

**SOLOMON ISLANDS
NATIONAL PROVIDENT FUND**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

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FOR THE YEAR ENDED 30 JUNE 2015**

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**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

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 2015;
- (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 2015;
- (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 2015;
- (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.



Peter Boyers
Chairman of the Board

Tony Makabo
General Manager (CEO)

Gideon Zoleveke Jr
Deputy Chairman

Dated at HONIARA this 28TH day of SEPTEMBER 2015.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS 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 2015, 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 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 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 2015 and of its changes in net assets and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Office of the Auditor-General
Honiara, Solomon Islands



Robert Cohen
Acting Auditor-General
30 September 2015

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
STATEMENT OF NET ASSETS
AS AT 30 JUNE 2015


	Note	June 2015 \$	June 2014 \$
ASSETS			
Investments			
<i>Financial investments</i>			
Commercial papers and treasury bills	6 (a) (i)	660,886,353	677,467,236
Held-to-maturity investments	6 (b) (ii)	35,460,207	46,906,955
Loans and advances	6 (b) (i)	84,888,312	90,961,793
Equity investments	6 (a) (ii)	1,301,945,671	1,179,444,410
<i>Non-financial investments</i>			
Investment properties	6 (a) (iii)	285,313,044	259,279,772
		<u>2,368,493,587</u>	<u>2,254,060,166</u>
OTHER ASSETS			
Cash and cash equivalents	13	203,820,090	144,126,514
Receivables	5	143,014,807	151,034,586
Property, plant and equipment	7	69,083,777	72,700,705
		<u>415,918,674</u>	<u>367,861,805</u>
TOTAL ASSETS		<u>2,784,412,261</u>	<u>2,621,921,971</u>
LIABILITIES			
Accounts payable		1,760,304	1,453,450
Other payables and accruals	8 (a)	7,523,983	8,098,179
Employee entitlements	8 (b)	11,689,014	11,393,071
TOTAL LIABILITIES (excluding net assets available to pay benefits)		<u>20,973,301</u>	<u>20,944,700</u>
NET ASSETS AVAILABLE TO PAY BENEFITS	4 (a)	<u>2,763,438,960</u>	<u>2,600,977,271</u>
<u>Represented by:</u>			
Allocated to members account	4 (b)	2,307,445,301	2,048,124,001
Special death benefit	4 (c)	(21,727)	1,043,539
Nominees trust account	4 (d)	5,461,546	4,520,557
Reserves	4 (e)	450,553,840	547,289,174
TOTAL MEMBERS FUNDS		<u>2,763,438,960</u>	<u>2,600,977,271</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 2015

	Note	June 2015 \$	June 2014 \$
INVESTMENT INCOME			
Interest income	3 (a)	19,254,218	16,476,468
Dividends	3 (b)	86,684,317	79,816,727
Net gain from changes in fair values	3 (c)	15,313,768	39,349,936
Rental income	3 (d)	26,363,458	25,442,333
		<u>147,615,761</u>	<u>161,085,464</u>
LESS: DIRECT INVESTMENT EXPENSES	3 (f)	<u>(16,937,873)</u>	<u>(20,670,304)</u>
NET RETURN ON INVESTMENTS		130,677,888	140,415,160
Other income	3 (e)	6,958,591	21,056,798
		<u>137,636,479</u>	<u>161,471,958</u>
CONTRIBUTION REVENUE			
Unallocated contributions		10,307,709	10,841,862
Members' contribution		228,967,125	215,718,655
		<u>239,274,834</u>	<u>226,560,517</u>
		<u>376,911,313</u>	<u>388,032,475</u>
Benefits paid	3 (h)	(176,783,220)	(116,743,668)
OPERATING EXPENSES			
Operating expenses	3 (g)	(37,666,404)	(43,715,039)
CHANGE IN NET ASSETS FOR THE YEAR	4 (f)	<u>162,461,689</u>	<u>227,573,768</u>
Net assets available to pay benefits at the beginning of the financial year		2,600,977,271	2,373,403,503
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR	4(a)	<u>2,763,438,960</u>	<u>2,600,977,271</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 2015

	Note	June 2015 \$	June 2014 \$
Cash flows from operating activities			
Contributions from members and employers		239,274,834	226,560,517
Interest received		17,721,013	15,971,191
Dividends received		96,304,314	50,268,902
Rentals received		26,951,207	31,970,607
Other income received		6,931,557	20,188,610
Benefits paid to members		(176,783,220)	(116,743,668)
Cash paid to suppliers and employees		(55,550,824)	(46,064,606)
Net cash flows from operating activities		154,848,881	182,151,553
Cash flows from investing activities			
Net acquisition of commercial papers, treasury bills and held-to-maturity investments		18,355,651	(97,263,281)
Loans and advances repaid		6,105,871	7,230,822
Acquisition of shares		(100,565,779)	(4,092,427)
Proceeds from sale of property plant and equipment		19,742	168,100
Acquisition of investment properties		(33,893)	-
Acquisition of property plant and equipment		(19,036,897)	(17,310,538)
Net cash used in investing activities		(95,155,305)	(111,267,324)
Net increase in cash and cash equivalents		59,693,576	70,884,229
Cash and cash equivalents at the beginning of the year		144,126,514	73,242,285
Cash and cash equivalents at the end of the year	13	203,820,090	144,126,514

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 2015

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 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 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 6 (a) – Valuations of equity securities
- Note 6 (a) – Valuations of investment properties
- Note 6 (b) – Recoverability of loans and receivables; and
- Note 7 – 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 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Comparatives

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

(c) Members contribution account

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

(d) Special death benefit (SDB)

As provided for in the Act, an amount is deducted from each member's account at 30 June each year in respect of special death benefit to be paid to the beneficiaries of the member after the death of a member. The maximum sum payable for SDB for the year ended 30 June 2015 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 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 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 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 valuations.

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 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. 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. 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 2015

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 years:

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 recovery 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 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-derivate 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 2015**

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.

(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 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) 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 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 2015

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 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 2015

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 2015	June 2014
	\$	\$
(a) Interest income		
Cash at bank	38,524	63,469
Treasury bills	70,171	220,807
Bonds	4,239,798	3,075,067
Loans and advances	7,992,879	6,922,381
Investment securities - commercial papers	6,912,846	6,194,744
Total	19,254,218	16,476,468
(b) Dividends		
Quoted shares	5,602,664	4,741,306
Unquoted shares	80,489,312	74,481,656
Managed funds	592,341	593,765
Total	86,684,317	79,816,727
(c) Gain from changes in fair values		
Investment properties	11,404,053	31,626,496
Equities	13,581,695	5,341,382
Net foreign exchange gain/(loss)	(9,671,980)	2,382,058
Total	15,313,768	39,349,936
(d) Rental income		
Investment properties	25,119,121	24,343,096
Others	1,244,337	1,099,237
Total	26,363,458	25,442,333
(e) Other income		
Bad debts recovery	1,383,064	5,065,382
Legal fee recovery	-	10,417,244
Risk premium fee – Bank of the South Pacific Limited	217,106	263,878
Surcharge	5,222,159	4,565,164
Others	136,262	745,130
Total	6,958,591	21,056,798
(f) Direct investment expenses		
Utilities (water and electricity)	3,481,682	4,480,723
Repairs and maintenance	7,954,158	6,648,156
Land rates and rental charges	418,482	415,600
Insurance	1,017,150	947,347
Management fees	932,101	-
Cleaning services	1,149,428	556,146
Valuation & consultation fees	1,984,801	356,000
Doubtful debts – loans and advances	71	4,698,147
Doubtful debts – other receivables	-	2,568,185
Total	16,937,873	20,670,304

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

3. INCOME AND EXPENSES (Continued)

	June 2015 \$	June 2014 \$
(g) Operating expenses		
Board and management allowances	907,829	367,595
Utilities (water and electricity)	2,587,306	1,525,672
Repairs and maintenance	1,667,657	2,558,726
Land rates and rental charges	42,730	102,702
Administrative expenses	4,943,513	5,969,366
Doubtful debts – Surcharges and other receivables	1,947,304	-
Depreciation expenses	7,157,032	6,968,973
Insurance expenses	328,232	323,663
Audit fees	358,520	500,570
Bank charges	62,090	61,247
Consultancy fees and expenses	689,979	2,118,916
Loss on disposal of property plant and equipment	921,227	-
Staff costs (refer below)	16,052,985	23,217,609
Total	<u>37,666,404</u>	<u>43,715,039</u>
<u>The breakdown of staff costs are as follows:</u>		
Wages and salaries	10,550,533	10,181,735
Contributions to SINPF	768,404	734,846
Employee benefits	423,838	10,290,186
Other staff costs	4,310,210	2,010,842
	<u>16,052,985</u>	<u>23,217,609</u>
(h) Benefits paid		
Interest on withdrawal, trust and other members expenses	9,907,344	8,313,477
Contribution withdrawals (refer Note 4 (b))	164,605,544	106,314,917
Special death benefit payments (refer Note 4(c))	1,717,750	1,659,876
Nominees trust payment (refer Note 4 (d))	552,582	455,398
Total	<u>176,783,220</u>	<u>116,743,668</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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4. NET ASSETS AVAILABLE TO PAY BENEFITS

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

• **Revaluation Reserve**

The last revaluation of land and buildings 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 2016 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 2015	June 2014
	\$	\$
(a) Net assets available to pay benefits		
Net assets available to pay benefits	2,763,438,960	2,600,977,271
<u>Represented by:</u>		
Allocated to members' account	2,307,445,301	2,048,124,001
Special death benefit (refer Note 20 (ii))	(21,727)	1,043,539
Nominees trust	5,461,546	4,520,557
Reserves	450,553,840	547,289,174
	<u>2,763,438,960</u>	<u>2,600,977,271</u>
(b) Liability for accrued benefits		
Opening Balance	2,048,124,001	1,693,478,795
Contributions received from members and employers	239,274,834	226,560,517
Interest credited to members accounts	187,450,778	236,231,153
Benefits paid – withdrawals (refer Note 3 (h))	(164,605,544)	(106,314,917)
Transfer to nominees trust accounts (refer Note 4(d))	(1,493,571)	(978,372)
Transfer to special death benefits (refer Note 4(c))	(652,484)	(596,174)
Forfeited contributions transfer to general reserve (refer Note 4(e))	(1,216,848)	(542,846)
Other transfers / adjustments	564,135	285,845
Balance at 30 June	<u>2,307,445,301</u>	<u>2,048,124,001</u>
<u>Represented by:</u>		
Allocated to members' accounts	2,287,764,897	2,020,946,105
Unidentified	19,680,404	27,177,896
	<u>2,307,445,301</u>	<u>2,048,124,001</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

4. NET ASSETS AVAILABLE TO PAY BENEFITS (CONTINUED)

	June 2015	June 2014
	\$	\$
(c) Special death benefit		
Balance at the beginning of the year	1,043,539	2,107,241
Transfer in (refer Note 4(b))	652,484	596,174
Transfer out (refer Note 3(h))	(1,717,750)	(1,659,876)
Balance at the end of the year	(21,727)	1,043,539
(d) Nominees trust account		
Balance at the beginning of the year	4,520,557	3,997,583
Transfer in (refer Note 4(b))	1,493,571	978,372
Transfer out (refer Note 3(h))	(552,582)	(455,398)
Balance at the end of the year	5,461,546	4,520,557
(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	477,337,831	603,868,541
Transfers in (refer Note 4(b))	1,216,848	542,846
Transfers out	(97,952,182)	(127,073,556)
Balance at end of the year	380,602,497	477,337,831
Total reserves	450,553,840	547,289,174
(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:	162,461,689	227,573,768
<u>Comprises net transfers to/(from):</u>		
Liability for accrued benefits	259,321,300	354,645,206
Special death benefit	(1,065,266)	(1,063,702)
Nominees trust	940,989	522,974
General reserves	(96,735,334)	(126,530,710)
	162,461,689	227,573,768

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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5. RECEIVABLES

	June 2015 \$	June 2014 \$
Interest	5,903,627	4,370,422
Rental income	4,931,249	5,518,998
Dividends	115,303,986	138,697,154
Surcharges	10,576,663	9,698,802
Others	18,240,124	5,317,780
	<u>154,955,649</u>	<u>163,603,156</u>
Less: Allowance for doubtful debts	(11,940,842)	(12,568,570)
Total receivables	<u>143,014,807</u>	<u>151,034,586</u>
<u>Movement in allowance for doubtful debts is as follows:</u>		
Balance at 1 July	(12,568,570)	(14,651,733)
Impairment loss recognised	(1,947,304)	(2,568,185)
Amounts written off against provision	2,575,032	4,651,348
Balance at the end of the year	<u>(11,940,842)</u>	<u>(12,568,570)</u>

The allowance for doubtful debts of \$11,940,842 (2014: \$12,568,570) 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 2015 \$	June 2014 \$
(i) Commercial papers and treasury bills		
On shore deposits	458,865,223	455,772,824
Offshore deposits	135,660,172	170,601,262
Total deposits	<u>594,525,395</u>	<u>626,374,086</u>
Treasury bills	14,374,058	19,593,150
Other fixed term debt securities (debentures) – Related parties	<u>51,986,900</u>	<u>31,500,000</u>
Total	<u>660,886,353</u>	<u>677,467,236</u>

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

Opening balance	677,467,236	624,728,851
Net movement during the year	(4,512,888)	50,356,327
Foreign exchanges differences	(12,067,995)	2,382,058
Balance at the end of the year	<u>660,886,353</u>	<u>677,467,236</u>

(ii) Equity securities at fair value:

- Listed	117,919,800	109,000,240
- Unlisted	<u>1,184,025,871</u>	<u>1,070,444,170</u>
Total equities at fair value	<u>1,301,945,671</u>	<u>1,179,444,410</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

6. INVESTMENTS (CONTINUED)

	June 2015	June 2014
	\$	\$
(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	1,179,444,410	1,170,010,601
Acquisitions during the year	100,565,779	-
Gain from changes in fair value (refer Note 3(c))	13,581,695	5,341,382
Exchange differences	8,353,787	4,092,427
Balance at the end of the year	<u>1,301,945,671</u>	<u>1,179,444,410</u>

(iii) Investment properties

Opening balance	259,279,772	212,438,000
Transfer to property, plant and equipment	-	(4,700,000)
Additions	33,893	-
Disposals	-	(176,500)
Transfers from property, plant and equipment	14,595,326	20,091,776
Gain from fair value adjustment * (refer Note 3(c))	11,404,053	31,626,496
Balance at the end of the year	<u>285,313,044</u>	<u>259,279,772</u>

*Valuations of the Fund's investment properties was performed inhouse to determine the fair value of land and buildings (in the prior year, independent valuations of the Funds investment properties was performed by Value Solution Appraisal). The valuations, which conform to international valuation standards, were determined by reference to the current market values of the land and buildings in the current and prior year. The effective date of the valuation was 18 June 2015(the effective date of the prior years valuation was 2 June 2014).

(b) Financial Assets carried at amortised cost

(i) Loans and advances

- Commercial loans – Private entities	17,196,660	15,000,000
– Related parties	68,856,668	75,891,019
- Member schemes	5,783,910	6,607,129
- Staff schemes	2,045,404	2,490,365
Total gross loans and advances	<u>93,882,642</u>	<u>99,988,513</u>
Allowance for doubtful debts	(8,994,330)	(9,026,720)
Net loans and advances	<u>84,888,312</u>	<u>90,961,793</u>

Movement in allowance for doubtful debts is as follows:

Balance at the beginning of the year	(9,026,720)	(4,435,743)
Impairment loss recognised (refer Note 3 (f))	(71)	(4,698,147)
Amounts written off	32,461	107,170
Balance at the year of the year	<u>(8,994,330)</u>	<u>(9,026,720)</u>

(ii) Held-to-maturity investments

Government securities – Related party (refer Note 17(a))	<u>35,460,207</u>	<u>46,906,955</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 2015

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 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
Balance as at 1 July 2014	53,164,555	17,143,989	9,773,989	12,506,600	92,589,133
Transfers from work in progress	5,609,676	1,087,115	1,445,168	(8,141,959)	-
Additions	2,017,643	538,377	601,913	15,878,964	19,036,897
Transfer to investment properties	-	-	-	(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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

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 2013	-	7,269,209	6,285,601	-	13,554,810
Expense for the year	2,898,874	3,276,780	793,319	-	6,968,973
Disposals	-	(635,355)	-	-	(635,355)
Balance as at 30 June 2014	2,898,874	9,910,634	7,078,920	-	19,888,428
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
CARRYING VALUE					
Balance as at 30 June 2014	50,265,681	7,233,355	2,695,069	12,506,600	72,700,705
Balance as at 30 June 2015	54,759,026	5,287,461	3,389,011	5,648,279	69,083,777

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
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FOR THE YEAR ENDED 30 JUNE 2015

8. OTHER PAYABLES AND ACCRUALS AND EMPLOYEE ENTITLEMENTS

	June 2015 \$	June 2014 \$
(a) Other payable and accruals		
Rental bond	3,904,707	4,581,254
Other accruals	3,619,276	3,516,925
	<u>7,523,983</u>	<u>8,098,179</u>
(b) Employee entitlements		
<i>(Provision for early retirement benefits, annual leave and long service leave)</i>		
Current	6,115,696	4,396,479
Non-current	5,573,318	6,996,592
	<u>11,689,014</u>	<u>11,393,071</u>
Movement in provision for employee entitlements:		
Balance at the beginning of the year	11,393,071	1,102,885
Created during the year	423,838	10,290,186
Utilised during the year	(127,895)	-
Balance at the end of the year	<u>11,689,014</u>	<u>11,393,071</u>

9. RELATED PARTIES

(a) Board members and key management personnel

Related party disclosures requires the disclosure of information relating to aggregate compensation of key management personnel. The key management personnel of the Fund are members of the Fund's Board and senior staff who have responsibility for planning, directing and controlling the activities of the Fund. In 2015, 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 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 Chairman	14 April 2014 20 May 2015	1 year 3 years	14 April 2015 20 May 2018	Crown Employer
Mr. Harry Kuma	Member	21 June 2014	1 year	21 June 2015	Crown
Dr. Levi Hou	Member	9 September 2011 9 September 2014	3 years	8 September 2014 8 September 2017	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. Jullian Gegeu - Haro	Member	14 April 2014	2 years	14 April 2016	Employees

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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FOR THE YEAR ENDED 30 JUNE 2015

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	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 2015	June 2014
	\$	\$
Directors:		
Sitting allowances	417,576	244,768
Other services and allowances	490,253	2,425
	<u>907,829</u>	<u>247,193</u>
Key management personnel (executives):		
Short-term employee benefits	4,692,004	4,476,651
Post-employment benefits	200,505	335,749
Total compensation	<u>4,892,509</u>	<u>4,812,400</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	19,281	37,419
Other	200,884	182,445
Total loans	<u>220,165</u>	<u>219,864</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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FOR THE YEAR ENDED 30 JUNE 2015

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 2015 \$	June 2014 \$
<u>Loans and advances to related parties</u>		
Soltuna Company Limited	40,822,616	46,274,430
Heritage Park Hotel Limited	16,942,718	16,942,718
Sasape International Shipyard Limited	5,885,629	5,524,586
Solomon Telekom Company Limited	5,205,705	7,149,285
Total loans and advances to related parties (refer Note 6(b) (i))	68,856,668	75,891,019
<u>Commercial papers and treasury bills to related parties</u>		
Solomon Islands Government	49,834,265	46,906,954
South Pacific Oil Limited - debenture	25,000,000	25,000,000
Solomon Islands Home Finance Limited - debenture	6,500,000	6,500,000
Soltuna Company Limited	20,486,900	-
Total commercial papers and treasury bills to related parties	101,821,165	78,406,954

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 2015 \$	June 2014 \$
<u>Dividend income</u>		
Solomon Telekom Company Limited	39,042,449	28,569,195
South Pacific Oil Limited	40,821,863	43,772,461
Solomon Islands Home Finance Limited	-	100,000
Heritage Park Hotel Limited	625,000	2,040,000
Total dividend income from related parties	80,489,312	74,481,656
<u>Interest income</u>		
Soltuna Company Limited	5,504,250	5,366,518
South Pacific Oil Limited	1,771,233	1,157,260
Solomon Islands Home Finance Limited	910,356	649,644
Sasape International Shipyard Limited	559,750	536,586
Solomon Telekom Company Limited	366,819	519,771
Solomon Islands Government	1,044,645	1,214,880
Heritage Park Hotel Limited	1,764,868	-
Total interest income from related parties	11,921,921	9,444,659
<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
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10. AUDITORS REMUNERATION

Fees totaling \$358,520 was provided in the accounts for audit services as at June 2015 (2014: \$500,570). 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 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).

The balance at 30 June 2015 of the long term bonds outstanding is \$11,119,250.

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 2015	June 2014
	\$	\$
Cash at bank	203,816,690	144,123,114
Cash on hand	3,400	3,400
	<u>203,820,090</u>	<u>144,126,514</u>

14. EMPLOYEES

The number of full time permanent Fund employees as at 30 June 2015 was 116 (2014: 117).

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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15. FINANCIAL INSTRUMENTS

Financial risk management

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

(a) Credit risk

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

Credit risk on financial assets is minimized by dealing with recognized monetary institutions. At year end concentrations of credit risk are noted for Bank 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:

Assets	June 2015		June 2014	
	\$	%	\$	%
Commercial papers, treasury bills and held-to-maturity investments	696,346,560	62%	724,374,191	65%
Loans and advances	84,888,312	8%	90,961,793	8%
Cash and cash equivalents	203,820,090	18%	144,126,514	13%
Receivables	143,014,807	12%	151,034,586	14%
Total	1,128,069,769	100%	1,110,497,084	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		Impaired		Total (Gross)	
	June 2015	June 2014	June 2015	June 2014	June 2015	June 2014
Commercial papers, treasury bills and held-to-maturity investments	696,346,560	724,374,191	-	-	696,346,560	724,374,191
Loans and advances	62,971,039	70,366,433	30,911,603	29,622,080	93,882,642	99,988,513
Cash and cash equivalents	203,820,090	144,126,514	-	-	203,820,090	144,126,514
Receivables	130,309,222	139,884,471	24,646,427	23,718,686	154,955,649	163,603,157

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15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

Impaired assets	June 2015	June 2014
Loans and advances	30,911,603	29,622,080
Receivables	24,646,427	23,718,686
Gross impaired assets	55,558,030	53,340,766
Less: Allowance for doubtful debts	(20,935,172)	(21,959,291)
	<u>34,622,858</u>	<u>31,381,475</u>

(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 2015 was \$49,834,265 (June 2014: \$66,500,105).

(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 2015	Currency					Total
	SBD	AUD	USD	Euro	Others (GBP & PGK)	
Assets	\$	\$	\$	\$	\$	\$
Commercial papers, treasury bills and held- to-maturity investments	560,746,388	59,078,837	46,426,270	-	30,095,065	696,346,560
Equity investments	1,184,025,871	16,844,722	36,311,201	10,288,862	54,475,014	1,301,945,670
Total	<u>1,744,772,259</u>	<u>75,923,559</u>	<u>82,737,471</u>	<u>10,288,862</u>	<u>84,570,079</u>	<u>1,998,292,230</u>
30 June 2014						
Assets						
Commercial papers, treasury bills and held- to-maturity investments	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	<u>1,624,217,099</u>	<u>83,210,968</u>	<u>74,375,986</u>	<u>34,285,528</u>	<u>87,729,020</u>	<u>1,903,818,601</u>

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 Dollars. A positive number below indicates an increase in net assets where the foreign currency weakens by 10% against the Solomon Islands Dollar. A negative number below indicates a decrease in net assets where the foreign currency strengthens by 10% against the Solomon Islands Dollar.

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15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(c) Foreign exchange risk (continued)

	AUD impact (000s)		USD impact (000s)		Euro impact (000s)		GBP impact (000s)		PGK impact (000s)	
	10% Strengthen	10% Weaken	10% Strengthen	10% Weaken	10% Strengthen	10% Weaken	10% Strengthen	10% Weaken	10% Strengthen	10% Weaken
Changes in net assets	(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 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.

(e) Liquidity risk

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

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

The liabilities of the Fund are long term in nature and are well structured in terms of benefits comprising of a mix of benefit commutation and 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 2015	\$	\$	\$	\$	\$	\$
Assets						
Cash and cash equivalents	203,820,090	-	-	-	-	203,820,090
Commercial papers, 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

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15. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

(e) Liquidity risk (continued)

30 June 2014	Up to 1 month	1 - 3 months	3- 12 months	1-5 years	Over 5 years	Total
Assets	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	144,126,514	-	-	-	-	144,126,514
Commercial papers, treasury bills and held-to- maturity investments	-	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
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	506,527	285,106	7,306,546	-	-	8,098,179
Total	1,931,150	312,088	7,308,391	-	-	9,551,629
Net liquidity gap	148,575,535	166,548,751	567,565,580	39,199,595	179,055,994	1,100,945,455

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 2015	Fair value June 2014
Subsidiaries				
(i) South Pacific Oil Limited	Solomon Islands	100%	639,999,996	638,598,300
(ii) Solomon Islands Home Finance Limited	Solomon Islands	100%	24,430,000	15,550,000
(iii) Solomon Telekom Company Limited	Solomon Islands	97.32%	442,798,305	342,798,300
(iv) Solomon Oceanic Cable Company Limited	Solomon Islands	51%	32,676,199	32,676,199
Total fair value of subsidiaries			1,139,904,500	1,029,622,799
Other equity investments				
(i) Heritage Park Hotel Limited	Solomon Islands	10%	25,800,000	22,500,000
(ii) Soltuna Company Limited	Solomon Islands	32.10%	18,296,371	18,296,371
(iii) Sasape International Shipyard Limited	Solomon Islands	25%	25,000	25,000
(iv) Bank South Pacific Limited (Listed)	PNG		54,475,015	58,868,525
(v) Offshore managed funds (Listed)	US & Euro		63,444,785	50,131,716
Total fair value of other equity investments			162,041,171	149,821,612
Total fair value of equity investments (refer Note 6 (a) (ii))			1,301,945,671	1,179,444,411

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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 and again in 2015. The valuations of all of the Fund's unlisted private equities for the 2015 financial year were carried out by Baoro and Associates. The valuations were carried out under the applicable International Financial Reporting Standard – IFRS 13.

(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 2015, the company was valued and carried in the books at \$639,999,996 based on the valuations carried out.

(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 2015, the investment was revalued to market value of \$24,430,000 based on the valuations carried out.

(iii) SOLOMON TELEKOM COMPANY LIMITED (STCL)

During the year the SINPF Board purchased additional shares in STCL. The Fund purchased 26,138,272 shares representing approximately a 32% interest for SBD 100 million, from a minority shareholder (Cable and Wireless Plc), thus bringing its total holding to 77,764,218 class A shares. As at 30 June 2015, the Fund owned 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 2015, the investment was revalued to market value of \$ 442,798,305 based on the valuations carried out.

(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 2015, the Fund owns 51% and STCL owns 49% of SOCC. At 30 June 2015, the investment in SOCC was valued 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 SINPF Board continues to hold 20 shares in HPhL, representing 10% of the company's share capital. The Fund has adopted a value of \$25,800,000 as at 30 June 2015 for its 10% shareholding based on the valuations carried out.

HPhL also has a loan balance with the Fund which currently stands at \$16,942,718. The loan, up till August 2015, was interest free 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, which is approximately 1% below the domestic market lending rates as resolved by the HPhL Board.

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

(b) OTHER EQUITY INVESTMENTS (CONTINUED)

(ii) SOLTUNA COMPANY LIMITED (SCL)

At the end of June 2015, SINPF owns 96,596,688 shares representing 32.1% of the total company shares, valued at \$18,296,371.

Soltuna continues to pay down its \$50 million loan according to loan arrangements. At the end of the year, the loan balance was \$40,822,616, a reduction of approximately \$5.4 million.

During the year the year SINPF Board 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.

SCL issued further shares after the financial year end with the SINPF Board purchasing 49% of the new share issues totaling 147,000,000 shares for \$15,680,000. This brings up SINPF Boards 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.

(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 2015 SINPF has a 25% shareholding and is the owner of 882,834 shares in SISL. The valuation of these shares as at 30 June 2015 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 \$21.78 per share (7.45 Kina) giving a valuation of \$54,475,015 (2014: \$58,868,525).

(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 2015 the Fund has 1,546,677 units in UBS Australian Share Fund at the recorded price of \$10.90 per unit (AUD \$1.797). 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 \$174.64 per unit (USD \$22.2138) 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 \$159.09 per unit (Euro 18.2316) at the end of the year.

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17. GOVERNMENT SECURITIES, TREASURY BILLS AND OTHER PRIVATE COMMERCIAL LOANS

(a) GOVERNMENT SECURITIES

Government Securities	June 2015	June 2014
	\$	\$
(i) Restructured Bonds	8,389,079	11,127,813
(ii) SIG Amortised Bonds	24,459,078	30,888,121
(iii) Soltai Amortized Bond	997,456	2,165,618
(iv) SICHE Bonds	1,614,594	2,725,402
Total Government Securities (refer Note 6 (a) (ii))	35,460,207	46,906,954

(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 2.0% to 3.5% interest rates repayable over 7 to 14 years as shown below.

Principal	Term	Rate	Instalment	Maturity Date	Balance 30/06/2015
5,550,000	7 yrs	3.00%	-	15/07/2011	-
11,100,000	10 yrs	3.00%	-	15/07/2014	-
11,100,000	13 yrs	2.00%	78,089	15/07/2017	1,934,533
25,850,000	14 yrs	2.50%	248,721	15/12/2018	6,454,546
53,600,000			326,810		8,389,079

After 7 years monthly repayment on the 14 year bond will increase to \$248,721 until the debt is fully repaid. Two of the restructured bonds were fully paid in 2011 and 2014 respectively.

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 restructured 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.

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17. GOVERNMENT SECURITIES, TREASURY BILLS AND OTHER PRIVATE COMMERCIAL LOANS (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 30/06/2015
7,414,528	7 yrs	2.00%	-	15/11/2011	-
14,829,056	10 yrs	2.00%	-	15/11/2014	-
14,829,056	13 yrs	2.00%	108,029	15/11/2017	3,058,218
37,072,641	15 yrs	2.50%	426,478	15/11/2019	21,400,860
74,145,281			534,507		24,459,078

After 7 years monthly repayment on the 15 year bond will increase to \$426,478 until the debt is fully repaid. Two of the amortized treasury and development bonds were fully paid in 2011 and 2014 respectively.

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 the 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 reserved 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 \$997,456.

**SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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**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.

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 the 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 \$ 1,614,593.

(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 \$14,374,058 (June 2014: \$19,593,150). These were mostly 91 days Treasury Bills at rates between 0.2% to 1.5%

(c) OTHER PRIVATE COMMERCIAL LOANS

Tavanipupu Island Resort Limited (TIRL) –Loan Agreement

TIRL defaulted on its 3rd scheduled interest payments of 12.5% on its \$15 million loan obtained from the Fund, on 22 February 2012. 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 SINPF Board to take management control of TIRL and also to have the title of the mortgaged property transferred to SINPF.

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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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.

18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Valuation models (continued)

- 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 benchmark 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.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
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18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets at fair value through statement of changes in net assets	Total	Level 1	Level 2	Level 3
30 June 2015				
<u>Equity investments</u>				
- 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 equity investments	1,301,945,671	117,919,800	1,108,598,301	75,427,570
Commercial papers 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	1,769,484,654	75,427,570
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	1,179,444,410	109,000,240	1,003,896,600	66,547,570
Commercial papers and treasury bills	677,467,236	-	677,467,236	-
Total financial assets at fair value through statement of changes in net assets	1,856,911,646	109,000,240	1,681,363,836	66,547,570

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 2015	June 2014
	\$	\$
Balance at 1 July	66,547,570	97,947,683
Fair value (losses) / gains *	8,880,000	(31,400,113)
Purchases	-	-
Disposals	-	-
Balance at the end of the year	75,427,570	66,547,570

*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.

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18. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs as at 30 June 2015 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>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>

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

(e) Financial instruments not measured at fair value

The financial instruments not measured at fair value through 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 2015 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 January 2018, with early adoption permitted.
- (b) IFRS 15 Revenue from Contracts with Customers. Effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

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20. SUBSEQUENT EVENTS

(i) Purchase of additional shares in Soltuna Company Limited

Soltuna Company Limited issued further shares after the financial year end 30 June 2015 with the SINPF Board purchasing 49% of the new share issues totaling 147,000,000 shares for \$15,680,000. This brings up SINPF Boards shareholding in Soltuna Ltd to 40.5%.

(ii) Transfer from general reserve to special death benefit reserve

During the year, the SINPF board sought approval from the Honorable Minister of Finance for a transfer from the General Reserve to the Special Death Benefits Fund which had become overdrawn by year end. Subsequent to year end, the Minister granted approval by way of a letter, dated 25 August 2015 for the transfer of \$1.1 million from the general reserve to replenish the special death benefit reserve.

Apart for the effect of the matters 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.