

**SOLOMON ISLANDS  
NATIONAL PROVIDENT FUND**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2018**

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FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

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**SOLOMON ISLANDS NATIONAL PROVIDENT FUND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**

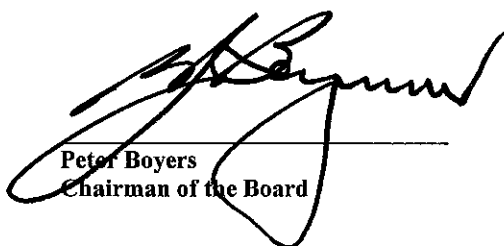
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**Statement By Directors**

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

In the opinion of the Directors:


- (a) the accompanying statement of changes in net assets is drawn up so as to give a true and fair view of the changes in net assets available to pay benefits of the Fund for the year ended 30 June 2018;
- (b) the accompanying statement of net assets is drawn up so as to give a true and fair view of the state of the affairs of the Fund at 30 June 2018;
- (c) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Fund for the year ended 30 June 2018;
- (d) at the date of this statement there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due;
- (e) all related party transactions have been recorded and adequately disclosed in the attached financial statements; and
- (f) the financial statements have been prepared in accordance with the provisions of the Solomon Islands National Provident Fund Act 1973 (as amended), International Financial Reporting Standards and other applicable standards in the Solomon Islands.



Peter Boyers  
Chairman of the Board



Gideon Zoleveke Jnr  
Deputy Chairman



Michael Wate  
General Manager (CEO)

Dated at HONIARA this 3RD day of OCTOBER 2018.



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

*Opinion*

I have in joint consultation with the Board of Solomon Islands National Provident Fund ("the Fund") contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of Solomon Islands National Provident Fund, which comprise the statements of net assets as at 30 June 2018, the statements of changes in net assets and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 20.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

*Basis for Opinion*

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

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

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

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

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

*Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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

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

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

**Report on Other Legal and Regulatory Requirements**

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

In my opinion:

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



Peter Lokay  
Auditor General  
4<sup>th</sup> October 2018

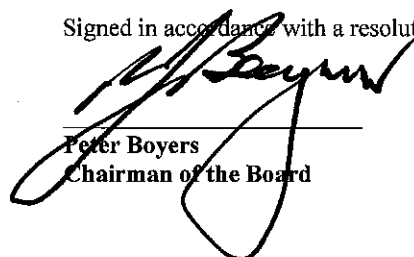
Office of the Auditor General  
Honiara, Solomon Islands

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**STATEMENT OF NET ASSETS**  
**AS AT 30 JUNE 2018**


	Note	June 2018 \$	June 2017 \$
<b>ASSETS</b>			
<b>Investments</b>			
<i>Financial investments</i>			
Commercial paper and treasury bills	6 (a) (i)	736,379,864	675,400,680
Held-to-maturity investments	6 (b) (ii)	150,000,000	150,000,000
Loans and advances	6 (b) (i)	118,070,413	137,243,880
Equity investments	6 (a) (ii)	1,541,375,352	1,341,707,914
<i>Non-financial investments</i>			
Investment properties	6 (a) (iii)	351,468,512	336,289,988
		<u>2,897,294,141</u>	<u>2,640,642,462</u>
<b>OTHER ASSETS</b>			
Cash and cash equivalents	13	384,636,830	367,288,073
Receivables	5	29,860,679	51,058,335
Property, plant and equipment	7 (a)	80,154,512	62,474,085
Intangible assets	7 (b)	14,224,483	-
		<u>508,876,504</u>	<u>480,820,493</u>
<b>TOTAL ASSETS</b>		<u>3,406,170,645</u>	<u>3,121,462,955</u>
<b>LIABILITIES</b>			
Accounts payable	8 (a)	3,219,490	448,064
Other payables and accruals	8 (b)	7,198,367	6,955,823
Employee entitlements	8 (c)	30,857,265	33,736,613
<b>TOTAL LIABILITIES (excluding net assets available to pay benefits)</b>		<u>41,275,122</u>	<u>41,140,500</u>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	4 (a)	<u>3,364,895,523</u>	<u>3,080,322,455</u>
<b><u>Represented by:</u></b>			
Allocated to members account	4 (b)	2,951,878,406	2,760,786,174
Special death benefit	4 (c)	(394,215)	(347,268)
Nominees trust account	4 (d)	7,302,076	6,136,791
Reserves	4 (e)	406,109,256	313,746,758
<b>TOTAL MEMBERS FUNDS</b>		<u>3,364,895,523</u>	<u>3,080,322,455</u>

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

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

  
Peter Boyers  
Chairman of the Board

  
Gideon Zoleveke Jnr  
Deputy Chairman

  
Michael Wate  
General Manager (CEO)

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Note	June 2018 \$	June 2017 \$
<b>INVESTMENT INCOME</b>			
Interest income	3 (a)	29,694,124	32,660,257
Dividend income	3 (b)	92,954,140	77,964,790
Net (loss) / gain from changes in fair values	3 (c)	166,358,035	(21,207,028)
Rental income	3 (d)	24,551,458	26,769,352
		<u>313,557,757</u>	<u>116,187,371</u>
<b>LESS: DIRECT INVESTMENT EXPENSES</b>	3 (f)	<u>(44,275,397)</u>	<u>(23,208,213)</u>
<b>NET RETURN ON INVESTMENTS</b>		269,282,360	92,979,158
Other income	3 (e)	4,935,248	4,105,925
		<u>274,217,608</u>	<u>97,085,083</u>
<b>CONTRIBUTION REVENUE</b>			
Unallocated contributions		17,635,078	11,322,303
Members' contribution		<u>279,817,573</u>	<u>267,909,794</u>
		297,452,651	279,232,097
<b>BENEFITS PAID AND EXPENSES INCURRED</b>			
Benefits paid	3 (h)	(270,109,815)	(215,957,623)
Operating expenses	3 (g)	<u>(47,302,521)</u>	<u>(50,954,159)</u>
		(317,412,336)	(266,911,782)
<b>CHANGE IN NET ASSETS FOR THE YEAR</b>	4(f)	254,257,923	109,405,398
<b>Other comprehensive income</b>			
Items that will not be reclassified to changes in net assets			
Revaluation of property, plant and equipment		30,315,145	-
<b>TOTAL COMPREHENSIVE CHANGES IN NET ASSETS FOR THE YEAR</b>		<u>284,573,068</u>	<u>109,405,398</u>
Net assets available to pay benefits at the beginning of the financial year		3,080,322,455	2,970,917,057
<b>NET ASSETS AVAILABLE TO PAY BENEFITS INCLUDING OTHER COMPREHENSIVE INCOME AT THE END OF THE FINANCIAL YEAR</b>	4(a)	<u>3,364,895,523</u>	<u>3,080,322,455</u>

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 2018**

	Note	June 2018 \$	June 2017 \$
<b>Cash flows from operating activities</b>			
Contributions from members and employers		297,452,651	279,232,097
Interest received		28,522,063	22,948,751
Dividends received		105,562,315	84,462,344
Rentals received		20,882,710	22,247,851
Other income received		5,291,933	2,361,636
Benefits paid to members		(270,109,815)	(215,957,623)
Cash paid to suppliers and employees		(71,772,904)	(58,142,049)
<b>Net cash flows from operating activities</b>		<b>115,828,953</b>	<b>137,153,007</b>
<b>Cash flows from investing activities</b>			
Net acquisition of commercial paper, treasury bills and held-to-maturity investments		(61,536,912)	(159,103,365)
Loans and advances repaid / (provided)		17,180,500	13,230,034
Net acquisition of shares		(33,909,958)	(366,045)
Proceeds from Solomon Island Government for unlisted equity		-	17,006,788
Proceeds from sale of property plant and equipment		1,982,772	-
Acquisition of investment properties		(13,959,016)	(1,444,633)
Acquisition of property plant and equipment		(8,237,581)	(12,272,060)
<b>Net cash used in investing activities</b>		<b>(98,480,195)</b>	<b>(142,949,281)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>17,348,758</b>	<b>(5,796,274)</b>
Cash and cash equivalents at the beginning of the year		367,288,073	373,084,347
<b>Cash and cash equivalents at the end of the year</b>	13	<b>384,636,831</b>	<b>367,288,073</b>

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 2018**

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**1. GENERAL INFORMATION**

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

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

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of preparation**

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

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

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

Use of judgments and estimates

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

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

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

**(b) Comparatives**

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Members contribution**

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

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

**(d) Special death benefit (SDB)**

As provided for in the Act, an amount is deducted from each member's account at 30 June each year in respect of special death benefit to be paid following the death of any member to the beneficiaries of the member. The maximum sum payable for the year ended 30 June 2018 for each member was \$3,000 (2017:\$3,000).

**(e) Nominee trust account**

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

**(f) Interest on members account**

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

**(g) Property, plant and equipment**

Land and buildings are measured at fair value. The fair value is determined on the basis of independent valuations prepared by external valuation experts, based on current market prices (as appropriate). The valuations are 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 value.

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

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

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Property, plant and equipment (continued)**

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

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

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

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

**(h) Impairment of non-financial assets**

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

**(i) Income tax**

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

**(j) Impairment of loans and investments**

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

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

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Financial instruments**

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

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

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

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

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

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

**(ii) Held to maturity financial assets**

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

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

**(iii) Loans and receivables**

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

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

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

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

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

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

**(m) Cash and cash equivalents**

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

**(n) Foreign currency**

Functional presentation currency

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

Transactions and balances

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

**(o) Provisions**

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

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

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(o) Provisions (continued)**

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

**(p) Other payables and accruals**

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

**(q) Investment properties**

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

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

**(r) Revenue Recognition**

**(i) Interest Income**

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

**(ii) Property rentals**

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

**(iii) Dividend Income**

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

**(s) Expenses**

**(i) Benefits paid**

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

**(ii) Other expenses**

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

**(t) Employee entitlements**

**(i) Wages and salaries and sick leave**

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(t) Employee entitlements (continued)**

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

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

**(u) Intangible assets**

*IT software*

IT software which is purchased or implemented, is recorded at cost and is amortised over its estimated useful life.

<b>Asset</b>	<b>Rate</b>
Computer Software	10%

**3. INCOME AND EXPENSES**

	<b>June 2018</b>	<b>June 2017</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Interest income</b>		
Cash at bank	155,949	88,971
Treasury bills	123,789	101,050
Bonds	11,267,250	4,399,924
Loans and advances	9,413,294	21,001,418
Investment securities - commercial paper	8,733,842	7,068,894
<b>Total</b>	<b>29,694,124</b>	<b>32,660,257</b>
<b>(b) Dividend income</b>		
Quoted shares	7,710,635	6,618,616
Unquoted shares	84,678,462	70,760,611
Managed funds	565,043	585,563
<b>Total</b>	<b>92,954,140</b>	<b>77,964,790</b>
<b>(c) Gain / (loss) from changes in fair values</b>		
Investment properties	1,158,283	6,860,464
Equities	156,362,628	(48,758,171)
Net foreign exchange gain/(loss)	8,837,124	20,690,679
<b>Total</b>	<b>166,358,035</b>	<b>(21,207,028)</b>
<b>(d) Rental income</b>		
Investment properties	24,437,984	26,563,912
Others	113,475	205,440
<b>Total</b>	<b>24,551,458</b>	<b>26,769,352</b>
<b>(e) Other income</b>		
Bad debts recovery	817,927	60,924
Gain on sale of property, plant and equipment	708,720	-
Gain on sale of investment	-	175,000
Surcharge	3,244,030	3,390,649
Others	164,571	479,352
<b>Total</b>	<b>4,935,248</b>	<b>4,105,925</b>

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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**3. INCOME AND EXPENSES (Continued)**

	June 2018 \$	June 2017 \$
<b>(f) Direct investment expenses</b>		
Utilities (water and electricity)	6,979,344	4,586,254
Repairs and maintenance	15,694,708	6,605,183
Land rates and rental charges	1,210,601	1,102,250
Insurance	1,195,686	879,827
Management fees	2,795,917	1,437,600
Cleaning services	1,156,765	1,034,963
Valuation and consultation fees	1,089,997	2,556,685
Doubtful debts – loans and advances	2,264,478	771,244
Doubtful debts – dividend receivable	9,759,163	-
Doubtful debts – other receivables	2,128,738	4,234,207
<b>Total</b>	<b>44,275,397</b>	<b>23,208,213</b>
<b>(g) Operating expenses</b>		
Board and management allowances	1,185,741	1,250,720
Utilities (water and electricity)	1,312,154	1,745,137
Repairs and maintenance	712,225	1,879,912
Land rates and rental charges	29,000	174,950
Administrative expenses	10,415,007	6,544,100
Doubtful debts – Surcharges and other receivables	1,382,836	1,159,003
Depreciation expense	5,056,853	6,496,901
Insurance expense	162,188	299,104
Audit fees	358,840	359,010
Bank charges	63,310	81,353
Consultancy fees and expenses	1,225,397	1,731,687
Staff expenses (refer below)	25,398,970	29,232,282
<b>Total</b>	<b>47,302,521</b>	<b>50,954,159</b>
<u>The breakdown of staff expenses are as follows:</u>		
Wages and salaries	14,769,440	14,543,256
Contributions to SINPF	1,212,124	1,063,031
Employee benefits	4,219,530	8,940,120
Other staff costs	5,197,876	4,685,874
	<b>25,398,970</b>	<b>29,232,282</b>
<b>(h) Member Benefits</b>		
Interest on withdrawal, trust and other members expenses	5,144,688	8,253,992
Contribution withdrawals (refer Note 4(b) )	263,208,768	206,335,494
Special death benefit payments (refer Note 4(c) )	640,152	647,136
Nominees trust payment (refer Note 4(d) )	1,116,206	721,001
<b>Total</b>	<b>270,109,815</b>	<b>215,957,623</b>



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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**4. NET ASSETS AVAILABLE TO PAY BENEFITS**

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

• **Revaluation Reserve**

Revaluation of land and buildings (excluding investment properties) was carried out on 15 June 2018. The revaluation surplus/loss is credited to the revaluation reserve. The next revaluation of the land and buildings is expected to be carried out in the 2023 financial year.

• **General Reserve**

Revenue less normal operating expenses are credited to the General Reserve unless otherwise appropriated.

The following items are credited to this reserve each year:

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

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

	June 2018	June 2017
	\$	\$
<b>(a) Net assets available to pay benefits</b>		
Net assets available to pay benefits	<u>3,364,895,523</u>	<u>3,080,322,455</u>
<b><u>Represented by:</u></b>		
Allocated to members' account	2,951,878,406	2,760,786,174
Special death benefit	(394,215)	(347,268)
Nominees trust	7,302,076	6,136,791
Reserves	<u>406,109,256</u>	<u>313,746,758</u>
	<u>3,364,895,523</u>	<u>3,080,322,455</u>
<b>(b) Liability for accrued benefits</b>		
Balance at the beginning of the year	2,760,786,174	2,566,146,462
Contributions received from members and employers	295,731,636	279,232,097
Interest credited to members accounts	160,499,937	124,567,631
Benefits paid – withdrawals (refer Note 3(h) )	(263,208,768)	(206,335,494)
Transfer to nominees trust accounts (refer Note 4(d) )	(1,877,392)	(787,806)
Transfer to special death benefits (refer Note 4(c) )	(655,603)	(630,786)
Forfeited contributions transfer to general reserve (refer Note 4(e) )	(1,599,348)	(1,375,583)
Contributions received from members – YouSave	1,721,015	-
Other transfers / adjustments including Yousave	<u>480,755</u>	<u>(30,347)</u>
Balance at the end of the year	<u>2,951,878,406</u>	<u>2,760,786,174</u>
<b><u>Represented by:</u></b>		
Allocated to members' accounts	2,924,510,852	2,727,341,394
Unidentified	<u>27,367,554</u>	<u>33,444,780</u>
	<u>2,951,878,406</u>	<u>2,760,786,174</u>

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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**4. NET ASSETS AVAILABLE TO PAY BENEFITS (CONTINUED)**

	June 2018	June 2017
	\$	\$
<b>(c) Special death benefit</b>		
Balance at the beginning of the year	(347,268)	(299,479)
Transfer in from members account (refer Note 4(b))	655,603	630,786
Transfer out benefit payments (refer Note 3(h))	(640,152)	(647,136)
Transfer out to nominees trust (refer Note 4(d))	(62,398)	(31,439)
Balance at the end of the year	<u>(394,215)</u>	<u>(347,268)</u>
<b>(d) Nominees trust account</b>		
Balance at the beginning of the year	6,136,791	5,741,235
Transfer in from members account (refer Note 4(b))	1,877,392	787,806
Transfer in from special death benefits (refer Note 4(c))	62,398	31,439
Transfer out benefit payments (refer Note 3(h))	(1,116,206)	(721,001)
Annual interest	341,701	297,312
Balance at the end of the year	<u>7,302,076</u>	<u>6,136,791</u>
<b>(e) Reserves</b>		
<b>(i) Asset revaluation reserve</b>		
Balance at the beginning of the year	69,951,343	69,951,343
Add revaluation during the year	30,315,145	-
Balance at the end of the year	<u>100,266,488</u>	<u>69,951,343</u>
<b>(ii) General reserve</b>		
Balance at the beginning of the year	243,795,415	329,377,496
Transfers in from members account (refer Note 4(b))	1,599,348	1,375,583
Transfers in / (out)	60,448,005	(86,957,664)
Balance at the end of the year	<u>305,842,768</u>	<u>243,795,415</u>
<b>Total reserves</b>	<u><u>406,109,256</u></u>	<u><u>313,746,758</u></u>
<b>(f) Net change for the year</b>		
The net change for the year has been appropriated to accrued benefits and reserves as follows:		
Change in net assets for the year attributable to members of the Fund:	<u>254,257,923</u>	<u>109,405,398</u>
<u>Comprises net transfers to/(from):</u>		
Liability for accrued benefits	191,092,232	194,639,712
Special death benefit	(46,947)	(47,789)
Nominees trust	1,165,285	395,556
General reserves	62,047,353	(85,582,081)
	<u>254,257,923</u>	<u>109,405,398</u>

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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**5. RECEIVABLES**

	June 2018 \$	June 2017 \$
Interest receivables	7,215,058	6,042,997
Rental income receivables	17,318,641	13,649,893
Dividend receivables	21,437,625	34,045,800
Surcharge receivables	10,040,053	10,723,699
Other receivables	5,235,171	5,616,930
	<u>61,246,548</u>	<u>70,079,319</u>
Less: Allowance for doubtful debts	(31,385,869)	(19,020,984)
<b>Total receivables</b>	<u>29,860,679</u>	<u>51,058,335</u>

Movement in allowance for doubtful debts is as follows:

Balance at 1 July	(19,020,984)	(15,656,463)
Impairment loss recognised	(13,270,737)	(5,393,210)
Amounts written off against provision	905,852	2,028,689
Balance at the end of the year	<u>(31,385,869)</u>	<u>(19,020,984)</u>

The allowance for doubtful debts of \$31,385,869 (2016: \$19,020,985) is provided against arrears on surcharge receivables, dividend receivable, interest receivable and rental income receivables.

**6. INVESTMENTS**

(a) Financial assets carried at fair value through changes in net assets	June 2018 \$	June 2017 \$
<b>(i) Commercial paper and treasury bills</b>		
On shore deposits	589,309,094	510,501,438
Offshore deposits	100,866,728	119,383,342
Total deposits	<u>690,175,822</u>	<u>629,884,780</u>
Treasury bills	19,217,142	18,529,000
Other fixed term debt securities (debentures) – Related parties	26,986,900	26,986,900
<b>Total</b>	<u>736,379,864</u>	<u>675,400,680</u>

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

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

Opening balance	675,400,680	664,344,109
Net movement during the year	66,892,090	8,412,953
Foreign exchanges differences during the year (unrealised)	(5,912,906)	2,643,618
Balance at the end of the year	<u>736,379,864</u>	<u>675,400,680</u>

**(ii) Equity securities at fair value:**

- Listed	143,706,941	133,761,137
- Unlisted	1,397,668,411	1,207,946,777
<b>Total equities at fair value</b>	<u>1,541,375,352</u>	<u>1,341,707,914</u>

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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**6. INVESTMENTS (CONTINUED)**

	June 2018 \$	June 2017 \$
<b>(a) Financial assets carried at fair value through changes in net assets (continued)</b>		
<b>(ii) Equity securities at fair value (continued):</b>		
<u>The movement in investment securities carried at fair value through profit and loss is as follows:</u>		
Balance at the beginning of the year	1,341,707,914	1,388,194,355
Acquisitions/(Redemption)/transfer during the year	33,909,958	(15,917,676)
Gain / (loss) from changes in fair value (refer Note 3(c))	156,362,628	(48,758,171)
Exchange differences	9,394,852	18,189,406
<b>Balance at the end of the year</b>	<b>1,541,375,352</b>	<b>1,341,707,914</b>
<b>(iii) Investment properties</b>		
Balance at the beginning of the year	336,289,988	293,480,306
Additions	14,020,241	32,717,108
Disposals	-	-
Transfers from property, plant and equipment	-	3,232,110
Gain from fair value adjustment * (refer Note 3(c))	1,158,283	6,860,464
<b>Balance at the end of the year</b>	<b>351,468,512</b>	<b>336,289,988</b>
*Valuations of the Fund's investment properties were performed in house to determine the fair value of land and buildings (in the prior year, valuations of the Funds investment properties were performed by VHT Real Estate). The valuations were determined by reference to the current market values of the land and buildings. The effective date of the valuations was 30 June 2018 ( the effective date of the prior years valuation was 16 June 2017).		
<b>(b) Financial Assets carried at amortised cost</b>		
<b>(i) Loans and advances</b>		
- Commercial loans – Private entities	4,832,019	5,469,391
– Related parties (refer Note 9(b))	114,904,701	130,718,021
- Member schemes	3,759,897	4,692,197
- Staff schemes	2,453,676	2,251,184
<b>Total gross loans and advances</b>	<b>125,950,293</b>	<b>143,130,793</b>
Allowance for doubtful debts	(7,879,880)	(5,886,913)
<b>Net loans and advances</b>	<b>118,070,413</b>	<b>137,243,880</b>
<u>Movement in allowance for doubtful debts is as follows:</u>		
Balance at the beginning of the year	(5,886,913)	(8,967,308)
Impairment loss recognised (refer Note 3 (f))	(2,264,478)	(771,244)
Amounts written off / recovery on foreclosure	271,511	3,851,639
<b>Balance at the end of the year</b>	<b>(7,879,880)</b>	<b>(5,886,913)</b>
The allowance for doubtful debts of \$7,879,880 (2017: \$5,886,913) is provided against commercial loans to private entities and member and staff schemes.		
<b>(ii) Held-to-maturity investments</b>		
Government securities – Related party (refer Note 17(a))	150,000,000	150,000,000

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
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**7(a) PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings (at valuation) \$	Machinery equipment & motor vehicles \$	Furniture, fittings, computer & other equipment \$	Work in progress \$	Total \$
<b>At cost / valuation</b>					
Balance as at 1 July 2016	56,791,874	18,246,349	11,578,615	6,091,661	92,708,499
Transfers from work in progress	-	291,763	3,294,777	(3,586,540)	-
Additions	-	718,296	221,613	11,332,151	12,272,060
Transfer to investment properties	(2,017,643)	-	-	(1,214,467)	(3,232,110)
Reclass to expenses	-	-	-	(129,502)	(129,502)
Balance as at 30 June 2017	54,774,231	19,256,408	15,095,005	12,493,303	101,618,947
<b>Balance as at 1 July 2017</b>	<b>54,774,231</b>	<b>19,256,408</b>	<b>15,095,005</b>	<b>12,493,303</b>	<b>101,618,947</b>
Transfers from work in progress	3,277,558	-	1,203,192	(4,480,750)	-
Transfer to intangible assets	-	-	-	(14,224,483)	(14,224,483)
Additions	-	770,894	286,625	7,180,062	8,237,581
Revaluation increment	30,315,145	-	-	-	30,315,145
Forfeited accumulated depreciation	(13,778,104)	-	-	-	(13,778,104)
Disposals	(1,509,019)	(2,254,968)	(186,930)	-	(3,950,917)
Transfer to investment properties	-	-	-	(61,224)	(61,224)
Reclass to expenses	-	-	-	(255,686)	(255,686)
Balance as at 30 June 2018	73,079,811	17,772,334	16,397,892	651,222	107,901,259

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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**7(a). PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Land and buildings (at valuation)	Machinery equipment & motor vehicles	Furniture, fittings, computer & other equipment	Work in progress	Total
	\$	\$	\$	\$	\$
<b>Accumulated depreciation</b>					
Balance as at 1 July 2016	9,348,186	14,641,997	8,859,542	-	32,849,725
Expense for the year	3,315,338	2,082,916	1,098,647	-	6,496,901
Reclass to income	(201,764)	-	-	-	(201,764)
Balance as at 30 June 2017	12,461,760	16,724,913	9,958,189	-	39,144,862
<b>Balance as at 1 July 2017</b>	12,461,760	16,724,913	9,958,189	-	39,144,862
Expense for the year	1,761,407	1,256,488	2,038,958	-	5,056,853
Forfeited accumulated depreciation	(13,778,104)	-	-	-	(13,778,104)
Disposals	(445,063)	(2,051,705)	(180,096)	-	(2,676,864)
Balance as at 30 June 2018	-	15,929,696	11,817,051	-	27,746,747

**Carrying value**

Balance as at 30 June 2017	42,312,471	2,531,495	5,136,816	12,493,303	62,474,085
Balance as at 30 June 2018	73,079,811	1,842,638	4,580,841	651,222	80,154,512

During the year, an independent valuation of the Fund's land and buildings was carried out by VHT Real Estate with an effective date of 15 June 2018 and a revaluation increment of \$30,315,145 was taken up. The valuations which were determined by reference to the current market values of land and buildings (refer Note 4).

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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**7(b) INTANGIBLE ASSETS**

	Computer Software
<b>Cost</b>	<b>\$</b>
Balance as at 1 July 2017	-
Additions	14,224,483
Balance as at 30 June 2018	14,224,483
<b>Amortisation and impairment</b>	
Balance as at 1 July 2017 and 30 June 2018	-
<b>Carrying amount</b>	
At 1 July 2017	-
At 30 June 2018	14,224,483

**8. ACCOUNTS AND OTHER PAYABLES, ACCRUALS AND EMPLOYEE ENTITLEMENTS**

**(a) Accounts payable**

Accounts payable are principally comprised of amounts outstanding for trade purchases and on-going operational costs. Accounts payables are non-interest bearing and are normally settled on 30 – 60 day terms. The balance at year end was \$3,219,490 (2017: \$484,064). The increase mainly related to the amount payable to the vendor for the implementation of the new integrated system in the 2018 financial year

	June 2018	June 2017
	\$	\$
<b>(b) Other payable and accruals</b>		
Rental bond	3,786,471	4,175,870
Other accruals	3,411,896	2,779,953
	<u>7,198,367</u>	<u>6,955,823</u>

**(c) Employee entitlements**

*(Provision for early retirement benefits, annual leave and long service leave)*

Current	11,735,729	11,609,558
Non-current	19,121,536	22,127,055
	<u>30,857,265</u>	<u>33,736,613</u>

**Movement in employee entitlements:**

Balance at the beginning of the year	33,736,613	22,127,055
Created during the year	970,356	12,656,816
Utilised during the year	(3,849,704)	(1,047,258)
Balance at the end of the year	<u>30,857,265</u>	<u>33,736,613</u>

**9. RELATED PARTIES**

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

Related party disclosures requires the disclosure of information relating to aggregate compensation of key management personnel. The key management personnel of the Fund are members of the Fund's Board and senior staff who have responsibility for planning, directing and controlling the activities of the Fund. In 2018, this group comprises of 19 individuals, including the General Manager (CEO), 8 non-executive Board Members, and 10 senior staff. Fees of the non-executive members of the Fund Board are determined by the Minister of Finance. The General Manager's (CEO) contract is subject to review by the Board of Trustees in terms of the Fund's policies. The Fund's Board of Directors determines the remuneration of other key executives.

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
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**FOR THE YEAR ENDED 30 JUNE 2018**

**9. RELATED PARTIES (CONTINUED)**

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

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

<b>Names</b>	<b>Appointment</b>	<b>Date of Appointment</b>	<b>Term of appointment</b>	<b>Date appointment lapse</b>	<b>Representing</b>
Mr. Peter Boyers	Chairman	14 April 2014 20 May 2015 20 May 2018	1 year 3 years 3 years	20 May 2015 20 May 2018 20 May 2021	Employer Ministers Discretion
Mr. Gideon Zoleveke (Jnr)	Deputy Chairman	29 March 2013 29 March 2016 29 March 2018	3 years 3 years 1 year	29 March 2016 29 March 2018 29 March 2019	Employer
Dr. Aaron Oritaimae	Member	1 November 17	3 years	1 November 2020	Employee
Dr. Alice Pollard	Member	29 March 2013 29 March 2016 29 March 2018	3 years 3 years 1 year	29 March 2016 29 March 2018 29 March 2019	Minister's Discretion
Mr. Jerry Maiki Tengemona	Member	14 April 2014 14 April 2016	2 years 2 years	14 April 2016 14 April 2018	Minister's Discretion
Mrs. Julie Gegeu - Haro	Member	14 April 2014 14 April 2016	2 years 2 years	14 April 2016 14 April 2018	Employees
Mr. George Kuper	Member	23 October 2015	3 years	23 October 2018	Crown
Mr. Mckinnie Dentana	Member	23 October 2015	3 years	23 October 2018	Crown
Ms Antonette Wickham	Member	26 June 2018	3 years	26 June 2021	Employee
Mr David Rupokets	Member	26 June 2018	3 years	26 June 2021	Employer

The specified executives of the Fund during the year were:

<b>Names</b>	<b>Position</b>
Tony Makabo	General Manager and CEO (resigned on 31 December 2017)
Michael Wate	CEO from 1 January 2018, (Deputy General Manager until 31 December 2017)
Ruth Alepio	Board Secretary
Manasseh Taloafiri	Manager Human Resource & Corporate services
Suzanne Orudiana	Manager IT
Aluta Kakadi	Manager Employers and Members services
Areau Hivu	Manager Internal Audit
Ishmael Kako	Manager Legal Counsel
Rose Karoa	Manager Finance
Jennifer Lakoa	Manager Investment
Bennett Pitakia	Manager Property

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

	<b>June 2018</b>	<b>June 2017</b>
	<b>\$</b>	<b>\$</b>
<b>Directors:</b>		
Sitting allowances	660,548	694,600
Other services and allowances	525,193	550,559
	<b>1,185,741</b>	<b>1,245,159</b>



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<b>Key management personnel (executives):</b>		
Short-term employee benefits	6,295,888	5,920,321
Post-employment benefits	1,524,110	3,841,150
Total compensation	7,819,998	9,761,471

**9. RELATED PARTIES (CONTINUED)**

**(a) Key management personnel (continued)**

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

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

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

	June 2018	June 2017
	\$	\$
Other	222,152	131,180

**(b) Related party transactions and balances**

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

**Loans and advances to related parties**

Soltuna Company Limited	20,382,905	27,954,142
Heritage Park Hotel Limited	25,109,148	16,942,718
Solomon Telekom Company Limited	54,260,381	65,951,677
South Pacific Oil Limited	15,152,267	19,869,484
<b>Total loans and advances to related parties (refer Note 6(b) (i))</b>	<b>114,904,701</b>	<b>130,718,021</b>

In 2017, the Fund converted Solomon Telekom Company Limited's dividend receivables of \$65m into a commercial loan for a term of 5 years at an interest rate of 5% per annum.

**Dividend receivables from related parties**

Solomon Telekom Company Limited	21,437,625	34,045,801
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**Commercial paper and treasury bills to related parties**

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

**Held-to-maturity to related parties**

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

**Dividend income**

Solomon Telekom Company Limited	11,678,462	9,760,611
South Pacific Oil Limited	73,000,000	61,000,000
<b>Total dividend income from related parties</b>	<b>84,678,462</b>	<b>70,760,611</b>

**Interest income**

Soltuna Company Limited	3,597,203	4,453,295
South Pacific Oil Limited	1,130,786	1,809,634
Solomon Islands Home Finance Limited	520,098	713,053
Solomon Telekom Company Limited	2,979,138	118,299
Solomon Islands Government	9,807,000	2,764,757

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Heritage Park Hotel Limited	1,930,696	2,147,842
<b>Total interest income from related parties</b>	<b>19,964,921</b>	<b>12,006,880</b>

**10. AUDITORS REMUNERATION**

Fees totaling \$358,840 were provided in the accounts for audit services for the year ended June 2018 (2017: \$359,010). No other benefits were received by the auditors (Office of the Auditor General) during the year other than fees paid for normal auditing services.

**11. GOING CONCERN**

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

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

**12. CONTINGENT LIABILITY**

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

**13. CASH AND CASH EQUIVALENTS**

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

	June 2018 \$	June 2017 \$
Cash at bank	384,633,430	367,284,673
Cash on hand	3,400	3,400
	<b>384,636,830</b>	<b>367,288,073</b>

**14. EMPLOYEES**

The number of full time permanent Fund employees as at 30 June 2018 was 116 (2017: 113).

**15. FINANCIAL INSTRUMENTS**

**Financial risk management**

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

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**15. FINANCIAL INSTRUMENTS (continued)**

**Financial risk management (continued)**

**(a) Credit risk**

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

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

At year end concentrations of credit risk are noted for Bank of South Pacific Limited, Australia and New Zealand Banking Group Limited, Westpac Banking Corporation Limited, Pan Oceanic Bank and Credit Corporation Limited. The asset allocation at reporting date is as follows:

Assets	June 2018		June 2017	
	\$	%	\$	%
Commercial paper, treasury bills and held-to-maturity investments	886,379,864	63%	825,400,680	60%
Loans and advances	118,070,413	8%	137,243,880	10%
Cash and cash equivalents	384,636,830	27%	367,288,073	26%
Receivables	29,860,679	2%	51,058,335	4%
<b>Total</b>	<b>1,418,947,786</b>	<b>100%</b>	<b>1,380,990,968</b>	<b>100%</b>

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

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

Credit quality:

Assets	Neither past due nor impaired (Gross)		Impaired (Gross)		Total (Gross)	
	June 2018	June 2017	June 2018	June 2017	June 2018	June 2017
Commercial paper, treasury bills and held-to-maturity investments	886,379,864	825,400,680	-	-	886,379,864	825,400,679
Loans and advances	114,904,701	130,718,021	11,045,592	12,412,772	125,950,293	143,130,793
Cash and cash equivalents	384,636,830	367,288,073	-	-	384,636,830	367,288,073
Receivables	8,783,471	36,592,260	52,463,077	33,487,059	61,246,548	70,079,319
<b>Impaired assets</b>					<b>June 2018</b>	<b>June 2017</b>
Loans and advances					11,045,592	12,412,772
Receivables					52,463,077	33,487,059
Gross impaired assets					63,508,669	45,899,831
Less: Allowance for doubtful debts					(39,265,749)	(24,927,751)
					<b>24,242,920</b>	<b>20,972,080</b>

**15. FINANCIAL INSTRUMENTS (continued)**

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**Financial risk management (continued)**

**(b) Government security risk**

The Fund has a significant exposure to the Solomon Islands Government (SIG) through its holding of government securities and bonds. The total holdings from SIG (treasury bills and government securities) at 30 June 2018 was \$169,217,142 (2017: \$169,728,375).

**(c) Foreign exchange risk**

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

30 June 2018	Currency					Total
	SBD	AUD	USD	Euro	Others (GBP & PGK)	
Assets	\$	\$	\$	\$	\$	\$
Cash and cash equivalent	285,905,279	23,839,650	16,996,071	23,149,853	34,745,977	384,636,830
Commercial paper, treasury bills and held-to-maturity investments	785,513,155	37,050,083	48,939,927	-	14,876,699	886,379,864
Equity investments	1,397,668,412	19,012,141	50,886,281	11,680,886	62,127,632	1,541,375,352
<b>Total</b>	<b>2,469,086,846</b>	<b>79,901,874</b>	<b>116,822,279</b>	<b>34,830,739</b>	<b>111,750,308</b>	<b>2,812,392,046</b>
<b>30 June 2017</b>						
<b>Assets</b>						
Cash and cash equivalent	296,207,854	16,071,530	16,743,442	22,568,514	15,696,733	367,288,073
Commercial paper, treasury bills and held-to-maturity investments	706,017,338	45,658,019	47,508,911	-	26,216,412	825,400,680
Equity investments	1,207,946,777	17,966,311	44,182,066	11,081,770	60,530,990	1,341,707,914
			108,434,41		102,444,13	
<b>Total</b>	<b>2,210,171,969</b>	<b>79,695,860</b>	<b>9</b>	<b>33,650,284</b>	<b>5</b>	<b>2,534,396,667</b>

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

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

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**15. FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial risk management (continued)**

**(c) Foreign exchange risk (continued)**

	AUD impact (000s)		USD impact (000s)		Euro impact (000s)		GBP impact (000s)		PGK impact (000s)	
	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
	Strengthen	Weaken	Strengthen	Weaken	Strengthen	Weaken	Strengthen	Weaken	Strengthen	Weaken
Changes in net assets										
30 June 2018	(7,264)	8,878	(10,625)	12,987	(3,166)	3,870	(1,414)	1,728	(8,745)	10,688
Changes in net assets										
30 June 2017	(7,252)	8,864	(9,858)	12,048	(3,059)	3,739	(1,380)	1,686	(7,925)	9,686

**(d) Interest rate risk**

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

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

**(e) Liquidity risk**

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

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

The majority of liabilities of the Fund are long term in nature and are well structured in terms of benefits comprising of a mix of benefit commutation and fortnightly contributions payable throughout 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 2018</b>						
<b>Assets</b>						
Cash and cash equivalents	384,636,830	-	-	-	-	384,636,830
Commercial paper, treasury bills and held-to-maturity investments	41,169,048	195,489,117	405,183,253	94,538,446	150,000,000	886,379,864
Loans and advances	-	-	-	94,521,796	23,548,617	118,070,413
Receivables	1,365,197	-	28,495,482	-	-	29,860,679
<b>Total</b>	<b>427,171,075</b>	<b>195,489,117</b>	<b>433,678,735</b>	<b>189,060,242</b>	<b>173,548,617</b>	<b>1,418,947,786</b>
<b>Liabilities</b>						
Accounts payable	3,170,798	39,931	8,761	-	-	3,219,490
Other payables and accruals	-	1,790,490	1,852,558	3,555,319	-	7,198,367
<b>Total</b>	<b>3,170,798</b>	<b>1,830,421</b>	<b>1,861,319</b>	<b>3,555,319</b>	<b>-</b>	<b>10,417,857</b>
<b>Net liquidity gap</b>	<b>424,000,277</b>	<b>193,658,696</b>	<b>431,817,416</b>	<b>185,504,923</b>	<b>173,548,617</b>	<b>1,408,529,929</b>

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**15. FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial risk management (continued)**

**(e) Liquidity risk (continued)**

	Up to 1 month \$	1 - 3 months \$	3- 12 months \$	1-5 years \$	Over 5 years \$	Total \$
<b>30 June 2017</b>						
<b>Assets</b>						
Cash and cash equivalents	367,288,073	-	-	-	-	367,288,073
Commercial paper, treasury bills and held-to-maturity investments	16,022,232	170,411,822	431,807,687	57,158,939	150,000,000	825,400,680
Loans and advances	-	-	951,677	101,812,202	34,480,001	137,243,880
Receivables	1,240,853	-	15,771,682	34,045,800	-	51,058,335
<b>Total</b>	<b>384,551,158</b>	<b>170,411,822</b>	<b>448,531,046</b>	<b>193,016,941</b>	<b>184,480,001</b>	<b>1,380,990,968</b>
<b>Liabilities</b>						
Accounts payable	385,097	49,111	13,856	-	-	448,064
Other payables and accruals	-	1,363,317	1,416,636	4,175,870	-	6,955,823
<b>Total</b>	<b>385,097</b>	<b>1,412,428</b>	<b>1,430,492</b>	<b>4,175,870</b>	<b>-</b>	<b>7,403,887</b>
<b>Net liquidity gap</b>	<b>384,166,061</b>	<b>168,999,394</b>	<b>447,100,554</b>	<b>188,841,071</b>	<b>184,480,001</b>	<b>1,373,587,081</b>

**16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS**

**(a) SUBSIDIARIES**

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

	Place of business	Ownership	Fair value June 2018	Fair value June 2017
<b>Subsidiaries</b>				
(i) South Pacific Oil Limited	Solomon Islands	100%	900,000,000	839,398,000
(ii) Solomon Islands Home Finance Limited	Solomon Islands	100%	20,999,000	24,736,216
(iii) Solomon Telekom Company Limited	Solomon Islands	97.32%	350,000,000	263,444,062
(iv) Solomon Oceanic Cable Company Limited	Solomon Islands	51%	15,669,411	15,669,411
<b>Total fair value of subsidiaries</b>			<b>1,286,668,411</b>	<b>1,143,247,689</b>
<b>Other equity investments</b>				
(i) Heritage Park Hotel Limited	Solomon Islands	20%	66,000,000	26,823,000
(ii) Soltuna Company Limited	Solomon Islands	40.5%	45,000,000	37,876,088
(iii) Bank South Pacific Limited (Listed)	PNG		62,485,321	60,440,977
(iv) Offshore managed funds (Listed)	US & Euro		81,221,620	73,320,160
<b>Total fair value of other equity investments</b>			<b>254,706,941</b>	<b>198,460,225</b>
<b>Total fair value of equity investments (refer Note 6 (a) (ii))</b>			<b>1,541,375,352</b>	<b>1,341,707,914</b>

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

**(a) SUBSIDIARIES (CONTINUED)**

Commencing in 2013, the Board adopted a policy to annually revalue its unlisted domestic equities, beginning with its two large equity exposures South Pacific Oil Limited and Solomon Telekom Company Limited. The valuations of all of the Fund's unlisted private equities for the 2018 financial year was carried out by Deloitte Australia. The valuations were carried out under the applicable International Financial Reporting Standard – IFRS 13 Fair Value Measurements.

**(i) SOUTH PACIFIC OIL LIMITED (SPOL)**

There were no changes to the shareholding of SPOL during the year. SINPF holds 100% (53,333,333 shares) of SPOL. As at 30 June 2018, the company was valued at \$900,000,000 (2017: \$839,398,000).

**(ii) SOLOMON ISLANDS HOME FINANCE LIMITED (SIHFL)**

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

At 30 June 2018, the investment was revalued to market value of \$20,999,000 (2017: \$24,736,216) based on the valuation carried out.

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

During the year there were no changes to the shareholding in STCL. As at 30 June 2018, the Fund owned 77,764,218 A class shares or 97.32% of the STCL.

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

At 30 June 2018, the investment was revalued to market value of \$350,000,000 (2017: \$263,444,062) based on the valuation carried. STCL also owes the Fund \$75,698,006 as at 30 June 2018.

**(iv) SOLOMONS OCEANIC CABLE COMPANY LIMITED (SOCC)**

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

At 30 June 2018, the investment in SOCC was valued by management at \$15,669,411, anticipating equitizing the amount in a new company, SICCL.

**(b) OTHER EQUITY INVESTMENTS**

**(i) HERITAGE PARK HOTEL LIMITED (HPhL)**

During the year the Fund bought an additional 20 shares in HPhL and now holds 40 shares, representing 20% of the company's share capital. This increased the value of investment to \$66,000,000, (2017: \$26,800,000).

HPhL also has a loan balance with the Fund which currently stands at \$25,109,148. The loan is accruing interest at the rate of 12.5% per annum.

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**16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)**

**(b) OTHER EQUITY INVESTMENTS (CONTINUED)**

**(ii) SOLTUNA COMPANY LIMITED (SCL)**

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

At the end of June 2018, the Fund valued its investment in Soltuna at \$45,000,000 (2017: \$37,876,088) based on a valuation carried out by Deloitte.

Soltuna continues to repay its \$50 million loan according to loan arrangements. At the end of the year, the loan balance was \$20,382,905, a reduction of approximately \$29.7 million.

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

**(iii) BANK SOUTH PACIFIC LIMITED (BSP)**

The Fund maintained its 2,500,001 shares in BSP during the year. The BSP share price at the end of the year was \$24.99 per share (\$10.01 Kina) giving a valuation of \$62,485,321 (2017: \$60,440,977).

**(iv) OFFSHORE MANAGED FUNDS**

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

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

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

At 30 June 2018 the Fund has 1,707,781 units (2017: 1,656,562 units) in UBS Australian Share Fund at the recorded price of SBD \$11.13 (2017: SBD \$10.85) per unit (AUD \$1.8714) (2017: AUD \$1.7765). During the year the Fund reinvested its quarterly distributions to purchase an additional 51,219 units in the Fund under the Fund's Distribution Reinvestment Program (DRP).

The Fund also maintained the same level of units in Vanguard European Stock Index Fund at 64,6734 with a closing price per unit of SBD \$180.69 (2017: SBD \$171.35) per unit (Euro 19.6868) (2017: Euro 19.1397) at the end of the year.



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**17. TREASURY BILLS AND OTHER PRIVATE COMMERCIAL LOANS**

**(a) GOVERNMENT SECURITIES/DEVELOPMENT BONDS**

	June 2018 \$	June 2017 \$
SIG Development Bond – Bullet Series	120,000,000	120,000,000
SIG Development Bond – Amortising Series	30,000,000	30,000,000
Total government securities/Bonds (refer Note 6 (a) (ii))	150,000,000	150,000,000

In 2017, the government issued Bonds to the Fund. The first bond amounting to \$120m was issued at 6.5% interest rate with a term of 15 years, maturing on 20 March 2032. The second bond amounting to \$30m was issued at 6.69% interest rate with a term of 10 years, maturing on 30 March 2027.

**(b) TREASURY BILLS – CENTRAL BANK OF SOLOMON ISLANDS**

The Fund tendered for treasury bills offered by the Central Bank of Solomon Islands on behalf of the Solomon Islands Government. At the end of the year, the balance of Treasury Bills held by the Fund was \$19,217,142 (June 2017: \$18,529,000). These were mostly 182 days Treasury Bills at rates between 0.4% to 1.5%.

**18. FAIR VALUE OF FINANCIAL INSTRUMENTS**

**(a) Valuation models**

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

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

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

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

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

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

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**18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

**(b) Valuation framework**

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

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

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

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

<b>Financial assets at fair value through changes in net assets</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>30 June 2018</b>				
<u>Equity investments</u>				
- Energy	900,000,000	-	900,000,000	-
- Telecommunications	365,669,411	-	350,000,000	15,669,411
- Tourism and hospitality	66,000,000	-	-	66,000,000
- Manufacturing	45,000,000	-	-	45,000,000
- Financial services and others	164,705,940	143,706,940	-	20,499,000
<b>Total financial assets at fair value through changes in net assets</b>	<b>1,541,375,351</b>	<b>143,706,940</b>	<b>1,250,000,000</b>	<b>147,168,411</b>
<b>30 June 2017</b>				
<u>Equity investments</u>				
- Energy	839,398,000	-	839,398,000	-
- Telecommunications	279,113,473	-	263,444,062	15,669,411
- Tourism and hospitality	26,823,000	-	-	26,823,000
- Manufacturing	37,876,088	-	-	37,876,088
- Financial services and others	158,497,353	133,761,137	-	24,736,216
<b>Total financial assets at fair value through changes in net assets</b>	<b>1,341,707,914</b>	<b>133,761,137</b>	<b>1,102,842,062</b>	<b>105,104,715</b>

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

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**18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

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

	June 2018	June 2017
	\$	\$
Balance at 1 July	105,104,715	119,240,637
Fair value (losses) / gains *	3,386,696	2,895,866
Purchases	39,177,000	-
Disposals/Transfer	-	(17,031,788)
<b>Balance at the end of the year</b>	<b>147,668,411</b>	<b>105,104,715</b>

\*These gains and losses are recognised in the changes in net assets as net gain from financial instruments at fair value through changes in net assets.

(d) Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs as at 30 June 2018 in measuring financial instruments categorized as level 2 and level 3 in the fair value hierarchy.

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

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

(e) Financial instruments not measured at fair value

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

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**19. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

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

**IFRS 9 Financial Instruments**

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

**IFRS 15 Revenue from Contracts with Customers**

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

**IFRS 16 Leases**

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

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

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

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

**20. SUBSEQUENT EVENTS**

Subsequent to 30 June 2018, there were approvals made by the Minister of Finance through the Board for the purchase of a property from STCL and Shares in SICCL for the values of SBD 34,000,000.00 and SBD 116,000,000.00 respectively.

Other than the above, there has not been any matters or circumstances that have arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operation of the Fund, the results of those operations, of the state of affairs of the Fund in future financial years apart from the matters discussed elsewhere in the financial statements.