

**SOLOMON ISLANDS  
NATIONAL PROVIDENT FUND**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2011**

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

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**SOLOMON ISLANDS NATIONAL PROVIDENT FUND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

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**Statement By Directors**

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

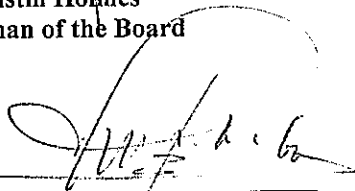
In the opinion of the directors:

- (a) the statement of net assets is drawn up so as to present fairly the state of affairs of the Fund as at 30 June 2011.
- (b) the statement of changes in net assets is drawn up so as to present fairly the profit of the Fund for the period ended 30 June 2011.
- (c) the statement of changes in members funds is drawn up so as to present fairly the state of members' contributions held by the Fund for the period ended 30 June 2011.
- (d) the financial statements have been made out in accordance with the provisions of the Solomon Islands National Provident Act 1973 as amended, International Financial Reporting Standards and other applicable standards in the Solomon Islands.



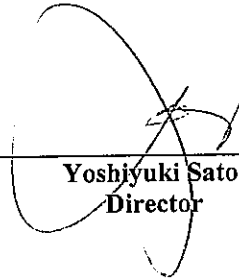
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**Austin Holmes  
Chairman of the Board**



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**Tony Makabo  
General Manager (CEO)**



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**Yoshiyuki Sato  
Director**

Dated this 12<sup>th</sup> day of October 2011



# **Independent Auditor's Report**

To the Board of Directors of Solomon Islands National Provident Fund

## **Scope**

I have audited the accompanying financial report of Solomon Islands National Provident Fund ("Fund"), which comprises the statement of net assets as at 30 June 2011, and the statement of changes in net assets, statement of changes in members fund and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes and the statement by directors declaration, as set out on pages 1 to 30.

## **Management's Responsibility for the Financial Report**

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

## **Auditor's Responsibility**

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

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

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

### **Basis for Qualified Audit Opinion**

I was not provided with sufficient appropriate audit evidence in relation to the Members Contribution Liability of \$1,147,946,213. Consequently I was unable to determine if any adjustment to this amount was necessary.

### **Qualified Audit Opinion**

In my opinion, except for the possible effects of any adjustments that might have been necessary in respect of the Members Contribution Liability, the report of Solomon Islands National Provident Fund ("Fund"), presents fairly in all material respects of the Fund's financial position as at 30 June 2011 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Emphasis of Matter**

Without qualifying my opinion further, I draw your attention to note 12 to the financial statements. The operations of the Fund and those similar enterprises operating in the Solomon Islands have been affected and may continue to be affected for the foreseeable future by the continuing social and economic uncertainties existing for enterprises operating in the Solomon Islands. The majority of the fund's assets are exposed to these uncertainties. I also draw your attention to note 13 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.



Peter Johnson  
Acting Auditor-General

Office of the Auditor-General  
Solomon Islands


14 October 2011

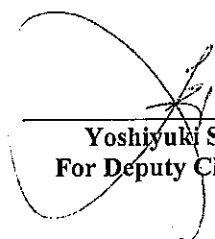
**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**

**STATEMENT OF NET ASSETS  
AS AT 30 JUNE 2011**

	Note	June 2011 \$	June 2010 \$
<b>RESERVES</b>			
Revaluation Reserve	4 (a)	46,904,402	46,904,402
General Reserve	4 (b)	49,533,405	40,429,312
Total reserves		<u>96,437,807</u>	<u>87,333,714</u>
<b>Represented by:</b>			
<b>INVESTMENTS</b>			
Held to maturity	6 (a)	584,825,177	590,578,503
Financial assets at fair value	6 (b)	300,480,805	259,043,753
Investment properties	6 (c)	90,149,111	74,385,000
Loans and advances	6 (d)	88,579,189	20,072,298
Total investments		<u>1,064,034,282</u>	<u>944,079,554</u>
<b>OTHER ASSETS</b>			
Cash	14	51,474,055	38,182,885
Receivables	5	74,225,086	55,818,085
Property, plant and equipment	8	69,172,613	48,393,498
Total other assets		<u>194,871,753</u>	<u>142,394,468</u>
<b>LIABILITIES</b>			
Creditors		1,281,408	1,259,842
Accruals and Provisions	9	10,776,608	9,929,830
Special Death Benefits		2,463,999	2,600,385
Members Contributions		1,147,946,213	985,350,251
		<u>1,162,468,228</u>	<u>999,140,308</u>
<b>NET ASSETS</b>		<u>96,437,807</u>	<u>87,333,714</u>

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

  
Austin Holmes  
Chairman of the Board

  
Yoshiyuki Sato  
For Deputy Chairman

  
Tony Makabo  
General Manager (CEO)

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND****STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	June 2011 \$	June 2010 \$
<b>INVESTMENT INCOME</b>			
Interest	3 (a)	35,093,480	35,474,355
Dividends	3 (b)	52,631,946	32,000,924
Rentals	3 (c)	14,513,571	11,421,843
Net gain/(loss) on changes in fair values of financial assets	3 (d)	27,159,664	(23,549,821)
Total investment income		<u>129,398,661</u>	<u>55,347,301</u>
<b>OTHER INCOME</b>			
Surcharges		4,548,974	5,262,028
Sundry	3 (e)	1,326,426	3,559,304
Gain on sale of fixed assets		187,449	196,507
Total other income		<u>6,062,849</u>	<u>9,017,839</u>
<b>TOTAL INCOME</b>		<u>135,461,510</u>	<u>64,365,140</u>
<b>LESS: OPERATING EXPENDITURE</b>			
Normal operating expenses	3 (f)	43,960,855	29,333,772
Members expenses		1,644,467	971,183
Doubtful debts		1,999,846	1,149,491
<b>TOTAL EXPENDITURE</b>		<u>47,605,168</u>	<u>31,454,446</u>
<b>GROSS SURPLUS</b>		<u>87,856,342</u>	<u>32,910,694</u>
<b>Less: Appropriation</b>			
Interest credited to members		78,884,952	39,663,715
<b>NET SURPLUS/(DEFICIT)</b>		<u>8,971,390</u>	<u>(6,753,021)</u>

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**

**STATEMENT OF CHANGES IN MEMBERS FUND  
AS AT THE 30 JUNE 2011**

	Note	June 2011 \$	June 2010 \$
Opening Balance at 1 July		985,350,251	875,246,121
Add:			
Contributions received during the year		161,625,253	138,874,961
Interest on members accounts	2(e)	78,678,994	39,663,715
		<u>1,225,654,498</u>	<u>1,053,784,797</u>
Less:			
Contribution Withdrawals		79,325,514	68,170,101
Transfer to SDB reserve	2(d)	507,469	488,726
Transfer to general reserve		132,702	22,908
		<u>79,965,685</u>	<u>68,681,735</u>
Total changes in members fund		1,145,688,814	985,103,062
Add/(less):			
Adjustment to contribution account*		2,257,399	247,189
Balance at 30 June		<u>1,147,946,213</u>	<u>985,350,251</u>
<b>Represented by:</b>			
Identified		1,113,687,223	957,935,112
Unidentified		9,356,640	5,778,753
Contribution Creditors		23,261,002	21,636,386
Provisions - Contributions		1,641,348	-
		<u>1,147,946,213</u>	<u>985,350,251</u>

*\* Adjustment to contributors account relates to adjustment taken up in order to agree the contributors balances per NPF2000 to the general ledger balance maintained in MYOB. The closing balance of \$1,147,946,213 agrees to the NPF2000 contributors accounts at 30 June 2011.*

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



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND****STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2011**

		June 2011	June 2010
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	Notes		
Receipts from investments and customers		57,289,649	55,718,287
Payments to suppliers and employees		(41,539,663)	(25,159,227)
Interest and benefits paid to members		(1,644,467)	(971,183)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	14 (b)	<u>14,105,519</u>	<u>29,587,877</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(34,289,374)	(1,672,422)
Investment in loan portfolios & members etc		(50,119,410)	(81,124,482)
<b>NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES</b>		<u>(84,408,784)</u>	<u>(82,796,904)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase/(Decrease) in contribution balance		84,153,145	70,952,225
Payment of special death benefits		(558,710)	(523,594)
<b>NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		<u>83,594,435</u>	<u>70,428,631</u>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<u>13,291,170</u>	<u>17,219,604</u>
Add opening cash brought forward		<u>38,182,885</u>	<u>20,963,281</u>
<b>CLOSING CASH CARRIED FORWARD</b>	14 (a)	<u>51,474,055</u>	<u>38,182,885</u>

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

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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### 1. GENERAL INFORMATION

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

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

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

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

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

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

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

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

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

#### (b) Comparatives

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

#### (c) Members Contribution Account

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

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

As provided for in the Act an amount is deducted from each member's account at 30 June each year in respect of Special Death Benefit to be paid to the beneficiaries of the member after the death of a member. The maximum sum payable on SDB for the year ended 30th June 2011 was \$6,000.

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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### (e) Interest on Members Account

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

### (f) Property, plant and equipment

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

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

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

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

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

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

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

### (g) Income Tax

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

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

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

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

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

**(i) Financial Instruments**

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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

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

### Loans and receivables

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

Interest is recognised by applying the effective interest rate.

### Impairment of financial assets

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

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

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

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

### Financial liabilities

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

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

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

### Other financial liabilities

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011

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**(j) Cash and cash equivalents**

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

**(k) Foreign currency**

Functional presentation currency

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

Transactions and balances

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

**(l) Provisions**

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

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

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

**(m) Payables**

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

**(n) Computer systems development costs**

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

**(o) Investment Property**

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**3. INCOME AND EXPENSES**

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

	<b>June 2011</b>	<b>June 2010</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Interest income</b>		
Cash at bank	111,566	52,975
Treasury bills	274,609	230,234
Bonds	10,671,799	4,656,718
Loans and advances	1,230,119	1,781,325
Investment securities:		
- Held to maturity	22,805,387	28,753,103
<b>Total</b>	<u>35,093,480</u>	<u>35,474,355</u>
<b>(b) Dividend income</b>		
Quoted shares	4,153,776	3,495,021
Unquoted shares	48,033,313	28,113,838
Managed funds	444,857	392,065
<b>Total</b>	<u>52,631,946</u>	<u>32,000,924</u>
<b>(c) Rental income</b>		
Investment properties	10,766,231	9,808,649
Others	3,747,340	1,613,203
<b>Total</b>	<u>14,513,571</u>	<u>11,421,852</u>
<b>(d) Gain/(loss) from changes in fair values</b>		
Investment Properties	6,049,346	1,728,651
Fair value through profit and loss	21,110,318	(25,278,472)
<b>Total</b>	<u>27,159,664</u>	<u>(23,549,821)</u>
<b>(e) Sundry income</b>		
Bad debts recovery	371,592	2,592,145
Risk premium fee -- Bank South Pacific	782,718	782,718
Others	172,117	184,441
<b>Total</b>	<u>1,326,427</u>	<u>3,559,304</u>
<b>(f) Operating expenses</b>		
Board and management allowances	456,588	192,249
Utilities (water, electricity)	10,990,648	7,512,277
Repairs and maintenance	10,793,832	4,418,530
Land rates and rental charges	352,249	240,758
Administrative expenses	4,204,405	3,237,831
Depreciation expenses	3,769,060	4,190,532
Insurance expenses	564,693	496,960
Audit fees	275,000	397,786
Bank charges	56,876	53,989
Consultancy fees and expenses	2,966,785	817,690
Staff costs	9,530,719	7,775,170
<b>Total</b>	<u>43,960,855</u>	<u>29,333,772</u>

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### 4. RESERVES AND OPERATING FINANCIAL PERFORMANCE

The following is a summary of the reserves held:

- **Revaluation Reserve**  
The last revaluation was done on 31<sup>st</sup> May 2009. The revaluation surplus/loss is credited to the revaluation reserve. The next revaluation of the land and buildings will be carried out in the subsequent 3 years.
- **General Reserve**  
General revenues less normal operational expenses are credited to the General Reserves unless otherwise appropriated.

The following items are credited to the reserve each year:

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

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

	June 2011	June 2010
	\$	\$
<b>(a) Revaluation Reserve</b>		
Opening Balance	46,904,402	46,904,402
Add: Revaluation during the year	-	-
Balance at 30 June	<u>46,904,402</u>	<u>46,904,402</u>
<b>(b) General Reserve</b>		
Opening Balance	40,429,313	47,159,425
Transfers – Unclaimed Contributions	132,702	22,908
Transfers from General Reserve	-	-
Net surplus/(deficit) for the year	<u>8,971,390</u>	<u>(6,753,021)</u>
Balance at 30 June	<u>49,533,405</u>	<u>40,429,312</u>
Total reserve	<u><u>96,437,807</u></u>	<u><u>87,333,714</u></u>

### 5. RECEIVABLES

Interests	22,288,256	13,892,607
Rentals	682,237	506,544
Dividends	48,843,046	39,012,077
Surcharges	11,386,190	12,178,803
Others	<u>1,631,051</u>	<u>1,377,887</u>
	84,830,780	66,967,918
Less: Allowance for doubtful debts	<u>(10,605,694)</u>	<u>(11,149,833)</u>
	<u><u>74,225,086</u></u>	<u><u>55,818,085</u></u>



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

The allowance for doubtful debts of \$10,605,694 is provided against arrears on surcharges and rental charges.

	June 2011	June 2010
	\$	\$
<b>6. INVESTMENTS</b>		
(a) Held-to-maturity investments		
On shore deposits	325,883,761	335,559,821
Offshore deposits	130,675,978	122,464,071
Total deposits	<u>456,559,739</u>	<u>458,023,892</u>
Government securities	128,265,438	112,554,611
<b>Total</b>	<u>584,825,177</u>	<u>570,578,503</u>
The movement in investment securities held-to-maturity:		
Balance at beginning of year	570,578,503	512,446,103
Purchases	198,760,242	269,925,472
Disposals	(184,513,568)	(211,793,072)
Closing balance	<u>584,825,177</u>	<u>570,578,503</u>
(b) Financial assets carried at fair value through profit and loss		
Equity securities at fair value		
- Listed	103,013,141	85,659,617
- Unlisted	-	-
Total equities at fair value	<u>103,013,141</u>	<u>85,659,616</u>
Equity at cost		
- Listed	-	-
- Unlisted	197,467,664	173,384,137
Total equities at cost	<u>197,467,664</u>	<u>173,384,137</u>
Less: Allowance for impairment of unlisted equities		-
<b>Total equities at cost and fair value</b>	<u>300,480,805</u>	<u>259,043,753</u>
The movement in investment securities carried at fair value through profit and loss:		
Balance at beginning of year	259,043,753	238,377,628
Purchases	356,574,758	50,846,600
Disposals	(336,248,024)	(4,902,003)
Gain/(loss) from change in fair value	21,110,318	(25,278,471)
Closing balance	<u>300,480,805</u>	<u>259,043,753</u>

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	Note	June 2011 \$	June 2010 \$
<b>(c) Investment properties</b>			
Land and buildings at valuation/cost			
Opening balance		74,385,000	72,656,349
Net book value (at cost) transfer from property, plant and equipment	8	(720,000)	-
Addition		10,434,765	-
Gain from fair value adjustment *		6,049,346	1,728,651
Closing valuation/cost balance		90,149,111	74,385,000
<b>Closing written down value</b>		<b>90,149,111</b>	<b>74,385,000</b>
<b>(d) Loans and advances</b>			
- Commercial loans		74,391,470	24,089,337
- Member schemes		12,391,927	14,443,628
- Staff schemes		3,442,405	3,531,710
Total gross loans and advances		90,225,802	42,064,676
Allowance for doubtful debts		(1,646,613)	(1,992,377)
<b>Net loans and advances</b>		<b>88,579,189</b>	<b>40,072,299</b>
The break down is as follows:			
- Current		5,117,996	22,729,941
- Non current		83,461,193	17,342,358
<b>Total</b>		<b>88,579,189</b>	<b>40,072,299</b>

\*Independent valuations of the Fund's Investment properties were performed by Value Solution Appraisal to determine the fair value of the land and buildings. The valuations, which conforms to international valuation standards, were determined by reference to the current market values of the land and buildings. The effective dates of the valuation was 8<sup>th</sup> June 2011.

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

#### (a) GOVERNMENT SECURITIES

##### (i) Amortized Restructured Bonds

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

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

Principal	Term	Rate	Installment	Maturity Date	Balance 30/06/2011
5,550,000	7 yrs	3.00%	59,138	15/07/2011	59,088
11,100,000	10 yrs	3.00%	97,732	15/07/2014	3,506,852
11,100,000	13 yrs	3.00%	78,089	15/07/2017	5,367,450
25,850,000	14 yrs	3.50%	53,009	15/12/2018	25,444,600
<b>53,600,000</b>			<b>287,968</b>		<b>34,377,990</b>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG) - continued**

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

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

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

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

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

Principal	Term	Rate	Installment	Maturity Date	Balance 30/06/2011
7,414,528	7 yrs	2.00%	94,665	15/11/2011	470,965
14,829,056	10 yrs	2.00%	136,447	15/11/2014	5,403,129
14,829,056	13 yrs	2.00%	108,029	15/11/2017	7,800,525
37,072,641	15 yrs	2.50%	77,234	15/11/2019	37,072,641
<b>74,145,281</b>			<b>416,375</b>		<b>50,747,260</b>

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

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

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

**(iii) Treasury Bills**

The Fund recommenced tendering for treasury bills offered by the Central Bank of Solomon Islands on behalf of the Solomon Islands Government. At the end of the year, the balance of treasury bills held by the Fund was \$5,859,670. These were mostly 91 days treasury bills secured at rates between 3.75% and 4% pa.

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

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

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

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

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

The balance of the ammortising bonds as at the end of the year was \$5,446,067.

**(v) SIG – SICHE Ammortising Bond**

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

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

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

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

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

The balance of the ammortising bond at the end of the year was \$ 5,794,452.

**(b) SHARES**

**(i) SOLOMON ISLANDS HOME FINANCE LIMITED**

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

SIHFL is the Fund's vehicle to provide housing solutions for members of the Fund on commercial terms.

**(ii) SOUTH PACIFIC OIL LIMITED**

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

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

At the end of the financial year, the Fund's shareholding was diluted to 80%.

**(iii) HERITAGE PARK HOTEL LIMITED**

During the year the Board of the HPHL recommended and was agreed to by shareholders to restructure the company's capital structure by apportioning 70% of the paid up equity to shareholders loans and 30% to equity. SINPF exposure's immediately following the restructure were as follow; \$ 7,246,826 equity and \$ 16,909,260 in shareholder's loan for a total exposure of \$ 24,156,085.

In the first 5 years the loan will be interest free. Post 5 years, the loan will be charged at 1% below the domestic market lending rate and repayment to be determined by Board resolution.

In the first 5 years dividends only will be paid maximising the benefit of the company's 5 years tax holiday, post 5 years, the dividend policy will be determined by Board resolution.

The Fund during the year reimbursed \$4,693,940 to CGA Limited, one of the shareholders in the company to ensure that SINPF's 20 shares in the company was maintained at 10% of the company's shareholding structure. This lifted our total exposure in the company to \$ 28,850,025, with our equity closing at \$ 11,955,105 and the loan maintained at \$ 16,909,260 at the end of the financial year.

**(iv) BANK SOUTH PACIFIC LIMITED**

During the year, the Board approved a sale down of 4,445,550 shares to be sold at no less than 65 toea per share. Papua New Guinea domiciled contracted Broker, Kina Securities was only able to sell down 1,892,138 shares at various prices of no less than the floor price of 65 toea, leaving a balance of 27,553,412 shares.

On 20<sup>th</sup> May 2011, at the Bank South Pacific Annual General Meeting (AGM) in Port Moresby, PNG, the AGM approved the share consolidation of 1:10 (one for ten) share consolidation. This translated to SINPF registered as holding 2,755,341.20 shares at the end of the financial year.

The BSP share price at the end of the year was \$22.09 per share.

**(v) SOLTAI FISHING AND PROCESSING COMPANY LIMITED (SOLTAI)**

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

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

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

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

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

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

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

**(viii) SOLOMON MUTUAL INSURANCE COMPANY LIMITED (SMI)/PROVIDENCE PROPERTIES LIMITED (PPL)**

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

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

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

**(ix) OFFSHORE MANAGED FUNDS**

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

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

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

At the end of the period the Fund has 1,343,192 units in UBS Australian Share Fund at the recorded price of \$ 11.71 per unit. During the year the Fund reinvested its quarterly distributions to purchase additional 31,276 units in the Fund under the Fund's Distribution Reinvestment Program (DRP).

The Fund continued to maintain the same level of units in Vanguard US 500 Stock Index Fund at 207,924, with a closing price of \$100.19 per unit recorded at the end of the year. The Fund as well maintained the same level of units in Vanguard European Stock Index Fund at 64,673.62 with a closing price per unit of \$125.77 at the end of the year..

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

**8. PROPERTY, PLANT AND EQUIPMENT**

	Land and Buildings \$	Machinery and Equipment \$	Motor Vehicles \$	Furniture and fittings, computer equipments and others \$	Total \$
<b>AT COST /VALUATION</b>					
Balance as at 1 July 2010	35,635,000	7,356,293	2,086,419	7,291,232	52,368,944
Additions/transfer from IAS 40	720,000	1,097,452	1,185,773	1,195,787	4,199,012
Revaluation increment	-	-	-	-	-
Transfer/Disposal	<u>(999)</u>	<u>(1,171,786)</u>	<u>(481,327)</u>	<u>(270,240)</u>	<u>(1,923,353)</u>
Balance as at 30 June 2011	<u>36,355,000</u>	<u>7,281,959</u>	<u>2,790,865</u>	<u>8,216,779</u>	<u>54,644,603</u>
<b>ACCUMULATED DEPRECIATION</b>					
Balance as at 1 July 2010	2,224,165	5,491,663	1,715,896	5,292,401	14,724,125
Charges	1,663,000	814,948	377,864	913,250	3,769,062
Transfers/Disposal	<u>(999)</u>	<u>(1,171,786)</u>	<u>(481,327)</u>	<u>(270,240)</u>	<u>(1,924,352)</u>
Balance as at 30 June 2011	<u>3,886,166</u>	<u>5,134,825</u>	<u>1,612,433</u>	<u>5,935,411</u>	<u>16,568,835</u>
<b>Written Down Value</b>					
As at 30 June 2011	<u>32,468,834</u>	<u>2,147,134</u>	<u>1,178,432</u>	<u>2,281,368</u>	<u>38,075,768</u>
Work in progress	30,004,462	-	-	1,094,274	31,098,736
Carrying Value as at 30 June 2011	<u>62,473,296</u>	<u>2,147,134</u>	<u>1,178,432</u>	<u>3,375,642</u>	<u>69,174,504</u>
Carrying Value as at 30 June 2010	<u>43,446,087</u>	<u>1,864,630</u>	<u>370,523</u>	<u>2,712,258</u>	<u>48,393,498</u>

	June 2011 \$	June 2010 \$
Aggregate depreciation recognized as expense during the year:		
Land and buildings	1,663,000	1,629,468
Machinery and equipment	814,947	753,566
Motor vehicles	377,863	332,354
Furniture and fittings, computer equipments and others	913,250	1,475,144
	<u>3,769,060</u>	<u>4,190,532</u>
Capital works in progress		
Balance as at 1 July 2010	10,748,679	10,112,903
Additions	20,350,057	635,776
Transfers	-	-
Balance as at 30 June 2011	<u>31,098,736</u>	<u>10,748,679</u>

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	June 2011 \$	June 2010 \$
The Work in progress comprise of the follow significant projects:		
Residential land and building	-	75,008
Rental land and building	30,004,462	9,960,244
Computer project	1,094,274	713,427
	<u>31,098,736</u>	<u>10,748,679</u>

### 9. CURRENT LIABILITIES – ACCRUALS & PROVISIONS

Nominees trust account	3,059,272	2,793,920
Rental bond	1,702,834	1,483,673
Accruals and employee provisions	3,090,923	2,937,841
Provision for interest overpaid	2,923,579	2,714,396
	<u>10,776,608</u>	<u>9,929,830</u>

### 10. RELATED PARTIES DISCLOSURE

Related Party Disclosures requires the disclosure of information relating to aggregate compensation of key management personnel. The key management personnel of the Fund are members of the Fund's Board and senior staff who have responsibility for planning, directing and controlling the activities of the Fund. In 2011, this group comprises 18 in total, including the General Manager (CEO), 8 non-executive Fund Board Members and 10 senior staff. Fees of the non-executive members of the Fund Board are determined by the Minister of Finance. The General Manager (CEO) contract is subject to review by the Board of trustees in terms of the Fund's policies. The Fund's Board of Directors determines the remuneration of other key executive. The key management personnel are:

The specified directors of the Fund during the year were:

Names	Appointment	Date of appointment	Term of appointment	Date appointment lapse	Representing
Mr Austin Holmes	Chairman	27 February 2010	2 years	27 February 2012	Employer
Mr. Danny Philip	Deputy Chairman	7 August 2008	3 years	10 October 2010	Minister's discretion
Mr. Peter Boyers	Deputy chairman	11 October 2010	3 years	11 October 2013	Minister's discretion
Rev. Mareta Tahu	Member	26 January 2011	2 year	26 January 2013	Minister's discretion
Mr Josés Tuhanuku	Member	7 August 2008	3 years	7 August 2011	Employees
Ms Tina Harihiru	Member	26 January 2011	2 years	26 January 2013	Employees
Mr Josiah Manehia	Member	26 January 2011	2 years	26 January 2013	Crown
Mr. Harry Kuma	Member	21 June 2010	2 years	21 June 2012	Crown
Mr. Yoshiyuki Sato	Member	21 June 2010	2 years	21 June 2012	Employer



# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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The specified executives of the Company during the year were:

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

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

	June 2011	June 2010
Total remuneration is included in 'personnel expenses' as follows:	\$	\$
Short-term employee benefits	2,491,853	2,223,587
Post-employment benefits	104,002	185,645
Other long-term benefits	-	18,241
Total Compensation	<u>2,595,855</u>	<u>2,427,473</u>

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

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

As at 30 June 2011 loans by the Fund to key management personnel are as follows:

Housing Loan	214,335	265,074
Others	359,725	423,172
Total Loans	<u>574,060</u>	<u>688,246</u>

Major transactions with Government Organisations / Statutory <sup>23</sup>Bodies for the year ended 30 June 2011 are as follows:

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

<b>Name of company/organisation</b>	<b>Outstanding</b>	<b>Received</b>	<b>Total Form A's/SD</b>
<b>Solomon Islands Electricity Authority</b>			
Contribution	(488,479)	2,182,429	1,693,950
Surcharge	2,478,806	1,000,000	3,478,806
<b>Solomon Islands Water Authority</b>			
Contribution	535	794,166	794,701
Surcharge	71,582	51,284	122,866
<b>Total</b>	<b>2,062,444</b>	<b>4,027,879</b>	<b>6,090,323</b>

<b>Name of company/organisation</b>	<b>Outstanding</b>	<b>Paid</b>	<b>Total Purchases</b>
	Goods and Service	Goods and Service	Goods and Service
Solomon Islands Electricity Authority	847,919	9,877,002	10,724,921
Solomon Islands Water Authority	60,025	543,134	603,159
<b>Total</b>	<b>907,944</b>	<b>10,420,136</b>	<b>11,328,080</b>

**Related Party transactions**

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

**11. AUDITORS REMUNERATION**

Fees totaling \$275,000.00 was provided in the accounts for audit services this year (\$302,000 last year). No other benefits were received by the auditors (Office of the Auditor General) during the year other than fees paid for normal accountancy services.

**12. GOING CONCERN**

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

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

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**13. CONTINGENT LIABILITY**

**(a) Deed between SINPF and SIG**

Following the Deed signed on 2nd December 2004, as per Note 7(a) (ii) between Solomon Islands National Provident Fund and Solomon Islands Government, SINPF have credited the members with the contributions of \$35.4 million during 2005.

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

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

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

The balance to date of the long term bonds is \$41,744,933.87.

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

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

	June 2011 \$	June 2010 \$
(a) Cash balance comprises of:		
Cash at bank	51,471,255	38,181,785
Cash on hand	2,800	1,100
	<u>51,474,055</u>	<u>38,182,885</u>

**(c) Reconciliation of the operating Surplus/(Loss) after Interests to the net cash flows from operations:**

	June 2011 \$	June 2010 \$
Net surplus/(deficit) after interests to members	8,971,390	(6,753,021)
<i>Adjustments for:</i>		
Depreciation expense	3,769,060	4,190,532
Annual interests to members	78,884,952	39,663,716
Bad and doubtful debts	710,104	(984,523)
Net gain/(loss) in changes in fair values of financial assets	(25,352,466)	23,549,821
Gain on disposal of fixed assets	(187,449)	(196,507)
	June 2011 \$	June 2010 \$

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Receivables and prepayments	(53,342,050)	(31,017,400)
Trade and provisions	651,978	1,135,260
Contributions		-
	<u>14,105,519</u>	<u>29,587,877</u>

### 15. EMPLOYEES

The number of full time permanent Fund employees as at 30 June 2011 was 112 and 111 in 2010.

### 16. SUBSEQUENT EVENTS

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

**Solomon Mutual Limited/Provident Properties Limited** - The Board in its April 2011 meeting approved the voluntary liquidation of Providence Properties Limited (PPL) with plans for SINPF to acquire the company's Honiara shorefront commercial properties.

The proceed of the sale of the company's properties will first be used to pay off the company's creditors, with the SINPF Board noted as a major creditor to the company. The balance will be shared among the two remaining shareholders according to their shareholding proportions.

**Solomon Airlines Limited** - In April 2011, the Board approved a loan of US\$3.4 million to Solomon Airlines Limited to assist the company part finance the purchase a new Dash 8 aircraft. This loan is no longer necessary, as Ministerial approval was not forthcoming within the time given by the owner to Solomon Airlines Limited to make the purchase. The plan was then immediately sold to another buyer.

### 17. FINANCIAL INSTRUMENTS

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

#### (a) Credit risk

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

Credit risk on financial assets is minimized by dealing with recognized monetary institutions. At balance sheet date concentrations of credit risk are noted for Bank South Pacific, ANZ Bank, and Westpac Bank. The asset allocation at balance date is as follows:

June 2011

June 2010

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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	\$	%	\$	%
<b>Assets</b>				
Held to maturity	584,825,177	46%	570,578,503	52%
Financial assets at fair value	300,480,805	24%	259,043,753	24%
Investment properties	90,149,111	7%	74,385,000	7%
Loans and advances	88,579,189	8%	40,072,298	4%
Cash	51,474,055	4%	38,182,885	4%
Receivables	74,225,086	6%	55,818,085	5%
Property, plant and equipment	69,172,613	5%	48,393,498	4%
<b>Total</b>	<b>1,258,906,035</b>	<b>100%</b>	<b>1,086,474,022</b>	<b>100%</b>

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

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

**(b) Government security risk**

The Fund has a significant exposure to the Solomon Islands Government (SIG) through its holding of government securities and bonds. The total holdings from SIG at 30 June 2011 is \$102,357,994 (June 2010: \$112,554,611).

**(c) Foreign exchange risk**

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

	Currency					Total \$
	SBD \$	AUD \$	USD \$	Euro \$	Others \$	
<b>30 June 2011</b>						
<b>Assets</b>						
Held to maturity	454,281,755	38,292,997	41,312,910	29,845,285	21,092,250	584,825,197
Financial assets at fair value	197,467,664	11,717,117	20,831,128	8,134,337	62,330,559	300,480,805
Investment properties	90,149,111					90,149,111
Loans and advances	88,579,189					88,579,189
Cash	51,474,055					51,474,055
Receivables	74,225,086					74,225,086
Property, plant and equipment	69,172,613					69,172,613
<b>Total</b>	<b>1,258,906,035</b>	<b>50,010,114</b>	<b>62,144,038</b>	<b>37,979,622</b>	<b>83,422,809</b>	<b>1,025,349,472</b>
<b>Liabilities</b>						
Creditors	1,281,408					1,281,408
Accruals and Provisions	10,776,608					10,776,608
Special Death Benefits	2,463,999					2,463,999
Members Contributions	1,147,946,213					1,147,946,213
<b>Total</b>	<b>1,162,468,228</b>					<b>1,162,468,228</b>
<b>Net</b>	<b>(137,118,756)</b>	<b>50,010,114</b>	<b>62,144,038</b>	<b>37,979,622</b>	<b>83,422,809</b>	<b>96,437,807</b>

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

30 June 2010

Assets						
Held to maturity	448,114,432	35,643,286	36,379,645	31,009,009	19,432,130	570,578,503
Financial assets at fair value	173,384,136	20,789,367	20,560,783	9,456,093	34,853,374	259,043,753
Investment properties	74,385,000	-	-	-	-	74,385,000
Loans and advances	40,072,298	-	-	-	-	40,072,298
Cash	38,182,885	-	-	-	-	38,182,885
Receivables	55,818,085	-	-	-	-	55,818,085
Property, plant and equipment	48,393,498	-	-	-	-	48,393,498
<b>Total</b>	<b>878,350,334</b>	<b>56,432,653</b>	<b>56,940,428</b>	<b>40,465,102</b>	<b>54,285,504</b>	<b>1,086,474,022</b>
Liabilities						
Creditors	1,259,842	-	-	-	-	1,259,842
Accruals and Provisions	9,601,257	-	-	-	-	9,601,257
Special Death Benefits	2,600,385	-	-	-	-	2,600,385
Members Contributions	985,350,251	-	-	-	-	985,350,251
<b>Total</b>	<b>999,140,308</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>999,140,308</b>
<b>Net</b>	<b>(120,789,974)</b>	<b>56,432,653</b>	<b>56,940,428</b>	<b>40,465,102</b>	<b>54,285,504</b>	<b>87,333,714</b>

### Foreign currency sensitivity analysis

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

The following table details the Fund's sensitivity to a 10% increase and decrease in the Solomon Islands dollars against the relevant Foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. Where the SBD strengthen by 10% against the relevant foreign currency, a downside of the amount indicated below will reduce profit and equity by that amount. For a 10% weakening of the Solomon Islands dollar against the relevant currency, there would be a comparable positive impact that will improve profit and other equity by that same amount. The plus or minus amounts in the relevant currency are as noted below:

	AUD impact		USD impact		Euro impact		GBP impact		PGK impact	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Changes in net assets	1,758,386	546,347	2,547,901	23,762	2,210,940	5,608,045	308,718	1,695,162	30,733,405	2,026,604
Other reserves	-	-	-	-	-	-	-	-	-	-

### (d) Interest rate risk

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

The credit risk on held to maturity investments is limited because the counterparties are banks with high credit-

# SOLOMON ISLANDS NATIONAL PROVIDENT FUND

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

ratings assigned by international credit-rating agencies and the Solomon Islands government, a sovereign state. The Fund has no borrowing for which it has to pay interest expenses and its liability is limited only to members' contributions which receive interest earnings calculated on dividend basis. Accordingly an interest rate sensitivity analysis is not required.

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

	Weighted average effective interest rate %	Up to 1 Year \$	1-5 years \$	Over 5 years \$	Non Interest Bearing \$	Total \$
<b>30 June 2011</b>						
<b>Assets</b>						
Held to maturity	5.07%	224,103,339	182,456,400	178,265,438	-	584,825,177
Financial assets at fair value		-	-	300,480,805	-	300,480,805
Investment properties					90,149,111	90,149,111
Loans and advances		5,117,996	72,558,474	10,902,718	-	88,579,188
Cash		51,474,055	-	-	-	51,474,055
Receivables		-	-	-	74,225,086	74,225,086
Property, plant and equipment		-	-	-	69,172,613	69,172,613
	5.07%	280,695,390	255,014,874	489,648,961	233,546,810	1,258,906,035
<b>Liabilities</b>						
Creditors		-	-	-	1,281,408	1,281,408
Accruals and Provisions		-	-	-	10,776,608	10,776,608
Special Death Benefits		616,000	739,200	1,108,800	-	2,464,000
Members Contributions		160,712,470	275,507,091	711,726,652	-	1,147,946,213
		161,328,470	276,246,291	712,835,452	12,058,016	1,162,468,228
<b>Interest sensitivity gap</b>		119,366,920	(21,231,417)	(223,186,491)	221,488,794	96,437,807
<b>30 June 2010</b>						
<b>Assets</b>						
Held to maturity	6%	248,272,819	209,751,074	112,554,611	-	570,578,503
Financial assets at fair value	-	-	-	259,043,754	-	259,043,753
Investment properties	-	-	-	-	74,385,000	74,385,000
Loans and advances	-	2,729,941	20,000,000	17,342,358	-	40,072,299
Cash	-	38,182,885	-	-	-	38,182,885
Receivables	-	-	-	-	55,818,085	55,818,085
Property, plant and equipment	-	-	-	-	48,393,495	48,393,498
	6%	289,185,645	229,751,074	388,940,722	178,596,580	1,086,474,022
<b>Liabilities</b>						
Creditors	-	-	-	-	1,259,842	1,259,842
Accruals and Provisions	-	-	-	-	9,929,830	9,929,830
Special Death Benefits	-	520,077	780,116	1,300,192	-	2,600,385
Members Contributions		197,070,052	295,605,075	492,675,126	-	985,350,251
		197,590,129	296,385,191	493,975,318	11,189,672	999,140,308
<b>Interest sensitivity gap</b>		91,595,516	(66,634,117)	(105,034,595)	167,406,908	87,333,714

(e) Liquidity risk

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

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

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

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

	Up to 1 month \$	1 - 3 months \$	3- 12 months \$	1-5 years \$	Over 5 years \$	Total \$
<b>30 June 2011</b>						
<b>Assets</b>						
Held to maturity	30,000,000	-	194,103,339	182,456,400	178,397,994	584,825,177
Financial assets at fair value	-	-	-	-	300,480,805	300,480,805
Investment properties	-	-	-	-	90,149,111	90,149,111
Loans and advances	-	-	5,117,996	72,558,474	10,902,718	88,579,188
Cash	51,474,055	-	-	-	-	51,474,055
Receivables	2,946,320	2,267,117	68,203,886	807,762	-	74,225,085
Property, plant and equipment	-	-	-	-	69,172,613	69,172,613
<b>Total</b>	<b>84,420,375</b>	<b>2,267,117</b>	<b>267,425,221</b>	<b>255,822,636</b>	<b>649,103,241</b>	<b>1,258,906,035</b>
<b>Liabilities</b>						
Creditors	1,234,951	29,189	8,041	9,227	-	1,281,408
Accruals and Provisions	450,988	227,511	1,459,287	6,999,403	1,639,419	10,776,608
Special Death Benefits	154,000	215,600	246,400	739,200	1,108,800	2,464,000
Members Contributions	40,178,117	48,213,741	72,320,611	275,507,091	711,726,652	1,147,946,212
<b>Total</b>	<b>42,018,056</b>	<b>48,686,042</b>	<b>74,034,339</b>	<b>285,254,921</b>	<b>714,474,871</b>	<b>1,162,468,228</b>
<b>Net liquidity gap</b>	<b>42,402,319</b>	<b>(46,418,925)</b>	<b>193,390,882</b>	<b>(27,432,283)</b>	<b>(65,504,186)</b>	<b>96,437,807</b>
<b>30 June 2010</b>						
<b>Assets</b>						
Held to maturity	64,924,066	57,889,080	125,459,674	209,751,074	112,554,611	570,578,503
Financial assets at fair value	-	-	-	-	259,043,754	259,043,754
Investment properties	-	-	-	-	74,385,000	74,385,000
Loans and advances	-	-	2,729,941	20,000,000	17,342,358	40,072,299
Cash	38,182,885	-	-	-	-	38,182,885
Receivables	18,144,966	10,623,285	26,992,164	57,670	-	55,818,085
Property, plant and equipment	-	-	-	-	48,393,495	48,393,498
<b>Total</b>	<b>121,251,917</b>	<b>68,512,364</b>	<b>155,181,779</b>	<b>229,808,744</b>	<b>511,719,218</b>	<b>1,086,474,022</b>
<b>Liabilities</b>						
Creditors	1,211,388	19,399	29,055	-	-	1,259,842
Accruals and Provisions	169,291	2,305,674	1,117,568	5,608,013	1,319,198	10,519,744
Special Death Benefits	44,333	133,000	342,744	780,116	1,300,192	2,600,385
Members Contributions	39,414,010	49,267,513	108,388,528	295,605,075	492,675,126	985,350,251
<b>Total</b>	<b>48,839,023</b>	<b>51,725,586</b>	<b>109,877,894</b>	<b>301,403,288</b>	<b>495,294,516</b>	<b>999,140,308</b>
<b>Net liquidity gap</b>	<b>80,412,894</b>	<b>16,786,778</b>	<b>45,303,885</b>	<b>(71,594,546)</b>	<b>16,424,703</b>	<b>87,333,714</b>