Annual Report

Central Bank of Solomon Islands

2013

The Central Bank of Solomon Islands logo is the "BOKOLO" a hand carved fossilized clam shell once used as currency in Western part of Solomon Islands

Cover: Sunrise over Grasiosa Bay, Lata, Temotu Province

VISION, MISSION, AND VALUE STATEMENTS

VISION

Solomon Islands be amongst the top 4 low inflation and financially stable countries in the South Pacific region.

MISSION

Our mission is defined by the Central Bank Act 2012 in the following priorities:

- To achieve and maintain domestic price stability;
- To foster and maintain a stable financial system and
- To support the general economic policies of the Government.

VALUE

We are committed to uphold the following values:

- To provide quality economic analysis and assessment of the Solomon Islands economy;
- To enable our stakeholders to make informed business judgements and decisions;
- To discharge our duties with integrity and honesty;
- To show excellence and professionalism in our work;
- To act with impartiality in the application of our decisions within the boundaries of the CBSI Act or any other laws we administer; and
- To exercise frugality in the management of the resources that come under our stewardship.

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CENTRAL BANK OF SOLOMON ISLANDS

30th April 2014

Hon. Rick Houenipwela, MP
Minister of Finance & Treasury
Ministry of Finance and Treasury
P O Box 26
Honiara

Dear Minister

In accordance with the provisions of Section 58(2) of the CBSI Act 2012, I submit to you the 2013 report on the operations and the audited financial statements of the Bank.

Yours sincerely

Denton Rarawa
Governor
Governor's Foreward

GOVERNOR'S FOREWARD

At the start of 2013, the Bank was faced with a lot of uncertainties in both the global and domestic economic and financial environment. As the year unfolded these uncertainties translated into adverse impacts on the Bank especially its financial performance and standing.

The combined impacts of low interest rates on the international financial markets that led to lower income earned on the Bank's external investments and the accumulated foreign exchange revaluation losses incurred as a result of an appreciating Solomon Islands dollar adversely affected the revenue performance of the Bank and eroded the Bank's capital base. As a result, the Bank made a loss of $165.1 million and the Bank's capital reserves fell to $9.8 million in 2013.

So while the economy-wide benefitted from an appreciating SI dollar through lower imported inflation, the Central Bank bore the brunt of the exchange rate policy leading to the erosion of its capital base.

The global economy grew by 3.0% in 2013, slightly lower than the 3.1% reported in the previous year. This was primarily driven by the advanced economies, particularly the United States In our region, growth in Asia and the Pacific slowed to 7.2% down from 7.4% a year ago. The slowdown, was associated with weak commodity revenues and monetary policy tightening.

Against this backdrop of global uncertainty and slow recovery, growth in the Solomon Islands economy slowed to 3.2% in 2013 down from 3.3% in the previous year. The growth in 2013 was driven mainly by non-commodity sectors such as construction, manufacturing, transport, communication and services sectors. The commodity sector, on

Isabel Development Corporation vessels MV Estrella and MV Isabella birthing at Point Cruz wharf. In 2013, transportation Industry expanded with the National Transport Fund set up by the Government and multilateral donors. Fund was used for maintenance work and building of infrastructure like wharves and bridges across the nation. For shipping transportation, 196 vessels served the domestic market in 2013.

the other hand, slumped by almost 10% because of unfavourable prices and supply shocks. All commodities recorded declines except for fish which rose as a result of increased production at the Noro fish cannery.

Despite the slowdown in growth, there were other positive developments in the economy during the year. Inflation slowed down to 3% from 4.6% a year ago, investment inflows remained strong, a fiscal surplus was reported in government finances despite the many pressures on the budget, private sector credit is growing again and the gross foreign reserves are high at around 11 months of import cover.

Towards the end of 2013, positive signs were emerging in the global economy that suggests 2014 would be a stronger year for the Solomon Islands economy. And the first three months of 2014 has confirmed this to be the case.

Unfortunately, looking ahead into 2014, the positive developments in the first quarter of the year have now been set back by the disastrous flash floods that hit the country in early April. The massive damage to infrastructure and economic production would reduce growth, exports, and feed directly into domestic inflationary pressures. Most of these negative impacts would be transitory and the decline in growth would be partially offset by the increase in economic activities and funding associated with the reconstruction phase.

The suspension of the Gold Ridge mine would have serious negative impact on growth, exports and the economy as a whole, if the company remain closed for the rest of 2014 and into next year.

But I will leave all that for the next annual report.

Some highlights of the Bank's activities in 2013 include:

- The successful hosting of the Pacific Islands Working Group (PIWG) on Financial Inclusion Stakeholders workshop in February 2013 in Honiara and co-hosted by the Pacific Financial Inclusion Program (PFIP);
- The Governor launched the South Pacific Business Development (SI) Ltd (SPBD) in May. This group focuses on providing micro credit, micro savings, micro insurance and financial literacy products and services to women in the country;
- A national conference on financial inclusion and financial competence was held in Honiara in June;

- The Board held its provincial meeting in Auki, Malaita province in June;
- A new $50 banknote was launched in September;
- An IMF mission conducted the second review of the Extended Credit Facility (ECF) and Article IV consultations in October;
- ANZ and BSP launched their mobile phone banking products and services in September and October respectively;
- Directors training for CBSI and other State Owned Enterprises Board directors was conducted by the PNG Institute of Directors in November;
- The Central Bank won two awards at the inaugural Solomon Islands Chamber of Commerce Gala Night Awards: one for the "Best Employer" and the other as runner up for the "Prime Ministers" Award;
- A 12 months "interim banking license" was issued to Pan Oceanic Bank (POB), a group from Sri Lanka to set up banking operations in the country; and
- KPMG (Fiji) were appointed as the Banks new External Auditors for the next five (5) years;

Finally, I wish to acknowledge the many organizations and individuals that have contributed in one way or the other towards the Bank's achievements in 2012. There are too many of you to acknowledge individually but your continued support has enabled the Bank to successfully fulfil its mandate in 2013.

Let me acknowledge the CBSI Board Directors for the guidance, advice and policy direction during the year. The Board welcomed new Directors, Ms Margaret Bartlett, Mr Primo Afeau and Mr John Usuramo. At the same time, I would like to pay special tribute to out-going Directors Mr Leslie Teama and Dr Steve Aumanu, who completed their terms on the Board in March and December respectively. Mr Teama served as a Director on the Board for five (5) years and Dr Steve six (6) years.

I also acknowledge the assistance of other stakeholders such as Government ministries, agencies, private sector companies, and civil society groups, who have provided information and other services to the Bank.

Finally, to all the staff of the Central Bank, let me thank you for your dedication and professional contribution to the activities of the Bank during the year.

Denton Rarawa
Governor

Chapter 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2013

The Solomon Islands economy bounced back from a weak first half performance to record an overall growth of 3.2% for the year. Unlike the previous year, growth in 2013 was driven mostly by activities in the non-commodity sectors. The commodity sector on the other hand weakened as a consequence of unfavourable commodity prices and domestic supply shocks, resulting in the deterioration in the country's terms of trade. Despite that, gross foreign reserves accumulated further on the back of capital and financial inflows from donors and foreign investors. Credit to the private sector picked up significantly in 2013, after mild growths in recent years. Inflation decelerated in the second half to 3.0% by December driven by downward movements in the imported and domestic components.

International Developments

The world economy grew by 3.0% in 2013 as major economies strengthened in the second half of the year. Emerging and developing economies including China were coming off steam while advanced economies performed strongly than anticipated. Advanced economies, backed mostly by rising private sector demand, grew by 1.3%. This reflected a year on year improvement across all major economies. Leading the charge was the US economy with a growth of 1.9% assisted by Japan with a growth of 1.7%. United Kingdom also grew during the year by 1.7%.

The Euro area declined by 0.4% in 2013 compared to the 0.7% fall in 2012. The smaller negative growth reflected slow recovery in Spain and Italy. Recovery in the Euro area was spurred by positive growths in Germany (1.6%) and France (0.9%) and strong demand from other advanced economies.

Emerging market and developing economies grew 4.7% in 2013, a slight dip from 4.9% in 2012. This stemmed from a slowdown in some BRIC economies. China, benefiting from a rebound in the second half, maintained the 7.7% growth from the previous year while India expanded by 4.4%. Australia and New Zealand recorded similar growth of 2.5% each in 2013. The growth outturn was weighed down by soft global demand and falling commodity prices.

Growth expectation for the global economy is on the upside averaging 3.8% in 2014-2015. This reflected a more broad based improvement across all major economic zones. Advanced economies expected to improve further to 2.2% in 2014 with the US economy growing by 2.8% and Euro area turning positive to 1.0% for the first time since the advent of the Euro crisis. Emerging and developing economies are expected to grow further by 5.1% with China and India anticipating year on year growths of 7.5% and 5.4% respectively. Like other countries, Australia and New Zealand economies are expected to expand further to 2.8% and 2.9% respectively. However, risks associated with the monetary tightening in the US economy and weak commodity prices could potentially upset near term growth projections for some countries including those in the emerging and developing economies.

Telekom extends its office complex to Mud Alley Street, Honiara; the new office will house its Sales and Customers Care facilities. Construction of commercial offices and residential houses, roads, wharves and bridges boosted the construction industry in 2013 and contributed to the economic growth.

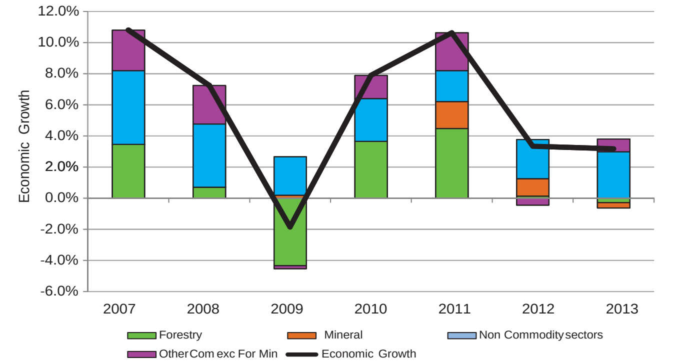
Price developments were moderately low across major economic zones with global inflation easing to 2.7%. This positive outturn was driven mainly by weak food and energy prices. Inflation in advanced economies decelerated to 1.4% from 2.0% in the previous year while inflation in emerging markets and developing economies moved slightly upward to 6.2%. Inflation in Solomon Islands major trading partners were on the downside with China recording an inflation of 2.6%, Australia at 2.2% and New Zealand at 1.1%.

Near term inflationary pressures in the global market are expected to remain low. According to the IMF projections in January, fuel and non-fuel indexes will fall further by 0.3% and 6.1% respectively. Inflation in the advanced economies is projected to pick up slightly, though within target, to 1.7% in 2014. However, inflation in the emerging markets and developing economies is anticipated to remain elevated at 5.6%. For Solomon Islands major trading partners, inflation is expected to rise to 2.1% in New Zealand and 2.5% in Australia.

Domestic Developments

The Solomon Islands economy grew by 3.2% in 2013 compared to 3.3% growth a year ago. The positive growth was driven mainly by non-commodity sectors as shown in Figure 1. The key drivers were construction, manufacturing, transport, communication and services sectors. All commodity sectors recorded negative growth except for fisheries which showed strong improvement that was associated mainly with increased productivity at the SolTuna

Figure 1: Growth Contributions



cannery. Excluding forestry and mineral contributions, GDP growth in 2013 will be around 3.8%.

The performance of the commodity sector as measured by the production index slumped by almost 10%. The negative outturn was more pronounced in the first half, owing to unfavourable commodity prices and supply shocks. Log production, year-on-year, dropped by 3% to 1.897 million cubic meters while gold output fell 13% to 58,690 ounces. Fish catch and copra also went down by 15% and 48% to 24,876 tons and 13,922 tons, respectively. However, prices for agricultural commodities (copra, cocoa, and palm oil) improved in the second half to contribute to the much better performance towards end year.

Investment activities in 2013 were dominated mainly by public investments in infrastructures, retained investments from large private sector companies complimented by domestic lending to private sector that ramped up during the year. Issued building permits, an indicator of housing investments in Honiara, showed a rising trend compared to the previous year. According to the Foreign Investment Division, foreign investment applications went up against the previous year with notable number of applications for retailing and wholesaling, construction, mining, fisheries and transport businesses.

A side-lifter loads a container of frozen lions for export at the Sol-Tuna Limited processing factory at Noro, Western Province. Sol-Tuna Limited exported over 20,000 tons of frozen lions in 2013; an example of a value-added industry that provides employment for over 1000 Solomon Islanders.

Labour market indicators pointed to another increase in formal employment in 2013. According to Solomon Islands National Provident Fund, the number of active and slow active contributors rose to 47,785 people, up by 3% on 2012. However employment opportunities are still inadequate to absorb the number of youths entering the labour market.

Terms of trade for the country deteriorated further in 2013 and this was associated with the persistent fall in commodity prices combined with falling production volumes. Export receipts fell by 11% to $3,212 million while imports on the other hand grew by 3% to $3,380 million. These developments led to a negative turnaround in the trade position of the country from the $347 million surplus in 2012 to a $168 million deficit in 2013. The current account balance also worsened to a $668 million deficit. Notwithstanding these negative outcomes, gross foreign reserves accumulated to $3,909 million in 2013, aided mainly by capital inflows from donor agencies and foreign investors.

The average annual value of the Solomon Islands dollar (SBD) appreciated against all major trading currencies except the New Zealand dollar (NZD) and the Euro (EUR). The SBD appreciated against the United States dollar (USD) by almost 1% to $7.30 per USD, 7% against the Australian dollar (AUD) to $7.07 per AUD and 19% against the Japanese Yen to $7.52 per 100 Yen. However, the SBD depreciated against NZD and Euro by 0.4% and 2% to $5.99 per NZD and $9.70 per Euro, respectively. In terms of the real effective exchange rate, the SBD appreciated for the second consecutive year by 4.3%.

Headline inflation as measured by the 3 months moving average decelerated to 3.0% in December 2013 compared to 4.6% a year ago. The index started to decline after it peaked at 7.1% in Mar. The lower inflation rate reflected trends in both the domestic and imported components, which eased from 6.3% and 0.4% a year ago to 5.7% and minus 0.9% respectively. In terms of major drivers behind the decline, the food sub component recorded the largest fall to 1.3% followed by household and utilities to 0.7%.

Broad money slowed from an average year-on-year growth of 20% in the previous three years (2010-2012) to an average of 12% in 2013. The slowdown in large part reflected the decelerating growth in net foreign assets. The issuance of more Bokolo bills and rising private sector credit contributed to the slower monetary growth. Private sector credit picked up markedly by 15% to $1,465 million after a much smaller growth of 4% in 2012. Personal, distribution, tourism, communication, tourism, agriculture and transport sectors recorded a combined increase of $223 million over the year to outpace falls in other loan portfolios.

The Government recorded a budget surplus of $133 million in 2013. Total revenue including grants was down by 10% against budget to $3193 million. However, the Government managed to control expenditure within the original envelope by 20% to $3059 million. Expenditure savings came mainly from the development projects that were not implemented due to lack of capacity within implementing agencies. Comparing to 2012 performance, local revenue was higher by 8% while recurrent expenditure was also up by 9%.

Economic Outlook

The near term economic outlook for the country has been downgraded from the more optimistic projections at the beginning of the year as a result of the flash flood in April. Post flood assessments pointed to a much softer economic growth of 0.9% for 2014. This projection was on the basis that agricultural output would decline and Gold Ridge Mining Limited remains close for the rest of the year to add onto the expected decline in logging output. On a positive note though, the non-commodity sector is expected to remain resilient during the post flood with some impetus for growth anticipated to come from the reconstruction phase.

Solomon Islands Queen waves to onlookers during the Miss South Pacific Beauty Pageant parade along the Mendana Avenue, Honiara. Hosting of events like this attracts tourists to visit Solomon Islands. In 2013 a total of 24,000 visitors arrived by planes in Solomon Islands; and with more support for infrastructure and services could boost tourism industry in Solomon Islands.

The Government indicated its intention to achieve a balanced budget in the 2014 Appropriation Act. Revenue including grants and budget support is expected to rise by 10% to $3503 million. The Government has allocated 82% of the budget for recurrent operations and 18% for consolidated development projects. Excluding the grants component, the Government will incur a deficit of $664 million.

The level of gross foreign reserves of the country is anticipated to improve further in 2014 despite worsening trade and current account imbalances. The reserve accumulation is more likely to be driven by planned donor inflows supported by FDI inflows. Net exports on the other hand will worsen as a result of notable drops in round log and mineral exports combined with the expected rise in merchandise imports.

The positive near term outlook is expected to boost business confidence and entice private sector lending to expand further in 2014. Concerted efforts must be taken to address obstacles to credit issuance to allow for the efficient allocation of idle funds. Excess liquidity still present challenges in 2014 as credit issuance and open market operations by the CBSI may not completely absorb the surplus funds. With these developments in both the domestic and external sectors, money supply is likely to post another modest growth this year.

A plaque marks the official handing over of the upgraded Munda Airport funded by the New Zealand and Solomon Islands governments. Munda Airport when completed can also boost international trade and tourism in Solomon Islands.

The CBSI projected average annual inflation for the country to moderate around 4%-6%. The expected inflation range stemmed from various assumptions including the depressed price outlook for fuel and non fuel commodities in the international market, low inflation rates in major trading partners and domestic competition that leads to falling retail prices for some goods. Although excess liquidity levels are expected to remain high in the near term, the CBSI is not expecting rising private sector credit to pose significant inflationary pressures. However, the Bank will continue to monitor and hold consistent dialogues with stakeholders to effectively coordinate monetary and exchange rate policies to achieve set macroeconomic objectives.

Chapter 2: BOARD AND GOVERNANCE

Autonomy

The coming into force of the CBSI Act 2012 on 1st January 2013, brings the CBSI in line with international best practice for central banking legislation and governance. The new Act strengthened CBSI's autonomy and accountability to ensure that central banking policy and practice continues to be effective and efficient in facilitating price and financial sector stability, which are essential for sustainable economic growth in Solomon Islands.

Section 7 of the CBSI Act 2012 spells out the autonomy provision for the Central Bank. Section 7(1) provides, that in pursuit of its objectives and the performance of its functions, the Central Bank shall be autonomous and accountable…7(2) [except as otherwise specified in the Act, the Central Bank, the members of the Board or staff shall not seek or take instructions from any other person, including public bodies. The autonomy of the Bank shall be respected at all times. Subsection 7(3) went on to clarify that for the purpose of subsection 7(2), 'no person shall seek to unduly influence the members of the decision-making bodies or the staff of the Central Bank in the performance of their functions or to interfere in the activities of it.'

In terms of accountability, the CBSI Act provides for ways in which the Central Bank must account for its decisions and actions taken during the year. In 2013, CBSI accounts for its actions in the following ways:

Publications of its annual reports and accounts which is laid before the Parliament by the Minister of Finance and Treasury;

- Publication of its balance sheet on its website each month;
- Publication of its monetary policy stance statements during the first and third quarters of the year;
- Publication of its monthly and quarterly reports on the performance of the economy; and
- Monthly briefing meeting with the Minister of Finance and Treasury on key economic developments during the past month.

In addition to the above, the Central Bank issues press statements and public notices to inform the public about its decisions.

Board of Directors

The governance and the organization of the CBSI is vested in the Board of Directors that are appointed under Sections 38(1) and 41(2) of the CBSI Act 2012. Board members of the CBSI are:

- The Governor, as the chairperson
- Deputy Governor;
- The Permanent Secretary, Ministry of Finance & Treasury; and
- Six non-executive directors.

The Board of Directors are charged with the formulation and supervisory of the implementation of the CBSI policies; and supervision of the administration and operations of the Bank.

Directors for 2013 are Mr Denton Rarawa, Governor and Chairperson, Mr Gane Simbe, Deputy Governor and deputy Chairperson, the Permanent Secretary of the Ministry of Finance & Treasury; Mr Shadrach Fanega as ex-officio director, and the six non-executive directors are; Mr Leslie Teama (retired 3 March 2013); Dr Steven Aumanu (retired 8 December 2013), Mr Katalulu Maepioh, Mr Loyley Ngira, Mrs Lilly Lomulo, Mrs Tele Bartlett (appointed 17th July 2013) and Mr Primo Afeau (appointed 17th July 2013). The Bank for the first time has two women serving as Directors on the Board.

Mr Teama served as Board member for five years and Dr Aumanu for six years on the Board. Both were very active Directors and contributed positively to the development of the Bank through their participation on Board and Board Sub-committees.

Board Meetings

The Board held nine meetings during the year, 3 meetings more than the minimum of 6 meetings required under the CBSI Act. Two meetings were held outside of Honiara - one was held at the CBSI Recreational site at Aruligo, West Guadalcanal and the other at Auki; Malaita Province.

During the provincial meeting at Auki, the Board conducted a public awareness talk at the Auki Market. The talk generated many questions and comments from the Auki public on economic issues, government budget and banking matters.

The Table 2.1: below shows the numbers of meetings each Director attended in 2013.

TABLE 2.1: Board of Directors Attendance of Meetings in 2013

Director Name	Number of Meetings attended
Denton Rarawa	9
Gane Simbe	7
Shadrach Fanega	8
Dr. Steven Aumanu	9
Katalulu Maepioh	9
Loyley Ngira	4
Lilly Lomulo	6

Central Bank of Solomon Islands

BOARD OF DIRECTORS

Denton Rarawa

Governor and Chairman of the Board

- Governor since August 2008;
- Chairman, Solomon Airlines Ltd;
- Chairman, National Financial Inclusion Taskforce (NFIT);
- Deputy Chairman, Solomon Islands Anti-Money Laundering Commission (AMLC);
- Vice Chairman, Solomon Islands National Trade & Development Council (NTDC);
- Vice Chairman, Alliance for Financial Inclusion (AFI) Committee on AFI Independence;
- Vice Chairman, Solomon Islands Football Federation (SIFF) Telekom S-League Board;
- Director, Investment Corporation of Solomon Islands (ICSI);

Previous positions held:

- Deputy Governor, CBSI;
- Chairman, Economic Association of Solomon Islands (EASI);
- Deputy Chairman, Economic Advisory Council of Solomon Islands (EACSI);
- Director, Solomon Islands Plantations Ltd (SIPL);
- Director, Solomon Printers Ltd (SPL)
- Director, Foreign Investment Board (FIB)

John Usuramo

Campus Director, USP Solomon Islands Campus

Previous positions held:

- Group Manager Student Administration Services
- Assistant Registrar, USP
- Personal Officer, SICHE

Gane Simbe

Deputy Governor

- Appointed Deputy Governor, 18th September,2008
- Member, CBSI Board Audit Committee
- Current Chairman, Pacific Islands Working Group on Financial Inclusion
- Director, SolTuna Limited

Previously held position:

- Manager Financial Institutions Department; CBSI;
- Manager Exchange Control (International Department), CBSI
- Assistant Manager, Currency & Banking Operations; CBSI
- Manager Administration, Solrice Limited

Katalulu Maepioh

Manager, Eagon Pacific Plantation Ltd

- Chairman CBSI Board Audit Committee

Previous work experience:

- Manager Banking Supervision, CBSI
- Manager Currency and Banking Operations, CBSI
- Manager, Adventist Book Centre (ABC)
- Project Coordinator, SIG/IFAD Rural Financial Services Project (RFSC)
- Board Member, Small Business Enterprise Centre (SBEC)

Shadrach Fanega

Permanent Secretary (PS)
Ministry of Finance
(Ex-officio)

- Chairman, Central Tender Board
- Chairman, Monthly Monetary Monitoring Meeting
- Member, Solomon Islands National University Council
- Member, USP Advisory Committee
- Member, Anti-money Laundering Commission

Previously held positions:

- Under Secretary, Ministry of Finance
- Under Secretary, Ministry of Planning

Bella Simiha

Secretary to the Board

- Chief Manager for the Human Resource & Corporate Services Department, CBSI
- Secretary to the Board since 2009

Lilly Lomulo

Human Resource Manager
Solomon Tobacco Co. Ltd

- Member, CBSI Remuneration Committee

Loyley Ngira

Chief Executive officer, Telekom

- Member CBSI Audit Committee
- Chairman, Solomon Islands Broadcasting Corporation

Previous positions held:

- Chief Operating Officer, Telekom
- Chief Engineer, Solomon Islands Broadcasting Corporation

Primo Afeau

Private Legal Practitioner

- Director, Solomon Airlines
- Trustee, Honiara Golf Club
- Chair, Committee of Prerogative of Mercy

Previous positions held:

- Attorney General of Solomon Islands
- Chairman, Anti-Money Laundering Commission
- Director, Transparency Solomon Islands

Tele Bartlett

Managing Director, Liberty Holdings

- Board Member, Women in Business Association

Previous positions held:

- Teacher, Honiara Technical Institute

Corporate Governance Training for Directors

As part of its Strategic Change Agenda (2013-15); the Bank engaged the Papua New Guinea Institute of Directors to hold a training workshop for its Directors in Honiara in November 2013. The training was aimed at enhancing the experience and knowledge of directors on their roles and to keep abreast with the latest developments in field of corporate governance.

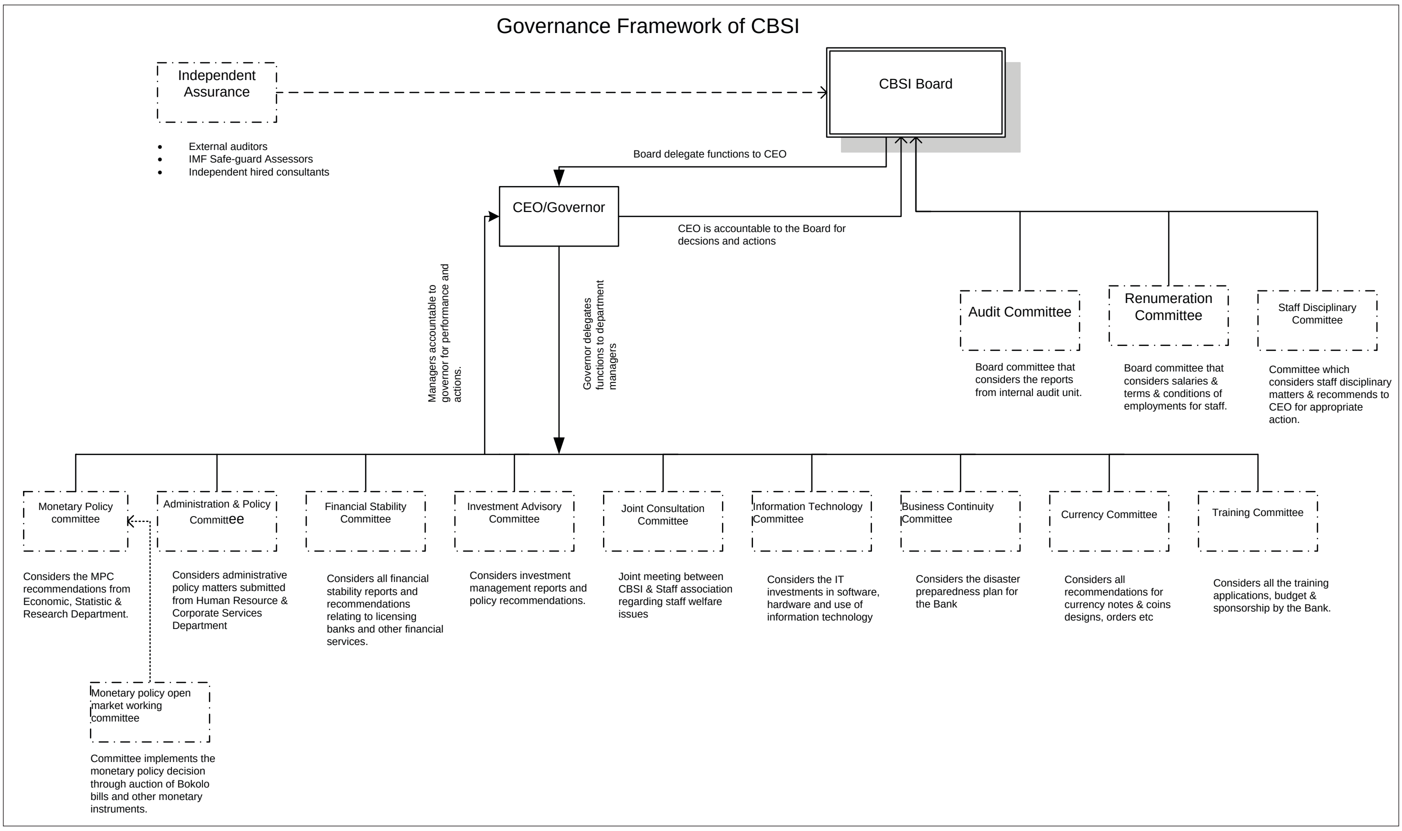
Governor Denton Rarawa receives certificate from PNGID representative

Directors from other Statutory Boards were also invited to attend the training. This included Solomon Islands Airlines, Solomon Islands Broadcasting Corporation, Solomon Islands Electricity Authority, Solomon Islands National Provident Fund, Solomon Islands Postal Corporation and Solomon Islands Water Authority. Twenty one (21) participants attended including 16 Directors of whom 4 were Chairs of Boards, 4 were female directors, and 4 female Secretary to Boards. It was encouraging to see the participation of women in the training workshop. On the areas of corporate governance; Solomon Islands needs to identify and train its people with skills and experience to fill board positions, if the future of good corporate governance in Solomon Islands is to be realized. The training organized for directors of the CBSI and other statutory bodies should be seen as a first step in this area.

Figure 2: below illustrates the corporate governance of the Central Bank, showing the flow of decision making and delegation of responsibilities from the Board through the Governor as Chief Executive Officer (CEO) of the Bank, and from Governor through to the departments of the Bank.

As the illustration shows many policy and administrative decisions made by the Bank are formulated at the departmental level, and passed on to various committees for critical scrutiny and evaluation. The conclusions and decisions of the various committees form the policy proposals that the Governor presents as recommendations to the Board for endorsement.

Figure 2: Governance Framework of CBSI



Board business

In 2013 a total of 41 Board papers were submitted for Board deliberation. Of the total, 23 papers were quarterly progress reports for noting; and the other 18 were policy papers for Board decisions. These policy papers included two bi-annual Monetary Policy Stance documents, revised terms and conditions for Management, the 2012 Annual Report and the 2012 Audited Financial Accounts, Gold investments, Prudential Guideline No 8, the amendment to the Financial Institutions Act 2013, extension to the withdrawal of circulation of old coins, review of the administration of the Exchange Rate, new security features and upgrade of the $100 note, Strategic Change Agenda 2014-16, the 2014 Business Plan and 2014 Budget.

Board Committees As part of the Bank governance some areas of decision making are delegated to Committees of the Board to deal with and make recommendations to the Board. Currently there are three such Committees; the Board Audit Committee, the Board Staff Remuneration Committee and the Board Disciplinary Appeal Committee.

Board Audit Committee

The Board Audit Committee was established at the end of 2010. The Committee has four members; three non-executive Directors, the Deputy Governor and the Manager of Internal Audit Unit who acts as the Secretary to the Committee. One of the Non-executive Directors is appointed by the committee members as the Chairperson of the Committee.

The Board Audit Committee was established to ensure that the Executives and Management who are involved in the daily activities of the Bank comply with internal control rules and procedures designed to add value and reduce operational risks. The Internal Audit Unit carries out this independent evaluation and examination to help CBSI accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes in the Bank.

The Manager Internal Auditor reports his findings directly to the Board Audit Committee. The Board Audit Committee also receives reports from the Bank's External Auditors, and directs management to take corrective steps to remedy any weaknesses identified in the independent audit reports.

The Chairman of the Board Audit Committee presents findings of the internal audit and external auditors' to the full Board, and directs the Governor as Chief Executive Officer of the Bank to ensure that respective departments take appropriate remedial actions to correct any weaknesses identified.

In 2013, the Board Audit Committee met 3 times, one meeting short of the planned four meetings for the year under the Internal Audit Charter. The Board Audit Committee provided feedback to the IMF on matters required to ensure the Bank meets IMF Safeguard Assessment standards.

Board Staff Remuneration Committee

The Board Remuneration Committee was established in 2012 to consider and determine all elements of the remuneration of Bank employees. The Committee is chaired by a non-executive Director, with two other non-executives Directors as members. The CBSI Legal & Compliance Officer is the Secretary to the Committee.

In 2013 the Committee dealt with the revision of terms and conditions for the Executives as part of its review of Management terms and conditions that commenced in 2012. The Committee however, meets as and when there is a need to review the terms and conditions of executives, chief managers, managers and general staff. Under normal circumstances this happens after every two years.

The establishment of the Committee allows for independent evaluation of the terms and conditions of employment of staff without undue influence from the executives and staff.

Board Disciplinary Appeal Committee

As its name suggests, the Board Disciplinary Appeal Committee (BDAC) is set up to hear and review appeals by staff against any disciplinary actions that the Disciplinary Committee of the Bank may recommend against a staff.

There are five members to the BDAC consisting of the Governor as the Chairman, one non-executive Board Director, two chief managers appointed by the Chair, one of whom must be from the department from which the staff is the subject of disciplinary action, and a member of the staff association.

The Legal Officer and the Chief Manager of Human Resources & Corporate Services department also attend. The BDAC considers all appeal submissions and makes its decision, which is taken as final. In 2013, two staff disciplinary cases were brought before the BDAC; with one of the appeals was rejected resulting in the dismissal of the staff.

Organization Structure and Human Resources

The Bank organizes its functions into eight (8) departments namely Economics, Research and Statistics; International; Currency & Banking Operations; Financial Market Supervision; Finance and Accounts; Information Technology; and Human Resources and Corporate Services. In addition to the departments there are three smaller units; the Internal Audit Unit, the National Financial Inclusion Unit and the Solomon Islands Financial Intelligence Unit (SIFIU). All the departments and units work together to achieve the mission of the Bank. With the exceptions of the Internal Audit Unit which reports directly to the

Central Bank of Solomon Islands
MANAGEMENT 2013

GOVERNORS OFFICE


Denton Rarawa
Governor


Gane Simbe
Deputy Governor

CURRENCY & BANKING OPERATIONS DEPARTMENT


Daniel Haridi
Chief Manager


Joe Vasuni
Manager

HUMAN RESOURCE & CORPORATE SERVICES DEPARTMENT


Bella Simiha
Chief Manager


Rose Sulu
Manager/ HR


John Bosco
Manager/ CS

ECONOMIC RESEARCH & STATISTICS DEPARTMENT


Michael Kikiolo
Chief Manager


Elizabeth Ragimana
Manager

FINANCE & ACCOUNTING DEPARTMENT


Emmanuel Gela
Chief Manager


Vacant
Manager

INFORMATION & TECHNOLOGY DEPARTMENT


Edward Manedika
Chief Manager


Marlon Houkarawa
Manager

INTERNATIONAL DEPARTMENT


Raynick Aquillah
Chief Manager


Ali Homelo
Manager

FINANCIAL MARKET SUPERVISION DEPARTMENT


Raynold Moveni
Chief Manager


Trevor Manemahaga
Manager

NATIONAL FINANCIAL INCLUSION UNIT


Caroline Kanoko
Manager

INTERNAL AUDIT UNIT


Oliver Karoa
Manager

SOLOMON ISLANDS FINANCIAL INTELLIGENCE UNIT


Jimmy Sendersly
Director

Participants of the first ever Governance Training for Directors coordinated by the Papua New Guinea Institute of Directors in November, 2013. The training was held at the Solomon Kitano Mendana Hotel and was attended by Directors of SOE's and business houses. Solomon Islands need more people to be trained as Board of Directors, if future corporate governance is to be successful.

Board Audit Committee and the SIFIU which reports to the Anti-Money Laundering Commission (AMLC), all the departments and units report to the Governors' Office.

Staff Compliment

At the end of 2013, the total number of staff employed in the Bank was 114. The Bank however has a staff establishment of 120 and the positions vacant will be filled in 2014 if required.

As a policy, the Bank promotes gender equality in its employment of human resources in recognition of the staff's appropriate technical and behavioural competencies. As at the end of the year, the composition of the Bank's human resource capital is 60% male and 40% female. Excluding the governors, five out of eighteen management positions are filled by females. The Bank continues to scan the human resource market in Solomon Islands for qualified females to fill its technical and management positions.

Recruitment

In 2013, the Bank recruited six new officers for various positions within the Bank. Three positions were left vacant following internal transfers, promotions and early retirement while the other three were to fill newly created positions. Two officers chose to retire in 2013.

Staff Training and Development

The Bank values its investment in the quality and calibre of its human capital as the critical input to enhance productivity and to position the Bank to meet its mandate. As such the Board sets aside an annual training budget towards human capacity development. Apart from its own budget, CBSI also received funding support from other bilateral partners particularly the International Monetary Fund (IMF), the Australian Prudential Regulation Authority (APRA), AusAid, Alliance for Financial Inclusion (AFI), Commonwealth Secretariat, Pacific Financial Technical Assistance Centre (PFTAC) and the Asian Development Bank (ADB). These bilateral partners funded technical training for CBSI officers in monetary policy analysis, economic forecasting, banking and financial services supervision and economic statistics.

As a policy objective, the Bank aims to increase the number of its staff with post-graduate qualifications at the masters' and doctorate levels especially in the areas of economics, accounting, finance, information technology, and human resources and management. More than half of total staff employed hold degree or masters level qualifications.

ABV consultant and two managers from Human Resources and Corporate Services Department of CBSI, pose for a photo after presentation of final Training Policy Review report. In 2013, CBSI engaged the ABV consultant to review its training policy as part of the Bank's Change Agenda, aimed at ensuring the training budget is invested in human resource capital that can bring positive return to the work of the Bank.

The Bank also assists staff pursuing further academic qualifications through full-time and part-time training sponsorship. Around 15% of staff undertook training in 2013. Most of these were to pursue higher qualifications while others enrolled in the Distance Flexible Learning (DFL) training for up skilling in particular knowledge gaps as identified in the annual performance assessment. As at the year-end three officers graduated; two with Masters Degrees - one in Economics and one in Accounting, and one with a Diploma in Management.

In 2013, staff attended seventy six overseas short courses, attachments, workshops and seminars.

In-house trainings were also conducted for staff on topics aimed at sharing skills and knowledge and increasing awareness amongst employees within the Bank. A total of 161 participants attended these internal training courses.

Community Relations

In 2013, the CBSI supported various communities; religious, social, and educational related initiatives, activities and programmes as part of its corporate citizen contributions. One of these activities included support for the Miss Silent Charity Queen show organised by Helping Hand Volunteers and the students of the San Isidro School for handicapped and disabled children. The Bank as part of its support for health life-style for women assisted the Honiara Netball Association as well.

In recognition of the Bank's involvement within the community, CBSI won two prestigious awards at the inaugural 2013 Solomon Islands Chamber of Commerce & Industry Gala Night Awards. The Bank scooped the 'Best Employer' award and was runner-up for the 'Prime Minister's award.

Chapter 3: MONETARY POLICY DEVELOPMENTS

Monetary Policy formulation

At the CBSI, monetary policy formulation goes through a four stage process. At the first stage, the Economics, Research and Statistics Department as the "engine room" for the Monetary Policy Committee (MPC) reviews recent macroeconomic developments and prepare a report for the MPC.

The report and recommendations are then presented to the MPC at its scheduled quarterly meetings. The MPC members are made up of the senior managers of the Bank. Comments and input from the MPC are incorporated in the document before it is presented to the CBSI Board for review and comments. The Board deliberates on the report and decides on the recommendations. The Board decisions are added to the document before it is released to the public.

Five MPC meetings were held in 2013, two in the first half and three in the latter half. Key issues that were deliberated on at the meetings included an update on key macroeconomic trends, bi-annual monetary policy statements that were published in March and September, open market operations update, exchange rate policy changes and various research papers.

Monetary Policy Stance focuses on price stability

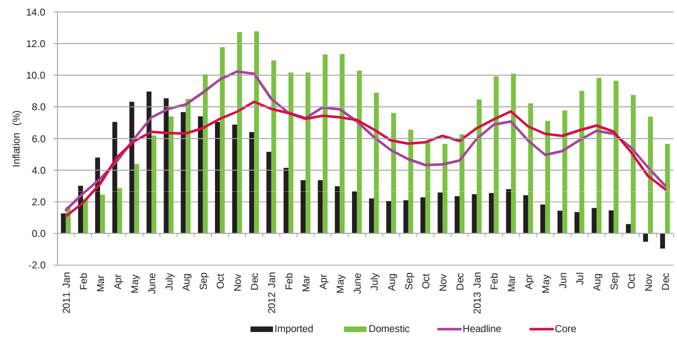
The new CBSI Act 2012 which came into effect in January 2013 sets price stability as the first priority of the three primary objectives of the CBSI. With this mission mandate, the Board has developed a Strategic Change Agenda for 2013-2017 with a vision to bring the Solomon Islands amongst the top 4 low inflation countries in the region, excluding Australia and New Zealand.

This price stability mission and vision focus enabled the Bank to step up its research work on price stability issues; seeking to better understand the underlying causes of inflation in the country and monitoring of inflation trends in Solomon Islands and in regional neighbours.

In the bi-annual monetary policy stance statement published in March and September, the CBSI forecasted headline inflation to move between 5% - 7% during the year. Actual headline inflation moved between the forecasted ranges throughout the year before decelerating to 3.0% by December. The larger than expected deceleration reflected subdued import prices particularly for food and energy items combined with the year on year appreciation of the Solomon Islands dollar (SBD) against major trading partners' currencies. Easing domestic pressures particularly in the final quarter also contributed to the fall in headline inflation.

To ensure the CBSI achieves its price stability objective, the Central Bank engaged more closely with international and local stakeholders in its endeavour to understand price

Figure 3: Inflation developments



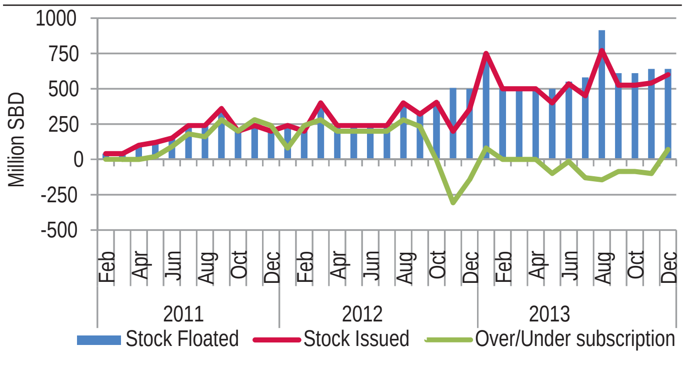
developments in the country. These agencies include the IMF, Solomon Islands National Statistics Office (SINSO), Price Control Unit, wholesalers and retailers. The cordial working relationship between CBSI and SINSO led to the publication of core inflation measures and timely provision of inflation numbers to CBSI by SINSO. The CBSI and SINSO have initiated discussions on the possible compilation of a national retail price index that measures inflation rates across the country. The agencies are hoping to see this initiative come to fruition in late 2014 the earliest.

Open Market Operations

In 2013, the CBSI announced a moderate contractionary policy stance in the bi-annual monetary policy statements. In line with this stance, the volume of Bokolo bills that were issued to the commercial banks were incrementally raised resulting in a year-on-year rise of $244 million to $600 million by December. This among other factors helped to reduce free liquidity by $195 million to $1251 million by year end. The weighted average interest rate for this facility has trended upward by 11 basis points to 0.58%. Since the reintroduction of the Bokolo bills facility in 2011, the CBSI witnessed a growing confidence among market participants in the domestic securities market.

The Solomon Islands Government maintained the cap on its Treasury bills at $40 million. This facility is administered by the Central Bank in collaboration with officers from the Debt Management Unit of the Ministry of Fi-

Figure 4 Bokolo Bills Market



nance and Treasury. The Treasury bills market showed persistent oversubscriptions throughout 2013. The CBSI received monthly bids from the public averaging at $20 million compared to the average monthly auctioned volume of $9 million. The oversubscription indicates the desire among the public for more investment opportunities. The weighted average interest rate for this facility rose initially to 1.02% in July before receding 35 basis points to 0.67% by December.

Although free liquidity was excessively high throughout the year, CBSI did not anticipate serious inflationary pressures from the growth in credit to private sector. Given that most of these excess funds were deposited in the commercial banks call accounts with the CBSI, the CBSI decided to maintain the cash reserve requirement (CRR) at 7.5% of total deposit liabilities. As such, commercial banks CRR holdings with CBSI increased by 11% to $218 million in correspondence with growth in deposit liabilities.

Chapter 4: CENTRAL BANKING OPERATIONS

Economic Publications

The CBSI continued to make available its assessments on the general state of the SI economy through regular publications such as the annual report, quarterly reviews, monthly economic bulletins and bi-annual monetary policy statements. As of 2012, the Bank's annual report focussed mainly on operational issues. Detailed discussions about the Solomon Islands economic performance and statistics were published in the December Quarterly Review.

In addition to the economic publications, the CBSI also published financial literacy pamphlets and money smart day magazine. These publications were posted on the CBSI website www.cbsi.com.sb. Central Bank officers were also doing presentations to various forums organised by different stakeholders including government agencies, private sector companies, donor agencies and schools regarding developments in the Solomon Islands economy.

Research

The Asian Development Bank (ADB) funded econometric training for CBSI staff in 2013, continuing efforts in the past two years. The resource person, Professor Paresh Narayan from Deakin University in Australia, conducted two different training sessions in February and December 2013. CBSI officers together with the resource person started working on some research topics with the aim of publishing a series of working papers in the CBSI website in 2014. In addition to the empirical papers, Bank officers put together qualitative papers that were circulated for internal discussions.

Macroeconomic Statistics

CBSI continued to work in partnership with international and local agencies such as the IMF, Pacific Financial Technical Assistance Centre, Australia Bureau of Statistics and SINSO to improve data quality and timely publication of macroeconomic statistics. In 2013, CBSI officers received specialised statistical trainings from three visiting technical assistance missions particularly relating to the external sector statistics (ESS) project and government finance statistics (GFS) project.

With the GFS project, SINSO and CBSI officers were able to compile annual fiscal accounts for the years 2009-2012. These annual fiscal accounts will be sent for publication in the IMF fiscal year book after SINSO, CBSI and Ministry of Finance and Treasury officials were able to minimise outstanding statistical discrepancies. With regard to the ESS project, the Bank gradually migrated to Balance of Payments Manual 6 standards. The Monetary and Financial Statistics project is near completion. The Bank has planned to rollout the call report forms for insurance companies in 2014.

Exchange Rate Policy

The exchange rate policy in 2013 targeted the stability of the dollar. Pursuing this policy outcome entailed the pegging of the dollar to a basket of invoice currencies. The dollar was allowed to move within a determined band in line with changes to the components of currencies in the basket. The dollar remained competitive throughout the year with monthly average exchange rate of $7.30 per USD against $7.35 per USD in 2012. The SBD closed at $7.35 per USD as at 31st December 2013.

Whilst the dollar fluctuated within its policy band, the weakening of the other currencies in the basket; resulted in losses in foreign currencies holdings.

Management and investments of reserves

The management and investment of the gross foreign reserves prioritises safety, liquidity and yields; as required in the CBSI Act 2012. Consequently, safety and liquidity carry the considerable weight in the investment portfolio mix and which institutions and the market instruments to hold the reserves.

During the year, the Bank increased its investment in the money market instruments and its holdings in Gold. As indicated in the figure 5 below, the bulk of the reserves were held in money market instruments.

Figure 5: Foreign reserves portfolio mix, 2010-2013

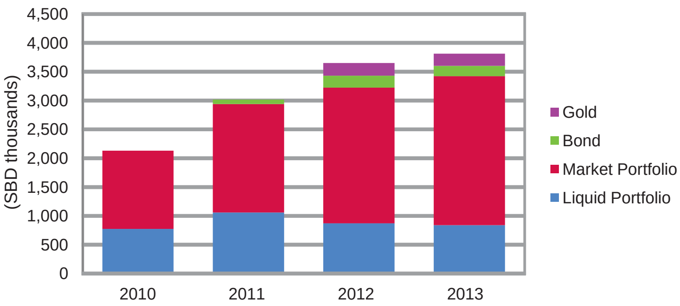
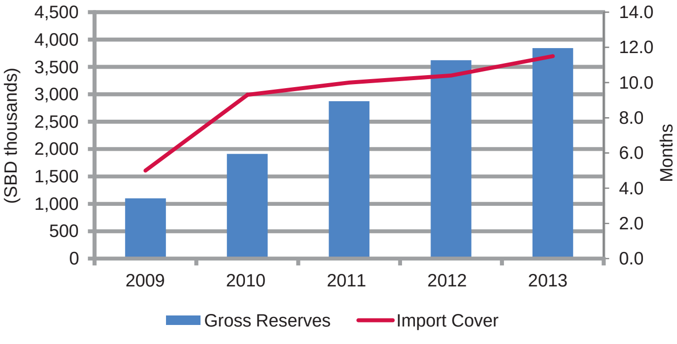


Figure 6: Gross Foreign Reserves (Avg) and import cover, 2010-2013

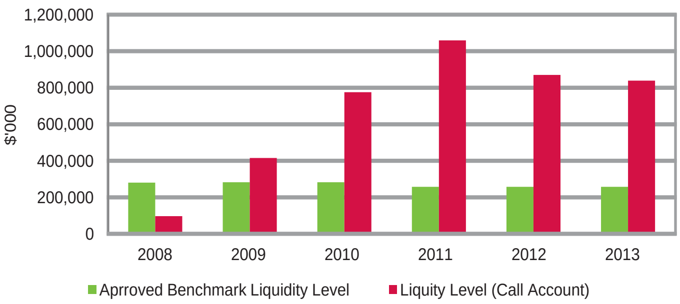


In 2013, total gross foreign reserves remained at adequate levels of USD 508 million on average during the year and grew by 6.5% to US$529.1 million ($3,909 million) at 31st December 2013. This is equivalent to 11.5 months of imports.

Liquidity Portfolio Management

By the end of 2013, liquidity share of the investment portfolio accounted for 21.5% of gross foreign reserves at about US$114 million ($838.20 million). This liquidity level is above the approved benchmark by 6.5 per cent.

Figure 7: Liquity Portfolio against Approved Liquity Benchmark



Money Market Portfolio-Management

The amount invested in money market instruments totalled USD333.6 million against approved portfolio allocation of US$414.5 million.

During the year, CBSI signed an agreement with an investment broker in Australia resulting in an investment of more than AUD 20 million in short term negotiable certificate of deposits in the Australian market facilitated through the broker.

Investment in fixed income securities and bonds totalled US$41.81 million against the approved allocation of US$40 million.

Gold Investment

In 2013 the Bank signed a second gold bullion sales agreement with Perth Mint-Gold Corporation of Australia. The signing of the second gold bullion agreement reflected the Bank's strategy to diversify physical gold holdings with more than one internationally recognised bullion dealer. Gold holdings at the end of 2013 were equivalent to 7.6% of total gross foreign reserves.

Table: 4.1 Holding of physical and unallocated gold at end December 2013

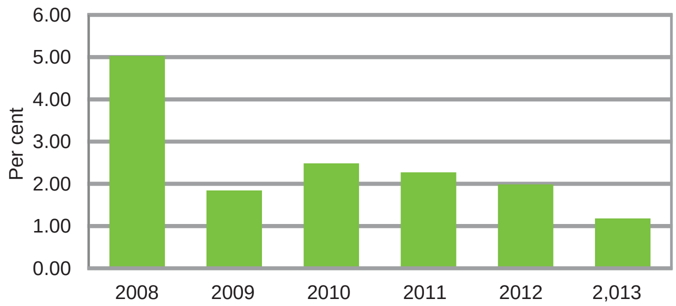
	Actual Gold in Ounces (Physical Bars)	Total ounces of Physical Bars	Total ounces of Gold Unallocated	Total Gold Holdings in Ounces
GOLD (bar, Oz)	31	12,387.463	11,652.91	24,040.37

Income from Foreign Reserves Investments

2013 has been a very challenging year particularly for yield and returns on the Banks' investments. The global financial market remained fragile resulting in very low interest rates and limited investment options available on offer by the approved institutions. However, the safety of the reserves is fundamental over yield and returns, thus the CBSI maintained investments in low to risk free instruments. Total interest earned from foreign reserves investments in 2013 amounted to $45.3 million, this is (29.3%) lower than that of 2012 annual interest income, underpinned mainly by low market interest rates available with the reputable financial institutions in the market.

As a result the calculated average annualised return on investments in 2013 dropped further to 1.18% from 1.99% in 2012.

Figure 8: Annualised return on investment of the reserves, 2018-2013



The strengthening of the dollar against basket currencies

As a result of the strengthening of the Solomon Islands dollar against approved investment currency mix in its portfolio, the Bank made a foreign currency revaluation loss of $151.6 million in 2013. This is underpinned mainly by the appreciation of the Solomon Islands dollar against the Australian dollar during the period, compared to last year which recorded a net revaluation gain of $3.3 million.

Back Office Operations

Back Office operations are responsible for facilitating the international exchange of foreign currencies for the Bank, SI Government and other international organizations. In 2013 a major review of the SWIFT System BCP was established and security tests were conducted to ensure the SWIFT system back up plan is available and effective.

During the year SWIFT Relationship Management Authority (RMA) was established with all commercial banks licensed to operate in Solomon Islands. This enabled CBSI to facilitate payment transactions with commercials banks electronically through the SWIFT system.

Table: 4.2 Number of SWIFT messages sent 2011-2013

	2011	2012	2013
Numbers of messages	1035	940	953

Source: CBSI

Table 4.3: show CBSI receipts and payments transacted via SWIFT during the year.

Table: 4.3 Value of receipts and payments transaction thorough SWIFT 2011-2013

	2011	2012	2013
CBSI Receipts ($M)	$583.6	$601.4	$548.5
CBSI Payments ($M)	$242.6	$223.0	$248.3

Source: CBSI FET data (Annual Figure)

Middle Office Operations

Middle Office main roles and responsibilities includes identifying, analysing and monitoring financial market risks, investment risks and operations risks and advise the management to take appropriate course of actions to mitigate these risks. The Middle Office reports directly to the executive management of the Bank on any breach or non-compliance by the front and back office on rules and requirements stipulated in the Approved Investment policy guidelines.

Middle Office produced its quarterly compliance report on investment policy standards to the reserves management team (front office) and the Investment Advisory Committee. Generally in 2013,according to middle office compliance report, there was no major breach to the investment guideline as most investment strategies were deliberated and approved at investment advisory committee level and the Board level and investment activities remained within the Investment policy guideline.

Exchange Control Administration

The Exchange Control Act and Regulations confer powers, and impose duties and restrictions, in relation to foreign exchange, foreign exchange resources, protection of currency or public credit or revenue. The primary goal for exchange control is to ensure that the country benefits from its resources and all goods and services exported.

Under the Exchange Control Regulations, commercial banks are appointed authorised dealers to process and facilitate trade transaction as per the specific requirements of the exchange control policy and regulation. The commercial banks continued to facilitate international transaction dealings as authorised dealers.

In terms of foreign exchange payments, exchange control assessment and approval is still required for all payments more than $100,000 (for trade and services payments) and more than $30,000 (for travel, sustenance and personal transfers). Foreign exchange payments less than $100,000 and $30,000 respectively can be assessed and facilitated by the Authorised dealers (commercial banks) without CBSI approval. Exchange control approval is still required for all capital payments such as capital transfer, loan repayment, equity proceeds, property proceeds etc, prior to commercial banks facilitating the payments.

Table: 4.4 Number and Value of foreign exchange applications approved by CBSI in 2011-2013

	2011	2012	2013
Total applications approved	5922	6890	6439
Value of applications approved $SBD (Millions)	3,281.10	4,753.80	5,043.90

Applications for Temporary Resident (TR) Status

Temporary Resident (TR) status for Exchange Control purposes is normally granted to a non-resident who intends to reside in Solomon Islands for a period of four years or less; or has resided in the Solomon Islands for over four years but who can produce evidence of firm intention to resume permanent residency overseas within the next few years. Non-residents working in the country on contractual basis can also be granted Temporary Resident status for Exchange Control purposes.

In 2013, the Bank received 207 new applications (including for renewals) for Exchange Control permits for temporary residents. Only 186 applications were approved.

Table 4.5 Number of Temporary Resident accounts applications approved 2011-2013

	2011	2012	2013
Newly Approved Temporary Resident applications	88	143	101
TR Applications Renewals	20	156	85
Total TR Approved	108	299	186

Foreign Currency Accounts

As part of its policy to encourage companies involved in exporting industries to reduce part of their imported costs of production, CBSI allows companies that are involved in exporting of goods or services that apply and meet required criteria to hold a portion of their foreign currency proceeds in foreign currency with their local banks in Solomon Islands. The accounts can be used to pay for im-

Table: 4.6 Numbers of approved foreign currency accounts held by exporters and non-exporter, 2011-2013

	2011	2012	2013
Account holders	21	25	23
Qualified exporters	6	7	10
Non-exporters	15	15	13
Total accounts held	28	69	55
On shore	23	58	46
Off-shore	5	11	9
Total value: (- SBD M$)	2601	1406	896

**some account holders hold more than one FC account.

ported input costs without exchange rate risk.

In 2013, a total of $896 million equivalent were held in the CBSI approved foreign currency accounts. The major currencies held in foreign currency accounts were US dollar; Australian dollar; Euro; NZ dollar; Japanese Yen and PNG Kina. The portion of total export receipts exporters are allowed to retain in foreign currency is 20 per cent.

Foreign Exchange Dealers increased in 2013

As part of its policy of deepening financial services in the country, CBSI allows persons who want to be licensed as Money Changers and provide Money Transfer services to apply under the Exchange Control Regulations. Table [ ] below shows the number of licensed money transfer and foreign currency dealers approved in 2013.

Table: 4.7 Number of approved Foreign Exchange Money Changer License 2011-2013

	2011	2012	2013
Money Transfer Service*	3	4	5
Money Changer Service	5	6	9
Total FX Classified Dealers	8	10	14

*As Western Union and Money Gram Agency-and Sub Agents

In 2013, three new applications for currency exchange services and one new application for foreign exchange money transfer services were approved and granted classified foreign exchange dealers licenses. Further, CBSI issued approval for five sub-agents of Western Union to facilitate foreign exchange money transfers services under Western Union systems infrastructure. These sub agents report directly to an authorised classified foreign exchange license holder for our reporting and compliance purposes.

Private Sector Debt (Private Sector Offshore Borrowing)

It is an Exchange Control requirement that all external borrowing by resident companies (including a company incorporated in Solomon Islands and the Solomon Islands branch of an overseas incorporated company or firm) and individuals must first seek exchange control approval from the Bank prior to entering into a loan agreement with any external lender or institution. This include intercompany soft loans or borrowing by existing resident companies/firms or new investment establishments by companies incorporated in Solomon Islands. Without the Exchange Control prior approval, future repayment or remittances of the loans and advances will not be considered for approval.

In 2013, twelve applications were received seeking Exchange Control approval for offshore borrowing and refinancing. This was valued at $106.8 million (USD 11.5 million; AUD 3.1 million; NZD 0.244 million and PGK 0.267 million).

Table 4.8: Number of private sector overseas borrowings approved under exchange control requirement, 2011- 2013

	2011	2012	2013
Applications Approved	5	6	12
Value in SBD million	$212.5	$997.2	$106.8

Administration of Export Licensing

One of the primary goals of Exchange Control is to ensure that the country fully benefits from its resources and all goods and services it exports. It is therefore required under Exchange Control policy that all proceeds of goods and services exported must be remitted back to Solomon Islands within 3 months from the date of exports.

Goods and services can be exported out of Solomon Islands under the General Authority to Export and/or the Specific Authority to Export.

General Authority to Export covers all goods and services with the exception of Round logs and does not require Exchange Control approval prior to goods and services being exported. However, CBSI is required to monitor exporters to ensure that they comply with the terms of the General Authority to Export by remitting export proceeds within 3 months from the date of export.

Under the 'Specific Authority to Export policy' certain goods may not be allowed to be exported unless the exporter is given specific license to export, each time the good is exported. At present, exporting of round logs requires Specific Authority to Export.

This means that exporters of round logs must be granted 'Specific Authority' permit from CBSI before logs can be shipped out of the country. Prior to CBSI issuing the Specific Authority all applications for round log exports must be guaranteed by a Letter of Credit established by the buyer with a local commercial bank before an export permit is issued or granted by CBSI.

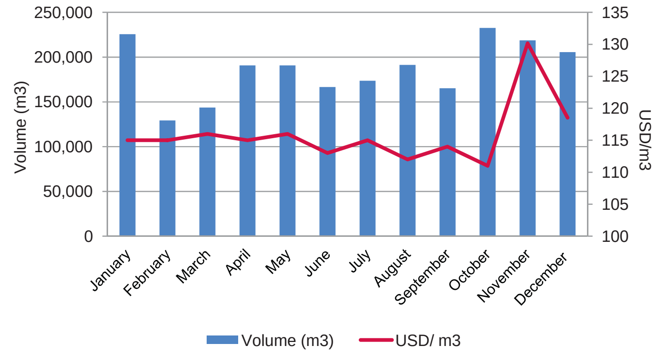
This is a legal requirement under the "Specific Authority to Export policy' before shipments of round logs can be released by Customs Division.

Table: 4.9 Number, Value and Volume of logs approved for Export under Specific Authority to Export, 2011-2013

	2011	2012	2013
No. of Approved Log Applications	788	866	846
Value of Approved Applications ($m)	$1,643.3	$1,750.4	$1,876.4
Volume of Approved Applications (Million Cubic Metres)	2.170	2.096	2.269

Average log export prices in 2013 stood at US$115 per cubic metre. The highest log export price recorded last year was US$130 per cubic metre. According to the Forestry department, this is due to a good number of high grade log species being exported during the period.

Figure 9: Specific Authority to export Round log Approvals, 2013.



Compliance and Reconciliation of Exports

Regulation 13 of the Exchange Control Regulations requires that full proceeds of goods exported are promptly received in Solomon Islands in an approved manner:

Payment for exported goods is received within three months before and after the date of export.

The export price is not less than the price which might be reasonably expected in the open market conditions.

The foreign currency proceeds are promptly sold to or credited with a bank in Solomon Islands.

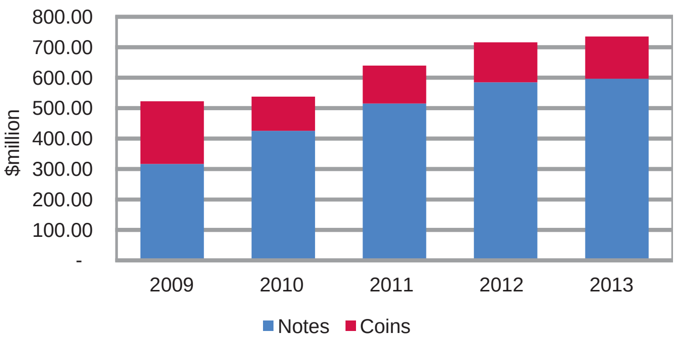
Preliminary figures based on reconciliation of the General Authority to Export showed that only 60% of total export proceeds for 2013 were reconciled and received while the remaining 40% are still outstanding. In value terms this is equivalent to US$105 million. CBSI continued to strengthen its Exchange Control monitoring and compliances of all exporters under General Authority in 2013.

Currency Administration and Management

Currency in Circulation continue to grow from previous year

As at the end of 2013, the total value of currency notes and coins in circulation increased to $735 million from $587 million in the previous year. Currency notes accounted for $596 million of the total circulation and coins made up

Figure 10: Currency and notes & coins in circulation 2009-2013



about $139 million. Figure 10 shows the trend in the currency in circulation from 2009 to 2013.

Total value of notes in circulation registered a slight increase of only 2% in 2013 compared to the increase of 14% in 2012. The pie chart below shows the share of each note in terms of volume (numbers notes) denomination in circulation at the end of the year.

The 100 dollar note represented 85 per cent of the notes in the hands of the public; reflecting its popularity as the note for payments and store of value. Coins in circulation increased by 6% in 2013 compared to 2012. Of the total coins, 47% is in $2, 29% is $1, 16% is in 50 cents and the balance shared by 20 cents and 10 cents respectively.

CBSI issued a new $50 banknote with the latest security feature in September

The Bank issued for circulation its new $50 note in September 2013. This is the first denomination of the new family of notes to be launched over the next few years. The notes were designed and printed by De La Rue, a company that has been associated with Solomon Islands currency since the country decided to issue its own notes and coins. The most prominent security feature is the OptiksTM super wide security thread with a transparent window, in which images of the shark and crocodile from the country's Coat of Arms can be clearly seen. The new note retains most of the main design motifs in the old series $50 note.

Counterfeit banknotes were still in circulation in 2013 but number confiscated was less than in 2012

The Bank confiscated from circulation a total of 16 pieces of counterfeit notes in 2013 compared to 48 pieces in 2012. Of the total counterfeit notes impounded, 7 pieces were counterfeits of the $100 note and 9 pieces of the $50 note.

Public awareness about the risks of circulating counterfeit notes through the radio and print media were made throughout the year; and the public was encouraged to develop the habit to check currency notes before accepting them in exchange for goods or services.

Sale and royalties from numismatic items from collectors was down compared to a year ago

Revenue from sales of numismatic items was below average by $0.4 million in 2013. During the year however, CBSI increased its participation in commemorative coin programs and expects revenue to improve in 2014. In 2013, a '6 in 1' coin consisting of 6 precious metals was produced and sample delivered to the Bank for the currency museum.

The Bank also approved new coin programs including the Trade Ducat and Ancient Gold Solidus, Master Ji Gong, Year of the Horse, Famous Landmarks and FIFA World Cup Brazil coin programs. In addition, the Bank also signed a 5-yr 10 coin program to commemorate the 'First

A new off-line shredder is commissioned to assist in the destruction of soiled and mutilated notes in CBSI. Poor handling and care of notes by the public in Solomon Islands results in poor quality notes which end up destroyed by the off-line shredder. It is an expensive exercise to order new supplies each year.

World War' and renewed some of the coin programs that expired in 2013.

Poor care and handling of notes resulted in the increase in number and value of notes withdrawn from circulation compared to a year ago

The total value of soiled notes withdrawn from active circulation was $144.7 million. This represents a 47% increase from the total soiled notes returned from circulation and destroyed in 2012.

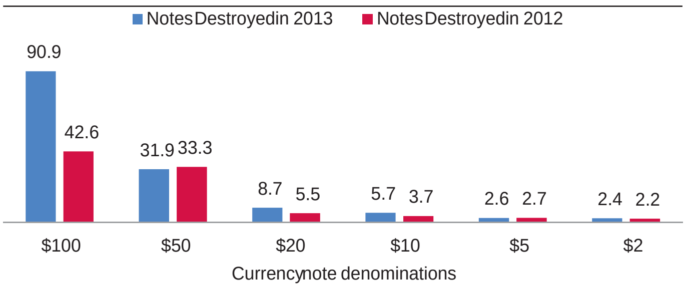
Commercial banks; Government Treasury and the CBSI teller were the main channels used to receive the soiled notes and withdrawn from circulation.

The CBSI is concerned at the high rate at which notes are returned from circulation. It generally shows poor handling of currency notes; despite the many public awareness on how to care for the currency notes.

Out of the $144.7 million soiled notes returned from circulation, $142.2 million were destroyed, $1.2 million were sorted as fit notes for circulation and the balance of $1.3 million was carried forward for destruction in January 2014.

CBSI sent two of its officers from the Cash Processing Unit to attend an Advanced Engineers Training on the Cobra Note Sorter/Shredder machine conducted by De La Rue Cash Systems Engineer in Port Moresby, PNG and an investment to improve efficiency and build local capacity in the Bank's back office cash operations.

Figure 11: Soiled notes returned and destroyed, 2012-2013 ($m)



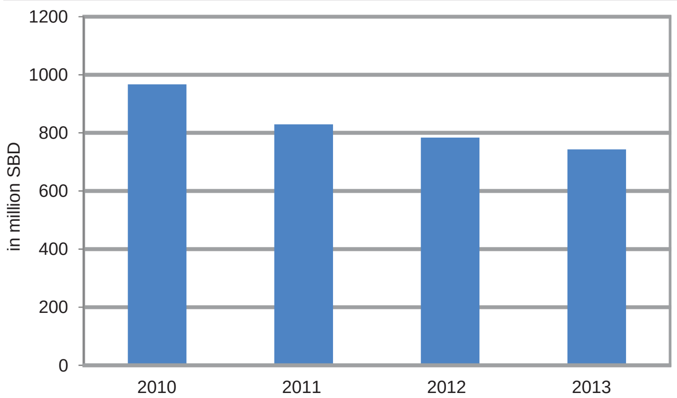
Bank continues to assist Government in the administration of the Government Debt Statistical Database

The CBSI Debt Unit (CDU) continues to act as the secondary site for Government's external public debt database. Public debt data is kept on the CS-DRMS system while a portfolio analysis tool is maintained by the Government Debt Management Unit (DMU) for analysis of multicurrency loans.

As part of its activities, CDU performs monthly loan validations on the CS-DRMS, dispatches QEDs to the World Bank and uploads auction treasury bills results on the CS-SAS after each weekly auction. CDU also maintains the External Private Debt database. CDU also holds regular meetings with the DMU on administrative and technical issues including capacity development issues.

The eternal public debt profile is made up of thirty (30) active loans all of which are fully disbursed. The Principal creditors include the Asian Development Bank (ADB), International Development Association (IDA), European Union (EU), International Corporation Development Fund (ICDF); International Fund for Agriculture Development (IFAD), Export Import Bank of Republic of China (EXIM) and Kuwait Fund for Arab Economic Development (KFAED).

Figure 12: Balance of outstanding public external debt falls due to repayment by Government 2010-2013



The Public Disbursed Outstanding debt (DOD) of the Solomon Islands at 31st December 2013 totalled $743.3 million and is expected to decrease to $697.5 million at the end of 2014. Compared to 2012, the DOD was reduced by $40.5 million from $783.8 million. The decrease in the total stock was mainly due to exchange rate movement and repayment of external loans during the year. Total external debt repayments in 2013 were $57.1 million of which $47.0

million was for Principal repayments and $10.1 million for interest payments.

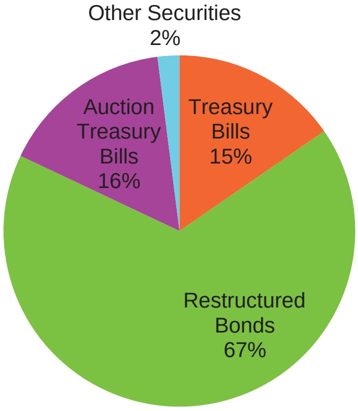
In terms of currency composition of the total official debt, the Special Drawing Rights (SDR) accounted for 82.7% of the total DOD or $734.2 million followed by the United States Dollar with 13.8% or $122.2 million, European Currency Units with 3.2% or $28.3 million and the Kuwait Dinar with 0.3 percent or $3.3 million.

Government's Domestic Securities borrowings fell during the year as Government service its debts

Solomon Islands Government (SIG) domestic debt outstanding at the end of the year was $205.2 million, a reduction of $34.4 million compared to $239.6 million in December 2012. The domestic debt outstanding balance comprised of $37.6 million in Treasury Bills, $162.7 million in Restructuring Bonds and $4.9 million in other SIG special securities. Debt repayment during the year totalled $39.0 million, of which $34.4 million was for principal and $4.6 million was for interest payments.

The major holders of domestic securities were the CBSI with 36.3%, Solomon Islands National Provident Fund (SINPF) with 35.9%, Commercial Banks with 23.0%, General Public with 1.9% and other Creditors with 2.9%. The composition of the Government domestic debt is shown in figure 13 below.

Figure 13: Composition of Government Domestic borrowing as at 31 December 2013



The decline in the outstanding balances for both the external public debt and domestic debt reflected the governments continued commitment towards its debt service obligations.

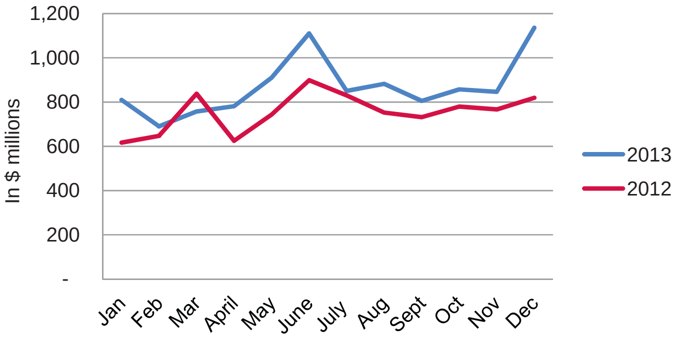
Banking Services

The Bank continued to deliver banking services to licensed financial institutions, the Solomon Islands Government and other non-banking financial institutions as mandated in the CBSI Act 2012. Such banking services include, but are not limited to, administering SBD and foreign currency denominated accounts established with the Bank by SIG and its donor partners, facilitating payments, providing account balances, daily monitoring of free liquidity of the commercial banks and the proper upkeep of records for audit requirements.

Clearing House Activities

The CBSI facilitates clearing of cheques drawn on the three licensed commercial banks operating in Honiara. In 2013, a monthly average of 22,500 cheques with a total average value of $870 million passed through the Clearing House.

Figure 14: Value of cheques cleared each month at CBSI clearing house, 2012-2013



Work to set up of a National Payments System has started

As part of its financial deepening and payment services reform agenda, CBSI recognised the need for an efficient national payments system that can cater for both high value and retail payments; using the electronic platform. Under Sections 26 and 27 of the CBSI Act 2012, the Central Bank is given the power to provide facilities, including intra-day credit, to payment, clearing and securities settlement systems, and their participants, to ensure the safety, soundness and efficiency of the system.

Safety of the payment system is critical to development of Solomon Islands and to assist the Bank, a Memorandum of Understanding (MOU) was entered into with the International Financial Corporation (IFC) to progress the National Payment System Reform Project with the objective of establishing national payment system in Solomon Islands.

The main aspects of the project amongst other important functions include the development of a national payments system vision, a national payments system development plan, a national payments system act, guideline for legal draftsmen and stakeholder communication program. World Bank and IFC payment experts conducted two workshops for the project. The project however still has a long way to go before completion.

Small Business Finance Scheme

As required under the signed MOU with the Government in 2007, CBSI administers the Small Business Finance Scheme (Scheme) and reports to Solomon Islands Government on a quarterly and annual basis the state of the Scheme.

In 2013 four (4) loans were approved for guarantee under the Scheme against eleven (11) nominated in 2012. With the approved loans, the number of loans nominated under the scheme since it started was 59 loans.

At end 2013, total gross value of loans guaranteed increased by only $0.235 million, which is 4.2% of the total gross value of loans nominated and approved in 2012. In aggregate, total claims paid to banks equalled $0.862 million while $0.371 million in guarantees had been cancelled as the loans have been fully serviced.

Administration of Bank Properties

The Bank is committed to ensure that the working environment for its staff is healthy and safe. It is also committed to ensure that if staff are to contribute productively to the mandate of the Bank, the Bank must endeavour to cater for their welfare and accommodate their housing needs.

In 2013 the major projects undertaken during the year were:

- Construction of a permanent security fence around its Mbokona residential compound;
- Construction of drainage system and tar sealing of road to its Mbokona residential compound;
- Engagement of a security firm to provide guarding services to its Mbokona & Rifle Range residential compounds;
- Construction of three new houses for its staff at Mbokona residential compound;
- Installation of air condition & filter system to its Head office vault to ensure a safe and healthy work environment for its staff working in the vault area;
- Construction of an off-site server building as part of its Business Continuity Plan (BCP). The building will be completed in 2014.

Security

The Security Unit of the Bank is charged with the significant role of ensuring the safety and protection of all employees, properties and information of the Bank. In 2013 the Bank upgraded its security systems in line with the recommendations of an Independent Security Audit of the Bank's security environment carried out in 2012.

The Security Unit works closely with the Royal Solomon Islands Police Force who is always willing to assist whatever the task; from assisting to control traffic during a helicopter operation to install two new air-conditioning units on the Bank roof top, to assisting with security when public functions are held in the surrounding neighbourhood.

As part of the Bank's evacuation preparedness, the Security unit together with the floor wardens, facilitated several emergency evacuation drills one of which coincided with the National Emergency Drill, to ensure staff are prepared as best as possible for emergency situations.

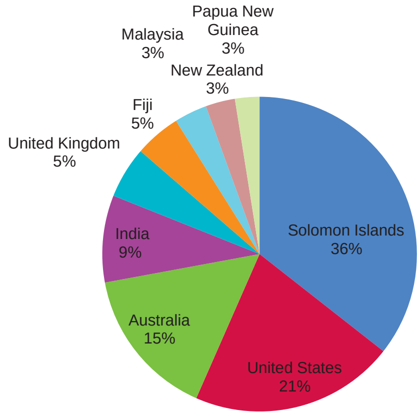
Information Technology

The Information Technology Department is responsible for ensuring that CBSI's IT systems function well to avoid stoppages to work flow within the departments of the Bank, its customers and other external stakeholders.

In facilitating this role, the Department carried out needed improvement and strengthening of the Banks information system. Work carried out during the year involved improving the Local Area Network (LAN) infrastructure; securing the server room racks to prevent equipment falling during earthquakes; and upgrading of the wireless network infrastructure to enhance wireless and network security.

The IT Department provided ongoing support and maintenance to internet access through ADSL broadband, wireless, email, database, and printing and file services. The Department is also charged with the regular updating of information on the Bank's website with new information for the public, who regularly visit the CBSI website as first stop for economic information on the Solomon Islands economy. The Bank added features to monitor the website public visits to gather useful information on content.

Figure 15: Share by countries of the total 2,380 visits to CBSI Websitefor Q4,2013



The year saw the Bank complete its transition to Windows 7 as the platform for its workstations (desktops and laptops). The Bank bought the SQL Server 2008 software, the Acronis Backup/Recovery, which will enable upgrade of the existing backup software to perform complete and effective backups not only on data but also system files from both physical and virtual servers. For its publications and information sharing mandate, the Bank purchased new application software Adobe Creative Suite 6 and Ms Visio

2013 to assist in its efforts to publish information in different formats.

IT Development Projects Progress Updates

Work on the store database system for currency stock management and reporting progressed to testing phase in 2013. This in-house developed system will reduce the manual work, involved in maintaining records of currency movements. When completed; the system will enable the Bank to keep track of its currency in circulation numbers, and important information for its monetary policy decision.

After a delay of two years, CBSI supported the Reserve Bank of New Zealand (RBNZ) on the installation and setting up of the Financial Sector Information System (FSIS) on the Bank's network infrastructure. This database program will enable CBSI to host its financial and economic data securely.

This pilot project is facilitated by the IMF Pacific Financial Technical Assistance Centre (PFTAC) based in Suva, to assist regional central banks and banking commissions to store the financial and economic data. RBNZ, agreed to share its database software and CBSI, volunteered as the first country for the pilot project. Once successfully tested in CBSI, the program will be installed in other central banks in the region.

Work on drafting the Business Continuity Plan (BCP) specifically applied to IT disaster recovery plan progressed during the year. The task involved identification of the potential threats to IT systems both internal and external and set out plans to mitigate the risks and ensuring business continuity.

Acting on the recommendations of the Computerization Study carried out in 2012, on the Bank's accounting and general ledger financial systems, work progressed to buy and install the One Banking Solution for the Bank's new Financial and Accounting System with the supplier. Installation of the new financial system is expected to start in 2014. When completed; the new system will assist the provisions of management information and record keeping for Bank's clients.

Internal Audit Unit Activities

Despite just having one officer for most of the year, the Internal Audit Unit was able to do internal reviews and followed up on matters raised with the Departments in previous audits. The Unit was also able to arrange 3 Board Audit Committee meetings out of the 4 scheduled meetings for the year.

The Internal Audit Unit conducted the following reviews and submitted its report to the Board Audit Committee on the following; currency operations, special audit on fixed assets, purchase and procurement, petty cash, unclaimed money, and review and verifications of data submitted to IMF.

IMF Safeguard Assessment

In 2013 the Internal Audit Unit compiled quarterly IMF Safeguard Assessment reports. These consist of high risk and more vulnerable areas and importantly how the Bank is implementing the recommendations by the IMF Assessment team.

Financial Performance

Income

2013 has been a challenging year for the Bank in terms of its income. While the Bank's assets grew during the year, especially the foreign assets that are available for investments, global interest rates were low yielding less than 1% on the Bank's foreign investments.

At the same time, a strengthening Solomon Islands dollar against other major currencies, especially the Australian dollar has led to lower net earnings in terms of interest income and exchange revaluation losses. Total income for 2013 was $54 million against $145.9 million in 2012.

Expenses

Total expenses for the year were $219.1 million, compared to $74.5 million in 2012. Total expenses include interest, fees and commissions, administrative and other expenses amounting to $68.6 million plus $150.5 million of net unrealized foreign exchange revaluation loss for the year.

Net Operating outcome

As the result of the net unrealized foreign exchange revaluation loss, the operating (loss)/profit for the year was a loss of $165.1 million against $71.3 million in 2012.

Total assets for the Bank as at end of 2013 stood at $4.3 billion compared to $4.2 billion at the end of 2012. Capital and reserves was $9.8 million compared to $252.9 million in 2012.

Chapter 5: FINANCIAL STABILITY

Overview of the Financial System and Stability

The Solomon Islands financial system is dominated by banks which account for 60% of the financial assets of the financial system. Banks play a key role in maintaining the balance between the need for the financial system to support the national economy and the need to strengthen the health and stability of the domestic financial sector. The overall financial sector assets rose in 2013 to $6.8 billion.

Banks showed reasonable resilience despite the challenges in both the domestic and global environment. Banks continued to show strong balance sheet reflecting a healthy level of profitability and excess capital. Non-performing loans trended upward in the latter part of 2013 but that does not pose any significant threat to the future profitability of banks. In 2013, the financial sector has seen marked developments as commercial banks scaled up their presence with the introduction of new diverse banking solutions through branchless banking platforms in the form of in-store and mobile phone banking services to attract new customers. The banking network expanded with additional seventy-two new banking outlet/merchants and 82 Electronic Funds Transfer at Point of Sale [EFTPOS] being added to the network.

The non-banks also performed strongly in 2013, with SINPF showing record growth in its finances. SINPF recorded massive growth in its assets in 2013, precipitated by the rise in the value of its investment portfolio in 2013, as a result of the positive revaluation of its two portfolio companies, the Solomon Telekom Limited and the South Pacific Oil Limited, resulting in a marked change to their market value to $330 million and $626 million, respectively.

The credit unions sector has potential to develop into a key and important role in the current financial services landscape but the challenges in terms of its governance issue is taking a toll on the sector. Credit Unions financial performance in terms of assets growth and profitability are less impressive. But with current regulatory reforms, the sector can become a vibrant alternative savings mobilization vehicle for Solomon Islanders in the years ahead.

The insurance sector as previously reported in 2012, has its own issues in terms of the sector's ability to penetrate deeper into the economy. However, the current players in the sector continued to perform impressively and in 2013. Two new entrants submitted applications to enter the market and their applications were approved in early 2014.

Regulatory and Supervisory Developments

Establishing a coherent and well-functioning regulatory framework for an efficient financial sector is vital for the soundness and stability of the financial system. In this light, the CBSI in 2013 supported a number of legislation

ANZ Bank goMoney agent promotes use of mobile phone banking to potential customers in Auki, Malaita province. In 2013, Solomon Islands became the first country in the Pacific region to have bank led model for delivering financial services through use of mobile phone, merchant agents or in-store banking; and expanding the reach of financial services to rural areas, to have access to mobile phone network.

reforms that could facilitate the stability and further development of the financial sector.

On the request of the CBSI, a mission from the Legal Department (LEG) of the IMF visited Honiara from January 24 to February 1, 2013, and provided technical assistance (TA) towards a comprehensive review aimed at modernizing the Financial Institutions Act 1998 (FIA). The proposed reform believed that the FIA could be improved to support the further development of the financial industry. The final report from IMF has been received and a policy paper is being prepared by CBSI for submission to Cabinet for deliberation in the first half of 2014. The reform of the SINPF Act is also progressing well and a final Cabinet paper on the policy recommendations were prepared and submitted to Cabinet for endorsement in late 2013, this is to allow for the final drafting of the SINPF bill. The Ministry of Finance and Treasury was also able to secure the assistance of the Asian Development Bank (ADB) to assist in the final drafting of the bill in early 2014.

The Central Bank and the Solomon Islands Government (SIG) are also carried out a review of the existing credit union legislation in 2013. In May 2013, the Economic Reform Unit (ERU) in the Ministry of Finance and Treasury and the CBSI requested the Asian Development Bank (ADB) to support a comprehensive policy review of the current credit union legislation and draft amendments. A policy paper has been completed and submitted to Cabinet for endorsement.

Apart from the financial sector law reforms, the Central Bank, also completed a new Prudential Guideline (PG 8) on the disclosure requirements in 2013. This new guideline adds to the list of current guidelines and is hoped it will help to improve transparency and to assist in protecting the rights of financial consumer in Solomon Islands. Currently, CBSI is also working on a new prudential guideline (PG9) on complaints management to complement the PG8. This new guideline is expected to be issued in 2014.

Financial System

In 2013, CBSI issued an interim banking license to Pan Oceanic Bank Limited (POBL) to conduct banking business in the country. This increases the number of financial institutions in Solomon Islands that consists of the three existing licensed banks, a credit institution, a superannuation fund, credit unions, three insurance companies with seven intermediaries and a Development Bank (under court administration).

The consolidated assets of the financial sector experienced notable growth in 2013, with significant increases from the SINPF, Banks and Credit Corporation. SINPF increased its asset base from $1.55 billion in 2012 to $2.47 billion in 2013 while banks total assets rose from $3.46 billion to $4.01 billion in the same period.

Table 5.1: Financial System Assets

($million)	2010	2011	2012	2013
Commercial Banks	2364.0	2989.1	3457.9	4009.9
SINPF	1180.7	1324.9	1555.4	2467.1
Insurance Companies	110.7	120.3	117.5	124.4
Credit Corporation [SI] Ltd	32.5	69.3	87.1	113.1
Credit Unions	43.2	51.7	49.7	50.6
Total Assets	3731.1	4555.3	5267.6	6765.1

The financial sector has also made marked improvements in 2013 in terms of its channels of service delivery. The new channels were successfully promoted through the in-store banking platforms by Westpac Banking Corporation (WBC) and the mobile banking infrastructure by the Australia and New Zealand (ANZ) Bank and Bank South Pacific (BSP).

TABLE 5.2: Number of Banking Infrastructure

	2011	2012	2013
Commercial Banks	3	3	3
Branches	13	13	12
Agencies	7	7	7
ATMs+	36	38	38
EFTPOS	175	224	306
Merchants			72
Mobile bank Vehicles	2	2	2

A total of 13 new in-store banking outlets were launched by Westpac Bank in 2013, particularly in areas that had no bank presence in the past or where the banks had scaled down their branch operations. At the same time, BSP and ANZ have also launched their mobile banking products and services towards the end of 2013, boosting financial services into areas not previously served by commercial banks especially in the remote parts of the country.

Two new applications for insurance business were received by CBSI in 2013 from two established insurance companies in Papua New Guinea. CBSI concluded its assessment of the applications in 2013 and the applicants were granted licenses to operate in the country in early 2014. These two new entrants add to the existing three insurance companies, two general and a life company.

The number of superannuation firms, credit institutions and the credit unions remained the same in 2013, and of the total registered credit unions, only ten are consistently reporting to CBSI.

Banking Sector

The banking sector continued to maintain its dominant role in the financial system with its assets representing 60% of the total assets of the financial sector in 2013. The banking sector remained strong with robust profitability and sturdy capitalization, together with expansion of assets and management of risks during 2013. The strong result was largely underpinned by healthy earnings from their income sources, adequate capital and strong liquidity position. As a consequence, the stability of the banking sector was reinforced.

A customer tries out a Westpac Bank ATM terminal after it was official open at the Honiara main market. Financial delivery channel in Solomon Islands is focussed towards branchless banking model. In 2013 the numbers of ATMs was 38 and EFTPOS increased to 306 from 224 in 2012.

The banks' profit tumbled by 17.0% to $84.8 million in 2013, a fall following an upsurge in profits registered for 2012. The reduction in profits was due mainly to a rise in operating expenses by $12 million to $166.3 million and to a lesser extent the marginal fall in total revenue to $302.9 million compared to 304.8 million in 2012 that emanated from a drop in non-interest income. The decrease in after tax profits and the reasonable growth in average assets and average equity by 13.8% and 6.0% respectively prompted the decline in both return on assets to 3.7% and return on equity to 23.7% during the year.

Operating expenses of the banks' also grew by 7.8% to $166.3 million, largely fuelled by the upswing in salaries, wages and benefits expenses and administrative and occupancy expenses. Correspondingly, provisions for bad and doubtful debts had increased which resulted in the growth of total expenses for 2013. The cost to income ratio consequently climbed to 55.7% during the year from 50.5% in 2012.

TABLE 5.3: Profit & Loss Statement

($' million)	2011	2012	2013
Net interest income	135.2	140.3	156.8
Non-interest income	160.6	164.6	146.1
Foreign exchange gains	104	111.9	98.1
Fees & charges	31.6	33.3	33.5
Others	24.9	19.4	14.5
Operating income	295.8	304.9	302.9
Operating expenses	142.6	154.3	166.3
Provision for bad debts	19.6	-0.2	2.4
Profit Before Tax	133.6	150.8	134.3
Profit After Tax	84.7	102.2	84.8

The assets of the banking sector grew by 16% to $4010 million in 2013. The growth was owed to an upturn of 54% in investment in CBSI Bokolo Bills and an increase of 14% in loans and advances during the year, while balances with depository institutions reported a slow down during 2013. Despite the slow growth, the share of investments in CBSI securities increased moderately from 12.2% to 16.1%, whilst the share of loans and advances declined marginally from 33.8% to 33.3% as well as balances with depository institutions decreased from 45.3% to 40.7% by end 2013.

Commercial banks' lending portfolio saw a 14% growth in 2013. The increase in lending during 2013 was concentrated in six economic sectors, namely, Agriculture (46%), Communication (30%), Tourism (27%), Distribution (26%), Personal (25%) and Transportation (20%). About 89% of banking sector lending portfolio was categorically funding long term credits while 11% funded short term credit facilities like trade bills, overdrafts and lease financing.

In terms of bank liabilities, deposits continued to be the main funding source in the banking sector, hovering around 77% of total liabilities since the end of 2012. Accordingly, total deposit liabilities rose by 16% to $3106 million largely driven by the growth in demand and savings deposits over the year. The composition of deposits during the year shows the bulk of deposit liabilities with non-financial corporations specifically, private sector non-financial corporations with 72%, 18% with financial corporations and 10% for other sectors comprising of central

TABLE 5.4: Financial Soundness Indicators (2011 - 2013)

(in percent)	2011	2012	2013
Capital Adequacy:			
Regulatory capital to risk-weighted assets	30.9	33.1	32.5
Tier 1 Capital to risk-weighted assets	28.8	25.0	26.8
Non-performing loans net of provisions to capital	6.7	4.3	12.3
Asset Quality:			
Non-performing loans to total gross loans	5.9	3.7	7.2
Sectoral distributions of loans to total loans:			
Personal	27.4	31.6	36.0
Distribution	15.2	13.3	14.7
Forestry	11.5	4.5	2.7
Telecommunication	8.0	9.2	10.8
Manufacturing	5.5	4.6	3.5
Construction	14.2	14.9	12.7
Tourism	7.0	6.7	7.7
Transport	3.8	3.4	3.6
Fishing	0.2	0.0	0.0
Professional Services	4.7	4.8	4.8
Agriculture	0.8	2.1	2.8
All Others	1.8	4.9	0.7
Earnings and profitability:			
Return on average Assets (before taxes)	5.1	4.8	3.7
Return on average equity (before taxes)	28.1	28.2	23.7
Interest margin to gross income	45.7	46.0	51.8
Non-interest expenses to gross income	54.8	50.5	55.7
Liquidity:			
Total liquid asset to total asset (liquid asset ratio)	57.1	60.9	59.3
Total liquid asset to short-term liabilities	87.6	79.8	80.2

government, local government and non-residents deposit accounts.

The overall banking system remained well capitalized in 2013, with both capital adequacy ratio and Core Tier 1 capital in excess of the statutory requirement of 15% and 7.5% respectively. The capital adequacy ratio remained around 33% since 2012, whilst the Core Tier 1 capital measure registered a marginal increase to 26.7% in 2013 from 25% in 2012. Regulatory capital is however, supported by sturdy retained earnings enabling banks to record a consolidated balance of $568 million compared to $536 million in 2012.

The banking sector operated with adequate levels of liquidity during 2013, supported by growth in liquid assets [marketable assets] stretching to $2319 million over the year compared to $2057 million during 2012. The moderation in the liquidity position of the banking sector was further reflected in the liquid assets to total assets ratio that declined marginally to 59.3% from 60.3% in 2012 and the liquid assets to short term liabilities ratio that rose slightly to 80.2% from 78.8% in 2012. Nevertheless, commercial banks still have potential ability to meet their obligations as they fall due.

The quality of assets of the banking sector deteriorated as indicated by the growth in the non-performing loans [NPLs] ratio from 3.7% as at end 2012 to 7.2% by end 2013. More so, the volume of Gross NPLs increased by more than 100% from $43 million to $96 million during 2013. The increase in NPLs was particularly evident in Personal, Transport, Construction and Distribution sectors, basically due to repayments incapacity and lengthy process of loan recoveries.

The banking sector's total provisioning [specific and general provisions], essentially the funds set aside by banks to pay for bad debts that are anticipated to occur, remained around $50.5 million since a year ago. This reveals just about 85% coverage of total provisions to NPLs whilst specific provisions to NPLs registered 23% coverage in 2013. Accordingly, the increase in specific provisions was lower than the increase in NPLs, which resulted in a decline in the specific provisions coverage by end 2013.

Credit Institutions

Credit Corporation Solomon Islands Limited by its asset size forms only a small part of the financial sector but plays an important role in the financial market. Since its inception, the institution has witnessed positive growth and continues to improve its value as a finance institution and a player in the credit market.

The company posted an unaudited after tax profit of $9.4 million in 2013, marginally down by 5% from $9.9 million in 2012. The positive result was underpinned by the continued strong lending activity, which pushed up interest income by 25% over the year, although lending growth was much lower compared to the 58% growth witnessed for the same period in 2012.

Correspondingly, it was also noted that total operating expenses moved up by 20% in 2013 while there was also a marked increase in provision for bad debts to $1.9 million from $0.5 million in 2012. Consequently, this has impacted on the overall bottom line of the company. The return on average assets (ROAA) as a measure of the earnings was 17.4% in 2013 around the same level as in 2012.

Total assets of the company grew by 30% to $113.1 million in 2013, easing from a high growth of 87% in 2012. The easing of growth in assets came primarily on the back of a moderate growth in the lending activities in 2013 and it is expected that lending will be further eased in 2014. On the liabilities side, total deposits grew by 43% to $72.3 million.

The classified loans, which is measured by the ratio of non-performing loans to totals loans, rose to 5.3% in 2013 compared to 2.2% in 2012. The increase is mainly due to the upswing in total risk weighted assets driven by the continued positive growth of the lending portfolio in 2013.

Capital of the company stood at $33.8 million as at end of 2013, up by 10% from $30.7 million in 2012. The growth in capital was owed largely to the further injection of profits to the retained earnings of the company during the year. However, while capital expanded, the risk based capital ratio fell to 30.9% in 2013 compared to 34.8% in 2012 as a result of risk weighted assets growing at a faster rate than capital.

Table 5.5: Profit and Loss Statement for, 2011- 2013

($ millions)	2011	2012	2013
Net Interest Income	9.1	14.6	17.9
Non-Interest Income	1.2	1.9	0.8
Operating Income	10.3	16.5	18.7
Operating Expenses	2.6	2.9	3.5
Provision for bad debts	1.1	0.5	1.9
Profit Before Tax	6.6	13.1	13.3
Profit After Tax	4.6	9.8	9.5

Credit Union Sector

While the credit union sector forms only a smaller part of Solomon Islands financial system, it has potential to develop further and play an important role in the current financial services landscape. The credit union sector constituted about 1% of the overall financial system. This is based on the ten (10) credit unions who regularly submit reports to the Central Bank in 2013. However, even if all 175 registered credit unions submit their reports, the difference will remain insignificant.

The consolidated balance sheet of the ten credit unions inched up marginally to $50.6 million in 2013 from $49.7 million in 2012. This increase was driven by the 6% growth in lending activities which pushed up the total portfolio from $34 million in 2012 to $36 million in 2013. However, the sector in the last three years has been almost stagnant. Correspondingly, total share capital defined as members share remain almost flat at $13.2 million while the members' savings deposits moved up by $1.0 million to $37.1 million during the year.

Table 5.6: Credit Unions Balance Sheet Summary

Balance Sheet Summary	2011	2012	2013
Total Loans	37.3	34.6	36.1
Total Assets	51.7	49.7	50.6
Total Deposits/Savings	38.9	36.1	37.1
Total Share Capital	12.5	13.2	13.2
Income Statement			
Income	5.3	5.8	5.3
Expenses	2.2	2.5	2.6
Net Surplus (Loss)	3.1	3.3	2.7

Membership	6,320	5,630	5,700
Indicators	2011	2012	2013
ROA	6%	7%	5%
Loans to assets	72%	70%	71%
ROE	25%	25%	20%
Self-Efficiency Ratio	241%	232%	204%

In terms of the financial performance (profitability) of the sector, the sector experienced a shrinking net surplus of 18% to $2.7 million in 2013. Obviously, the fall was anticipated as income slipped during the year while at the same time expenses inched up slightly. However, on a positive note, the sector still maintains an efficiency ratio that would still be able to cover 104% of its overhead expenses and operation.

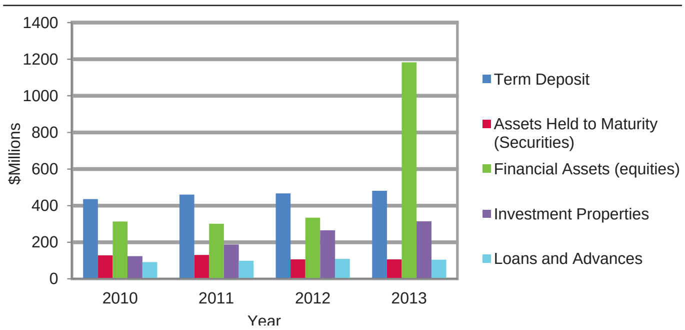
The financial performance of the sector reveals a commonality of the issues faced by credit unions in Solomon Islands. Poor governance has not only put an additional brake on credit union development but arguably has contributed to the demise of some credit unions. Projections for the sector envisage stagnant growth in credit unions in 2014. While the financial challenges now faced by credit unions are evident, they are not insurmountable but reinforce a clear need to reform how credit unions are structured, governed and regulated. A strengthened and revitalised credit union sector could play an increasing role in the retail financial landscape of Solomon Islands in years ahead.

Solomon Island National Provident Fund

The Solomon Islands National Provident Fund (the Fund) is the largest supervised financial institution in the country and accounts for 37% of financial assets of the financial system. This illustrates the vital position held by the Fund in the economy and this also triggers the importance of prudential supervision of the Fund by the Central Bank of Solomon Islands.

In 2014, the Fund witnessed another good year with total assets growing by 56% to $2,467.1 million. The increase was largely driven by the massive growth in the value of the Fund's investment portfolio in 2013, attributed to the positive revaluation of its two portfolio companies, the Solomon Telekom Limited and the South Pacific Oil Limited, resulting in a marked change to their market value to $330 million and $626 million, respectively.

Figure 17: SINPF Investment Portfolio



On top of the net gain on asset revaluation, there was also a notable capital injection of $31.6 million to Solomon Oceanic Cable Company (SOCC) during the year that contributed to some extent the massive increase in the overall assets of the Fund.

The Funds profit soared to $840.1 million registering a growth of 509% in 2013, a historical record for the Fund. This came primarily on the back of a prevailing high level of net gains from the changes in fair value of assets from the two companies owned by the Fund. Of the Funds total investment income, net gains in changes in fair value contributed 35% reflected by the jump in total net gain from $11.8 million in the previous year to $674.2 million in 2013. In addition to the net gain on the fair value of investment assets, the Fund also witnessed a notable growth in dividend payout from domestic subsidiary companies.

Table 5.7: SINPF Profitability (Audited)

For the Period ending June ($ million)	2011	2012	2013
A:Investment Income	129.4	125	836.1
Interest	35.1	29	21.9
Dividend	52.6	67.4	113.7
Rentals	14.5	16.9	26.2
Net gains(loss) in changes in fair value	27.2	11.8	674.2
B:Other Income	6.1	12.9	4.0
Surcharges	4.5	4.2	2.1
Sundry	1.3	8.7	1.6
Gains on sale of Fixed assets	0.2	0.0	0.3
C:Total Income	135.5	137.9	840.1
D:Operating Expenditure	47.6	49.3	66.1
Gross Surplus	87.9	88.6	774
Appropriation to Members	78.9	64	246.6
E:Net Surplus	9.0	24.6	527.4

With the improvement of the Funds bottom line, the conventional measures of earnings ROE and ROA have also improved to 115% and 35% respectively in June 2013.

Total membership contributions grew to $1,763 million in 2013 compared to $1,402 million in 2012. The growth was primarily fuelled by the increase in membership during the year to 162,351 members, up by 55% from 2012 and at the same time member's contribution accounts have also significantly expanded as a result of the 20% crediting rate awarded to members in 2013.

While the contributions are up, correspondingly, the Fund also witnessed a growth in the level of member withdrawals in 2013, registering an overall amount of $105.7 million compared to $78.8 million in 2012. Of the seven withdrawal grounds, the bulk of the withdrawals in 2013 come from the retirement and migration grounds.

While the Fund showed positive performance in 2013, it must be noted that it also has its own challenges and still has a lot of work to do around its investment and operational risk management. On a broader issue there is an urgent need to review and modernize the existing legislation and policies that governs the Funds operations.

Insurance Industry

The insurance industry recorded an after tax profits of $18.4 million in 2013, an increase of 34% from the previous year. The increase in profit was largely owed to a significant increase in gross premium during the year.

Table 5.8: Income Statement of the Insurance Industry ($millions)

	2010	2011	2012	2013
Gross premium	60.6	60.0	48.7	68.9
Reinsurance	16.0	14.4	9.0	15.8
Premium Reserve	1.6	(0.3)	3.8	2
Net Earned Premium	43.0	45.9	35.9	51.1
Total Premium Expense(Inc. Claims)	12.5	15.3	10.8	15
Underwriting Income	30.4	30.6	25.1	36.1
Management Expense	5.8	6.6	6.2	8.3
Non-Underwriting Income	2.0	1.3	(0.06)	0.3
Net Profit Before Tax	26.6	25.3	18.9	28.1
Net Profit After Tax	16.8	16	12.3	18.3

Gross premiums totalled $68.8 million in 2013, an increase of 41% over the year. From these premiums, $15.8 million was placed offshore as re-insurance. The reinsurance spread was notable in the classes of Fire, Household, CAR, WOC and others.

In terms of claims, the insurance sector paid out a total of $8.9 million in gross claims by December 2013, showing an increase of 88% in claims paid. Motor vehicles accounted for 51% of the claims, while WOC took up 26% and liability and others made up the remaining portion. Reinsurance recoveries also witnessed an increase in 2013 mainly coming from the fire class. This increase in recoveries has provided a partial relief for the general insurance operators.

Total assets of the industry recorded a marginal increase to $124.4 million in 2013, up from $117.5 million in 2012. The growth in total assets was mainly due to the increase in premiums outstanding which continue to dominate the asset side of the industry.

Total liabilities of the insurance industry recorded an increase of 10% to $49.3 million in 2013. The change was triggered by the upsurge in other provisions, notably in taxation and growth in borrowings from head office.

Capital, improved by 13% to $75.1 million in 2013 as a result of an increase in retained profits. This was further reinforced by an increase in year to date profits of $14.9 million from $12.3 million.

In terms of offshore transfer of premiums, the number of applications and placements fell by 37% to $40.5 million. The decline was due to late renewals of policies, which is expected to recover in the first quarter of 2014.

Chapter 6: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES

The Solomon Islands Financial Intelligence Unit (SIFIU) carried out its functions as mandated under the Money Laundering and Proceeds of Crime Amendment Act 2010 (MLPCA). The Unit has four (4) officers, three CBSI seconded officers and one seconded officer from the Ministry of Police. In terms of operational functions, the SIFIU reports to the Anti-Money Laundering Commission (AMLC), established under the MLPCA.

Membership to International Anti Money Laundering Groups

SIFIU is a member of the Asia Pacific Group (APG) on Anti Money Laundering and also a member of the EGMONT Group. As a member of these international and regional organizations, the SIFIU and AMLC are committed to performing their responsibilities to meet International AML/CFT standards and requirements.

Financing of SIFIU

The Solomon Islands Government funds the operations of SIFIU and AMLC through budgetary provisions from the Ministry of Justice and Legal Affairs. In 2013 the financial support to SIFIU provided by the government totalled $676,000, the same budgetary support received in 2012. Despite the insufficient funding to cover all its planned activities in 2013, SIFIU was able to prioritize its activities for the year.

Relationship with Reporting Agencies

The SIFIU maintained close working relationships with the reporting agencies during the year. Quarterly meetings were held with the AML reporting officers from the three commercial banks in the country to discuss AML/CFT issues. It was encouraging to note that financial institutions in the country are playing their part in ensuring that the financial system of the country is free from money laundering and terrorism financing activities.

In preparation for rolling out the reporting requirement for the Cash dealers and the Designated non-financial businesses and professions, the SIFIU conducted a workshop for all the reporting entities in the second half of 2013.

Advising public against financial scams

The SIFIU in 2013 was again involved in advising the public against "financial scams". The Unit attended to numerous enquiries from the public during the year about financial schemes and purported lottery wins. The Unit was able to advise and assist people seeking advice prior to making contact with or payments to perpetrators of schemes. Unfortunately, other people sought advice after they have already paid money to the perpetrators.

Activities Report for 2013

Table 6.1

Type of Reports	Received		Disseminated	
	2013	2012	2013	2012
Suspicious Transaction Report (STR)	28	49	5	14
Cash Transaction Report (CTR)	52,129	22,707		
Electronic Funds Transfer Report (EFTR)	13,364	11,563		
Border Currency Report (BCR)	42	10		

Table 6.1 below show the type and number of reports received by SIFIU in 2013. In 2013, the number of Suspicious Transaction reports submitted to the Police was 5 compared to 14 in 2012 (what does this imply? Our system has potential crime? How many of the 14 reported in 2012 and 2012 have been further investigated by police?).

The SIFIU disseminated only 5 reports to law enforcement agencies in 2013. The reason being, the Unit's Investigator was engaged in working on a major case, the Illegal Gold Dealers Case. This is an area that is still not regulated properly and that the government is losing a lot of money by not being able to collect the right taxes from gold dealers. There was one arrest in December on this matter.

Meeting of the AMLC held during the year

During the year the AMLC met five times. Attendance by members of the AML Commission was 77%.

Table 6.2: Overseas Trainings/Workshops and Meetings Attended

Date	Trainings/Workshops	Meetings	Organiser/Funder
2013 January		Director attended a meeting in Auckland on Terrorism Financing	Organised and Funded by UN
2013 March	Investigator/Analyst – attended training on FATF Revised Standards and Typologies - Brisbane		Organised and funded by APG and SIFIU
2013 March		Director attended the Expert Working Group Meeting on Preventing Terrorism Abuse of the Non-Profit Sector – New York.	Organized and funded by the Centre on Global Counterterrorism Cooperation & SIFIU
2013 July		AMLC Chairman, Vice Chairman and Director attended the 2013 Annual Plenary in Shanghai, China	Chairman and Director - Fully Funded by the SIFIU
2013 August	Director attended training on the Revised International Standard on Combating Money Laundering and Financing of Terrorism & Proliferation.		Funded by IMF/STI and SIFIU

Local Training

The SIFIU conducted one National Workshop for all reporting agencies in 2013.

Chapter 7: FINANCIAL INCLUSION

Progress on meeting 70,000 new bank accounts goal by 2015

At the end of December 2013, a total of 62,046 new bank accounts have been opened for Solomon Islander bank customers since 2011 when the National Financial Inclusion Taskforce (NFIT) was set up, and tasked to enable 70,000 ordinary Solomon Islanders to access affordable financial services by 2015. Out of 62,046 accounts that were opened to the end of the year, 31,915 new accounts were opened in 2013, slightly above half of the total.

As presented in Table [ ]; CBSI and its partners in the NFIT have achieved 89% of the numerical target of 70,000 at end of 2013. At this rate of growth, the target to reach 70,000 people by 2015 could be achieved in 2014.

Table 7.1: Number of New Accounts opened by Commercial banks during 2011 to 2013

	2011	2012	2013
Total new deposit accounts opened at bank branches	8,235	21,896	16,788
Total new accounts opened using branchless banking channels (Mobile Merchants, In-Store and Tablets)	0	0	15,127
Total new accounts opened each year	8,235	21,896	31,915
Total year to date	8,235	30,131	62,046

Source: Commercial Bank Reporting Templates

Credit for this achievement can be attributed to the following reasons:

- The issuance of a simplified Know Your Customer (KYC) identification requirements by the Anti-Money Laundering Commission (AMLC) which allows commercial banks, to open personal accounts for first time applicants for bank accounts without having to infringe the anti-money laundering law ;
- Commercial banks commitment and investment of resources to embrace branchless banking as a potential delivery channel of financial services in Solomon Islands;
- The capital investments made by the telecommunication companies specifically the mobile network, operators provided the underlying infrastructure that enabled commercial banks to provide mobile phone banking or branchless banking services. The telecommunication towers in rural locations also enabled 80% of the population to access mobile phone services;
- The support in both technical and financial assistance provided by the Pacific Financial Inclusion Program (PFIP), Alliance for Financial Inclusion (AFI), supported by Bill &Melinda Gates Foundation, Pacific Islands Working Group (supported by AFI and central banks of the South Pacific region) on financial inclusion; and donor partners particularly AusAid, UNDFC, NZAid; and bilateral and multilateral institutions such as Asian Development Bank; IFC and the World Bank; and
- The support provided by the Solomon Islands Government, and other stakeholders to pursue this policy agenda.

Participants at a financial literacy workshop held at Lata, Temotu Province, learn how to use calculators to make a personal budget. Providing financial literacy training to help individuals to be financially competent is one of the goals of financial inclusion policy in Solomon Islands.

As a result of NFIT's activities, new financial delivery channels are now available in the country, the numbers of access points where financial services can be transacted has changed as shown in TABLE 7.2.

Table 7.2: Regulated Access Points by Provinces at end of 2013.

Name of Indicator	Choiseul	Western	Isabel	Malaita	Guadalcanal	Central	Makira	Renbel	Temotu	Honiara	TOTAL
No of Bank Branches	0	4	0	2	0	0	0	0	0	6	12
No of ATMs	0	7	0	2	2	0	0	0	0	27	38
No of EFTPOS (excluding In-store)	1	34	4	16	1	6	0	0	3	251	316
No of In-Store Banking	1	4	1	2	1	2	1	0	2	0	14
No of Bank Agents	1	1	1	2	0	0	1	0	1	0	7
No of Mobile banking Merchants	3	6	1	10	10	3	2	1	2	14	52
Total access points per Province	6	56	7	34	14	11	4	1	8	298	

Note: Data extracted from the Commercial Bank Reporting Template (NFIU)

First Microfinance Company begin business

2013 also witnessed the establishment of the first foreign owned private microfinance (MFI) company, the South

Pacific Business Development (SPBD); registered and operating in the country. SPBD focuses on assisting and empowering women to graduate from poverty through financial access.

SPBD lent small uncollateralized loans to its women clients. More than two thousand loans were disbursed to clients, worth more than $6 million during the year.

Progress in establishment of Saving Clubs

Based on data reported by NGOs, a number of community-based saving clubs were in operation in 2013. TABLE 7.3 show the number and location of these savings clubs around the country.

Table 7.3: Number of Savings Clubs set up by NGOs and their Locations

NGO Facilitating	Choiseul	Western	Isabel	Malaita	Guadalcanal	Central	Makira	Renbel	Temotu	Honiara	TOTAL
World Vision	0	0	0	16	13	0	18	0	15	8	70
Live and Learn	0	7	4	2	0	0	2	3	0	0	18
Rokotanikeni	0	2	0	4	0	0	0	0	0	0	6
SICUL	0	1	4	1	3	0	0	0	0	1	10
Self-Taught/Assisted	0	3	11	0	0	0	0	0	0	0	14
Total access points per Province	0	13	19	23	16	0	20	3	15	9	118

Source: NFIU stakeholder's reporting template

These rural saving clubs provide some basic financial products and services to their members, including savings accounts and even small credit.

With the remoteness of village communities from urban centres, CBSI sees savings clubs as potential financial service providers to the remote rural communities. In pursuing the option, CBSI in partnership with PFIP commissioned a study on the current practices of the saving clubs with the aim of identifying the gaps and working towards the promotion of best practices to stimulate sustainable growth of savings clubs in remote locations in Solomon Islands. The study began in November 2013 and the outcome of the study will be available in early 2014.

New Data and indicators agreed to measure financial inclusion

Solomon Islands, for the first time, is now able to measure progress of financial inclusion outcomes amongst its people and meet internationally required reporting standards as well. This was possible through working in partnership with the Alliance for Financial Inclusion Pacific Islands Working Group (AFI-PIWG) to agree on "Core- Plus" set of indicators (See Box 1 below).

Financial inclusion can be measured in four dimensions namely access to financial services, usages of financial services, the quality of financial services and the impact of financial services on the people. Solomon Islands focus in 2013 was on the 'access' dimension by encouraging the financial service providers to make financial services available to the population. However, the usage of financial services, the quality of the services and how the services impact the lives of the people is still the challenge that CBSI and its partner bodies will address in coming years.

A participant makes a point during the National Financial Inclusion Conference held in Honiara. A total of 118 savings clubs were established by NGOs and individuals throughout the country in 2013, increasing financial services access to the rural population.

Progress on Financial Education in School Curriculum

As a result of collaboration with the Ministry of Education and Human Resources Development (MEHRD) to encourage financial education in the schools and institutions in Solomon Islands, MEHRD has integrated financial education into the school curriculum, in pursuit of implementing the 2020 Money Pacific Goals.

Part of the policy agenda, also includes adult financial literacy. To drive this agenda, the Financial Literacy Working Group (FLWG), a sub-committee of NFIT, was formed towards the end of 2013 to work specifically on coordinating stakeholders efforts to promote financial literacy activities and events.

Consumer Empowerment and Protection progress update

CBSI started to address consumer protection and empowerment; towards end of 2013. A prudential guideline (Prudential Guideline No.8) was issued to commercial banks requiring them to disclose all their interest rates, fees and charges and vividly displaying and informing consumers of any changes. Work has also started on establishing policies and procedures where bank customers can lodge their complaints against a provider of financial services.

Despite the positive progress made, there are still gaps to be addressed in the pursuit of the financial inclusion agenda in Solomon Islands. These areas include: promotion of micro insurance as a financial product that targets

Panel members consisting of a representative of Price Control Unit of the Ministry of Trade and Commerce; a representative from a commercial bank, a representative from the Pacific Islands Financial Inclusion Program and CBSI share their views on consumer protection and empowerment.

low income households. There is still the need to encourage the MEHRD to pursue the teaching of financial education in our schools, and working with financial inclusion partners to promote financial literacy, particularly on the use of technological services, and on consumer protection and empowerment.

Overall, 2013 has seen positive outcomes in the development and promotion of financial inclusion objectives in Solomon Islands, but at the same time recognizing that the achievements so far are still a small start and more needs to be done.

Box 1: AFI Plus Indicators to measure progress on financial inclusion

Dimension or theme	Name/ description	Indicator
Access	Cash-in and cash-out access points	Number of cash-in and cash-out access points per 10,000 adults at the national level.
	Access points by channel	Number of branches per 10,000 adults nationally Number of ATMs per 10,000 adults nationally Number of EFTPOS per 10,000 adults nationally Number of Agents per 10,000 adults nationally Number of MFI access points per 10,000 adults nationally
	Access points by channel and second-level administrative unit	Number of branches per 10,000 adults in each second-level administrative unit Number of ATMs per 10,000 adults in each second-level administrative unit Number of EFTPOS per 10,000 adults in each second-level administrative unit Number of agents per 10,000 adults in each second-level administrative unit Number of MFI access points per 10,000 adults in each second-level administrative unit
	Coverage of administrative units (second-level)	Percentage of second-level administrative units with at least one access point.
	Coverage of population	Percentage of total population living in second-level administrative units with at least one access point.
	Coverage by channel	Coverage of access points per 1,000 km² Number of Branches per 1,000 km² Number of ATMs per 1,000 km² Number of EFTPOS per 1,000 km² Number of agents per 1,000 km²
Access-Mobile financial services	Access to MFS access points	Number of mobile financial services access points per 10,000 adults
	Access by second-level administrative unit	Number of mobile financial services access points per 10,000 adults in each second-level administrative unit
	Access by population	Number of mobile financial services accounts/mobile wallet accounts per 10,000 adults
	Mobile phone penetration	Ratio of mobile cellular subscriptions to adult population
	Existence of mobile banking	Percentage of banks offering mobile banking, such as checking one's balance from a mobile phone
	Existence of MFS through banks	Percentage of banks offering mobile financial services, including transfer of e-money
	Existence of MFS, MNO-led	Percentage of MNOs offering mobile financial services
Access-Barriers to access	Cost to open basic account	Average minimum balance for clients to open a basic deposit account at a bank, converted to USD
	Distance	Percentage of adults within 5 kilometres of an access point
	Cost of travel to access point	Average cost of travelling to the nearest access point (public transit fee or gas costs), converted to USD
	Time to travel to access point	Average time of travelling to the nearest access point in minutes
	Time to open an account	Average time waiting to be served when opening a deposit account in minutes
	Documents	Average number of identification documents required to open a basic bank account
	Documents	Percentage of adults reporting that they do not have all identification documents required to open a basic account
Access-Financial education	Financial education	Financial education is integrated into the national school curriculum
	Financial education	Percentage of primary and secondary school students receiving financial education in school annually

Usage	Overall account usage- deposits	Number of regulated deposit accounts per 10,000 adults
	Overall account usage- credit	Number of regulated credit accounts per 10,000 adults
	Population usage- deposits	Percentage of adults with at least one type of regulated deposit account
	Population usage- credit	Percentage of adults with at least one type of regulated credit account
	Population usage overall	Percentage of adults with at least one regulated financial product
	Active accounts	Percentage of adults with an active deposit account– have had any deposit or withdrawal in the last 90 days
	Percentage of poor with an account	Percentage of adults below the national poverty line who have a deposit account
Usage-mobile financial services	Population usage	Number of active mobile financial service/ mobile wallet accounts per 10,000 adults OR Percentage of adults with at least one active mobile financial services product
	MFS use for sending money	Percentage of adults who have sent money through mobile financial services in the last 12 months for person to person transfers and bill pay
	MFS use for receiving money	Percentage of adults who have received money through mobile money in the last 12 months
Usage gender	Deposit accounts by gender	Percentage of adult women with an active deposit account OR percentage of deposit accounts held by women
Credit and protection	Credit bureau	Existence of a credit bureau
	Bank use of credit bureau	If yes to 8.1, percentage of banks in the country reporting to the credit bureau
	Records at credit bureau	If yes to 8.1, percentage of adults with a record at the credit bureau
	Consumer protection guideline	Existence of a central bank regulatory framework (policy or guideline) on consumer protection
Governance	Financial inclusion taskforce or similar body	Existence of a national financial inclusion strategy and/or financial inclusion taskforce
Regulatory environment and private sector sentiment	Regulatory environment	Percentage of regulated entities saying the regulatory environment for financial inclusion has improved
	Private sector sentiment	Percentage of regulated entities reporting that they have implemented a financial inclusion product or strategy in the last 12 months
	Private sector sentiment	Percentage of regulated entities that have not yet implemented a financial inclusion strategy or product reporting that they plan to implement a financial inclusion strategy or product or in the next 12 months
	Private sector sentiment	Percentage of regulated entities reporting that the business case for financial inclusion is favourable or highly favourable

CALENDER OF EVENTS 2013

Month	Events
January	Minister of Finance declared 1st January 2013 as the effective date for the new CBSI Act 2012. IMF Mission to review the Financial Institutions Act (FIA) 1998. Old series coins ceased to be legal tender as from 1st January 2013.
February	Pacific Islands Working Group (PIWG) on financial inclusion holds one of its scheduled meetings in Honiara. Board Internal Audit Committee meets.
March	Australian Business Volunteer (ABV) Sue Ward commences her assignment to review CBSI Training policy. Governor attends the Alliance for Financial Inclusion (AFI) conference in Bangkok,
April	CBSI Board meeting. Governor attended the ADB annual meeting in New Delhi. Audited 2012 Financials & AR Operations submitted to the Minister of Finance. IMF Mission – First Review ECF Arrangement World Bank/ IFC payments system experts conducted a National Payments Systems Framework Workshop in Honiara
May	Governor launches CBSI 2012 Annual Report at the Mendana Hotel. National Financial Inclusion Conference CBSI Board meeting
June	Deputy Governor attends PFIP strategic planning Workshop Nadi, Fiji. CBSI Provincial Board meeting held in Auki, Malaita Province. Governor appointed Vice Chair of the AFI Committee on Independence at an AFI conference in Frankfurt.
July	Governor attends Forum Economic Ministers Meeting in Tonga Deputy Governor attends AFI Working Group meeting, Bangkok, Thailand. Governor attends Asia Pacific Group on Money Laundering meeting in Shanghai. Board Audit Committee meeting
August	Special CBSI Board meeting CBSI Board Sub-committee meeting Messrs Primo Wafuni and Sebastine Repebatu attends training on Cobra Note Shredder machine in Port Moresby, PNG
September	Governor led Solomon Islands delegation to the AFI Global Policy Forum meeting in Kuala Lumpur, Malaysia. Deputy Governor attends South Pacific Tuna Association Conference held at the Forum Fishers Agency Conference Centre, Honiara. New $50 dollar note launched.
October	Chief Manager Economic, Research and Statistics department and Deputy Governor attend Australia Solomon Islands Business Forum; Brisbane, Australia. Governor attends the IMF/World Bank annual meetings in Washington DC. Deputy Governor, led Solomon Islands delegation to the Pacific Micro-finance Week, in Nadi, Fiji. Deputy Governor and Chief Manager, Financial Markets Supervision department attend the Association of Financial Supervisors of Pacific Islands Countries (AFSPIC) meeting in Apia, Samoa. Board Audit Committee meeting IMF Mission – Second Review of ECF Arrangement & 2013 Article IV Consultation.
November	Board of Directors Training held in Honiara. Deputy Governor attends ADB-CGAP Workshop on branchless banking in Sydney, Australia. Governor attends PFTAC/IMF meeting in Port Vila. CBSI Board meeting held at Aruligo recreational site. Payments system experts from the World Bank, supported by IFC, carried out a study of the business, institutional and technical requirements of the country's payment system infrastructure. Manager, Currency & Banking Operations Department and Supervisor, Cash Control Unit attend ICCOS Asia in Bangkok, Thailand.
December	Governor and Chief Manager, Financial Market Supervision department attend the South Pacific Central Bank Governor's meeting hosted by Bank of Papua New Guinea; Port Moresby, PNG.

ANNUAL STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2013

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SOLOMON ISLANDS OFFICE OF THE AUDITOR-GENERAL

TO LEAD IS TO SERVE

Independent auditor's report to the Board of the Central Bank of Solomon Islands

Report on the Financial Statements

I have in joint consultation with the Board of the Bank pursuant to Section 60(1) of the Central Bank of Solomon Islands Act 2012 contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of the Central Bank of Solomon Islands, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and Notes 1 to 27 comprising of a summary of significant accounting policies and information.

Board's and Management's Responsibility for the Financial Statements

The Board and Management are responsible for the preparation of financial statements that give a true and fair view in accordance with the requirements of the Central Bank of Solomon Islands Act 2012 and International Financial Reporting Standards and for such internal control as the Board and Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis/or Qualified Opinion

Currency in circulation

As at 31 December 2013, currency in circulation is recorded in the financial statements at $617.57m.

I was unable to obtain sufficient appropriate audit evidence regarding the completeness, existence and accuracy of this balance at year end as the movements of this account cannot be reconciled to the closing balance as at 31 December 2013. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts recorded in the financial statements.

Currency Inventory

Prior to I January 2013 currency inventory comprising notes and coins that were purchased and not yet circulated were expensed to profit and loss when purchased or received in accordance with the Bank's accounting policy. Section 57(3) of the Central Bank of Solomon Islands Act, 2012 which became effective 1 January 2013, now requires that all notes and coins purchased and not circulated be accounted for as inventory and expensed to profit or loss when it is issued into circulation.

I could not obtain sufficient appropriate audit evidence over the existence and accuracy of the restated currency inventory as at 31 December 2012 following the change in the Bank's accounting policy and given that the balance of currency in circulation cannot be substantiated as at 31 December 2013, I am unable to apply alternative audit procedures to verify the balance of currency inventory as at I January 2013.

Qualified Opinion

In my opinion, except for the effect if any, of the matters described in the Basis for Qualified Opinion paragraphs above, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2013 and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

As at 31 December 2013, the Bank's total assets amounted to $4.30 billion. This was less than the sum of the Bank's total monetary liabilities and its unimpaired capital which totalled $4.34 billion.

Under Section 56 of the Central Bank of Solomon Islands ACT 2012, the Bank will be required to inform the Minister for Finance within 30 days of this report of the reasons for this shortfall and request a capital contribution to remedy the shortfall.

Report on Other Legal and Regulatory Requirements

International auditing standards require the auditor to report on certain other matters which may arise in relation to compliance with legal and regulatory requirements applicable to the Central Bank of Solomon Islands.

I draw attention to the fact that the Bank has not complied with Section 58 of the Central Bank of Solomon Islands Act 2012 which requires audited financial statements and the auditor's report thereon to be presented to the Minister for Finance within four months of the end of the financial year. The management signed financial statements were not presented to me until today. The Bank did inform the Minister for Finance prior to the due date that it expected the audited statements to be delayed.

Robert Cohen
Acting Auditor-General
27th May, 2014

CENTRAL BANK OF SOLOMON ISLANDS

DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Central Bank of the Solomon Islands ("the Bank") for the year ended 31 December 2013 and the auditors' report thereon.

Directors

The Directors in office during the financial year and at the date of this report were:

- Denton Rarawa (Chairman and Governor)
- Gane Simbe
- Shardrach Fanega
- Katululu Maepioh
- Loyley Ngira
- Lily Lomulo
- Tele Bartlett (appointed 17 July 2013)
- Primo Afeau (appointed 17 July 2013)
- John Usuramo (appointed 18 December 2013)
- Dr. Steve Aumanu (resigned 2 December 2013)
- Leslie Teama (resigned 3 March 2013)

State of affairs

In the opinion of the Directors:

- there were no significant changes in the state of affairs of the Bank during the financial year under review not otherwise disclosed in this report or the financial statements;
- the accompanying statement of financial position gives a true and fair view of the state of affairs of the Bank as at 31 December 2013 and the accompanying statement of comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows of the Bank for the year then ended.

Principal activities

The Bank's role as a central bank, as defined in the Central Bank of Solomon Islands Act., 2012 is:

(a) to achieve and to maintain domestic price stability;

(b) to foster and to maintain a stable financial system;

(c) to support the general economic policies of the government.

Trading results

The net loss of the Bank for the year ended 31 December 2013 was $165.10m (2012: net profit of $71.35m).

Director's Report

Reserves

The Board approved the following transfers of reserves in the statement of comprehensive income during the year:

- $0.61m (2012: $5.68m) to the asset revaluation reserve;
- ($150.55m) (2012: $67.35m) to the foreign exchange assets revaluation reserve;
- ($15.17m) (2012: ($1,688m)) to the general reserve.

Provisions

There were no material movements in provisions during the year apart from the normal amounts set aside for such items as doubtful debts, depreciation and employee entitlements.

Assets

The Directors took reasonable steps before the Bank's financial statements were made out to ascertain that the assets of the Bank were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of business.

At the date of this report, the Directors were not aware of any circumstances which would render the values attributable to the assets in the financial statements misleading.

Directors' benefit

No director of the Bank has, since the last financial year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in the Bank's financial statements) by reason of a contract made with the Bank or a related corporation with the director or with a firm of which he is a member, or in a Bank in which he has a substantial financial interest.

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Bank, to affect significantly the operations of the Bank, the results of those operations, or the state of affairs of the Bank, in future financial years.

Other circumstances

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render amounts stated in the financial statements misleading.

Dated at Honiara this twenty seventh day of May 2014.

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

Denton Rarawa	**Shadrach Fanega**
Chairman of the Board and Governor	**Director**

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT BY DIRECTORS

Statement by Directors

In the opinion of the Directors:

(a) the accompanying statement of comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2013;

(b) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity of the Bank for the year ended 31 December 2013;

(c) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2013;

(d) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Bank for the year ended 31 December 2013;

(e) at the date of this statement there are reasonable grounds to believe the Bank will be able to pay its debts as and when they fall due;

(f) all related party transactions have been adequately recorded in the books of the Bank, and

(g) the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS").

For and on behalf of the Board of Directors by authority of a resolution of the Directors this twenty seventh day of May 2014.

Denton Rarawa
Chairman of the Board and Governor

Shadrach Fanega
Director

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 $000	Restated 2012 $000
Income			
Interest income	4(a)	41,737	59,790
Fees and commission income	4(b)	8,958	9,771
Other income	4(c)	2,738	3,265
Change in fair value of investment properties	10	612	5,682
Net unrealized foreign exchange revaluation gain		-	67,353
Total income		54,045	145,861
Expenses			
Interest expense	4(d)	7,149	9,531
Fees and commission expense		1,047	540
Administration expenses	4(e)	32,579	32,549
Other expenses	4(f)	27,823	31,894
Net unrealized foreign exchange revaluation loss		150,548	-
Total expenses		219,146	74,514
Net operating (loss)/profit		(165,101)	71,347
Other comprehensive losses			
Net change in fair value (available - for - sale financial assets)		(77,935)	(3,248)
Net change in revaluation (property, plant and equipment)		-	29,125
Total other comprehensive (loss)/income		(77,935)	25,877
Total comprehensive (loss)/ income		**(243,036)**	**97,224**

This statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 38.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	2013 $000	Restated 2012 $000	Restated 1 January 2012 $000
Foreign currency assets				
Cash at bank	20	732,680	764,448	1,031,645
Accrued interest		9,167	9,593	9,924
Held-to-maturity investments	5	2,753,823	2,555,104	1,879,953
Available-for-sale investments	6	213,073	217,502	-
International Monetary Fund	7	217,009	216,765	252,449
Total foreign currency assets		3,925,752	3,763,412	3,173,971
Local currency assets				
Cash on hand	20	300	456	98
Loans and advances	8	81,278	87,174	107,828
Currency inventory	9	39,859	39,380	31,110
Investment properties	10	11,935	11,323	-
Property, plant and equipment	12	138,140	134,675	97,538
Other assets	11	98,529	46,192	47,550
Total local currency assets		370,041	319,200	284,124
Total assets		4,295,793	4,082,612	3,458,095
Foreign currency liabilities				
International Monetary Fund	7	356,595	354,561	414,056
Demand deposits	13(a)	43,890	86,103	11,331
Total foreign currency liabilities		400,485	440,664	425,387
Local currency liabilities				
Demand deposits	13(b)	2,601,955	2,361,956	2,047,933
Currency in circulation	14	617,570	599,669	527,702
Fixed deposits	15	611,932	367,888	239,763
SIG monetary operations account	16	33,604	38,387	43,271
Employee entitlements	17	11,009	9,368	9,078
Other liabilities	18	9,402	11,808	9,313
Total local liabilities		3,885,472	3,389,076	2,877,060
Total liabilities		4,285,957	3,829,740	3,302,447
Net assets		9,836	252,872	155,648
Capital and reserves				
Paid up capital	21	50,000	20,000	20,000
General reserve	22(a)	37,869	83,034	84,722
Foreign exchange revaluation reserve	22(b)	(145,572)	4,976	(62,377)
Premises and equipment assets revaluation reserve	22(c)	86,847	86,235	51,428
Gold revaluation reserve	22(d)	(81,183)	(3,248)	-
Capital asset reserve	22(e)	61,875	61,875	61,875
		9,836	252,872	155,648

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

Denton Rarawa
Chairman of the Board and Governor

Shadrach Fanega
Director

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 38.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Issued & paid up capital	Gold revaluation reserve	General reserve	Foreign exchange assets revaluation reserve	Asset revaluation reserve	Capital assets reserve	Total
	$000	$000	$000	$000	$000	$000	$000
Balance as at 1 January 2012	20,000	-	58,707	(51,002)	51,428	61,877	141,010
Impact of change in accounting policy (Note 2(e))	-	-	31,110	-	-	-	31,110
Impact of prior period errors (Note 2(f) & (g))	-	-	(5,095)	(11,375)	-	(2)	(16,472)
Restated balance as at 1 January 2012	20,000		84,722	(62,377)	51,428	61,875	155,648
Total comprehensive income for the year							
Profit (loss) for the year (Note 19)	-	-	(1,688)	67,353	5,682	-	71,347
Other comprehensive income/(losses)							
Fair value gains – gold	-	(3,248)	-	-	-	-	(3,248)
Gains on revaluation	-	-	-	-	29,125	-	29,125
Total other comprehensive income/(losses)	-	(3,248)	-	-	29,125	-	25,877
Total comprehensive income/(losses)	**-**	**(3,248)**	**(1,688)**	**67,353**	**34,807**	**-**	**97,224**
	20,000	**(3,248)**	**83,034**	**4,976**	**86,235**	**61,875**	**252,872**
Transaction with owners, recorded directly in equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Restated balance as at 31 December 2012	**20,000**	**(3,248)**	**83,034**	**4,976**	**86,235**	**61,875**	**252,872**
Balance at 1 January 2013	20,000	(3,248)	83,034	4,976	86,235	61,875	252,872
Total comprehensive income for the year							
Profit (loss) for the year (Note 19)	-	-	(15,165)	(150,548)	612	-	(165,101)
Other comprehensive income/(losses)							
Fair value losses – gold	-	(77,935)	-	-	-	-	(77,935)
Total other comprehensive income/(losses)	-	(77,935)	-	-	-	-	(77,935)
Total comprehensive income/(losses)	**-**	**(77,935)**	**(15,165)**	**(150,548)**	**612**	**-**	**(243,036)**
	20,000	**(81,183)**	**67,869**	**(145,572)**	**86,847**	**61,875**	**9,836**
Transaction with owners, recorded directly in equity							
Equity contribution	30,000	-	(30,000)	-	-	-	-
Balance as at 31 December 2013	**50,000**	**(81,183)**	**37,869**	**(145,572)**	**86,847**	**61,875**	**9,836**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 38.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 $000	Restated 2012 $000
Operating activities			
Interest received		42,160	60,122
Cash received from other income		11,515	12,901
Interest paid		(2,625)	(5,008)
Cash paid to suppliers and employees		(54,791)	(60,709)
Net movement in held to maturity investments		(198,719)	(675,151)
Net movement in International Monetary Fund accounts		3	(1,778)
Net movement in other recievables		(52,335)	(6,431)
Net movement in other payables		7,497	7,809
Cash flows (used in) operating activities		(247,295)	(668,245)
Investing activities			
Acquisition of property, plant and equipment		(10,720)	(18,360)
Proceeds from sale of premises, plant and equipment		181	368
Net movement in available-for-sale investments		(74,096)	(220,750)
Net movement in loan to government		7,214	21,161
Net movement in loans and advances to staff		(1,318)	(507)
Cash flows (used in) investing activities		(78,739)	(218,088)
Financing activities			
Net movement in currency in circulation		10,634	66,724
Net movement in demand deposits		36,406	306,426
Net movement in fixed deposits received		400,613	200,665
Solomon Islands government monetary operations		(4,782)	359
Net movement in International Monetary Fund credit facilities		1,786	(22,033)
Cash flows from financing activities		444,657	552,141
Net effect of exchange rates		(150,548)	67,353
Net decrease in cash		(31,925)	(266,839)
Cash at the beginning of the financial year		764,904	1,031,743
Cash and cash equivalents of the financial year	20	732,980	764,904

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 38.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. Principal activities and principal place of operations

The Central Bank of Solomon Islands ("the Bank") operates under the Central Bank of Solomon Islands Act., 2012. The Bank is an independent legal entity wholly owned by, and reporting to, the Government of the Solomon Islands. The Bank's primary objective as defined in the Central Bank of Solomon Islands Act., 2012, Section 8 is:

(a) to achieve and to maintain domestic price stability;

(b) to foster and to maintain a stable financial system;

(c) o support the general economic policies of the government.

The Bank's principal place of operations is located at Mud Alley Street, Honiara, Solomon Islands.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS') and the Central Bank of Solomon Islands Act., 2012, except where the Central Bank of Solomon Islands Act., 2012 requires different treatment in which case the Central Bank of Solomon Islands Act., 2012 takes precedence.

The Bank has not complied with the requirements of the Central Bank of Solomon Islands Act 2012 (Section 56) which requires that in the event that the value of its assets falls below the sum of its monetary liabilities and its unimpaired authorised capital (as at 31 December 2013, the Banks net asset position of $10 million is less than that of its paid up capital of $50 million), then –

(a) The Board, with the advice of the external auditor of the Central Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall and assess the situation within a period of no more than 30 calendar days;

(b) If the Board approves the report under paragraph (a), the Central Bank shall request the Minister for Finance for a capital contribution to be made by the Government to remedy the deficit; and

(c) Upon receipt of this request the Government shall, within a period of no more than 30 calendar days, transfer to the Central Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at market-related interest rates prevailing in Solomon Islands.

As of the date of this report, the Bank had not requested the Minister for Finance for a capital contribution to remedy the deficit.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis and do not take into account changes in money values except for the following material items in the statement of financial position.

- Available-for-sale financial assets are measured at fair value.
- Held to maturity financial assets are measured at amortised cost.
- Land and Buildings classified as Property, plant and equipment are measured at fair value.
- Investment properties is measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in Solomon Islands Dollar, which is the Bank's functional currency. All financial information presented in Solomon Islands Dollar has been rounded to the nearest thousand except when otherwise indicated.

(d) Use of estimates and judgement

The preparation of the financial statement in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed in the following paragraphs;

Impairment of financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Bank on terms that the Bank would not consider otherwise, indications that a debtor or issuer will enter into bankruptcy, adverse changes

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

in the payment status of borrowers or issuers in the Bank, economic conditions that correlate with defaults or the disappearance of an active market for a security.

(e) Changes in accounting policy

During the financial year, the directors resolved to change the accounting policies previously adopted for the accounting of the following:

New notes and coins purchased and yet to be circulated

Prior to 1 January 2013 notes and coins were expensed when purchased or received. The directors resolved that in accordance with the gazette of the Central Bank of Solomon Islands Act., 2012, which became effective 1 January 2013, all notes and coins purchased and not circulated will be accounted for as inventory and expensed to profit or loss when issued into circulation.

The effect of the changes in accounting policy on new notes and coins is stated below:

	Currency inventory $000	General reserve $000
Balance as at 1 January 2012, as previously reported	-	58,707
Impact of the change in accounting policy	31,110	31,110
Restated balance at 1 January 2012	31,110	89,817*
Balance as at 31 December 2012, as previously reported	-	58,707
Impact of the change in accounting policy at 1 January 2012	31,110	31,110
Impact of the change in accounting policy	8,270	8,270
Restated balance at 31 December 2012	39,380	98,087*

*General reserve balance had there been no prior period errors

Gold bullion

The Bank purchased gold bullion in 2012 and treated it as a commodity for accounting purposes recording it in the Bank's financial statements as at 31 December 2012 at cost.

The Bank's intention at the outset was always to hold gold bullion as part of its foreign reserve management. Accordingly, the gold Bullion should be treated as a financial asset and recorded as available-for sale in the Bank's financial statements.

The CBSI Board notes that the previous treatment of gold bullion does not reflect the Bank's intention and resolved to treat gold bullion as a financial asset and record it as available-for sale in the Bank's financial statements effective 31 December 2013.

The effect of the changes in accounting policy on gold bullion is stated below:

	Available for sale investments $000	Gold revaluation reserve $000
Balance as at 31 December 2012, as previously reported	218,628	(2,122)
Impact of the change in accounting policy	(1,126)	(1,126)
Restated balance at 31 December 2012	217,502	(3,248)

(f) Prior period error

During the financial year, the following material prior period errors were identified and prior period comparatives were restated. The effect of the restatement on the financial statements is summarized below:

(i) International Monetary Fund (IMF)

All IMF asset and liability accounts were not brought to account in the Bank's financial statements. For accounts that were recorded in the financial statements, incorrect exchange rates were used in determining the Solomon Island dollar equivalent as at reporting date.

	Effect on 2012 $000	Effect on 2011 $000
Increase/ (decrease) in profit		
(Decrease)/increase in net unrealized foreign revaluation gains	23,519	(19,383)
Increase/(decrease) in net assets		
Increase in Reserve tranche position	(1,043)	374
Increase in Currency subscription	(17,314)	6,705
(Decrease)/ increase in Special drawing rights	(18,673)	16,014
(Increase) in Securities account	18,673	(6,705)
Decrease/ (increase) in Stand by credit facility	23,346	(18,631)
Decrease/ (increase) in Special drawing rights allocation	18,480	(17,140)
Decrease/ (increase) in Extended credit facility	50	-
(Increase)/decrease in equity (Foreign currency translation reserve)	23,519	(19,383)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(ii) Early retirement benefit

Early retirement benefit in the previous reported financial years was not in accordance with IAS 19 "Employee benefits".

	Effect on 2012 $000	Effect on 2011 $000
Increase/ (decrease) in profit		
(Increase) in staff cost	(1,052)	(2,342)
Increase/(decrease) in net assets		
(Increase) in provision for employee entitlements	(1,052)	(2,342)

(iii) Interest on government deposits

Interest of 1.25%, payable on the SIG consolidated account has not been accrued or paid since the account was opened in 2010.

	Effect on 2012 $000	Effect on 2011 $000
Increase/ (decrease) in profit		
(Increase) in interest expense	(1,754)	(986)
Increase/(decrease) in net assets		
(Increase) in Solomon Islands Government demand deposits	(1,754)	(986)

(iv) Foreign currency assets - Bonds

The Bank's holding of financial instruments in bonds were not accounted for in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". This resulted in the Bank's interest revenue and assets been overstated in reported prior period financial results.

	Effect on 2012 $000	Effect on 2011 $000
Increase/ (decrease) on profit		
(Decrease) in interest revenue	(4,341)	(1,275)
Increase/(decrease) in net assets		
(Decrease) in Foreign currency assets - bonds	(4,341)	(1,275)

(v) Numismatic coins

Numismatic coins purchased in the financial period ended 31 December 2012 was incorrectly recorded in the 31 December 2013 financial period.

	Effect on 2012 $000	Effect on 2011 $000
Increase/(decrease) in profit		
(Increase) in currency expenses	(1,990)	-
Increase/(decrease) in equity		
(Decrease) in other liabilities	(1,990)	-

(vi) Other

Property, plant and equipment - Depreciation for certain property, plant and equipment had not been calculated and this resulted in no depreciation recorded for these assets in the reported prior financial periods.

Accruals and prepayments - It was identified that accrual and prepayment of expenses were not properly accounted for and reported in prior period financial statements. This had the following impact:

	Effect on 2012 $000	Effect on 2011 $000
Increase/ (decrease) in profit		
(Increase) in depreciation expense	(534)	(1,343)
Decrease in interest expense	-	855
Decrease in repairs and maintenance expense	446	-
	(88)	(488)
Increase/(decrease) in equity		
(Decrease) in Property, plant and equipment	(534)	(1,343)
Decrease in other liabilities	-	855
Increase in other assets	446	-
(Decrease) in other liabilities	(88)	(488)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(g) Summary impact on general reserve due to change in accounting policies and errors

Following the impact of changes in accounting policies and restatement of material prior period errors, general reserve is restated as follows:

	Effect on 2012 $000	Effect on 2011 $000
Balance as previously reported	63,652	58,707
Impact of change in accounting policy	39,380	31,110
Impact of prior period errors 1 January 2012	(5,091)	-
Impact of prior period errors (Note 2(f) ii – vi)	(9,225)	(5,091)
Reclassifications*	(5,682)	(4)
Restated balance as 31 December	83,034	84,722

*Reclassifications are made to correct the presentation between reserves. In the financial period ended 31 December 2012, $5.68m relating to revaluation of investment property was required to be transferred to the asset revaluation reserve inaccordance with the CBSI Act but had remained in the general reserve. The accounting policies set out below have been applied consistently to all periods presented in the financial statement except for the change in accounting policy as explained in Note 2 (e).

3. Statement of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statement except for the change in accounting policy as explained in Note 2 (e).

(a) Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and
- Interest on available-for-sale investments securities calculated on effective interest basis.

(c) Fees and commission

Fees and commission income and expense relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Tax expense

The Bank is exempted from income tax under the Income Tax (Central Bank of Solomon Islands) (Exemption) Order of 21st June 1976 as provided for under Section 16 (2) of the Income Tax Act (CAP 123).

(e) Financial assets and financial liabilities

{i) ***Recognition***

The Bank initially recognises loans and advances, deposits and debt securities on the date that they are originated. All other financial assets and liabilities are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Financial assets

The Bank classifies its financial assets in one of the following categories:

- loans and advances;
- held to maturity;
- available-for-sale.

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and present actual and regularly occurring market transactions on an arm's length basis.

Assets are measured at a bid price, while liabilities are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of credit risk of the Bank.

(f) Cash and cash equivalents

Cash and cash equivalents include notes and coins held by the Bank, teller's cash, current accounts with a maturity of three months or less from the acquisition date and other short term highly liquid term deposits.

Cash and cash equivalents are carried at amortised costs in the statement of financial position.

(g) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payment and fixed maturity that the Bank has the positive intent and ability to hold to maturity. Held-to-maturity investments comprise of fixed term deposits, short term commercial papers and bonds.

Held-to-maturity investments are carried at amortised costs using the effective interest method less any impairment losses. A sale or reclassification of more than an insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years.

(h) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise of gold holdings and are carried at fair value.

Fair value changes other than impairment losses are recognized in other comprehensive income and presented in the Gold Revaluation Reserve in equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss. Impairment losses are recognized in profit or loss.

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

the Bank does not intend to sell immediately or in the near term. Loans and advances comprise of loans and advances to Solomon Islands Government and staff loans.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised costs using the effective interest method.

(j) Currency Inventory

Currency inventory are recognized in the statement of financial position at cost.

Currency inventory relates to notes and coins purchased for circulation. The amount expensed in profit or loss is based on the cost of notes and coins that are issued into circulation.

(k) Currency in circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. Currency in circulation comprises notes and coins issued by the Bank and the liability for currency in circulation is recorded at face value in the statement of financial position.

(l) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Costs includes expenditures that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Any gain or loss on disposal of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset at the time of disposal) is recognized within other income in profit or loss.

Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expenses as incurred.

Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives:

Buildings	4 - 55 years
Computers	3 years
Furniture, plant and equipment	3 - 5 years
Motor vehicles	4 years

Periodic revaluation

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded at values approximating recoverable market values. With Board approval, a three year periodical revaluation of its land and buildings was firstly done in 2006 and recently done in 2012. This included a review of the asset classes, estimated useful lives and depreciation rates, and current market values where deemed appropriate. The basis of this valuation is the open market value, that is, the highest and best value the property would expect to be realized if put for sale on private treaty. The Board proposes to have such assets revaluation every three years. The next revaluation will be done in 2015.

(m) Investment property

Investment property, is property held either to earn rentals or for capital appreciation or for both. Investment property is initially measured at cost and subsequently at fair value with any change therein recoginised in profit or loss. Costs includes expenditures that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of the property changes such that it is reclassified as property, plant and equipment, its fair value at the date of the reclassification becomes its cost for subsequent accounting.

(n) Demand deposits

Demand deposits represent funds placed with the Bank by financial institutions and other organizations. Demand deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. These deposits are at call.

(o) Employee entitlements

Short-term employee benefits

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Short-term employee benefits comprises of accrued wages and salaries, annual leave and entitlement to Solomon Islands National Provident Fund are measured on an undiscounted basis and are expensed as the related service is provided.

Liabilities recognised in respect of short-term employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Long-term employee benefits

Long-term employee benefits comprises of long service leave and early retirement benefit.

Liabilities recognised in respect of long-term employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made resulting from employee's service provided to balance date, based on staff turnover history and is discounted using the rates attaching to external Bonds portfolio.

(p) Impairment

The carrying amounts of the Bank's assets are reviewed at balance date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

(q) Comparative figures

Where necessary, comparative figures have been changed to conform to changes in presentation in the current year.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except for IFRS 9 Financial Instruments, which becomes mandatory for the Bank's 2015 financial statements and could change the classification and measurement of financial assets. The Bank does not plan to adopt this standard early and the extent of the impact has not been determined.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

		2013 $000	Restated 2012 $ 000
4.	**Income and expense**		
(a)	**Interest income**		
	Overseas investments	39,913	57,669
	Local investments	1,824	2,121
		41,737	59,790
(b)	**Fees and commission income**		
	Foreign dealings	7,784	9,244
	Local dealings	1,174	527
		8,958	9,771
(c)	**Other income**		
	Gain on disposal of fixed assets	181	134
	Rent received	934	1,028
	Sale of numismatic coins	139	355
	Gains on foreign currency exchange	614	492
	Royalties on numismatics	649	807
	Others	221	449
		2,738	3,265
(d)	**Interest expense**		
	Foreign liabilities	82	179
	Local liabilities	7,067	9,352
		7,149	9,531
(e)	**Administration expenses**		
	Staff costs	23,306	22,605
	Telecommunication	1,783	1,408
	Utilities	2,442	2,131
	Repairs and maintenance	2,217	3,218
	Insurance	345	253
	Consumables	834	579
	Stationery, printing and postage	710	677
	Consultancy	39	620
	Other	903	1,058
		32,579	32,549
(f)	**Other expenses**		
	Board of directors remunerations and expenses	529	403
	Currency expenses	17,913	25,504
	Depreciation	7,255	4,474
	Auditors remuneration	309	641
	Loss on realization of gold instrument	590	-
	Other	1,227	872
		27,823	31,894
5.	**Held-to-maturity investments**		
	Fixed term deposits	2,454,535	2,355,235
	Short term commercial paper	128,914	-
	Bonds	170,374	199,869
		2,753,823	2,555,104
6.	**Available-for-sale investments**		
	Unallocated gold - at fair value	103,281	143,320
	Gold bullion - at fair value	109,792	74,182
		213,073	217,502

7. International Monetary Fund

The Solomon Islands is a member of the International Monetary Fund (IMF) and the Central Bank of Solomon Islands has been designated as the Government of the Solomon Island's fiscal agency (through which the Government deals with the IMF) and as the depository for the IMF's holding in Solomon Island dollars.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(i) The Solomon Islands subscription to the IMF has been met by:

(ii) payment to the IMF out of Central Bank external assets which have been reimbursed by the Government of the Solomon Islands by issue of non-interest bearing securities;

(iii) the funding of accounts in favor of the IMF in the books of the Central Bank by the Government of the Solomon Islands.

The liabilities to the IMF include subscriptions which are maintained in the IMF No.1 and IMF No. 2 accounts, are disclosed together as capital subscription. The IMF maintains such balances in their accounts in both Special Drawing Rights (SDR) and Solomon Islands dollar equivalents; the Bank balances are maintained only in Solomon Islands dollars.

Standby credit facility with IMF commenced in 2010 with first disbursement received 23rd June 2010. The final disbursement was transacted on the 1st of December 2011.

The extended credit facility with IMF was approved and drawn down on 11 December 2012

IMF related assets and liabilities

	2013 $000	Restated 2012 $000
Foreign currency assets		
Reserve tranche position	6,029	6,022
Special drawing rights	103,031	102,917
Currency subscription	107,949	107,826
	217,009	216,765
Foreign currency liabilities		
Standby credit facility	136,774	136,618
Special drawing rights allocation	108,590	108,466
Extended credit facility	3,257	1,626
Securities	107,059	106,936
Capital subscription	915	915
	356,595	354,561

8. Loans and advances

Solomon Islands Government		
Loans and advances	46	2,402
Development bonds	27	27
Treasury bills	483	40
Other securities	4,936	4,936
Amortizing bonds	69,391	74,691
	74,883	82,096
Staff loans		
Staff housing loans	4,947	3,887
Management car loans	391	348
Personal loans	1,057	843
	6,395	5,078
	81,278	87,174

9. Currency inventory

Notes	20,406	19,855
Coins	19,453	19,525
	39,859	39,380

10. Investment properties

Balance at beginning of financial year – at fair value	11,323	5,641
Changes in fair value	612	5,682
Balance at end of financial year – at fair value	11,935	11,323

11. Other assets

Commercial bank clearing		
Others	97,905	45,194
	624	998
	98,529	46,192

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

12. Property, plant and equipment

	Land and buildings	Plant, equipment and furniture	Motor vehicles	Computer	Work in Progress	Total
	$000	$000	$000	$000	$000	$000
Cost/valuation						
Restated balance at 1 January 2012	48,481	19,322	2,531	4,609	37,653	112,596
Acquisitions	-	3,294	348	797	13,921	18,360
Transfers	48,466	-	-	-	(48,466)	-
Disposals	(2770)	(51)	(723)	-	-	(3,544)
Revaluation increment	29,125	-	-	-	-	29,125
Restated balance at 31 December 2012	123,302	22,565	2,156	5,406	3,108	156,537
Acquisitions	-	2,050	437	997	7,236	10,720
Transfers	5,932	-	-	-	(5,932)	-
Disposals	-	(13)	(351)	-	-	(364)
Balance at 31 December 2013 - cost	129,234	24,602	2,242	6,403	4,412	166,893
Balance at 31 December 2013 - valuation	-	-	-	-	-	-
Balance at 31 December 2013	129,234	24,602	2,242	6,403	4,412	166,893
Accumulated depreciation						
Restated balance at 1 January 2012	2,603	14,006	1,387	2,702	-	20,698
Depreciation charge for the year	-	2,843	569	1,062	-	4,474
Disposals	(2,603)	(39)	(668)	-	-	(3,310)
Restated balance at 31 December 2012	-	16,810	1,288	3,764	-	21,862
Depreciation charge for the year	3,288	2,288	473	1,206	-	7,255
Disposals	-	(13)	(351)	-	-	(364)
Balance at 31 December 2013	3,288	19,085	1,410	4,970	-	28,753
Carrying amount						
At 1 January 2012	45,878	5,316	1,144	1,907	37,653	91,898
At 31 December 2012	123,302	5,755	868	1,642	3,108	134,675
At 31 December 2013	125,946	5,517	832	1,433	4,412	138,140

13. Demand deposits

		2013 $000	Restated 2012 $000
(a)	**Foreign currency demand deposits**		
	Demand deposits	43,890	86,103

Demand deposits from international organizations such as the Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD), International Development Association.

		2013 $000	Restated 2012 $000
(b)	**Local currency demand deposits**		
	Commercial banks	1,423,680	1,446,496
	Solomon Islands Government	1,161,336	903,933
	Other financial corporations	10,664	8,369
	Other	6,275	3,158
		2,601,955	2,361,956

14. Currency in circulation

	2013	Restated 2012
Notes	596,429	583,107
Coins	21,141	16,562
	617,570	599,669

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 $000	Restated 2012 $000
15. Fixed deposits		
Bokolo bills	611,932	367,888

Bokolo bills are short term discount securities issued and backed by the Central Bank of Solomon Islands. The instrument is used by the Bank for its monetary operations.

	2013 $000	Restated 2012 $000
16. SIG monetary operations account		
SIG monetary operations account	33,604	38,387
17. Employee entitlements		
Gratuity	329	309
Long service leave	508	459
Early retirement benefit	10,172	8,600
	11,009	9,368
18. Other liabilities		
Unpresented bank cheques	7,149	7,205
Other liabilities	2,253	4,603
	9,402	11,808

19. Determination of distributable profit

Profits of the Bank are determined and dealt with in accordance with Section 54 and 55 of the Central Bank of Solomon Islands Act., 2012 as follows:

(a) Section 54(2)(a) states that unrealized revaluation gains shall be deducted from the net profits and shall not be available to be distributed but allocated to the respective unrealized revaluation reserve account;

(b) The realized gains from previous years shall be deducted from the appropriate revaluation reserve account and adding to the distributable earnings as determined **in section 54(2)(a).**

	2013 $000	Restated 2012 $000
Net profit distribution according to CBSI Act 2012		
Net operating (loss)/profit	(165,101)	71,347
Add/(less) net unrealized foreign exchange loss/(gain)	150,548	(67,353)
(Less) changes in fair value in investment properties	(612)	(5,682)
Net losses to be recorded in general reserve	**(15,165)**	**(1,688)**

Section 55(3) of the Central Bank of Solomon Islands Act., 2012 states that negative distributable earnings shall first be charged to the general reserve account and subsequently applied to authorized capital.

20. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise of the following:

	2013 $000	Restated 2012 $000
Cash on hand – local currency	300	456
Cash and cash equivalents – foreign currency	732,680	764,448
	732,980	764,904

21. Share capital

Section 6 (1) of the CBSI Act, states that the authorized and paid up capital of the bank shall be an amount equivalent to $50 million dollars (2012: $20 million). The capital is fully subscribed by the Government of Solomon Islands.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 $000	Restated 2012 $000
Balance at the beginning of the year	20,000	20,000
Transfer from General Reserve according to Section 6(1) of CBSI Act., 2012	30,000	-
Balance at the end of the year	50,000	20,000

22. Reserves

Under Section 53(2) of the CBSI Act., 2012, the Bank shall maintain the following reserves. Their purpose and method of operation are to be as follows:

(a) General reserve

The general reserve was established under Section 53(1) as a reserve for the purposes of covering losses sustained by the Bank.

(b) Foreign exchange asset revaluation reserve

Unrealised gains and losses on revaluation of foreign exchange balances are recognized in the profit and loss under other comprehensive income and are transferred to the foreign exchange asset revaluation reserve at the end of the accounting period.

(c) Asset revaluation reserve

The asset revaluation reserve reflects the impact of changes in the market value of property.

(d) Gold revaluation reserve

The unallocated and allocated gold is valued at current quoted market prices. Gold is accounted for as an available for sale financial asset. Unrealized gains and losses arising from revaluation are recognized in the gold revaluation reserve at end of the accounting period.

(e) Capital asset reserve

The capital asset reserve is used to strengthen the Bank's equity position in relation to future major capital investment in buildings and equipment.

23. Financial risk and management policies

(a) Introduction and overview

The structure of the Bank's statement of financial position is primarily determined by the nature of its statutory functions. International Financial Reporting Standards (IFRS) 7 – (Financial Instrument Disclosures) requires disclosure of information relating to financial instruments, their significance, performance, accounting policy, terms and conditions, fair values and the bank's policies for controlling risks and exposures relating to the financial instruments.

The Bank's risk management framework differs from the risk management framework for most other financial institutions. The main financial risks that the Bank faces include;

- Liquidity risk
- Credit risk
- Market risk
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and procedures for measuring and managing risk.

Risk management framework

Like most central banks, the nature of the Bank's operations creates exposures to a range of operational and reputational risks. The Board of Directors has overall responsibility of the establishment and oversight of the Bank's risk management framework.

The Bank's management seeks to ensure that strong and effective risk management and control systems are in place for assessing, monitoring and managing risk exposure. The Board of Directors and the Management are responsible for managing and monitoring the business strategy, risks and performance of the Bank.

Internal Audit forms part of the Bank's risk management framework. This function reports to the Governor and the Board Audit Committee on internal audit and related issues. All areas in the Bank are subject to periodic internal audit review.

The Bank is subject to an annual audit by an external auditor. Auditing arrangements are overseen by an Audit Committee of the Board to monitor the financial reporting and audit functions within the Bank and the committee reviews the internal audit functions as well. The committee reports to the Board of Directors on its activities.

The overall risk management framework is designed to strongly encourage the sound and prudent management of the Bank's risk. The Bank seeks to ensure the risk management framework is consistent with financial market best practice.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

The risk tables in this note are based on the Bank portfolio as reported in its statement of financial position.

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

To limit the liquidity risk, the Bank maintains an adequate level of reserves and taking into consideration the transaction demand on foreign exchange, ensures that an acceptable amount is maintained in current accounts at all times. The Bank invests in high quality instruments, including commercial paper and debt issued by Governments and Supranationals, all of which are easily converted to cash (refer to maturity analysis on liquidity).

Maturity analysis as at 31 December 2013

The maturity analysis noted below includes all financial assets and liabilities as at 31 December 2013.

	On Demand	0-3 Months	3-6 Months	6-12 Months	Over 1 year	Undefined Maturity	Total
	$000	$000	$000	$000	$000	$000	$000
Foreign currency financial assets							
Money on demand	732,680	-	-	-	-	-	732,680
Accrued interest	-	-	9,167	-	-	-	9,167
Fix term deposits	-	1,329,093	1,036,891	88,551	-	-	2,454,535
Holding of special drawing rights	-	-	-	-	-	103,031	103,031
Reserve tranche	-	-	-	-	-	6,029	6,029
Subscription	-	-	-	-	-	107,949	107,949
Gold investment	-	-	-	-	-	213,073	213,073
Bonds	-	-	-	32,701	137,673	-	170,374
Short term commercial paper	-	-	128,914	-	-	-	128,914
	732,680	1,329,093	1,174,972	121,252	137,673	430,082	3,925,752
Local currency financial assets							
Cash on hand	300	-	-	-	-	-	300
Other receivables	-	-	97,905	-	-	-	97,905
Loans and advances	-	-	-	-	81,278	-	81,278
	300	-	97,905	-	81,278	-	179,483
Total financial assets	732,980	1,329,093	1,272,877	121,252	218,951	430,082	4,105,235
Foreign currency financial liabilities							
Demand deposits	43,890	-	-	-	-	-	43,890
IMF standby credit facility	-	136,774	-	-	-	-	136,774
IMF special drawing rights Al-locations	-	-	-	-	-	108,590	108,590
IMFextended credit facility	-	-	-	-	-	3,257	3,257
IMF securities	-	-	-	-	-	107,059	107,059
Capital subscriptions	-	-	-	-	-	915	915
	43,890	136,774	-	-	-	219,821	400,485
Local currency financial liabilities							
Demand deposits	2,601,955	-	-	-	-	-	2,601,955
Currency in circulation	-	-	-	-	-	617,570	617,570
SIG monetary operations account	-	33,604	-	-	-	-	33,604
Fixed deposits	-	-	611,932	-	-	-	611,932
Employee entitlements					11,009		11,009
Other liabilities	7,149	2,253	-	-	-	-	9,402
	2,609,104	35,857	611,932	-	11,009	617,570	3,885,472
Total financial liabilities	**2,652,994**	**172,631**	**611,932**	**-**	**11,009**	**837,391**	**4,285,957**
Net assets/ (liabilities)	**(1,920,014)**	**1,156,462**	**660,945**	**121,252**	**207,942**	**(407,309**	**(180,722)**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Maturity analysis as at 31 December 2012

The maturity analysis noted below includes all financial assets and liabilities as at 31 December 2012.

	On Demand	0-3 Months	3-6 Months	6-12 Months	Over 1 year	Undefined Maturity	Total
	$000	$000	$000	$000	$000	$000	$000
Foreign currency financial assets							
Money on demand	764,448	-	-	-	-	-	764,448
Accrued interest	-	-	9,593	-	-	-	9,593
Fix term deposits	-	637,970	1,717,265	-	-	-	2,355,235
Holding of special drawing rights	-	-	-	-	-	102,917	102,917
Reserve tranche	-	-	-	-	-	6,022	6,022
Subscription	-	-	-	-	-	107,826	107,826
Gold investment	-	-	-	-	-	217,502	217,502
Bonds	-	-	-	-	199,869	-	199,869
	764,448	637,970	1,726,858	-	199,869	434,267	3,763,412
Local currency financial assets							
Cash on hand	-	456	-	-	-	-	456
Other receivables	-	45,194	-	-	-	-	45,194
Loans and advances	-	-	2,403	-	84,771	-	87,174
	-	45,650	2,403	-	84,771	-	132,824
Total financial assets	**764,448**	**683,620**	**1,729,261**	**-**	**284,640**	**434,267**	**3,896,236**
Foreign currency financial liabilities							
Demand deposits	86,103	-	-	-	-	-	86,103
IMF standby credit facility		136,618					136,618
IMF special drawing rights allocation	-	-	-	-	-	108,466	108,466
IMF extended credit facility	-	-	-	-	-	1,626	1,626
IMF securities	-	-	-	-	-	106,936	106,936
Capital subscriptions	-	-	-	-	-	915	915
	86,103	136,618	-	-	-	217,943	440,664
Local currency financial liabilities							
Demand deposits	2,361,956	-	-	-	-	-	2,361,956
Currency in circulation	-	-	-	-	-	599,669	599,669
SIG monetary operations Account	-	38,387	-	-	-	-	38,387
Fixed deposits	-	-	367,888	-	-	-	367,888
Employee entitlements	-	-	-	-	9,368	-	9,368
Other liabilities	7,205	4,603	-	-	-	-	11,808
	2,369,161	42,990	367,888	-	9,368	599,669	3,389,076
Total financial liabilities	**2,455,264**	**179,608**	**367,888**	**-**	**9,368**	**817,612**	**3,829,740**
Net assets/ (liabilities)	**(1,690,816)**	**504,012**	**1,361,373**	**-**	**275,272**	**(383,345)**	**66,496**

(c) Credit risk

Credit risk is the risk of loss arising from a counter party to a financial contract failing to discharge its obligations.

Selection of a counter party is made based on their respective credit rating. Investment decisions are based on the credit rating of the particular issuer, country limits and counter party limits in place to control exposure risks.

The Bank uses Standard and Poor's, Moody's and Fitch credit ratings for assessing the credit risk of foreign counter parties. The credit ratings of counter parties are closely monitored and are updated as new market information is available. Foreign exchange limits per bank are imposed for all currency dealings.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Concentration of credit exposure

The Bank's significant end-of-year concentrations of credit exposure by portfolio type were as follows:

	2013 $000	2012 $000
Foreign currency assets		
Cash at bank	732,680	764,448
Held to maturity investment	2,753,823	2,555,104
International monetary fund	217,009	216,765
	3,703,512	3,536,317
Local currency assets		
Loans and advances	81,278	87,174
	3,784,790	3,623,491

The Bank monitors credit risk by currency and sector. An analysis of concentrations of credit risk is shown below:

	2013		2012	
Concentration by currency	$000	%	$000	%
USD	1,558,082	41	1,396,115	39
AUD	1,154,698	31	1,184,546	33
EURO	240,474	6	252,103	7
SDR	217,009	6	216,768	6
NZD	163,088	4	159,291	4
SGD	64,702	2	66,578	2
STG	305,459	8	260,916	7
SBD	81,278	2	87,174	2
Total financial assets	3,784,790	100	3,623,491	100

	2013 $000	2013 %	2012 $000	2012 %
Concentration by sector				
Foreign currency assets				
Central banks	732,680	20	764,448	22
Commercial banks	2,753,823	74	2,555,104	72
International Monetary Fund	217,009	6	216,765	6
	3,703,512	100	3,536,317	100
Local currency assets				
Solomon Islands Government loan and advances	74,883	92	82,096	94
Staff loan and advances	6,395	8	5,078	6
	81,278	100	87,174	100
Total financial assets	**3,784,790**		**3,623,491**	

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Interest rate risk management

The principal risk to which trading portfolios are exposed is the risk of loss from fluctuations in future cash flows or fair value of financial instruments because of a change in market interest rates. The Bank limits interest rate risk by modified duration targets. The duration of the portfolio is re-balanced regularly to maintain the targeted duration. Operations are largely money market focused.

Foreign exchange risk management

Exchange rate risk relates to the risk of loss of foreign reserves arising from changes in the exchange rates against the Solomon Islands dollar. The Bank has adopted a currency risk management policy, which maintains the Solomon Islands dollar value of the foreign reserves and manages the fluctuations in the revaluation reserve account. While the effect of fluctuations in foreign exchange are recorded in profit or loss, foreign exchange fluctuations are not included as part of profit distribution but transferred to the revaluation reserve for monitoring purposes.

In accordance with the CBSI Act., 2012, the task of maintaining the safety and liquidity of foreign reserve assets, as well as the returns from reserves asset management, are achieved through diversification of investment by entering into transactions in international capital and money markets. Analysis of risks is the process of managing the currency reserves by comparing factual risk levels with set limits.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

The Bank's exposure to foreign exchange risk, based on carrying amounts, was as follows:

2013 foreign currency risk

	On Demand $000	0-3 Months $000	3-6 Months $000	6-12 Months $000	Over 1 year $000	Undefined Maturity $000	Total $000
Foreign currency financial assets							
Money on demand	732,680	-	-	-	-	-	732,680
Accrued interest	-	-	9,167	-	-	-	9,167
Term deposits	-	1,329,093	1,036,891	88,551	-	-	2,454,535
Holding of special drawing rights	-	103,031	-	-	-	-	103,031
Reserve tranche	-	6,029	-	-	-	-	6,029
Subscription	-	107,949	-	-	-	-	107,949
Gold investment	-	-	-	-	-	213,073	213,073
Bonds	-	-	-	32,701	137,673	-	170,374
Short term commercial paper	-	-	128,914	-	-	-	128,914
Total	**732,680**	**1,546,102**	**1,174,972**	**121,252**	**137,673**	**213,073**	**3,925,752**
Foreign currency financial liabilities							
Demand deposits	43,890	-	-	-	-	-	43,890
IMF standby credit facility	-	136,774	-	-	-	-	136,774
IMF special drawing rights allocations	-	-	-	-	-	108,590	108,590
IMFextended credit facility	-	3,257	-	-	-	-	3,257
IMF securities	-	107,059	-	-	-	-	107,059
Capital subscriptions	-	915	-	-	-	-	915
Total	43,890	248,005	-	-	-	108,590	400,485
Net foreign currency assets	**688,790**	**1,298,097**	**1,174,972**	**121,252**	**137,673**	**104,483**	**3,525,267**

2012 foreign currency risk

	On Demand $000	0-3 Months $000	3-6 Months $000	6-12 Months $000	Over 1 year $000	Undefined Maturity $000	Total $000
Foreign currency financial assets							
Money on demand	764,448	-	-	-	-	-	764,448
Accrued interest	-	-	9,593	-	-	-	9,593
Fixed deposits	-	637,970	1,717,265	-	-	-	2,355,235
Holding of special drawing rights	-	102,917	-	-	-	-	102,917
Reserve Tranche	-	6,022	-	-	-	-	6,022
Subscription	-	107,826	-	-	-	-	107,826
Gold investment	-	-	-	-	-	217,502	217,502
Bonds	-	-	-	-	199,869	-	199,869
	764,448	**854,735**	**1,726,858**	**-**	**199,869**	**217,502**	**3,763,412**
Foreign currency financial liabilities							
Demand deposits	86,103	-	-	-	-	-	86,103
IMF standby credit facility		136,618					136,618
IMF special drawing rights allocation	-	-	-	-	-	108,466	108,466
IMF extended credit facility	-	1,626	-	-	-	-	1,626
IMF securities	-	106,936	-	-	-	-	106,936
Capital subscriptions	-	915	-	-	-	-	915
	86,103	**246,095**	**-**	**-**	**-**	**108,466**	**440,664**
Net foreign currency assets	**678,345**	**608,640**	**1,726,858**	**-**	**199,869**	**109,036**	**3,322,748**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Concentration of foreign exchange

The Bank's net holdings of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at 31 December 2013:

	2013		2012	
	($000's)	%	($000's)	%
USD	1,558,081	45	1,396,116	42
AUD	1,154,698	33	1,184,544	36
EURO	240,474	7	252,103	8
NZD	163,087	5	159,291	5
JPY	4	0	4	0
SGD	64,702	2	66,578	2
STG	305,457	8	260,916	7
	3,486,503	100	3,319,552	100

The following significant exchange rates were used at year end to convert foreign currency balances to the Solomon Island dollar equivalent.

Reporting date spot rate	2013	2012
AUD	0.1529	0.1309
USD	0.1359	0.1362
NZD	0.1663	0.1661
GBP	0.0824	0.0846
EURO	0.0986	0.1030
JPY	14.29	11.5896
SGD	0.1723	0.1666
SDR	0.0913	0.0914

Sensitiviy to foreign exchange rate risk

	2013 $M	2012 $M
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	(77)	(65)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	82	66

(e) Operational risk management

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than liquidity, credit and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all of the Bank's operations.

Managing operational risk in the Bank is an integral part of day-to-day operations and oversight. This includes adherence to Bank wide corporate policies. There is also an active internal audit function carried out on a quarterly basis.

Operating loss is the risk of loss from breakdown of internal controls. The Bank has established an internal audit function which will exercise monitoring and control over accounting policies and procedures, and the effective functioning of the system of internal controls at the Bank.

Operating risk relating to the activities of foreign currency reserves management is controlled by a number of internal instructions, and there is clear segregation of front office and back office activity. The latter is one of the mechanisms for managing operating risk.

24. Fair value of financial assets and liabilities

The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. Quoted market values represent fair value when a financial instrument is traded in an organized and liquid market that is able to absorb a significant transaction without moving the price against the trader.

Valuation of financial instruments

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active market for similar instruments; quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable data and the unobservable inputs have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments

25. Related parties

The Bank has related party relationships with the Board of Directors, the Executive Management and the Solomon Islands Government.

The Board of Directors during the year were:

Denton Rarawa (Chairman and Governor)

Gane Simbe

Shardrach Fanega

Katululu Maepioh

Loyley Ngira

Lily Lomulo

Tele Bartlett (appointed 17 July 2013)

Primo Afeau (appointed 17 July 2013)

John Usuramo (appointed 18 December 2013)

Dr. Steve Aumanu (resigned 2 December 2013)

Leslie Teama (resigned 3 March 2013)

Directors' fees and emoluments

Amounts paid to directors during the year are disclosed in Note 4 (f). No other emoluments were paid or are due to the directors at year end.

Related Party Disclosures requires the disclosure of information relating to aggregate compensation of key management personnel. The key management personnel of the Bank are members of the Bank Board and senior staff who have responsibility for planning, directing and controlling the activities of the Bank. Fees of the non-executive members of the Board are determined by the Minister of Finance. The Governor and Deputy Governor contracts are subject to mid-term review by the Minister of Finance and annually in terms of Bank policies. The Board of Directors determines the remuneration of the Chief Managers.

During the year the following persons were the executives identified as key management personnel, with the greatest authority and responsibility for planning and controlling the activities of the Bank:

Denton Rarawa	Governor
Gane Simbe	Deputy Governor
Raynick Aquillah	Chief Manager International
Daniel Haridi	Chief Manager Currency and Banking Operations
Michael Kikiolo	Chief Manager Economics Research and Statistics
Bella Simiha	Chief Manager HR and Corporate Services
Emmanuel Gela	Chief Manager Finance and Accounts
Raynold Moveni	Chief Manager Financial Market Supervision
Edward Manedika	Chief Manager Information Technology

The remuneration of the Bank's key management personnel, included in 'personnel expenses' was as follows:

	2013 $000	2012 $000
Short-term employee benefits	3,124	2,826
Long-term benefits	952	258
	4,076	3,084

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Long-term benefits includes long service leave and early retirement benefits.

As at 31 December 2013 loans by the Bank to key management personnel are as follows:

	2013 $000	2012 $000
Housing loan	1,073	1,024
Personal loan	106	68
Management car loan	74	-
	1,253	1,092

There were no other related party transactions with Board members; transactions with director-related entities which occurred in the normal course of the Bank's operations were conducted on the terms no more favorable than similar transactions with other employees or customers.

Transactions with the Solomon Islands Government

The transactions with the Solomon Islands government include banking services, foreign exchange transactions, registry transactions and purchase of government securities. During the year, the Bank received $1.6 million of interest income relating to their investments in government securities. The Bank also paid $2.4 million to the government in accordance with Section 34 of the CBSI Act., 2012. The balance of of the Bank's investment in Government securities at year end amounted to $74.8 million.

26. Commitments and contingent liabilities

The Bank has guaranteed staff housing loans with the commercial banks to the sum of $0.8 million as at 31 December 2012 (2011: $0.8 million). The guarantee is valid until the date the staff ceases employment with the Bank.

In 2007 the Solomon Islands Government introduced and provided $10 million for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31 December 2012, a total of 36 loans with a net guarantee of $3.95 million (2011: $1.87 million) have been administered under the scheme.

27. Events subsequent to balance date

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Bank, the results of those operations, or the state of affairs of the Bank in future financial years.

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