

**SOLOMON ISLANDS  
NATIONAL PROVIDENT FUND**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2017**

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

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**SOLOMON ISLANDS NATIONAL PROVIDENT FUND  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**


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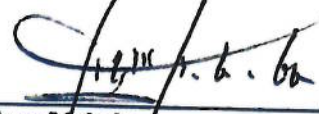
**Statement By Directors**

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 2017;
- (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 2017;
- (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 2017;
- (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

  
\_\_\_\_\_  
**Tony Makabo**  
General Manager (CEO)

  
\_\_\_\_\_  
**Gideon Zoleveke Jnr**  
Deputy Chairman

Dated at HONIARA this 29TH day of SEPTEMBER 2017.





**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 2017, 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 2017, 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 our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements 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  
29 September 2017

Office of the Auditor General  
Honiara, Solomon Islands

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**STATEMENT OF NET ASSETS**  
**AS AT 30 JUNE 2017**

	Note	June 2017 \$	June 2016 \$
<b>ASSETS</b>			
<b>Investments</b>			
<i>Financial investments</i>			
Commercial paper and treasury bills	6 (a) (i)	675,400,680	664,344,109
Held-to-maturity investments	6 (b) (ii)	150,000,000	-
Loans and advances	6 (b) (i)	137,243,880	104,372,531
Equity investments	6 (a) (ii)	1,341,707,914	1,388,194,355
<i>Non-financial investments</i>			
Investment properties	6 (a) (iii)	336,289,988	293,480,306
		<u>2,640,642,462</u>	<u>2,450,391,301</u>
<b>OTHER ASSETS</b>			
Cash and cash equivalents	13	367,288,073	373,084,347
Receivables	5	51,058,335	119,613,341
Property, plant and equipment	7	<u>62,474,085</u>	<u>59,858,774</u>
		<u>480,820,493</u>	<u>552,556,462</u>
<b>TOTAL ASSETS</b>		<u>3,121,462,955</u>	<u>3,002,947,763</u>
<b>LIABILITIES</b>			
Accounts payable		448,064	1,410,270
Other payables and accruals	8 (a)	6,955,823	8,493,381
Employee entitlements	8 (b)	<u>33,736,613</u>	<u>22,127,055</u>
<b>TOTAL LIABILITIES (excluding net assets available to pay benefits)</b>		<u>41,140,500</u>	<u>32,030,706</u>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	4 (a)	<u>3,080,322,455</u>	<u>2,970,917,057</u>
<b><u>Represented by:</u></b>			
Allocated to members account	4 (b)	2,760,786,174	2,566,146,462
Special death benefit	4 (c)	(347,268)	(299,479)
Nominees trust account	4 (d)	6,136,791	5,741,235
Reserves	4 (e)	<u>313,746,758</u>	<u>399,328,839</u>
<b>TOTAL MEMBERS FUNDS</b>		<u>3,080,322,455</u>	<u>2,970,917,057</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

  
Tony Makabo  
General Manager (CEO)



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

	Note	June 2017 \$	June 2016 \$
<b>INVESTMENT INCOME</b>			
Interest income	3 (a)	32,660,257	18,649,538
Dividend income	3 (b)	77,964,790	119,725,467
Net (loss) / gain from changes in fair values	3 (c)	(21,207,028)	64,647,706
Rental income	3 (d)	26,769,352	28,099,080
		<u>116,187,371</u>	<u>231,121,791</u>
<b>LESS: DIRECT INVESTMENT EXPENSES</b>	3 (f)	<u>(23,208,213)</u>	<u>(17,540,725)</u>
<b>NET RETURN ON INVESTMENTS</b>		92,979,158	213,581,066
Other income	3 (e)	<u>4,105,925</u>	<u>2,981,446</u>
		97,085,083	216,562,512
<b>CONTRIBUTION REVENUE</b>			
Unallocated contributions		11,322,303	8,913,173
Members' contribution		<u>267,909,794</u>	<u>246,425,879</u>
		279,232,097	255,339,052
<b>BENEFITS PAID AND EXPENSES INCURRED</b>			
Benefits paid	3 (h)	(215,957,623)	(214,178,486)
Operating expenses	3 (g)	<u>(50,954,159)</u>	<u>(50,244,981)</u>
		(266,911,782)	(264,423,467)
<b>CHANGE IN NET ASSETS FOR THE YEAR</b>	4(f)	109,405,398	207,478,097
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE CHANGES IN NET ASSETS FOR THE YEAR</b>		<u>109,405,398</u>	<u>207,478,097</u>
Net assets available to pay benefits at the beginning of the financial year		2,970,917,057	2,763,438,960
<b>NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR</b>	4(a)	<u>3,080,322,455</u>	<u>2,970,917,057</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 2017**

	Note	June 2017 \$	June 2016 \$
<b>Cash flows from operating activities</b>			
Contributions from members and employers		279,232,097	255,339,052
Interest received		22,948,751	18,928,211
Dividends received		84,462,344	143,259,270
Rentals received		22,247,851	23,901,937
Other income received		2,361,636	3,051,958
Benefits paid to members		(215,957,623)	(214,178,486)
Cash paid to suppliers and employees		(58,142,049)	(45,690,672)
<b>Net cash flows from operating activities</b>		<b>137,153,007</b>	<b>184,611,270</b>
<b>Cash flows from investing activities</b>			
Net (acquisition) / redemption of commercial paper, treasury bills and held-to-maturity investments		(159,103,365)	26,089,019
Loans and advances repaid / (provided)		13,230,034	(19,457,197)
Net acquisition of shares		(366,045)	(16,193,216)
Proceeds from Solomon Island Government for unlisted equity		17,006,788	-
Proceeds from sale of property plant and equipment		-	200,495
Acquisition of investment properties		(1,444,633)	(7,377,699)
Proceeds from sale of investment property		-	6,800,000
Acquisition of property plant and equipment		(12,272,060)	(5,408,415)
<b>Net cash used in investing activities</b>		<b>(142,949,281)</b>	<b>(15,347,013)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(5,796,274)</b>	<b>169,264,257</b>
Cash and cash equivalents at the beginning of the year		373,084,347	203,820,090
<b>Cash and cash equivalents at the end of the year</b>	13	<b>367,288,073</b>	<b>373,084,347</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 2017**

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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 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 years.

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 statement of 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



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

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

**(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.

**(c) Members contribution**

Contributions from employers and members are recorded when control of the asset is ascertained which is upon receipts 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 2017 for each member was \$3,000 (2016:\$10,000).

**(e) Nominee trust account**

As provided for in the Act, if any person under eighteen years (other than the widow) 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 recognized 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 derecognized. All other repair and maintenance are charge to the statement of 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 recognized as an expense in profit or loss, in which case the increase is credited to the statement of 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.



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

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

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

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.

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 becoming 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 recognized as a charge in the statement of changes in net assets.



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

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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 statement of 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 statement of 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 derecognized 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 derecognized if the Fund's obligations specified in the contract expire or are discharged or cancelled.

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

This category has financial assets that are designated at fair value through statement of 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 statement of changes in net assets when incurred. Subsequent to initial recognition, financial instruments at fair value through statement of changes in net assets are measured at fair value, and changes therein are recognised in the statement of 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 2017**

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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 statement of 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 statement of 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 statement of 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 cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2017**

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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 recognized 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 statement of 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.

**(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.

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Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

**3. INCOME AND EXPENSES**

	June 2017	June 2016
	\$	\$
<b>(a) Interest income</b>		
Cash at bank	88,971	32,796
Treasury bills	101,050	110,185
Bonds	4,399,924	3,610,682
Loans and advances	21,001,418	6,856,285
Investment securities - commercial paper	7,068,894	8,039,590
<b>Total</b>	<b>32,660,257</b>	<b>18,649,538</b>
<b>(b) Dividend income</b>		
Quoted shares	6,618,616	5,652,169
Unquoted shares	70,760,611	113,524,598
Managed funds	585,563	548,700
<b>Total</b>	<b>77,964,790</b>	<b>119,725,467</b>
<b>(c) Gain / (loss) from changes in fair values</b>		
Investment properties	6,860,464	505,600
Equities	(48,758,171)	74,030,865
Net foreign exchange gain/(loss)	20,690,679	(9,888,759)
<b>Total</b>	<b>(21,207,028)</b>	<b>64,647,706</b>
<b>(d) Rental income</b>		
Investment properties	26,563,912	26,916,296
Others	205,440	1,182,784
<b>Total</b>	<b>26,769,352</b>	<b>28,099,080</b>
<b>(e) Other income</b>		
Bad debts recovery	60,924	87,677
Gain on sale of property, plant and equipment	-	200,495
Gain on sale of investment	175,000	-
Surcharge	3,390,649	2,233,705
Others	479,352	459,569
<b>Total</b>	<b>4,105,925</b>	<b>2,981,446</b>
<b>(f) Direct investment expenses</b>		
Utilities (water and electricity)	4,586,254	2,526,269
Repairs and maintenance	6,605,183	6,210,789
Land rates and rental charges	1,102,250	356,621
Insurance	879,827	853,628
Management fees	1,437,600	1,514,108
Cleaning services	1,034,963	1,024,484
Valuation and consultation fees	2,556,685	624,547
Doubtful debts – loans and advances	771,244	-
Doubtful debts – other receivables	4,234,207	4,430,279
<b>Total</b>	<b>23,208,213</b>	<b>17,540,725</b>



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
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**3. INCOME AND EXPENSES (Continued)**

	June 2017 \$	June 2016 \$
<b>(g) Operating expenses</b>		
Board and management allowances	1,250,720	938,443
Utilities (water and electricity)	1,745,137	1,339,740
Repairs and maintenance	1,879,912	1,902,750
Land rates and rental charges	174,950	165,568
Administrative expenses	6,544,100	6,473,543
Doubtful debts – Surcharges and other receivables	1,159,003	429,736
Depreciation expense	6,496,901	7,549,455
Insurance expense	299,104	559,041
Audit fees	359,010	359,210
Bank charges	81,353	63,061
Consultancy fees and expenses	1,731,687	1,298,526
Staff expenses (refer below)	29,232,282	29,165,908
<b>Total</b>	<b>50,954,159</b>	<b>50,244,981</b>
<u>The breakdown of staff expenses are as follows:</u>		
Wages and salaries	14,543,256	10,989,456
Contributions to SINPF	1,063,031	826,232
Employee benefits	8,940,120	13,343,921
Other staff costs	4,685,874	4,006,299
	<b>29,232,282</b>	<b>29,165,908</b>
<b>(h) Member Benefits</b>		
Interest on withdrawal, trust and other members expenses	8,253,992	7,311,046
Contribution withdrawals (refer Note 4(b) )	206,335,494	203,870,747
Special death benefit payments (refer Note 4(c) )	647,136	1,858,982
Nominees trust payment (refer Note 4(d) )	721,001	1,137,711
<b>Total</b>	<b>215,957,623</b>	<b>214,178,486</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**

The last revaluation of land and buildings (excluding investment properties) was carried out on 16 June 2013. The revaluation surplus/loss is credited to the revaluation reserve. The next revaluation of the land and buildings will be carried out in the 2018 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, unidentified members contribution including other appropriated contribution related accounts.

In the event 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 off set and recovered from subsequent earnings and future surpluses.

	June 2017 \$	June 2016 \$
(a) Net assets available to pay benefits		
Net assets available to pay benefits	3,080,322,455	2,970,917,057
<b><u>Represented by:</u></b>		
Allocated to members' account	2,760,786,174	2,566,146,462
Special death benefit	(347,268)	(299,479)
Nominees trust	6,136,791	5,741,235
Reserves	313,746,758	399,328,839
	3,080,322,455	2,970,917,057
(b) Liability for accrued benefits		
Opening Balance	2,566,146,462	2,307,445,301
Contributions received from members and employers	279,232,097	255,339,053
Interest credited to members accounts	124,567,631	209,384,265
Benefits paid – withdrawals (refer Note 3(h) )	(206,335,494)	(203,870,747)
Transfer to nominees trust accounts (refer Note 4(d) )	(787,806)	(823,288)
Transfer to special death benefits (refer Note 4(c) )	(630,786)	(609,293)
Forfeited contributions transfer to general reserve (refer Note 4(e) )	(1,375,583)	(985,501)
Other transfers / adjustments	(30,347)	266,672
Balance at 30 June	2,760,786,174	2,566,146,462
<b><u>Represented by:</u></b>		
Allocated to members' accounts	2,727,341,394	2,552,305,015
Unidentified	33,444,780	13,841,447
	2,760,786,174	2,566,146,462

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
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**4. NET ASSETS AVAILABLE TO PAY BENEFITS (CONTINUED)**

	June 2017 \$	June 2016 \$
<b>(c) Special death benefit</b>		
Balance at the beginning of the year	(299,479)	(21,727)
Transfer in from general reserve	-	1,100,000
Transfer in from members account (refer Note 4(b))	630,786	609,293
Transfer out benefit payments (refer Note 3(h))	(647,136)	(1,858,982)
Transfer out to nominees trust (refer Note 4(d))	(31,439)	(128,063)
Balance at the end of the year	<u>(347,268)</u>	<u>(299,479)</u>
<b>(d) Nominees trust account</b>		
Balance at the beginning of the year	5,741,235	5,461,546
Transfer in from members account (refer Note 4(b))	787,806	823,288
Transfer in from special death benefits (refer Note 4(c))	31,439	128,063
Transfer out benefit payments (refer Note 3(h))	(721,001)	(1,137,711)
Annual interest	297,312	466,049
Balance at the end of the year	<u>6,136,791</u>	<u>5,741,235</u>
<b>(e) Reserves</b>		
<b>(i) <u>Asset revaluation reserve</u></b>		
Balance at the end of the year	<u>69,951,343</u>	<u>69,951,343</u>
<b>(ii) <u>General reserve</u></b>		
Balance at the beginning of the year	329,377,496	380,602,497
Transfers in from members account (refer Note 4(b))	1,375,583	985,501
Transfers out	(86,957,664)	(52,210,502)
Balance at the end of the year	<u>243,795,415</u>	<u>329,377,496</u>
<b>Total reserves</b>	<u>313,746,758</u>	<u>399,328,839</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>109,405,398</u>	<u>207,478,097</u>
<u>Comprises net transfers to/(from):</u>		
Liability for accrued benefits	194,639,712	259,686,662
Special death benefit	(47,789)	(277,752)
Nominees trust	395,556	279,689
General reserves	<u>(85,582,081)</u>	<u>(52,210,502)</u>
	<u>109,405,398</u>	<u>207,478,097</u>



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
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**5. RECEIVABLES**

	June 2017 \$	June 2016 \$
Interest receivables	6,042,997	5,624,954
Rental income receivables	13,649,893	9,128,392
Dividend receivables	34,045,800	95,770,183
Surcharge receivables	10,723,699	8,668,890
Other receivables	5,616,930	16,077,385
	<u>70,079,319</u>	<u>135,269,804</u>
Less: Allowance for doubtful debts	(19,020,984)	(15,656,463)
<b>Total receivables</b>	<u><b>51,058,335</b></u>	<u><b>119,613,341</b></u>
<u>Movement in allowance for doubtful debts is as follows:</u>		
Balance at 1 July	(15,656,463)	(11,940,842)
Impairment loss recognised	(5,393,210)	(4,860,015)
Amounts written off against provision	2,028,689	1,144,394
Balance at the end of the year	<u>(19,020,984)</u>	<u>(15,656,463)</u>

The allowance for doubtful debts of \$19,020,984 (2016: \$15,656,463) is provided against arrears on surcharge receivables, interest receivable and rental income receivables.

**6. INVESTMENTS**

(a) Financial assets carried at fair value through statement of changes in net assets	June 2017 \$	June 2016 \$
(i) Commercial paper and treasury bills		
On shore deposits	510,501,438	487,029,150
Offshore deposits	119,383,342	132,735,413
Total deposits	<u>629,884,780</u>	<u>619,764,564</u>
Treasury bills	18,529,000	17,592,646
Other fixed term debt securities (debentures) – Related parties	26,986,900	26,986,900
<b>Total</b>	<u><b>675,400,680</b></u>	<u><b>664,344,109</b></u>

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

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

Opening balance	664,344,109	660,886,353
Net movement during the year	8,412,953	9,371,118
Foreign exchanges differences during the year (unrealised)	2,643,618	(5,913,362)
Balance at the end of the year	<u>675,400,680</u>	<u>664,344,109</u>
(ii) Equity securities at fair value:		
- Listed	133,761,137	114,457,619
- Unlisted	1,207,946,777	1,273,736,736
<b>Total equities at fair value</b>	<u><b>1,341,707,914</b></u>	<u><b>1,388,194,355</b></u>



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**6. INVESTMENTS (CONTINUED)**

	June 2017 \$	June 2016 \$
<b>(a) Financial assets carried at fair value through statement of changes in net assets (continued)</b>		
<u>The movement in investment securities carried at fair value through profit and loss is as follows:</u>		
Opening balance	1,388,194,355	1,301,945,671
Acquisitions/(Redemption)/transfer during the year	(32,135,154)	16,193,126
Gain from changes in fair value (refer Note 3(c))	(48,758,171)	74,030,865
Exchange differences	18,737,473	(3,975,307)
<b>Balance at the end of the year</b>	<b>1,326,038,503</b>	<b>1,388,194,355</b>
<b>(iii) Investment properties</b>		
Opening balance	293,480,306	285,313,044
Additions	32,717,108	7,377,699
Disposals	-	(6,800,000)
Transfers from property, plant and equipment	3,232,110	7,083,963
Gain from fair value adjustment * (refer Note 3(c))	6,860,464	505,600
<b>Balance at the end of the year</b>	<b>336,289,988</b>	<b>293,480,306</b>

\*Valuations of the Fund's investment properties were performed by external valuers VHT Real Estate to determine the fair value of land and buildings (in the prior year, valuations of the Funds investment properties was performed inhouse). The valuations, which conform to international valuation standards, were determined by reference to the current market values of the land and buildings. The effective date of the valuations was 16 June 2017 ( the effective date of the prior years valuation was 16 June 2016).

**(b) Financial Assets carried at amortised cost**

**(i) Loans and advances**

- Commercial loans – Private entities	5,469,391	20,422,483
– Related parties	130,718,021	85,357,815
- Member schemes	4,692,197	5,261,836
- Staff schemes	2,251,184	2,297,705
<b>Total gross loans and advances</b>	<b>143,130,793</b>	<b>113,339,839</b>
<b>Allowance for doubtful debts</b>	<b>(5,886,913)</b>	<b>(8,967,308)</b>
<b>Net loans and advances</b>	<b>137,243,880</b>	<b>104,372,531</b>

**Movement in allowance for doubtful debts is as follows:**

Balance at the beginning of the year	(8,967,308)	(8,994,330)
Impairment loss recognised (refer Note 3 (f))	771,244	-
Amounts written off / recovery on foreclosure	2,309,151	27,022
<b>Balance at the end of the year</b>	<b>(5,886,913)</b>	<b>(8,967,308)</b>

The allowance for doubtful debts of \$5,886,913 (2016: \$8,967,308) is provided against commercial loans to private entities and member and staff schemes.

**(ii) Held-to-maturity investments**

Government securities – Related party (refer Note 17(a))	150,000,000	-
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**7. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings (at valuation) \$	Machinery equipment & motor vehicles \$	Furniture, fittings, computer & other equipment \$
<b>At cost / valuation</b>			
Balance as at 1 July 2015	60,791,874	17,813,077	11,151,220
Transfer from work in progress	-	103,015	95,523
Transfer to investment properties	-	1,313,112	369,420
Additions	(4,000,000)	-	-
Disposals	-	(982,855)	(37,548)
Balance as at 30 June 2016	56,791,874	18,246,349	11,578,615
Balance as at 1 July 2016	56,791,874	18,246,349	11,578,615
Transfers from work in progress	-	291,763	3,294,777
Additions	-	718,296	221,613
Transfer to investment properties	(2,017,643)	-	-
Reclass to expenses	-	-	-
Balance as at 30 June 2017	54,774,231	19,256,408	15,095,005

In 2013, an independent valuation of the Funds' land and buildings was carried out by Value Solutions Appraisal, and a revaluation which conform to international valuation standards were determined by reference to the current market values of land and buildings.



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**7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

<b>ACCUMULATED DEPRECIATION</b>	<b>Land and buildings (at valuation) \$</b>	<b>Machinery equipment &amp; motor vehicles \$</b>	<b>Furniture, fittings, computer &amp; other equipment \$</b>	<b>Work in progress \$</b>	<b>Total \$</b>
Balance as at 1 July 2015	6,032,848	12,525,616	7,762,209	-	26,320,673
Expense for the year	3,315,338	3,099,236	1,134,881	-	7,549,455
Disposals	-	(982,855)	(37,548)	-	(1,020,403)
Balance as at 30 June 2016	9,348,186	14,641,997	8,859,542	-	32,849,725
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>CARRYING VALUE</b>					
Balance as at 30 June 2016	47,443,688	3,604,352	2,719,073	6,091,661	59,858,774
Balance as at 30 June 2017	42,312,471	2,531,495	5,136,816	12,493,303	62,474,085

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

	June 2017 \$	June 2016 \$
<b><u>(a) Other payable and accruals</u></b>		
Rental bond	4,175,870	4,137,175
Other accruals	<u>2,779,953</u>	<u>4,356,206</u>
	<u>6,955,823</u>	<u>8,493,381</u>
<b><u>(b) Employee entitlements</u></b>		
<i>(Provision for early retirement benefits, annual leave and long service leave)</i>		
Current	11,609,558	11,689,014
Non-current	<u>22,127,055</u>	<u>10,438,041</u>
	<u>33,736,613</u>	<u>22,127,055</u>
<b><u>Movement in provision for employee entitlements:</u></b>		
Balance at the beginning of the year	22,127,055	11,689,014
Created during the year	12,656,816	11,381,711
Utilised during the year	<u>(1,047,258)</u>	<u>(943,670)</u>
Balance at the end of the year	<u>33,736,613</u>	<u>22,127,055</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 2017, 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.

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

Names	Appointment	Date of Appointment	Term of appointment	Date appointment lapse	Representing
Mr. Peter Boyers	Chairman	14 April 2014 20 May 2015	1 year 3 years	20 May 2015 20 May 2018	Crown Employer
Mr. Gideon Zoleveke (Jnr)	Deputy Chairman	29 March 2013 29 March 2016	3 years 3 years	29 March 2016 29 March 2018	Employer
Dr. Levi Hou	Member	9 September 2011 9 September 2014	3 years 3 years	8 September 2014 8 September 2017	Employees
Dr. Alice Pollard	Member	29 March 2013 29 March 2016	3 years 3 years	29 March 2016 29 March 2018	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. Jullian 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



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**9. RELATED PARTIES (CONTINUED)**

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

The specified executives of the Fund during the year were:

<b>Names</b>	<b>Position</b>
Tony Makabo	General Manager and CEO
Michael Wate	Deputy General Manager
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 2017</b>	<b>June 2016</b>
	<b>\$</b>	<b>\$</b>
<b>Directors:</b>		
Sitting allowances	694,600	413,156
Other services and allowances	550,559	512,507
	<b>1,245,159</b>	<b>925,663</b>
<b>Key management personnel (executives):</b>		
Short-term employee benefits	5,920,321	4,515,456
Post-employment benefits	3,841,150	10,162,729
Total compensation	<b>9,761,471</b>	<b>14,678,185</b>

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.

During the 2016 financial year the Fund amended its human resource policy to allow management and executives to be entitled to retirement benefits.

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

Other	<b>131,180</b>	<b>227,808</b>
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**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
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**9. RELATED PARTIES (CONTINUED)**

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

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

	June 2017 \$	June 2016 \$
<b><u>Loans and advances to related parties</u></b>		
Soltuna Company Limited	27,954,142	34,746,203
Heritage Park Hotel Limited	16,942,718	16,942,718
Solomon Telekom Company Limited	65,951,677	3,141,682
South Pacific Oil Limited	19,869,484	25,000,000
<b>Total loans and advances to related parties (refer Note 6(b) (i))</b>	<b>130,718,021</b>	<b>85,357,815</b>

During the year, 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	34,045,801	95,770,184
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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	-
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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:

	June 2017 \$	June 2016 \$
<b><u>Dividend income</u></b>		
Solomon Telekom Company Limited	9,760,611	63,258,338
South Pacific Oil Limited	61,000,000	53,990,260
Solomon Islands Home Finance Limited	-	276,000
<b>Total dividend income from related parties</b>	<b>70,760,611</b>	<b>117,524,598</b>
<b><u>Interest income</u></b>		
Soltuna Company Limited	4,453,295	5,193,181
South Pacific Oil Limited	1,809,634	1,125,982
Solomon Islands Home Finance Limited	713,053	847,315
Solomon Telekom Company Limited	118,299	245,745
Solomon Islands Government	2,764,757	639,931
Heritage Park Hotel Limited	2,147,842	2,087,842
<b>Total interest income from related parties</b>	<b>12,006,880</b>	<b>10,476,452</b>

**10. AUDITORS REMUNERATION**

Fees totaling \$358,010 were provided in the accounts for audit services as at June 2017 (2016: \$358,520). No other benefits were received by the auditors (Office of the Auditor General) during the year other than fees paid for normal auditing services.



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
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**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 a court case standing 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 2017 \$	June 2016 \$
Cash at bank	367,284,673	373,080,947
Cash on hand	3,400	3,400
	<u>367,288,073</u>	<u>373,084,347</u>

**14. EMPLOYEES**

The number of full time permanent Fund employees as at 30 June 2017 was 116 (2016: 116).

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**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.

**(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 recognized 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 2017		June 2016	
	\$	%	\$	%
Commercial paper, treasury bills and held-to-maturity investments	825,400,680	60%	664,344,109	53%
Loans and advances	137,243,880	10%	104,372,531	8%
Cash and cash equivalents	367,288,073	26%	373,084,347	30%
Receivables	51,058,335	4%	119,613,341	9%
<b>Total</b>	<b>1,380,990,968</b>	<b>100%</b>	<b>1,261,414,328</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 policy at the micro level while the Investment and Credit Sub-board Committee and Manager Investment 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 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 2017	June 2016	June 2017	June 2016	June 2017	June 2016
Commercial paper, treasury bills and held-to-maturity investments	825,400,680	664,344,109	-	-	825,400,679	664,344,109
Loans and advances	130,718,021	79,830,603	12,412,772	33,509,236	143,130,793	113,339,839
Cash and cash equivalents	367,288,073	373,084,347	-	-	367,288,073	373,084,347
Receivables	36,592,260	107,283,654	33,487,059	27,986,150	70,079,319	135,269,804



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**15. FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial risk management (continued)**

**(a) Credit risk (continued)**

<b>Impaired assets</b>	<b>June 2017</b>	<b>June 2016</b>
Loans and advances	12,412,772	33,509,236
Receivables	33,487,059	27,970,933
Gross impaired assets	45,899,831	61,480,169
Less: Allowance for doubtful debts	(24,927,751)	(24,651,348)
	<b>20,972,080</b>	<b>36,828,821</b>

**(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 2017 was \$169,728,375 (2016: \$17,592,646).

**(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:

	<b>Currency</b>					
<b>30 June 2017</b>	<b>SBD</b>	<b>AUD</b>	<b>USD</b>	<b>Euro</b>	<b>Others</b>	<b>Total</b>
<b>Assets</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>(GBP &amp; PGK)</b>	<b>\$</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
<b>Total</b>	<b>2,210,171,969</b>	<b>79,695,860</b>	<b>108,434,419</b>	<b>33,650,284</b>	<b>102,444,135</b>	<b>2,534,396,667</b>
<b>30 June 2016</b>						
<b>Assets</b>						
Cash and cash equivalent	342,062,030	20,150	2,051	21,905,832	9,094,284	373,084,347
Commercial paper, treasury bills and held-to-maturity investments	531,608,696	59,023,968	47,179,738	-	26,531,707	664,344,109
Equity investments	1,273,736,736	15,759,706	37,739,873	9,141,233	51,816,807	1,388,194,355
<b>Total</b>	<b>2,147,407,462</b>	<b>74,803,824</b>	<b>84,921,662</b>	<b>31,047,065</b>	<b>87,442,798</b>	<b>2,425,622,811</b>

The Fund is mainly exposed to 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% Strengthen	10% Weaken	10% Strengthen	10% Weaken	10% Strengthen	10% Weaken	10% Strengthen	10% Weaken	10% Strengthen	10% Weaken
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
Changes in net assets										
30 June 2016	(6,797)	8,307	(7,720)	9,436	(2,826)	3,454	(1,421)	1,737	(6,528)	7,979

**(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 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 through out the life-time of the member.

The table below summarizes the Fund's exposures to liquidity risk and maturity analysis of assets and liabilities:

	Up to 1 month \$	1 - 3 months \$	3- 12 months \$	1-5 years \$	Over 5 years \$	Total \$
<b>30 June 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>



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**15. FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial risk management (continued)**

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

<b>30 June 2016</b>	<b>Up to 1 month</b>	<b>1 - 3 months</b>	<b>3- 12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	373,084,347	-	-	-	-	373,084,347
Commercial paper, treasury bills and held-to-maturity investments	27,599,303	173,257,794	217,863,329	218,636,783	26,986,900	664,344,109
Loans and advances	-	-	20,422,482	58,950,049	25,000,000	104,372,531
Receivables	-	127,864	11,682,659	107,802,818	-	119,613,341
<b>Total</b>	<b>400,683,650</b>	<b>173,385,658</b>	<b>249,968,470</b>	<b>385,389,650</b>	<b>51,986,900</b>	<b>1,261,414,328</b>
<b>Liabilities</b>						
Accounts payable	1,405,597	944	3,729	-	-	1,410,270
Other payables and accruals	-	4,356,206	-	4,137,175	-	8,493,381
<b>Total</b>	<b>1,405,597</b>	<b>4,357,150</b>	<b>3,729</b>	<b>4,137,175</b>	<b>-</b>	<b>9,903,651</b>
<b>Net liquidity gap</b>	<b>399,278,053</b>	<b>169,028,508</b>	<b>249,964,741</b>	<b>381,252,475</b>	<b>51,986,900</b>	<b>1,251,510,677</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 statement of changes in net assets and therefore does not consolidate its subsidiaries.

	<b>Place of business</b>	<b>Ownership</b>	<b>Fair value June 2017</b>	<b>Fair value June 2016</b>
<b>Subsidiaries</b>				
(i) South Pacific Oil Limited	Solomon Islands	100%	839,398,000	766,446,000
(ii) Solomon Islands Home Finance Limited	Solomon Islands	100%	24,736,216	25,297,373
(iii) Solomon Telekom Company Limited	Solomon Islands	97.32%	263,444,062	388,049,999
(iv) Solomon Oceanic Cable Company Limited	Solomon Islands	51%	15,669,411	32,676,199
<b>Total fair value of subsidiaries</b>			<b>1,143,247,689</b>	<b>1,212,469,571</b>
<b>Other equity investments</b>				
(i) Heritage Park Hotel Limited	Solomon Islands	10%	26,823,000	26,800,000
(ii) Soltuna Company Limited	Solomon Islands	40.5%	37,876,088	34,442,165
(iii) Bank South Pacific Limited (Listed)	PNG		60,440,977	51,816,807
(iv) Offshore managed funds (Listed)	US & Euro		73,320,160	62,640,812
<b>Total fair value of other equity investments</b>			<b>198,460,225</b>	<b>175,724,784</b>
<b>Total fair value of equity investments (refer Note 6 (a) (ii))</b>			<b>1,341,707,914</b>	<b>1,388,194,355</b>



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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 2017 financial year were carried out by Baoro and Associates and Ernst & Young. 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 2017, the company was valued at \$839,398,000 (2016: \$766,466,000) by Ernst & Young.

**(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 2017, the investment was revalued to market value of \$24,736,216 (2016: \$25,297,373) based on the valuations carried out by Baoro and Associates.

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

During the year there were no changes to the shareholding in STCL. As at 30 June 2017, 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 2017, the investment was revalued to market value of \$263,444,062 (2016: \$388,049,999) based on the valuation carried out by Ernst & Young. STCL also owes the Fund \$99,997,477 as at 30 June 2017.

**(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.

At 30 June 2017, the investment in SOCC was valued by management at \$15,669,411. The Fund received a letter of comfort from the Solomon Islands Government assuring the Fund that they will recover the amount through equitizing the amount in a new company, Solomon Islands Submarine Cable Company Limited (SISCCCL).

**(b) OTHER EQUITY INVESTMENTS**

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

During the year there were no changes to the Funds ownership interest in HPhL. The Fund continues to hold 20 shares in HPhL, representing 10% of the company's share capital. The Fund has adopted a value of \$26,823,000 as at 30 June 2017 (2016: \$26,800,000) for its 10% shareholding based on the valuation carried out by Baoro and Associates.

HPhL also has a loan balance with the Fund which currently stands at \$16,942,718. The loan was interest free up till August 2015 in order to maximise the benefit of HPhL's 5 year tax holiday. The tax holiday has now expired and 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 brings 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 2017, the Fund valued its investment in Soltuna at \$37,876,088 (2016: \$34,442,165) based on a valuation carried out by Baoro and Associates.

Soltuna continues to repay its \$50 million loan according to loan arrangements. At the end of the year, the loan balance was \$27,954,142 a reduction of approximately \$22.1 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) SASAPE INTERNATIONAL SHIPYARD LIMITED (SISL)**

Sasape International Shipyard Limited (SISL) was incorporated in February 2011 for the purposes of leasing and operating the slipway facilities at Base 2 at Tulagi, Central Islands Province. The assets at Base 2 Tulagi were purchased by SINPF after a successful joint bid was lodged by SSL and SINPF in 2010.

As at 30 June 2017 SINPF sold its 25% shareholding in SISL to Silent World. The investment in SISL at year end was \$nil (2016: \$25,000)

**(iv) 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 \$24.18 per share (9.4 Kina) giving a valuation of \$60,440,977 (2016: \$51,816,807).

**(v) 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 2017 the Fund has 1,656,562 units (2016: 1,601,142 units) in UBS Australian Share Fund at the recorded price of SBD \$10.85 (2016: SBD \$9.86) per unit (AUD \$1.7765) (2016: AUD \$1.6654). During the year the Fund reinvested its quarterly distributions to purchase an additional 55,419 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 64,673 with a closing price per unit of SBD \$171.35 (2016: SBD \$141.96) per unit (Euro 19.1397) (2016: Euro 16.2263) at the end of the year.



**SOLOMON ISLANDS NATIONAL PROVIDENT FUND**  
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**17. TREASURY BILLS AND OTHER PRIVATE COMMERCIAL LOANS**

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

	June 2017	June 2016
	\$	\$
SIG Development Bond – Bullet Series	120,000,000	-
SIG Development Bond – Amortising Series	30,000,000	-
Total government securities/Bonds (refer Note 6 (a) (ii))	150,000,000	-

During the financial year 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 \$18,529,000 (June 2016: \$17,592,646). These were mostly 182 days Treasury Bills at rates between 0.2% to 1.5%.

**(c) OTHER PRIVATE COMMERCIAL LOANS**

**Tavanipupu Island Resort Limited (TIRL) –Loan Agreement**

On 22 February 2012, TIRL defaulted on its 3<sup>rd</sup> scheduled interest payments of 12.5% on its \$15 million loan obtained from the Fund. Consequently, SINPF called up the loan following the default prior to the maturity of the loan and applied to the Courts for default judgement against the borrower.

The parties entered into a court sanctioned out of court settlement agreement dated 14 October 2014 that allows the Fund to take management control of TIRL and also to have the title of the mortgaged property transferred to the Fund.

Under the agreement the shareholders of TIRL have the option to buy back the property from the Fund up to 30 September 2016. If they do not take up their option to purchase back the property by the end of the period, the Fund will also fully own the company. During the redemption period the Fund and the shareholders of TIR can sell the property to a purchaser agreed to by both parties.

At year end, the shareholders had not exercised the option to buy back the property at 30 September 2016 and the TIR loan was foreclosed. The Fund now fully owns the property and an amount of \$31,274,275 is included in the investment property balance at year end.

**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.



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

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.

**(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 recognized in the statement of net assets.

Financial assets at fair value through statement of changes in net assets	Total	Level 1	Level 2	Level 3
<b>30 June 2017</b>				
<b>Equity investments</b>				
- 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 statement of 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>



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

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

<b>30 June 2016</b>	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Equity investments</b>				
- Energy	766,446,000	-	766,446,000	-
- Telecommunications	420,726,098	-	388,049,999	32,676,099
- Tourism and hospitality	26,800,000	-	-	26,800,000
- Manufacturing	34,442,165	-	-	34,442,165
- Shipping	25,000	-	-	25,000
- Financial services and others	139,754,992	114,457,619	-	25,297,373
<b>Total financial assets at fair value through statement of changes in net assets</b>	<b>1,388,194,255</b>	<b>114,457,619</b>	<b>1,154,495,999</b>	<b>119,240,637</b>

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

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.

	<b>June 2017</b>	<b>June 2016</b>
	<b>\$</b>	<b>\$</b>
Balance at 1 July	119,240,637	101,227,570
Fair value (losses) / gains *	2,895,866	2,333,067
Purchases	-	15,680,000
Disposals/Transfer	(17,031,788)	-
<b>Balance at the end of the year</b>	<b>105,104,715</b>	<b>119,240,637</b>

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

**(e) Significant unobservable inputs used in measuring fair value**

The table below sets out information about significant unobservable inputs as at 30 June 2017 in measuring financial instruments categorized as level 2 and level 3 in the fair value hierarchy.

<b>Description</b>	<b>Valuation technique</b>	<b>Unobservable Input</b>	<b>Inter-relationship between significant unobservable inputs and fair value measurement</b>
<b>Unlisted private equity instruments (categorised in level 2)</b>	<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.



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

**(f) Financial instruments not measured at fair value**

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

**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 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**

There has not been any matter or circumstances that has 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.