

**SOLOMON ISLANDS
NATIONAL PROVIDENT FUND**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

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**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

Statement By Directors

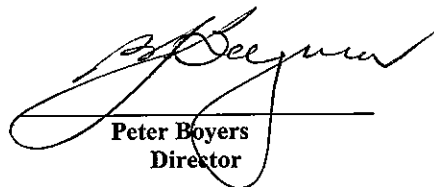
In accordance with a resolution of the directors of Solomon Islands National Provident Fund ("Fund"), we state that-

In the opinion of the directors:

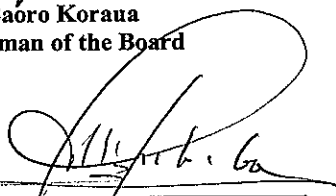
- (a) the statement of net assets is drawn up so as to present fairly the state of affairs of the Fund as at 30 June 2012.
- (b) the statement of changes in net assets is drawn up so as to present fairly the profit of the Fund for the period ended 30 June 2012.
- (c) the statement of changes in members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



**Baoro Koraua
Chairman of the Board**



**Peter Boyers
Director**



**Tony Makabo
General Manager (CEO)**

Dated this 20th day of September 2012



Independent Auditor's Report

To the Board of Directors of Solomon Islands National Provident Fund

Scope

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

Management's Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

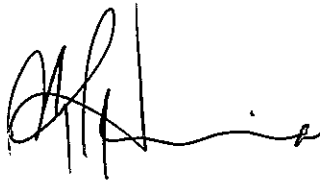
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Audit Opinion

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

Emphasis of Matter

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



Edward Ronia
Auditor-General

Office of the Auditor-General
Solomon Islands

27 September 2012

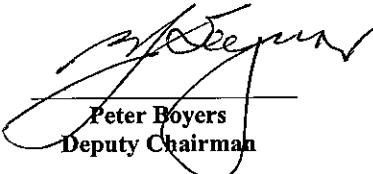
SOLOMON ISLANDS NATIONAL PROVIDENT FUND

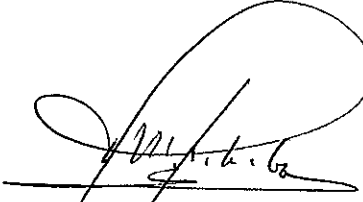
STATEMENT OF NET ASSETS AS AT 30 JUNE 2012

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

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


Baoro Koraua
Chairman of the Board


Peter Boyers
Deputy Chairman


Tony Makabo
General Manager (CEO)

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2012

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

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

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

1. GENERAL INFORMATION

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

(b) Comparatives

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

(c) Members Contribution Account

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

(d) Special Death Benefit (SDB)

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

(e) Interest on Members Account

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

(f) Property, plant and equipment

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

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

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

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

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

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

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

(g) Income Tax

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

(h) Allowance for Doubtful Loans and Investments

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

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

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

(i) Financial Instruments

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

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

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

Loans and receivables

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

Interest is recognised by applying the effective interest rate.

Impairment of financial assets

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

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

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

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

(j) Cash and cash equivalents

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

(k) Foreign currency

Functional presentation currency

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

Transactions and balances

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

(l) Provisions

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

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

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

(m) Payables

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

(n) Computer systems development costs

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

(o) Investment Property

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

3. INCOME AND EXPENSES

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

4. RESERVES AND OPERATING FINANCIAL PERFORMANCE

The following is a summary of the reserves held:

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

The following items are credited to the reserve each year:

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

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

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

5. RECEIVABLES

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

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

*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 1st June 2012.

7. AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG)

(a) GOVERNMENT SECURITIES

(i) Amortized Restructured Bonds

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

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG) - continued

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

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

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

(ii) Amortized Treasury and Development Bonds

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

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

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

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

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

(iii) Treasury Bills

The Fund recommenced tendering for treasury bills offered by the Central Bank of Solomon Islands on behalf of the Solomon Islands Government. At the end of the year, the balance of treasury bills held by the Fund was \$18,058,486. These were mostly 91 days treasury bills now secured at rates between 1.2% to 2.8%.

(iv) SIG – Soltai Ammortising Bond

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

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

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

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

(v) SIG – SICHE Ammortising Bond

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

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

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

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

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

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

(vi) Tavanipupu Island Resort Limited –Loan Agreement

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

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

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

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

(b) SHARES

(i) SOLOMON ISLANDS HOME FINANCE LIMITED(SIHFL)

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

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

(ii)SOUTH PACIFIC OIL LIMITED (SPOL)

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

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

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

(iii) HERITAGE PARK HOTEL LIMITED (HPHL)

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

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

(iv) BANK SOUTH PACIFIC LIMITED (BSP)

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

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

(v) SOLTUNA COMPANY LIMITED

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

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

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

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

(vi) SASAPE INTERNATIONAL SHIPYARD LIMITED (SISL)

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

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

(vii) SOLOMON TELEKOM COMPANY LIMITED (STCL)

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

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

(viii) PROVIDENCE PROPERTIES LIMITED (PPL)

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

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 13th July 2010 allowing the management of the company to return to the PPL Board. The Board immediately approved the transfer of the shares from WMI (PNG) Limited to the SINPF Board and lodged the transfer of shares for registration with the Registrar of Companies.

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

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

(ix) SOLOMONS OCEANIC CABLE COMPANY LIMITED (SOCC)

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

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

(x) OFFSHORE MANAGED FUNDS

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

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

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

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

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

8. PROPERTY, PLANT AND EQUIPMENT

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

9. CURRENT LIABILITIES – ACCRUALS & PROVISIONS

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

10. RELATED PARTIES DISCLOSURE

Related Party Disclosures requires the disclosure of information relating to aggregate compensation of key management personnel. The key management personnel of the Fund are members of the Fund's Board and senior staff who have responsibility for planning, directing and controlling the activities of the Fund. In 2012, this group comprises 18 in total, including the General Manager (CEO), 8 non-executive Fund Board Members and 10 senior staff. Fees of the non-executive members of the Fund Board are determined by the Minister of Finance. The General Manager (CEO) contract is subject to review by the Board of trustees in terms of the Fund's policies. The Fund's Board of Directors determines the remuneration of other key executive. The key management personnel are:

The specified directors of the Fund during the year were:

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

The specified executives of the Fund during the year were:

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

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

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

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

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

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

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

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

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

Related Party transactions

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

11. AUDITORS REMUNERATION

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

12. GOING CONCERN

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

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

13. CONTINGENT LIABILITY

(a) Deed between SINPF and SIG

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

(b) Deed between SINPF and BSP

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

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

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

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

15. EMPLOYEES

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

16. SUBSEQUENT EVENTS

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

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

17. FINANCIAL INSTRUMENTS

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

(a) Credit risk

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

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

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

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

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

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

(b) Government security risk

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

(c) Foreign exchange risk

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

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

	Currency					Total \$
	SBD \$	AUD \$	USD \$	Euro \$	Others \$	
30 June 2012						
Assets						
Held to maturity	450,644,874	55,910,433	41,629,140	30,108,359	21,380,518	599,673,323
Financial assets at fair value	205,588,980	17,661,143	19,527,614	(1,148,424)	69,566,630	311,195,944
Investment properties	106,404,765	-	-	-	-	106,404,765
Loans and advances	94,121,207	-	-	-	-	94,121,207
Cash	157,811,851	-	-	-	-	157,811,851
Receivables	78,848,653	-	-	-	-	78,848,653
Property, plant and equipment	115,804,056	-	-	-	-	115,804,056
Total	1,209,224,386	73,571,576	61,156,754	28,959,935	90,947,148	1,463,859,799
Liabilities						
Creditors	1,502,051	-	-	-	-	1,502,051
Accruals and Provisions	8,066,560	-	-	-	-	8,066,560
Special Death Benefits	2,264,931	-	-	-	-	2,264,931
Members Contributions	1,330,713,078	-	-	-	-	1,330,713,078
Total	1,342,546,620	-	-	-	-	1,342,546,620
Net	(133,322,234)	73,571,576	61,156,754	28,959,935	90,947,148	121,313,179
30 June 2011						
Assets						
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
Total	1,025,349,472	50,010,114	62,144,038	37,979,622	83,422,809	1,258,906,035
Liabilities						
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
Total	1,162,468,228	-	-	-	-	1,162,468,228
Net	(137,118,756)	50,010,114	62,144,038	37,979,622	83,422,809	96,437,807

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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Foreign currency sensitivity analysis

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

The following table details the Fund's sensitivity to a 10% increase and decrease in the Solomon Islands dollars against the relevant Foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes

only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. Where the SBD strengthen by 10% against the relevant foreign currency, a downside of the amount indicated below will reduce profit and equity by that amount. For a 10% weakening of the Solomon Islands dollar against the relevant currency, there would be a comparable positive impact that will improve profit and other equity by that same amount. The plus or minus amounts in the relevant currency are as noted below:

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

(d) Interest rate risk

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

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

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

	Weighted average effective interest rate %	Up to 1 Year \$	1-5 years \$	Over 5 years \$	Non Interest Bearing \$	Total \$
30 June 2012						
Assets						
Held to maturity	4.0%	415,341,091	111,144,278	73,187,954	-	599,673,323
Financial assets at fair value		-	-	311,195,944	-	311,195,944
Investment properties		-	-	-	106,404,765	106,404,765
Loans and advances		57,864,787	19,313,702	16,942,718	-	94,121,207
Cash		157,811,851	-	-	-	157,811,851
Receivables		-	-	-	78,848,653	78,848,653
Property, plant and equipment		-	-	-	115,804,056	115,804,056
	4.0%	631,017,729	130,457,980	401,326,616	301,057,474	1,463,859,799

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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

Liabilities

Creditors	-	-	-	1,502,051	1,502,051
Accruals and Provisions	-	-	-	8,066,560	8,066,560
Special Death Benefits	566,233	679,479	1,019,219	-	2,264,931
Members Contributions	33,691,532	247,498,228	1,049,523,318	-	1,330,713,078
	<u>34,257,765</u>	<u>248,177,707</u>	<u>1,050,542,537</u>	<u>9,568,611</u>	<u>1,342,546,620</u>
Interest sensitivity gap	<u>596,759,964</u>	<u>(117,719,727)</u>	<u>(649,215,921)</u>	<u>291,488,863</u>	<u>121,313,179</u>

30 June 2011

Assets

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%	<u>280,695,390</u>	<u>255,014,874</u>	<u>489,648,961</u>	<u>233,546,810</u>	<u>1,258,906,035</u>

Liabilities

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
	<u>161,328,470</u>	<u>276,246,291</u>	<u>712,835,452</u>	<u>12,058,016</u>	<u>1,162,468,228</u>
Interest sensitivity gap	<u>119,366,920</u>	<u>(21,231,417)</u>	<u>(223,186,491)</u>	<u>221,488,794</u>	<u>96,437,807</u>

(e) Liquidity risk

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

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

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
30 June 2012	\$	\$	\$	\$	\$	\$
Assets						
Held to maturity	-	11,482,041	403,859,050	111,144,278	73,187,954	599,673,323
Financial assets at fair value	-	-	-	-	311,195,944	311,195,944
Investment properties	-	-	-	-	106,404,765	106,404,765
Loans and advances	-	-	57,864,787	36,256,420	-	94,121,207
Cash	157,811,851	-	-	-	-	157,811,851
Receivables	2,390,855	8,602,620	67,855,178	-	-	78,848,653
Property, plant and equipment	-	-	-	-	115,804,056	115,804,056
Total	<u>160,202,706</u>	<u>20,084,661</u>	<u>529,579,015</u>	<u>147,400,698</u>	<u>606,592,719</u>	<u>1,463,859,799</u>

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Liabilities						
Creditors	1,501,797	-	254	-	-	1,502,051
Accruals and Provisions	278,744	-	356,045	7,431,770	-	8,066,559
Special Death Benefits	141,558	198,181	226,494	679,479	1,019,219	2,264,931
Members Contributions	8,422,883	10,107,460	15,161,189	247,498,228	1,049,523,318	1,330,713,078
Total	10,344,982	10,305,641	15,743,982	255,609,477	1,050,542,537	1,342,546,620
Net liquidity gap	149,857,723	9,779,021	513,835,033	(108,208,779)	(443,949,819)	121,313,179
30 June 2011						
Assets						
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
Total	84,420,375	2,267,117	267,425,221	255,822,636	649,103,241	1,258,906,035
Liabilities						
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
Total	42,018,056	48,686,042	74,034,339	285,254,921	714,474,871	1,162,468,228
Net liquidity gap	42,402,319	(46,418,925)	193,390,882	(27,432,283)	(65,504,186)	96,437,807