

Honourable Minister,
Ministry of Finance and Treasury,
P.O. Box G26,
Honiara.
Solomon Islands.

Dear Sir,

SOLOMON ISLANDS NATIONAL PROVIDENT FUND ANNUAL REPORT 2010

In accordance with Section 12(2) of Solomon Islands National Provident Fund Act 1973 (as amended), I have the honour to submit to you, on behalf of the Board of Trustees of Solomon Islands National Provident Fund, the Annual Report for the Financial Year ended 30th June 2011 which incorporates the Statements of Incomes and Expenditures, Assets and Liabilities, notes on the Accounts and major development events and activities undertaken by the Fund during the financial year.

Thank you and we appreciate your continuous understanding, support and cooperation.

Yours faithfully,

Solomon Islands National Provident Fund

Mr. Austin Holmes
Chairman
Board of Trustees

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CONTACTS

Head Office,
NPF Building
P.O. Box 619,
Mendana Avenue,
Honiara, Solomon Islands.

Telephone: (677) 21659
Facsimile: (677) 20484
SINPF Website: www.sinpf.org.sb;

Auki Branch,
P.O. Box 58,
Auki,
Malaita Province

Telephone: (677) 40290
Facsimile: (677) 40033
Email: npfauki@solomon.com.sb

Gizo Branch,
P.O. Box 121,
Gizo,
Western Province

Telephone: (677) 60015
Facsimile: (677) 60053
Email: gizonpf@solomon.com.sb

AUDITORS

Auditor General,
Office of the Auditor General,
P.O. Box G18,
Honiara, Solomon Islands.

Telephone: (677) 28695

Deloitte PNG
Deloitte Tower, Level 12,
Douglas Street,
P.O. Box 1275,
Port Moresby, Papua New Guinea.

Telephone: (675) 3087000
Facsimile: (657) 3087001

BANKS

Westpac Banking Corporation Ltd,
P.O. Box 466,
Mendana Avenue,
Honiara, Solomon Islands.

Telephone: (677) 21222
Facsimile: (677) 23419

Bank of South Pacific Ltd,
P.O. Box 37,
Mendana Avenue
Honiara, Solomon Islands.

Telephone: (677) 21874
Facsimile: (677) 24674

Australia & New Zealand Banking Group Limited
P.O. Box 10,
Mendana Avenue,
Honiara, Solomon Islands

Telephone: (677) 21111
Facsimile: (677) 22957

LEGAL ADVISORS

Sol-Law,
Barristers, Solicitors & Notaries,
Anthony Saru Building, Level 5
P.O. Box 498,
Honiara, Solomon Islands.

Telephone: (677) 23886
Facsimile: (677) 20356
Email: partner@solomon.com.sb;

Primo Afeau Lawyers,
Barristers & Solicitors,
Komi Pako Fera Building,
P.O. Box
Honiara, Solomon Islands.

Telephone: (677) 25600
Facsimile:

THE HIGHLIGHTS

- The Fund's accumulated membership increased from 147,247 in 2010 to 151,974 this Financial Year;
- Accumulated contribution balance reached \$1.1 billion compared to \$985.0 million in the Financial Year 2010;
- Contribution receipts was \$162.0 million from \$139.0 million receipts in the Financial Year 2010;
- Total withdrawals by members reached \$79.0 million from \$68.0 million in the Financial Year 2010;
- Total accumulated 2/3 contribution pledges against members' loans with lending financial institutions had reached \$232.0 million from \$177.0 million in the financial year 2010;
- Interest credited to members on 30 June 2011 totalling \$78.7 million compared to \$39.7 million in the financial year 2010;
- Total investments portfolios have reached \$1.23 billion from \$1.07 billion in the financial year 2010;
- Acquired 29% shares in Soltai Fishing & Processing Company Ltd (SFPCL) at the cost of \$36.0 million and also re-financed ANZ Bank loan valued \$50.0 million been owed by Soltai Fishing & Processing Company Ltd;
- Purchased and refurbished former Sasape Marina Ltd's usable commercial assets totalling \$27.8 million to be leased by Sasape International Slipway Ltd - a joint-venture between SINPF and Silentworld Ltd;
- Total investment incomes reached \$129.4 million as compared to \$55.0 million in the year 2010; and
- Net assets of the Fund increased to \$96.4 million from \$87 million in 2010 financial year.

BOARD ALLOWANCES

The Board of Trustees were paid monthly and sitting allowances in respect to meetings been held. These financial entitlements were approved by Hon. Minister of Finance & Treasury under the applicable provisions of the SINPF Act (109).

The following allowances were paid to the Board of Trustees during the Financial Year 2010/2011 as shown in table 2.

Table 2: Board meetings and remuneration.

Name of Director	Meetings Attended/Total Held	Base Emolument	Total Remuneration	
			2010	2011
Austin Holmes	14/14	\$1,500.00	\$9,000.00	\$12,000.00
Danny Philip	00/14	\$1,300.00	0.00	0.00
Peter Boyers	10/14	\$1,300.00	\$2,600.00	\$10,400.00
Joses Tuhonuku	11/14	\$1,170.00	\$5,850.00	\$ 7,020.00
Josiah Manehia	10/14	\$1,170.00	\$5,850.00	\$ 5,850.00
Mareta Tahu	13/14	\$1,170.00	\$7,020.00	\$ 8,190.00
Leotina Harihiru	09/14	\$1,170.00	\$4,680.00	\$ 5,850.00
Yoshiyuki Sato	07/14	\$1,170.00	\$3,510.00	\$ 4,680.00
Harry Kuma	06/14	\$1,170.00	\$3,510.00	\$ 3,510.00

Table 3: Subsidiary Companies & Board Directors

SUBSIDIARY/ASSOCIATE COMPANY	SINPF Shareholding (%)	SINPF REPRESENTATION
Solomon Telekom Company Ltd	64.7%	Mr. John Beverley (Chairman) Mr. Austin Holmes Mr. Tony Makabo
South Pacific Oil Ltd	85%	Mr. Joses Tuhonuku (Chairman) Mr. Josiah Manehia Rev. Mareta Tahu Mr. Yoshiyuki Sato
S.I. Home Finance Ltd	100%	Mr. Gabriel Suri (Chairman) Mr. Austin Holmes Ms. Leotina Harihiru Mr. Ishmael Kako Ms. Jennifer Lakoa
Heritage Park Hotel Ltd	10%	Mr. Josiah Manehia
Providence Properties Ltd	90%	Mr. Gabriel Suri (Chairman) Mr. Mike Wate Mr. Harry Kuma Mr. Austin Holmes
Sasape International Shipyard Ltd	25%	Mr. Peter Boyers Mr. Mike Wate
Soltai Fishing & Processing Ltd	29%	Mr Austin Holmes Mr Peter Boyers

Our Vision

Enjoyment of comfortable life during and after retirement.

Our Mission

Achieve sustainable wealth growth through higher returns and quality services.

Our Core Value

- Committed to the best management practices with ethical conduct and integrity;
- Preserve, protect and sustain growth to members’ contribution values;
- Partake in feasible developments that contribute to economic growth as a responsible financial institution;
- Maintain prudent investment decisions, sound management of members’ funds and sustainable financial growth;
- Enhance human resource capacity to maximize their potentials to improve performance and services with excellence;
- Adhere to exercising Good Governance principles and Employment Practices;
- Develop a strong, honest and motivated workforce with high productivity;
- Sustain effective partnership with the stakeholders to utilize commercial potential;
- Always accountable and taking ownership of all actions taken for the benefit of members.

THE BOARD OF TRUSTEES



Austin L. Holmes
Chairman



Peter Boyers
Deputy Chairman



Joses Tuhanuku
Board Member



Rev. Mareta Tahu
Board Member



Yoshiyuki Sato
Board Member



Josiah Manehia
Board Member



Harry Kuma
Board Member



Leotina Harihiru
Board Member



Ruth Alepio
Board Secretary

BOARD OF TRUSTEES

Solomon Islands National Provident Fund (SINPF) is check by an Act of Parliament and administered by Board of Trustees duly appointed by Minister of Finance & Treasury to make prudent decisions on behalf of the members. The Trustees are the representatives of the members. The Board comprises eight (8) Trustees: two representatives from Crown, two from Employers, two from Employees and two members under the discretionary powers under the Act vested with the Honourable Minister being responsible for the functions of Solomon Islands National Provident Fund. The appointments of the Trustees are made in compliance with fit and proper person policy of the Fund. Furthermore, the code of ethics been instituted to ensure the conduct of the Board of Trustees is within the good governance principles and practice. During the year, there were changes made to the Board Membership. Firstly, Mr. Peter Boyers was appointed in October 2010 replacing Mr. Danny Philip who resigned as a result of his successful election in August 2010 as a member to National Parliament of Solomon Islands. The appointments of Directors Mr. Josiah Manehia, Ms. Leotina Harihiru and Rev. Mareta Tahu are renewed for further two years as Board of Trustees by Hon. Minister of Finance & Treasury when their appointments lapsed on 26th January 2011.

CORPORATE GOVERNANCE

The scheduled meetings of the Board of Trustees are held at least every two months. However, the Board may

convene extra-ordinary meetings where it is considered important to deal with matters which require timely decisions for implementation. At times the Board does convene meetings in the Provincial capitals and thus allow the Board and Executive Management of the Fund to observe opportunities and discuss future commercial prospects for development. During such Provincial meetings, the Board will have the opportune time to meet with Provincial Premiers and Officials to discuss potential commercial issues which are of mutual interest for the Fund, Provinces and nation as a whole.

A total of fourteen (14) Board Meetings were held during the year, including the meeting held in Noro, Western Province. At the Noro meeting, the Board and Executive Management had the opportunity to discuss with Executive Management of Soltai Fishing & Processing Company Ltd on the current status and future Strategic Business Plans of the company since the Fund became one of the strategic shareholder of the company. It was emphasised that the company would expand its production to meet existing market demand thus more employment opportunities are envisaged. A familiarization visit was made then to the cannery and allied facilities of the company to facilitate better understanding about the core operations of the company. The Board and Executive management of the Fund were introduced to the general staff of the company.

Table 1: Board of Trustees & Appointment Tenure.

Name	Appointment	Date Appointed	Term of Appointment	Expiry of Appointment	Representation
Austin Holmes	Chairman	27/02/2010	2 years	27/02/2012	Employer
Danny Philip	Deputy Chairman	07/08/2008	3 years	10/10/2010	Minister's Discretion
Peter Boyers		11/10/2010	3 years	11/10/2013	
Joses Tuhanuku	Member	07/08/2008	3 years	07/08/2011	Employee
Leotina Harihiru	Member	26/01/2009 26/01/2011	2 years 2 years	26/01/2011 26/01/2013	Employee
Rev. Mareta Tahu	Member	26/01/2009 26/01/2011	2 years 2 years	26/01/2011 26/01/2013	Minister's Discretion
Josiah Manehia	Member	26/01/2009 26/01/2011	2 years 2 years	26/01/2011 26/01/2013	Crown
Harry Kuma	Member	21/06/2010	2 years	21/06/2012	Crown
Yoshiyuki Sato	Member	21/06/2010	2 years	21/06/2012	Employer

CHAIRMAN’S REPORT

Austin Holmes
Chairman

On behalf of the Board of Trustees of Solomon Islands National Provident Fund, it is my pleasure that I present this annual report for the financial year ending 30th June 2011. It was a very challenging year for the Fund. In this report, you will find key information on the overall operations of the Fund, including the highlights of major achievements. These include satisfactory results in a gross surplus of \$87.8 million emanating from an average of 11% return from the Fund’s overall investments portfolios both onshore (local) and offshore (overseas).

Financial Performance

The Fund has achieved positive financial results at the end of this financial year notwithstanding the remnants of the ongoing negative effects from the global financial crisis during the year. The surplus prior to interests paid to members increased by 114% from the preceding year. The improved positive financial results stemmed from both onshore and offshore income streams which were supported by cash inflows from enhanced investment incomes and paid contributions. The equity and fixed term investment incomes have contributed hugely toward the end year financial outcomes. It is uncertain if the Fund can enjoy a similar increase in the next financial year since the global economy continued to slow down coupled with the ongoing sovereign debt crisis in the euro-countries which might threaten the recovery process by major world economies. However, the Board of Trustees and management are very mindful of the ongoing global effects and hence endeavour to strife to deliver satisfactory results to members at the coming financial year.

In light of the positive financial resulting during the year, the Board has resolved to declare an interest rate of 8.75% to members and this is slightly above the country’s inflation rate of 7.3% for the year – a positive gain to members. In monetary term, a total amount of \$78.9 million was credited to the members’ accounts held with the Fund. This is 50% higher than last financial year’s interest amount been credited as shown in Table 5.

Table 5: Interest and Inflation Rates and Credited

Financial Year	2006	2007	2008	2009	2010	2011
Inflation Rate %	13.1	6.4	16.4	9.3	1.0	7.3
Declared Interest Rate %	4.0	18.0	18.0	2.7	5.0	8.75
Credited Amount (\$'000,000)	15.9	80.0	102.0	19.6	39.6	79.0

Investments

The Fund’s total gross investments portfolios spread over various investment assets, has reached \$1.23 billion dollars at the end of June 30th 2011 compared to \$1.07 billion last year 2010 – an increase of \$156.0 million. The returns which have stemmed from the total investment was 11%, an improvement from last year’s financial result. About 80%

of the total investments portfolios are domiciled in the local economy while 20 percent offshore. There is crucial need to rebalance the domestic and offshore investments to comply with the Fund’s approved investment policy as one of the strategies to minimize any potential risks that may arise. We envisage the Fund’s investments portfolios will be further enhanced as result of continuous cash inflows emanating from investment income streams and members’ contribution receipts. Currently, the Fund is seeking further productive and feasible investment opportunities to utilize its high liquid funds being domiciled domestically within the commercial banks which are currently deliver very unsatisfactory low returns to the Fund and its members.

During the financial year, some additional new investments were approved by the Board. On the equity front, the Fund has acquired a 29% shareholding in Soltai Fishing & Processing Ltd. Furthermore, an investment exposure of \$50.0 million loan was made to the company to re-financing costly loan debt with ANZ Bank to maximize potential return to the shareholders. Equity investment was also made to a newly established joint venture company namely: Solomon International Shipyard Ltd (SISL). The Fund has purchased and owned all the usable assets previously owned by the former Sasape Marina Ltd located at Tulagi. These will be leased to SISL on a long-term basis. Refurbishment and upgrade programs of the slipway infrastructures to meet international standards and residential houses are currently ongoing. The revamping of the exiting slipway is also ongoing and after its completion, its capacity will expand from 300 tonnes to 500 tonnes to meet the local market requirements. This is considered to be a strategic advantage and potential for the Fund to realize potential income from its investments.

Further investment was made during the year through loan financing. The Fund has purchased \$6.06 million 12 months debenture loan from Solomon Islands Home Finance Ltd priced at 12% to construct residential houses for sale at Tasahe and Kolo’ale for sale. A \$3.0 million commercial loan was provided to newly formed entity - SISL to acquire the necessary equipment and machinery to facilitate effective ship repairs and maintenance when the company resumes business operations in Year 2012.

Contribution and Withdrawal

There are about 152,000 registered members with the Fund who have credit balances. The total contribution wealth held by the Fund has exceeded \$1.2 billion compared to \$985.0 million at the last financial year 2010. We envisaged that the members’ retirement wealth will sustain further upward growth as more feasible investments eventuate in future and thus create economic growth and more employment opportunities for Solomon Islanders.

Pertinent to members withdrawing their contribution balances, the amount paid out to members has surged to \$79.0 million as compared to \$68.2 million in the last financial year 2010, an increase by nearly 15%. This is a reflection of more members having now reached the retirement age

SUB-COMMITTEES AND MEMBERSHIPS

The Board has established five sub-Committees whose functions are governed by Terms of Reference (TOR) formulated by Management and approved by the Board. The sub-Committees are essential in the governance process to assist the Board in its deliberations and decision-making. These Board’s sub-Committees are: (a) Investments and Credit (b) Welfare (c) Legal Affairs (d) Audit and Finance and (e) Information Technology. Each sub-Committee is chaired by a Board of Trustee of the Fund.

Investment sub-Committee

The Board’s Investment sub-Committee has a Term of Reference that provides guidance in carry out its mandate and responsibilities. The membership of the sub-Committee is comprised of Board members and management. The focus is to fulfil Board’s statutory and governance responsibilities in ensuring the investments to be undertaken by the Fund are pursued diligently in the interest of the members. Any investment to be considered after due diligent assessments are guided by the approved investment policy guidelines which ensures investment growth, effective management of possible risks and better rate of return to members. The sub-Committee met five times during the year with a number of recommendations for investment proposals in equities, loans and properties to the Board for deliberations and approved by Hon. Minister of Finance & Treasury for implementation.

Welfare sub-Committee

The Term of Reference for the Welfare sub-Committee was approved by the Board which is responsible for the welfare of staff. A Board of Trustee is the Chair. The principal mandate is to undertake consultations with staff and management, undertake reviews and assessments and make recommendations to the Board. Issues of discussions relate to staff policies, remuneration and conditions, social benefits and other allied matters to staff that meet staff requirements to promote morale, productivity and retention. One of the huge achievements of the Committee was the completion of a complete review of the current Staff Policy Procedure Manual which was adopted by the Board. The sub-Committee met four times during the year.

Audit and Finance sub-Committee

The sub-Committee has a Term of Reference approved by the Board. The sub-Committee’s role is to meet statutory

responsibilities to realize good governance and accountability. It undertakes over-sight functions to ensure systematic and discipline approach is pursued in evaluating, monitoring, compliance and improve effectiveness of risk management, controls to preserve and protect members’ contribution funds. The sub-Committee also ensure issues been raised in prudential reviews, audit management letters and monthly internal audits are implemented and resolved with immediate effect. The Committee met two times in the year.

Information Technology sub-Committee

The Term of Reference the sub-Committee had been endorsed by the Board. The sub-Committee’s responsibility is to oversee the smooth and proper development, implementation and management of all appropriate information technology (IT) related software programs and projects to meet the need of the users within the Fund. The IT reform is ongoing through decisions made by the sub-Committee to ensure the Fund’s overall operations are effective and efficient. The Committee met only once during the year.

Legal Committee

The Legal sub-Committee has a Term of Reference which have been endorsed by the Board. It stipulates that the sub-Committee’s responsibility is to discuss legal matters that may affect the operations of the Fund and then make necessary decision and/or recommendations for legal actions by the in-house Counsel or external Counsel. Legal actions have been undertaken including: prosecution, civil litigation and corporate conveyance. The sub-Committee met three times during the year.

Taskforce Committee

A Task Force Committee was established comprising of three appointed Board Members to conduct interviews for managerial positions, review terms and conditions of Contracted Managers including salary base adjustments, performance appraisal reporting and ensuring the Contracted Managers are appropriately rewarded with consistency according to the level of responsibilities and outputs.

With the exception of the Task Force sub-Committee, each sub-Committee comprises of Board Members and Executive Management who are responsible for relevant functions of the Fund and thus assist the Board in making constructive and informed decisions. The Board members on the sub-Committees, records of attendances and remunerations paid during the period are featured in table 4:

Table 4: Sub-Committee Members

Name of Committees	Name of Board Member	No. of Meetings held	Remuneration
Investments & Credit Committee	Mr. Harry Kuma (Chairman) Mr. Austin Holmes	5	\$ 9,840.00
Welfare Committee	Mr. Josiah Manehia (Chairman) Ms. Leotina Harihiru	4	\$ 8,190.00
Legal Affairs Committee	Mr. Yoshiyuki Sato (Chairman) Mr. Austin Holmes	2	\$ 3,840.00
Audit/Finance Committee	Mr. Austin Holmes (Chairman) Mr. Harry Kuma	2	\$ 3,000.00
Information Technology Committee	Mr. Austin Holmes (Chairman)	1	\$ 1,500.00
Task Force Committee	Mr. Josiah Manehia Rev. Mareta Tahu Ms. Leotina Harihiru Mr. Peter Boyers	11	\$40,300.00

COMMUNITY PARTICIPATION

The Fund was involved in some activities during the year as part of its corporate social responsibility to the community. The following are activities which the Fund participated in are:

Financial assistance of \$8,000 was provided to Charity in aid of San Isidro Disable Centre organized by 'Helping Hand Volunteers' (HHV). This charity fundraising was aimed to assist in constructing additional classrooms and additional equipments as result of increase intake of handicapped students from the Provinces. Further assistance of \$5,000 went in support of 'Physically Disable Children' organized by Heritage Park Hotel which has coincided with their promotion drive on the "Taste of Elegance" competition;

Annually, the Fund participated in the 'Pink Ribbon Charity Dinner' organized by First Ladies Charity to support fight against breast cancer in women in Solomon Islands. This is in recognition and respect to female members of the Fund. An amount of \$7,000 was contributed; Purchase of dinner table of \$10,000 to fund-raising drive organized by Ministry of Tourism to support Solomon Islands Delegation to Shanghai China for the Pacific Explore Exhibition. The development of tourism sector in Solomon Islands is of importance to the Fund hence its participation to assist.

After the tsunami that caused great devastation to some part of Western Province, there was a request to rebuild the classrooms and dormitories at Goldie College, Western Province. SINPF was invited to attend the handing over of the completed classrooms and girls dormitories at Goldie College, Western Province by Rotary. The Fund has donated \$100,000 towards this rehabilitation project of the school in Year 2007.



Hand-over new Classroom to Goldie College. SINPF donated \$100,000 toward the project.

SEMINARS AND TRAININGS FOR EXECUTIVES

To ensure the Fund meeting its objectives, the Board of Trustees and Managers must be better equipped with relevant knowledge and upgraded skills to meet current and future challenges in furthering the effectiveness and efficiency of the Fund. In this respect, the following programs were attended:

- General Manager, Tony Makabo and Manager Investments, Mike Wate attended the Pacific Islands Investments Forum held in Sydney, Australia in August 2010. The seminar was attended by potential investors, including Provident Funds and Superannuation Funds from the Pacific region;
- Manager Finance, Rose Karoa attended a 5 days Euro-money Training focuses on International Financial Reporting Standards (IFRS) held in Singapore, November 2010;
- Legal Counsel, Mr. Ishmael Kako and Manager Property, Mr. Enly Gani attended 2 days training on 'Strategic Contract Risk Management' in Brisbane in November 2010. This training was designed to equip those responsible for developing and negotiation large building contracts;
- Director Yoshiyuki Sato and Manager Investment Mike Wate attended a National Conference on Financial Inclusion Program in November 2010 organized by CBSI to examine the progress made in 2005 and to formulate new Agenda and Action Plans. This program was convened in light of the fact that approximately 85 percent of people in Solomon Islands are not having access to basic financial services since the 2005 National Conference on Revitalizing rural finance in Solomon Islands;
- The Board Secretary, Ms. Ruth Alepio attended 2 days training on "Advanced Executive PA – Achieving Exceptional Performance" held in Melbourne, Australia in June 2011.

EXECUTIVE MANAGEMENT



General Manager & CEO
Mr. Anthony Makabo



Deputy General Manager
Mr. Michael Wate



Manager Finance
Ms. Rose Karoa



Manager Legal
Mr. Ishmael Kako



Manager Audit
Ms. Areau Hivu



Manager Administration
Mr. Alfred Sare



Manager Operations
Mr. Aluta Sanga Kakadi

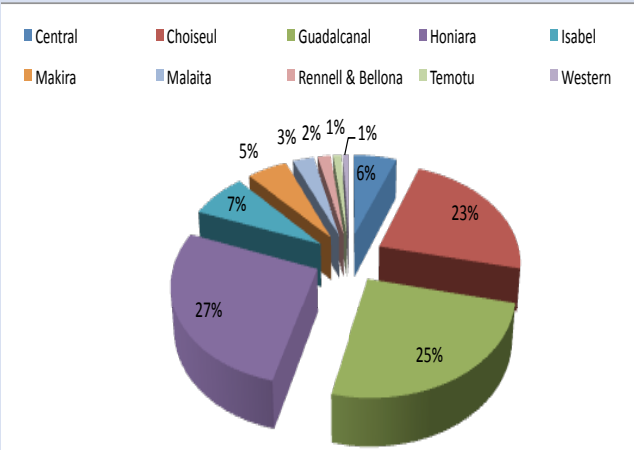


Manager Information Technology
Ms. Suzanne Orudiana



Manager Property
Mr. Enly Gani

Chart 6: Members Registration by Province



Membership and Contributions

Total membership has continuously increased since Year 2007. The membership slightly increased by 3% from 147,247 last year to 151,974 this year due to new registration of members. Another attributing factor to the increase is the reconciliation of the unidentified

accounts and members database. If the member is not registered in the members’ database, we then create a low doc registration for that member. This reconciliation process is necessary to enable the correct crediting of contributions to their rightful membership accounts when finally registered with the Fund. The accumulated total contribution balance held by the Fund at end of the financial year exceeded the billion dollar mark - an increase by 14% from last financial year 2010 figure.

Pertaining to gender, males continue to dominate the membership and contribution value holding 72% of the total while female is 28%. It is believed that this trend of domination by male may continue unless more females are encouraged to enter formal employment in future in Solomon Islands.

The age group from 31 to 35 years old recorded the highest membership. This is followed by the age group from 41 to 45 years. The least memberships are those below 20 years old as depicted in Table 7 below.

Table 7: Accumulative Membership Age, Gender, Age and Value

Age Group	Male	Female	Total	Value-Male	Value-Female	Total Value
<=20	535	435	970	453,900	360,980	814,880
21-25	4,970	3,337	8,307	9,927,800	7,238,370	17,166,170
26-30	9,884	5,441	15,325	46,790,300	31,499,520	78,289,820
31-35	17,241	7,809	25,050	116,768,090	60,111,150	176,879,240
36-40	12,351	5,785	18,136	137,687,960	60,908,370	198,596,330
41-45	16,875	7,061	23,936	218,123,600	83,320,970	301,444,570
46-50	15,724	5,017	20,741	165,075,900	48,167,090	213,242,990
51-55	6,206	1,685	7,891	45,654,900	11,669,030	57,323,930
56-60	8,949	2,558	11,507	33,839,800	9,290,660	43,130,460
60 Plus	16,830	3,281	20,111	23,316,400	3,434,600	26,751,000
TOTALS	109,565	42,409	151,974	797,638,650	316,000,740	1,113,639,390

since establishment. The Fund has more than adequate funds readily available to facilitate the members’ withdrawals. The Board and management envisage the contribution withdrawals to increase as more members will continue to reach the retirement age of 50 years annually from now on. The Board is very mindful of available cash liquidity to facilitate the withdrawal requirements thus, with the support of management, have instituted long-term financial planning and cash flow projections to accommodate sudden surge in members’ withdrawals in the future.

Policy Reviews

To ensure the Fund is functioning effectively and efficiently within good governance principles, a number of policies were formulated and adopted by the Board. The Staff Policy & Procedures Manual which has not been reviewed for the last decade, a review was completed and approved. In addition, there were other important governance policies which are approved including: conflict of interest, fit and proper person and tendering processes.

It is essential and fitting that Board’s Sub-committees are established to assist the Board in making prudent and feasible decisions. In this respect, the five Sub-committees are established. The composition of the Sub-committees comprised of Board of Trustees and Executive Management. To ensure the Sub-committees functions are effectively within their mandates, the Board with support of management formulated Term of Reference (TOR) for each Sub-committee. A term of reference for each sub-Committee was approved during the year.

Looking Ahead

The global economy is recovering but still at a very slow pace. We are confident that the Fund will continue to sustain

financial growth, exercise investment diversification to minimize any potential risks and at the same time guarantee adequate returns to members. My Board is committed to take advantage of the continued investment growth and strengthening the Fund to further it’s role as a major player in the economic and social developments of Solomon Islands. In so doing, this will bring about future economic growth, wealth creation for members, employment opportunities and thus improving standard of living for members and people of Solomon Islands.

Acknowledgment

I would like to humbly acknowledge the high quality work of the executive management team and hardworking staff of the Fund. Moreover, I would also like to thank my fellow Trustees, the employers, contributing members, commercial partners and other stakeholders for their continuous cooperation and support they have rendered towards the Fund during the financial year 2010/2011.

My special acknowledgment goes to Hon. Danny Philip as the former Deputy Chairman, Board members - Mr. Charles Ashley and Mr. Luma Darcy for their significant contributions during their tenure as Trustees of the Fund. However, their terms in office have lapsed during the financial year. We highly valued their commercial contributions and commitments toward the Fund’s developments and the progressive growth during their tenure as Board of Trustees of the Fund.

Thank you all.

GENERAL MANAGER'S REPORT

Tony Makabo
General Manager & CEO

Positive improvements were realized during the year 2010/2011 notwithstanding the uncertainty in the global economy which emerges from US and European financial instabilities. The improvements were in areas of investments, contributions and withdrawals and other supporting functions of the Fund. However, the future is still uncertain due to sovereign debt crisis within some euro-zone nations. In this situation, the Fund's Board with support from management has instituted some risk management strategies to mitigate unforeseen economic developments that may arise.

These strategies are guided by the Fund's investment and financial policy instruments.

In light of the positive improvements, I am pleased to report the total gross income of \$136.5 million was achieved in the financial year compared to \$64.4 million realized in 2010. This has led to a gross surplus of \$87.8 million been achieved compared to \$32.9 million last year. A total amount of \$78.9 million was credited to members' accounts held with the Fund.

OPERATIONS

The Fund is fully committed to provide customers' services to the members of the Fund, employers and other stakeholders pertinent to contribution receipts and withdrawals. Our timely responsiveness to members, employers and other stakeholders' enquiries is of paramount importance. These are our ongoing focus and challenges as trustees of members' funds. Other important functions include: pursuing enforcement and compliance under the Solomon Islands National Provident Fund Act to ensure that late and non-payments of contributions are paid to members' accounts with the Fund in timely manner. As a result of these commitments and responses from the employers, there were some remarkable achievements realized within the financial year. Chart 1 depicts the volume of customer services rendered to the members during the financial period. Members who were enquiring about their contribution balances with the Fund accounted for 46% while general and pledges enquiries were 44% and members' registration 10%.

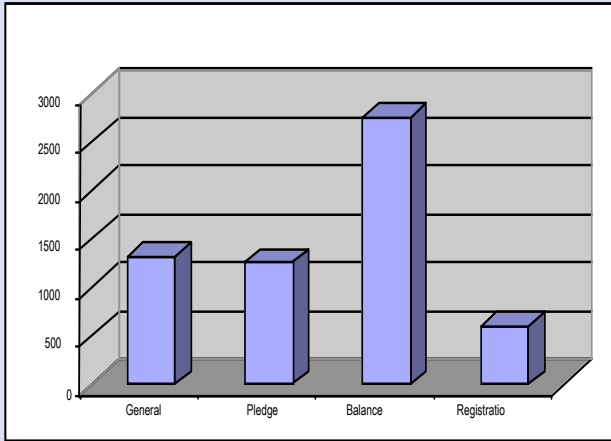


Enquiry Officer serving a customer

Members Services

The Fund is committed to provide effective, quality and reliable services to its members. It is our ongoing challenge to identify and extend other relevant services that will meet their needs as much possible. Services are rendered to members in Honiara and Provincial Branches include: general enquiries about functions and benefits provided by the Fund, contribution balance enquiries, 2/3rd contribution pledges against loans borrowed from prescribed financial institutions under the Financial Institutions Act and verifications and members' registrations.

Chart 1: Members' Counter Services



Registration

Registration of new memberships has reduced to 7,122 from 8,744 in the financial year 2010 but has increased from 2009 figure of 5,760 new registrations. The annual new registration of members over the past years can be seen in Chart 2. The registrations of new membership are categorized into provinces, gender and age as shown in table 6 and Charts 2 to 5.

Table 6: Members Registration during FY 2011 by Province, Gender and Age

Province	Male	Female	Total	Age-groups	Male	Female	Total
Central	252	160	412	Under 20	233	174	407
Choiseul	52	24	76	21 - 25	1,073	562	1,635
Guadalcanal	252	160	412	26 - 30	1,108	682	1,790
Honiara	1,287	620	1,907	31 - 35	1,311	620	1,931
Isabel	312	174	486	36 - 40	344	189	533
Makira	382	107	489	41 - 45	267	111	378
Malaita	1,020	512	1,532	46 - 50	132	66	198
Renbel	45	15	60	51 - 55	68	52	120
Temotu	323	220	543	56 - 60	54	23	77
Western	604	368	972	61 above	40	13	53
Others	182	15	233	Others	-	-	-
Total	4,711	2,411	7,122	Total	4,630	Female	7,122

Chart 2: Newly Registered Members – 2003 to 2011

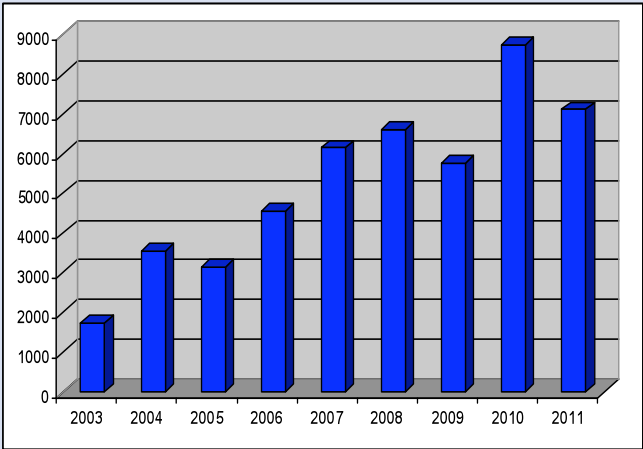


Chart 4: Members Registration by Gender & Age-group

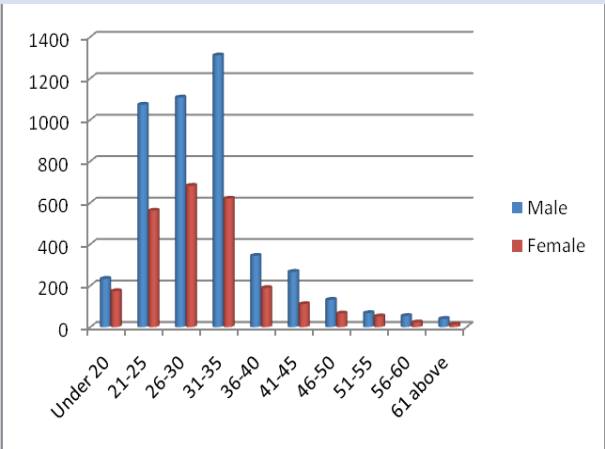


Chart 3: Members Registration by Province

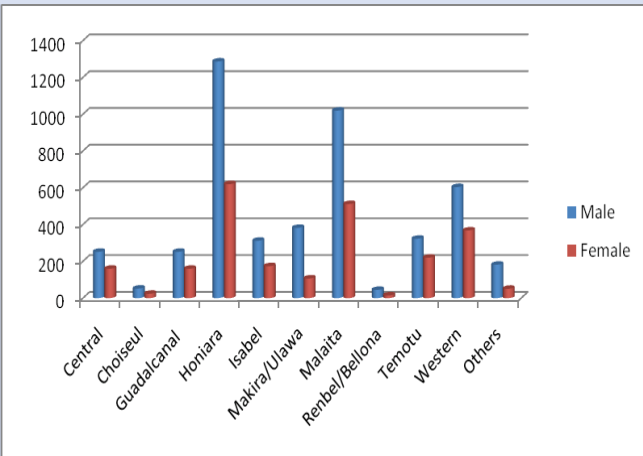


Chart 5: Members Registration by Age

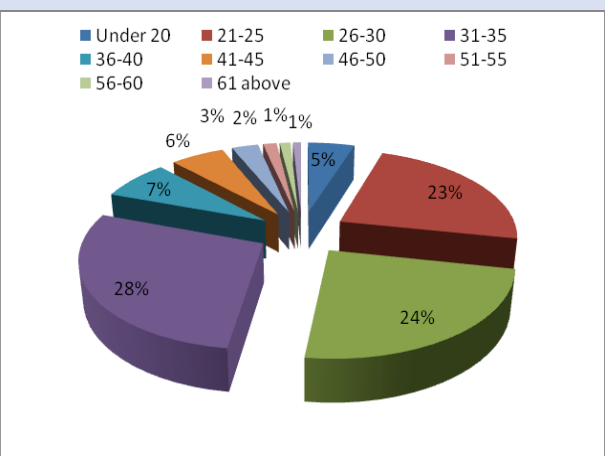


Chart 14: 2/3rd Pledge Claimed by Lenders

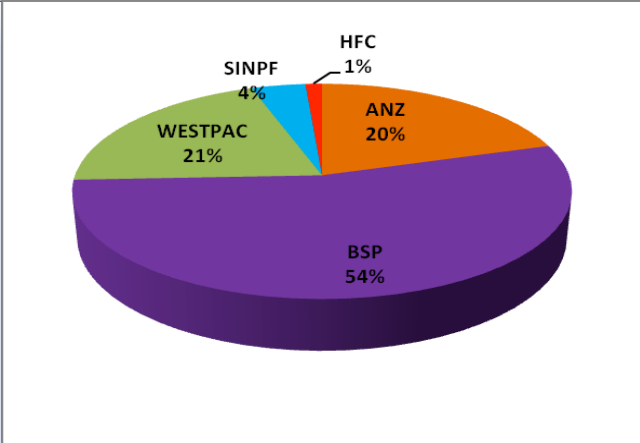


Chart 15: 2/3rd Pledged with Lenders

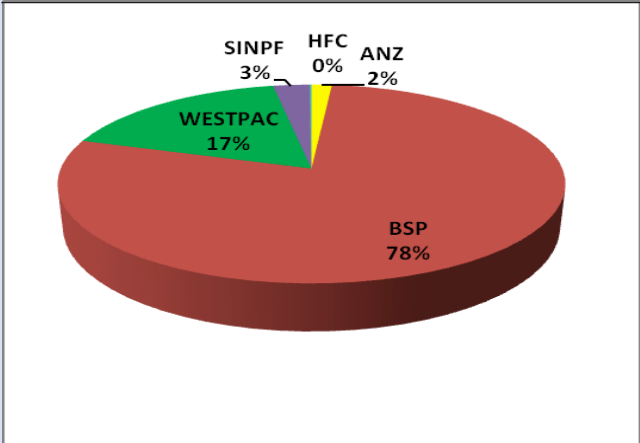


Chart 16: Contribution Pledges and Claims

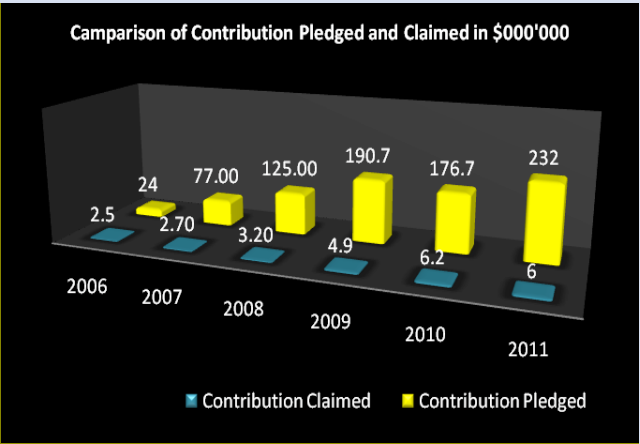
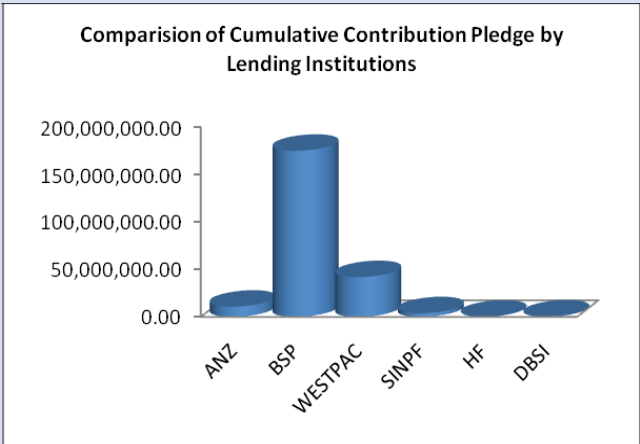


Chart 17: Cumulative Contribution Pledge by Lenders



Employers Services
Registration of New Employers

A total of 5,363 employers were registered. During the year, there are 191 new employers registered which shows a reduction by 24% from 236 employers in financial year 2010. The majority of employers are in-active, dormant and ceased operations as shown in Table 13.

In terms of registration by industry sectors, domestic workers have accounted for 34%, followed by the retail

Chart 18: Employers Registration by Industry

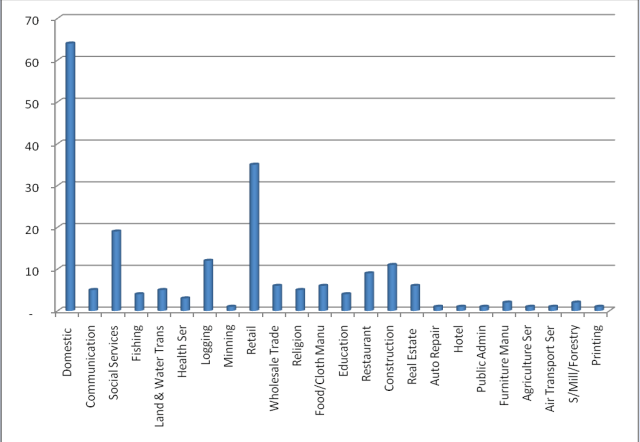
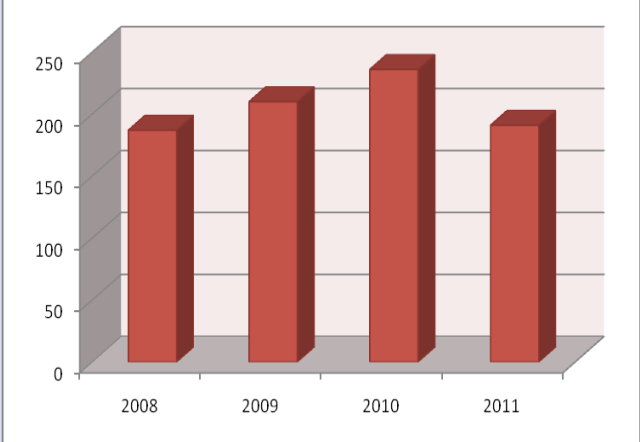


Chart 19: Annual Employers Registration



sector 18% and then the social services sector as shown in Table 12. Pertaining to total employers, there are 2,264 active employers with the Fund. The majority are involved in the retail business sector in Solomon Islands which accounted for 23%, followed by 15% for other services and domestic servants 10%. The least number of employers are involved in the prospecting and mining sectors.

Chart 7: Accumulative Membership by Age Groups

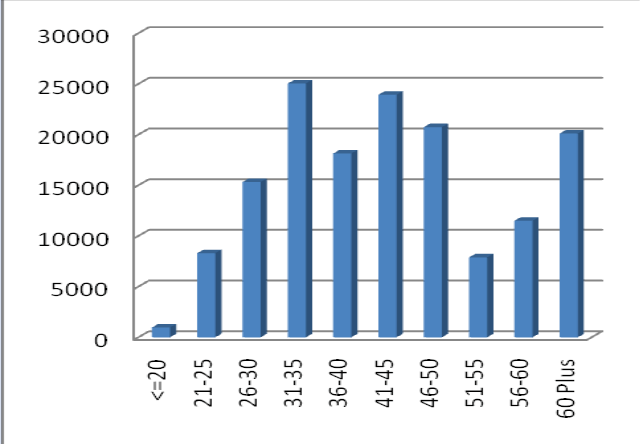


Chart 8: Accumulative Membership by Gender

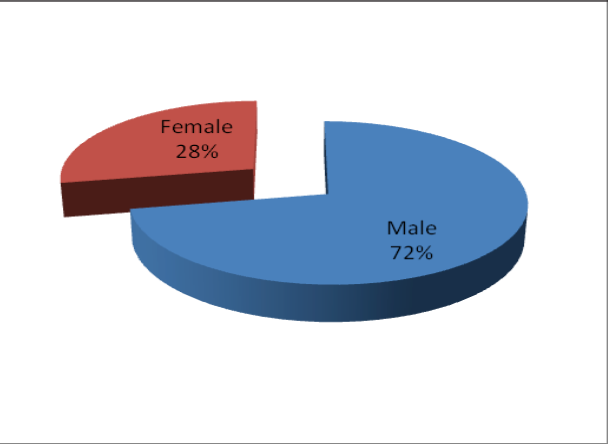


Chart 9: Accumulative Membership by Age

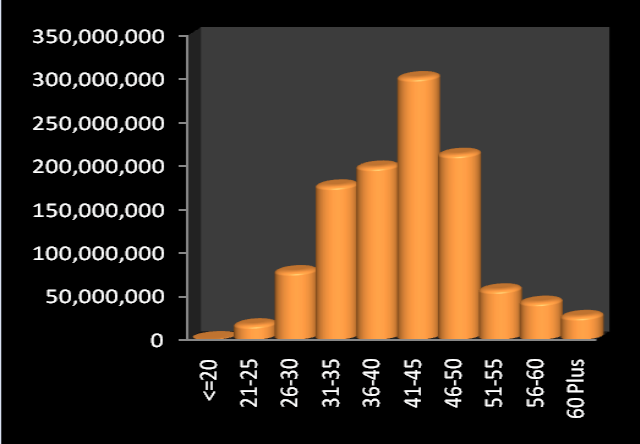
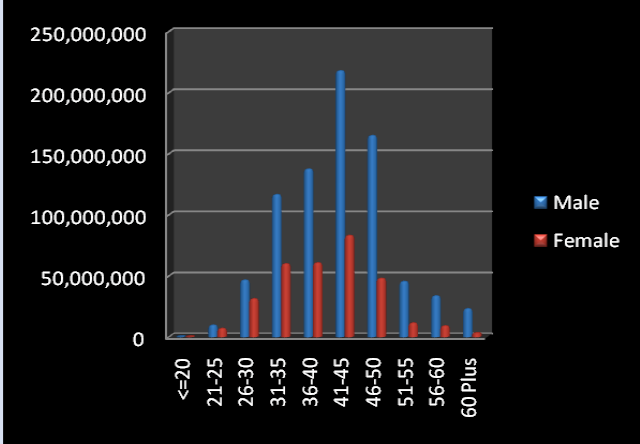


Chart 10: Accumulative Membership by Gender and Value



Members' Withdrawals

There are six (6) Withdrawal Grounds available for members to withdraw their contribution funds held by the Fund as prescribed in SINPF Act. These include: normal retirement, permanent incapacity, survivors benefit in case of death of a member; member leaving Solomon Islands permanently, redundancy/unfair dismissal and early retirement (40 years old & but retired). Beside these six (6) withdrawal benefits, the Fund's legislation does provide the Minister of Finance & Treasury with the legal power to exempt any member not qualified under the withdrawal grounds mentioned above. Moreover, the Act also provides relevant provision for Lending Financial Institutions to claim members' 2/3rd Pledge contributions from the Fund for loan recovery if the loan borrowed from a domestic prescribed lending institution is in default by a member i.e. the loan is

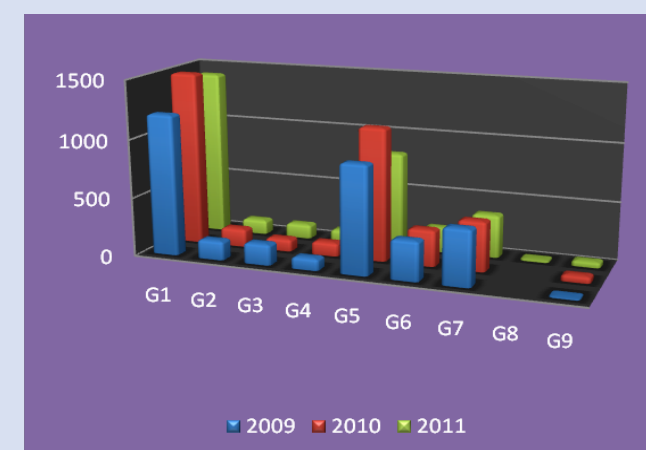
in arrears for more than six (6) months thus recovery process is requested by the lender to the Fund to provide loan recovery.

As usual, the 50 years old or more withdrawal ground accounted for 43.6% of withdrawal applications approved. This represents 64.5% of the total funds withdrawn and paid to members. This is followed by members who have migrated overseas or expatriates returned to their countries permanently with no intention to return and work in Solomon Islands in the future. The contribution 2/3 pledge is ranked third in terms of the highest withdrawals. The least withdrawals represent the members who have reached sixty (60 years) or more but still have credit contribution balances held by the Fund. The Fund always encouraged members who are within this sixty years category to withdraw their contribution value to meet their retirement needs.

Table 8: Total Approved Withdrawals and Withdrawal Amount

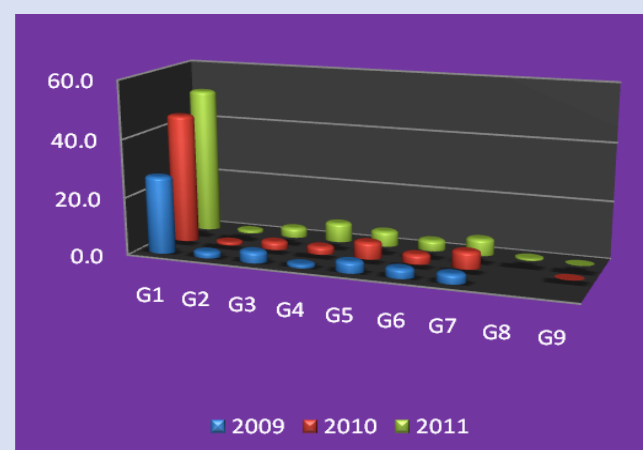
Category	No. of Withdrawals	%	Withdrawals (\$'000,000)	%
Normal Retirement	1,418	43.6%	51.0	64.5%
Redundancy	829	25.5%	1.2	1.5%
Lenders' Claims	369	3.8%	5.5	7.0%
Early Retirements	214	6.6%	3.9	4.9%
Death	126	3.9%	1.2	1.5%
Incapacity on Medical Ground	124	3.8%	3.6	4.6%
Migration	106	3.3%	6.9	8.7%
Unclaimed Deposits Accounts	48	1.5%	0.1	0.1%
Exemption	19	0.6%	0.9	1.1%
	3,253	100%	79.10	100%

Chart 11: Withdrawal Applications per W/Ground



The average withdrawal applications from 2009 - 2011 are represented as follows: Retirement ground - 50 years 40%, Redundancy ground 28% and Lenders Claims 12%. On withdrawal payments in respect to the same period, the retirement ground - 50 years has continued to sustain a high level of withdrawal payments which reached 64%, Grounds 5 and 7 are 8% each while

Chart 12: Withdrawal Payments per W/Ground

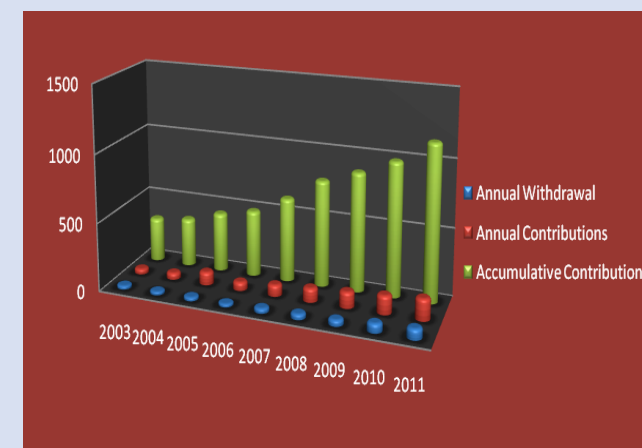


Grounds 3, 4, and 6 are 6% each. Sufficient cash liquidity is available comfortably in facilitating the payments in respect of all the withdrawal grounds. The Fund always maintained adequate cash flow annually in a sustainable manner to meet members' withdrawals and also Fund's operational costs.

Table 9: Annual Growth of contribution verses withdrawal Values (in \$'000,000)

Particulars	2003	2004	2005	2006	2007	2008	2009	2010	2011
Annual Withdrawal	27	26	28	25.1	36	41.2	46	68.2	79
Annual Contributions	40	50	97	64.4	85.5	103.9	121	138.8	161
Accumulative Contributions	327	357	435	489	617	783	875	985	1,147

Chart 13: Accumulative Growth of Members Contribution in Value



Members' Pledges

The Pledge scheme is one of the benefits provided to members due to the lack of acceptable bankable mortgage assets required by financial institutions against any micro-loan borrowings by members. In this connection, members are provided with the opportunity to pledge 2/3 of their credit balances against micro-loans borrow from prescribed lending institutions under Financial Institutions Act. The micro-loans are obtained by members to meet economic and social needs during

their working life. This scheme continues to be popular among members i.e. utilizing the two-third pledge of their credit contribution balance with the Fund. During the year, the 2/3 contribution pledges has reached about \$105.0 million as result of 3,437 creditable applications approved by domestic financial institutions. The Bank South Pacific (BSP) held 78% of pledges, followed by Westpac Banking Corporation and the least was held by Solomon Islands Home Finance Ltd.

The loan claims by the lenders as result of repayment defaults have reached \$6.0 million and this is a reduction by 3% from \$6.23 million in last financial year. This represents 7% of the loan amount been borrowed and it is about 1 % of the total members' contribution value held by the Fund as depicted in Table 10 and Charts 14 and 15.

The total accumulated contributions pledged by members with lending institutions have reached a record level of \$232.0 million while the amount borrowed was \$220.0 million as shown in Table 11. 60% of the total pledged amount was held by Bank South Pacific while the remaining are held by Westpac Banking Corporation and other financial institutions.

Table 10: Members' 2/3rd Contribution Pledges by Lending Institutions

Banks	Applications	Pledge Amounts	Loan Amounts	L/Claims Amounts
BSP	2,740	81,928,097	58,271,625	3,277,667
WESTPAC	485	18,151,480	19,702,535	1,236,487
SINPF	149	2,799,402	4,826,194	245,336
ANZ Bank	52	1,579,067	4,826,194	245,336
SIHFL	11	161,539	84,795,509	74,766
Total	3,437	104,619,585	84,795,509	6,065,429

Table 11: Cumulative 2/3rd Contribution Pledges by Lenders

Lender's Name	No. of Applications	Pledge Amount (\$)	Loan Amount (\$)
ANZ Bank	458	10,697,652	16,938,437
BSP	7,373	175,094,903	134,071,900
WESTPAC Bank	1,232	41,863,959	61,114,234
SINPF	291	3,819,864	6,773,020
SIHFL	17	157,920	220,533
DBSI	58	313,690	990,095
TOTAL	9,429	231,947,988	220,108,220

Credit Risks

When the Fund invests in fixed interest (bonds) or debt securities (short or long term loans) there is the risk that the issuer of the fixed interest or debt securities may not meet its interest and principal repayment obligations. In a fixed interest market, an unexpected movement of market interest rates will result in the movement in the value of the security such as government or corporate bonds.

Currency Risk

The Fund’s liabilities are always going to be one hundred percent (100%) denominated in SBD and as are seventy percent (70%) of the current and long term investment assets. Having a portion of the portfolio in other currencies creates a currency exposure risk. The currency movements relative to the SBD can cause changes in the value of the Fund’s offshore investments when restated back into SBD. When the value of the SBD strengthens against any of the underlying currencies of the assets we invested in, the SBD value of that investment in that currency will fall.

INVESTMENT PERFORMANCE

The Economy

Solomon Islands’ economy in 2010 calendar year rebounded and grew by around 7% compared to the negative 2.2% GDP growth recorded in the previous year. This robust growth was driven by the country’s export sector in particular logging with international prices of cash crops higher except for cocoa. By the end of June 2011, the domestic economy continued to be on track to achieve the projected growth by as much as 7% for the 2011 calendar year, as production of the country’s major export commodities picked up strongly as a result of good prices for these commodities. In the same period, the productions of gold and silver have resumed by the mining company - Allied Gold Company Ltd.

Inflationary pressures toward the end of Year 2010 have increased. This has stemmed from oil prices resurged and to a lesser extent global food prices which lifted the domestic inflation to close at 7.3% at mid-year 2011.

Solomon Islands’ official gross foreign reserves surged to \$2,559.6 million and this is driven on the back of strong donor support, private sector investments and export inflows. This level of reserves is equivalent to 9.3 months of import cover.

On the pricing of the local currency, the Central Bank of Solomon Islands has adopted an exchange rate policy that is aimed to stabilize the value of the SBD against the US Dollar. Prior to the end of June 2011, the Central Bank has formally announced a 5% revaluation of the SBD against the US Dollar. There are mixed movements both positive and negative were recorded against the other major currencies that include the euro, pound sterling, the Australian dollar and PNG Kina.

The domestic economy is projected to grow by 7% in 2011. This prediction by Central Bank of Solomon Islands is based on strong growth from the country’s non logging commodity sector, construction industry, fisheries, and telecommunications. This projection however, is foreshadowed by the credit crisis unfolding in the euro-zone countries and the inability of their leaders to effectively address the crisis and the risk of the United States economy recovery is losing steam.

New Investments

The Fund continued to be cash positive as incoming contributions are higher than member contribution withdrawals. Surplus cash must be invested in feasible commercial opportunities to deliver higher return to contributing members. Approved in the previous 2009/2010 financial year, the Fund purchased its 68,456,617 shares representing 29% of Soltai Fishing and Processing Company Limited shareholding for about \$ 36.3 million in September 2010. Transacting concurrently with the share acquisition, the SINPF Board has disbursed the approved \$50.0 million loan to the company to refinance the company’s debts with a Commercial Bank – ANZ Bank. This loan is secured against the company’s properties and supported by a five (5) Solomon Islands Government Guarantees. The Fund’s equity and loan investments are strategically necessary to strengthen the financial and operations of the company. In so doing, the company is envisaged to contribute to the economic and social developments of Solomon Islands in the long-term future.



Board visit to Soltai Cannery

Table 12: Total Active Employers by Industry & Percentage

Industry Sector	Employers Active	(%)
Health/Education Services	145	6%
Construction	93	4%
Fishing	38	2%
Logging/Milling	128	6%
Hotels/Motels	35	2%
Prospecting/Mining	17	1%
Public Administration	114	5%
Agricultural Services	34	2%
Domestic Services	235	10%
Self Employed	166	7%
Transport Services	108	5%
Other Social Services	329	15%
Manufacturing	79	3%
Retail Services	515	23%
Wholesale Services	74	3%
Communication Services	58	3%
Religion	96	4%
	2,264	100%

Table 13: Registered Employers by Operating Status

Operating Status	Number	Remarks
Active	1,043	Employers currently paid contributions to the Fund for FY 2011
In-active	253	Employers Registered but not paid contributions to the Fund since registration. These employers did not inform the Fund of their operating status
Dormant	1,497	Employers ceased payment of contributions for more than 24 months. These employers did not inform the Fund of their operating status
Ceased	2,570	These Employers informed the Fund of their ceased operating status
Total Registered Employers	5,363	

Annual Contribution Receipts

The accumulated total contribution balance at end of the financial year has reached \$1.1 billion from \$985.0 million last year 2010. This is an increase by 11%. It is envisaged this will continue to increase next financial year and beyond if more feasible investments are pursued in the future and thus more employment opportunities are available for Solomon Islanders in the country.

The actual contribution receipts in the year have increased to \$162.0 million from \$139.0 million last year 2010. This is an increase by 14%. The net contribution receipts realized after deducting withdrawal amounts are shown in Table 14 and Chart 21. The net contribution value is then available for the Board to pursue further feasible investment opportunities in potential commercial areas that we envisage will deliver adequate returns to members. The Board is currently pursuing this agenda. The net contribution value has been experiencing sustainable increases since Year 2007 until now.

Chart 20: Contribution Receipts in \$m

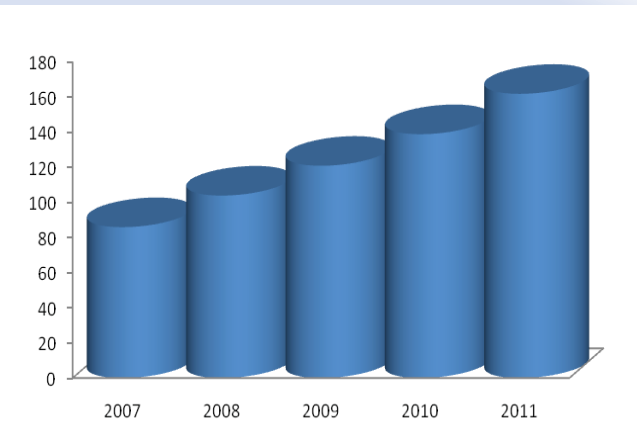
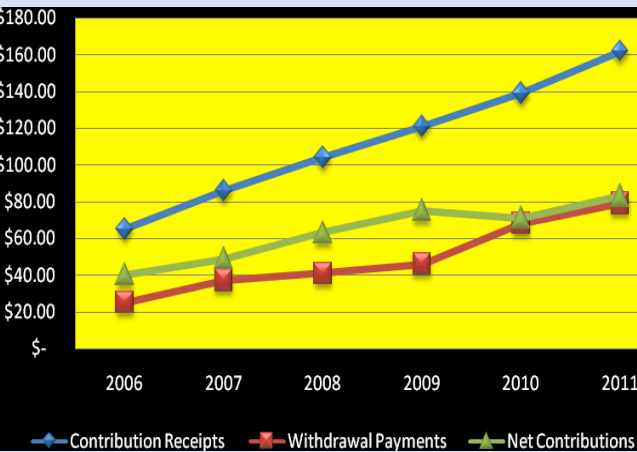


Table 14: Net Contributions after Withdrawals (\$'000,000)

Particulars	2006	2007	2008	2009	2010	2011
Contribution Receipt	\$65	\$86	\$104	\$121	\$139	\$162
Withdrawal Payments	\$25	\$37	\$ 41	\$ 46	\$ 68	\$ 79
Net Contributions	\$40	\$49	\$ 63	\$75	\$ 71	\$ 83

Chart 21: Annual Contributions Received and Withdrawals paid [\$m]



Unidentified Contributions

Total accumulated Unidentified Contributions has increased from \$5.7 million in financial year 2010 to \$9.3 million this financial year 2011. One of our major continuing challenges for the Fund is to ensure all employees are duly registered immediately with the Fund when employed, with particular reference to the Government which continues to delay registration of members been employed by different public sector authorities. With immediate and proper registration, the contribution receipts can be credited to respective members’ accounts accordingly. Efforts are being pursued by the Fund with employers to ensure registration is expedited to minimize unidentified contribution accounts.

This is through closer working relationship and better understanding with employers to ensure the unidentified contribution is minimized as soon as the rightful members are identified.

To avoid members losing out on the annual interest run, a “Low Doc” registration menu was created to register members in the unidentified contributions account. This contains holding accounts waiting for proper members’ registration to be done prior to transferring members’ contribution funds to be credited accordingly.

Unclaimed Deposit Account

These are members who turned 60 years and above but are no longer contributing to their accounts with the Fund for at least 10 years or more. In this instance, their contribution savings were transferred to the Unclaimed Deposit Account awaiting the rightful member to withdraw his/her contribution value. While the members’ contributions are maintained in the unclaimed deposit account, the Fund is encouraging members who are in this category to withdraw their contribution funds to meet their retirement needs.

A total of 3,941 members’ accounts with the value of \$3.1 million were transferred to the Unclaimed Deposit Account during the year awaiting members to claim their funds after having been published through the printed media.

Contribution Creditors

These are members’ contributions been received but still to be credited to their respective members’ accounts with the Fund due to lack or late submissions of Form A schedules containing the names of employees and respective contribution amounts. The Form A schedules must always be submitted with contribution payments by employers to allow easy crediting of contributions to members’ rightful accounts. The Fund has insisted that contribution payments must accompany the prescribed Form A Schedule.

During the year, the contribution amounts not credited to members’ rightful accounts was \$23.0 million compared to \$21.6 million in financial year 2010. This is an increase of 6 percent. The Fund is working closely with Government agencies and private sector employers in pursuing some practical and smarter ways of compliance i.e. regular consultations, awareness, follow-ups and EDI (electronic data interchange) submissions.

Withdrawal Manual Review

There was no review of the Withdrawal Manual since the last review in year 2003. A lot of changes to withdrawals by members have taken place over the years which are not consistent with the current manual. In this respect, a review exercise was undertaken during the year which captured a number of proposed areas for possible changes but such possible changes need to be

consistent with what will be contained in the SINPF Act Review which is ongoing. Upon passing of SINPF Draft Bill by Parliament, a final withdrawal manual should be available and submitted for approval by the Board for implementation. Hopefully this should eventuate sometime in the year 2012.

Special Death Benefits

The Special Death Benefit fund is established to support the beneficiaries of a deceased member of the Fund. In realizing this benefit, it is legally required under section 9 of SINPF Act for a member to contribute \$5.00 each year towards Special Death Benefit scheme held within the Fund. The amount is deducted from each member’s account annually.

During the year, an amount of \$558,710 was paid to the beneficiaries of the deceased members compared to \$591,830 in year 2010, the highest payment since 2007 – a decrease by 6 percent. In year 2009, the amount of special death benefit expended was \$259,500 compared to \$339,730 paid in financial year 2008. After making payments to the beneficiaries, the balance of Special Death Benefit (SDB) at the end of the financial year statement was about \$2.5 million compared to \$2.6 million in year 2010 – a reduction of 4 percent.

INVESTMENT PERFORMANCE

The financial period of the Fund has been a positive one with investment return rebounding to settle at a rate of return of 11% on the investments portfolio from the previous year’s level of 6.0%. This financial improvement and growth was generated by strong performances from both the domestic investments and improved earnings from the offshore investment assets. The end result was encouraging hence the Board made the decision to declare a crediting rate of 8.75% for its members which met its investment’s objective - that is to declare a crediting rate above the country’s annual inflation rate of 7.3% for the same period ending 30 June 2011.

Though the financial performance of the Fund ended with a positive note, the new financial year started with uncertainty pertaining to the global financial crisis and markets. The debt problems in the euro zone (Greece, Spain, Ireland, Portugal, and Italy) are in crisis proportions. It also appears the recovery in the world’s largest economy, the USA is slowing down. These have threatened the recovery of the global economy just two years after the recent aftermath of the Global Finance Crisis of 2008 and 2009. However, the Fund’s mission is to stay focus with its investment strategic policies and is committed to supporting the Board to deliver investment returns that protects the real value of our members’ contributions over their membership term with the Fund.

Investment Objectives

The Fund’s investment objective is to deliver investment return that will enable the Board to credit members’ contribution balances with reasonable interest rates that protect the value of contributions over their membership term. Since the membership of a member strategy is to buy and hold. The returns from investments portfolio must meet all the Fund’s operational costs and deliver interest rates to members’ contribution balances can go from thirty (30) to thirty-five (35) years, the investment horizon therefore is long term and the core strategy is to buy and hold. The returns from investments portfolio must meet all the Fund’s operational costs and deliver interest rates to members’ contribution balances above the domestic inflation rate. In forecasting future returns, the Board and management are very mindful of their trusteeship responsibilities and duties to fully understand and appreciate that past performances and statistics do not always guarantee future performance.

Understanding Risks and Returns

It is important to understand the type of risks and returns on investments been undertaken by the Fund. The investment return is the level of profit or loss generated by an investment and represents the reward for making that investment. It makes no difference whether this has generated by interest, rental, or dividend, realized capital gains/losses or unrealized capital gains/losses for our listed offshore equities, and realized and unrealized foreign exchange gains or losses. The risks, on the other hand, are the failure to achieve the desired or projected rate of return on an investment or on the total portfolio of investments. The risk can be mathematically measured by the standard deviation statistic.

The Board and management have always kept in balance their decision-makings when undertaking investments. One of the main rules of investments is that: the higher the potential reward, the higher the risk of losing money. They must also have kept in mind of the reverse, the lower the risk the lower the potential return. Some risks that need mitigation against includes the following: currency risks, market risks, sector/industry risks, company specific risks and credit risks.

Strategic Asset Allocation

In managing the various risks from investments in order to protect member contribution balances against capital losses and at the same time secure enhanced returns on their retirement savings, the Fund has to rely on its approved strategic asset allocation model. The model enables the Fund to invest its funds across different asset classes, markets and currencies to minimize potential risks that may arise.

The approved asset allocation by risk categories subject to our review from time to time are as follows: low risk low return investment asset class– 37%, medium risk

medium return investment asset class – 28 percent, and high risk high return investment asset class – 35%. Due to exchange rate volatility, the offshore cash and fixed term deposits are classified as medium risk medium return assets. During the year, the asset allocation remains unchanged. Typical low risk low return investment assets are: onshore cash and fixed term deposits and government securities. Typical medium risk medium return investment assets are: offshore cash and fixed term deposits, loans, bonds and properties, and high risk high return investment assets are shares and equities.

In terms of markets with risk category, the guidelines remain the same with 70% of the gross investment portfolio to be domestically invested and 30 percent to be invested offshore in the USA, Australia, Europe, and the Papua New Guinean financial markets and in their relevant underling currencies. The target currency exposure guideline for the US dollar is 11%, PNG Kina 7%, AUD 6%, Euro 4%, and GBP 2%. These limits are subject to our periodic reviews. This currency allocation provides a “natural” hedge against exchange rate fluctuations. Investing offshore diversifies the risk that if the Solomon Islands economy performs badly then the Fund’s exposures in other markets will mitigate the domestic losses i.e. the Fund’s total investments incurred substantial losses when the domestic economy was shattered and weakened during the 2000 unrest.

Market Risk

This is the risk that the market of one economy falls due to local or even international issues. When this happens the return on or the value of the Fund’s investment assets in that market or economy will also fall. For example, the recent ethnic unrest and the 2007 sub-prime mortgage meltdown in the USA that triggered the recent global financial crisis.

Sector or industry risks

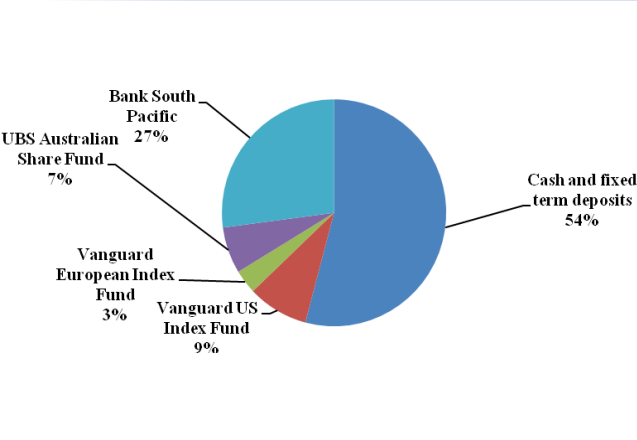
This is the risk that an industry or sector fails in one, or a number of markets. As an example of this, the failure of the technology sector in 2000 was felt by nearly all of the global investment markets.

Company specific risks

The value of the Fund’s investments and return in a company can vary due to changes in the management of the company, product lines, or changes to the environment. Any changes both internal and external to the company can cause movements to the return and in the valuation of investment in that company.

For example, the deregulation of the Solomon Islands telecommunication industry in 2010 will have an impact on the previous monopoly company, Solomon Telekom Company Limited incomes, profitability and return to shareholders.

Chart 27: Offshore Portfolio by Major Asset Clas



The offshore cash and fixed term deposits in various currencies dominated the Fund’s offshore investments at 54% and this is followed by BSP shares at 27%. The three (3) managed funds have accounted for the remaining 19% of the offshore investments portfolio. There are plans to move some cash to bonds and additional equity exposures in Australia and an additional US Dollar equity in emerging markets to secure higher returns for the Fund and its members. These plans are to be executed in the next financial year in consultation with the Central Bank of Solomon Islands for approval.

Chart 28: Offshore Investment Assets by Foreign Currencies

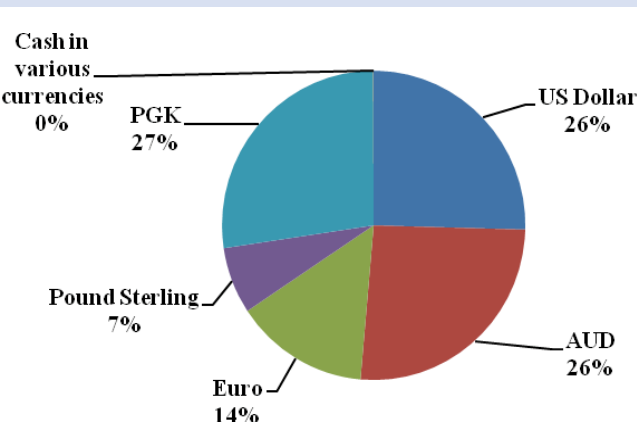


Table 19: Investments Returns by Major Investment Assets for all Markets

Major Investment Asset Class/Period Ending	30 Jun 2011 Investment Portfolio	30 Jun 2010 Investment Portfolio	30 Jun 2011 Gross Return	30 Jun 2010 Gross Return	2011 Gross rate of return	2010 Gross rate of return
Local cash & fixed term deposit	\$376,909,608	\$375,457,212	\$20,062,015	\$26,274,784	5%	7.00%
Offshore cash & fixed term deposit	\$128,634,116	\$119,589,208	\$7,038,184	-\$3,068,978	5%	-2.60%
SIG securities	\$102,357,994	\$112,138,480	\$5,261,686	\$4,163,094	5%	3.70%
Members and staff loans	\$15,834,332	\$17,974,538	\$1,312,297	\$1,403,912	8%	7.80%
Private Sector Loans and Bonds	\$100,431,470	\$24,089,337	\$6,756,854	\$2,367,974	7%	9.80%
Properties	\$151,800,071	\$120,497,827	\$20,562,917	\$13,515,829	14%	11.20%
Domestic Equities	\$243,421,523	\$208,837,435	\$48,033,313	\$29,051,338	20%	13.90%
Offshore equities	\$109,048,494	\$93,012,733	\$21,892,004	-\$15,790,505	20%	-17%
Other Income (surcharges, misc etc)	\$0	\$0	\$4,542,239	\$6,449,375	0%	0.00%
TOTAL	\$1,228,437,608	\$1,071,596,769	\$135,461,510	\$64,366,824	11%	6.00%

As shown in Chart 28, the largest foreign currency exposure is PNG kina at 27% against all the other offshore currency exposures in which the Fund has invested in. The target kina exposure guideline is only 23% and this means there is an overweight of 4%. The US dollar is at 26% against the target guideline of 37% showing an underweight of 11%. The AUD is at 26% against a target guideline of 20%, an overweight of 6% while the euro currency has an exposure of 14% overweight by 4% against the target guideline of 13%. The pound sterling is unchanged i.e. 7% against the target guideline of 7%.

The appointed PNG based broker Kina Securities Ltd has commenced selling down the Fund’s BSP shares as instructed at prices not less than 65 toea. Since the Port Moresby Stock Exchange is illiquid, the selling of the approved block of shares at the price Board had set has been difficult. The sell down has been put on hold since mid 2011 awaiting final dividends to be paid by BSP to its shareholders declared during the Annual General Meeting in May 2011.

Holding a large exposure to a single asset in a single currency and to a developing economy poses considerable risks to the Fund’s investments portfolio and thus the strategic reason behind the kina currency sell-down by the Board.

Gross Investments Returns

The Fund’s investments return has surged to \$135.6 million thus recording an impressive increase of 114% on the previous year’s level of \$64.4 million. This represented a gross rate of return of 11.0% (including other incomes) on the Fund’s total investments portfolio compared to the 6% rate of return achieved in year 2010 as shown in Table 19.

The domestic and offshore equities have recorded a rate of return of 20% and this is contributing to almost half of the fund’s income for the financial year, followed by loans and bond at 15% and properties at 14%. Both the onshore and fixed term deposits have recorded rate of return of 10% and SIG Securities at 5%. The members and private sector loans have delivered a rate of return at 8% and 7% respectively.

There were new commercial investments made and disbursed during the year including: 1) the purchase of a 12 month \$6.06 million debenture priced at 12% from Solomon Islands Home Finance Limited; 2) the purchase of Sasape Marina Limited (SML) 2 slipways and residential houses for \$11.4 million; 3) the refurbishment of the Base 2 slipways and related facilities for \$16.4 million; 3) the purchase of 2,500 shares in the newly established operating company Sasape International Shipyard Limited (SISL) for \$2,500 representing 25% shareholding in the company and 4) the extension of a \$ 3.07 million equipment loan to the newly established SISL to assist in acquiring new equipment.

The Fund’s acquisition of former Sasape Marina Ltd properties and equity investment are paramount to improve the transportation sector in the domestic economy. The new investment will expand the existing Base 2 slipway facilities from 200 to 500 tonnes to meet all locally registered vessels’ requirements in terms of repairs and maintenance to international safety standard. The



Sasape International Shipyard – under refurbishment and expansion

slipway upgrades and other infrastructure improvements should be completed in year 2012 and thus allow SISL to be operational by middle of that year.

The proceeds of the Solomon Islands Home Finance Ltd debenture was used by the company to construct an additional eight residential houses at Kolo’ale along with necessary infrastructure requirement i.e. road & drainage, electricity, water, etc. The newly constructed houses have been purchased by government for its staff. The residential houses are completed and occupied. The social needs by working Solomon Islanders to own a reasonable standard and affordable house in Honiara remains high.

In the international sector, SINPF Board has sold down 1,892,138 of our BSP kina denominated shares at various prices of no less than the agreed price of 65 toea. The proceeds of these sales were remitted in AUD to the Fund’s ANZ Brisbane Account and were placed on fixed term deposits. In addition, the proceeds of our kina denominated 2010 BSP dividends paid in during



Koloale Housing – Solomon Islands Home Finance Ltd

the year were remitted to ANZ Brisbane and were placedal AUD denominated fixed term deposits.

During the year, the Fund continued to participate under the UBS Australian Share Fund Distribution Plan (DRP) and reinvested its quarterly distributions to purchase additional 31,276 units in the Fund. UBS Australian Share Fund makes quarterly distributions from its profits to its shareholders.

No further activities were made in the year in our equity exposures in the 2 Vanguard Index Managed Funds, namely US Standard & Poors 500 Stock Index Fund and European Stock Index Fund. These two managed funds are capital growth funds that reinvested all its profits. The Shareholders such as the SINPF Board picks up the income from the managed fund’s unit price, as it expands. New domestic cash are placed on cash and additional fixed term deposits with the domestic commercial banks and financial institutions though the interest rates are very low. The deposits by the Fund have slightly increased the liquidity within the domestic financial system to \$376.9 million from the previous year’s level of \$375.4 million. This represents 20% of the total domestic financial liquidity held by all the financial institutions in the country. Most of the maturing deposits have been rolled over on new terms. The local rates continued to be low at an unacceptable level during the financial year, mainly as a result of sharp increase in the financial liquidity in the domestic economy.

Investment Portfolio Performance

The gross investments portfolio surged by \$156.8 million or 14.6% to settle at \$1.23 billion, up on previous year’s level of \$1.07 billion. This growth in value of \$156.8 million was driven by new investments in cash and fixed term deposits, new property investment acquisitions, revaluation gains on our domestic investment properties, improved prices in the Fund’s offshore equity exposures, purchase of additional units in UBS Australian Share Fund and additional investments in AUD offshore fixed term deposits.

The portfolio balances by major investment asset class make up of risk categories, major investment vehicles and by markets shows the following at the end of the financial year featured in Tables 15 to 18 and Charts 22 to 24.

Table 15: Investments Portfolio by Major Investment Asset Class for all Markets

Major Asset Classes	2011 Investment Portfolio	2011 Investment Portfolio	2011 Proportion of asset to total portfolio	2010 Proportion of asset to total portfolio
Local cash & fixed term deposit	\$376,909,608	\$375,457,212	31%	35%
Offshore cash & fixed term deposit	\$128,634,116	\$116,117,879	10%	11%
SIG securities	\$102,357,994	\$112,138,480	8%	10%
Members & staff loans	\$15,834,332	\$17,974,538	1%	2%
Private Sector Loans and Banks	\$100,431,470	\$24,089,337	8%	2%
Properties	\$151,800,071	\$120,497,827	12%	11%
Domestic Equities ¹	\$243,421,323	\$208,837,435	20%	19%
Offshore equities ¹	\$10,048,494	\$96,484,062	9%	9%
TOTAL	\$1,228,437,608	\$1,071,596,769	100%	100%

¹ Includes dividends declared but not yet received

The Fund has continued to hold a conservative portfolio with the bulk of the investments invested in both onshore and offshore cash holdings accounting for 41% of the investments portfolio down by 3% on the previous level of 46%, with local cash and fixed term deposits at 31% and offshore cash and fixed term deposits at 10%. The next highest component is domestic equities at 20%. This is followed by commercial properties at 12% and offshore equities at 9%.

Except for government securities, members and staff loans, all major asset classes have recorded increases over their levels been recorded in the prior year. The private sector loans and bonds have also increased substantially by more than 316%, followed by properties at 26%, domestic equities at 16%, offshore equities at 13%, offshore cash and fixed term deposits 10.8%, domestic cash and fixed term deposits at 0.4%.

The Private sector loans and bonds have also increased significantly as new loans were extended to Soltai Fishing and Processing Limited, Sasape International Shipyard Limited and the purchase of a debenture from Solomon Islands Home Finance Limited.

The domestic investment properties 2011 annual revaluation has recorded another surplus as result of upgrading work undertaken during the year. The domestic equities also increased with the acquisition of new shares in Soltai Fishing and Processing Company Limited and Sasape International Shipyard Limited. The offshore equities have rebounded with improvements in the price of Bank South Pacific share and index managed funds unit prices.

Chart 22: Major Investments Assets for all Markets

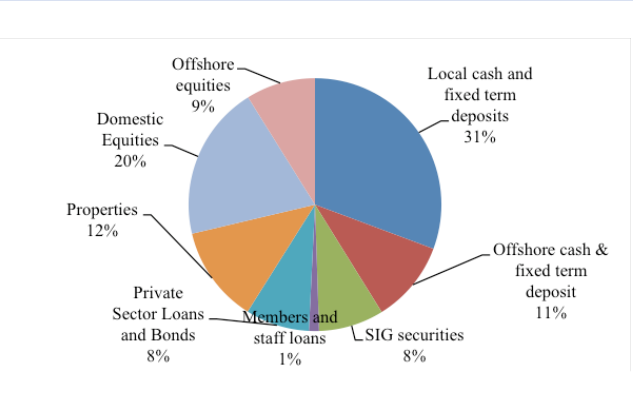


Table 16: Major Risk Category for all Markets

Major Risk Category	2011 Investment Portfolio	2011 Investment Portfolio	2011 Proportion of Risk to total portfolio	2012 Proportion of Risk to total portfolio
Low Risk/Low Return	\$479,267,602	\$487,595,692	39%	46%
Medium Risk/Medium Return	\$396,699,989	\$278,679,581	32%	26%
High Risk/High Return	\$352,470,017	\$305,321,497	29%	28%
	\$1,228,437,608	\$1,071,596,769	100%	100%

The low risk low return composition of the investments portfolio has declined by 8% to 39% from 46% in the previous year as shown table 16. Against the approved guidelines, the low risk assets are overweight by just 2%. The reduction of low risk asset composition has declined as a result of new investments in domestic loans and bonds, domestic equities and offshore fixed term deposits. The medium risk assets therefore surged to 32% and is now overweight by 6% against the target limit of 28%. The high risk assets composition slightly moved up by 1% to 29% but is still underweight by 6%. The low risk assets are: domestic cash, domestic fixed term deposits and Solomon Islands Government

Securities noting a reduction in the balances against last year's level by 2%. The medium risk assets are offshore cash and fixed term deposits, loans and bonds and domestic properties balances have also increased by 42% compared to last year's level. The high risk assets are all equity exposures both onshore and offshore which recorded an increase in value by 15% compared to the year 2010 level.

Chart 23: Portfolio by Major Risks for Markets

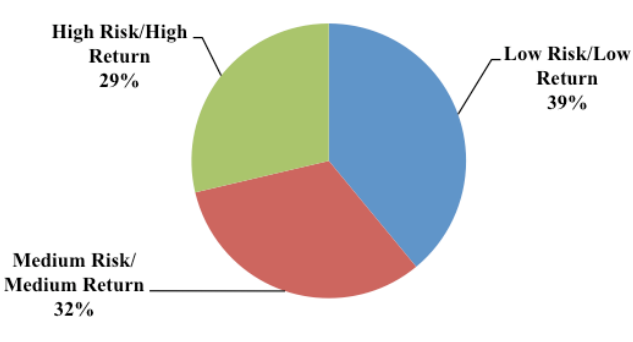
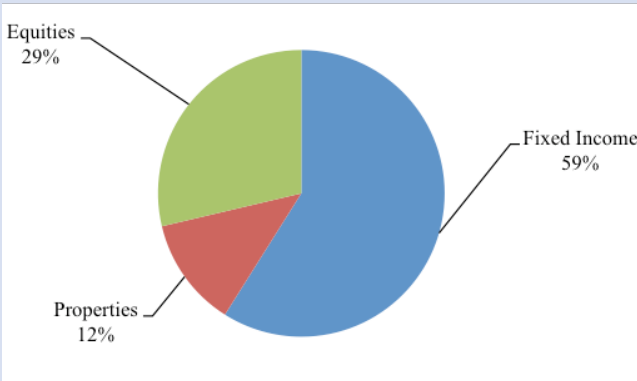


Table 17: Investments Portfolio by Major Investment Vehicle for for all Markets

Major Investment Vehicles	2011 Investment Portfolio	2011 Investment Portfolio	2011 Proportion of investment vehicle to total portfolio	2012 Proportion of investment vehicle to total portfolio
Fixed income	\$724,167,520	\$645,777,446	59%	60%
Properties	\$151,800,071	\$120,497,827	12%	12%
Equities	\$352,470,017	\$305,321,497	29%	28%
	\$1,228,437,608	\$1,071,596,769	100%	100%

The fixed incomes or interest have dominated the portfolio at 59% of the total investments portfolio. This is down from 60% in the previous year. These fixed income include: all cash and fixed term deposits, government bonds and treasuries and member/staff/private sector loans and bonds. The equity investments have slightly edged upward to 29% of the portfolio while the properties remained at 12% of the investments portfolio.

Chart 24: Major Investment Vehicles for all Markets



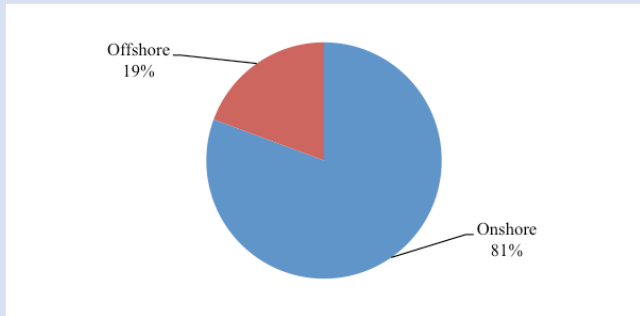
By investment vehicle, domestic properties have recorded the largest increase by 26% and this is followed by equities at 15% and fixed income 12% on previous year balances respectively.

Table 18: Investments Portfolio by Market

Markets	2011 Investment Portfolio	2011 Investment Portfolio	2011 Proportion of market to total investment Portfolio	2010 Proportion of market to total investment Portfolio
Onshore	\$990,754,998	\$858,994,829	81%	80%
Offshore	\$237,682,610	\$212,601,941	19%	20%
	\$1,228,437,608	\$1,071,596,769		

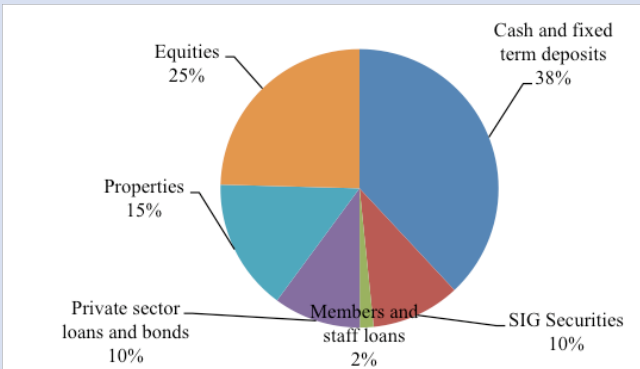
The domestic investments portfolio of the Fund has accounted for 81% of the total investments portfolio at the end of the financial year 2011. This is up by 1% on the previous year's proportion of 80% as its offshore investments composition of the total portfolio continued its decline. The offshore sector investments have increased by 12% on the previous year while the onshore investment assets also increased by 15%.

Chart 25: Composition of the Portfolio by Market



The Fund has limited ability to align the portfolio to the approved offshore guideline of 30%, as the Central Bank of Solomon Island's approval to remit funds offshore in 2007 was targeted at only \$150.0 million. There is no offshore remittance made in the year though the Fund would like to pursue a rebalance strategy of the onshore and offshore investments. Further consultations are envisaged to be pursued in the new financial year. The various components of the Fund's investments portfolio by major domestic investment assets, major offshore investment assets and the underlying currencies of its offshore investments are depicted in the Charts 26 and 27.

Chart 26: Domestic Portfolio by Major Asset Class



The domestic investments portfolio is currently heavy on cash and fixed term deposits at 38% which indicated a decline from 46% in the previous year. This is followed by equities 25% which went up by 1% from the previous year, and commercial properties 15% also went up by 1% on the previous year's component of the domestic investments portfolio. On the loan/bond portfolio, the private sector and government securities have made up 10% each of the portfolio with members and staff loan at the low end at 2%.

Table 28: Private Sector Loans and Bonds

Category of loans	2011 Investments Portfolio	2010 Investments Portfolio	2011 Interest	2011 Recovery	2011 Total Investment Return	2010 Total Investment Return	2011 Invest. Rate of Return	2010 Invest. Rate of Return
Providence Properties Ltd	\$4,089,337	\$4,410,407	\$210,526	\$0	\$210,526	\$461,397	11%	12%
Soltai Fishing & Processing Ltd	\$50,000,000	\$0	\$4,415,068	\$0	\$4,415,068	\$0	9%	0%
Sasape International Shipyard Ltd	\$3,070,000	\$0	\$78,888	\$0	\$78,888	\$0	3%	0%
Heritage Park Hotel Ltd	\$16,942,718	\$0	\$0	\$0	\$0	\$0	0%	0%
South Pacific Oil Ltd Bond	\$20,000,000	\$20,000,000	\$1,600,000	\$0	\$1,600,000	\$1,506,575	8%	8%
Solomon Telekom Dividend Interest	\$0	\$0	\$154,509	\$0	\$154,509	\$105,843	0%	0%
Solomon Home Finance Ltd Debenture	\$6,040,000	\$0	\$297,863	\$0	\$297,863	\$0	5%	0%
	\$100,142,055	\$44,745,603	\$6,756,854	\$0	\$6,756,854	\$2,073,815	9%	5%

Table 29: Domestic Properties Investment Returns

Properties	2011 Valuation	2010 Valuation	2011 Rental	2011 Other Income	2011 Total Return	2010 Total Return	2011 Invest. Rate of Return	2010 Invest. Rate of Return
Anthony Saru Building	\$31,347,889	\$31,000,000	\$4,879,603	\$0	\$4,879,603	\$4,335,711	14%	14%
NPF Plaza	\$28,713,100	\$26,000,000	\$2,433,499	\$0	\$2,433,499	\$2,364,225	8%	9%
Commercial service charges	\$0	\$0	\$1,035,961	\$0	\$1,035,961	\$1,010,471	0%	0%
Commercial property cost recovery	\$0	\$0	\$3,747,340	\$0	\$3,747,340	\$1,613,203	0%	0%
Recovery of bad debts	\$0	\$0	\$0	\$0	\$0	\$169,695	0%	0%
NPF Building	\$17,078,354	\$18,022,518	\$1,070,586	\$0	\$1,070,586	\$728,425	6%	4%
Branch offices	\$875,814	\$0	\$0	\$0	\$0	\$0	0%	0%
Komi Fera Pako	\$4,867,607	\$5,000,000	\$352,779	\$0	\$352,779	\$342,879	7%	7%
Residential buildings	\$17,010,417	\$17,953,899	\$762,000	\$0	\$762,000	\$836,100	4%	5%
Staff rent	\$0	\$0	\$38,156	\$0	\$38,156	\$21,078	0%	0%
Commercial land	\$15,305,750	\$12,585,000	\$193,648	\$0	\$193,648	\$168,886	1%	1%
Base 1 Tulagi	\$4,476,000	\$0	\$0	\$0	\$0	\$0	0%	0%
Base 2 Tulagi	\$5,514,730	\$0	\$0	\$0	\$0	\$0	0%	0%
Work in progress	\$26,610,411	\$9,936,410	\$0	\$0	\$0	\$0	0%	0%
Capital Reval Gains	\$0	\$0	\$0	\$0	\$6,049,346	\$1,728,651	0%	0%
	\$151,800,072	\$120,497,827	\$14,513,571	\$0	\$20,562,917	\$13,319,324	14%	11%

The investment properties (i.e. commercial properties) which are classified under International Accounting Standard (IAS) 40 include: Anthony Saru Building, NPF Plaza, Komi Fera Pako building, and five (5) residential executive houses at Tasahe being leased for rental income. As required under the international accounting standard, the annual revaluations of these properties have resulted in another surplus of about \$6 million and this has passed through the Fund's profit and loss statements for distribution to members. On rentals, there were also improvements as all the investment properties were fully occupied with higher rentals been recently negotiated with tenants who renewed their leases during the year.

The total return from this investment vehicle amounted to \$20.56 million. This is representing a gross rate of return of 14% which is up from the previous year's gross rate of return of 11% - a slight increase by 3%.

The Tulagi Base 2 slipway and related infrastructure refurbishment and upgrade have commenced in February 2011 and are expected to be completed by mid-2012 if disruption to work in progress does not occur. Furthermore, the long awaited construction of the 24 unit Executive Apartments has just commenced by a qualified local contractor in the last quarter of the current financial year with completion to be expected in September 2012. Construction is progressing.

Chart 29: Returns by Major Investment Asset Class for all Markets

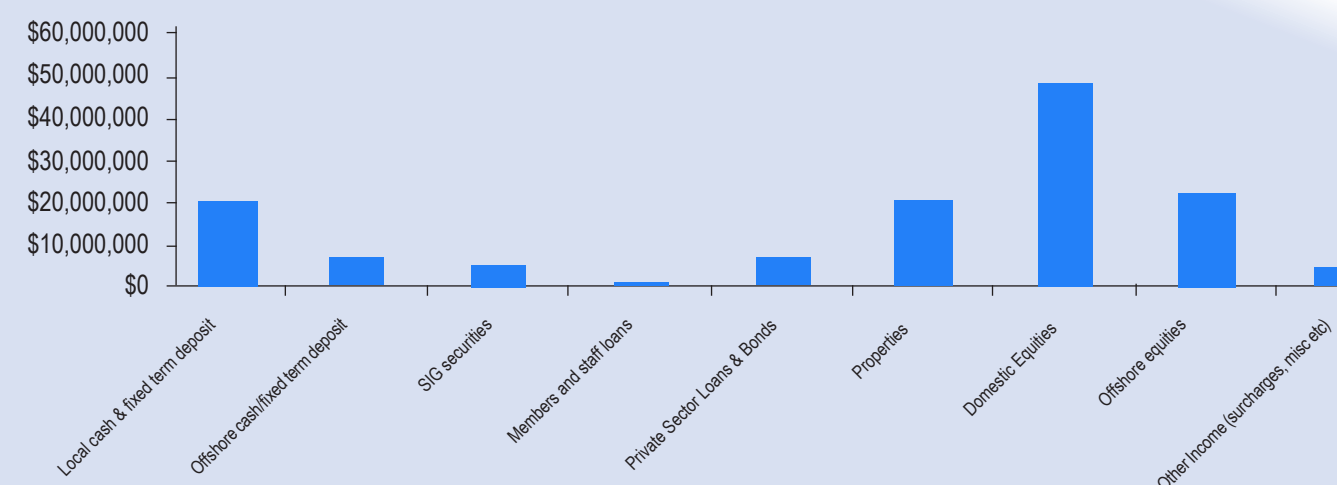


Table 20: Returns by Major Risk Category for all Markets

Major Risk Category/ Period ending 30 June	2011 Investments Portfolio	2010 Investments Portfolio	2011 Investment Return	2010 Investment Return	2011 Investment Rate of Return	2010 Investment Rate of Return
Low Risk	\$479,267,602	\$487,595,692	\$25,323,701	\$30,332,035	5%	6%
Medium Risk	\$396,699,989	\$278,679,581	\$35,670,253	\$14,128,073	9%	5%
High Risk	\$352,470,017	\$305,321,497	\$69,925,316	\$13,260,833	20%	4%
Other	\$0	\$0	\$4,542,240	\$6,645,882	0%	0%
	\$1,228,437,608	\$1,071,596,769	\$135,461,510	\$64,366,823	11%	6%

The low risk low return assets which accounted for about 40% of the investments portfolio earned a rate of return of 5%. Seriously, the Fund is continuously searching for potential investment opportunities with better rates of return. This is ongoing both in the domestic and offshore markets. The return on the medium risk medium return assets has recorded a rate of return of 9%. The high risk investments have secured a rate of return of 20% for the year and this has contributed to almost half the Fund's income for the year as depicted in Table 20.

Table 21: Returns by Major Investment Vehicles for all Markets

Major Investment Vehicles/Period ending 30 June	2011 Investments Portfolio	2010 Investments Portfolio	2011 Investments Return	2010 Investments Return	2011 Investment Rate of Return	2010 Investment Rate of Return
Fixed Income	\$724,167,520	\$645,777,446	\$40,431,037	\$31,140,786	6%	5%
Properties	\$151,800,071	\$120,497,827	\$20,562,917	\$13,319,323	14%	11%
Equities	\$352,470,017	\$305,321,497	\$69,925,316	\$13,260,833	20%	4%
Other Income	\$0	\$0	\$4,542,240	\$6,645,882	0%	0%
	\$1,228,437,608	\$1,071,596,769	\$135,461,510	\$64,366,823	11%	6%

This measure looks at the portfolio return by investment vehicles namely: the fixed income or interest, properties and equities. The fixed income comprises of all the cash and fixed term deposits both the domestic and offshore, government securities, loans and bonds. The equity investments have recorded a rate of return of 29% due to good financial performances by domestic equities in Solomon Telekom Ltd and South Pacific Oil Ltd, followed by commercial properties at 12% and fixed income at 6% as shown in Table 21 and 22 and also Chart 30.

Chart 30: Investment Returns by Major Investment Vehicles for all Markets

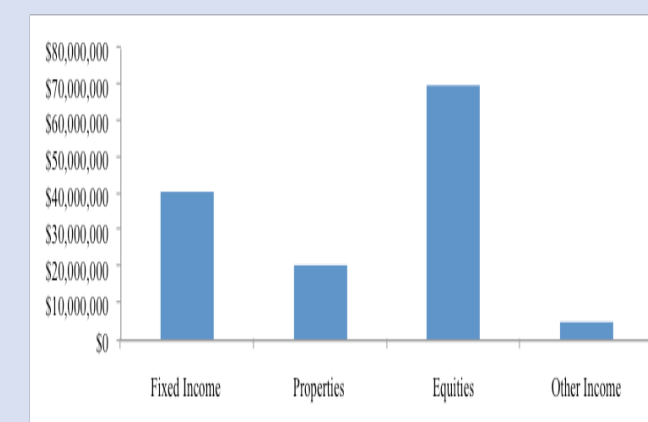


Table 22: Investment Returns by Markets

Market/Period ending 30 June	2011 Investments Portfolio	2010 Investments Portfolio	2011 Investment Return	2010 Investment Return	2011 Investment Rate of Return	2010 Investment Rate of Return
Onshore	\$990,754,998	\$858,994,829	\$106,897,621	\$83,226,306	11%	10%
Offshore	\$237,682,610	\$212,601,941	\$28,563,889	-\$18,859,483	12%	-9%
	\$1,228,437,608	\$1,071,596,769	\$135,461,510	\$64,366,823	11%	6%

The domestic investment return has improved to 11% from 10% from the previous year 2010 and thus contributed to 80% of the income achieved for the year. While on offshore, a large improvement in earnings was recorded from a negative rate of return of 9% last financial year to a positive one of 12% this year as is shown in Table 22.

Chart 31: Investment Returns by Markets

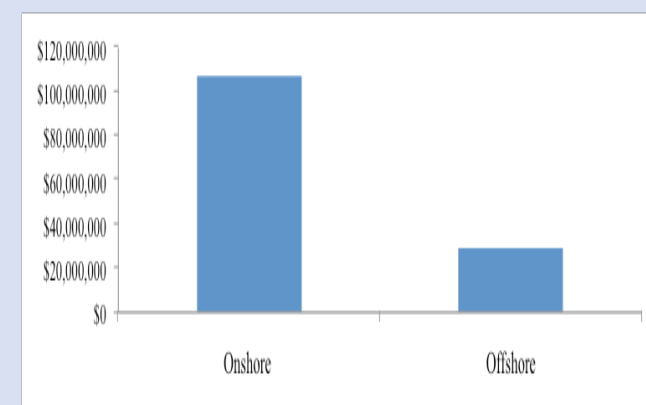


Table 23: Offshore Investment Returns by Foreign Currency

Foreign Currency/Period ending 30 June	2011 Investments Portfolio	2010 Investments Portfolio	2011 Investment Return	2010 Investment Return	2011 Invest. Rate of Return	2010 Invest. Rate of Return
US dollar	\$60,454,384	\$52,158,194	\$200,163	-\$165,379	0%	0%
Australian Dollar	\$61,689,679	\$45,847,528	\$10,618,812	\$4,957,506	17%	11%
Euro	\$33,941,846	\$37,588,749	\$4,421,123	-\$4,786,202	13%	-13%
Pound sterling	\$16,564,875	\$16,633,083	-\$139,032	-\$1,446,112	-1%	-9%
PNG Kina	\$64,938,048	\$59,880,629	\$13,769,257	-\$17,426,149	21%	-29%
Cash in various Currencies	\$93,778	\$493,759	\$59,866	\$6,852	64%	1%
	\$237,682,610	\$212,601,941	\$28,930,188	-\$18,859,483	12%	-9%

The PNG Kina denominated investments dominated by the Bank South Pacific equity investment has recorded a rate of return of 21%, followed by AUD denominated investment assets at 17%, euro at 13% and US Dollar at below 1%. Only the pound sterling investment exposure continued to show a negative return in the year and this is down to -1% from the previous year at -9% due the global financial crisis as depicted in Table 23 and Chart 32 below.

Chart 32: Offshore Investment Returns by Currency

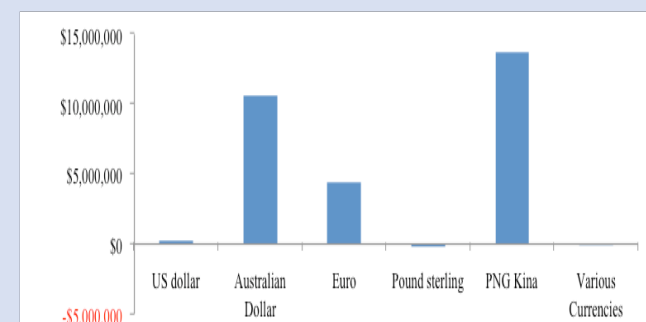


Table 24: Domestic Cash and Fixed Term Deposits Investment Returns

Cash and fixed term deposits at domestic banks/Period ending 30 June	2011 Investments Portfolio	2010 Investments Portfolio	2011 Investment Return	2010 Investment Return	2011 Invest. Rate of Return	2010 Invest. Rate of Return
Cash at bank	\$51,025,847	\$39,897,391	\$84,543	\$46,732	0%	0%
WBC	\$99,799,855	\$97,173,649	\$8,007,540	\$11,344,686	8%	12%
ANZ Bank	\$92,251,554	\$134,497,316	\$5,642,735	\$8,634,203	6%	6%
BSP	\$91,779,339	\$52,888,856	\$3,889,413	\$4,749,595	4%	9%
Central Bank of SI	\$27,050,000	\$45,000,000	\$1,680,500	\$944,363	6%	2%
Credit Corp.	\$15,003,013	\$6,000,000	\$757,284	\$555,205	5%	9%
	\$376,909,608	\$375,457,213	\$20,062,015	\$26,274,785	5%	7%

The income from the domestic fixed term deposits has declined in 2011 financial year to just over \$20.0 million from \$26.3 million in year 2010, as interest rates on domestic fixed term deposits fell and thus recording a rate of return of 5% down from 7% in the previous year. The term deposits which were placed with the three commercial banks were slightly evenly spread with reallocations made from the ANZ Bank which has recorded the highest proportion in last year 2010 as shown in Table 24.

Table 25: Offshore Cash & Fixed Term Deposits Investment Returns

Fixed term deposits by foreign currencies/Period ending 30 June	2011 Investments Portfolio	2010 Investments Portfolio	2011 Unrealised FX gains/(losses) Interest	2011 Total Investment Return	2010 Total Investment Rate of Return	2011 Invest. rate of return	2010 Invest. rate of return
Cash - Various Currencies	\$93,778	\$493,759	\$27,022	\$32,844	\$59,866	-\$444,717	64%
USD FTD	\$39,623,256	\$34,678,818	\$238,892	-\$3,390,481	-\$3,151,589	\$336,732	-8%
AUD FTD	\$45,965,052	\$33,224,165	\$2,202,567	\$5,252,953	\$7,455,520	\$2,724,446	16%
Euro FTD	\$25,807,509	\$31,088,055	\$216,856	\$2,570,824	\$2,787,680	-\$4,239,358	11%
GBP FTD	\$16,564,875	\$16,633,083	\$169,600	-\$308,632	-\$139,032	-\$1,446,080	-1%
Kina Securities - PGK	\$579,646	\$0	\$0	\$25,739	\$25,739	\$0	4%
	\$128,634,116	\$116,117,880	\$2,854,937	\$4,183,247	\$7,038,184	-\$3,068,978	5%

Except for Australia, the Central Banks in the USA, United Kingdom and Europe have maintained their almost zero official cash rates for the year. Therefore, the interest rates on US, euro, and pound sterling fixed term deposits were also negligible at below 1% for the various short term maturities up to 365 days. However, the Fund has made positive returns from AUD and Euro deposits made. The AUD fixed term deposits were attractive at rates of more than 5% for a typical 180 to 365 days maturity. Moreover, the AUD strengthened during the year against SBD.

The US Dollar fixed term deposits was the worst performer in the year recording an unrealised loss of \$3.15 million as the Central Bank of Solomon Islands revalued the SBD in June 2011 against the US Dollar. Unfortunately, this has resulted in the FX unrealised losses incurred by the Fund.

However, the returns from our AUD and Euro fixed term deposits have lifted the Fund's income from this sector into positive status from a negative rate of return in the previous year of -3% to a positive 5%.

Table 26: SIG Securities Investment Returns

SIG Securities	2011 Investments Portfolio	2010 Investments Portfolio	2011 Investment Return	2010 Investment Return	2011 Invest. Rate of Return	2010 Invest. Rate of Return
SIG Restructured bonds	\$34,426,263	\$36,269,274	\$1,663,341	\$1,159,991	5%	3%
SIG Amortized bonds	\$50,797,273	\$53,534,956	\$1,842,694	\$1,110,212	4%	2%
SIG - Soltai Amortized bonds	\$5,463,647	\$6,453,577	\$289,795	\$377,745	5%	6%
SIG - SICHE Amortized bonds	\$5,811,141	\$6,640,773	\$408,530	\$395,931	7%	6%
SIEA Amortizing bonds	\$0	\$0	\$0	\$41	0%	0%
Treasury bills	\$5,859,670	\$2,238,900	\$274,609	\$230,614	5%	3%
Guarantee of Ex NBSI - SIG bonds	\$0	\$0	\$782,718	\$782,718	0%	0%
	\$102,357,994	\$112,138,480	\$5,261,686	\$4,057,252	5%	4%

The slight improvements in SIG Restructured and Amortized bonds were attributable to a change in formula for the calculation of interest income. The formula used by the SIG Debt Management Unit, Ministry of Finance & Treasury uses 12 months whilst the Fund uses 365 days. The 12 months formula was agreed to in the Deed of Settlement. The change has resulted in the recording of higher interest income to the Fund. As well the bonus interest of 1% was given in the year as government's domestic revenue meet the required level necessary to trigger the application of bonus interest to holders of the restructured bonds.

The returns though, from the government restructured and amortized bonds are still low as these were negotiated and secured for interest rates of 2.5% per annum. On a positive note, these obligations are continued to be serviced well by Government and reductions have been noted as these bonds are reducing monthly with the

Table 27: Members and Staff Loans

Category of loans	2011 Investments Portfolio	2010 Investments Portfolio	2011 Interest	2011 Recovery	2011 Total Investment	2010 Total Investment Return	2011 Invest. Rate of Return	2010 Invest. Rate of Return
Members Housing Loans	\$12,391,927	\$14,443,628	\$797,555	\$315,300	\$1,112,855	\$1,623,256	9%	11%
Staff	\$3,442,405	\$3,530,910	\$143,151	\$56,292	\$199,443	\$180,657	6%	5%
	\$15,834,332	\$17,974,538	\$940,705	\$371,592	\$1,312,297	\$1,803,913	8%	10%

bonds having seven (7) more years to be liquidated. The Solomon Islands College of Higher Education and Soltai Bonds were negotiated and priced differently with reference to the interest on the CBSI administered 91 days treasury bills. The Fund's guarantee on the ex-NBSI long term restructured bonds attracted an interest rate of 2% payable annually by Bank South Pacific.

The Members Urban Loan Scheme has continued to be written down as loan repayments are made by committed members on their housing mortgages and bad debt recoveries are also made. This portfolio is expected to come down to a negligible level within the next 5 years if members are fully committed to repaying their loan obligations. No further loans were issued under members' urban loan scheme in the year. The loans portfolio is shown in Table 27 below.

The income from loan/bond portfolio has increased substantially in the year due to new loans been issued to Soltai Fishing and Processing Ltd, Sasape International Shipyard Limited and a debenture was purchased from Solomon Islands Home Finance Limited for purposes of commercial rehabilitation of infrastructure assets and expansion programs. These returns will continue to remain positive.

The interest free shareholders loan to Heritage Park Hotel is part of the original equity paid into the company that was restructured in September 2010 by the Board of the company. This is a commercial strategy to improve return to that equity investment and to take advantage of the 5 years tax free status on profits earned through distribution of dividends. The repayment on the loan will commence after the expiry of the 5 year tax holiday and will also be priced with reference to the applicable lending rate in force in the market at that time.

At the end of the financial period, the SBD appreciated against the USD and the pound, and depreciated against the AUD, Euro, and Kina.

Average Mid-Rates June 2011 June 2010

o 1USD	SBD 7.4184	SBD 8.065
o 1 AUD	SBD 7.9428	SBD 6.8587
o 1 Euro	SBD10.6045	SBD 9.7276
o 1 GBP	SBD11.8064	SBD12.0192
o 1 PGK	SBD 3.3212	SBD 2.9472

In measuring the performance of the offshore exposures in terms of their underlying currency, the Fund has booked foreign exchange unrealised losses on the pound and US Dollar denominated assets. The Fund then recorded unrealised gains on AUD, Euro and Kina exposures.

Impaired Investment Assets

The Investments impaired assets have continued to decline to \$1.8 million by the end of the period. This is mainly accounted for by delinquencies in the members' housing loans, ex-staff loans and rental. This is a small reduction on the previous year's level of \$1.99 million of just 17.5%. However, there were additional provisioning made for rent receivables as some of the unpaid rentals have weak chances of full recovery. This has been a substantial improvement over the past six years when the level of delinquency was around \$50 million then.

External Assistance

During the year, the Fund continued to draw on the experiences and advice of the Australian Business Volunteer (ABV) Advisors: Messrs Ross Steele, Leo Chassell and Ian Frost through onsite visits and electronic communications. The Fund acknowledges their genuine positive technical advice, knowledge and insights when the Fund was confronted with investment challenges from both the offshore and domestic markets. During the year, there were no onsite visits made by the ABV Advisors but however, there were continuous advice and comments been sought and received through electronic mode of communication. This has really assisted the Board and management in making decisions on investments, property development and management.

PROPERTY DEVELOPMENT & MANAGEMENT

The Fund is committed and also has the obligation to ensure its owned residential and commercial properties are effectively and efficiently managed to sustain the

required standard in meeting the market's expectations. Moreover, the value of properties must be preserved and enhanced and thus provides adequate income and reasonable return to members.

The Fund has nine commercial properties in Honiara including the four developed properties: Anthony Saru Building, NPF Plaza, NPF Head Office Building and Komi Fera Pako Building. The construction of the new Executive Apartments has just started

Table 32: Investment Delinquency

Category of Investment Assets	2011	2010
Members Urban Home Loans	\$1,560,594	\$1,704,320
Ex staff and Rural Housing	\$86,019	\$142,941
Rental	\$169,713	\$149,093
Fixed Term Deposit	\$0	\$0
Equity	\$0	\$0
	\$1,816,326	\$1,996,354

and should be completed in the latter part of year 2012. The undeveloped land at Ranadi, Car park and Rautamana are still to be developed in future. The car park land is currently rented to tenants until such plan are developed for decision-making and implementation. Pertinent to Rautamana land, a concept and feasibility plan for development of a housing project is progressing and that decision should be made for the actual physical development to be undertaken in the next financial year.



Executive Apartments under construction

Currently, there are forty-three residential houses for staff both in Honiara and Provincial branches. Six executive houses are rented in the open market at prevailing market prices. A plan is progressing to build four duplex units for staff at the Fund's housing estate, Tasahe, West Honiara. This is to accommodate additional staff and the proposed duplex should be built and completed in the next financial year 2012.

Table 30: Domestic Equities Investment Returns

Domestic Equities	2011 Investments Portfolio	2010 Investments Portfolio	2011 Investment Return	2010 Investment Return	2011 Investment Rate of Return	2010 Investment Rate of Return
Solomon Telekom Co Ltd	\$89,115,661	\$89,115,661	\$25,953,860	\$15,063,758	29%	17%
Providence Properties Ltd	\$6,245,403	\$6,245,403	\$0	\$0	0%	0%
South Pacific Oil Limited	\$40,000,000	\$40,000,000	\$20,000,000	\$13,000,080	50%	33%
Solomon Home Finance Ltd	\$13,866,987	\$13,866,987	\$0	\$50,000	0%	0%
Heritage Park Hotel Ltd	\$11,955,105	\$24,156,085	\$2,060,000	\$0	17%	0%
Soltai Fishing & Processing Ltd	\$36,282,007	\$0	\$0	\$0	0%	0%
Sasape International Shipyard Ltd	\$2,500	\$0	\$0	\$0	0%	0%
PPL Write Back	\$0	\$0	\$0	\$937,500	0%	0%
Dividend Receivables	\$45,953,860	\$35,453,298	\$0	\$0	0%	0%
	\$243,421,523	\$208,837,434	\$48,013,860	\$29,051,338	20%	14%

The Fund's domestic cash cows being Solomon Telekom Company Ltd (STCL) and South Pacific Oil Limited (SPOL) have declared their highest level of dividends so far for a combined total of more than \$45.0 million. This represented 29% and 50% rate of return on paid up capital respectively for STCL and SPOL. In the first year of Heritage Park Hotel Ltd commercial operations, the company started paying dividends to its shareholders with the Fund receiving just over \$2.0 million so far. The overall rate of return from the domestic equities is 20% up by 6% on the previous year return of 14%.

The offshore equity investment exposures have made a

satisfactory turnaround during the financial year after the aftermath of the global financial crisis. This has recorded an income of about \$22.0 million from a negative of just over \$15.7 million in 2010. All the offshore equity exposures were in positive territory, with BSP shares recording the highest level of income.

This is followed by exposures in Vanguard US Standard & Poors 500 Stock Index Fund and UBS Australian Share Fund. It is still uncertain if such positive results would be realized in the next financial year in light of the euro-zone debt crisis and global slow economic recovery.

Table 31: Offshore Equity Exposures Investment Returns

Offshore Listed Equity Exposures/Period ending 30 June	2011 Investments Portfolio	2010 Investments Portfolio	2011 Dividend	2011 Unrealized capital gains/(losses)	2010 Unrealized FX gains/(losses)	2011 Total Investment Return	2010 Total Investment Return	2011 Invest. rate of return	2010 Invest. rate of return
Bank South Pacific	\$61,494,164	\$56,409,100	\$4,153,776	\$4,551,343	\$5,039,656	\$13,744,774	-\$17,426,149	22%	-31%
Vanguard US 500 S&P 500 Stock Index Fund	\$20,831,128	\$17,479,376	\$0	\$4,955,093	-\$1,603,341	\$3,351,752	-\$498,438	15%	-3%
Vanguard European Stock Index Fund	\$8,134,337	\$6,500,894	\$0	\$909,884	\$723,558	\$1,633,442	-\$79,286	20%	-1%
UBS Australian Share Fund	\$15,724,627	\$12,623,363	\$444,858	-\$248,274	\$2,966,708	\$3,163,292	\$2,213,368	20%	18%
Dividends Receivables	\$2,864,238	\$3,471,329	\$0	\$0	\$0	\$0	\$0	0%	0%
	\$109,048,494	\$96,484,062	\$4,598,633	\$10,168,047	\$7,126,580	\$21,893,260	-\$15,790,505	20%	-16%

Chart 33: Vanguard US Stock Index Fund Unit Price and USD Currency in SBD

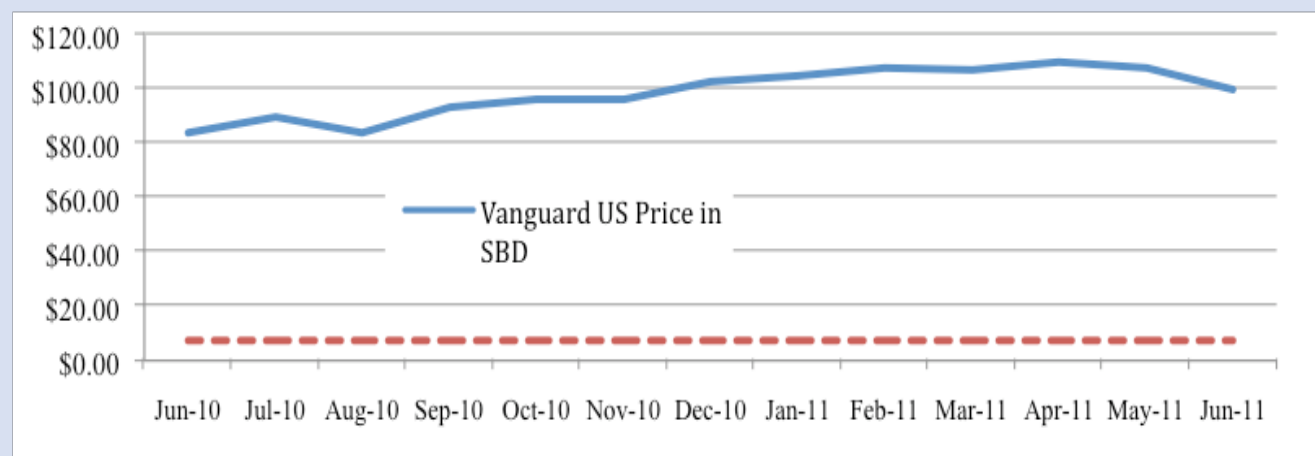


Chart 34: Vanguard Euro Stock Index Fund Unit Price and Euro Currency in SBD

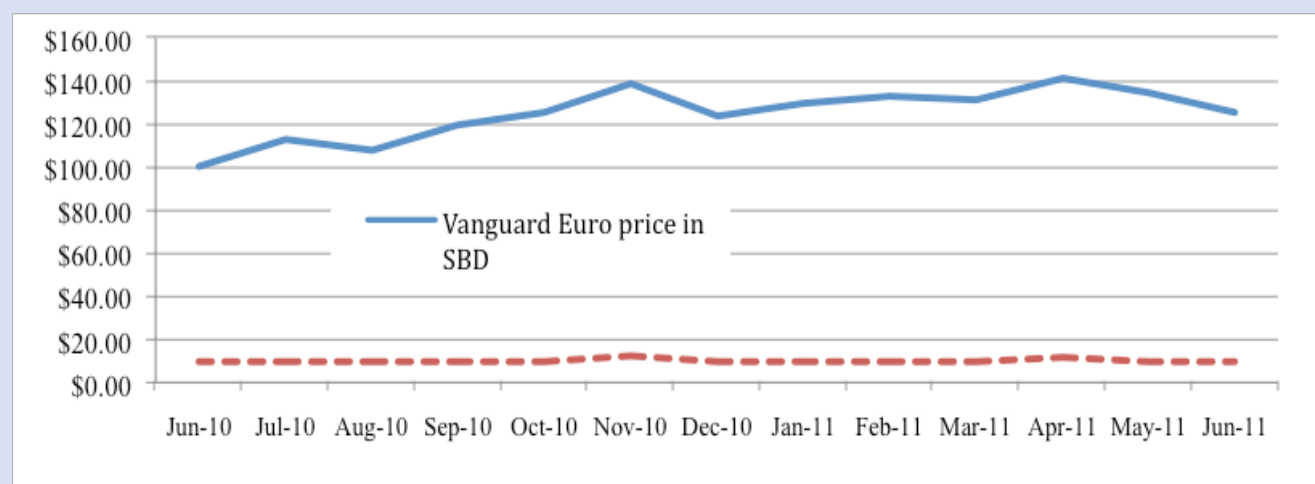


Chart 35: UBS Australian Share Fund Unit Price and the AUD Currency in SBD

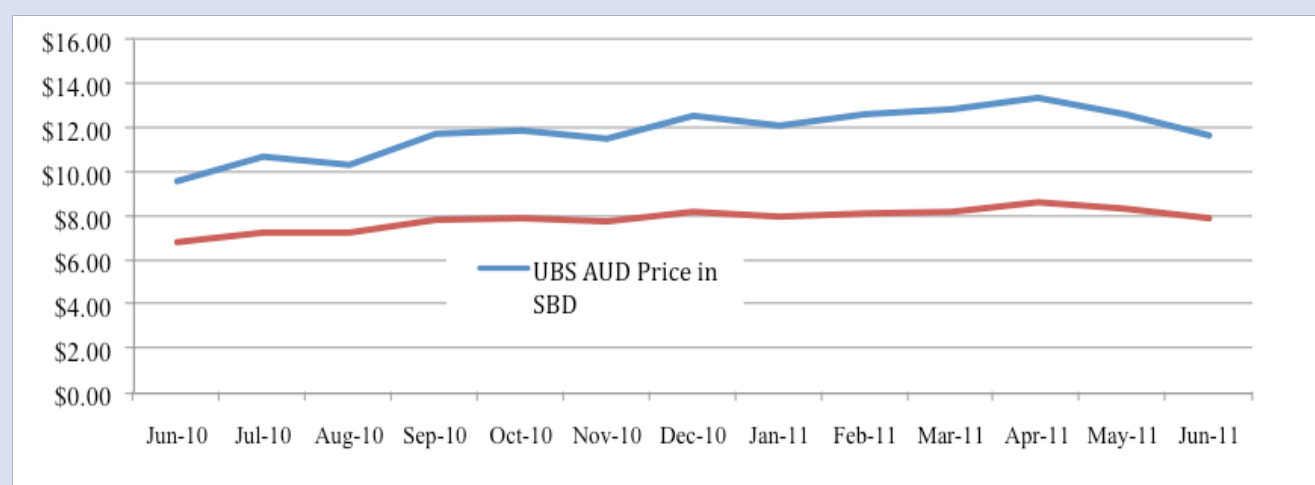
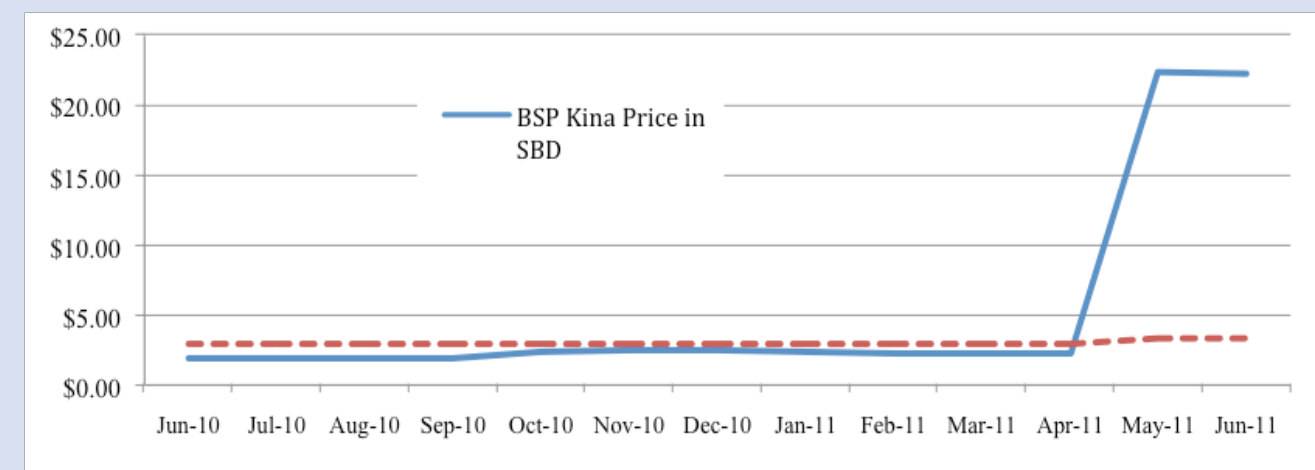


Chart 36: BSP Share Price and Kina Currency in SBD

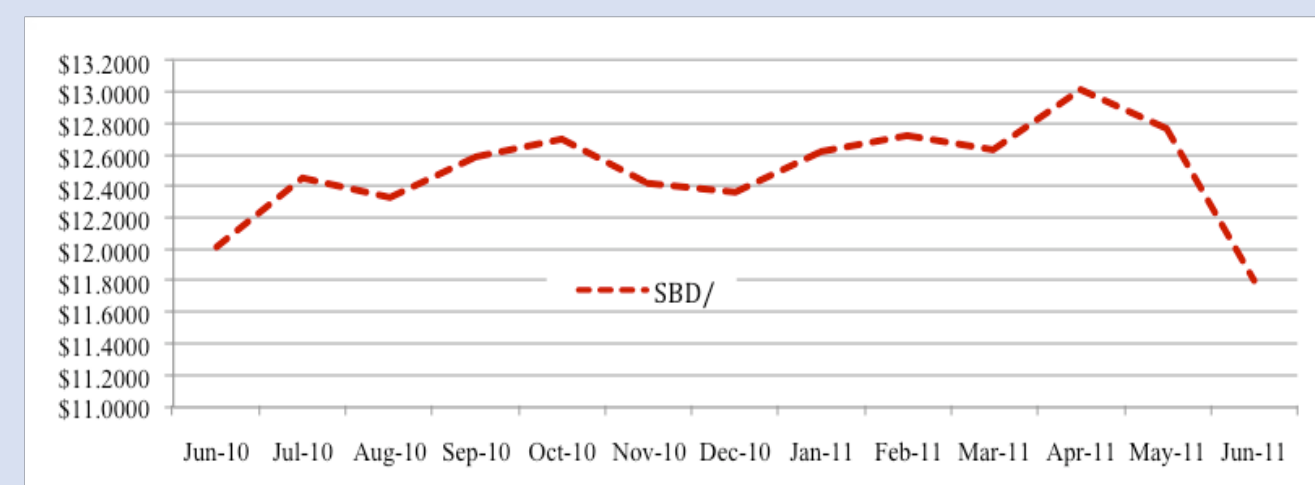


The prices of the Fund's units in the three managed funds all have settled higher than the levels recorded 12 months ago at the end of June 2010. Bank South Pacific consolidated the price of its shares 10:1 in May 2011 resulting in a shift upwards to \$22.32 at the end of the year.

Price per Unit or Share

	30 June 2011	30 June 2010
Vanguard US S&P 500 Stock Index Fund	SBD\$100.19	SBD\$ 84.07
Vanguard European Stock Index Fund	SBD\$125.78	SBD\$100.52
UBS Australian Share Fund	SBD\$ 11.71	SBD\$ 9.62
Bank South Pacific	SBD\$ 22.32	SBD\$ 1.92

Chart 37: GBP Currency in SBD



End-user Support

Attendance to provide immediate support to staff continues. Moreover, maintenance to systems not covered in service agreements with vendors were carried out by IT staff. As part of the department's support, a series of training was carried out to the end-users to ensure there is effective use of the systems installed.

Commitment to further improve the information technology and management systems will enable continued efficient and reliable service to all members, employers and valuable clients of the Fund.

INTERNAL AUDIT

The Internal Audit functions are important to accomplish the Fund's objectives by bringing a systematic, disciplined approach to evaluate, monitor and improve the effectiveness of risk management, controls and good governance to safeguard, preserve and protect the members' contribution savings with the Fund. The internal auditors also undertook specific investigations on any suspected fraudulent or irregularities and submitted reports with recommendations through the Audit Sub-committee for necessary decisions and actions to minimize similar irregularities reoccurring in future. Majority of issues raised by internal auditors were implemented while few were in the process of being implemented.

Audit Reviews

A number of audit reviews were undertaken both in Head Office and Provincial Branch Offices to examine various operational, financial and information systems. Moreover, there were spot checks and physical inspections of fixed assets. The review and inspection reports are submitted to pursue necessary actions to resolve issues raised. All these actions are pursued to ensure that:

- Effectiveness and efficient use of the available resources to fulfill the Fund's objectives;
- Adequate and sufficient internal controls over the Fund's assets;
- Strict compliance to the applicable legislations, policies and procedures are instituted;
- Effectiveness of controls over the automated information processing systems.

During the reviews and examinations, there were operational, financial and information system issues been identified which are of concern pertinent to operational weaknesses, errors, untimely completion of issues and non-compliance. These are submitted to the management team and Audit sub-committee for immediate resolutions and actions. Majority of the issues raised in the audit recommendations were

resolved within the financial year timeframe while others are being addressed by respective responsible departments and management. The issues are to be resolved issues and not to be re-surfaced in future. In this connection, the necessary actions for improvements are being pursued on existing internal control systems and procedures to avoid reoccurring in the future.

To ensure contribution withdrawals are diligently carried out for the benefit of members, internal auditors are tasked to involve in assessing and checking all withdrawals to ensure there are no errors occurring and there is satisfactory compliance to the NPF Act prior to benefit payments made to members. During the year, there was error rate of 4% identified – an achievement of 2% reduction from six percent in the previous year. The error files were returned for further assessments due to either incomplete documentations or strict compliance to processes or incorrect calculations as result of late postings of contribution receipts. Notwithstanding what had happened, the process has improved and there was a substantial reduction of potential errors occurring compared to preceding years. As a result, there were no complaints received from members. We are committed to ensure there is zero error in future and this will be our ongoing challenge.

Monitoring

Effective monitoring and follow-ups are undertaken regularly on the implementation of recommended actions on issues raised in the CBSIs' Onsite Prudential Review on the overall operations, finances and investments by the Fund. The prudential review was carried out under the Financial Institutions Act. Similar reviews and follow-ups were done on the issues raised in the Management Letter from the External Auditors after completing the annual Financial Statements of Fund and internal audit monthly reviews and examinations. The issues raised do provide opportunity for the Board and management to undertake necessary actions to review applicable policies and procedures for improvements to ensure the issues raised do not reoccur in future. There are improvements to the Fund's internal control procedures, processes, policies and information technology systems installed within the Fund but are subject to changes when such need arise in future. The issues raised and recommended for actions have been resolved while strategic actions are being carried out on the outstanding issues.

Internal Audit Manual Review

Having undertaken various researches and consultations with technical expertise in internal auditing, we are now confident to complete the audit review of the outdated manual.



Duplex units at Tasahe under construction

The maintenance and repairs of properties are an ongoing exercise to sustain acceptable quality standard of the Fund's properties i.e. a major refurbishment work is undertaken on NPF Building and completion is expected this year. As part of the refurbishment, the open style office layout been adopted and thus allow installations of office cubicles. Pertaining to NPF Plaza, an external refurbishment was completed while the external of the Plaza will be undertaken in early year 2012. Anthony Saru Building (ASB) needs to be fully refurbished to keep the property in good condition while the lifts have been repaired and reconstructed and are now working reliably. A new generator is to be acquired and installed in the next financial year to replace the current aging generator which does not meet required capacity of tenants.

Security plans on the Fund's commercial buildings is now becoming paramount. One of the major security issues is the application of emergency exit plan for emergency situations which will be addressed. At present, there is no emergency exit plan and we are working on plans to rectify this problem issue soon. The upgrading of fire extinguishers were undertaken in all commercial buildings and replacement of fire hose reels in parts of the NPF Plaza and this will be extended to other commercial buildings.

Ongoing routine maintenance work being pursued on defects identified during inspections or reported in the year on both commercial and staff houses. Maintenance tasks are either performed by internal property department personnel or outsourced to contractors through open tender process. The cleaners and grounds men are carrying their responsibilities to ensure the inside and surrounding of the buildings are kept clean and conducive for tenants and customers alike to enjoy. Plan is now in place to outsource these functions to private sector interests who has the commitment, knowledge and skills in undertaking the tasks. Such outsourcing exercise will eventuate in early 2012.

A number of property related services were outsourced which include: internal cleaning of ASB and NPF Plaza

buildings, landscaping in ASB, NPF Plaza and NPF Head Office, garbage collection, security services, servicing lifts and generators. Contract agreements are established with competitive service providers and are reviewed annually.

SUPPORT SERVICES

ADMINISTRATION

Manager team and general staff with relevant knowledge and skills are essential human resources required by the Fund. They are the forefront in policy development, implementation and advice to ensure the Fund achieves its mandated strategic goals. Recruitment, selection and appointment policy was developed and adopted to ensure fit and proper personnel are employed by the Fund. Capacity building in appropriate fields of training coupled with healthy human resources remains were undertaken to accomplish productivity and tangible delivery of outcomes. To avoid disruption to work flow to realize the Fund's strategic objectives, an overall succession plan was developed for each department and is now in place. The KPIs for all staff were completed and endorsed to facilitate effective monitoring and appraisal purposes in making constructive decisions on promotions and other appropriate awards.

Training and Human Resources Development

A systematic training aimed at building capacity through a carefully planned "need analysis" process to enable staff to acquire the required knowledge, skills and related qualifications and to develop their potential to meet the Fund's objectives is encouraged. The management team is progressing on this matter to assist in making decisions. During the period, two staff undertook undergraduate training at University of South Pacific, Fiji and each have graduated with Bachelor degrees while six staff undertook diploma studies at Solomon Islands College of Higher Education (SICHE). Three staff graduated with diploma and one staff graduate with a certificate at the end of academic year 2010 at SICHE. An officer is continuing part-time training at University of South Pacific (SI) Centre through to the next financial period.



NPF Staff graduates

Pertaining to short-term trainings, a number of Managers and staff attended courses both overseas and local learning institutions related to their responsibilities and duties. The relevant trainings are:

- Assistant Manager Finance attended International Partnership Program CPA in Melbourne, Australia;
- Assistant Manager Information Technology and Investment Officer attended course on “Pro-genesis” Property Management software in Melbourne, Australia; and
- Assistant Manager Information Technology attended training on Network Infrastructure and Active Directory Skills to Windows server 2008, in Brisbane, Australia.

On the local front, a number of staff attended short-training programs to gain further knowledge. In so doing, this will further advance the Fund’s ability in realizing its strategic objectives. The relevant trainings are:

- Executive Managers – Operations, Internal Audit and Administration and Board Secretary have attended “a Change Management” course at Heritage Park Hotel, Honiara;
- Assistant Internal Audit attended “Investigation Training” facilitated by Office of the Auditor General;
- Assistant Manager Administration, Senior Administration and Senior Operations Officer attended Leading and Empowerment training offered by University of South Pacific (SI) Centre;
- Assistant Manager Finance and Training Officer have attended “Team Building training” offered by University South Pacific (SI) Centre; and
- System Network Administrator attended “IPV6 training” facilitated by Solomon Telekom Company.

Media and Public Relations

Disseminating of information through the local nationwide radio – SIBC continues throughout the year. The information disseminated was about the functions of the Fund and the benefits to members. There were fifty-two “current with NPF” radio programs aired on SIBC to members and public in the year. More awareness about the Fund was provided to members and employers through inspectorate site visits on employers’ premises and workshop programs. On major educational awareness program to inform members about the Fund’s developments, its functions, members’ benefits and successes was carried out by General Manager and Manager Operations in three locations on Malaita

Province namely: Auki town, Malu’u station and Takwa Catholic mission. Another similar program was held at Noro town, Western Province to the employers and employees prior to a Board meeting. These were successful educational awareness programs proven to be an effective interactive medium which were highly acknowledged by the participants.

Managing Fund’s Record

Re-activating the Archives functions and operations has been progressing well after the Senior Archivist and Assistant Archivist Officer were recruited and appointed. It is important to note that the Fund has held valuable members’ records in its possession which are thirty-two years old since its inception. The records need to be properly stored and managed effectively for easy retrieval when the need do arise in future.

During the year, archiving activities progressing well include: sorting and filing, accessioning, de-accessioning, labeling, shelving and discarding obsolete records. These activities undertaken are in preparation to electronically store the members’ and employers’ information files in the very near future. In so doing, the existing office spaces occupied by members’ files and other documents are available for commercialization i.e. leasing/renting.

Fleet Management

To improve and care for vehicles, the Fund has endorsed a Vehicle Policy during the year. The policy guidelines covers areas which are essential for better use of vehicles by all the drivers including: employment criteria, permitted staff licensed, vehicle care, driver’s responsibilities check-list, use of mobile phone, accident reporting, insurance cover, economic life-span and procurement. The Fund has nine vehicles for purposes of executing the functions of the Fund effectively hence realizing its strategic goals. All vehicles are utilized in Honiara while a vehicle was allocated to Auki NFP Branch, Malaita Province.

INFORMATION & COMMUNICATION TECHNOLOGY

Information technology (IT) department continues with its commitment in providing reliable and delivery of “real-time” information to assist the Board and management in making prudent decisions. In this respect, there are ongoing system improvements being the core focus during the year. Having an effective information data system and communication process will minimize unnecessary costs to the Fund. Policy procedures and controls are made current to meet the necessary changes in information management systems

coupled with the acquisition of appropriate hardware and software to meet the Fund’s requirements. Capacity building through appropriate training has been an important agenda exercise during the year to better equip staff to effectively undertake their current and future work challenges.

Security Improvements

For security reasons, smoke and fire detectors were installed in various rooms within the Information Technology Department. Furthermore, to maintain the network environment from external and internal threats, the Fund continues to ensure the validity of the firewall, content keepers and “Kaspersky” anti-virus through annual maintenance, support and routine updates. A new rack was installed to ensure servers are safely stacked onto rack. In so doing, this has freed up more space for other purposes.

Evaluation, Design and Development

The contribution system has been continuously enhanced to improve the system to provide effective and reliable services to employers and members of the Fund. Those improvements including:

(a) Computerize Nominee Trustee Account

Since the establishment of the Fund, the members’ beneficiary account (Trust Account) was separately maintained manually and records were kept on excel spreadsheets files. This particular function is now successfully computerized and all records have been migrated to the contribution database.

(b) Computerize Verification Process

Verification processes have been enhanced to the Employer, Member Registration functions and Members unidentified allocation functions. This enabled the verification of the correctness of the data in the system prior to approval of processing of the data.

(c) Security Door Access and Attendance System

During the year, the Fund acquired and implemented the Security Door Access and Attendance System after thorough assessment and evaluation have been done. Moreover, the Fund acquired software called Genesis Pro. Genesis Pro together with necessary hardware for both and these systems will be installed in financial year 2012. The Time and Attendance system is to replace the manual recording of time and attendance of staff at work. In addition, an Access system along with the time and attendance system was installed. The security access system restricts unnecessary entry into offices within the NPF building. Authorized persons are given

cards to enter.

The Fund acquired “Pro-genesis” software for the running of the Property Department, whose completion is scheduled for Year 2012.

Infrastructure Enhancement

New cubicle furniture installed to realize efficiency in utilization of space and cables network within offices. Furthermore, the Fund has acquired a new Windows 2008 server which is necessary due to the rapid increase of databases as well as to enable providing effective backup services.

New servers have been established at NPF Branch Offices at Gizo and Auki. This enables the Branch Offices to remotely have access to the contribution data at NPF Head Office, Honiara. In so doing, the members calling at the two Branch Offices can have access to their current contribution balances. This was not the case in the past since the establishment of the Branches.

Software Implementation and Upgrades

Office software “Window 2008 server” was acquired to upgrade Window 2003. MS Office was also upgraded from MS Office 2007 to 2010. Pertaining to the deployment of Micro-pay Meridian System, the HR and Payroll “Meridian” have been set-up, implemented and deployed successfully. One of the advanced features compared to the old payroll system is that pay slips can now be e-mailed to staff thus reducing costs. Moreover, this can now integrate with the accounting software MYOB.

The Archives Reference Management System was successfully implemented for the archiving purposes of the Fund’s old records. This system aims to help in the easy locating of the physical archived members and other working files by permitted staff when such need do arise in future.

System Administration

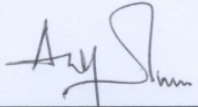
During the year, five (5) user accounts were created for the newly employed staff and eight (8) user accounts disabled for employees who have left the Fund. The Department continues to grant and/or deny user’s access to the systems of the Fund based on approval from Departmental Managers to meet their specific needs. There are forty-three (43) requests received to either grant or deny user access to various systems of the Fund. The systems being administered include: Working Directories/folders (File Management), Internet & email (Communication), MYOB Account Right (Accounts), NPF2000 system (Contribution System), Meridian (HR & Payroll), Pro-genesis (Property Management System), MYOB Asset Manager (Asset Management) and Reference Manager (Archives).

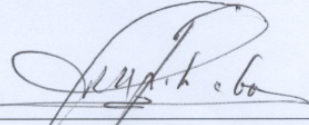
Statement by Directors

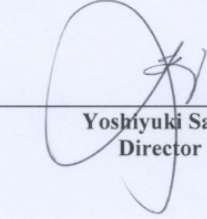
In accordance with a resolution of the Directors of Solomon Islands National Provident Fund (“Fund”), we state that -

In the opinion of the Directors:

- (a) the statement of net assets is drawn up so as to present fairly the state of affairs of the Fund as at 30 June 2011
- (b) the statement of changes in net assets is drawn up so as to present fairly the profit of the Fund for the period ended 30 June 2011.
- (c) the statement of changes in members funds is drawn up so as to present fairly the state of members’ contributions held by the Fund for the period ended 30 June 2011.
- (d) the financial statements have been made out 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.


Austin Holmes
Chairman of the Board


Tony Makabo
General Manager (CEO)


Yoshiyuki Sato
Director

Dated this 12th day of October 2011

It is anticipated the reviewed manual will certainly captured some contemporary internal auditing approaches and methods. In so doing, this will provide a guiding auditing tool to ensure audit compliance to the required standards and international professional practicing framework hence the consistency with the best audit practice and ethics.

There are auditable areas identified as list of focus areas for future audit reviews to enhance further compliance,

improvement, effectiveness and productivity. In this instance, the internal audit reviews to be conducted on administrative operations, finances, investment, contribution receipts and withdrawals will ensure strict compliance to applicable laws and regulations, policies and procedures, sufficient controls on assets and internal control environment of automated information processing systems. Additionally, plans are in place for professional certification of staff in the future.

LEGAL SERVICES

Legal services were rendered to the Board and Management by both Internal and External Counsels on legal matters including: prosecution, civil litigation, corporate conveyance and provisions of opinions and general advice. The external Legal Counsels are engaged on specific legal assignments on complex legal matters with support from the in-house Counsel.

Loan Defaults

The Fund still retains members’ housing portfolio which has reduced substantially and is administered by the Investment Department. It is the Fund’s policy to prosecute any borrowers who have defaulted on their loans and whose arrears are accrued for more than 3 months. Thus, the Legal department is required to comply with that policy statement. During the period, there were 54 default housing loan cases – a reduction by 33 cases from 87 cases been carried forwarded for legal actions since Year 2010. None of these cases was outsourced to external legal firms. The outcomes of the default legal cases pursued were encouraging. 4 legal cases fully extinguished by members while 50 member clients have cleared their arrears and are now current with loan balances. There are some who went to the extent of making advanced repayments to further reduce loan balances. It is believed that members understood the value or benefits of home-ownership hence have recognized and are committed to undertake their obligations to repay respective housing loans.

Pertaining to lease rentals, there are 3 rental arrear cases incurred by former tenants during the year. All arrear cases were pursued with legal actions and are now before the Courts while the rest are statute barred under the Limitation Act.

Employer Defaulters

A majority of employers are fully committed in meeting their statutory obligations in paying members’ contributions and thus they are current with contribution payments to the Fund. However, there are 40 cases being prosecuted while other default cases awaiting confirmation of contribution balances. Upon receiving consent orders, the employers promptly settled their non-payment of contribution arrears with the Fund. Other employers have made upfront payments when served with the Court documents to extinguish outstanding arrears due to refusal to appear in court. There are a number of cases pending before Courts while others are to be served with enforcement orders.

Services by External Counsel

The Fund has outsourced major legal cases during the year. The legal case on Ranadi land is progressing in Court. The matter has reached the eviction stage however the Board has given its instruction to stay enforcement proceedings. Another major legal case is the South Pacific Oil Ltd. The legal case is between two shareholders - SINPF Board and GRP and Associates pertaining to serious weakness in fiduciary responsibility alleged against the former Managing Director – Mike Hemmer. The legal case is progressing in the High Court. It is envisaged the case will be settled in year 2012 or beyond.

Provision of Legal Advice

Legal advice is provided to the Board and Management on general operational aspects of the Fund from time to time, in particular the operations and investment departments which deal directly with contribution receipts and withdrawals and investment matters. This is to ensure that policy development guidelines and implementation processes are consistent with the SINPF Act, other applicable laws and regulations. Legal assistance was provided to solicit employers to perform their obligations to pay contributions from time to time. The Internal Legal Counsel was also heavily involved in vetting, drafting and negotiating contracts between the Board and Service Providers in the investment projects implemented or about to be implemented.

Of the 3 legal cases being pursued against the Fund, there were 2 civil claims for breach of contracts, one was settled out of court and one is currently before the High Court and is pending final determination by the Court. Another case is an unfair dismissal case which is still pending determination by the Trade Dispute Panel.

ACKNOWLEDGEMENT

The Fund has achieved another year of growth in members’ contributions, investments and rebounded returns to members. These financial outcomes cannot be realized without the direction of the Board of Trustees and their leadership and commitments, members, employers and other stakeholders. In this respect, I would like to take this opportunity to thank them all for their genuine cooperation, continuous support and feedbacks. We do recognize our fiduciary responsibility to the members and we will continue to perform our various responsibilities with commitments and determination.

Rebuilding and growing the members’ confidence, trust and respect in what we do undertake for the Fund remains our priority. In this connection, we will continue to exercise good governance – transparency, accountability and responsibility in respect to the Fund’s operations through greater disclosures and awareness to members and other stakeholders. In addition, we are committed to ensure members are satisfied with the level of returns delivered and sustainable growth of their retirement savings with the Fund.

Lastly, I would like to render my appreciation to the management team and staff who have been very supportive and cooperative with continuous commitment and teamwork attitude in carrying out their respective duties in realizing the Fund’s strategic objectives and financial outcomes. Without their untiring valuable contributions to the Fund, the financial results enjoyed by members for this year would not have been achieved. I believe the untiring support and teamwork will be sustained in years ahead for the benefit of members and our beloved nation – Solomon Islands.

I look forward to working with you all again in the next financial year with the same commitments and support to try and achieve better financial results in the future. The staff’s commitments, trust and respect have been crucial in achieving the positive results during the financial year 2011.

Tagio tu mas.

General Manager & CEO

SOLOMON ISLANDS NATIONAL PROVIDENT FUND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

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SOLOMON ISLANDS NATIONAL PROVIDENT FUND

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	June 2011 \$	June 2010 \$
INVESTMENT INCOME			
Interest	3 (a)	35,093,480	35,474,355
Dividends	3 (b)	52,631,946	32,000,924
Rentals	3 (c)	14,513,571	11,421,843
Net gain/(loss) on changes in fair values of financial assets	3 (d)	<u>27,159,664</u>	<u>(23,549,821)</u>
Total investment income		<u>129,398,661</u>	<u>55,347,301</u>
OTHER INCOME			
Surcharges		4,548,974	5,262,028
Sundry	3 (e)	1,326,426	3,559,304
Gain on sale of fixed assets		<u>187,449</u>	<u>196,507</u>
Total other income		<u>6,062,849</u>	<u>9,017,839</u>
TOTAL INCOME		<u>135,461,510</u>	<u>64,365,140</u>
LESS: OPERATING EXPENDITURE			
Normal operating expenses	3 (f)	43,960,855	29,333,772
Members expenses		1,644,467	971,183
Doubtful debts		<u>1,999,846</u>	<u>1,149,491</u>
TOTAL EXPENDITURE		<u>47,605,168</u>	<u>31,454,446</u>
GROSS SURPLUS		<u>87,856,342</u>	<u>32,910,694</u>
Less: Appropriation			
Interest credited to members		78,884,952	39,663,715
NET SURPLUS/(DEFICIT)		<u>8,971,390</u>	<u>(6,753,021)</u>

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



Solomon Islands Office of the Auditor General

Independent Auditor's Report

To the Board of Directors of Solomon Islands National Provident Fund

Scope

I have audited the accompanying financial report of Solomon Islands National Provident Fund ("Fund"), which comprises the statement of net assets as at 30 June 2011, and the statement of changes in net assets, statement of changes in members fund and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes and the statement by directors declaration, as set out on pages 1 to 30.

Management's Responsibility for the Financial Report

The Board of Directors and Management of Solomon Islands National Provident Fund ("Fund") are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and with the requirements of the Solomon Islands National Provident Fund Act (Cap 109) and other applicable laws and regulations. This responsibility includes implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, 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 the financial report 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 report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 estimates made by the Board and Management, as well as evaluating the overall presentation of the financial report.

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

Basis for Qualified Audit Opinion

I was not provided with sufficient appropriate audit evidence in relation to the Members Contribution Liability of \$1,147,946,213. Consequently I was unable to determine if any adjustment to this amount was necessary.

Qualified Audit Opinion

In my opinion, except for the possible effects of any adjustments that might have been necessary in respect of the Members Contribution Liability, the report of Solomon Islands National Provident Fund (“Fund”), presents fairly in all material respects of the Fund’s financial position as at 30 June 2011 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying my opinion further, I draw your attention to note 12 to the financial statements. The operations of the Fund and those similar enterprises operating in the Solomon Islands have been affected and may continue to be affected for the foreseeable future by the continuing social and economic uncertainties existing for enterprises operating in the Solomon Islands. The majority of the fund’s assets are exposed to these uncertainties. I also draw your attention to note 13 to the financial statements regarding the contingent liability of the Fund should the members take legal action to recover the interest not credited to the member’s contribution.



Peter Johnson
Acting Auditor-General

Office of the Auditor-General
Solomon Islands

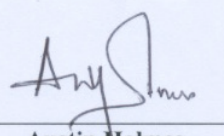
14 October 2011

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

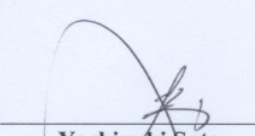
STATEMENT OF NET ASSETS
AS AT 30 JUNE 2011

	Note	June 2011 \$	June 2010 \$
RESERVES			
Revaluation Reserve	4 (a)	46,904,402	46,904,402
General Reserve	4 (b)	49,533,405	40,429,312
Total reserves		96,437,807	87,333,714
Represented by:			
INVESTMENTS			
Held to maturity	6 (a)	584,825,177	590,578,503
Financial assets at fair value	6 (b)	300,480,805	259,043,753
Investment properties	6 (c)	90,149,111	74,385,000
Loans and advances	6 (d)	88,579,189	20,072,298
Total investments		1,064,034,282	944,079,554
OTHER ASSETS			
Cash	14	51,474,055	38,182,885
Receivables	5	74,225,086	55,818,085
Property, plant and equipment	8	69,172,613	48,393,498
Total other assets		194,871,753	142,394,468
LIABILITIES			
Creditors		1,281,408	1,259,842
Accruals and Provisions	9	10,776,608	9,929,830
Special Death Benefits		2,463,999	2,600,385
Members Contribution		1,147,946,213	985,350,251
		1,162,468,228	999,140,308
NET ASSETS		96,437,807	87,333,714

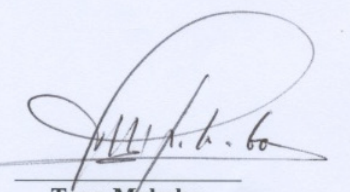
The balance sheet should be read in conjunction with the accompanying notes.



Austin Holmes
Chairman of the Board



Yoshiyuki Sato
For Deputy Chairman



Tony Makabo
General Manager (CEO)

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

(e) Interest on Members Account

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

(f) Property, plant and equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of independent valuation prepared by external valuation experts, based on discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in the financial statements of the company, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

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

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

Plant and equipment, leasehold improvements and equipment under finance lease 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 amount payable in future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value at 10% of cost. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives residual values and depreciation method is reviewed at the end of each annual reporting period. Intangible Assets in particular, computer software will amortize over 10 years in general and reviewed at least at each annual reporting report. The amortization over the useful life will be based on the pattern of benefits using straight line method.

The following estimated annual rates are used in the calculation of depreciation:

Buildings	5%
Office equipment	25%
Motor vehicles	25%
Plant and equipment	25%
Furniture and fittings	25%

(g) 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.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

STATEMENT OF CHANGES IN MEMBERS FUND
AS AT 30 JUNE 2011

		June 2011	June 2010
		\$	\$
Opening Balance at 1 July		985,350,251	875,246,121
Add:	Contributions received during the year	161,625,253	138,874,961
	Interest on members accounts	78,678,994	39,663,715
		1,225,654,498	1,053,784,797
Less:	Contribution Withdrawals	79,325,514	68,170,101
	Transfer to SDB reserve	507,469	488,726
	Transfer to general reserve	132,702	22,908
		79,965,685	68,681,735
Total changes in members fund		1,145,688,814	985,103,062
Add/(less):	Adjustment to contribution account*	2,257,399	247,189
Balance at 30 June		1,147,946,213	985,350,251
Represented by:			
Identified		1,113,687,223	957,935,112
Unidentified		9,356,640	5,778,753
Contribution Creditors		23,261,002	21,636,386
Provisions - Contributions		1,641,348	-
		1,147,946,213	985,350,251

*Adjustment to contributors account relates to adjustment taken up in order to agree the contributors balances per NPF2000 to the general ledger balance maintained in MYOB. The closing balance of \$1,147,946,213 agrees to the NPF2000 contributors accounts at 30 June 2011.

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 2011

		June 2011 \$	June 2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES	Notes		
Receipts from investments and customers		57,289,649	55,718,287
Payments to suppliers and employees		(41,539,663)	(25,159,227)
Interest and benefits paid to members		<u>(1,644,467)</u>	<u>(971,183)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	14 (b)	<u>14,105,519</u>	<u>29,587,877</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(34,289,374)	(1,672,422)
Investment in loan portfolios & members etc		<u>(50,119,410)</u>	<u>(81,124,482)</u>
NET CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES		<u>(84,408,784)</u>	<u>(82,796,904)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(Decrease) in contribution balance		84,153,145	70,952,225
Payment of special death benefits		<u>(558,710)</u>	<u>(523,594)</u>
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		<u>83,594,435</u>	<u>70,428,631</u>
NET INCREASE/(DECREASE) IN CASH HELD		13,291,170	17,219,604
Add opening cash brought forward		<u>38,182,885</u>	<u>20,963,281</u>
CLOSING CASH CARRIED FORWARD	14 (a)	<u>51,474,055</u>	<u>38,182,885</u>

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 2011**1. GENERAL INFORMATION**

The Solomon Islands National Provident Fund Act (Cap 109) was established in 1973 as superannuation or saving scheme for all employees who are members of the Fund. An employee is any person who has attained the age of 14 years of age, is not exempt and is employed under a contract of service, irrespective of the period for which a person is employed.

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

Benefits from the Fund are paid to members on attaining the age of 50 years, on death, 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 preparations**

The financial statements of the Fund are based on International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASB except where the National Provident Fund Act (CAP 109) requires different treatment in which case the Act takes precedent. They are prepared under the historical cost basis and do not take into account changing money values except where stated. The accounting policies have been consistently applied over the reporting and comparative years.

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

All accounts of the Fund are maintained on accrual account basis except the Contributions Account.

(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 on SDB for the year ended 30th June 2011 was \$6,000.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

3. INCOME AND EXPENSES

Net surplus/(deficit) for the year is arrived at considering the following:

	June 2011 \$	June 2010 \$
(a) Interest income		
Cash at bank	111,566	52,975
Treasury bills	274,609	230,234
Bonds	10,671,799	4,656,718
Loans and advances	1,230,119	1,781,325
Investment securities:		
- Held to maturity	22,805,387	28,753,103
Total	<u>35,093,480</u>	<u>35,474,355</u>
(b) Dividend income		
Quoted shares	4,153,776	3,495,021
Unquoted shares	48,033,313	28,113,838
Managed funds	444,857	392,065
Total	<u>52,631,946</u>	<u>32,000,924</u>
(c) Rental income		
Investment properties	10,766,231	9,808,649
Others	3,747,340	1,613,203
Total	<u>14,513,571</u>	<u>11,421,852</u>
(d) Gain/(loss) from changes in fair values		
Investment Properties	6,049,346	1,728,651
Fair value through profit and loss	21,110,318	(25,278,472)
Total	<u>27,159,664</u>	<u>(23,549,821)</u>
(e) Sundry income		
Bad debts recovery	371,592	2,592,145
Risk premium fee - Bank South Pacific	782,718	782,718
Others	172,117	184,441
Total	<u>1,326,427</u>	<u>3,559,304</u>
(f) Operating expenses		
Board and management allowances	456,588	192,249
Utilities (water, electricity)	10,990,648	7,512,277
Repairs and maintenance	10,793,832	4,418,530
Land rates and rental charges	352,249	240,758
Administrative expenses	4,204,405	3,237,831
Depreciation expenses	3,769,060	4,190,532
Insurance expenses	564,693	496,960
Audit fees	275,000	397,786
Bank charges	56,876	53,989
Consultancy fees and expenses	2,966,785	817,690
Staff costs	9,530,719	7,775,170
Total	<u>43,960,855</u>	<u>29,333,772</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

(h) Allowance for Doubtful Loans and Investments

Any 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 receivables. Objective evidence that receivables are impaired includes observable data that come to the attention of the Fund about the following events:

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

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

(i) Financial Instruments

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- (i) has been acquired principally for the purpose of selling in the near future;
- (ii) is a part of an identified portfolio of financial instruments that the Fund manages together and has a recent actual pattern of short-term profit-taking; or
- (iii) is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in statement of changes in net assets incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates where that the group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Where applicable, certain shares and redeemable notes held by the Fund would be classified as being available-for-sale and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in the statement of changes in net assets for the period.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Dividends on available-for-sale equity instruments are recognised in the statement of changes in net assets when the Fund's right to receive payments is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the statement of changes in net assets, and other changes are recognised in equity.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of changes in net assets.

With the exception of available-for-sale equity instruments, 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, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in the statement of changes in net assets incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

(j) **Cash and cash equivalents**

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

(k) **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.

(l) **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.

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.

(m) **Payables**

Trade payables and other accounts payables are recognised when the company becomes obliged to make future payments resulting from the purchases of goods and services.

(n) **Computer systems development costs**

Costs incurred to develop and enhance the company's computer systems are capitalised to the extent that benefits do not relate solely to revenue that has already been brought to account and will contribute to the future earning capacity of the economic entity. These costs are amortised over the estimated economic life of four years using the straight-line method. Costs associated with maintaining computer software programs are recognised as an expense when incurred.

(o) **Investment Property**

Investment property is carried at fair value and changes in fair value are accounted for through the profit and loss.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG) - continued

Nb: after 7 years monthly repayment on 14 years bond will increase to \$248,721 until debt is fully repaid.

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

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

(ii) Amortized Treasury and Development Bonds

The Fund's investment in these securities consists of Bonds that were amortized on the Deed dated 2nd 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 30/06/2011
7,414,528	7 yrs	2.00%	94,665	15/11/2011	470,965
14,829,056	10 yrs	2.00%	136,447	15/11/2014	5,403,129
14,829,056	13 yrs	2.00%	108,029	15/11/2017	7,800,525
37,072,641	15 yrs	2.50%	77,234	15/11/2019	37,072,641
74,145,281			416,375		50,747,260

Nb: after 7 years monthly repayment on 15 years bond will increase to \$426,478 until debt is fully repaid.

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

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

(iii) Treasury Bills

The Fund recommenced tendering 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 \$5,859,670. These were mostly 91 days treasury bills secured at rates between 3.75% and 4% pa.

(iv) SIG - Soltai Ammortising Bond

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

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

4. RESERVES AND OPERATING FINANCIAL PERFORMANCE

The following is a summary of the reserves held:

- Revaluation Reserve
The last revaluation was done on 31st May 2009. The revaluation surplus/loss is credited to the revaluation reserve. The next revaluation of the land and buildings will be carried out in the subsequent 3 years.
- General Reserve
General revenues less normal operational expenses are credited to the General Reserves unless otherwise appropriated.

The following items are credited to the reserve each year:

- Net unappropriated surplus from operation.
- Unallocated contributions outstanding more than 5 years from the Unclaimed Deposit Account.

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

	June 2011	June 2010
	\$	\$
(a) Revaluation Reserve		
Opening Balance	46,904,402	46,904,402
Add: Revaluation during the year	-	-
Balance at 30 June	<u>46,904,402</u>	<u>46,904,402</u>
(b) General Reserve		
Opening Balance	40,429,313	47,159,425
Transfers - Unclaimed Contributions	132,702	22,908
Transfers from General Reserve	-	-
Net surplus/(deficit) for the year	<u>8,971,390</u>	<u>(6,753,021)</u>
Balance at 30 June	<u>49,533,405</u>	<u>40,429,312</u>
Total reserve	<u>96,437,807</u>	<u>87,333,714</u>

5. RECEIVABLES

Interests	22,288,256	13,892,607
Rentals	682,237	506,544
Dividends	48,843,046	39,012,077
Surcharges	11,386,190	12,178,803
Others	1,631,051	1,377,887
	<u>84,830,780</u>	<u>66,967,918</u>
Less: Allowance for doubtful debts	<u>(10,605,694)</u>	<u>(11,149,833)</u>
	<u>74,225,086</u>	<u>55,818,085</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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The allowance for doubtful debts of \$10,605,694 is provided against arrears on surcharges and rental charges.

	June 2011	June 2010
	\$	\$
6. INVESTMENTS		
(a) Held-to-maturity investments		
On shore deposits	325,883,761	335,559,821
Offshore deposits	<u>130,675,978</u>	<u>122,464,071</u>
Total deposits	456,559,739	458,023,892
Government securities	<u>128,265,438</u>	<u>112,554,611</u>
Total	<u>584,825,177</u>	<u>570,578,503</u>
The movement in investment securities held-to-maturity:		
Balance at beginning of year	570,578,503	512,446,103
Purchases	198,760,242	269,925,472
Disposals	<u>(184,513,568)</u>	<u>(211,793,072)</u>
Closing balance	<u>584,825,177</u>	<u>570,578,503</u>
(b) Financial assets carried at fair value through profit and loss		
Equity securities at fair value		
- Listed	103,013,141	85,659,617
- Unlisted	<u>-</u>	<u>-</u>
Total equities at fair value	<u>103,013,141</u>	<u>85,659,617</u>
Equity at cost		
- Listed	-	-
- Unlisted	<u>197,467,664</u>	<u>173,384,137</u>
Total equities at cost	<u>197,467,664</u>	<u>173,384,137</u>
Less: Allowance for impairment of unlisted equities		
Total equities at cost and fair value	<u>300,480,805</u>	<u>259,043,753</u>
The movement in investment securities carried at fair value through profit and loss:		
Balance at beginning of year	259,043,753	238,377,628
Purchases	356,574,758	50,846,600
Disposals	<u>(336,248,024)</u>	<u>(4,902,003)</u>
Gain/(loss) from change in fair value	<u>21,110,318</u>	<u>(25,278,471)</u>
Closing balance	<u>300,480,805</u>	<u>259,043,753</u>

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	June 2011 \$	June 2010 \$
(c) Investment properties			
Land and building at valuation/cost			
Opening Balance		74,385,000	72,656,349
Net book value (at cost) transfer from property, plant and equipment	8	(720,000)	-
Addition		10,434,765	-
Gain from fair value adjustment *		<u>6,049,346</u>	<u>1,728,651</u>
Closing valuation/cost balance		<u>90,149,111</u>	<u>74,385,000</u>
Closing written down value		<u>90,149,111</u>	<u>74,385,000</u>
(d) Loans and advances			
- Commercial loans		74,391,470	24,089,337
- Member schemes		12,391,927	14,443,628
- Staff schemes		<u>3,442,405</u>	<u>3,531,710</u>
Total gross loans and advances		90,225,802	42,064,676
Allowance for doubtful debts		<u>(1,646,613)</u>	<u>(1,992,377)</u>
Net loans and advances		<u>88,579,189</u>	<u>40,072,299</u>
The break down is as follows:			
- Current		5,117,996	22,729,941
- Non current		<u>83,461,193</u>	<u>17,342,358</u>
Total		<u>88,579,189</u>	<u>40,072,299</u>

*Independent valuations of the Fund's Investment properties were performed by Value Solution Appraisal to determine the fair value of the land and buildings. The valuations, which conforms to international valuation standards, were determined by reference to the current market values of the land and buildings. The effective dates of the valuation was 8th June 2011.

7. AMOUNT DUE BY SOLOMON ISLANDS GOVERNMENT (SIG)**(a) GOVERNMENT SECURITIES****(i) Amortized Restructured Bonds**

On 15 July 2004 a Deed was signed by SI Government and bond holders (Judgement Creditors) for the amortization of restructuring bonds (SINPF \$55.5m) that the Government owed and had fully defaulted on. Under the Deed it was agreed by the parties that the principal debts are 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 on restructuring bonds were restructured as follows:

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

Principal	Term	Rate	Installment	Maturity Date	Balance 30/06/2011
5,550,000	7 yrs	3.00%	59,138	15/07/2011	59,088
11,100,000	10 yrs	3.00%	97,732	15/07/2014	3,506,852
11,100,000	13 yrs	3.00%	78,089	15/07/2017	5,367,450
25,850,000	14 yrs	3.50%	53,009	15/12/2018	25,444,600
53,600,000			287,968		34,377,990

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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8. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings \$	Machinery and Equipment \$	Motor Vehicles \$	Furniture and fittings, computer equipments and others \$	Total \$
AT COST/VALUATION					
Balance as at 1 July 2010	35,635,000	7,356,293	2,086,419	7,291,232	52,368,944
Additions/transfer from IAS 40	720,000	1,095,560	1,185,773	1,195,787	4,197,120
Revaluation increment	-	-	-	-	-
Transfer/Disposal		(1,171,786)	(481,327)	(270,240)	(1,923,353)
Balance as at 30 June 2011	<u>36,355,000</u>	<u>7,281,959</u>	<u>2,790,865</u>	<u>8,216,779</u>	<u>54,642,711</u>
ACCUMULATED DEPRECIATION					
Balance as at 1 July 2010	2,224,165	5,491,663	1,715,896	5,292,401	14,724,125
Charges	1,663,000	814,948	377,864	913,250	3,769,062
Transfers/Disposal	(999)	(1,171,786)	(481,327)	(270,240)	(1,924,352)
Balance as at 30 June 2011	<u>3,886,166</u>	<u>5,134,825</u>	<u>1,612,433</u>	<u>5,935,411</u>	<u>16,568,834</u>
Written Down Value As at 30 June 2011	<u>32,468,834</u>	<u>2,147,134</u>	<u>1,178,432</u>	<u>2,281,368</u>	<u>38,073,877</u>
Work in progress	30,004,462	-	-	1,094,274	31,098,737
Carrying Value as at 30 June 2011	<u>62,473,296</u>	<u>2,147,134</u>	<u>1,178,432</u>	<u>3,375,642</u>	<u>69,172,613</u>
Carrying Value as at 30 June 2010	<u>43,446,087</u>	<u>1,864,630</u>	<u>370,523</u>	<u>2,712,258</u>	<u>48,393,498</u>

Aggregate depreciation recognized as expense during the year:

	June 2011 \$	June 2010 \$
Land and buildings	1,663,000	1,629,468
Machinery and equipment	814,947	753,566
Motor vehicles	377,863	332,354
Furniture and fittings, computer equipments and others	<u>913,250</u>	<u>1,475,144</u>
	<u>3,769,060</u>	<u>4,190,532</u>
Capital works in progress		
Balance as at 1 July 2010	10,748,679	10,112,903
Additions	20,350,057	635,776
Transfers		-
Balance as at 30 June 2011	<u>31,098,736</u>	<u>10,748,679</u>

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

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

The balance of the ammortising bonds as at the end of the year was \$5,446,067.

(v) SIG - SICHE Ammortising Bond

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

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

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

The Agreement provides for an annual review of interest rate on 9th November each year according to the Treasury Bills rate referred to above based on the last published Treasury Bill Auction result published prior to 9th 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 9th November each year in multiples of \$2,000,000 with prior 90 days written notice.

The balance of the ammortising bond at the end of the year was \$5,794,452.

(b) SHARES**(i) SOLOMON ISLANDS HOME FINANCE LIMITED**

On the settlement date of 27th April 2009, the Fund's Board acquired from the SIG its fully paid shares of 5,109,091 in Solomon Islands Home Finance Limited (SIHFL) for \$13,866,987.

SIHFL is the Fund's vehicle to provide housing solutions for members of the Fund on commercial terms.

(ii) SOUTH PACIFIC OIL LIMITED

The Fund had fully paid up its allotted 40,000,000 shares at \$1 per share.

The shareholders agreement provides, subject to performance, for GRP Limited to increase its share proportion by 5% in new share issues. After the fourth year, GRP is allowed to increase its shares to the maximum of 25%. This is done to protect the interest of the Fund as a substantive contributor of initial capital, and to ensure that SINPF retains majority control over the company.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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GRP Limited also under the Shareholders Heads of Agreement is tasked to manage the business and the technical affairs of the company in the first four years of the company’s operations.

At the end of the financial year, the Fund’s shareholding was diluted to 80%.

(iii) HERITAGE PARK HOTEL LIMITED

During the year the Board of the HPHL recommended and was agreed to by shareholders to restructure the company’s capital structure by apportioning 70% of the paid up equity to shareholders loans and 30% to equity. SINPF exposure’s immediately following the restructure were as follow; \$7,246,826 equity and \$16,909,260 in shareholder’s loan for a total exposure of \$24,156,085.

In the first 5 years the loan will be interest free. Post 5 years, the loan will be charged at 1% below the domestic market lending rate and repayment to be determined by Board resolution.

In the first 5 years dividends only will be paid maximising the benefit of the company’s 5 years tax holiday, post 5 years, the dividend policy will be determined by Board resolution.

The Fund during the year reimbursed \$ 4,693,940 to CGA Limited, one of the shareholders in the company to ensure that SINPF’s 20 shares in the company was maintained at 10% of the company’s shareholding structure. This lifted our total exposure in the company to \$ 28,850,025, with our equity closing at \$11,955,105 and the loan maintained at \$16,909,260 at the end of the financial year.

(iv) BANK SOUTH PACIFIC LIMITED

During the year, the Board approved a sale down of 4,445,550 shares to be sold at no less than 65toea per share. Papua New Guinea domiciled contracted Broker, Kina Securities was only able to sell down 1,892,138 shares at various prices of no less than the floor price of 65 toea, leaving a balance of 27,553,412 shares.

On 20th May 2011, at the Bank South Pacific Annual General Meeting (AGM) in Port Moresby, PNG, the AGM approved the share consolidation of 1:10 (one for ten) share consolidation. This translated to SINPF registered as holding 2,755,341.20 shares at the end of the financial year.

The BSP share price at the end of the year was \$22.09 per share.

(v) SOLTAI FISHING AND PROCESSING COMPANY LIMITED (SOLTAI)

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

(vi) SASAPE INTERNATIONAL SHIPYARD LIMITED (SISL)

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

SINPF has a 25% share in SISL worth \$2,500 priced at \$1 per share with SSL owning 75% of the share. The company under a renewable 10 years lease with the SINPF will operate and run the slipway commercial operations.

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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(vii) SOLOMON TELEKOM COMPANY LIMITED (STCL)

The Fund’s equity investments in Solomon Telekom Company Limited remained unchange during the year at 51,946,625 class A shares, representing 64.74% of the company’s shareholding. These shares are recorded at cost at \$89,115,662 in our books.

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

(viii) SOLOMON MUTUAL INSURANCE COMPANY LIMITED (SMI)/PROVIDENCE PROPERTIES LIMITED (PPL)

In 2007, the SINPF Board purchased WMI (PNG) Limited 75,000 shares prior to the company coming under a court appointed manager, managing the scheme of arrangement to pay out all policy holders, close the insurance business of the company with amendments to the company’s memorandum and articles of association, and changing the name of the company to Providence Properties Limited (PPL). The purchase of the shares from WMI (PNG) Ltd liquidators secured their support to agree with the scheme of arrangement proposed by the SINPF Board.

The court appointment manager having satisfied all the requirements under the scheme applied to the High Court for the termination of the scheme of arrangement in June 2010. The order granting the termination of scheme was made on 13th July 2010 allowing the management of the company to return to the PPL Board. The Board immediately approved the transfer of the shares from WMI (PNG) Limited to the SINPF Board and lodged the transfer of shares for registration with the Registrar of Companies.

Following the transfer of the shares, the SINPF Board holds 450,000 shares representing 90% of the company’s shareholding, with the balance of 10% still remaining under Siva Kumaran’s ownership.

(ix) 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.

The Fund Manager must have assets more than USD \$1 billion and the individual fund must be more than USD\$250,000.

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

At the end of the period the Fund has 1,343,192 units in UBS Australian Share Fund at the recorded price of \$11.71 per unit. During the year the Fund reinvested its quarterly distributions to purchase additional 31,276 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 \$100.19 per unit recorded at the end of the year. The Fund as well maintained the same level of units in Vanguard European Stock Index Fund at 64,673.62 with a closing price per unit of \$125.77 at the end of the year.

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

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

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14. RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES

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

	June 2011 \$	June 2010 \$
(a) Cash balance comprises of:		
Cash at bank	51,471,255	38,181,785
Cash on hand	<u>2,800</u>	<u>1,100</u>
	<u>51,474,055</u>	<u>38,182,885</u>
(c) Reconciliation of the operating Surplus/(Loss) after Interests to the net cash flows from operations:		
	June 2011 \$	June 2010 \$
Net surplus/(deficit) after interests to members	8,971,390	(6,753,021)
<i>Adjustments for:</i>		
Depreciation expense	3,769,060	4,190,532
Annual interests to members	78,884,952	39,663,716
Bad and doubtful debts	710,104	(984,523)
Net gain/(loss) in changes in fair values of financial assets	(25,352,466)	23,549,821
Gain on disposal of fixed assets	(187,449)	(196,507)
	June 2011 \$	June 2010 \$
Receivables and prepayments	(53,342,050)	(31,017,400)
Trade and provisions	651,978	1,135,260
Contributions	<u>-</u>	<u>-</u>
	<u>14,105,519</u>	<u>29,587,877</u>

15. EMPLOYEES

The number of full time permanent Fund employees as at 30 June 2011 was 112 and 111 in 2010.

16. SUBSEQUENT EVENTS

The events that has arisen since the end of the financial year that will significantly affected, or may significantly affect, the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years are highlighted below.

Solomon Mutual Limited/Provident Properties Limited - The Board in its April 2011 meeting approved the voluntary liquidation of Providence Properties Limited (PPL) with plans for SINPF to acquire the company's Honiara shorefront commercial properties.

The proceed of the sale of the company's properties will first be used to pay off the company's creditors, with the SINPF Board noted as a major creditor to the company. The balance will be shared among the two remaining shareholders according to their shareholding proportions.

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	June 2011 \$	June 2010 \$
The Work in progress comprise of the following significant projects:		
Residential land and building	-	75,008
Rental land and building	30,004,462	9,960,244
Computer project	<u>1,094,274</u>	<u>713,427</u>
	<u>31,098,736</u>	<u>10,748,679</u>

9. CURRENT LIABILITIES - ACCRUALS & PROVISIONS

Nominees trust account	3,059,272	2,793,920
Rental bond	1,702,834	1,483,673
Accruals and employee provisions	3,090,923	2,937,841
Provision for interest overpaid	<u>2,923,579</u>	<u>2,714,396</u>
	<u>10,776,608</u>	<u>9,929,830</u>

10. RELATED PARTIES DISCLOSURE

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 2011, this group comprises 18 in total, 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 (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 executive. The key management personnel are:

The specified directors of the Fund during the year were:

Names	Appointment	Date of Appointment	Term of Appointment	Date Appointment lapse	Representing
Mr Austin Holmes	Chairman	27 February 2010	2 years	27 February 2012	Employer
Mr. Danny Philip	Deputy Chairman	7 August 2008	3 years	10 October 2010	Minister's discretion
Mr. Peter Boyers	Deputy Chairman	11 October 2010	3 years	11 October 2013	Minister's discretion
Rev. Mareta Tahu	Member	26 January 2011	2 years	26 January 2013	Minister's discretion
Mr. Joses Tuhonuku	Member	7 August 2008	3 years	7 August 2011	Employees
Ms. Tina Harihiru	Member	26 January 2011	2 years	26 January 2013	Employees
Mr. Josiah Manehia	Member	26 January 2011	2 years	26 January 2013	Crown
Mr. Harry Kuma	Member	21 June 2010	2 years	21 June 2012	Crown
Mr. Yoshiyuki Sato	Member	21 June 2010	2 years	21 June 2012	Employer

The specified executives of the Company during the year were:

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Names	Position
Tony Makabo	General Manager
Ruth Alepio	Board Secretary
Alfred Sare	Manager Administration
Suzanne Orudiana	Manager IT
Aluta Kakadi	Manager Operations
Areau Hivu	Internal Auditor
Michael Wate	Manager Investments
Ishmael Kako	Legal Counsel
Rose Karoa	Manager Finance
Enly Gani	Manager Property

The remuneration of the Fund’s key management personnel were as follows:

	June 2011	June 2010
Total remuneration is included in ‘personnel expenses’ as follows:	\$	\$
Short-term employee benefits	2,491,853	2,223,587
Post-employment benefits	104,002	185,645
Other long-term benefits	-	18,241
Total Compensation	2,595,855	2,427,473

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 2011 loans by the Fund to key management personnel are as follows:

Housing Loan	214,335	265,074
Others	359,725	423,172
Total Loans	574,060	688,246

Major transactions with Government Organisations / Statutory Bodies for the year ended 30 June 2011 are as follows:

Name of company/organisation	Outstanding	Received	Total Form A’s/SD
Solomon Islands Electricity Authority			
Contribution	(488,479)	2,182,429	1,693,950
Surcharge	2,478,806	1,000,000	3,478,806
Solomon Islands Water Authority			
Contribution	535	794,166	794,701
Surcharge	71,582	51,284	122,866

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Total	2,062,444	4,027,879	6,090,323
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Name of company/organisation	Outstanding	Paid	Total Purchases
	Goods and Service	Goods and Service	Goods and Service
Solomon Islands Electricity Authority	847,919	9,877,002	10,724,921
Solomon Islands Water Authority	60,025	543,134	603,159
Total	907,944	10,420,136	11,328,080

Related Party transactions

For related party investment in other companies in Solomon Islands, refer to note 7.

11. AUDITORS REMUNERATION

Fees totaling \$275,000.00 was provided in the accounts for audit services this year (\$302,000) last year). No other benefits were received by the auditors (Office of the Auditor General) during the year other than fees paid for normal accountancy services.

12. 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.

13. CONTINGENT LIABILITY

(a) Deed between SINPF and SIG

Following the Deed signed on 2nd December 2004, as per Note 7(a) (ii) between Solomon Islands National Provident Fund and Solomon Islands Government, SINPF have credited the members with the contributions of \$35.4 million during 2005.

Due to the non-payment of the contributions the members were not credited interest on these contributions for the years ended 1999 to 2004. Concerns have been raised that members may take legal action to recover the interest not credited. If SINPF as Trustees is required to credit the interest for these members, then the interest would have to be paid out of General Reserves. It is not possible to quantify the amount of interest payable.

(b) Deed between SINPF and BSP

Following the Deed signed on 26th March 2007, between Solomon Islands National Provident Fund and Bank of South Pacific Limited and for the purpose of satisfying the BPNG prudential guideline, and in consideration for BSP entering into the said Sale Agreement, SINPF undertake to guarantee the performance of the Solomon Islands Government Long Term Bonds of Forty Two Million Four Hundred and Ten Thousand Solomon Dollars (SBD42,410,000.00).

The balance to date of the long term bonds is \$41,744,933.87.

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Accruals and Provisions	-	-	-	10,776,608	10,776,608
Special Death Benefits	616,000	739,200	1,108,800		2,464,000
Members Contribution	160,712,470	275,507,091	711,726,652	-	1,147,946,213
	161,328,470	276,246,291	712,835,452	12,058,016	1,162,468,228
Interest sensitivity gap	119,366,920	(21,231,417)	(223,186,491)	221,488,794	96,437,807

30 June 2010**Assets**

Held to maturity	6%	248,272,819	209,751,074	112,554,611	-	570,578,503
Financial assets at fair value	-	-	-	259,043,754	-	259,043,753
Investment properties	-	-	-	-	74,385,000	74,385,000
Loans and advances	-	2,729,941	20,000,000	17,342,358	-	40,072,299
Cash	-	38,182,885	-	-	-	38,182,885
Receivables	-	-	-	-	55,818,085	55,818,085
Property, plant and equipment	-	-	-	-	48,393,495	48,393,498
	6%	289,185,645	229,751,074	388,940,722	178,596,580	1,086,474,022

Liabilities

Creditors	-	-	-	-	1,259,842	1,259,842
Accruals and Provisions	-	-	-	-	9,929,830	9,929,830
Special Death Benefits	-	520,077	780,116	1,300,192	-	2,600,385
Members Contributions		197,070,052	295,605,075	492,675,126	-	985,350,251
		197,590,129	296,385,191	493,975,318	11,189,672	999,140,308
Interest sensitivity gap		91,595,516	(66,634,117)	(105,034,595)	167,406,908	87,333,714

(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 a fortnightly contributions payable through out the life-time of the member. The table below summarizes the Fund's exposures to liquidity risk and maturity analysis of assets and liabilities:

	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	Over 5 years	Total
	\$	\$	\$	\$	\$	\$
30 June 2011						
Assets						
Held to maturity	30,000,000	-	194,103,339	182,456,400	178,397,994	584,825,177
Financial assets at fair value	-	-	-	-	300,480,805	300,480,805
Investment properties	-	-	-	-	90,149,111	90,149,111
Loans and advances	-	-	5,117,996	72,558,474	10,902,718	88,579,188
Cash	51,474,055	-	-	-	-	51,474,055
Receivables	2,946,320	2,267,117	68,203,886	807,762	-	74,225,085
Property, plant and equipment	-	-	-	-	69,172,613	69,172,613
Total	84,420,375	2,267,117	267,425,221	255,822,636	649,103,241	1,258,906,035

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Solomon Airlines Limited - In April 2011, the Board approved a loan of US\$3.4 million to Solomon Airlines Limited to assist the company part finance the purchase of a new Dash 8 aircraft. The aircraft is no longer available for sale, therefore making the loan redundant.

17. FINANCIAL INSTRUMENTS

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 balance sheet 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 takes on exposure to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. Fund's maximum credit risk, excluding the value of collateral, is generally reflected in the carrying 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 by the balance sheet date, if any.

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

At balance sheet date concentrations of credit risk are noted for Bank South Pacific, ANZ and Westpac Bank.

The asset allocation at balance date is as follows:

	June 2011		June 2010	
	\$	%	\$	%
Assets				
Held to maturity	584,825,177	46%	570,578,503	52%
Financial assets at fair value	300,480,805	24%	259,043,753	24%
Investment properties	90,149,111	7%	74,385,000	7%
Loans and advances	88,579,189	8%	40,072,298	4%
Cash	51,474,055	4%	38,182,885	4%
Receivables	74,225,086	6%	55,818,085	5%
Property, plant and equipment	69,172,613	5%	48,393,498	4%
Total	1,258,906,035	100%	1,086,474,022	100%

The assets allocation range defines the high and low extremes within which each assets 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 Investment Manager 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 Investment Manager shall evaluate investment proposals to ensure viability and consistency with the approved investment strategy and prudential standards issued by Central Bank of Solomon Islands.

(b) Government security risk

The Fund has a significant exposure to the Solomon Islands Government (SIG) through its holding of government securities and bonds. The total holdings from SIG at 30 June 2011 is \$102,357,994 (June 2010: \$112,554,611).

(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

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assets and monetary liabilities at the end of the reporting period are as follows:

	Currency					Total
	SBD \$	AUD \$	USD \$	Euro \$	Others \$	
30 June 2011						
Assets						
Held to maturity	454,281,755	38,292,997	41,312,910	29,845,285	21,092,250	584,825,197
Financial assets at fair value	197,467,664	11,717,117	20,831,128	8,134,337	62,330,559	300,480,805
Investment properties	90,149,111					90,149,111
Loans and advances	88,579,189					88,579,189
Cash	51,474,055					51,474,055
Receivables	74,225,086					74,225,086
Property, plant and equipment	69,172,613					69,172,613
Total	1,025,349,472	50,010,114	62,144,038	37,979,622	83,422,809	1,258,906,035
Liabilities						
Creditors	1,281,408					1,281,408
Accruals and Provisions	10,776,608					10,776,608
Special Death Benefits	2,463,999					2,463,999
Members and Contributions	1,147,946,213					1,147,946,213
Total	1,162,468,228					1,162,468,228
Net	(137,118,756)	50,010,114	62,144,038	37,979,622	83,422,809	96,437,807
30 June 2010						
Assets						
Held to maturity	448,114,432	35,643,286	36,379,645	31,009,009	19,432,130	570,578,503
Financial assets at fair value	173,384,136	20,789,367	20,560,783	8,456,093	34,853,374	259,043,753
Investment properties	74,385,000	-	-	-	-	74,385,000
Loans and advances	40,072,298	-	-	-	-	40,072,298
Cash	38,182,885	-	-	-	-	38,182,885
Receivables	55,818,085	-	-	-	-	55,818,085
Property, plant and equipment	48,393,498	-	-	-	-	48,393,498
Total	878,350,334	56,432,653	56,940,428	40,465,102	54,285,504	1,086,474,022
Liabilities						
Creditors	1,259,842	-	-	-	-	1,259,842
Accruals and Provisions	9,601,257	-	-	-	-	9,601,257
Special Death Benefits	2,600,385	-	-	-	-	2,600,385
Members Contributions	985,350,251	-	-	-	-	985,350,251
Total	999,140,308	-	-	-	-	999,140,308
Net	(120,789,974)	56,432,653	56,940,428	40,465,102	54,285,504	87,333,714

Foreign currency sensitivity analysis

The Fund is mainly exposed to the currency of AUD, USD, Euro, GBP and PGK

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The following table details the Fund's sensitivity to a 10% increase and decrease in the Solomon Islands dollars against the relevant Foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis include only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. Where the SBD strengthen by 10% against the relevant foreign currency, a downside of the amount indicated below will reduce profit and equity by that amount. For a 10% weakening of the Solomon Islands dollar against the relevant currency, there would be a comparable positive impact that will improve profit and other equity by that same amount. The plus or minus amounts in the relevant currency are as noted below:

	AUD impact		USD impact		Euro impact		GBP impact		PGK impact	
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$
Changes in net assets	1,758,386	546,347	2,547,901	23,762	2,210,940	5,608,045	308,718	1,695,162	30,733,405	2,026,604
Other reserves	-	-	-	-	-	-	-	-	-	-

(d) Interest rate risk

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

The credit risk on held to maturity investments 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.

The table below summarizes the Fund's exposures to interest rates risk. It includes the Fund's assets and liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates:

	Weighted average effective interest rate %	up to 1 Year \$	1-5 years \$	Over 5 years \$	Non Interest Bearing \$	Total \$
30 June 2011						
Assets						
Held to maturity	5.07%	224,103,339	182,456,400	178,265,438	-	584,825,177
Financial assets at fair value		-	-	300,480,805	-	300,480,805
Investment properties					90,149,111	90,149,111
Loans and advances		5,117,996	72,558,474	10,902,718	-	88,579,188
Cash		51,474,055	-	-	-	51,474,055
Receivables		-	-	-	74,225,086	74,225,086
Property, plant and equipment		-	-	-	69,172,613	69,172,613
	5.07%	280,695,390	255,014,874	489,648,961	233,546,810	1,258,906,035
Liabilities						
Creditors		-	-	-	1,281,408	1,281,408