

**SOLOMON ISLANDS
NATIONAL PROVIDENT FUND**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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CONTENTS

Statement By Directors	I
Report of the Auditor-General	2-3
Statement of Net Assets	4
Statement of Changes in Net Assets	5
Statement of Cash Flows	6
Notes to and Forming Part of the Financial Statements	7 - 34

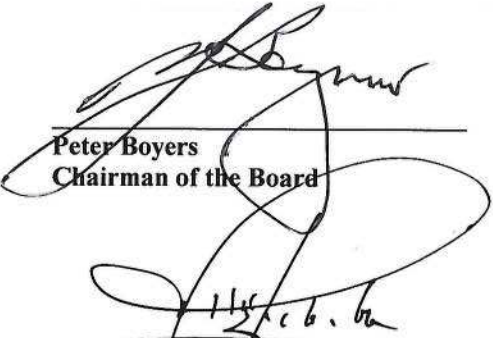
**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

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 2016;
- (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 2016;
- (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 2016;
- (d) at the date of this statement there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due;
- (e) all related party transactions have been recorded and adequately disclosed in the attached financial statements; and
- (f) the financial statements have been prepared in accordance with the provisions of the Solomon Islands National Provident Fund Act 1973 (as amended), International Financial Reporting Standards and other applicable standards in the Solomon Islands.



Peter Boyers
Chairman of the Board



Tony Makabo
General Manager (CEO)



Gideon Zoleveke Jnr
Deputy Chairman

Dated at Honiara this 30th day of September 2016.



INDEPENDENT AUDITOR'S REPORT

To the Board of Solomon Islands National Provident Fund

Report on the Financial Statements

I have in joint consultation with the Board of the Solomon Islands National Provident Fund, contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of Solomon Islands National Provident Fund, which comprise the statement of net assets as at 30 June 2016, the statement of changes in net assets and the statement of cash flows for the year then ended, and notes 1 to 20, 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 (CAP 109) ("the Act"), 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. The audit has been conducted in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plans 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 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 2016 and of its changes in net assets and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The special death benefit reserve is currently in deficit due to the insufficiency of the annual contributions by members to cover the benefits paid by the reserve on an annual basis. As at 30 June 2016 the Board of the Fund reduced the benefits to be paid in the future under the special death benefit scheme from SBD 10,000 to SBD 3,000 while awaiting approval of the NPF Review Act by the Solomon Islands Parliament which contains provisions that will assist with the sustainability of the special death benefit reserve in the future.



Peter Lokay
Auditor General


Office of the Auditor General
Solomon Islands
Date 30 September 2016

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
STATEMENT OF NET ASSETS
AS AT 30 JUNE 2016


	Note	June 2016 \$	June 2015 \$
ASSETS			
Investments			
<i>Financial investments</i>			
Commercial paper and treasury bills	6 (a) (i)	664,344,109	660,886,353
Held-to-maturity investments	6 (b) (ii)	-	35,460,207
Loans and advances	6 (b) (i)	104,372,531	84,888,312
Equity investments	6 (a) (ii)	1,388,194,355	1,301,945,671
<i>Non-financial investments</i>			
Investment properties	6 (a) (iii)	293,480,306	285,313,044
		<u>2,450,391,301</u>	<u>2,368,493,587</u>
OTHER ASSETS			
Cash and cash equivalents	13	373,084,347	203,820,090
Receivables	5	119,613,341	143,014,807
Property, plant and equipment	7	59,858,774	69,083,777
		<u>552,556,462</u>	<u>415,918,674</u>
TOTAL ASSETS		<u>3,002,947,763</u>	<u>2,784,412,261</u>
LIABILITIES			
Accounts payable		1,410,270	1,760,304
Other payables and accruals	8 (a)	8,493,381	7,523,983
Employee entitlements	8 (b)	22,127,055	11,689,014
TOTAL LIABILITIES (excluding net assets available to pay benefits)		<u>32,030,706</u>	<u>20,973,301</u>
NET ASSETS AVAILABLE TO PAY BENEFITS	4 (a)	<u>2,970,917,057</u>	<u>2,763,438,960</u>
<u>Represented by:</u>			
Allocated to members account	4 (b)	2,566,146,462	2,307,445,301
Special death benefit	4 (c)	(299,479)	(21,727)
Nominees trust account	4 (d)	5,741,235	5,461,546
Reserves	4 (e)	399,328,839	450,553,840
TOTAL MEMBERS FUNDS		<u>2,970,917,057</u>	<u>2,763,438,960</u>

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

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


Peter Boyers
 Chairman of the Board


Gideon Zoleveke Jnr
 Deputy Chairman


Tony Makabo
 General Manager (CEO)

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	June 2016 \$	June 2015 \$
INVESTMENT INCOME			
Interest income	3 (a)	18,649,538	19,254,218
Dividends	3 (b)	119,725,467	86,684,317
Net gain from changes in fair values	3 (c)	64,647,706	15,313,768
Rental income	3 (d)	28,099,080	26,363,458
		<u>231,121,791</u>	<u>147,615,761</u>
LESS: DIRECT INVESTMENT EXPENSES	3 (f)	<u>(17,540,725)</u>	<u>(16,937,873)</u>
NET RETURN ON INVESTMENTS		<u>213,581,066</u>	<u>130,677,888</u>
Other income	3 (e)	2,981,446	6,958,591
		<u>216,562,512</u>	<u>137,636,479</u>
CONTRIBUTION REVENUE			
Unallocated contributions		8,913,173	10,307,709
Members' contribution		246,425,879	228,967,125
		<u>255,339,052</u>	<u>239,274,834</u>
		<u>471,901,564</u>	<u>376,911,313</u>
Benefits paid	3 (h)	(214,178,486)	(176,783,220)
OPERATING EXPENSES			
Operating expenses	3 (g)	(50,244,981)	(37,666,404)
CHANGE IN NET ASSETS FOR THE YEAR	4 (f)	<u>207,478,097</u>	<u>162,461,689</u>
Net assets available to pay benefits at the beginning of the financial year		2,763,438,960	2,600,977,271
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR	4(a)	<u>2,970,917,057</u>	<u>2,763,438,960</u>

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	June 2016 \$	June 2015 \$
Cash flows from operating activities			
Contributions from members and employers		255,339,052	239,274,834
Interest received		18,928,211	17,721,013
Dividends received		143,259,270	96,304,314
Rentals received		23,901,937	26,951,207
Other income received		3,051,958	6,931,557
Benefits paid to members		(214,178,486)	(176,783,220)
Cash paid to suppliers and employees		(45,690,672)	(55,550,824)
Net cash flows from operating activities		184,611,270	154,848,881
Cash flows from investing activities			
Net (redemption) / acquisition of commercial paper, treasury bills and held-to-maturity investments		26,089,019	(18,355,651)
Loans and advances (provided) / repaid		(19,457,197)	6,105,871
Acquisition of shares		(16,193,216)	(100,565,779)
Proceeds from sale of property plant and equipment		200,495	19,742
Acquisition of investment properties		(7,377,699)	(33,093)
Proceeds from sale of investment property		6,800,000	-
Acquisition of property plant and equipment		(5,408,415)	(19,036,897)
Net cash used in investing activities		(15,347,013)	(95,155,305)
Net increase in cash and cash equivalents		169,264,257	59,693,576
Cash and cash equivalents at the beginning of the year		203,820,090	144,126,514
Cash and cash equivalents at the end of the year	13	373,084,347	203,820,090

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 2016

1. GENERAL INFORMATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

The financial statements are expressed in Solomon Islands dollars, rounded to the nearest dollar. 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 2 (k)(i) - Valuations of equity securities
- Note 2 (q) - Valuations of investment properties
- Note 2 (j) - Recoverability of loans and receivables; and
- Note 2 (g) - Estimated useful lives of items of property plant and equipment.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Comparatives

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

(c) Members contribution account

The Contribution Account has been maintained on a cash basis where only monthly returns (Form A's and EDI'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 2016 for each member was \$10,000.

(e) Nominee trust account

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

(f) Interest on members account

Interest credited to a member's account at 30 June in any year is calculated on the balance standing to the credit of the member's account as at 1 July in the previous year. In accordance with Section 8 of the Act, the minimum interest rate to be credited to the members account is 2.5%. Under Section 10 of the Act, if the Fund is at any time unable to pay any sum which is required under the Act, then the sum required shall be advanced by the Government, 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 valuation. The valuation is determined on the basis of independent valuations prepared by external valuation experts, based on current market prices (as appropriate). The valuations are recognized in the financial statements of the Fund, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair value.

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 statement of changes in net assets to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, is transferred directly to general reserve. Plant and equipment, leasehold improvements and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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 the current 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 amounts due according to the original terms of the receivable. Objective evidence that receivables are impaired includes observable data that come to the attention of the Fund about the following events:

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

The amount of 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 investments and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, 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 2016

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 and other receivables are included under this category.

(l) Impairment of financial assets carried at amortised cost

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

(m) Cash and cash equivalents

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

(n) Foreign currency

Functional presentation currency

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

Transactions and balances

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

(o) Provisions

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Provisions (continued)

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

(p) Other payables and accruals

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

(q) Investment properties

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

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

(r) Revenue Recognition

(i) Interest Income

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

(ii) Property rentals

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

(iii) Dividend Income

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

(s) Expenses

(i) Benefits paid

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

(ii) Other expenses

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

(t) Employee entitlements

(i) Wages and salaries and sick leave

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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 2016	June 2015
	\$	\$
(a) Interest income		
Cash at bank	32,796	38,524
Treasury bills	110,185	70,171
Bonds	3,610,682	4,239,798
Loans and advances	6,856,285	7,992,879
Investment securities - commercial paper	8,039,590	6,912,846
Total	18,649,538	19,254,218
(b) Dividends		
Quoted shares	5,652,169	5,602,664
Unquoted shares	113,524,598	80,489,312
Managed funds	548,700	592,341
Total	119,725,467	86,684,317
(c) Gain from changes in fair values		
Investment properties	505,600	11,404,053
Equities	74,030,865	13,581,695
Net foreign exchange gain/(loss)	(9,888,759)	(9,671,980)
Total	64,647,706	15,313,768
(d) Rental income		
Investment properties	26,916,296	25,119,121
Others	1,182,784	1,244,337
Total	28,099,080	26,363,458
(e) Other income		
Bad debts recovery	87,677	1,383,064
Gain on sale of property, plant and equipment	200,495	-
Risk premium fee – Bank of the South Pacific Limited	-	217,106
Surcharge	2,233,705	5,222,159
Others	459,569	136,262
Total	2,981,446	6,958,591
(f) Direct investment expenses		
Utilities (water and electricity)	2,526,269	3,481,682
Repairs and maintenance	6,210,789	7,954,158
Land rates and rental charges	356,621	418,482
Insurance	853,628	1,017,150
Management fees	1,514,108	932,101
Cleaning services	1,024,484	1,149,428
Valuation & consultation fees	624,547	1,984,801
Doubtful debts – loans and advances	-	71
Doubtful debts – other receivables	4,430,279	-
Total	17,540,725	16,937,873

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

3. INCOME AND EXPENSES (Continued)

	June 2016 \$	June 2015 \$
(g) Operating expenses		
Board and management allowances	938,443	907,829
Utilities (water and electricity)	1,339,740	2,587,306
Repairs and maintenance	1,902,750	1,667,657
Land rates and rental charges	165,568	42,730
Administrative expenses	6,473,543	4,943,513
Doubtful debts – Surcharges and other receivables	429,736	1,947,304
Depreciation expenses	7,549,455	7,157,032
Insurance expenses	559,041	328,232
Audit fees	359,210	358,520
Bank charges	63,061	62,090
Consultancy fees and expenses	1,298,526	689,979
Loss on disposal of property plant and equipment	-	921,227
Staff costs (refer below)	29,165,908	16,052,985
Total	50,244,981	37,666,404
<u>The breakdown of staff costs are as follows:</u>		
Wages and salaries	10,989,456	10,550,533
Contributions to SINPF	826,232	768,404
Employee benefits	13,343,921	423,838
Other staff costs	4,006,299	4,310,210
	29,165,908	16,052,985
(h) Benefits paid		
Interest on withdrawal, trust and other members expenses	7,311,046	9,907,344
Contribution withdrawals (refer Note 4(b))	203,870,747	164,605,544
Special death benefit payments (refer Note 4(c))	1,858,982	1,717,750
Nominees trust payment (refer Note 4(d))	1,137,711	552,582
Total	214,178,486	176,783,220

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

4. NET ASSETS AVAILABLE TO PAY BENEFITS

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

- **Revaluation Reserve**
The last revaluation of land and buildings (excluding investment properties) was carried out on 16 June 2013. The revaluation surplus/loss is credited to the revaluation reserve. The next revaluation of the land and buildings will be carried out in the 2018 financial year.
- **General Reserve**
Revenue less normal operating expenses are credited to the General Reserve unless otherwise appropriated.

The following items are credited to this reserve each year:

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

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

	June 2016 \$	June 2015 \$
(a) Net assets available to pay benefits		
Net assets available to pay benefits	<u>2,970,917,057</u>	<u>2,763,438,960</u>
<u>Represented by:</u>		
Allocated to members' account	2,566,146,462	2,307,445,301
Special death benefit	(299,479)	(21,727)
Nominees trust	5,741,235	5,461,546
Reserves	<u>399,328,839</u>	<u>450,553,840</u>
	<u>2,970,917,057</u>	<u>2,763,438,960</u>
(b) Liability for accrued benefits		
Opening Balance	2,307,445,301	2,048,124,001
Contributions received from members and employers	255,339,053	239,274,834
Interest credited to members accounts	209,384,265	187,050,847
Benefits paid – withdrawals (refer Note 3(h))	(203,870,747)	(164,605,544)
Transfer to nominees trust accounts (refer Note 4(d))	(823,288)	(1,093,640)
Transfer to special death benefits (refer Note 4(c))	(609,293)	(652,484)
Forfeited contributions transfer to general reserve (refer Note 4(e))	(985,501)	(1,216,848)
Other transfers / adjustments	266,672	564,135
Balance at 30 June	<u>2,566,146,462</u>	<u>2,307,445,301</u>
<u>Represented by:</u>		
Allocated to members' accounts	2,552,305,015	2,287,764,897
Unidentified	<u>13,841,447</u>	<u>19,680,404</u>
	<u>2,566,146,462</u>	<u>2,307,445,301</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

4. NET ASSETS AVAILABLE TO PAY BENEFITS (CONTINUED)

	June 2016 \$	June 2015 \$
(c) Special death benefit		
Balance at the beginning of the year	(21,727)	1,043,539
Transfer in from general reserve	1,100,000	-
Transfer in from members account (refer Note 4(b))	609,293	652,484
Transfer out benefit payments (refer Note 3(h))	(1,858,982)	(1,717,750)
Transfer out to nominees trust (refer Note 4(d))	(128,063)	-
Balance at the end of the year	(299,479)	(21,727)
(d) Nominees trust account		
Balance at the beginning of the year	5,461,546	4,520,557
Transfer in from members account (refer Note 4(b))	823,288	1,093,640
Transfer in from special death benefits (refer Note 4(c))	128,063	-
Transfer out benefit payments (refer Note 3(h))	(1,137,711)	(552,582)
Annual interest	466,049	399,931
Balance at the end of the year	5,741,235	5,461,546
(e) Reserves		
(i) Revaluation Reserve		
Balance at end of the year	69,951,343	69,951,343
(ii) General Reserve		
Balance at the beginning of the year	380,602,497	477,337,831
Transfers in from members account (refer Note 4(b))	985,501	1,216,848
Transfers in / (out)	(52,210,502)	(97,952,182)
Balance at end of the year	329,377,496	380,602,497
Total reserves	399,328,839	450,553,840
(f) 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:	207,478,097	162,461,689
<u>Comprises net transfers to/(from):</u>		
Liability for accrued benefits	259,686,662	259,321,300
Special death benefit	(277,752)	(1,065,266)
Nominees trust	279,689	940,989
General reserves	(52,210,502)	(96,735,334)
	207,478,097	162,461,689

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

5. RECEIVABLES

	June 2016 \$	June 2015 \$
Interest	5,624,954	5,903,627
Rental income	9,128,392	4,931,249
Dividends	95,770,183	115,303,986
Surcharges	8,668,890	10,576,663
Others	16,077,385	18,240,124
	<u>135,269,804</u>	<u>154,955,649</u>
Less: Allowance for doubtful debts	(15,656,463)	(11,940,842)
Total receivables	<u>119,613,341</u>	<u>143,014,807</u>

Movement in allowance for doubtful debts is as follows:

Balance at 1 July	(11,940,842)	(12,568,570)
Impairment loss recognised	(4,860,015)	(1,947,304)
Amounts written off against provision	1,144,394	2,575,032
Balance at the end of the year	<u>(15,656,463)</u>	<u>(11,940,842)</u>

The allowance for doubtful debts of \$15,656,463 (2015: \$11,940,842) 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

	June 2016 \$	June 2015 \$
(i) Commercial paper and treasury bills		
On shore deposits	487,029,150	458,865,223
Offshore deposits	132,735,413	135,660,172
Total deposits	<u>619,764,564</u>	<u>594,525,395</u>
Treasury bills	17,592,646	14,374,058
Other fixed term debt securities (debentures) – Related parties	26,986,900	51,986,900
Total	<u>664,344,109</u>	<u>660,886,353</u>

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

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

Opening balance	660,886,353	677,467,236
Net movement during the year	9,371,118	(4,512,888)
Foreign exchanges differences during the year (unrealised)	(5,913,362)	(12,067,995)
Balance at the end of the year	<u>664,344,109</u>	<u>660,886,353</u>

(ii) Equity securities at fair value:

- Listed	114,457,619	117,919,800
- Unlisted	1,273,736,736	1,184,025,871
Total equities at fair value	<u>1,388,194,355</u>	<u>1,301,945,671</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

6. INVESTMENTS (CONTINUED)

	June 2016 \$	June 2015 \$
(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	1,301,945,671	1,179,444,410
Acquisitions during the year	16,193,126	100,565,779
Gain from changes in fair value (refer Note 3(c))	74,030,865	13,581,695
Exchange differences	(3,975,307)	8,353,787
Balance at the end of the year	1,388,194,355	1,301,945,671

(iii) Investment properties

Opening balance	285,313,044	259,279,772
Additions	7,377,699	33,893
Disposals	(6,800,000)	-
Transfers from property, plant and equipment	7,083,963	14,595,326
Gain from fair value adjustment * (refer Note 3(c))	505,600	11,404,053
Balance at the end of the year	293,480,306	285,313,044

*Valuations of the Fund's investment properties were performed by external valuers IQV Realtors Development Services to determine the fair value of land and buildings (in the prior year, valuations of the Funds investment properties was performed inhouse). The valuations, which conform to international valuation standards, were determined by reference to the current market values of the land and buildings. The effective date of the valuations was 16 June 2016 (the effective date of the prior years valuation was 16 June 2015).

(b) Financial Assets carried at amortised cost

(i) Loans and advances

- Commercial loans – Private entities	20,422,483	17,196,660
– Related parties	85,357,815	68,856,668
- Member schemes	5,261,836	5,783,910
- Staff schemes	2,297,705	2,045,404
Total gross loans and advances	113,339,839	93,882,642
Allowance for doubtful debts	(8,967,308)	(8,994,330)
Net loans and advances	104,372,531	84,888,312

Movement in allowance for doubtful debts is as follows:

Balance at the beginning of the year	(8,994,330)	(9,026,720)
Impairment loss recognised (refer Note 3 (f))	-	(71)
Amounts written off	27,022	32,461
Balance at the end of the year	(8,967,308)	(8,994,330)

The allowance for doubtful debts of \$8,967,308 (2015: \$8,994,330) is provided against commercial loans to private and related entities.

(ii) Held-to-maturity investments

Government securities – Related party (refer Note 17(a))	-	35,460,207
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SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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 2014	53,164,555	17,143,989	9,773,989	12,506,600	92,589,133
Transfer from work in progress	5,609,676	1,087,115	1,445,168	(8,141,959)	-
Transfer to investment properties	2,017,643	538,377	601,913	15,878,964	19,036,897
Additions	-	-	-	(14,595,326)	(14,595,326)
Disposals	-	(956,404)	(669,850)	-	(1,626,254)
Balance as at 30 June 2015	60,791,874	17,813,077	11,151,220	5,648,279	95,404,450
Balance as at 1 July 2015	60,791,874	17,813,077	11,151,220	5,648,279	95,404,450
Transfers from work in progress	-	103,015	95,523	(198,538)	-
Additions	-	1,313,112	369,420	3,725,883	5,408,415
Transfer to investment properties	(4,000,000)	-	-	(3,083,963)	(7,083,963)
Disposals	-	(982,855)	(37,548)	-	(1,020,403)
Balance as at 30 June 2016	56,791,874	18,246,349	11,578,615	6,091,661	92,708,499

In 2013, 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 buildings (refer Note 4).

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

ACCUMULATED DEPRECIATION	Land and buildings (at valuation) \$	Machinery equipment & motor vehicles \$	Furniture, fittings, computer & other equipment \$	Work in progress \$	Total \$
Balance as at 1 July 2014	2,898,874	9,910,634	7,078,920	-	19,888,428
Expense for the year	3,133,974	3,195,462	827,596	-	7,157,032
Disposals	-	(580,480)	(144,307)	-	(724,787)
Balance as at 30 June 2015	6,032,848	12,525,616	7,762,209	-	26,320,673
Balance as at 1 July 2015	6,032,848	12,525,616	7,762,209	-	26,320,673
Expense for the year	3,315,338	3,099,236	1,134,881	-	7,549,455
Disposals	-	(982,855)	(37,548)	-	(1,020,403)
Balance as at 30 June 2016	9,348,186	14,641,997	8,859,542	-	32,849,725
CARRYING VALUE					
Balance as at 30 June 2015	54,759,026	5,287,461	3,389,011	5,648,279	69,083,777
Balance as at 30 June 2016	47,443,688	3,604,352	2,719,073	6,091,661	59,858,774

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

8. OTHER PAYABLES AND ACCRUALS AND EMPLOYEE ENTITLEMENTS

	June 2016 \$	June 2015 \$
(a) Other payable and accruals		
Rental bond	4,137,175	3,904,707
Other accruals	4,356,206	3,619,276
	<u>8,493,381</u>	<u>7,523,983</u>
(b) Employee entitlements		
<i>(Provision for early retirement benefits, annual leave and long service leave)</i>		
Current	11,689,014	6,115,696
Non-current	10,438,041	5,573,318
	<u>22,127,055</u>	<u>11,689,014</u>
Movement in provision for employee entitlements:		
Balance at the beginning of the year	11,689,014	11,393,071
Created during the year	11,381,711	423,838
Utilised during the year	(943,670)	(127,895)
Balance at the end of the year	<u>22,127,055</u>	<u>11,689,014</u>

During the year the Fund amended its human resource policy to allow management and executives to be entitled to retirement benefits. As a result, an additional accrual of SBD \$9,900,000 was recorded in 2016.

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 2016, this group comprises of 19 individuals, including the General Manager (CEO), 8 non-executive Board Members, and 10 senior staff. Fees of the non-executive members of the Fund Board are determined by the Minister of Finance. The General Manager's (CEO) contract is subject to review by the Board of Trustees in terms of the Fund's policies. The Fund's Board of Directors determines the remuneration of other key executives.

The specified directors of the Fund during the year were:

Names	Appointment	Date of Appointment	Term of appointment	Date appointment lapse	Representing
Mr. Peter Boyers	Chairman	14 April 2014 20 May 2015	1 year 3 years	14 April 2015 20 May 2018	Crown Employer
Mr. Gideon Zoleveke (Jnr)	Deputy Chairman	29 March 2013 29 March 2016	3 years 3 years	29 March 2016 29 March 2018	Employer
Dr. Levi Hou	Member	9 September 2011 9 September 2014	3 years	8 September 2014 8 September 2017	Employees
Dr. Alice Pollard	Member	29 March 2013 29 March 2016	3 years 3 years	29 March 2016 29 March 2018	Minister's Discretion
Mr. Jerry Maiki Tengemona	Member	14 April 2014 14 April 2016	2 years 2 years	14 April 2016 14 April 2018	Minister's Discretion
Mrs. Jullian Gegeu - Haro	Member	14 April 2014 14 April 2016	2 years 2 years	14 April 2016 14 April 2018	Employees
Mr. George Kuper	Member	23 October 2015	3 years	23 October 2018	Crown*
Mr. Mickinny Dentana	Member	23 October 2015	3 years	23 October 2018	Crown

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

9. RELATED PARTIES (CONTINUED)

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

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 (resigned on 25/03/2015)	Manager Human Resource & Corporate services
Manasseh Taloafiri (appointed on 23/05/2016)	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
Jenifer Lakoa	Manager Investment/ Property

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

	June 2016	June 2015
	\$	\$
Directors:		
Sitting allowances	413,156	417,576
Other services and allowances	512,507	490,253
	925,663	907,829
Key management personnel (executives):		
Short-term employee benefits	14,476,121	4,692,004
Post-employment benefits	202,064	200,505
Total compensation	14,678,185	4,892,509

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

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

During the year the Fund amended its human resource policy to allow management and executives to be entitled to retirement benefits. As a result, an additional accrual of SBD \$9,900,000 was recorded in 2016.

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

Housing loans	-	19,281
Other	227,808	200,884
Total loans	227,808	220,165

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

9. RELATED PARTIES (CONTINUED)

(b) Related Party transactions and balances

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

	June 2016 \$	June 2015 \$
<u>Loans and advances to related parties</u>		
Soltuna Company Limited	34,746,203	40,822,616
Heritage Park Hotel Limited	16,942,718	16,942,718
Sasape International Shipyard Limited	5,527,212	5,885,629
Solomon Telekom Company Limited	3,141,682	5,205,705
South Pacific Oil Limited	25,000,000	-
Total loans and advances to related parties (refer Note 6(b) (i))	85,357,815	68,856,668

During the year, the Fund converted South Pacific Oil Limited's debenture of \$25m into a commercial loan for a term of 5 years at an interest rate of 6.5% per annum.

Commercial paper and treasury bills to related parties

Solomon Islands Government	-	49,834,265
South Pacific Oil Limited - debenture	-	25,000,000
Solomon Islands Home Finance Limited - debenture	6,500,000	6,500,000
Soltuna Company Limited - debenture	20,486,900	20,486,900
Total commercial paper and treasury bills to related parties (refer Note 6(a)(i))	26,986,900	101,821,165

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

	June 2016 \$	June 2015 \$
<u>Dividend income</u>		
Solomon Telekom Company Limited	63,258,338	39,042,449
South Pacific Oil Limited	53,990,260	40,821,863
Solomon Islands Home Finance Limited	276,000	-
Heritage Park Hotel Limited	-	625,000
Total dividend income from related parties	117,524,598	80,489,312
<u>Interest income</u>		
Soltuna Company Limited	5,193,181	5,504,250
South Pacific Oil Limited	1,125,982	1,771,233
Solomon Islands Home Finance Limited	847,315	910,356
Sasape International Shipyard Limited	336,456	559,750
Solomon Telekom Company Limited	245,745	366,819
Solomon Islands Government	639,931	1,044,645
Heritage Park Hotel Limited	2,087,842	1,764,868
Total interest income from related parties	10,476,452	11,921,921

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

10. AUDITORS REMUNERATION

Fees totaling \$358,520 were provided in the accounts for audit services as at June 2016 (2015: \$358,520). No other benefits were received by the auditors (Office of the Auditor General) during the year other than fees paid for normal auditing services.

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

Contingent liabilities for the Fund not otherwise provided for in the financial statements amounted to \$Nil (2015: \$11,119,250 which was discharged in December 2015).

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 2016 \$	June 2015 \$
Cash at bank	373,080,947	203,816,690
Cash on hand	3,400	3,400
	<u>373,084,347</u>	<u>203,820,090</u>

14. EMPLOYEES

The number of full time permanent Fund employees as at 30 June 2016 was 120 (2015: 116).

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

15. FINANCIAL INSTRUMENTS

Financial risk management

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

(a) Credit risk

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

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

At year end concentrations of credit risk are noted for Bank of South Pacific Limited, Australia and New Zealand Banking Group Limited, Westpac Banking Corporation Limited, Pan Oceanic Bank and Credit Corporation Limited.

The asset allocation at reporting date is as follows:

Assets	June 2016		June 2015	
	\$	%	\$	%
Commercial paper, treasury bills and held-to-maturity investments	664,344,109	53%	696,346,560	62%
Loans and advances	104,372,531	8%	84,888,312	8%
Cash and cash equivalents	373,084,347	30%	203,820,090	18%
Receivables	119,613,341	9%	143,014,807	12%
Total	1,261,414,328	100%	1,128,069,769	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.

Credit quality:

Assets	Neither past due nor impaired (Gross)		Impaired (Gross)		Total (Gross)	
	June 2016	June 2015	June 2016	June 2015	June 2016	June 2015
Commercial paper, treasury bills and held-to-maturity investments	664,344,109	696,346,560	-	-	664,344,109	696,346,560
Loans and advances	79,830,603	62,971,039	33,509,236	30,911,603	113,339,839	93,882,642
Cash and cash equivalents	373,084,347	203,820,090	-	-	373,084,347	203,820,090
Receivables	107,298,811	130,309,222	27,970,993	24,646,427	135,267,804	154,955,649

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

Impaired assets	June 2016	June 2015
Loans and advances	33,509,236	30,911,603
Receivables	27,970,933	24,646,427
Gross impaired assets	61,480,169	55,558,030
Less: Allowance for doubtful debts	(24,651,348)	(20,935,172)
	36,828,821	34,622,858

(b) Government security risk

The Fund has a significant exposure to the Solomon Islands Government (SIG) through its holding of government securities and bonds. The total holdings from SIG (treasury bills and government securities) at 30 June 2016 was \$17,592,646 (June 2015: \$49,834,265).

(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 2016	Currency					Total
	SBD	AUD	USD	Euro	Others (GBP & PGK)	
Assets	\$	\$	\$	\$	\$	\$
Commercial paper, treasury bills and held-to-maturity investments	531,608,696	59,023,968	47,179,738	-	26,531,707	664,344,109
Equity investments	1,273,736,736	15,759,706	37,739,873	9,141,233	51,816,807	1,388,194,355
Total	1,805,345,432	74,783,674	84,919,611	9,141,233	78,348,514	2,052,538,464
30 June 2015						
Assets						
Commercial paper, treasury bills and held-to-maturity investments	560,746,388	59,078,837	46,426,270	-	30,095,065	696,346,560
Equity investments	1,184,025,872	16,844,722	36,311,201	10,288,862	54,475,014	1,301,945,671
Total	1,744,772,260	75,923,559	82,737,471	10,288,862	84,570,079	1,998,292,231

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(c) Foreign exchange risk (continued)

	AUD impact (000s)		USD impact (000s)		Euro impact (000s)		GBP impact (000s)		PGK impact (000s)	
	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
	Strengthen	Weaken	Strengthen	Weaken	Strengthen	Weaken	Strengthen	Weaken	Strengthen	Weaken
Changes in net assets										
30 June 2016	(6,801)	8,312	(7,720)	9,436	(835)	1,020	(1,421)	1,737	(5,702)	6,969
Changes in net assets										
30 June 2015	(6,902)	8,436	(7,522)	9,193	(935)	1,143	(1,635)	1,999	(6,053)	7,398

(d) Interest rate risk

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

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

(e) Liquidity risk

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

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

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

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

	Up to 1 month	1 - 3 months	3- 12 months	1-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$	\$
30 June 2016						
Assets						
Cash and cash equivalents	373,084,347	-	-	-	-	373,084,347
Commercial paper, treasury bills and held-to-maturity investments	27,599,303	173,257,794	217,863,329	218,636,783	26,986,900	664,344,109
Loans and advances	-	-	20,422,482	58,950,049	25,000,000	104,372,531
Receivables	-	127,864	11,682,659	107,802,818	-	119,613,341
Total	400,683,650	173,385,658	249,968,470	385,389,650	51,986,900	1,261,414,328
Liabilities						
Accounts payable	1,405,597	944	3,729	-	-	1,410,270
Other payables and accruals	-	4,356,206	-	4,137,175	-	8,493,381
Total	1,405,597	4,357,150	3,729	4,137,175	-	9,903,651
Net liquidity gap	399,278,053	169,028,508	249,964,741	381,252,475	51,986,900	1,251,510,677

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(e) Liquidity risk (continued)

30 June 2015	Up to 1 month	1 - 3 months	3- 12 months	1-5 years	Over 5 years	Total
Assets	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	203,820,090	-	-	-	-	203,820,090
Commercial paper, treasury bills and held-to-maturity investments	7,448,906	237,461,342	210,350,812	61,641,439	179,444,061	696,346,560
Loans and advances	-	-	10,964,616	13,446,660	60,477,036	84,888,312
Receivables		547,838	14,361,366	128,105,603	-	143,014,807
Total	211,268,996	238,009,180	235,676,794	203,193,702	239,921,097	1,128,069,769
Liabilities						
Accounts payable	1,685,634	25,409	49,261	-	-	1,760,304
Other payables and accruals	3,619,276	-	-	3,904,707	-	7,523,983
Total	5,304,910	25,409	49,261	3,904,707		9,284,287
Net liquidity gap	205,964,086	237,983,771	235,627,533	199,288,995	239,921,097	1,118,785,482

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS

(a) SUBSIDIARIES

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

	Place of business	Ownership	Fair value June 2016	Fair value June 2015
Subsidiaries				
(i) South Pacific Oil Limited	Solomon Islands	100%	766,446,000	639,999,996
(ii) Solomon Islands Home Finance Limited	Solomon Islands	100%	25,297,373	24,430,000
(iii) Solomon Telekom Company Limited	Solomon Islands	97.32%	388,049,999	442,798,305
(iv) Solomon Oceanic Cable Company Limited	Solomon Islands	51%	32,676,199	32,676,199
Total fair value of subsidiaries			1,212,469,571	1,139,904,500
Other equity investments				
(i) Heritage Park Hotel Limited	Solomon Islands	10%	26,800,000	25,800,000
(ii) Soltuna Company Limited	Solomon Islands	40.5%	34,442,165	18,296,371
(iii) Sasape International Shipyard Limited	Solomon Islands	25%	25,000	25,000
(iv) Bank South Pacific Limited (Listed)	PNG		51,816,807	54,475,015
(v) Offshore managed funds (Listed)	US & Euro		62,640,812	63,444,785
Total fair value of other equity investments			175,724,784	162,041,171
Total fair value of equity investments (refer Note 6 (a) (ii))			1,388,194,355	1,301,945,671

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)

(a) SUBSIDIARIES (CONTINUED)

Commencing in 2013, the Board adopted a policy to annually revalue its unlisted domestic equities, beginning with its two large equity exposures South Pacific Oil Limited and Solomon Telekom Company Limited. The valuations of all of the Fund's unlisted private equities for the 2016 financial year were carried out by Baoro and Associates and Ernst & Young. The valuations were carried out under the applicable International Financial Reporting Standard – IFRS 13 Fair Value Measurements.

(i) SOUTH PACIFIC OIL LIMITED (SPOL)

There were no changes to the shareholding of SPOL during the year. SINPF holds 100% (53,333,333 shares) of SPOL. As at 30 June 2016, the company was valued at \$766,446,000 (2015: \$639,999,996) by Ernst & Young.

(ii) SOLOMON ISLANDS HOME FINANCE LIMITED (SIHFL)

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

At 30 June 2016, the investment was revalued to market value of \$25,297,373 (2015: \$24,430,000) based on the valuations carried out by Baoro and Associates.

(iii) SOLOMON TELEKOM COMPANY LIMITED (STCL)

During the year there were no changes to the shareholding in STCL. As at 30 June 2016, the Fund owned 77,764,218 A class shares or 97.32% of the STCL.

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

At 30 June 2016, the investment was revalued to market value of \$388,049,999 (2015: \$442,798,306) based on the valuation carried out by Ernst & Young.

(iv) SOLOMONS OCEANIC CABLE COMPANY LIMITED (SOCC)

SOCC was established in 2011 by the SINPF Board and Solomon Telekom Company Limited (STCL) to develop, operate, and own a submarine fibre optic cable network system that will greatly improve Solomon Islands connectivity to the rest of the world. As at 30 June 2016, the Fund owns 51% and STCL owns 49% of SOCC. At 30 June 2016, the investment in SOCC was valued by management at \$32,676,199.

(b) OTHER EQUITY INVESTMENTS

(i) HERITAGE PARK HOTEL LIMITED (HPhL)

During the year there were no changes to the Funds ownership interest in HPhL. The Fund continues to hold 20 shares in HPhL, representing 10% of the company's share capital. The Fund has adopted a value of \$26,800,000 as at 30 June 2016 (2015: \$25,800,000) for its 10% shareholding based on the valuation carried out by Baoro and Associates.

HPhL also has a loan balance with the Fund which currently stands at \$16,942,718. The loan was interest free up till August 2015 in order to maximise the benefit of HPhL's 5 year tax holiday. The tax holiday has now expired and the loan is accruing interest at the rate of 12.5% per annum.

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)

(b) OTHER EQUITY INVESTMENTS (CONTINUED)

(ii) SOLTUNA COMPANY LIMITED (SCL)

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

At the end of June 2016, the Fund valued its investment in Soltuna at \$34,442,165 (2015: \$33,976,371) based on a valuation carried out by Baoro and Associates.

Soltuna continues to pay down its \$50 million loan according to loan arrangements. At the end of the year, the loan balance was \$34,746,203 a reduction of approximately \$15.3 million.

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

(iii) SASAPE INTERNATIONAL SHIPYARD LIMITED (SISL)

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

During the year there were no changes to the Funds shareholding in SISL. As at 30 June 2016 SINPF has a 25% shareholding and is the owner of 882,834 shares in SISL. The valuation of these shares as at 30 June 2016 remains at \$25,000.

(iv) BANK SOUTH PACIFIC LIMITED (BSP)

The Fund maintained its 2,500,001 shares in BSP during the year. The BSP share price at the end of the year was \$20.25 per share (8.1 Kina) giving a valuation of \$51,816,807 (2015: \$54,475,015).

(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 2016 the Fund has 1,601,142 units (2015: 1,546,677 units) in UBS Australian Share Fund at the recorded price of SBD \$9.86 (2015: SBD \$10.90) per unit (AUD \$1.6654) (2015: AUD \$1.7970). During the year the Fund reinvested its quarterly distributions to purchase an additional 49,811 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 SBD \$181.50 (2015: SBD \$174.64) per unit (USD \$22.9426) (2015: USD \$22.2138) recorded 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 2016

16. SUBSIDIARIES AND OTHER EQUITY INVESTMENTS (CONTINUED)

(b) OTHER EQUITY INVESTMENTS (CONTINUED)

(v) OFFSHORE MANAGED FUNDS (CONTINUED)

The Fund also maintained the same level of units in Vanguard European Stock Index Fund at 64,673 with a closing price per unit of SBD \$141.96 (2015: SBD \$159.09) per unit (Euro 16.2263) (2015: Euro 18.2316) at the end of the year.

17. TREASURY BILLS AND OTHER PRIVATE COMMERCIAL LOANS

(a) GOVERNMENT SECURITIES

	June 2016	June 2015
	\$	\$
Restructured bonds	-	8,389,079
SIG amortised bonds	-	24,459,078
Soltai amortised bonds	-	997,456
SICHE bonds	-	1,614,594
Total government securities (refer Note 6 (a) (ii))	-	35,460,207

At the end of the financial year all government securities have been settled in full by Solomon Islands Government.

(b) TREASURY BILLS – CENTRAL BANK OF SOLOMON ISLANDS

The Fund tendered for treasury bills offered by the Central Bank of Solomon Islands on behalf of the Solomon Islands Government. At the end of the year, the balance of Treasury Bills held by the Fund was \$17,592,646 (June 2015: \$14,374,058). These were mostly 91 day Treasury Bills at rates between 0.2% to 1.5%.

(c) OTHER PRIVATE COMMERCIAL LOANS

Tavanipupu Island Resort Limited (TIRL) –Loan Agreement

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

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

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

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.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

(b) Valuation framework

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

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

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

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

Financial assets at fair value through statement of changes in net assets	Total	Level 1	Level 2	Level 3
30 June 2016				
<u>Equity investments</u>				
- Energy	766,446,000	-	766,446,000	-
- Telecommunications	420,726,098	-	388,049,999	32,676,099
- Tourism and hospitality	26,800,000	-	-	26,800,000
- Manufacturing	34,442,165	-	-	34,442,165
- Shipping	25,000	-	-	25,000
- Financial services and others	139,754,992	114,457,619	-	25,297,373
Total equity investments	1,388,194,255	114,457,619	1,154,495,999	119,240,637
Commercial paper and treasury bills	664,344,109	-	664,344,109	-
Total financial assets at fair value through statement of changes in net assets	2,052,538,364	114,457,619	1,818,840,108	119,240,637

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

30 June 2015	Total	Level 1	Level 2	Level 3
Equity investments				
- Energy	639,999,996	-	639,999,996	-
- Telecommunications	475,474,504	-	442,798,305	32,676,199
- Tourism and hospitality	25,800,000	-	-	25,800,000
- Manufacturing	18,296,371	-	-	18,296,371
- Shipping	25,000	-	-	25,000
- Financial services and others	142,349,800	117,919,800	-	24,430,000
Total	1,301,945,671	117,919,800	1,082,798,301	101,227,570
Commercial paper and treasury bills	660,886,353	-	660,886,353	-
Total financial assets at fair value through statement of changes in net assets	1,962,832,024	117,919,800	1,743,684,654	101,227,570

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

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

	June 2016	June 2015
	\$	\$
Balance at 1 July	101,227,570	89,047,570
Fair value (losses) / gains *	2,333,067	12,180,000
Purchases	15,680,000	-
Disposals	-	-
Balance at the end of the year	119,240,637	101,227,570

*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.

(e) Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs as at 30 June 2016 in measuring financial instruments categorized as level 2 and level 3 in the fair value hierarchy.

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

(f) 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.

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 July 2016 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. Effective for annual reporting periods beginning on or after 1 July 2018, with early adoption permitted.
- (b) IFRS 15 Revenue from Contracts with Customers. Effective for annual reporting periods beginning on or after 1 July 2018, with early adoption permitted.

20. SUBSEQUENT EVENTS

At 30 June 2016, the Board of the Fund reduced the amount of benefits to be paid in the future under the special death benefit scheme from \$10,000 to \$3,000.

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