

**SOLOMON ISLANDS
NATIONAL PROVIDENT FUND**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

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FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

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**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

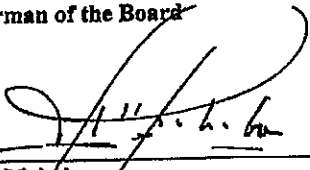
Statement By Directors

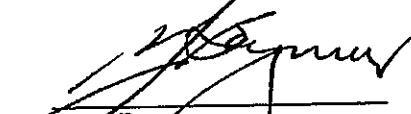
In accordance with a resolution of the Board of directors of Solomon Islands National Provident Fund ("the Fund"), we state that-

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 2014;
- (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 2014;
- (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 2014;
- (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 Act 1973 (as amended), International Financial Reporting Standards and other applicable standards in the Solomon Islands.


Baoro Laxton Koraua
Chairman of the Board


Tony Makabo
General Manager (CEO)


Peter Boyers
Deputy Chairman

Dated at Honiara this 30th day of September 2014.



INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF SOLOMON ISLANDS NATIONAL PROVIDENT FUND

Report on the Financial Statements

I have audited the accompanying financial statements of Solomon Islands National Provident Fund, which comprise the statement of net assets as at 30 June 2014, and the statement of changes in net assets and statement of cash flows for the year then ended, and notes 1 to 21, comprising a summary of significant accounting policies and other explanatory information.

Directors' and Management's Responsibility for the Financial Statements

Directors and management are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Solomon Islands National Provident Fund Act 1973, as amended, and other applicable laws and regulations. This responsibility includes implementing and maintaining internal controls relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements give a true and fair view of the net assets of Solomon Islands National Provident Fund as at 30 June 2014 and of its changes in net assets and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Robert Cohen
Acting Auditor-General

Office of the Auditor-General
Solomon Islands

30 September 2014

SOLOMON ISLANDS NATIONAL PROVIDENT FUND


STATEMENT OF NET ASSETS AS AT 30 JUNE 2014

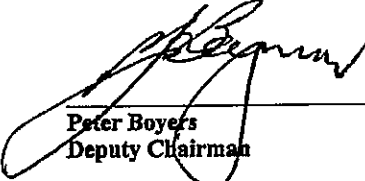
	Note	June 2014 \$	June 2013* \$
ASSETS			
Investments			
<i>Financial investments</i>			
Commercial papers and treasury bills	6 (a) (i)	724,374,191	624,728,851
Equity investments	6 (a) (ii)	1,179,444,410	1,170,010,601
Loans and advances	6 (b)	90,961,793	102,783,592
<i>Non-financial investments</i>			
Investment properties	6 (a) (iii)	259,279,772	212,438,000
		<u>2,254,060,166</u>	<u>2,109,961,044</u>
OTHER ASSETS			
Cash and cash equivalents	13	144,126,514	73,242,285
Receivables	5	151,034,586	119,655,313
Property, plant and equipment	7	<u>72,700,705</u>	<u>77,750,915</u>
		<u>367,861,805</u>	<u>270,648,513</u>
		<u>2,621,921,971</u>	<u>2,380,609,557</u>
TOTAL ASSETS			
LIABILITIES			
Accounts payable		1,453,450	1,177,317
Other payables and accruals	8 (a)	8,098,179	4,925,852
Employee entitlements	8 (b)	<u>11,393,071</u>	<u>1,102,885</u>
TOTAL LIABILITIES (excluding net assets available to pay benefits)		<u>20,944,700</u>	<u>7,206,054</u>
NET ASSETS AVAILABLE TO PAY BENEFITS	4 (a)	<u>2,600,977,271</u>	<u>2,373,403,503</u>
<u>Represented by:</u>			
Allocated to members account	4 (b)	2,048,124,001	1,693,478,795
Special death benefit	4 (c)	1,043,539	2,107,241
Nominees trust	4 (d)	4,520,557	3,997,583
Reserves	4 (e/f)	<u>547,289,174</u>	<u>673,819,884</u>
TOTAL MEMBERS FUNDS		<u>2,600,977,271</u>	<u>2,373,403,503</u>

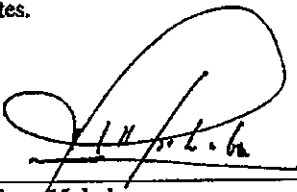
* See note 20

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

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


Baoro Laxton Koraua
Chairman of the Board


Peter Boyer
Deputy Chairman


Tony Makabo
General Manager (CEO)

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2014

	Note	June 2014 \$	June 2013* \$
INVESTMENT INCOME			
Interest income	3 (a)	16,476,468	21,914,723
Dividends	3 (b)	79,816,727	113,695,891
Net gain from changes in fair values	3 (c)	39,349,936	674,241,164
Rental income	3 (d)	25,442,333	26,224,322
		<u>161,085,464</u>	<u>836,076,100</u>
LESS: DIRECT INVESTMENT EXPENSES	3 (f)	<u>20,670,304</u>	<u>27,818,760</u>
NET RETURN ON INVESTMENTS		140,415,160	808,257,340
Other income	3 (e)	21,056,798	3,983,653
		<u>161,471,958</u>	<u>812,240,993</u>
CONTRIBUTION REVENUE			
Unallocated contributions		10,841,862	30,609,315
Members' contribution		215,718,655	175,712,994
		<u>226,560,517</u>	<u>206,322,309</u>
		<u>388,032,475</u>	<u>1,018,563,302</u>
Benefits paid	3 (h)	(116,743,668)	(89,873,103)
OPERATIONAL EXPENSES			
Operating expenses	3 (g)	(43,715,039)	(36,217,471)
CHANGE IN NET ASSETS FOR THE YEAR (before revaluation of land and buildings)	4 (g)	<u>227,573,768</u>	<u>892,472,728</u>
Transfer to General Reserve as a result of revaluation of land and buildings		-	23,046,941
CHANGE IN NET ASSETS FOR THE YEAR		<u>227,573,768</u>	<u>915,519,669</u>
Net assets available to pay benefits at the beginning of the financial year		2,373,403,503	1,457,883,834
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR	4(a)	<u>2,600,977,271</u>	<u>2,373,403,503</u>

* See note 20

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 2014**

	Note	June 2014 \$	June 2013 \$
Cash flows from operating activities			
Contributions from members and employers		226,560,517	206,322,309
Interest received		15,971,191	26,624,778
Dividends received		50,268,902	67,918,749
Rentals received		31,970,607	24,067,199
Other income received		20,188,610	3,731,480
Benefits paid to members		(116,743,668)	(89,873,103)
Cash paid to suppliers and employees		(46,064,606)	(49,958,251)
Net cash flows from operating activities		182,151,553	188,833,161
Cash flows from investing activities			
Net acquisition of commercial papers and treasury bills		(97,263,281)	(45,093,879)
Loans and advances repaid		7,230,822	3,065,238
Shares in subsidiaries acquired		(4,092,427)	(189,105,319)
Proceeds from sale of property plant and equipment		168,100	-
Acquisition of property plant and equipment		(17,310,538)	(42,268,767)
Net cash used in investing activities		(111,267,324)	(273,402,727)
Net increase in cash and cash equivalents		70,884,229	(84,569,566)
Cash and cash equivalents at the beginning of the year		73,242,285	157,811,851
Cash and cash equivalents at the end of the year	13	144,126,514	73,242,285

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 2014

1. GENERAL INFORMATION

The 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 years of age, is not exempt and is employed under a contract of service, irrespective of the period for which a person is employed.

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

Benefits from the Fund are paid to members on attaining the age of 50 years, on death, 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 is equal to their accumulated contributions plus interest allocated to them annually by the Board (refer note 2 below). In addition, on death of a member, the beneficiary of the deceased member's estate is paid a special death benefit.

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

The Fund is a defined contribution fund and 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) except where the Solomon Islands National Provident Fund Act (CAP 109) requires different treatment in which case the Act takes precedence. The accounting policies have been consistently applied over the reporting and comparative years.

The financial statements are expressed in the Solomon Islands dollar, rounded to the nearest dollar. All accounts of the Fund are maintained on an accrual account basis except the Contributions Account.

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 6 (a) – Valuation of equity securities
- Note 6 (b) – Recoverability of loans and receivables; and
- Note 7 – Estimated useful lives of items of property plant and equipment.

(b) Comparatives

All necessary information has been classified 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 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Members contribution account

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

(d) Special death benefit (SDB)

As provided for in the Act, an amount is deducted from each member's account at 30 June each year in respect of special death benefit to be paid to the beneficiaries of the member after the death of a member. The maximum sum payable for SDB for the year ended 30 June 2014 for each member was \$10,000.

(e) Nominee trust account

As provided for in the Act, if any person under eighteen years (other than his widow is nominated to receive the 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 one year is calculated on the balance standing to the credit of the member's account as at 1 July in the previous year. In accordance with Section 8 of the Solomon Islands National Provident Fund Act, the minimum interest rate to be credited to the members account is 2.5%. Under Section 10 of the Act, if the Fund is at any time unable to pay any sum which is required under the Act, then the sum required shall be advanced by the Government, 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. Fair value is determined on the basis of independent valuation prepared by external valuation experts, based on current market prices (as appropriate). The fair values 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 values.

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

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, is transferred directly to retained earnings. Plant and equipment, leasehold improvements and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property, plant and equipment (continued)

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

Buildings	5%
Machinery equipment and motor vehicles	25%
Furniture, fittings, computer and other equipment	25%

(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 other than goodwill 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 exempted from income tax.

(j) Allowance for Doubtful Loans and Investments

An allowance for bad and doubtful debts is established when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of 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 to the debtor.
- A breach of contract, such as default or delinquency in payments.
- It becoming probable that the debtor will enter bankruptcy or other financial reorganization.

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

(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 profit or loss, held to maturity, loans and receivables and available for sale. 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 profit or loss, plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Financial Instruments (continued)

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 profit or loss

This category has financial assets that are designated at fair value through profit or loss 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 profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss 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 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. Term deposits, government securities and other fixed interest securities 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 receivables are included under this category.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Certain private equity investments are included under this category.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the statement of changes in net assets.

(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 2014

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

(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 2014

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

(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 on an accrual basis.

(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, which is when it has been declared.

(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.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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.

3. INCOME AND EXPENSES

	June 2014 \$	June 2013 \$
(a) Interest income		
Cash at bank	63,469	82,605
Treasury bills	220,807	127,296
Bonds	3,075,067	2,780,377
Loans and advances	6,922,381	9,221,049
Investment securities - commercial papers & treasury bills	6,194,744	9,703,396
Total	16,476,468	21,914,723
(b) Dividends		
Quoted shares	4,741,306	5,166,900
Unquoted shares	74,481,656	107,943,811
Managed funds	593,765	585,180
Total	79,816,727	113,695,891
(c) Gain/(loss) from changes in fair values		
Investment properties	31,626,496	9,570,179
Equities	5,341,382	669,709,338
Net foreign exchange gain/(loss)	2,382,058	(5,038,353)
Total	39,349,936	674,241,164
(d) Rental income		
Investment properties	24,343,096	26,127,372
Others	1,099,237	96,950
Total	25,442,333	26,224,322
(e) Other income		
Bad debts recovery	5,065,382	412,084
Legal fee recovery	10,417,244	-
Risk premium fee - Bank of the South Pacific Limited	263,878	313,696
Surcharge	4,565,164	2,117,862
Others	745,130	1,140,011
Total	21,056,798	3,983,653
(f) Direct investment expenses		
Utilities (water and electricity)	4,480,723	11,783,838
Repairs and maintenance	6,648,156	4,627,798
Land rates and rental charges	415,600	139,361
Insurance	947,347	556,571
Cleaning services	556,146	486,150
Valuation	356,000	90,000
Doubtful debts - loans and advances	4,698,147	3,750,000
Doubtful debts - other receivables	2,568,185	6,385,041
Total	20,670,304	27,818,760

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

3. INCOME AND EXPENSES (Continued)

	June 2014 \$	June 2013 \$
(g) Operating expenses		
Board and management allowances	367,595	445,648
Utilities (water and electricity)	1,525,672	1,576,720
Repairs and maintenance	2,558,726	1,900,849
Land rates and rental charges	102,702	54,222
Administrative expenses	5,969,366	4,657,263
Doubtful debts - surcharges	-	1,184,731
Depreciation expenses	6,968,973	4,804,500
Insurance expenses	323,663	279,018
Audit fees	500,570	485,486
Bank charges	61,247	55,907
Consultancy fees and expenses	2,118,916	8,312,311
Staff costs (refer below)	23,217,609	12,460,816
Total	43,715,039	36,217,471
<u>The breakdown of staff costs are as follows:</u>		
Wages and salaries	10,181,735	8,940,473
Contributions to SINPF	734,846	657,989
Employee benefits	10,146,583	959,539
Other staff costs	2,154,445	1,902,815
	23,217,609	12,460,816
(h) Benefit paid		
Interest on withdrawal, trust and other members expenses	8,313,477	2,584,631
Contribution withdrawals (refer Note 4 (b))	106,314,917	86,092,584
Special death benefit payments (refer Note 4(c))	1,659,876	708,941
Nominees trust payment (refer Note 4 (d))	455,398	486,947
Total	116,743,668	89,873,103

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 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 subsequent 3 years.

- **General Reserve**
Revenue less normal operational expenses are credited to the General Reserves 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 deficiency due to losses arising from operations, including shortfalls of surplus resulted from interests allocated to members' accounts, such losses are to be off set and recovered from subsequent earnings and future surpluses.

	June 2014 \$	June 2013 \$
(a) Net assets available to pay benefits		
Net assets available to pay benefits	2,600,977,271	2,373,403,503
Represented by:		
Allocated to members' account	2,048,124,001	1,693,478,795
Special death benefit	1,043,539	2,107,241
Nominees trust	4,520,557	3,997,583
Reserves	547,289,174	673,819,884
	2,600,977,271	2,373,403,503
(b) Liability for accrued benefits		
Opening Balance	1,693,478,795	1,330,713,078
Contributions received from members and employers	226,560,517	206,322,309
Interest credited to members accounts	236,231,153	245,977,469
Benefits paid – withdrawals (refer note 3 (h))	(106,314,917)	(86,092,584)
Transfer to nominees trust accounts	(978,372)	(1,291,884)
Transfer to special death benefits	(596,174)	(551,251)
Forfeited contributions transfer to general reserve	(542,846)	(2,120,739)
Other transfers / adjustments	285,845	522,397
Balance at 30 June	2,048,124,001	1,693,478,795
Represented by:		
Allocated to members' accounts	2,020,946,105	1,650,087,147
Unidentified	27,177,896	43,391,648
	2,048,124,001	1,693,478,795

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

4. NET ASSETS AVAILABLE TO PAY BENEFITS (CONTINUED)

	June 2014 \$	June 2013 \$
(c) Special death benefit		
Opening balance	2,107,241	2,264,931
Add /(less) transfers from /(to) statement of change in net assets:		
Transfers in	596,174	551,251
Transfer out	(1,659,876)	(708,941)
Balance at the end of the year	1,043,539	2,107,241
(d) Nominees trust account		
Opening balance	3,997,583	3,192,646
Add /(less) transfers from /(to) statement of change in net assets:		
Transfers in	978,372	1,291,884
Transfer out	(455,398)	(486,947)
Balance at the end of the year	4,520,557	3,997,583
(e) Revaluation Reserve		
Opening Balance	69,951,343	46,904,402
Add: Revaluation during the year	-	23,046,941
Balance at end of the year	69,951,343	69,951,343
(f) General Reserve		
Opening Balance	603,868,541	74,808,777
Transfers in	542,846	529,059,764
Transfers out	(127,073,556)	-
Balance at end of the year	477,337,831	603,868,541
Total reserves	547,289,174	673,819,884
(g) Net change for the year		
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:	227,573,768	915,519,669
<u>Comprises net transfers to/(from):</u>		
Liability for accrued benefits	354,645,206	362,765,717
Special death benefit	(1,063,702)	(157,690)
Nominees trust	522,974	804,937
General reserves	(126,530,710)	552,106,705
	227,573,768	915,519,669

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

5. RECEIVABLES

	June 2014 \$	June 2013 \$
Interest	4,370,422	3,865,145
Rental income	5,518,998	10,958,606
Dividends	138,697,154	109,149,329
Surcharges	9,698,802	8,998,715
Others	5,317,780	1,335,251
	<u>163,603,156</u>	<u>134,307,046</u>
Less: Allowance for doubtful debts	<u>(12,568,570)</u>	<u>(14,651,733)</u>
Total receivables	<u>151,034,586</u>	<u>119,655,313</u>

Movement in allowance for doubtful debts is as follows:

Balance at 1 July	(14,651,733)	(7,081,961)
Impairment loss recognised –net	(2,568,185)	(7,569,772)
Amounts written off	4,651,348	-
Balance at the end of the year	<u>(12,568,570)</u>	<u>(14,651,733)</u>

The allowance for doubtful debts of \$12,568,570 (2013: \$14,651,733) is provided against arrears on surcharges, interest receivable and rental income.

6. INVESTMENTS

(a) Financial assets carried at fair value through statement of changes in net assets

(i) Commercial Papers and Treasury Bills

On shore deposits	455,772,824	335,021,171
Offshore deposits	170,601,262	154,256,718
Total deposits	<u>626,374,086</u>	<u>489,277,889</u>
Treasury bills	19,593,150	23,508,861
Government securities – Related party	46,906,954	60,442,101
Other fixed term debt securities (debentures) – Related parties	31,500,000	51,500,000
Total	<u>724,374,191</u>	<u>624,728,851</u>

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

Opening balance	624,728,851	599,673,323
Net movement during the year	97,263,282	30,093,881
Foreign exchanges differences	2,382,058	(5,038,353)
Balance at the end of the year	<u>724,374,191</u>	<u>624,728,851</u>

(ii) Equity securities at fair value:

- Listed	109,000,240	104,907,813
- Unlisted	1,070,444,170	955,200,000
Total equities at fair value	<u>1,179,444,410</u>	<u>1,060,107,813</u>

Equity securities at cost:

- Unlisted	-	109,902,788
Total equities at cost	<u>-</u>	<u>109,902,788</u>

Total equities at cost and fair value

<u>1,179,444,410</u>	<u>1,170,010,601</u>
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SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

6. INVESTMENTS (CONTINUED)

	June 2014 \$	June 2013 \$
(a) Financial assets carried at fair value through statement of changes in net assets (continued)		
<u>The movement in investment securities carried at fair value through profit and loss is as follows:</u>		
Opening balance	1,170,010,601	311,195,944
Net acquisitions during the year	4,092,427	189,105,319
Gain from change in fair value	5,341,382	669,709,338
Balance at the end of the year	<u>1,179,444,410</u>	<u>1,170,010,601</u>
(iii) Investment properties		
Opening balance	212,438,000	106,404,765
Transfer to property, plant & equipment	(4,700,000)	-
Additions	10,091,776	-
Disposals	(176,500)	-
Transfers from property, plant & equipment	10,000,000	96,463,056
Gain from fair value adjustment *	31,626,496	9,570,179
Balance at the end of the year	<u>259,279,772</u>	<u>212,438,000</u>
(b) Financial Assets carried at amortised cost		
(i) Loans and advances		
- Commercial loans – Private entities	15,000,000	15,000,000
– Related parties	75,891,019	81,636,841
- Member schemes	6,607,129	7,988,355
- Staff schemes	2,490,366	2,594,139
Total gross loans and advances	99,988,514	107,219,335
Allowance for doubtful debts	(9,026,720)	(4,435,743)
Net loans and advances	<u>90,961,794</u>	<u>102,783,592</u>
<u>The break down is as follows:</u>		
- Current	9,097,495	10,582,494
- Non current	90,891,019	96,636,841
	<u>99,988,514</u>	<u>107,219,335</u>
<u>Movement in allowance for doubtful debts is as follows:</u>		
Balance at 1 July	(4,435,743)	(1,163,367)
Impairment loss recognised - net	(4,698,147)	(3,750,000)
Amounts written off	107,170	477,624
Balance at the end of the year	<u>(9,026,720)</u>	<u>(4,435,743)</u>

*Independent valuations of the Fund's Investment properties were performed by Value Solution Appraisal to determine the fair value of land and buildings. 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 valuation was 2 June 2014.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

7. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings (at valuation) \$	Machinery equipment & motor vehicles \$	Furniture, fittings, computer & other equipment \$	Work in progress \$	Total \$
At cost / valuation					
Balance as at 1 July 2012	36,355,000	12,243,374	8,399,582	78,727,806	135,725,762
Transfer to investment properties	-	-	-	(96,463,056)	(96,463,056)
Additions	-	7,029,839	1,294,764	33,944,164	42,268,767
Revaluation increment	22,109,555	-	-	-	22,109,555
Disposals	-	(2,954,598)	(909,102)	(8,471,603)	(12,335,303)
Balance as at 30 June 2013	58,464,555	16,318,615	8,785,244	7,737,311	91,305,725
Balance as at 1 July 2013	58,464,555	16,318,615	8,785,244	7,737,311	91,305,725
Transfer from investment properties	4,700,000	-	-	-	4,700,000
Transfer to investment properties	(10,000,000)	-	-	(10,091,776)	(20,091,776)
Additions	-	1,460,729	988,745	14,861,065	17,310,539
Disposals	-	(635,355)	-	-	(635,355)
Balance as at 30 June 2014	53,164,555	17,143,989	9,773,989	12,506,600	92,589,133

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

ACCUMULATED DEPRECIATION	Land and buildings	Machinery equipment & motor vehicles	Furniture, fittings, computer & other equipment	Work in progress	Total
	\$	\$	\$	\$	\$
Balance as at 1 July 2012	5,549,169	7,654,629	6,717,907	-	19,921,705
Expense for the year	1,663,001	2,332,260	809,239	-	4,804,500
Disposals	(7,212,170)	(2,717,680)	(1,241,545)	-	(11,171,395)
Balance as at 30 June 2013	-	7,269,209	6,285,601	-	13,554,810
Balance as at 1 July 2013	-	7,269,209	6,285,601	-	13,554,810
Expense for the year	2,898,874	3,276,780	793,318	-	6,968,973
Disposals	-	(635,355)	-	-	(635,355)
Balance as at 30 June 2014	2,898,874	9,910,634	7,078,919	-	19,888,428
CARRYING VALUE					
Balance as at 30 June 2013	58,464,555	9,049,406	2,499,643	7,737,311	77,750,915
Balance as at 30 June 2014	50,265,681	7,233,355	2,695,070	12,506,600	72,700,705

In the prior year, an independent valuation of the Funds' land and buildings was carried out by Value Solutions Appraisal, and a revaluation increment was taken up. The valuations which conform to international valuation standards were determined by reference to the current market values of land and building

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

8. OTHER PAYABLES AND ACCRUALS AND EMPLOYEE ENTITLEMENTS

	June 2014 \$	June 2013 \$
(a) Other payable and accruals		
Rental bond	4,581,254	2,769,940
Accruals and provisions	3,516,925	2,155,912
	<u>8,098,179</u>	<u>4,925,852</u>
(b) Employee entitlements		
Provision for early retirement benefits, annual leave and long service leave	<u>11,393,071</u>	<u>1,102,885</u>
Movement in provision for employee entitlements:		
Balance at 1 July	1,102,885	831,480
Net movement during the year	<u>10,290,186</u>	<u>271,405</u>
Balance at the end of the year	<u>11,393,071</u>	<u>1,102,885</u>

During the year, the Fund changed the accounting for retirement benefit from cash basis to accrual basis, resulting in a provision of \$9,961,805 being created.

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 2014, this group comprises of 19 individuals, including the General Manager (CEO), 8 non-executive Fund Board Members, and 10 senior staff. Fees of the non-executive members of the Fund Board are determined by the Minister of Finance. The General Manager'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 key management personnel are:

The specified directors of the Fund during the year were:

Names	Appointment	Date of Appointment	Term of appointment	Date appointment lapse	Representing
Mr. Baoro Laxton Koraua	Director Chairman	7 March 2012 30 March 2012	3 years	7 March 2015	Employer
Mr. Peter Boyers	Deputy chairman	14 April 2014	1 year	14 April 2015	Crown
Mr. Harry Kuma	Member	22 June 2014	1 year	22 June 2015	Crown
Dr. Levi Hou	Member	9 September 2011	3 years	8 September 2014	Employees
Mr. Gideon Zoleveke (Jnr)	Member	29 March 2013	3 years	29 March 2016	Employer
Dr. Alice Pollard	Member	29 March 2013	3 years	29 March 2016	Minister's Discretion
Mr. Jerry Maiki Tengemona	Member	14 April 2014	2 years	14 April 2016	Minister's Discretion
Mrs. Julian Gegeu - Haro	Member	14 April 2014	2 years	14 April 2016	Employees

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

9. RELATED PARTIES (CONTINUED)

(a) Board members and key management personnel

The specified executives of the Fund during the year were:

Names	Position
Tony Makabo	General Manager and CEO
Michael Wate	Deputy General Manager
Ruth Alepio	Board Secretary
Alfred Sare	Manager Human Resource & Corporate services
Suzanne Orudiana	Manager IT
Aluta Kakadi	Manager Operations
Areau Hivu	Manager Internal Audit
Ishmael Kako	Manager Legal Counsel
Rose Karoa	Manager Finance
Enly Gani	Manager Property
Jenifer Lakoa	Manager Investment

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

	June 2014 \$	June 2013 \$
Directors:		
Sitting allowances	244,768	288,189
Other services and allowances	2,425	5,557
	<u>247,193</u>	<u>293,746</u>
Key management personnel (executives):		
Short-term employee benefits	4,476,651	4,251,312
Post-employment benefits	335,749	318,848
Total compensation	<u>4,812,400</u>	<u>4,570,160</u>

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

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

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

Housing loans	37,419	64,820
Other	182,445	186,908
Total loans	<u>219,864</u>	<u>251,728</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

9. RELATED PARTIES (CONTINUED)

(b) Related Party transactions and balances

The following loans have been provided to related entities and are contained in Note 6 (b) (i):

	June 2014 \$	June 2013 \$
<u>Loans and advances to related parties</u>		
Soltuna Company Limited	46,274,430	50,000,000
Heritage Park Hotel Limited	16,942,718	16,942,718
Sasape International Shipyard Limited	5,524,586	5,714,170
Solomon Telekom Company Limited	7,149,285	8,979,953
Total loans and advances to related parties (refer Note 6(b) (i))	75,891,019	81,636,841
<u>Commercial papers and treasury bills to related parties</u>		
Solomon Islands Government	46,906,954	60,442,101
South Pacific Oil Limited - debenture	25,000,000	45,000,000
Solomon Islands Home Finance Limited - debenture	6,500,000	6,500,000
Total commercial papers and treasury bills to related parties (refer Note 6(a) (i))	78,406,954	111,942,101

During the year, the Fund entered into various transactions with related parties. The aggregate value of major transactions with related parties during the year is as follows:

	June 2014 \$	June 2013 \$
<u>Dividend income</u>		
Solomon Telekom Company Limited	28,569,195	42,083,134
South Pacific Oil Limited	43,772,461	63,745,677
Solomon Islands Home Finance Limited	100,000	50,000
Heritage Park Hotel Limited	2,040,000	2,065,000
Total dividend income from related parties	74,481,656	107,943,811
<u>Interest income</u>		
Soltuna Company Limited	5,366,518	5,589,590
South Pacific Oil Limited	1,157,260	2,113,445
Solomon Islands Home Finance Limited	649,644	666,932
Sasape International Shipyard Limited	536,586	554,135
Solomon Telekom Company Limited	519,771	644,752
Solomon Islands Government	1,214,880	1,581,390
Total interest income from related parties	9,444,659	11,150,244
<u>Other transactions with related parties</u>		
South Pacific Oil Limited – Legal fees recovery	10,417,244	-
– Repayment of debenture	20,000,000	-

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

10. AUDITORS REMUNERATION

Fees totaling \$500,570 was provided in the accounts for audit services as at June 2014 (2013: \$485,486). 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

(a) Deed between SINPF and BSP

Following the Deed signed on 26 March 2007, between Solomon Islands National Provident Fund and Bank of South Pacific Limited and for the purpose of satisfying the BPNG prudential guidelines, and in consideration for BSP entering into the said Sale Agreement, SINPF undertake to guarantee the performance of the Solomon Islands Government Long Term Bonds of Forty Two Million Four Hundred and Ten Thousand Solomon Dollars (SBD 42,410,000.00).

The balance at 30 June 2014 of the long term bonds outstanding is \$14,073,487.

(b) Civil Case between SINPF and Gegeu & Others.

In a civil case before the courts; Gegeu & others –v- SINPF Board, High Court civil case number 157 of 2013, the former tenants of demolished NPF Food Courts sued the Fund for \$5,138,749. Negotiations for an out of court settlement have failed and the case will now go through normal court process. As at 30 June 2014, the matter is still in progress and no provision has been made for any loss that may be incurred.

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 2014 \$	June 2013 \$
Cash at bank	144,123,114	73,238,885
Cash on hand	3,400	3,400
	<u>144,126,514</u>	<u>73,242,285</u>

14. EMPLOYEES

The number of full time permanent Fund employees as at 30 June 2014 was 117 (2013: 107).

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 date, 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 South Pacific Limited, Australia and New Zealand Bank Group Limited, Westpac Banking Corporation Limited and Credit Co-operation Limited.

The asset allocation at reporting date is as follows:

	June 2014		June 2013	
	\$	%	\$	%
Assets				
Commercial Papers and Treasury Bills	724,374,191	65%	624,728,851	68%
Loans and advances	90,961,793	8%	102,783,592	11%
Cash and cash equivalents	144,126,514	13%	73,242,285	8%
Receivables	151,034,586	14%	119,655,313	13%
Total	1,110,497,084	100%	920,410,041	100%

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.

(b) Government security risk

The Fund has a significant exposure to the Solomon Islands Government (SIG) through its holding of government securities and bonds. The total holdings from SIG at 30 June 2014 is \$66,500,104.62 (June 2013: \$83,950,962).

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(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 2014	Currency					Total
	SBD	AUD	USD	Euro	Others	
Assets	\$	\$	\$	\$	\$	\$
Commercial papers and treasury bills	553,772,929	65,600,640	51,537,540	24,585,548	28,877,534	724,374,191
Equity investments	1,070,444,170	17,610,328	22,838,446	9,699,980	58,851,486	1,179,444,410
Total	1,624,217,099	83,210,968	74,375,986	34,285,528	87,729,020	1,903,818,601

30 June 2013						
Assets						
Commercial papers and treasury bills	470,472,133	63,443,220	42,108,015	27,075,399	21,630,084	624,728,851
Equity investments	1,065,102,788	13,943,071	23,098,941	3,784,991	64,080,810	1,170,010,601
Total	1,535,574,921	77,386,291	65,206,956	30,860,390	85,710,894	1,794,739,452

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% increase and decrease in the Solomon Islands Dollar against the relevant foreign currencies. 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 Dollar. A positive number below indicates an increase in net assets and where the Dollar strengthens 10% against the relevant currency. A negative number below indicates an decrease in net assets where the dollar strengthens by 10% against the relevant currency.

	AUD impact (000s)		USD impact (000s)		Euro impact (000s)		GBP impact (000s)		PGK impact (000s)	
	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease	10% increase	10% decrease
Changes in net assets	9,259	(7,575)	8,267	(6,764)	3,874	(3,169)	1,992	(1,630)	7,798	(6,380)

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(e) 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 amounts of which are immaterial.

The credit risk on commercial papers 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 dividend basis. Accordingly an interest rate sensitivity analysis is not required.

(f) Liquidity risk

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

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

The liabilities of the Fund are long term in nature and are well structured in terms of benefits comprising of a mix of benefit commutation and a fortnightly contributions payable through out the life-time of the member.

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

	Up to 1 month	1 - 3 months	3 - 12 months	1-5 years	Over 5 years	Total
30 June 2014	\$	\$	\$	\$	\$	\$
Assets						
Commercial papers and Treasury Bills	-	147,720,325	439,383,475	30,102,100	107,168,291	724,374,191
Loans and advances	-	-	9,976,595	9,097,495	71,887,703	90,961,793
Cash and cash equivalents	144,126,514	-	-	-	-	144,126,514
Receivables	6,380,171	19,140,514	125,513,901	-	-	151,034,586
Total	150,506,685	166,860,839	574,873,971	39,199,595	179,055,994	1,110,497,084
Liabilities						
Accounts payable	1,424,623	26,982	1,845	-	-	1,453,450
Other payables and accruals and employee benefits	506,527	285,106	8,250,214	10,449,403	-	19,491,250
Total	1,931,150	312,088	8,252,059	10,449,403	-	20,944,700
Net liquidity gap	148,575,535	166,548,751	566,621,912	28,750,192	179,055,994	1,089,552,384

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(f) Liquidity risk (continued)

30 June 2013	Up to 1 month	1 - 3 months	3- 12 months	1-5 years	Over 5 years	Total
Assets	\$	\$	\$	\$	\$	\$
Commercial papers and Treasury Bills	-	55,850,432	375,023,193	124,904,263	68,950,963	624,728,851
Loans and advances	-	-	7,740,401	10,582,494	84,460,697	102,783,592
Cash and cash equivalents	73,242,285	-	-	-	-	73,242,285
Receivables	4,194,926	12,232,320	103,228,067	-	-	119,655,313
Total	77,437,211	68,082,752	485,991,661	135,486,757	153,411,660	920,410,041
Liabilities						
Accounts payable	1,168,374	8,796	147	-	-	1,177,317
Other payables and accruals and employee benefits	349,359	-	623,327	5,056,051	-	6,028,737
Total	1,517,733	8,796	623,474	5,056,051	-	7,206,054
Net liquidity gap	75,919,478	68,073,956	485,368,187	130,430,706	153,411,660	913,203,987

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 its investments in subsidiaries at fair value through statement of changes in net assets and does not consolidate them.

	Place of business	Ownership	Fair value June 2014	Fair value / Cost June 2013
Subsidiaries				
(i) South Pacific Oil Limited	Solomon Islands	100%	638,598,300	625,500,000
(ii) Solomon Islands Home Finance Limited	Solomon Islands	100%	15,550,000	13,866,987
(iii) Solomon Telekom Company Limited	Solomon Islands	65%	342,798,300	329,700,000
(iv) Solomon Oceanic Cable Company Limited	Solomon Islands	51%	32,676,199	37,728,632
Total fair value of subsidiaries			1,029,622,799	1,006,795,619
Other equity investments				
(i) Heritage Park Hotel Limited	Solomon Islands		22,500,000	11,955,105
(ii) Bank South Pacific Limited (Listed)	PNG		58,868,525	29,498,590
(iii) Soltuna Company Limited	Solomon Islands		18,296,371	45,469,230
(iv) Sasape International Shipyard Limited	Solomon Islands		25,000	882,834
(v) Offshore managed funds (Listed)	Singapore, Australia & PNG		50,131,716	75,409,223
Total fair value of other equity investments			149,821,612	163,214,982
Total fair value of equity investments (refer Note 6 (a) (ii))			1,179,444,411	1,170,010,601

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)

(a) SUBSIDIARIES (CONTINUED)

Commencing in 2013, the Board adopted a policy to regularly revalue its unlisted domestic equities, beginning with its two large equity exposures South Pacific Oil Limited and Solomon Telekom Company Limited. All equities were revalued in 2014.

(i) SOUTH PACIFIC OIL LIMITED (SPOL)

In April 2013 under a high court sanctioned Deed of Settlement agreed with minority shareholder GRP & Associates Limited, the SINPF Board purchased GRP's 25% shareholding in SPOL for \$156,375,000 thereby increasing its shareholding in SPOL to 100%.

The SINPF Board has had a valuation of the market value of SPOL undertaken by an independent party (Deloitte) as at 30 June 2014 under the applicable international financial reporting standard IFRS 10. The mid point in the valuation range of \$638,598,300 has been booked and the increment in value has been credited to the statement of changes in net assets.

(ii) SOLOMON ISLANDS HOME FINANCE LIMITED (SIHFL)

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

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

At 30 June 2014 the investment was revalued to market value of \$15,550,000 based on an independent valuation carried out by Morris and Sojnoski.

(iii) SOLOMON TELEKOM COMPANY LIMITED (STCL)

The Fund's equity investments in Solomon Telekom Company Limited remained unchanged during the year at 51,946,625 class A shares, representing 64.74% of the company's share capital.

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

The Fund's 64.74% shareholding in Solomon Telekom Company Limited was valued by Deloitte at 30 June 2014. The Board has taken up the mid point in the range of \$342,798,300 for its shares in STCL and the revaluation increment has been credited to the statement of changes in net assets.

(iv) SOLOMONS OCEANIC CABLE COMPANY LIMITED (SOCC)

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

During 2013 SINPF finally completed the purchase its 5,100,000 allotted shares at US\$1.00 per share for US\$5,100,000 representing \$37,728,632 in SBD terms this was revalued at 30 June 2014, based on an independent valuation by Morris and Sojnoski, to \$32,676,199 with the decrease being taken to 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 2014

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)

(b) OTHER EQUITY INVESTMENTS

(i) HERITAGE PARK HOTEL LIMITED (HPhL)

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

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

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

The SINPF Board based on the advice of the external experts (Morris and Sojnoski), have taken the fair value of its 20% holding to be \$22,500,000 as at 30 June 2014 under the applicable international financial reporting standard IFRS 10. The increment in value has been credited to the statement of changes in net assets.

(ii) 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 \$23.54 per share.

(iii) SOLTUNA COMPANY LIMITED (SCL)

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

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

During 2013 the Board also purchased 6,266,385 shares from Western Province Executive. This brought SINPF total number of shares in the company to 96,296,690 representing 32.1% of the company total shares. As at 30 June 2014, the shares were valued by the directors of the Fund, based on external valuations performed, at \$18,296,371. The decrease in the value of the shareholding has been taken 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 2014

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)

(b) OTHER EQUITY INVESTMENTS (CONTINUED)

(iv) SASAPE INTERNATIONAL SHIPYARD LIMITED (SISL)

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

During 2013 the SINPF Board fully subscribed its allotted 882,834 shares by purchasing the remaining unsubscribed 880,334 shares at \$1 each. At 30 June 2014 SINPF has a 25% shareholding and is the owner of 882,834 shares.

The valuation of these shares as at 30 June 2014 amounts to \$25,000. The decrease in the value of the shareholding has been taken to the statement of changes in net assets.

(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 track 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 2014 the Fund has 1,496,866 units in UBS Australian Share Fund at the recorded price of \$12.17 per unit. During the year the Fund reinvested its quarterly distributions to purchase additional 50,283 units in the Fund under the Fund's Distribution Reinvestment Program (DRP).

The Fund continued to maintain the same level of units in Vanguard US 500 Stock Index Fund at 207,924, with a closing price of \$158 per unit recorded at the end of the year.

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 \$151 at the end of the year.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

17. AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG) & EQUITY INVESTMENTS

(a) GOVERNMENT SECURITIES

Government Securities	June 2014	June 2013
	\$	\$
(i) Restructured Bonds	11,127,813	15,210,962
(ii) SIG Amortised Bonds	30,888,121	38,109,935
(iii) Soltai Amortized Bond	2,165,618	3,313,198
(vi) SICHE Bonds	2,725,402	3,808,006
Total Government Securities (refer Note 6 (a) (i))	46,906,954	60,442,101

(i) Amortized Restructured Bonds

On 15 July 2004 a Deed was signed by SI Government and bond holders (Judgement Creditors) for the amortization of restructured bonds that the Government owed and had fully defaulted on. Under the Deed it was agreed by the parties that the principal debts be rescheduled and repaid over 7 to 14 years. Based on the restructure new instruments on each amortized bonds were issued replacing the old certificates.

Upon the execution of the Deed, on the 15 July 2004, \$55.5 million owed to SINPF were restructured as follows:

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

Principal	Term	Rate	Instalment	Maturity Date	Balance 30/06/2014
5,550,000	7 yrs	3.00%	59,138	15/07/2011	-
11,100,000	10 yrs	3.00%	97,732	15/07/2014	100,694
11,100,000	13 yrs	3.00%	78,089	15/07/2017	2,832,931
25,850,000	14 yrs	3.50%	53,009	15/12/2018	8,194,188
53,600,000			287,968		11,127,813

After 7 years monthly repayment on the 14 year bond will increase to \$248,721 until the debt is fully repaid.

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

17. AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG) & EQUITY INVESTMENTS (CONTINUED)

(a) GOVERNMENT SECURITIES (CONTINUED)

(ii) Amortized Treasury and Development Bonds

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

Principal	Term	Rate	Installment	Maturity Date	Balance 30/06/2014
7,414,528	7 yrs	2.00%	94,665	15/11/2011	-
14,829,056	10 yrs	2.00%	136,447	15/11/2014	679,540
14,829,056	13 yrs	2.00%	108,029	15/11/2017	4,281,196
37,072,641	15 yrs	2.50%	77,234	15/11/2019	25,927,384
74,145,281			416,375		30,888,120

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

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

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

(iii) SIG – Soltai (now Soltuna) Ammortising Bond

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

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

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

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

The balance of the ammortising bonds as at the end of the year was \$2,165,618.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

17. AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG) & EQUITY INVESTMENTS (CONTINUED)

(a) GOVERNMENT SECURITIES (CONTINUED)

(iv) SIG – SICHE Amortising Bond

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

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

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

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

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

The balance of the amortizing bond at the end of the year was \$ 2,725,403.

(v) Treasury Bills

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 \$19,593,150. These were mostly 91 days Treasury Bills at rates between 0.2% to 1.5%

(vi) Tavanipupu Island Resort Limited –Loan Agreement

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

No. of Instal.	Due Date	No. of Days	Loan Balance	Interest	Principal	Instalment Amount	YTD Balance
	23/02/12		15,000,000	-	-	-	15,000,000
1	15/06/12	113	15,000,000	578,893	-	-	15,000,000
2	15/06/13	365	15,000,000	1,875,000	-	-	15,000,000
3	15/06/14	365	15,000,000	1,875,000	-	-	15,000,000
4	15/06/15	365	15,000,000	1,875,000	-	-	15,000,000
5	15/06/16	366	15,000,000	1,875,000	-	-	15,000,000
6	22/02/17	252	15,000,000	1,294,520	15,000,000	-	15,000,000

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

17. AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG) & EQUITY INVESTMENTS (CONTINUED)

(a) GOVERNMENT SECURITIES (CONTINUED)

(vi) Tavanipupu Island Resort Limited –Loan Agreement (continued)

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

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

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

The loan has been put on Non Accrual basis as of July 2013, due to its non performing status.

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.

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.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) 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.

(b) 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
30 June 2014				
<u>Equity investments</u>				
- Energy	638,598,300	-	638,598,300	-
- Telecommunications	375,474,499	-	342,798,300	32,676,199
- Tourism and hospitality	22,500,000	-	22,500,000	-
- Manufacturing	18,296,371	-	-	18,296,371
- Shipping	25,000	-	-	25,000
- Financial services and others	124,550,240	109,000,240	-	15,550,000
Total equity investments	1,179,444,410	109,000,240	1,003,896,600	66,547,570
Commercial papers and treasury bills	724,374,191	-	724,374,191	-
Total financial assets at fair value through statement of changes in net assets	1,903,818,601	109,000,240	1,728,270,791	66,547,570
30 June 2013				
<u>Equity investments</u>				
- Energy	625,500,000	-	625,500,000	-
- Telecommunications	329,700,000	-	329,700,000	-
- Tourism and hospitality	-	-	-	-
- Manufacturing	-	-	-	-
- Shipping	-	-	-	-
- Financial services and others	104,907,813	104,907,813	-	-
Total	1,060,107,813	104,907,813	955,200,000	-
Commercial papers and treasury bills	624,728,851	-	624,728,851	-
Total financial assets at fair value through statement of changes in net assets	1,684,836,664	104,907,813	1,579,928,851	-

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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 2014	June 2013
	\$	\$
Balance at 1 July	97,947,683	58,272,801
Fair value (losses) / gains *	(31,400,113)	-
Purchases	-	39,674,882
Disposals	-	-
Balance at the end of the year	<u>66,547,570</u>	<u>97,947,683</u>

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

(c) Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs as at 30 June 2014 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	<i>Market comparison technique:</i> The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee and the expected EBITDA of the investee. The estimate is adjusted for the effect of non-marketability of the equity securities.	<ul style="list-style-type: none"> - Forecast annual revenue growth rate - Forecast EBITDA margin - Adjusted market multiple 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> - The annual growth rate were higher (lower); - The EBITDA margin were higher (lower); or - The adjusted market multiple were higher (lower). <p>Generally, a change in the annual growth rate is accompanied by a directionally similar change in EBITDA margin.</p>

(d) Financial instruments not measured at fair value

The financial instruments not measured at fair value through profit or loss 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

A number of new standards amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014 and have not been applied in preparing these financial statements. Those that may be relevant to the Fund are set out below. The fund does not plan to adopt these standards early.

- (a) IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2012) and IFRS 9 Financial Instruments (2009) (together, IFRS 9).
- (b) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

20. RECLASSIFICATIONS

The presentation of the prior year comparative figures has been amended by a number of reclassification to achieve consistency in presentation with the current year numbers and to fully comply with the requirements of IAS 26 *Accounting and Reporting by Retirement Benefit Plans*. This reclassification has not resulted in any changes to the amount of benefit available to members.

Summary of quantitative impacts:

Statement of net assets As at 30 June 2013	As previously reported	Reclassifications	As currently reported
Assets			
Commercial papers and treasury bills ¹	639,728,851	(15,000,000)	624,728,851
Equity investments	1,170,010,601	-	1,170,010,601
Loans and advances ¹	87,783,592	15,000,000	102,783,592
Investment properties	212,438,000	-	212,438,000
Cash and cash equivalents	73,242,285	-	73,242,285
Receivables	119,655,313	-	119,655,313
Property, plant and equipment	77,750,915	-	77,750,915
Total assets	2,380,609,557	-	2,380,609,557
Liabilities			
Accounts payable	1,177,317	-	1,177,317
Other payables and accruals ²	10,026,320	(3,997,583)	6,028,737
Employee entitlements	-	-	-
Allocated to members account ³	1,693,478,795	(1,693,478,795)	-
Special death benefit ⁴	2,107,241	(2,107,241)	-
Total liabilities	1,706,789,673	1,699,583,619	7,206,054
Net assets available to pay members	673,819,884	(1,699,583,619)	2,373,403,503

Net assets available to pay members are represented by:

Reserves			
Allocated to members account ³	-	1,693,478,795	1,693,478,795
Special death benefit ⁴	-	2,107,241	2,107,241
Nominees trust ²	-	3,997,583	3,997,583
Reserves	673,819,884	-	673,819,884
	673,819,884	(1,699,583,619)	2,373,403,503

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20. RECLASSIFICATIONS (CONTINUED)

Summary of quantitative impacts (continued):

¹ Represents a reclassification from loans and receivables to commercial papers and treasury bills.

² Amounts held in trust for nominees reclassified to reserves.

³ Member contributions accounts reclassified to reserves.

⁴ Special death benefits reclassified to reserves.

Statement of changes in net assets For the year ended 30 June 2014	As previously reported	Adjustments	As currently reported
<u>Income</u>			
Interest income	21,914,723	-	21,914,723
Dividends	113,695,891	-	113,695,891
Net gain from changes in fair values	674,241,164	-	674,241,164
Rental income	26,224,322	-	26,224,322
Other income	3,983,653	-	3,983,653
<u>Expenses</u>			
Direct investment and operating expenses ⁸	(51,586,315)	(12,449,916)	(64,036,231)
Members expense ⁶	(2,594,431)	2,594,431	-
Doubtful debts ⁸	(11,926,140)	11,926,140	-
<u>Member related income / expenses</u>			
Members contributions ⁵	-	206,322,309	206,322,309
Benefits paid ⁵	-	(89,873,103)	(89,873,103)
<u>Other items</u>			
Revaluation of property plant and equipment ⁷	-	23,046,941	23,046,941
Change in net assets during the period (Before appropriation)	773,952,867	141,566,802	915,519,669

⁵ Contributions received from members and benefits paid to members during the year as per requirements of IAS 26.

⁶ Member expenses has been recassified to benefits paid.

⁷ Change in the value of property plant and equipment as a result of revaluation.

⁸ Other recassifications and adjustments in relation to presentation of expenses.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

21. 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.