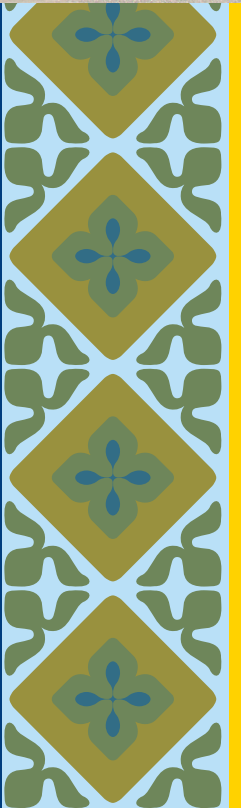


SOLOMON ISLANDS NATIONAL PROVIDENT FUND  
ANNUAL REPORT 2008



**HEAD OFFICE AND  
REGISTERED OFFICE**

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**AUDITORS**

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
AS AT 30 JUNE 2008 Cont...**

**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 polices 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.

**NOTE 19: CONTINGENT LIABILITY**

Following the Deed signed on 2<sup>nd</sup> 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 non-payment 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.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
AS AT 30 JUNE 2008 Cont...

NOTE 6: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Notes	June 2008 \$	June 2007 \$
		41,892,867	38,024,102
Less: Total Accumulated Depreciation		14,002,408	11,790,736
Total Net Book Value		27,890,459	26,233,366
Work-in-Progress comprises the following:			
General Ledger Project		72,630	30,835
Rental Land and Building		7,619,136	5,913,359
Computer project		292,967	-
		7,984,733	5,944,194

The Director’s 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

	Notes	June 2008 \$	June 2007 \$
Nominees Trust Account		1,975,288	1,732,482
Rental Bond		514,145	318,643
Accruals		1,198,651	969,930
Provisions for Interest Overpaid		2,500,000	-
Provisions for Members overdrawn Account		500,000	-
		6,688,084	3,021,055

NOTE 8: AUDITORS REMUNERATION

Fees totalling \$184,400 was provided in the accounts for audit services this year (\$156,750 last year). No other benefits were received by the auditors during the year other than fees paid for normal accountancy services.

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


Dear Sir,

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND ANNUAL REPORT 2008**

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 2008 which incorporates the Statement of Assets and Liabilities, Statement of Accounts and major development events and activities of the Fund during the financial period.

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

Yours faithfully,  
**Solomon Islands National Provident Fund**

  
**Mr. Austin Holmes**  
Chairman  
Board of Trustees

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
AS AT 30 JUNE 2008 Cont...**

**NOTE 6: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT**

	Notes	June 2008 \$	June 2007 \$
Commercial Land and Buildings – at cost	33,390	33,390	
At Directors Valuation – 2003	8,055,000	8,055,000	
	8,088,390	8,088,390	
Less: Accumulated Depreciation	1,562,037	1,157,617	
Net Book Value	6,526,353	6,930,773	
Residential Buildings – at cost	102,298	229,298	
At Directors Valuation – 2003	8,230,000	8,230,000	
	8,339,298	8,459,298	
Less: Accumulated Depreciation	1,667,830	1,268,865	
Net Book Value	6,671,468	7,190,433	
Machinery and Equipments – at cost	5,554,136	4,547,975	
Less: Accumulated Depreciation	4,231,607	3,843,394	
Net Book Value	1,322,529	704,581	
Furniture and Fittings – at cost	1,196,297	969,883	
Less: Accumulated Depreciation	909,874	836,042	
Net Book Value	286,423	133,841	
Motor Vehicle – at cost	2,086,419	2,011,020	
Less: Accumulated Depreciation	942,691	1,247,134	
Net Book Value	1,143,728	763,886	
Computer – at cost	8,643,594	8,003,342	
Less: Accumulated Depreciation	4,688,369	3,437,684	
Net Book Value	3,955,226	4,565,658	
Work-in-Progress	7,984,733	5,944,194	
Total Property, plant and equipment:			
At cost	25,607,867	21,739,102	
At valuation	16,285,000	16,285,000	



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
AS AT 30 JUNE 2008 Cont...

NOTE 5: (b) AMOUNT DUE BY SI GOVERNMENT (Cont'd)

(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 arrangement relating to electricity bills off-sets and the garnishee on Soltai Fishing & Processing Limited's electricity bills continue to apply.

NOTE 5: (c) SHARES

(i) SHARES IN SOUTH PACIFIC OIL LIMITED

In this financial year, the Fund fully paid up its allotted 40,000,000 shares at \$1 per share. At the end of the period this represented 90% of the company's shareholding.

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

GRP Limited also under the Shareholders Heads of Agreement is tasked to manage the business and the technical affairs of the company in the 1st four (4) years of the company's operations.

(ii) SHARES OR UNITS IN OFFSHORE MANAGED FUNDS

During the year as part of its offshore equity investments strategy, the Fund invested in three (3) 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 track performance, low fee structures, and the magnitude of investment assets under their management to be no less than US \$ billion.

UBS Australian Share Fund invest in the top one hundred (100) stocks in the Australian Share Market, the Vanguard US Stock Index Fund in 500 stocks in the US S & P equity market, and the Vanguard European Stock Index Fund, 600 stocks in the European Stock markets.

OUR VISION

Sustaining growth of members' wealth and protecting contribution value over longer period thus providing better living standards during working life and in retirement.

OUR MISSION

- Professionalism and Commitment to apply world's best practices in delivery of higher results and reliable services to members;
- Stabilize and sustaining of members' financial wealth and growth;
- Support, promote and pursue innovative investment approaches in realizing financial benefits and delivery of Social Security Benefits to members;
- Partake in economic and social developments as a responsible financial institution;
- Make prudent investment decisions, sound management and responsible for our actions undertaken;
- Commitment to human resource capacity building to utilize their potential to maximize their services to the Fund;
- Exercising Good Governance and Employment Practices; and
- Pursue and embrace cohesive teamwork culture that creates collective decision-making, greater job satisfaction and achievements.

CORE OBJECTIVES

Members can have confident and trust in the integrity of SINPF hence these ten principles:

- Providing quality and professional services to higher standards promptly in cohesive and transparent manner to realize positive outcomes;
- Sustain and exercise integrity that encompasses fairness, honesty and respect for others in whatever we do for the Fund and its members;
- Committed to sound management practices and prudential investment policies of funds we are entrusted with;
- Committed to high level of accountability and responsibility to enhance and sustain sound financial growth and benefits to members;
- Fulfill growth of wealth and provision of social security benefits to members;
- Partake in desired economic and social developments as good corporate citizen for the benefit of Solomon Islands and its citizens;
- Committed to enhancing employees capacities to meet their potentials and search for best practice in meeting future challenges and opportunities;
- Perform the business affairs of the Fund on ethical principles with respect to individual work inputs supported by teamwork culture with commitment;
- Establish workable partnership with Governments, Unions and stakeholders to facilitate feasible growth opportunities within the policy framework;
- Search to improve operational abilities in developing effective systems, processes and procedures to facilitate prudent decision-makings.





Board of Trustees in session

## THE HIGHLIGHTS

- Total accumulated Members' contribution balances reached a record level of \$783.2 million from \$617.7 million in Financial Year ending 30 June 2007;
- Members' contributions received during the financial year increased to \$104 million compared to \$85.8 million in the last financial year – an increase by 17.5%;
- Annual New Membership of employees increased to 6,616 from 6,152 in FY2007 reflecting a moderate increase of 7%;
- Total amount withdrawn by members reached \$41.2 million compared to \$36.6 million in the last Financial Year – an increase by about 11%;
- Total investment portfolio surged to record level of \$822 million compared to \$662 million in the last financial year and average rate of return achieved was 20%;
- Income returns from equity investment had surged to \$69.6 million from \$26.3 million in the last financial year figure – an increase of 62.2%;
- Record amount credited to Members settled at \$102 million compared to \$80.2 million in FY2007 – an increased by 21.5% leading to 18% interest rate declared to financial members of the Fund;
- Total assets increased by about 20% from \$680.2 million in FY2007 to \$860.5 million;
- SINPF invested \$150 million (SBD) offshore in various approved investment asset classes, markets and foreign currencies;

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008 Cont...

### NOTE 5:(b) AMOUNT DUE BY SI GOVERNMENT (Cont'd)

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) SIG – SOLTAI AMORTISING BOND

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

Under the Deed \$10.0 million was amortised over 10 years at the interest rate equivalent to 90(91) day Treasury Bill weighted average yield. At the time the Deed was signed that rate was 5.02%. The sum of \$10.0 million is repayable over a 10 year period commencing on 1 April 2006 at \$106,163 per month. The remaining \$6.3 million 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 INPF 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 executive 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 1<sup>st</sup> April each year according to the Treasury Bills rate referred to above based on the last publisher Treasury Bill Auction results published prior to 1<sup>st</sup> April each year plus 1.5 % but shall not exceed 7%.

#### (v) SIG – SICHE AMORTISING BOND

This debt relates to SICHE's contributions and surcharge arrears owing to the Fund for 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	-	43,494,628.04	and
Surcharges	-	\$6,028,318.13	

On 21<sup>st</sup> 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 9<sup>th</sup> November each year according to the Treasury Bills rate referred to above based on the last published Treasury Bill Auction result published prior to 9<sup>th</sup> November each year plus 2% but shall not be less than 5% and more than 7%.

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



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
AS AT 30 JUNE 2008 Cont...

NOTE 5:(b) AMOUNT DUE BY SI GOVERNMENT (Cont'd)

(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 up-front 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 Installment	Balance 30/06/08
5,550,000	7 yrs	15/07/11	2.0%	72,728.61	2,535,663
11,100,000	10 yrs	15/07/14	2.0%	106,320.97	7,014,912
11,100,000	13 yrs	15/07/17	2.0%	85,343.37	8,057,934
25,850,000	14 yrs	15/12/18	2.5%	75,395.83	25,400,680
53,600,000				339,788.78	43,009,189

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 provide 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 2<sup>nd</sup> December 2004 between SI Government and SINPF. The debts were rescheduled over 7 to 15 years as shown below.

Principal	Term	Maturity Date	Rate	Period Installment	Balance 30/06/08
7,415,528.13	7 yrs	2.0%	15/07/11	94,664.51	3,751,528
14,829,056.25	10 yrs	2.0%	15/07/14	136,447.27	9,860,051
14,829,056.25	13 yrs	2.0%	15/07/17	108,029.24	11,126,672
37,072,640.63	15 yrs	2.0%	15/12/18	77,234.07	36,786,148
74,145,281.26				416,375.09	61,524,399

CORPORATE GOVERNANCE

Board of Trustees

The Board of Trustees of SINPF is charged with fiduciary responsibility and obligations to achieve good outcomes i.e. sustainable growth, higher returns and protect contribution value for members' retirement through prudent investment 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) based on their respective experiences and knowledge relevant to the overall functions and objectives of the Fund. Moreover, it must meet the "fit and proper person" criteria that encompass the relevant knowledge and experiences that are allied to the overall objectives and operations of the Fund.

The roles and responsibilities of the Board of Trustees are defined in Solomon Islands National Provident Fund Act which subscribes the matters reserved for the Board and matters that have been delegated to management. The Board, with the support of its Committees, is responsible to the members for the overall performance of the Fund including its strategic policy direction; establishing goals for management; and monitoring the achievement of those goals with the view to optimizing the Fund's performance and members' contribution value.

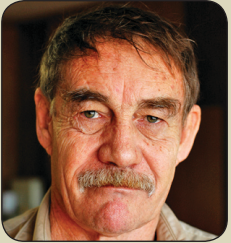
The Board of Trustees appointed in Office during the period as follows:



ADRIAN WICKHAM  
Chairman, Minister's Discretion (resigned 19<sup>th</sup> June 2008)



AUSTIN HOLMES  
Deputy Chairman  
Employer



IVAN DYER  
Member  
Minister's Discretion



LUMA DARCY  
Member  
Crown



RONALD UNUSI  
Member  
Crown



CHARLES ASHLEY  
Member  
Employers



ANNA HALEA  
Member  
Employee



JANE TOZAKA  
Member  
Employee (resigned 10<sup>th</sup> July 2007)



RAMON QITALES  
Member  
Employee (appointed 27<sup>th</sup> July 2007)

# CORPORATE GOVERNANCE Cont...

## Board of Trustees

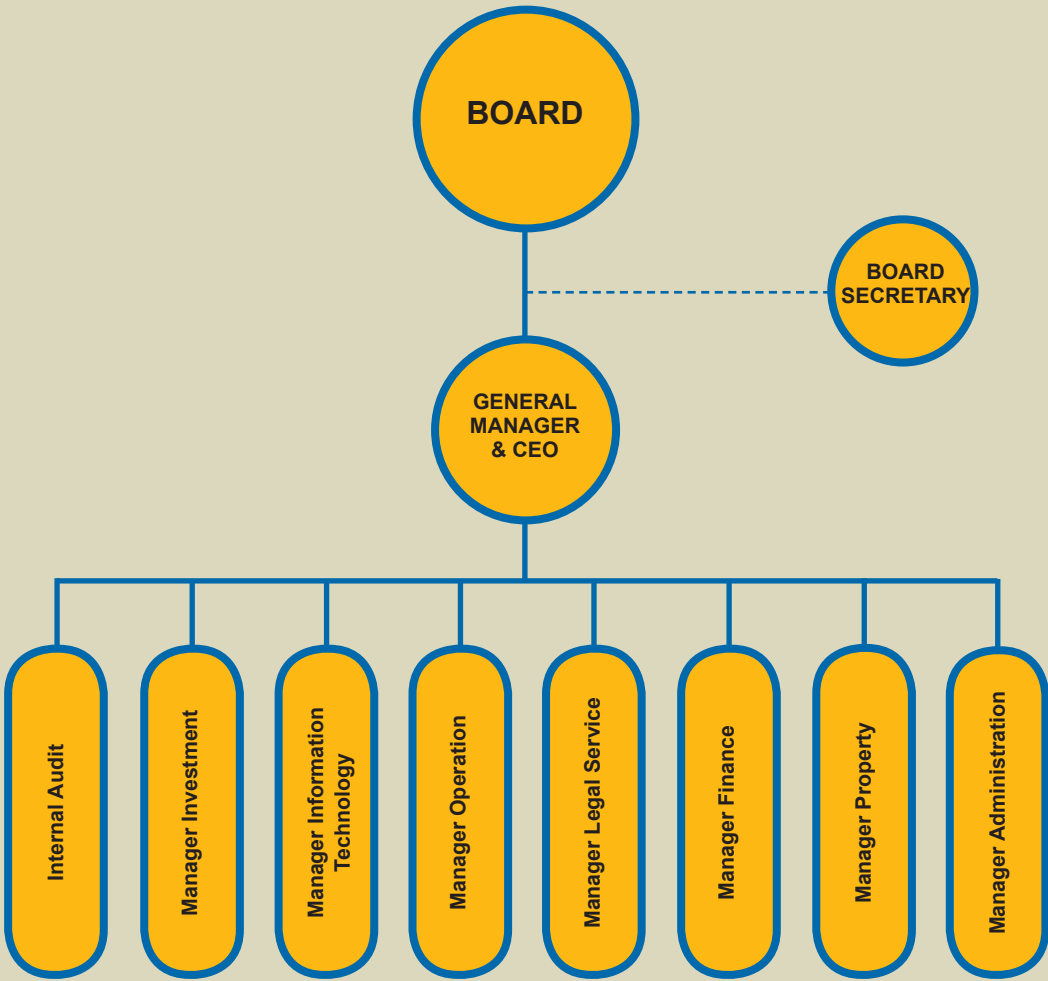
There were a few changes to the Board during the financial year period. Mr. Adrian Wickham was appointed Chairman of the Board subsequent to Mr. John Beverley's resignation from the Board. Mr. Adrian Wickham later resigned from the Board on 19th June 2008. Mr. Austin Holmes was then appointment as Chairman thereafter. Ms. Jane Tozaka also resigned during the year due personal reasons and was replaced by Mr. Ramon Quitales.

The Board of Trustees has had thirteen (13) scheduled and special/extraordinary meetings during the financial year.

## Board Committees

The Board established five (5) sub-committees comprising of Board Members and Executive Management to assist the Board of Trustees in discharging its roles, responsibilities and obligations diligently in realizing positive tangible outcomes. The Committees include: Investment & Credit, Information Technology, Legal Affairs, Audit & Compliance and Welfare. Each Committee has its own responsibilities and objectives to achieve and are chaired by a Board of Trustees Director.

# CORPORATE STRUCTURE



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008 Cont...

## NOTE 4: CURRENT ASSETS – INVESTMENTS Cont...

	Notes	June 2008 \$	June 2007 \$
Staff Schemes		653,083	707,413
		23,802,343	4,789,908
Total Current Assets		312,522,343	236,037,288

## NOTE 5(a): NON-CURRENT ASSETS – INVESTMENTS

	Notes	June 2008 \$	June 2007 \$
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		6,917,00	5,174,500
Net Book Value		27,668,000	29,410,500
Shares	5(c)	269,966,844	153,113,767
Less: Provision		937,500	937,500
		269,029,344	152,176,267
Government Securities	5(b)	130,862,936	145,236,893
		399,892,280	297,413,160
Loans:			
Commercial Loan		3,898,230	5,840,526
Members' Schemes		17,254,566	22,485,396
Staff Schemes		2,244,182	2,561,708
		23,396,978	30,887,630
Less: Provision for Doubtful Debts		2,740,445	4,553,911
		20,656,533	26,333,719
Total Non-Current Assets-Investments		448,216,813	353,157,379

## 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 in regulated and operated by the Central Bank on behalf of the SI Government. Treasury bills are restricted to a maximum of 90 days.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
AS AT 30 JUNE 2008 Cont...**

**NOTE 2: RESERVES AD OPERATING FINANCIAL PERFORMANCE Cont...**

	Notes	June 2008 \$	June 2007 \$
<b>(b) General Reserve</b>			
Opening Balance		35,426,500	(1,843,387)
Transfers – Unclaimed Contributions		147,848	124,431
Net Surplus/(Deficit) for the year		(1,923,778)	37,145,456
Balance at 30 June		33,650,570	35,426,500
TOTAL RESERVES		54,785,863	56,561,791

**NOTE 3: CURRENT – RECEIVABLES**

	Notes	June 2008 \$	June 2007 \$
Interests		2,563,488	1,436,791
Rentals		170,518	1,030,050
Dividends		23,950,038	18,393,789
Surcharges		10,420,453	6,036,316
Others		3,925,467	2,687,990
		41,029,964	29,584,936
Less: Provision for Doubtful Debts		7,852,965	6,148,511
		33,176,999	23,436,425

The provisions of \$7,852,965 is provided against arrears on surcharges and rents that were valued at \$ 10.6 million as at 30<sup>th</sup> June 2008. 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**

	Notes	June 2008 \$	June 2007 \$
Term Deposits		289,791,785	232,346,044
Less: Provisions		1,071,785	1,098,664
		288,720,000	231,247,380
Loans Current Portion Due Within 12 months			
Commercial Loan		20,098,360	377,572
Members' Schemes		3,050,900	3,704,923

**EXECUTIVE MANAGEMENT**



**TONY MAKABO**  
General Manager & CEO



**RUTH ALEPIO**  
Board Secretary



**JOHN JOI VEO**  
Manager Finance



**MICHAEL WATE**  
Manager Investment



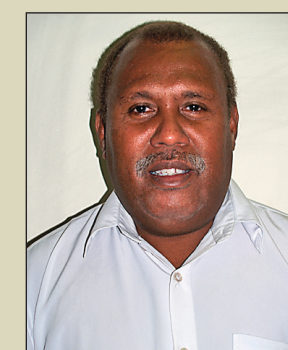
**GARY FA'AITOA**  
Manager Legal Services  
(Resigned 2<sup>nd</sup> April 2008)



**ISHMAEL KAKO**  
Manager Legal Services  
(Appointed 5<sup>th</sup> May 2008)



**GEORGE HOATAMAURI**  
Manager Properties



**ALUTA KAKADI**  
Manager Operations



**SUZANNE ORUDIANA**  
Manager Information Technology



**AREAU HIVU**  
Manager Internal Audit



**ALFRED SARE**  
Manager Administration

CHAIRMAN’S REPORT

“Satisfactory Results achieved at difficult times however, we are committed to realizing financial success and sustainable growth”

On behalf of the Board of Trustees of Solomon Islands National Provident Fund, I am very pleased to report the satisfactory results been achieved during the Financial Year ending 30th June 2008.

The Fund has realized a gross surplus of \$100.2 million, 14% lower than in 2007. However, a rate of interest of 18% was credited to members’ contribution balances with the Fund. Whilst there was a slight fall in surplus, the underlying financial performance remains strong with investment portfolios and contribution value reaching record levels. The Board is committed to ensure the strong financial performance and return growth to members’ financial contributions continue notwithstanding the current global financial crisis which still poses downward impact on the economies worldwide. The Board with support from management will endeavor to develop practical strategies to mitigate these impacts hence provide less impact on the financial operations.

The Fund’s investment portfolio has reached a record level of \$822.8 million, a 19% increase from FY2007. This achievement been influenced by substantial increases in equity investment incomes and fixed term deposits which captured about 67% of the total portfolio at the end of the financial period. The other investments experienced slight increases as well though the investment environment was challenging, competitive and changing in the context of sub-prime mortgage crisis posing threats to the global economy. At present it is still uncertain how this crisis will unfold in the future. The Board and Management will endeavor to institute appropriate measures to counter any adverse risks that may arise to safeguard the members’ funds.

On members’ contributions, the total value reached another higher level to \$783 million. This is a 21% contribution value higher than FY2007 figure. With the increased surplus funds derived from debt repayments, and contribution inflows and investment incomes, the Board will continue to explore and make prudent investments in potential commercial undertakings that

we believe will guarantee reasonable and acceptable rates of returns to members in future.

During the year, a comprehensive review was undertaken on the current strategic assets allocations policy by the Board, Management and an expert consultant as part of mitigation strategy for any possible risk and better returns. The Board felt that it timely to reassess the Fund’s investment assets allocations with the view to rebalance and setting new investment strategies which we believe will deliver adequate contribution value to members in years ahead. The opportunities to facilitate the rebalancing exercises being planned and progressing underpins the Fund’s risk minimization and long-term growth outlook.

In terms of forward looking in the near future, the next two years will be very critical in light of major global economies heading for recession. The major challenge going forward is to prepare and develop practical strategies for risks mitigation, strategic spread in more secured investments with minimal risk that will deliver better returns and these are in progress.

On behalf of the Solomon Islands National Provident Board, I would like to thank the members, employers and Government for the strong support they have rendered to the Fund during the financial period 2008. I would also like to sincerely thank and acknowledge the Management and Staff for their teamwork efforts and commitments in achieving the satisfactory results. Furthermore, I also wish to record my thanks to my colleague Board of Trustees for their invaluable support, contributions and demonstration of team spirit during the financial period 2008.



Austin Homes  
Chairman of the Board of Trustees

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
AS AT 30 JUNE 2008 Cont...

- NOTE: 1
- Other assets are depreciated at rates considered adequate to extinguish the book value of each asset over its estimated useful
- (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.

NOTE 2: RESERVES AD 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 ad 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 allocates to members’ accounts, such losses are to be off set and recovered from subsequent earnings and future surpluses.

	Notes	June 2008 \$	June 2007 \$
(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



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008

### NOTE: 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Benefits from the Fund are paid to members on attaining the age of 50 years, on death, are physically or mentally incapacitated from further employment, permanent emigration or attaining the age of 40 years and have permanently retired. In general the benefits paid to members is equal to their accumulated contributions plus interest allocated to them annually by the Board (refer note 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 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 to 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 to SDB for the period ending 30<sup>th</sup> June 2008 was \$3,500.

#### (c) Interest on Members Account

Interested 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.

## GENERAL MANAGER'S REPORT

I have pleasure in reporting on the programs and activities which have been pursued by the Board, Management and staff during financial year. Though the financial year has commenced with less than a bright future as result of the emergence of the USA sub-prime mortgage and credit crisis, the Fund is able to deliver better and performance record and results in a challenging economic environment.

### SNAPSHOT OF THE ECONOMY

The Solomon Islands economy continued in a positive mode in the 2007/08 period with slightly more than 10% growth compared to growth projection of 6% for 2008 Calendar year. This growth was driven by the expansion in logging and fishing activities combined with increases in agriculture sector productions i.e. copra and palm oil/kernel.

In the financial sector, the foreign exchange levels which were not at threat during most of Year 2007 have become vulnerable in the first half of 2008. This has been greatly influenced by high prices of fuel and rising of imports in all categories due to domestic economic growth demand. The export performance has experienced an increase but on the contrary, this has been surpassed by higher increase in imports.

The Central Bank of Solomon Islands (CBSI) had instituted a monetary policy to mop-up excess liquidity within the domestic economy thus creating some flexibility for Solomon Islands National Provident Fund (SINPF) to proceed with its intention to invest offshore up to the approved level of SBD\$150 million. This is 25% of the total investment portfolios of the Fund. The Fund proceeded with its offshore investments in various asset classes, markets (economies) and stable currencies within the Board's approved Investment Policy and Guideline Framework. In so doing, it has created push-up demand for funds by the local commercial financial institutions thus leading to slight increases in interest rates with respect to fixed term deposits. However, the rates still remain very low. As part of the monetary policy, CBSI further introduced another instrument to receipt term deposits from commercial banks and SINPF at competitive rates. This might continue in the remaining part of 2008 and calendar year 2009.

Inflation rate is riding on single-digit level in most part of Year 2007. However, the inflation then picked up in late 2007 on aggressive movement. At the end of Financial Year 2008, the inflation rate settled at a serious level of 16.4%. The inflation level stemmed from high prices of fuel prices and goods/services within the domestic economy been influenced by the global economic environment which can worsen in the near future. The difficult challenge for CBSI and National Government now is to seriously contain inflation without stifling the economic growth in the country.

On the international front, the widely publicized USA sub-prime mortgage meltdown which started in July/August 2007, coupled with record high fuel and food prices continued to affect the world economies throughout the financial period. As a result of the meltdown, the following developments had occurred:

- (a) Forced several of the largest commercial and investment banks to write-down their huge chunk of investment assets as losses that were traceable to US sub prime mortgage and credit downfall;
- (b) High default rate of mortgage loans with subsequent disposal of properties;
- (c) The decline and wide volatility of the world's largest financial markets indexes;
- (d) The collapse of some of the world's largest investment institutions;
- (e) The USA economy has likely gone into depression; and
- (f) Central Banks of the major economies worldwide scrambling to contain inflation.

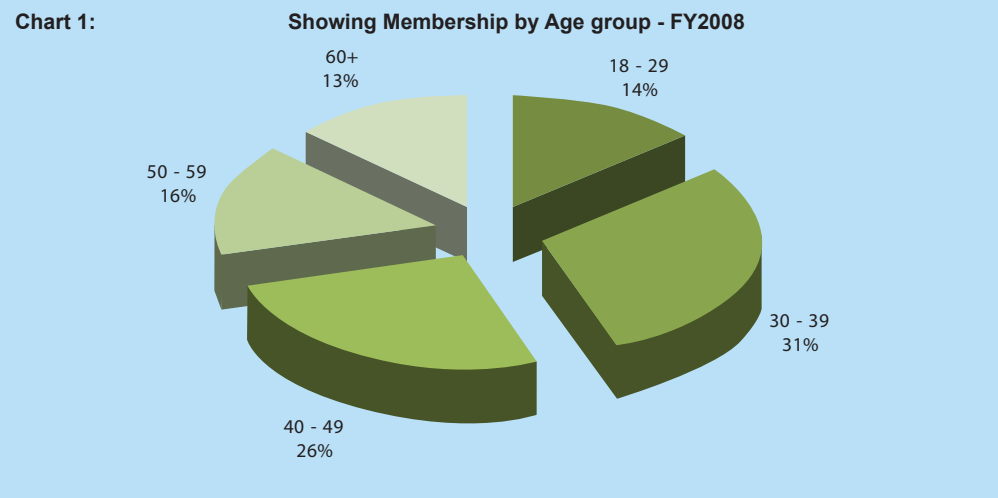
GENERAL MANAGER’S REPORT Cont...

It should be noted that after the Fund has commenced its offshore investments in August 2007, the USA sub-prime mortgage meltdown gathered momentum before the end of that year. As the volatility of the financial markets further deepened, the SINPF Board remained focus and placed the bulk of its offshore investment in fixed term deposits at reasonable interest rates in Australian dollars, US dollars, Euro and British Pound with the ANZ Bank, Singapore. Domiciling these deposits in Singapore enabled the Fund to take advantage of Singapore’s tax-free status. As well Singapore is also a member of the Financial Action Task Force (FATF) established to combat money laundering and terrorist financing. The SINPF’s investments in Kina dollar/Papua New Guinea are still not yet affected by global market volatility instead the listed equity investment enhanced in terms of value and returns. The Fund will continue to sustain its commitment in monitoring and assessing the global economic environment, in particular the level of effect emanating from the sub-prime mortgage crisis. In this connection, the Board will be able to undertake necessary actions to mitigate any adverse effect to the Fund’s investments during the USA sub-prime crisis which is likely to affect global economies.

EMPLOYEES

Total accumulated registered financial membership to the Fund during financial year has reached 135,960 which is a moderate increase by 4% from the previous year figure of 130,356. The increase has emanated from newly registered memberships of 6,616 compared to 6,152 in the last financial year. On the gender front, there are increases in both male and female employee memberships. Male membership has jumped to 99,440 from 95,720 in the previous year while there is an increase in female membership from 34,640 to 36,520. Male membership maintained its dominance by 73% while female membership stood at 27%. Pertinent to age group, members within ages ranging from 30 – 39 years continue to dominate the membership with the Fund by 31%, followed by ages from 40 – 49 years which captured 26% and 16% represent the age group from 50 – 59 years. The age group 20 – 29 years and 60 years and above held 13% each. This pictorial scenario indicated that most members within the Fund are within the ages of 30 – 49 years old. In terms of planning for retirements by members, the Fund will ensure that funds are readily available to facilitate members’ withdrawals of their contribution balances plus interest earned when reaching retirement age of 50 years or more in future.

The positive increase of membership reflects the continuing gradual growth of the domestic economy since Year 2004/5 notwithstanding the “economic heat” that stemmed from the resumption of the sub-prime mortgage crisis in United States economy. It is envisaged that the Fund will continue to sustain any increase number of employment if the country’s economy remains on its growth path with the support of a conducive investment environment.



STATEMENT OF CASH FLOWS Cont...  
AS AT 30 JUNE 2008

Notes	June 2008 \$	June 2007 \$
Reconciliation of the operating Surplus/(Loss) after Interests to the net cash flows from operations:		
Net Surplus/(Loss) after Interests to Members	(1,923,778)	37,145,456
Add: NON-CASH EXPENDITURES		
Depreciation of Fixed Assets	4,712,644	3,324,292
Annual Interests to Members	101,116,129	80,197,022
Bad and Doubtful Debts	6,805,740	1,431,436
Increase/(Decrease) in Accounts Payable	952,880	257,141
Increase in contribution	2,329,103	-
	116,916,496	86,209,891
Less: NON-CASH INCOME		
Net Exchange gains	7,107,922	4,816,696
Net (Loss)/Gain on Disposal of Fixed Assets	432,403	-
(Increase)/Decrease in Account Receivable	24,721,462	18,393,789
Capital gains	62,531,762	26,353,374
Net Surplus/(Loss) from Operation	20,199,269	72,791,488

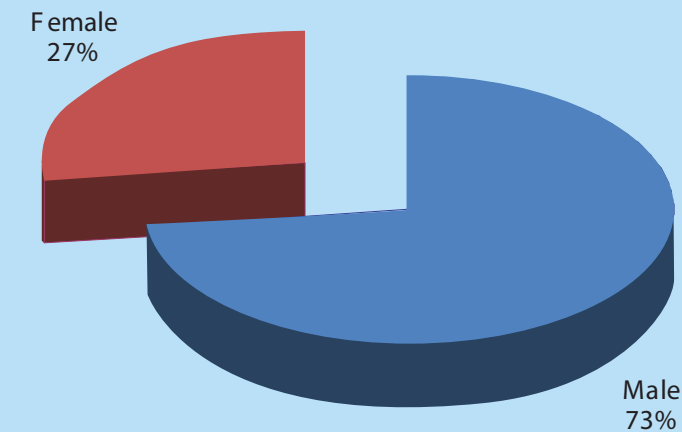


## STATEMENT OF CASH FLOWS AS AT 30 JUNE 2008

Notes	June 2008 \$	June 2007 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from investments and customers	40,090,227	92,067,196
Payments to suppliers and employees	(17,219,020)	(18,512,616)
Interest and benefits paid to members	(2,671,938)	(763,092)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>20,199,269</b>	<b>72,791,488</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Property, Plant and Equipment	(46,646,332)	(7,596,544)
Investment in loan portfolios & members etc	(92,472,257)	(81,950,664)
Proceeds from sale of Property, Plant and Equipment	451,500	-
<b>NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES</b>	<b>(96,667,089)</b>	<b>(89,547,208)</b>
<b>CASH FLOWS FROM FINANCE ACTIVITIES</b>		
Increase/ (Decrease) in contribution balance	61,650,337	49,269,062
Payment of Special Death Benefits	(406,395)	48,857,067
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	<b>61,243,942</b>	<b>48,857,067</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>(15,223,878)</b>	<b>32,101,347</b>
Add opening cash brought forward	41,339,902	9,238,555
<b>CLOSING CASH CARRIED FORWARD</b>	<b>26,116,024</b>	<b>41,339,902</b>
Reconciliation of cash		
Cash balance comprises:		
- Cash at bank	26,115,004	41,338,882
- Cash on hand	1,020	1,020
<b>Closing cash balance</b>	<b>26,116,024</b>	<b>41,339,902</b>

## GENERAL MANAGER'S REPORT Cont...

Chart 2: Showing Membership by Sex - FY2008



Source: Solomon Islands National Provident Fund

### Employers

The Fund interacts with Employers through its inspectorate and members services staff. During the financial year, the Fund registered 187 new employers compared to 183 in the previous year – a slight increase by 2%. These are companies registered with the Registrar of Companies and have resumed operations with registration employers and employees made during the financial period

Most employers are involved in wholesale and retail businesses which represent 24% of the total followed by 9.7% for education/health/social services, manufacturing 6.8%, agriculture & fishing 6% and logging/milling hold 5.5%. The least percentage represented the mining/exploration industries which hopefully will be enhanced once the Gold Ridge Mining Company is operational. The scenario in table 1 depicts little movements of employment in the industry sectors in the domestic economy during the financial period. This is a reflection of low employment been created during the period thus leaving unemployment at a consistent high level. The government and other stakeholders must vigorously promote productive investments to create employment opportunities and at the same time reduce current high unemployment.

Table 1: Employer by Industry Sector FY2007 - 2008

Domestic Industry Sector	2007 - %	2008 - %
Agriculture & Fishing	6.0	5.8
Transport	4.0	4.0
Manufacturing	7.0	6.7
Financial Institutions	0.4	0.4
Public Administration	3.0	2.8
Building/Construction	5.0	5.0
Information Technology/Communication	1.5	1.4
Education/Health/Social Services	10.0	9.7
Power/Water	1.0	1.0
Tourism /Restaurants	3.5	3.2
Logging /Milling	5.3	5.5
Mining /Exploration	0.3	0.3
Wholesale /exploration	25.0	24.4
Other Services	28.0	29.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Source: Solomon Islands National Provident Fund

# GENERAL MANAGER'S REPORT Cont...

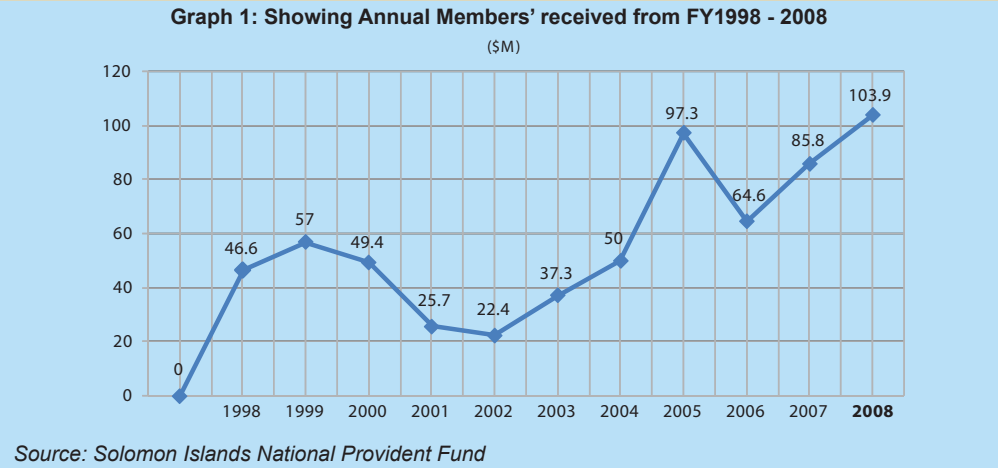
## Members' contributions and withdrawals

Total contributions collected during the financial year reached \$103.9 million or \$8.6 million monthly. This is approximately an \$18 million increase compared to last year's collection of \$85.8 million. The growth was attributed to increases in membership, increased contributions by members from the minimum 5% to 12.5% maximum, better and improved relationships with employers and employers' understanding and responsiveness towards their obligations to pay members' contributions to the Fund. However, there are some intentional defaulters including both public (some SOEs and Provincial Governments) and private sector employers who have shown lack of commitment to their statutory obligations in paying their contributions in time. In this connection, there are strategies being implemented to resolve the contribution arrears. Notwithstanding contributions not paid in timely manner, the annual contribution payments received have indicated upward improvements since FY2004 after the adverse effect on the economy during the ethnic tension. This can be seen in the graph 1 below. Hopefully, this growth of contributions receipt will be sustainable if employers are committed to their obligations and also investment environment is conducive to facilitate economic growth in the country in the long-term future.

Due to improved collection of contributions, the total accumulated members' contributions surged to \$783.2 million compared to \$617.7 million in the previous year – an increased of 21%. The total contribution value is inclusive of \$102 million or 18% interest rate declared and monetary values were credited to all members of the Fund. It is important to understand that the interests earned annually are compounded over time if a member does not withdraw her/his contribution value. In this respect, the contribution wealth can be enhanced to a satisfactory level to be withdrawn when a member retires from working life or other prescribed withdrawal grounds.

The accumulated contribution value has been experiencing an upward trend since FY2003/2004 until this financial period as can be seen in Chart 3. This is merely supported by some members who turned 50 years or more but have opted for the Fund to hold on to their contributions for better annual interest earned until they reached 60 years. In so doing, the Fund envisage that the contribution growth trend will continue in years ahead if the domestic economy sustains its positive growth path thus resulting in the provision of more employment. However, the fear now is that the positive growth may be undermined by the future downsizing of the logging industry in the near future as announced and global impacts that may be caused by the mortgage and credit crisis.

In this respect, the Board and Management will closely monitor these developmental events to avoid any adverse effect to the growth of members' funds. Should there be any negative impacts, then certain prudential strategic actions will have to be explored and put



# STATEMENT OF CONTRIBUTIONS AS AT 30 JUNE 2008

	Notes	June 2008 \$	June 2007 \$
Opening Balance at 1 July		617,697,810	488,775,124
Opening Balance Adjustment		-	(164,406)
Adjusted Opening Balance at 1 July		617,697,810	488,610,718
Add: Contribution Received during the year		103,929,309	85,788,625
Interests on Members Accounts	1(c)	102,116,129	80,197,022
		823,743,248	654,596,365
Less: Contribution Withdrawals		41,222, 293	36,593,124
Transfer to SDB Reserves	1(b)	438,509	418,967
Transfer to General Reserves	2(b)	147,848	124,431
		41,808,650	37,136,522
		781,934,598	617,459,843
Add: Prior Year difference and others		1,272,426	237,967
Balance at 30 June		783,207,024	617,697,810
Represented by:			
Identified		759,242,867	589,116,072
Unidentified		8,895,387	4,175,735
Contribution Creditors	1(a)	14,968,770	24,406,003
		783,207,024	617,697,810

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



STATEMENT OF INCOME AND EXPENDITURE  
AS AT 30 JUNE 2008

	June 2008 \$	June 2007 \$
<b>INVESTMENT INCOME</b>		
Interests	14,992,421	25,136,580
Dividends	35,964,505	36,512,916
Rentals	5,629,948	5,519,931
	<u>57,586,874</u>	<u>67,169,427</u>
<b>OTHER INCOME</b>		
Surcharges	4,598,676	7,474,382
Sundry	2,626,138	40,633,872
Gain on Equity	69,639,585	26,353,374
Profit on sale of Assets	432,403	-
	<u>77,296,802</u>	<u>74,461,628</u>
<b>TOTAL INCOME</b>	<u>134,883,676</u>	<u>141,631,055</u>
<b>LESS: OPERATING EXPENDITURE</b>		
Normal Operating Expenses	26,917,834	22,317,259
Members Expenses	2,672,205	763,092
Doubtful Debts	5,101,286	1,208,266
	<u>34691,325</u>	<u>24,288,577</u>
<b>GROSS SURPLUS/(DEFICIT)</b>	<b>100,192,351</b>	11,342,478
<b>LESS: APPROPRIATION</b>		
Interests Credited to Members	102,116,129	80,197,022
<b>NET SURPLUS/(DEFICIT)</b>	<u><b>(1,923,778)</b></u>	<u>37,145,456</u>

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

GENERAL MANAGER’S REPORT Cont...

to effect to protect/preserve the members’ wealth with the Fund.

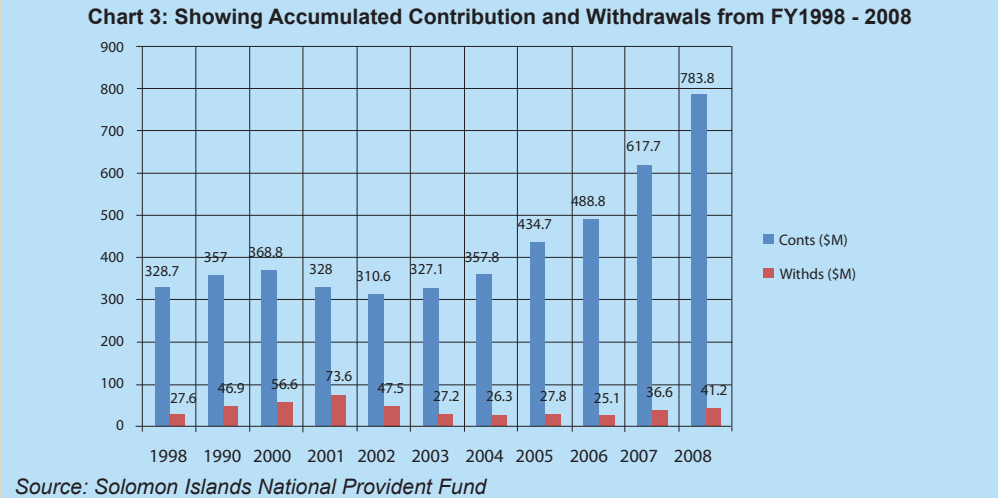
Pertinent to contribution withdrawals, there are six (6) prescribed withdrawal grounds available for members to withdraw their funds. These include:

- Ground 1      Attaining retirement at 50 years and above;
- Ground 2      Death of a member (Survivors’ benefit);
- Ground 3      Permanent physical & mental incapacity;
- Ground 4      A member permanently leave Solomon Islands (immigration);
- Ground 5      A member is made Redundant;
- Ground 6      40 years and permanently retired from employment;

The withdrawal applications processed and approved for payments stood at 3,288 compared to 1,758 during the financial year 2007 – a significant increase by 46.5%. In monetary terms, a total of \$41.2 million were paid to members in respect to the prescribed withdrawal grounds. The 50 years retirement withdrawal ground continued to dominate the withdrawal applications by being 38% of the total applications approved and 47.6% in monetary terms. After contribution withdrawals by members’ there were adequate surplus funds being made available for investments as it can be seen in Chart 3 below. Members’ surplus funds have to be invested in viable opportunities principally to enhance profitability and adequate rate of return to members annually.

The Fund will undertake regular reviews of its members’ demographic data, in particular the members’ ages to ensure there is proper annual financial planning and cash flow available for withdrawals. For instance, the current members with age group between 30 to 39 years had dominated the total contributions balance this financial year. From management perspective, the Fund will plan, budget and set aside adequate cash liquidity to facilitate timely withdrawals of contributions and interest earned within the next 10 – 20 years time when these members reach retirement age.

The Fund has sustained more than adequate liquid funds at all times to facilitate members’ withdrawals during the period. This continuous sound liquidity position and growth reflects the Fund’s effective management of its financial liquidity since RAMSI intervention and has remained sustainable since then. The Board and management will continue their fiduciary roles in exercising their prudential management of members’ funds to further enhance members’ wealth and at the same time facilitating timely withdrawals by members.



## GENERAL MANAGER'S REPORT Cont...

### MEMBERS' BENEFITS

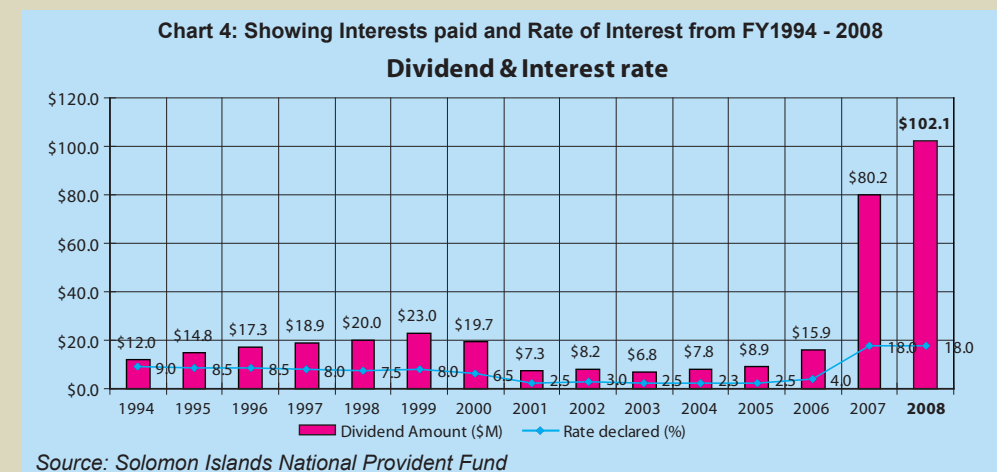
#### Interest Credited

The Board declared a very satisfactory annual interest rate of 18%, the same rate declared in the 2007 financial year. In monetary terms, the total of \$102.1 million was credited to all members' accounts with the Fund compared to \$80.2 million in the previous year – an increase of \$21.4 million.

It is pleasing to note that the rate of interest and corresponding amounts credited to individual member's account with the Fund is gradual increasing since FY2006. This is a reflection of the gradual economic growth and normalization of law and order in the country after the recent ethnic tension which greatly weakened the country's economy to unprecedented level. In this respect, the Board and Management would like to acknowledge those who have accorded their valuable time and genuine efforts toward the peace and normalization of Law and Order in our country. Hence, these are the attributes to the revitalization of the domestic economy.

As can be seen from Chart 4 below, the statutory minimum rates of interest were declared to members as result of the weakness of the domestic economy due to the recent ethnic tension then. As the domestic economy revamped and experienced gradual growth thereafter, the interest declared to individual members annually had increased again since FY2006 until this year. The Board and management are committed and determined to undertake their fiduciary responsibilities to ensure financial growth adequate returns are realized and delivered to members in years ahead.

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



#### Members' Pledge


The provision of pledges by the Fund is an important part of services to its members who do not have physical assets to provide as mortgage against a loan from prescribed financial institutions. Its primary objective is to provide a loan guarantee to a member's micro-loan from local financial institutions including: ANZ Bank, Westpac Banking Corporation, Bank South Pacific, Solomon Islands National Provident Fund and Solomon Islands Home Finance Ltd. In terms of application, the member would place 2/3 of his/her contribution balance to guarantee against loan approved by lending institutions for economic or social purposes. This form of assistance by the Fund has helped a lot of members in their personal endeavors and difficulties in recent years.


During the financial year, the members who have borrowed loans from the prescribed financial institutions and have pledged 2/3 of their contributions totaled \$124.8 million


## STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2008

	Notes	June 2008 \$	June 2007 \$
<b>RESERVES</b>			
Revaluation Reserve	2	21,135,293	21,135,293
General Reserve	2	33,650,570	35,426,500
Total Reserves		54,785,863	56,561,793
Represented by:			
<b>CURRENT ASSETS</b>			
Cash		26,116,024	41,339,902
Receivables	3	33,176,999	23,436,425
Investments	4	312,522,343	236,037,288
		371,815,366	300,813,615
<b>NON-CURRENT ASSETS</b>			
Investments	5(a)	448,216,813	353,157,379
Property, plant and equipment	6	27,890,459	26,233,366
		476,107,272	379,390,745
Total Assets		847,922,638	680,204,360
<b>CURRENT LIABILITIES</b>			
Creditors		645,933	360,082
Accruals and Provisions	7	6,688,084	3,021,055
		7,334,017	3,381,137
<b>NON-CURRENT LIABILITIES</b>			
Special Death Benefits	1(b)	2,595,734	2,563,620
Members Contributions		783,207,024	617,697,810
		785,802,758	620,261,430
Total Liabilities		793,136,775	623,642,567
NET ASSETS		54,784,865	56,561,793

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

  
Austin Holmes  
Chairman of the Board

  
Danny Philip  
Deputy Chairman

  
Tony Makabo  
General Manager & CEO

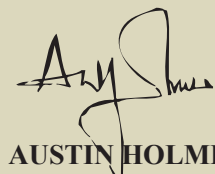


## STATEMENT BY DIRECTORS

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

In the opinion of the directors:

- 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 2008,
- 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 2008,
- 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 2008 and
- 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.



**AUSTIN HOLMES**  
Chairman of the Board



**DANNY PHILIP**  
Director



**TONY MAKABO**  
General Manager & CEO

24/Oct/2008

## GENERAL MANAGER'S REPORT Cont...

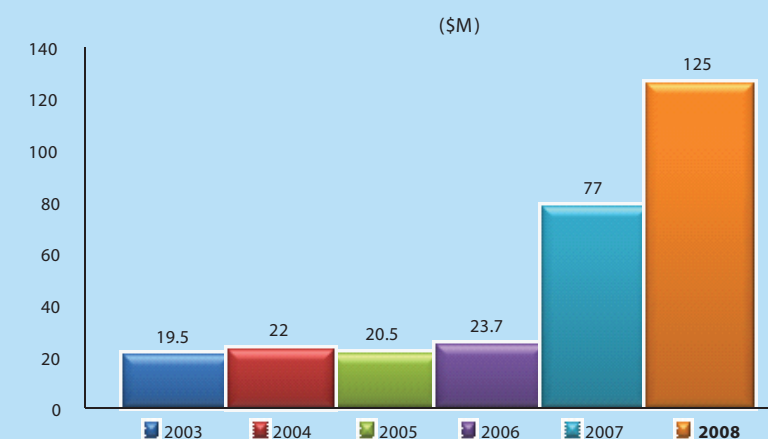
compared to \$77 million in FY2007 – an increase of 38.3%. This is a record level since the pledge scheme was instituted by the Fund to help members achieving personal economic and social benefits through micro-financing attained from financial institutions.

The Bank South Pacific held the majority of the 2/3 pledges, followed by Westpac Banking Corporation and ANZ Banking ranked third. The lowest holder of 2/3 pledge is Solomon Islands Home Finance Ltd.

While the 2/3 pledge scheme is being helpful to members who borrowed loans from the financial institutions, there are a few not really committed to repaying their loans due to unknown reasons hence the prescribed financial institutions called on the pledges with the Fund. In light of the understanding established between the Financial Institutions, the Fund is obliged to pay the claimed pledge to the member's bank from which the loan was borrowed.

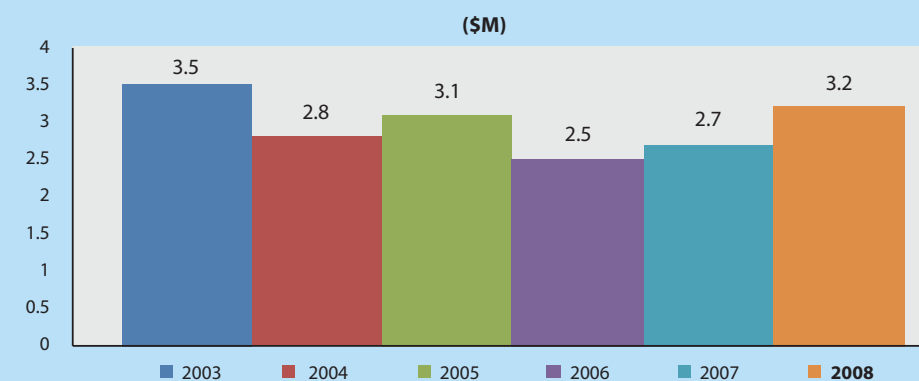
During the year, an amount of \$3.2 million was claimed by the prescribed lending institutions to extinguish loan balances and interest in arrears by default members. The Fund made direct payments upon the requests from financial institutions. The extinguished 2/3 pledges amounted to \$3.2 million represents 2.5% of the total pledges made available to lending financial institutions as can be seen in Charts 5 and 6 below.

**Chart 5: Pledges made to Financial Institutions from FY2003 - 2008**



Source: Solomon Islands National Provident Fund

**Chart 6: Pledges Claimed from Members from FY2003 - 2008**



Source: Solomon Islands National Provident Fund

## GENERAL MANAGER'S REPORT Cont...

### SPECIAL DEATH BENEFITS

The Special Death Benefits (SDB) remains unchanged since the last financial year at \$3,500. The SDB fund is an annual collection by the Fund from members' contributions of \$5.00 per member under Section 9 of SINPF Act. The amount of \$3,500 approved by the Board is paid to the beneficiaries of a deceased member.

During the financial year, a total amount of about \$406,400 was paid to the beneficiaries of deceased members compared to \$412,000 in FY2007. Total accumulated Special Death Benefit funds unused reached approximately \$2.6 million – a slight upward movement from last year.

### HOUSING MORTGAGE LOANS

At the end of Financial Year 2008, the total urban housing loans to members leveled at \$20.3 million from \$29.5 million in the last financial year – a reduction by \$9.2 million. This is a positive reflection of members' commitments toward their obligation to repay their housing mortgage loans while others secured refinancing from commercial banks. Members who acquired loans under the Members' Urban Loan Scheme reached 304 in number. On the Rural Housing Scheme, the loans were obtained by members to build rural housing in their respective villages been fully extinguished thus reflecting a successful scheme. This is principally due to the loan level been affordable by members.

The Board is considering to resume the scheme again soon since its suspension in Y2000 during and aftermath of the recent ethnic crisis. The undesirable events had severely affected the country's economy and the investment environment. Thus, some private sector investments either contracted or closed down which led to massive redundancies which seriously affected the members' obligations to service their housing mortgage loans.

When restarting the members' housing scheme, the Fund envisages that the members' housing scheme be outsourced. This means that the Fund will establish a feasible commercial entity to be 100% fully owned by the Fund with proper and experienced management and resources to

be in place to effectively deliver affordable homeownership to its members in the long-term future. In so doing, this will compliment the Government's policy on homeownership by Solomon Islanders.

With this reform agenda, the SINPF Board is expressing an interest in acquiring Solomon Islands Home Finance Ltd as a "vehicle" to develop and deliver home ownership to its members through the provision of mortgage loan financing. Unfortunately, the company has not been able deliver its objectives due financial difficulties in recent years. Since Solomon Islands Home Finance Ltd is a financial institution with existing organization structure, housing portfolio and infrastructure, it is considered fitting for SINPF Board to acquire and realize the potential growth that exists in the residential market. SINPF has the capacity to undertake the housing investment as part of its social security benefits to its members. Due diligent studies and assessments have been undertaken with subsequent series of discussions by both the Fund and Government. It is envisaged that the proposed acquisition will eventuate next year if the terms and conditions of sale and purchase are agreeable by parties concerned. If the proposal does not materialize, then the Board will have to explore and establish a commercially feasible mechanism to provide homeownership to its members in future.

### OTHER SOCIAL SECURITY BENEFITS

Questions made in Parliament when debating the 2007 SINPF Annual Report noted the fundamental difference between a Provident Fund/Superannuation Fund and Pension Scheme. A Pension is a periodical or annuity payment made to a person, usually at retirement that is intended to support the person for the rest of his/her life. It is contributory scheme by members whereby he/she pays monthly financial contribution to his/her membership account (similar to Provident Funds or Superannuation Funds) until retires from employment. In a Provident Fund, a member is paid a lump of monies when he/she only retires from employment at 50 years old or more (even if continued employment) or other

## REPORT OF THE AUDITOR-GENERAL

of \$18,309,777 or -6.7%. However, given that the majority of the Fund's investments are domestic, this impact on total assets represents a decline of -2.2%.

The current turbulence in international markets is expected to continue for some time, with an international recession now being considered a likely prospect at least over the short term. Should this occur, it can be expected that the Fund's offshore assets values will continue to remain depressed with a possibility of declining further.



**ERIC MUIR**  
Acting Auditor-General  
Office of the Auditor-General  
P O box G18  
Honiara  
Solomon Islands

31<sup>st</sup> October 2008





## REPORT OF THE AUDITOR-GENERAL

To: Honourable Snyder Rini, MP  
Minister for Finance and Treasury  
Ministry 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 30<sup>th</sup> June 2008 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 a 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 form 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 expressed in this report has been formed on the above basis.

### AUDIT OPINION

In my opinion 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 30<sup>th</sup> June 2008 and of its deficit 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].

### EMPHASES 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 the foreseeable future by the continuing social and economic uncertainties existing for enterprises operating in the Solomon Islands. The majority of the fund's assets are exposed to these uncertainties. 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.

I note further that the financial statements do not include an Event After the Reporting Date Note to draw attention to the current international financial crisis which has seen severe volatility in equity and currency markets. The Fund has 36% of its equities and cash assets directly exposed to these international markets and the Fund estimates that as at 10 October 2008 its offshore assets have experienced an overall decline in value

## GENERAL MANAGER'S REPORT Cont...

approved prescribed withdrawal grounds.

In light of the desire to establish a local pension scheme as expressed by some members of Parliament, the SINPF management has initiated consultations with Government with the view to seek support and understanding from other stakeholders. Further consultations were made with International Labor Organization which been instrumental in establishing this sort of social security benefits worldwide under its mandate and agreed conventions. It is envisaged that ILO would provide assistance to undertake feasibility study focusing on technical, financial and legal framework to ensure there is a viable scheme based on actuarial principles and consequently safeguard its continuity into the future.

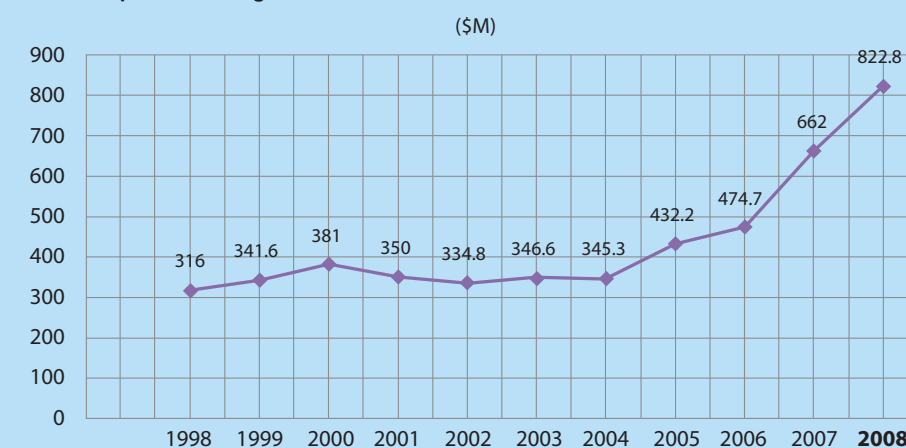
### INVESTMENT PORTFOLIOS

The Fund's investment mission is to "*stay focus and committed to supporting*" the Board to deliver adequate investment returns that protects the value of members' contributions over their terms with the Fund. Since the membership of a member can go from 25 – 30 years, the investment horizon of the Fund therefore is long-term hence the core investment strategy is to

buy and hold. There are risk management and monitoring mechanism in place to reduce any substantial losses to members' investment assets. The policy does stipulate that the investment returns generated from the investment portfolio assets must meet operational costs and the credit rate delivered to members' contribution balances must be above the domestic inflation rate. Any rate below will be a negative rate of return to members' financial wealth for the future when they retire.

Income Return is the level of profit or loss generated by an investment and represents the reward for pursuing such investment. On the other hand, a risk is the failure to achieve the desired projected returns on the Fund's investments. In this respect, the Board and management always kept in balance one of the principle rules of investment and that is: *the higher the potential reward, the higher the risk of losing money*. Moreover, it must be kept in mind of the reverse: *the lower the risk the lower the potential return*. Some of the potential risks that the Board always mitigate against including: currency risks, markets risks, industry risks, company specific risks and credit risks.

Graph 2: Showing Accumulated Total Investment Portfolio from FY1998 - 2--8



Source: Solomon Islands National Provident Fund

#### The Currency Risks:

The Fund's liabilities are always going to be 100% denominated in Solomon dollars and as are 70% of the current and long-term

investment assets. Having a portion of our portfolio in other currencies create a currency exposure risk. Currency movements relative to the SBD can cause changes in the

# GENERAL MANAGER'S REPORT Cont...

value of offshore investments. When the value of SBD strengthens against any of the underlying offshore currencies of assets the Fund invested in, the value of that investment in SBD will fall.

## The Market Risk:

This is a risk that the market in an economy may fall due to local or even international issues. When this happens the returns on or the value of SINPF investment assets in that market will also fall e.g. recent ethnic tension and sub-prime mortgage and credit meltdown in the USA economy.

## The Sector/Industry Risk:

This is a risk that an industry fails in or a number of markets e.g. the failure of technology sector in Y2000 was felt by nearly all of the global markets.

## The Company Specific Risk:

SINPF investments and return in a company can vary due to changes in the management of the company, product lines or environment. Any possible changes both internal and

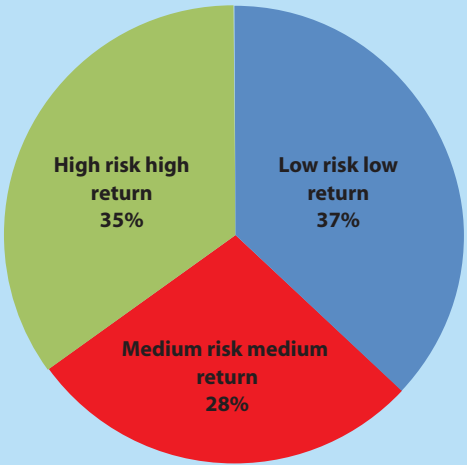
external to a company can cause movements to the return and in the valuation of the Fund's investment in that entity i.e. deregulation of Solomon Telecommunication industry may potentially affect Solomon Telekom future profitability and investment return due to competition.

## The Credit Risk:

SINPF invests in fixed interest (bonds) or debt securities, there is risk that an issuer of fixed interest or debt securities may not meet its interest and principal repayment obligations.

In managing these rays of investment risks (like those highlighted) to protect members' contribution balances against possible capital losses but secured enhanced returns on retirement savings, the Board relies on its approved strategic asset allocation model. The model enables the Fund to make investments across different asset classes, currencies and markets. The approved strategic asset allocation by risk categories are seen below:

Chart 7: Showing Approved Strategic Investment Allocation FY2008



Source: Solomon Islands National Provident Fund

# GENERAL MANAGER'S REPORT

and efficient operations of the Fund. The Fund has utilized both the internal and external legal services during the year for specific assignments or general legal opinions to facilitate its prudent decision-making process.

The Department is pursuing different actions on 109 defaulters incurring arrears on mortgage urban mortgage housing loans after series of consultations with the concerned members. On the contrary however, there are some who renew their commitment to undertake repayment obligations toward their mortgage loans through rescheduling arrangements which have successfully brought their balances to affordable levels notwithstanding court orders. On employees' contributions, a number of initial actions are being pursued with default employers (both private & public sector organizations) to ensure compliance to the statutory requirements after formal process of consultations have been exhausted.

The Department also pursued necessary discussions and legal actions against former tenants of the Fund's commercial premises whose tenancies ceased but incurred outstanding arrears. Moreover, a number of rental leases have been reviewed and issued to both new and existing potential tenants with applicable new market rentals.

To facilitate the implementations of proposed and ongoing developments, the department was heavily involved in drafting and vetting legal documents to safeguard the interest of the Fund. The documents including: contract agreements, tenancy agreements, sale and purchase agreements, consultancy agreement, etc.

## CONCLUSION

In light of the resumption of the global financial crisis during the financial year, the Board and management have guided the

operations of the Fund in a prudent manner with appropriate mitigation strategies in place hence the satisfactory financial results achieved. As a result, the members are pleased about another double-digit rate of interest been credited to their respective balances with the Fund.

It is envisaged the next Financial Year would be very challenging in light of the global financial crisis. The Board with the support of Management will endeavor to manage the operations prudently in light of on-going and new challenges to ascertain better results for members. This will require mobilization investment assets to higher yield potentials, identification of possible risks and institute effective mitigation strategies and impose cost-saving strategies to an acceptable efficiency-ratio.

Lastly, I wish to sincerely thank the Board for their continuous guidance and open, transparent and committed leadership. Moreover, I would like to thank the Board Sub-Committees for their helpful contributions towards the satisfactory results achieved in FY2008. May I also thank the Board of companies which SINPF is a shareholder, Fund Managers and Commercial Banks for their huge support towards the Fund's outcomes.

As the General Manager of the Fund, I am proud to be part of a group of dedicated and professional Solomon Islanders and together we make up the staff of Our National Provident Fund. It is the staff who are the people behind the organization, who have truly embraced and taken ownership of the change process that has taken the Fund to where it is today. To each and every staff, thank you for the commitment, teamwork efforts and loyalty been displayed during the year. I envisage this should continue in the long-term future for the benefit of members and nation as whole.

Tony Makabo  
General Manager & Chief Executive



GENERAL MANAGER’S REPORT Cont...

hardware infrastructure and skilled and experienced manpower that need to be employed. Some satisfactory improvements are achieved on IT systems and infrastructure while other ongoing programs are being pursued. The IT Sub-Committee with the support of management is heavily involved with the strategies to realize the improvements.

IT systems, ongoing or upgrade, includes: NPF2000 (contributions & receipting system), micro-pay (payroll & human resources) and MYOB (GL accounting system) and property clerk (property management). Significant augmentations to the NPF2000 system includes: the improvement of employer statements and surcharge reporting, introduction of “low doc” unidentified members’ registration and creation of new and additional reports. The MYOB Premier Enterprise was successfully installed and this replaces the Attache’ accounting package which has been discarded. Successful installation, configuration and significant data inputs have enable online inputs as opposed to the previous manual data entries. To counter network and system insecurities, the network firewall has been upgraded and a new antivirus enterprise system – Kaspersky 6.0 been installed. In addition, all Servers have been upgraded to windows 2003 Server and all the workstations upgraded to windows XP.

Pertinent to hardware, a new 40KVA Uninterrupted Power Supply (UPS) was commissioned purposely for power continuity during power load-shedding, which contributed to improved work performance and efficiency. Moreover, there has been additional hardware changes included which replaced the old technology with the new. This includes replacing hubs with switches and outdated server hardware with the current ones which inspects all data packets and deliver where intended.

INTERNAL AUDIT

Internal Audit, being an independent Department, has undertaken monthly audit reviews, verifications and inspections of records and internal control procedures and made appropriate recommendations

to the Audit Sub-Committee and the Board to address the identified weaknesses within operations of the Fund. The main issues of concern relates to compliance to policy guidelines, process and procedures, statutory requirements, proper accountability, validity of lease and payments, and withdrawal compliance. The respective Managers have been directed to address to the issues with immediate effect. Follow-up exercises are made monthly to ensure the issues raised are resolved with a reasonable timeframe.

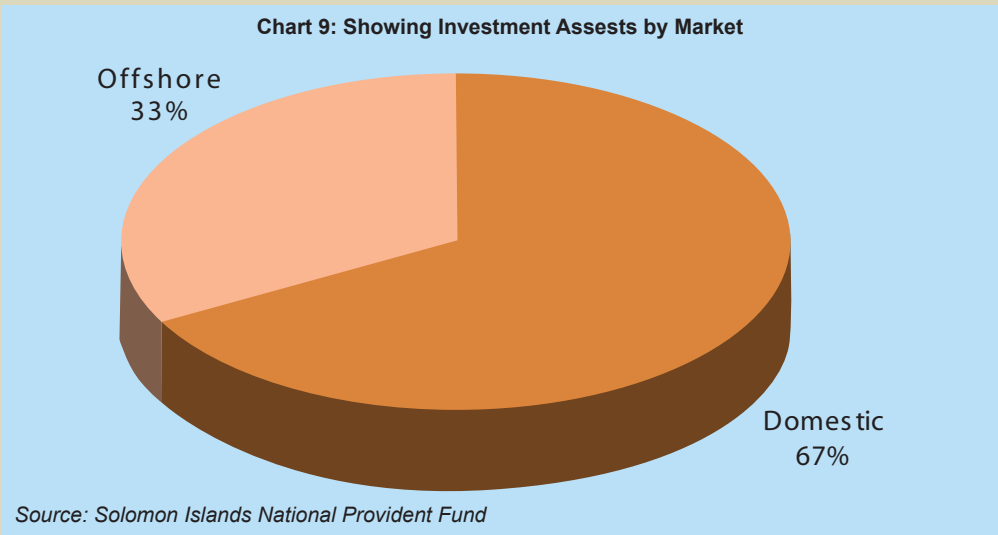
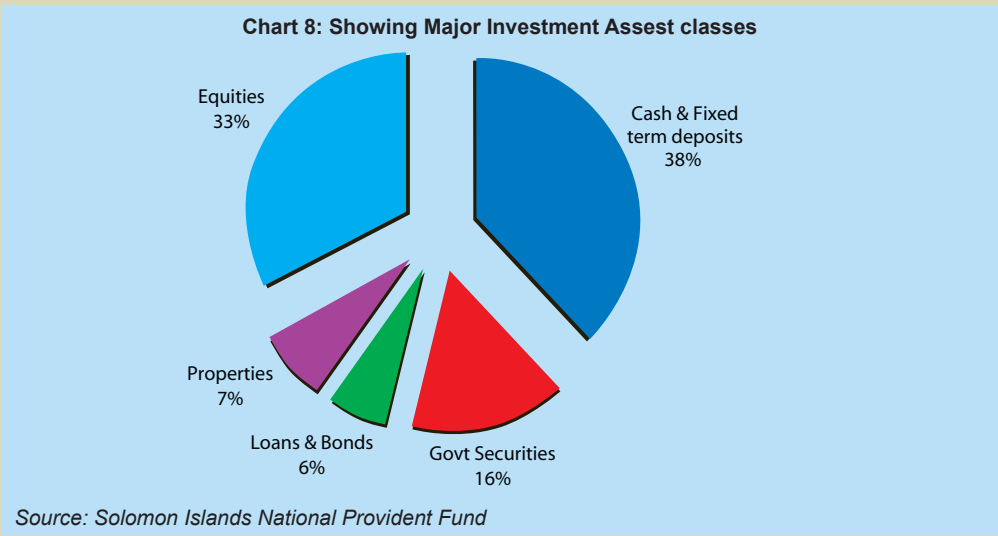
Internal Audit also assists in addressing discrepancies identified to improve the contribution data quality hence employers and employees accounts are maintained in the proper manner. Strategic measures to avoid repetition are put in place. Further assistance was provided to ensure fixed assets are inspected, accounted and properly maintained for proper utilization by the Fund while some assets are recommended for disposal through tender process. The Internal Audit department will continue to ensure the fixed asset register is properly maintained at all times.

Annually, a management letter is issued to the Board after annual financial statements is audited by external auditors. The issues are discussed by Audit Committee and decisions made for necessary actions by management. The Internal Audit is responsible to supervise and monitor implementation of the recommended strategies contained in external auditors’ management letters to ensure issues are solved or corrected by responsible managers. The majority of the issues raised are successfully addressed and this reflects the management’s seriousness in resolving the issues thus contributing to further improvements to the operations of the Fund. The department will continue to perform its diligent roles and responsibilities to ensure the overall operations of the Fund are effective and efficient thus leading to the realization of the planned objectives.

LEGAL SERVICES

The Legal Department plays a vital role in the provision of legal services to the Board and Management to ensure effectiveness

GENERAL MANAGER’S REPORT Cont...



**Note:** Investing offshore diversifies risk that if local economy performs badly then our exposures in other markets will mitigate our domestic losses. A classical example was the local economy were weakened during the recent ethnic unrest Y2000.

INVESTMENT ASSETS & RETURNS

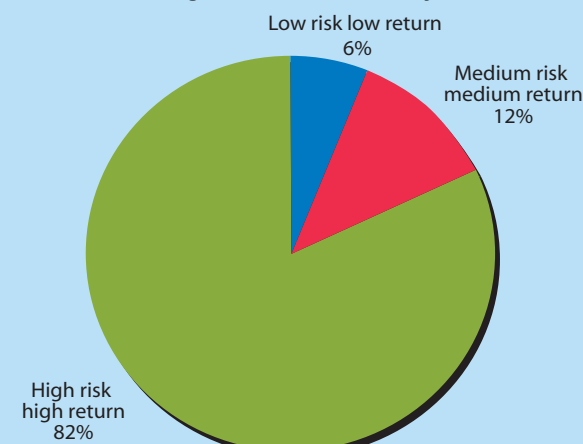
The Fund has secured another impressive but softer rate of return on its total investment portfolios of about 16% for the year, recording a gross income of \$134.9 million being returned from the total record investments of \$822.8 million. The gross income is lower by 5% compared to the previous year’s income level of \$141.6 million. This is mainly due to reduced interest earnings.

The total gross investment portfolio grew by 19% to settle at \$822.8 million compared to last year’s investment portfolio of \$662 million. The growth was mainly influenced

by the share prices in Bank South Pacific Limited and earnings from offshore investments of \$150 million mostly in fixed term deposits in five approved currencies: USD, AUD, EURO, GBP and KINA, and purchased of units in three managed funds with equity exposures in Australia, USA and European equity markets. The main attribute to this impressive return outcomes have emanated from strong performance from equities which accounted for 82%, 8.8% in respect of fixed term deposits and 9% represents other investment portfolios namely: properties, Government securities and loans. Further details of Investments asset classes and returns are featured below.

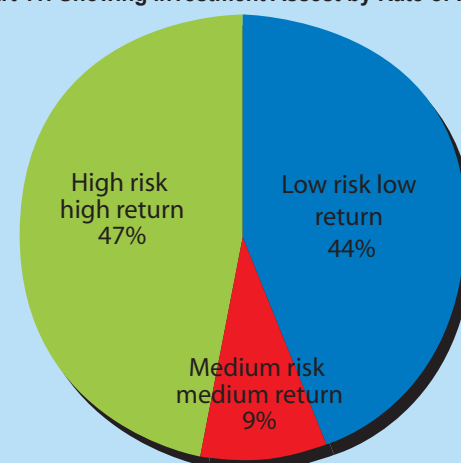
## GENERAL MANAGER'S REPORT Cont...

Chart 10: Showing Investment Assests by Income Returns



Source: Solomon Islands National Provident Fund

Chart 11: Showing Investment Assest by Rate of Returns



Source: Solomon Islands National Provident Fund

On portfolio by risk category, there are three categories which are stipulated in the Fund's policy framework and this have been implemented including: low risk low return (cash, fixed term deposits & SIG securities), medium risk medium return (loans, bonds & properties) and high risk high return (shares). The high risk high return category has delivered a 47% rate of return to the Fund followed by medium category with 9%. Pertinent to return incomes, the high return high risk category contributed 81.7% followed by 12.3% in respect of low return low risk while medium return medium risk has delivered 6.3%.

In terms of portfolio balance, the low risk investment assets has accounted for 55% of the total portfolio, medium risk represents

13% and high risk category at 32%. The overweight and underweight in the three risk categories will be rebalanced as further investments are made in properties, loans and Bonds.

On the investments by markets, the offshore investments accounted for nearly 54% of income return while the domestic contributed 46%. By portfolio balance, the offshore investments at end of financial year settled at 33% while the domestic based investment balances leveled at 67%. The offshore investment was overweight by 3% and this has been driven primarily by the Bank South Pacific share price which dramatically rose during the year. The overweight will be rebalanced after review undertaken with recommendations for actions.

## GENERAL MANAGER'S REPORT Cont...

been completed for further necessary physical work to be pursued.

Pertinent to property management, the Fund is committed in ensuring its commercial and residential properties are properly maintained to quality standards to secure better property market value and income returns. There has been high costs expended during the period according to budget while some have experienced moderate increases. The major costs of about \$5 million have been incurred on refurbishment and upgrading of both commercial (i.e. exterior of Anthony Saru building) and residential properties (Honiara, Auki and Gizo) of the Fund. This is mainly due to lack of repairs /maintenance work undertaken in the last decade.

To continue with the refurbishment, a scoping exercise was undertaken to improve quality standards of other commercial buildings which would be phased in over the next two financial years including: interior of Saru building, external & internal of NPF building and Komi Pako Fera building and NPF Plaza. It is envisage that the Fund will incur reasonably high costs when these planned refurbishment programs do materialize.

The Fund also incurred substantial costs of around \$0.8 million in building service repairs mainly with the commercial properties. The service repairs including: air-conditioning system, generators, septic systems, fire equipment, solar hearth, pest control, carpet cleaning, pressure pumps, etc. There are eleven building services out of a targeted total of sixteen have been completed on the residential and commercial buildings owned by the Fund.

### ADMINISTRATIVE SUPPORT SERVICES

#### Administration

The department continues to carry out the administrative and human resources development functions to ensure achieving productive and efficient operations of the Fund.

The emphasis to develop the Fund's human resource capacity continues to be of importance to better equip the staff with

relevant knowledge and skills in meeting future challenges at work. In so doing, the staff are expected to contribute high work performance and efficiency. Eighteen employees undertook full and part-time trainings in various relevant fields of study in the institutions both locally and overseas. Five employees have graduated with a degree, diplomas and certificate at the end of Year 2007 i.e. one with degree at USP, three with diplomas at SICHE and one with certificate in legal studies at USP (SI). One employee is given a degree scholarship commencing Y2008 at USP and eight employees continuing with diploma studies at SICHE and USP (SI). Four of those staff will graduate at the end of Year 2008. Eight staff undertook part-time training both at SICHE and USP (SI).

Two IT personnel attended short-term oriented courses in Australia to enhance their skills and knowledge on software and hardware upgrades during the period. This is an ongoing training to keep abreast with the rapid changes in information technology hence this will assist IT staff to carry out their responsibilities more effectively.

In October 2007, the Fund hosted the Pacific Provident Fund and Social Security Forum CEOs' Meeting in Honiara with the theme: "Enhancing Growth and Improving Members Benefits – Our Challenge". There were ten (10) CEOs from all the National Provident Funds, Superannuation Funds and Retirement Funds within the Pacific Island Countries attended.

The number of staff houses stands at 44 and are located in Honaira, Gizo and Auki. No additional houses were built or purchased during the period. Thirty-eight houses are occupied by staff while six are rented to non Fund tenants.

The total staff of the Fund stands at 104 - representing both the management and general staff.

#### INFORMATION TECHNOLOGY

The primary intention of information technology within the Fund is to deliver "real-time" information to the Board, management and other stakeholders. In so doing, there are these important pre-requisites such as information systems,



GENERAL MANAGER’S REPORT Cont...

an agreed acquisition price.

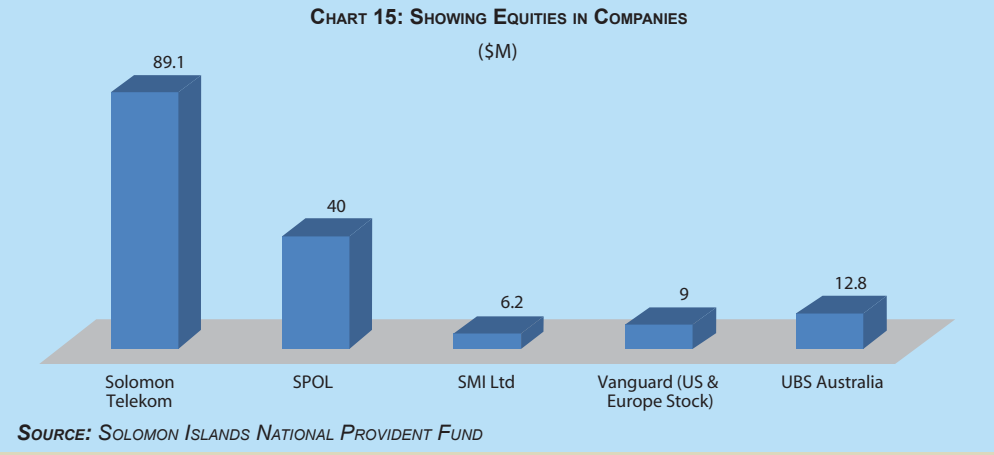


TABLE 3: EQUITIES INCOMES & RETURNS					
EQUITIES	DIVIDEND \$	UNREALIZED CAPITAL GAINS/ LOSS	UNREALIZED FX GAINS/ LOSSES	INCOME RETURN (\$)	RATE RETURN %
Unlisted Domestic Equity					
Solomon Telekom Ltd	\$20,703,409	\$0	\$0	\$20,703,409	23.20%
SMI Ltd	\$0	\$0	\$0	\$0	0.00%
South pacific oil ltd	\$12,000,000	\$0	\$0	\$12,000,000	30.00%
Total	\$32,703,409	\$0	\$0	\$32,703,409	24.20%
Listed Offshore Equity					
Bank South Pacific	\$1,853,139	\$63,631,336	\$6,219,769	\$71,704,244	65.10%
Vanguard US, S&P	\$0	(\$646,743)	(\$29,919)	(\$676,662)	-16.10%
Vanguard European	\$0	(\$938,951)	\$318,685	(\$620,266)	-13.00%
UBS Australian	\$2,407,956	(\$4,330,574)	\$588,302	(\$3,742,272)	-29.10%
Total	\$4,261,095	\$57,715,067	\$7,096,837	\$69,072,999	52.30%
Overall Total	\$36,964,504	\$57,715,067	\$7,096,837	\$101,776,408	38.10%

Source: Solomon Islands National Provident Fund

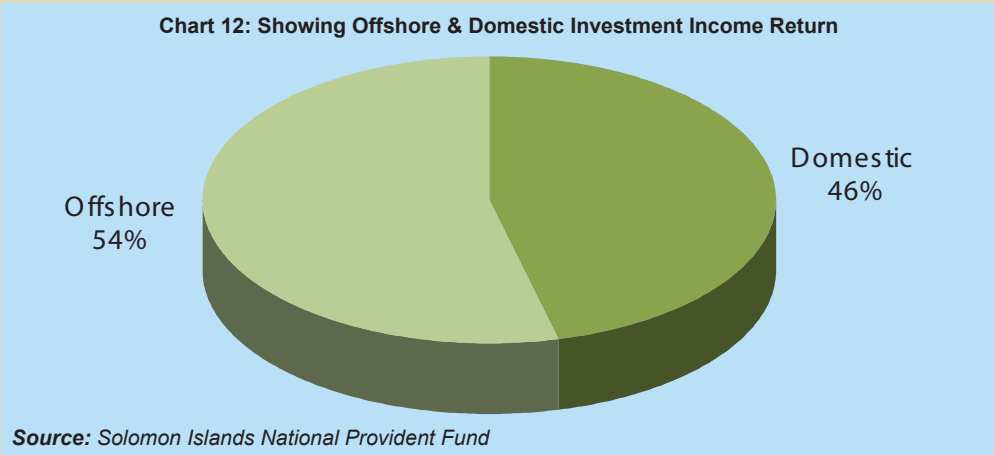
PROPERTY DEVELOPMENT & MANAGEMENT

On property investment, there is a slightly increased to \$55.7 million (mostly reflecting 2003/4 revaluation) and has contributed \$5.7 million income or 10% return during the financial year. This is an inadequate return against the level of investment and resources employed. It is believed that the property portfolio is under-performing its potential. However, property investment could deliver significant better returns for the Fund if operational deficiencies are addressed. In this respect, an assessment study been completed and would be commissioned in the next financial year by an expert in property development and

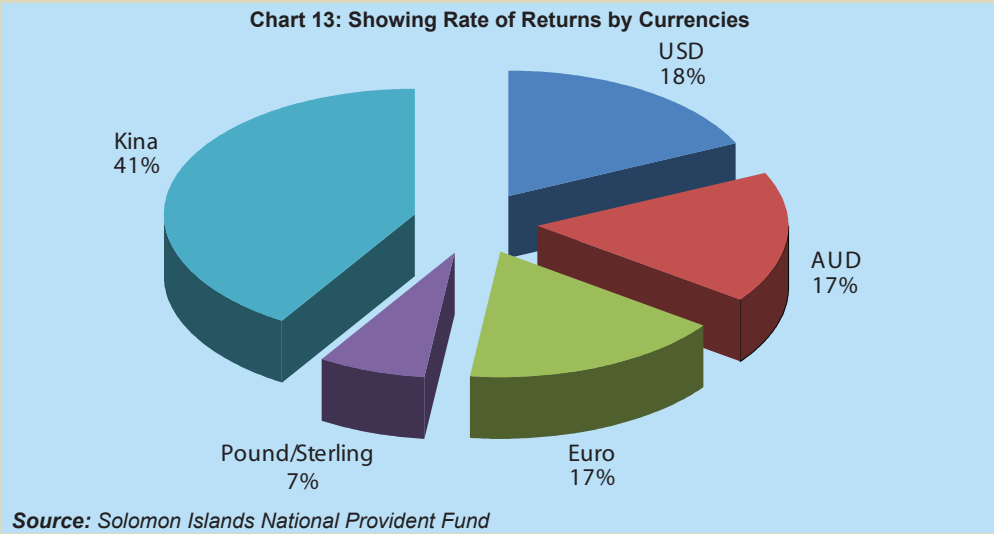
management under the Australian Business Volunteer (ABV) programme.

The SINPF Executive Apartment project is progressing in terms of feasibility study, geo-tech work, architectural designs, environmental impact assessment and site preparations. The physical construction of the 24 unit Apartment project will commence in Y2008 /09. The project is designed to meet the executive residential segment of the market in Honiara. The Fund envisage to achieving a reasonable rate of return to members once it is fully utilized by potential tenants. On Ranadi land (formerly Shorncliff land) it is planned for small industrial estate development, a concept design and geo-tech work have

GENERAL MANAGER’S REPORT Cont...



The rate of return on currency exposures, PNG Kina accounted for 41% followed by USD at 18%, AUD and EURO at 17% each and GBP at 7%. The overweight in Kina exposure is due to the dramatic increase in the price of Bank South Pacific shares.



A total of \$320 million (\$160.7 million domestic and \$133.9 million offshore) are invested in cash and fixed term deposits representing 39% of the total portfolio assets. This asset class contributed \$13.4 million income or 1.9% which is driven primarily by returns from offshore cash and fixed term deposit investments. Domestically, the fixed term deposits recorded a rate of return of 2.9% compared to offshore based fixed term deposits at 6.5%. During the period, the Reserve Bank of Australia and Bank of England increased their official cash rates while Federal Reserve Bank of USA reduced its official cash interest rate. The level of these official

cash rates set the benchmarks on which the Fund’s fixed term deposits in the various currencies are invested in and are priced at various terms. Towards the end of the year, there was a significant increase in the demand for funds by commercial banks thus lifted interest rates to settle under 4% per annum as Central Bank of Solomon Islands introduced another mopping up of excess liquidity exercise. Furthermore, there are unrealized foreign exchange losses noted on USD term deposits due to the weakening of US dollar against other major currencies and British pounds. This is due to the high initial foreign exchange spread incurred by the Fund when purchasing the pound currency. It is should noted that the SBD is pegged to the US dollar.

GENERAL MANAGER’S REPORT Cont...

GOVERNMENT SECURITIES

The SIG’s and SOEs securities are in order and according to the arrangement reached between SINPF Board and the National Government. The total securities stands at \$130.9 million with interest earned about \$5 million - a rate of return of 3.8% which is below the recommended hurdle rate of 12%. The holders of the restructured Bonds (including SINPF) continued to benefit from additional 1% bonus interest as result of the Government’s past 12 twelve months high domestic revenue performance. The serviceability of the securities is current and satisfactory as result of the stability of

public finances. The interest rates on the restructured Bonds are priced at 2.25%. While on securities, the Fund has provided a non-cash guarantee to Bank South Pacific Limited for the ex-NBSI SIG long-term bonds with a risk premium of 2.5% which earned an income of around \$0.8 million per annum – the 1st of which is received in this financial year.

The Fund continues to participate in the short-term Treasury bill market managed by CBSI with an exposure cap at \$6 million. Most purchases are made in the 91 day bills category attracting interest rates ranging from 2 – 3%.

TABLE 2: SIG AND SOE SECURITIES AND RETURNS			
SECURITY BONDS	PORTFOLIO BALANCE	INCOME INTEREST	RATE OF RETURN
SIG Restructured bonds	\$43,009,189	\$1,453,332	3.40%
SIG Amortized bonds	\$61,524,399	\$1,446,793	2.40%
SIG - Soltai Amortized bonds	\$8,253,751	\$401,874	4.90%
SIG – SICHE Amortized bonds	\$8,359,044	\$444,824	5.50%
SIEA Amortizing bonds	\$4,030,323	\$341,950	8.90%
Treasury bills	\$5,698,854	\$134,287	2.60%
Guarantee of Ex NBSI - SIG bonds	\$0	\$795,188	2.50%
Total	\$130,875,560	\$5,018,248	3.90%

Source: Solomon Islands National Provident Fund

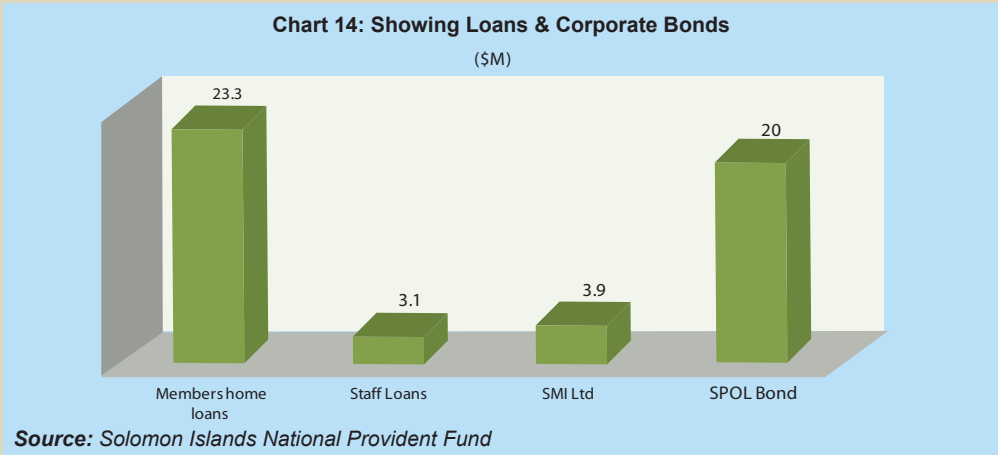
Pertinent to loans and corporate bonds, the total portfolio reached \$47.8 million and has earned slightly above \$3 million – a rate of return of 6.9% During the year, the Fund further purchased a 12 month Bond valued \$20 million been issued by South Pacific Oil Ltd at an interest rate of 7.5% p.a.

Members’ mortgage housing loans stands at \$20.3 million which represents 304 members actively meeting their loan obligations while one loan was written-off. This brings the total of 35 members having mortgage loans during the financial year period. Members’ home loan portfolio recorded a rate of return of 13% due mainly to recovery of bad debts incurred by delinquent borrowers and write-back of provisions taken up against prior years’ profit. This portfolio accounted for 2.4% of

the Fund’s total investment assets. SINPF Board has recently made a desire to resume the members’ housing scheme in the next financial year with the view to be outsourced on a commercial basis separate from the Fund’s organizational structure. Thus, this led to the Fund’s Board expressing its interest for the acquisition of S.I. Home Finance Ltd from S.I. Government.

The repayment on SMI Ltd loan issued to SMI (under provisional liquidation) has not yet commenced. It is expected to resume when the company is returned to the Board of SMI Ltd. The High Court’s approved Scheme of Arrangement is expected to be terminated soon upon an application by the Scheme Manager. The matter is being vigorously pursued with the Scheme Manager to ensure a foreclosure is done as soon as practical.

GENERAL MANAGER’S REPORT Cont...



EQUITY INVESTMENTS

On equities, the total equity portfolios in terms of listed and unlisted stocks reached \$267.4 million - representing 32.4% of the Fund’s total investment portfolios. The equities have generated a 35% rate of return to the Fund. These return outcomes stemmed from income returns from Bank South Pacific in terms of dividends, share capital appreciation and gains on foreign exchanges amounting to \$71.7 million or 65% rate of return. The capital appreciation and gains are recognized in the Fund’s books under the mark to market accounting IAS 39 which has been adopted.

On the same note, Solomon Telekom Ltd continues to deliver reasonable dividend payments amounting to \$20.7 million or 23% rate of return and South Pacific Oil Ltd delivered a dividend of \$12 million or 30% rate of return after its first year of operations. The Fund’s investment in SMIL remains a non-performing investment during the financial year.

The offshore equity exposures are through three managed funds in Australia, USA and Europe delivered negative returns in the first six months of investing in them. The three financial markets declined and remain highly volatile due to the problems emanating from the USA sub-prime mortgage and credit crisis, high world oil prices and high inflation. The Fund maintains its observation on these equities with the view to re-invest in other less volatile potential investment opportunities in the markets if the worst case scenario occurs in the future.

There are two domestic entities the Board has expressed interest in acquiring. Due diligent assessment studies are undertaken on the past and present financial status of the entities namely: Panatina Village Ltd and S.I. Home Finance Ltd. On the Panatina Village Ltd, a series of discussions been held between SINPF Management and company’s Proprietors. Any acquisition is subject to both parties agreeing to acceptable purchase price and other terms of conditions offered by the parties concerned.

Pertaining to Home Finance Ltd, the Board has responded to S.I. Government’s intention to divest its commercial interest due to the company’s failure to deliver its mandated policy objectives i.e. decent residential homes to Solomon Islanders. The Fund’s positive response to acquire the company is aimed to restart the members’ housing ownership scheme which has been suspended in Y2000. The proposal should assist in minimizing the current acute housing shortage for Solomon Islanders, particularly in Honiara city. If acquired, the Board would utilize the company as an “investment vehicle” to facilitate the provision of housing ownership both in urban and rural locations by members of the Fund. The Board will ensure the company will operate on commercial basis to deliver reasonable return while at the same time deliver home ownership to members. The Board will pursue recapitalization to provide acceptable liquidity to realize the planned objectives. The Ministry of Finance is having continuing discussions and negotiations with the Fund to arrive at