuation - 2003	8,055,000	8,055,000
	8,088,390	8,095,615
Less: Accumulated Depreciation	1,157,617	753,198
Net Book Value	6,930,773	7,342,417
Residential Buildings - at cost	229,298	228,998
At Directors Valuation - 2003	8,230,000	8,230,000
	8,459,298	8,458,998
Less: Accumulated Depreciation	1,268,865	845,900
Net Book Value	7,190,433	7,613,098
Machinery and Equipments - at cost	4,547,975	4,122,510
Less: Accumulated Depreciation	3,843,394	3,663,108
Net Book Value	704,581	459,402
Furniture and Fittings - at cost	969,883	844,404
Less: Accumulated Depreciation	836,042	782,095
Net Book Value	133,841	62,309
Motor Vehicle - at cost	2,011,020	1,684,958
Less: Accumulated Depreciation	1,247,134	897,192
Net Book Value	763,886	787,766
Computer - at cost	8,003,342	3,594,326
Less: Accumulated Depreciation	3,437,684	3,240,951
Net Book Value	4,565,658	353,375
Work-in-Progress	5,944,194	3,626,747
Total Property, plant and equipment:		
At cost	21,739,102	14,142,559
At valuation	16,285,000	16,285,000
	38,024,102	30,427,559
Less: Total Accumulated Depreciation	11,790,736	10,182,444
Total Net Book Value	26,233,366	20,245,115
Work-in-Progress comprises the following:		
General Ledger Project	30,835	3,622,443
Rental Land and Building	5,913,359	4,304
	5,944,194	3,626,747

The Directors' valuation was based on management's assessment of current market values of the assets in accordance with their expected useful economic life. The valuation was performed by an independent valuer at 30 September 2003.



Note 7: Current Liabilities - Accruals & Provisions

	June 2007 (\$)	June 2006 (\$)
Nominees Trust Account	1,732,482	1,639,095
Rental Bond	318,643	262,168
Accruals	969,930	773,360
	3,021,055	2,674,623

Note 8: Auditors Remuneration

Fees totaling \$156,750 was provided in the accounts for audit services this year (\$142,500 last year). No other benefits were received by the auditors during the year other than fees paid for normal accountancy services.

Note 9: 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 concerted attention, and the co-operation of the Central Bank, the opportunities for improved financial performance for the benefit of members can be realized.

Note 10: Contingent Liability

Following the Deed signed on 2nd December 2004, as per Note 5(b)(iii) between Solomon Islands National Provident Fund and Solomon Islands Government, SINPF have credited the members with the contributions of \$35.4 million during 2005.

Due to the nonpayment of the contributions the members were not credited interest on these contributions for the years ended 1999 to 2004. Concerns have been raised that members may take legal action to recover the interest not credited. If SINPF as Trustees is required to credit the interest for these members, then the interest would have to be paid out of General Reserves. It is not possible to quantify the amount of interest payable.



YOUR NOTES

