



CENTRAL BANK OF SOLOMON ISLANDS

2017

ANNUAL REPORT



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



VISION, MISSION, AND VALUE STATEMENTS

VISION

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

MISSION

Our mission is defined by Section 8 of the Central Bank of Solomon Islands 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 under our stewardship.

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CENTRAL BANK OF SOLOMON ISLANDS

Hon. Manasseh Sogavere, MP
Deputy Prime Minister
Minister of Finance & Treasury
Ministry of Finance and Treasury
P O Box 26,
Honiara

Dear Minister,

Re: 2017 CBSI Annual Report

In line with Section 58(2) of the Central Bank of Solomon Islands (CBSI) Act 2012, I submit to you the 2017 CBSI Annual Report, along with the Audited Financial Statements.

Yours sincerely,


DENTON RARAWA
Governor

GOVERNOR'S FOREWORD

2017 was a positive year for the Central Bank and the country as a whole. The Bank reported a turnaround in its financial performance, resulting in a \$30.6 million profit and stronger balance sheet.

For the country, despite the fiscal challenges faced by Government, other sectors in the economy remained resilient during the year. Most of the key macro indicators were positive, making 2017 a much better year than 2016.

Highlights in 2017

Buoyed by strong global growth, the Solomon Islands economy grew by 3.7% in 2017, driven largely by strong performances in the forestry, fisheries, manufacturing, financial services and wholesale & retail sectors.

Production increased over the previous year because of higher volumes of fish catch, copra and coconut oil. This outweighed the weak performance in palm oil and cocoa. Log production levels remained high as in 2016.

Inflation rose to 1.8% in December 2017 compared to a deflation rate of 2.8% at the end of 2016. The movement came from both the imported and domestic components. Growth in food, drinks and tobacco, housing and utilities, fuel and transport prices all contributed to the upward movement.

In terms of the external sector, the balance of payments position recorded a \$218 million surplus, up from a \$77 million surplus in 2016. As a result, the gross foreign reserves increased by 8% to \$4,535 million at the end of December. This was equivalent to 11.3 months cover of imports of goods and non-factor services.

Exchange rate developments saw the trade-weighted basket strengthen by 1% in 2017. On a bilateral level, the Solomon Islands dollar (SBD) appreciated by 0.8% against the US dollar (USD), but depreciated against the Australian and New Zealand dollars.



Denton Rarawa, Governor of CBSI, lost among the young savers of Soltuna and Tuna Trust Credit union during the GMW at Noro.

Monetary sector developments saw broad money increase by 3% to \$4,908 million. The increase was driven largely by the balance of payments surplus, private sector credit and improvements in the capital position of financial institutions (including CBSI).



Governor Denton Rarawa

Net credit to Government stood at minus \$1,228 million in December 2017 compared to minus \$1,048 million for the same period a year ago. This reflected the government tightening measures to improve its finances during the year.

Credit to private sector grew by 6% in 2017 to \$2,372 million. The key sectors driving growth in private sector lending were construction, distribution, tourism, transport and manufacturing. However, liquidity levels in the banking system remained high with excess liquidity rising by 6% to \$1,392 million.

CBSI Operations

The Central Bank's operations in 2017 reported a turnaround from 2016. The audited financial statements show that the Bank made a profit of \$30.5 million in 2017, generated from external and domestic sources. The balance sheet also strengthened with the net equity position improving to \$45.1 million.

The number of staff in the Bank increased during the year to 143 of which 60% were males and 40% females. Eight (8) staff members went on full-time training with one (1) returning at the end of the year after successfully completing his studies.

In terms of Board activities, the Board held seven meetings during the year, one of which was convened in Buala, Isabel province. Director Leslie Teama resigned in August due to other commitments. As a result, three positions on the Board remained unfilled for most of the year.

Outlook for 2018

Global growth is expected to be firm at 3.9% in 2018, building on from the strong growth in 2017 and from expected favourable financial and demand conditions and anticipated positive impacts from changes in US tax policy. While world oil prices are likely to pick up in 2018, there is an anticipation for a slowdown in non-fuel commodity prices.

Preliminary forecasts for Solomon Islands indicate a slowdown in GDP growth to 3.4% in 2018 due to anticipated

lower levels of logging and an assumption for the dampening effects of an assumed restrained fiscal policy. Sectors expected to drive growth in 2018 are fishing, construction, manufacturing, wholesale & retail, and transport.

The economy could however, experience a period of intense instability during the second half of the year if the issues related to the closure of correspondent banking relationships and difficulties in facilitating the flow of log export proceeds are not resolved.

Inflationary pressures are expected to pick up in 2018. Already the latest headline inflation data for February 2018 show a 3.6% rise due to the growth in food prices emanating from adverse weather conditions and the rise in fuel and energy prices. The Bank expects inflation to be within its benchmark range of 3%-5%.

The outlook for the external sector is for a reduced balance of payments surplus of \$117 million in 2018. While, the surplus in the capital and financial account is expected to slow as some donor-funded projects are fully implemented, the current account deficit is projected to improve. This is billed on the anticipated growth in logs, fish and agricultural exports, inflows of fishing licences and donor budget support. This means, the country is expected to have sufficient foreign reserves to cover more than 11.5 months of imports.

In terms of the monetary projections, private sector credit is expected to grow at 6% to \$2,434 million in 2018 in line with current economic conditions. Broad money is

forecasted to expand by 5% to \$4,797 million in line with credit growth. It is anticipated to remain robust over the medium term reflecting implementation of key projects in the pipeline.

Let me end by thanking the CBSI Board of Directors for their continued support, guidance and advice on policy matters throughout the year. The level of policy advice and guidance from the Board had been of very high standard.

I would also like to thank all the government agencies, state owned enterprises and private sector companies who provided the information used in this report. Without that support, the completion of this report would not have been possible. The analysis and interpretation of the data, of course is entirely the responsibility of the Bank.

Finally, let me thank all my staff for all their contribution to the Bank during 2017. Without your support, the Bank would not have achieved a successful and rewarding year. I want to specially thank those staff who were involved in the compilation and production of this report for 2017.

Thank you all.

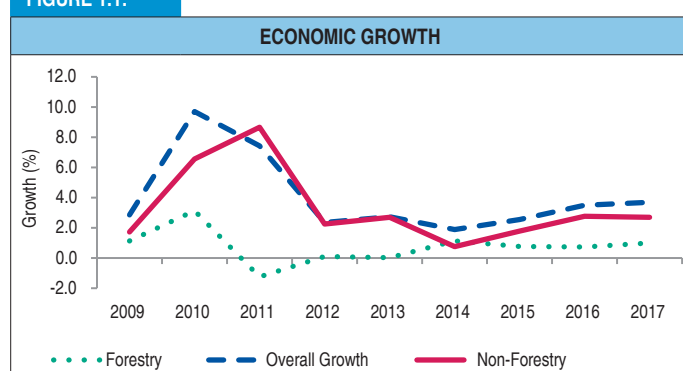


Denton Rarawa
Governor

CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2017

2017 saw an improved momentum in growth for the Solomon Islands economy. Preliminary estimates from the CBSI showed that the domestic economy grew by 3.7% in 2017, an upsurge from the 3.4% growth recorded in 2016. This robust growth resulted from strong performances in the forestry and fisheries sectors as well as increased activities from construction and manufacturing during the year. Resilient private sector activities and favourable prices for the major export commodities also supported this growth. Similarly, monetary aggregates remained buoyant during the year, whilst the government recorded a fiscal deficit in 2017 reflecting high expenditure outlays against weaker revenue performance.

FIGURE 1.1:



International Economy

In line with improved macroeconomic conditions in most regions, global growth picked up in 2017 to 3.7%. Though broad-based, noticeable upside results came particularly from the emerging market and developing economies particularly in Europe and Asia. Also, pickups in investment especially in advanced economies, increased manufacturing output in Asia, and broad-based strengthening in trade and consumer demand all contributed to this outturn. The increased global growth momentum is expected to continue in the near term with global forecasts for 2018 and 2019 revised upward to 3.9%. Moreover, the expected impact of the recently approved U.S. tax policy changes is also envisaged to support this near term forecast.

Growth for both the advanced and the emerging market and developing economies are estimated to have expanded by 2.3% and 4.7% respectively in 2017. Among advanced economies, the outlook has improved notably in Germany, Japan, Korea and the United States. The US economy grew to 2.3% in 2017 from 1.5% in 2016 reflecting stronger than expected activity in 2017 amidst supportive financial conditions and, stronger business and consumer confidence. In Japan, GDP increased to 1.8% in 2017 from 0.9% a year ago, owing mostly to strengthening global demand which accordingly led to stronger household consumption. Policy actions to sustain a supportive fiscal stance also contributed. German-led Euro area growth

improved to 2.5% in 2017 from 1.9% in 2016, underpinned by an impressive rise in exports coupled with robust domestic and external demand. In South Korea, the economy rose to 3.0% in 2017 from 2.8% last year supported by stronger global trade and China's import demand.

The growth rate in the emerging market and developing economies continued to ascend in 2017 by 4.7% from 4.4% a year earlier. In China, the growth rate expanded to 6.8% from 6.7% last year reflecting stronger than expected outturn in the first half of the year mainly on account of stronger external demand.

Growth outturns in the Australian and New Zealand economies, Solomon Islands' main trading partners showed mixed outcomes during the year. Australia's economic growth¹ slowed to 2.2% in 2017. This tempered outcome came on the back of weather related disruptions to production in the first half of the year. In New Zealand²; the economy expanded by 3.5%, driven by restocking and supportive fiscal policy during the year.

Global inflation rose by 0.4 percentage point to 3.3% in 2017 mirroring higher energy and commodity prices over the course of the year. Global inflation is expected to stay at 1.7% in 2018 before rising to 2.0% over the medium term mostly reflecting the continued cyclical recovery in demand. Likewise, inflation in the emerging market and developing economies is projected to be stable at 4.2% in 2017 and 4.4% in 2018. Inflation projections for Australia and New Zealand are within their central banks' forecasted ranges of 2%-3% for 2018.

Domestic Economy

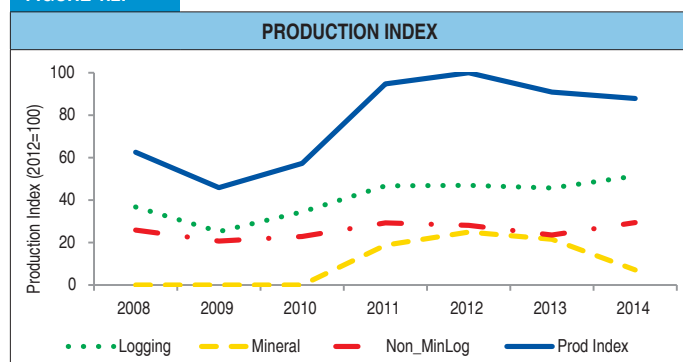
CBSI's preliminary estimates showed that the domestic economy grew by 3.7% in 2017, 0.3 percentage points higher than the revised 3.4% growth posted in 2016. This robust upturn was particularly pronounced in the logging, fisheries, construction, wholesale & retail, and the transport & storage sectors with contributions to growth stronger than in the previous year. Contributing to the 3.7% growth were logging with 1.0%, wholesale & retail making up 0.4%, fisheries and transport & communication sectors representing 0.3% each and construction accounting for 0.2%.

Labour market conditions showed mixed outcomes during the year. Based on proxy employment indicators from the Solomon Islands National Provident Fund (SINPF); the total number of active contributors declined marginally by 0.1% to an annual average of 55,788 contributors in 2017 from 55,820 contributors in 2016. Conversely, Public Service Employment by the Solomon Islands Government (SIG) recorded a 6% increase to 17,562 filled positions from the 16,599 filled positions a year ago.

¹ Sourced from the Regional Economic Outlook update, October 2017

² Ibid.

FIGURE 1.2:



Source: NSO & CBSI

In line with robust economic activities in 2017, the CBSI annual production index for major export commodities increased by 2% to 93 points (See Figure 1.2). This buoyant outturn reflected production gains in fishing, copra and coconut oil industries owing to favourable commodity prices, strong demand in the international market, as well as favourable weather conditions during the year. On the other hand, weak volume performances were noted for logging, palm oil and cocoa industries.

Developments in the balance of payments (BOP) position were generally positive in 2017 with a \$218 million surplus compared to a \$77 million surplus registered in 2016. The buoyant outcome was mostly on the back of the improved current account deficit to \$366 million despite a reduced surplus in the capital and financial account to \$611 million during the year. As a result, the level of gross foreign reserves increased by 8.0% to \$4,535 million at the end of 2017 and was equivalent to cover 11.3 months of imports of goods and services.

The trade weighted index, an indicator which measures the performance of the currency basket appreciated on an annual average by 1.0% during the year on the back of a stronger US dollar. In contrast, the average Real Effective Exchange Rate (REER) depreciated by 1.7% to an index of 150.6 from 148.0 in the previous year. The contrasting outcome reflects inflation differentials between the Solomon Islands and its trading partners and suggests that the country's exports were more competitive during the period.

Money supply witnessed a slower growth of 3% to \$4,908 million during the year. This was attributed to increased credit to private sector and external inflows combined with the build-up of government deposits (including loan disbursements) in the banking system during the year. Credit growth expanded by 6% to \$2,363 million on the back of increased lending by ODCs to the private sector. The key sectors driving credit growth were construction, distribution, tourism, transport and manufacturing. Meanwhile, excess liquidity also rose during the year by 6% to \$1,392 million in December 2017 from \$1,314 million last year.

The Government recorded a fiscal deficit of around 3% of

GDP, a relative improvement against 2016, which recorded a fiscal deficit equivalent to 5% of GDP. Total Government revenue grew by 11% to \$3,574 million, reversing the 11% fall registered in the previous year. Total Government expenditure also increased during the year but at a slower pace, rising by 3% to \$3,792 million building on from a 4% growth in 2016. Meanwhile, the Government debt stock surged by 29% to \$949 million in 2017, emanating mainly from total loan disbursements of \$237 million during the year, of which \$87 million was for external loan and \$150 million was for domestic loan.

Headline inflation rebounded from minus 2.8% at the end of 2016 to reach 1.8% by end of December 2017. The outcome reflected the price pick up in both domestic and imported inflation during the year with the former growing to 3.3% from minus 1.8% at the end of 2016 and the latter improving to minus 0.8% from minus 4.6% in 2016. The recovery was driven mainly by upsurge in price of food, transport and communication, drinks and tobacco, housing and utilities, household operations and recreation categories during the year. Core inflation recovered to 0.7% at the end of 2017, from minus 2.2% at the end of December 2016 indicating inflationary pressures coming from non-food and non-energy categories during the year.

Economic Outlook

The CBSI forecasts the Solomon Islands economy to expand by 3.4% in 2018, 0.3 percentage point below the growth in 2017. This measured growth mainly reflects the projected zero growth in the logging sector in 2018, as uncertainties surrounding the industry remain high coupled with the tight fiscal outlook in 2018. Thus, logging is assumed to be broadly flat in 2018 at around 2.6 million cubic meters and is likely to be sustained at current levels over the medium term on the back of high and more pronounced utilization of the resource. Other major sectors that are expected to drive growth in 2018 include fishing, construction, manufacturing, wholesale and retail, transport and storage, and public sector.

Credit growth is expected to grow at a slower average rate of 5% over the rest of 2018 to 2019 in line with current economic conditions but may pick up in later periods to reflect the commencement of the anticipated big projects on the forecast horizon.

Meanwhile, the external sector is projected to taper in the medium term with an anticipated slowdown in the capital and financial account. This comes against an improved outlook in the current account deficit on better outcomes in the goods, primary and secondary income accounts. Accordingly, the BOP surplus will slide to 1% of GDP in 2018 from the 2% in 2017, although there will be ample foreign reserves equivalent to more than 11 months of import cover to cater for the country's trading needs.

Inflation is projected to be within the range of 3%-5% in 2018 on account of continued higher energy and domestic food prices. Inflationary pressures are expected to be more



Managers of the financial institutions in Solomon Islands all smile at the launch of new 20 dollar banknote in Honiara.

pronounced in domestic inflation compared to imported inflation. Over the medium term, inflation is expected to move within the 2% - 5% range.

In 2018, the Government has outlined a balanced budget of \$4,068 million. Against the 2017 actual estimates, revenue would rise by 11% on the back of new tax and revenue measures, and expenditure would modestly increase by 2%. The relative stabilization of overall expenditure and particular cuts to the development budget reinforced the new Government's drive for fiscal discipline and the

reprioritization of key government policies and investments.

Downside risks to the medium term growth projections remain high over the forecast horizon. These include renewed inflationary pressures driven by oil and food prices, and weaker commodity prices that could affect exports. Moreover, a more restrained fiscal stance and any spill overs from global volatility could also have an adverse impact on the growth outlook.

CHAPTER 2: GOVERNANCE AND ORGANISATION

The governance and operations of the CBSI are vested in the Board of Directors that consists of:

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

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

The Governor

The Governor serves as the Chief Executive of the CBSI, is charged with the day-to-day operations of the Bank, and reports to the Board. The Deputy Governor assists the Governor in the day-to-day operations of the Bank.

Board of Directors

The Board of Directors for 2017 comprises the Governor who is also the Chairperson, Mr. Denton Rarawa; the Deputy Governor, Mr. Gane Simbe, (whom in the absence of the Governor performs the role of Governor); the Permanent Secretary of the Ministry of Finance & Treasury (MoFT); Mr. Harry Kuma as ex-officio member. The six non-executive members are; Mr. John Usuramo, Sir Thomas Ko Chan, Mr. David K.C. Quan and Mr. Leslie Teama (who tendered his resignation as a member on 21st August 2017). At year-end, there were three vacant board positions to be filled.

Board Meetings

Under the CBSI Act, the Board is required to meet as often as the business of the Bank require but not less frequently than 6 times in a calendar year. The Board met seven times during the year including one provincial board meeting held in Buala, Isabel Province in October 2017. At least two-thirds of the members, including at least one non-executive member and Governor is present to form a quorum at any meeting. Also required, is the meeting time, venue and agenda are to be communicated to all members of the Board at least 7 working days before the meeting date.

TABLE 2.1:

BOARD OF DIRECTORS ATTENDANCE 2017

Directors Name	Number of Meetings attended (out of 7)
Denton Rarawa	6
Gane Simbe	4
Harry Kuma	4
John Usuramo	7
Sir Thomas Chan	7
David Quan	6
Leslie Teama	1

Board Committees

There are three Committees of the Board set up to assist with the governance and management of the Bank. The Committees are; the Board Audit Committee, the Board Staff Remuneration Committee and the Board Disciplinary Appeal Committee. Decisions made by the Committees are sent to the full Board for endorsement. During the year there were no meetings held for the two Board committees on Staff Remuneration and Disciplinary Appeal.

Board Audit Committee

The Board Audit Committee was established at the end of 2010. The Committee, through its Terms of Reference approved in 2012, comprised of at least three but not more than five members of the Board of Directors. The Deputy Governor is an automatic member and the Manager of Internal Audit Unit is the Secretary to the Committee. Since its establishment, the Chairperson is usually one of the non-executive members and is appointed by the full Committee as and when required. The Chairperson of the Committee reports to the Board regularly. One meeting was held in 2017 and with the promise of full membership in 2018; the Committee shall be able to comply with its meeting minimum number requirements. The Board Audit Committee will continue to be objective in its role to ensure the preservation of sound Governance within the operations of the Bank.

Community and Public Relations

In 2017, CBSI provided monetary support of more than \$150,000 to over 20 different institutions and organisations including schools, churches, sporting bodies, private organizations, and community groups. The recipients represent a cross-section of the society in the Solomon Islands. The contribution is part of the CBSI's corporate social obligations towards supporting the different development aspirations of the many programs and activities initiated by these groups.

Whilst the CBSI primary communication focus is locally driven, the Bank recently aligned itself with few international activities in the area of financial literacy and education. The CBSI Communications Unit (CU), which is responsible for the Bank's publicity status noted that one of the key areas for positive relations with the wider local audience, comes from utilizing mainstream media to promote a new international program called the Global Money Week (GMW) event. Under the coordinating leadership of the National Financial Inclusion Unit (NFIU), the CU and other CBSI departments commenced a major provincial tour to highlight the 2017 GMW theme, "Learn, Earn and Save" in March. This event resulted in more than 1,000 children targeted in Western Province, particularly in Gizo, Noro and Munda. The positive coverage from these types of events, not only help ensure the financial inclusion mandate for the Bank under the CBSI Act 2012 is met, but also contributed to the growing positive response

CENTRAL BANK OF SOLOMON ISLANDS BOARD OF DIRECTORS



DENTON RARAWA

Governor and Chairman of the Board

- Governor since August 2008;
- Chairman, National Financial Inclusion Taskforce (NFIT);
- Deputy Chairman, Solomon Islands Anti-Money Laundering Commission (AMLC);
- Deputy Chairman, Investment Corporation of Solomon Islands (ICSI);
- Vice Chairman, Solomon Islands Football Federation (SIFF) Telekom S-League Board;

Previous positions held:

- Deputy Governor, CBSI;
- Chairman, Solomon Airlines.



GANE SIMBE

Deputy Governor

- Appointed Deputy Governor, 18th September, 2008
- Member, CBSI Board Audit Committee
- Director, SolTuna Limited

Previously held position:

- Chairman, Pacific Islands Working Group on Financial Inclusion
- Manager Financial Institutions Department; CBSI;
- Manager Exchange Control (International Department), CBSI
- Assistant Manager, Currency & Banking Operations; CBSI
- Manager Administration, Solrice Limited

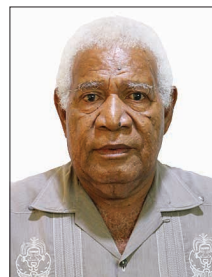


HARRY KUMA

Permanent Secretary - Ministry of Finance and Treasury

Previous positions held:

- Under Secretary - Ministry of Finance and Treasury
- Board Chairman - Solomon Telekom Company LTD



LESLIE TEAMA

Private Businessman

- Accountant - Ministry of Home Affairs and Provincial Government (Old Structure just after SI attained Independence)
- Treasurer and Head of Finance - Central Islands Provincial Government
- General Manager & CEO SINPF, 1989 to end of 1999
- Permanent Secretary, Ministry, of Finance, up until my retirement from public duties and formal employment in 2003
- Director - Mendana Hotel Limited, under the old Government shareholding Agency (GSA) ownership structure
- Director - National Bank of Solomon Islands (NBSI)
- Director - Bank of Hawaii (SI) Limited
- Director - Board Member SINPF
- Director - Board member SOLTAI
- Director and Chairman of Board - Home Finance Corporation Limited



DAVID K.C. QUAN, MBE., MAICD., FIML.

Chairman, Solomon Islands Electricity Authority Board

- Managing Director - Quan Chee Corporation Limited

PAST INVOLVEMENTS

- Chairman, Solomon Islands Chamber of Commerce & Industry
- Chairman, Solomon Islands National Provident Fund
- Chairman, Solomon Telekom
- Deputy Chairman, National Bank of Solomon Islands
- Acting Chairman and Vice-chairman -Solomon Airlines Limited



JOHN USURAMO

Chief of Staff, Office of the Prime Minister & Cabinet

Previous positions held:

- Campus Director, USP Solomon Islands Campus
- Group Manager Student Administration Services
- Assistant Registrar, USP
- Personal Officer, SICHE



SIR THOMAS KO CHAN

Private businessman



SONIA MARAHARE

Legal Compliance, Governors Office

Appointed as Secretary to the Board in May 2017

from the majority of Solomon Islanders who feel their inclusion and participation towards CBSI planned activities is a great benefit, especially at the community level.

The Bank was also instrumental in the promotion and marketing of a new savings product called the *youSave* Product under the Solomon Islands National Financial Provident Fund (SINPF). This product, which targets mainly the informal sector (e.g. market vendors, anglers, farmers etc.), is growing rapidly in Honiara, and other urban centers such as Gizo, Auki and Tulagi. CBSI continues to be instrumental in its expansion across the country from its inception.³

In terms of communication and information sharing, CBSI finally embarked on elevating its social media presence. CBSI now has Facebook, Twitter and Pinterest group accounts developed mainly to cater for added linkages and greater sharing of information, particularly to the growing number of users on this platform in the country. The CBSI Money Matters Radio program, which is relayed over the Solomon Islands Broadcasting Corporation (SIBC), FM and medium wave bands continue to be the main medium of choice. Most Solomon Islanders have noted that they access bank information and updates from the radio program and then do follow up calls to CBSI office.

In mid-2017, CU commenced on a brief review and study over the Bank's current communication processes to come up with a policy document that will help coordinate and manage the overall communication needs and strategies of the Bank.

³ More information about the scheme is detailed in the section under the National Financial Inclusion.

The functions of the Bank are organized under seven (7) main departments and three (3) smaller units as shown in the diagram below:

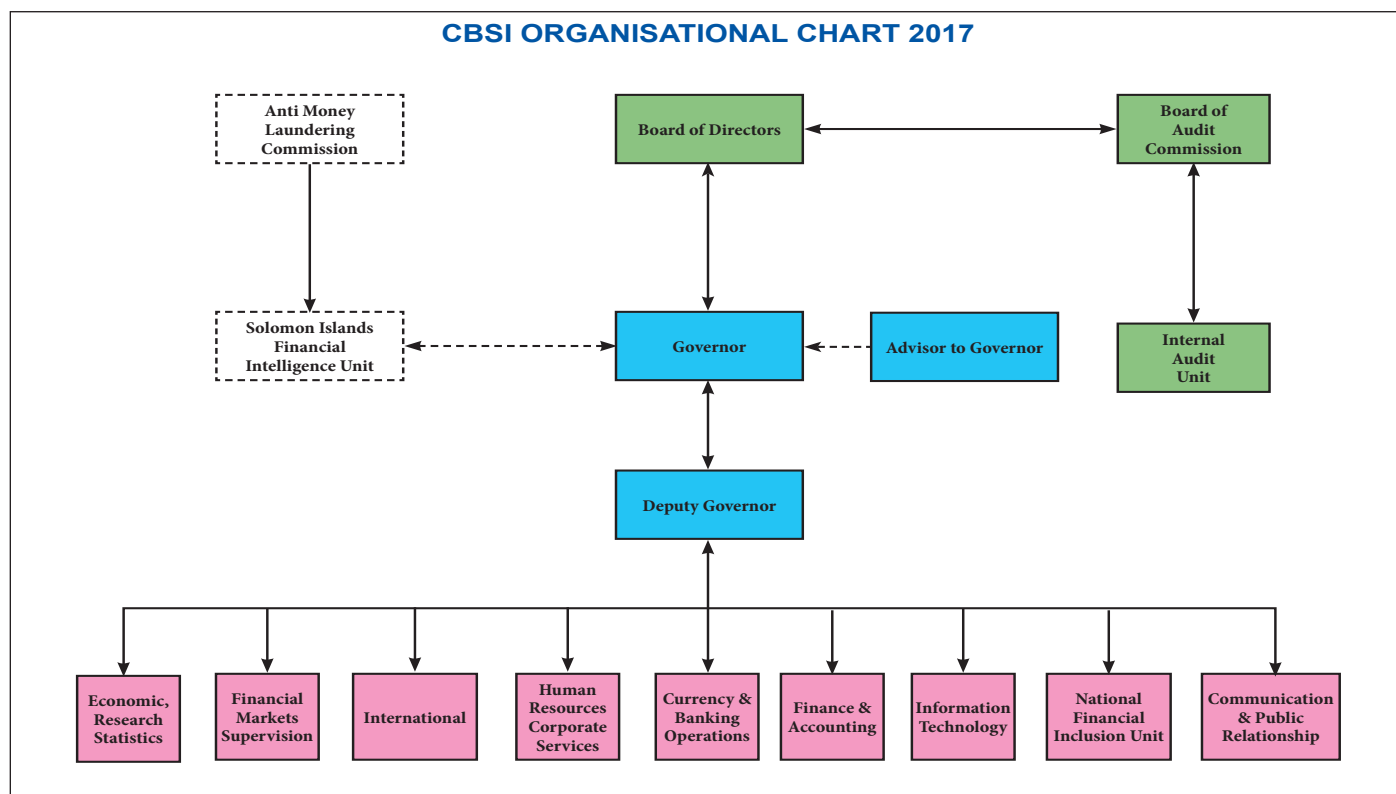
All the departments and units report directly to the Governors' office with support and collaborative efforts to achieving the Bank's corporate mission. The exceptions are the Internal Audit Unit, which reports directly to the Board Audit Committee, and the Solomon Islands Financial Intelligence Unit (SIFIU) reporting directly to the Anti-Money Laundering Commission (AMLC) on the operational matters, but indirectly supervised daily under the Governor's office.

Staff Complement

At the end of 2017, the Bank staff complement totaled to 143 (inclusive of service staff). Around 90% of these positions were filled while 10% remain vacant and pending recruitment in 2018. During the year, 15 vacant positions were advertised through the local print media. The Bank recruited and filled 13 of these positions while one position was pending hiring in 2018 and the other position will be re-advertised. Three (3) officers were promoted to Management positions, while several others were promoted to various positions within the Bank and several others on job rotation within respective departments.

The management team comprised 16% of the total staff complement, 14% of which are female managers. Overall in terms of gender composition, the Bank maintains the balance of 60% male and 40% female. The Bank promotes equal employment opportunity and encourages qualified females to apply when vacant positions are advertised.

CBSI ORGANISATIONAL CHART 2017



Retirement and Resignations

Two officers were retired during the year to take up senior management positions within the Bank. One officer was terminated for disciplinary reasons and the other resigned voluntarily for personal reasons.

Staff Training and Development

The Board approved a new revised training policy for the Bank during the last quarter of the year. The new training policy changes the way CBSI will award its scholarship to staff who are required to go for postgraduate studies. The main change is that scholarships will be offered based on the needs of the Bank. The policy would be fully implemented in 2018.

In 2017 the Bank provided full-time and part-time training sponsorship to staff. Five (5) officers were on full Bank scholarships while three (3) others were on partial sponsorship. Ten (10) other officers were supported to pursue part-time studies at the USP Honiara Campus.

As at the year-end, one (1) officer graduated with a Certificate in Electronic Security Installation and Data Cabling.

Apart from its own budget, CBSI also received training support from other multilateral and bilateral institutions such as the International Monetary Fund (IMF), the Australian Prudential Regulation Authority (APRA), Australian Department of Foreign Affairs and Trade (DFAT), Alliance for Financial Inclusion (AFI), PFIP/UNDP; Com-



CBSI floor wardens attend First-Aid Training.

monwealth Secretariat, Pacific Financial Technical Assistance Centre (PFTAC) and the Asian Development Bank (ADB). These partners funded technical training for CBSI officers in monetary policy analysis, economic forecasting, banking and financial services supervision, financial inclusion and economic statistics.

Attending, participating and contributing to international conferences and seminar is part of CBSI human capital development. During the year, 55 staff members took part in a number of central-bank related training programs. This excludes the official meetings attended by the Governor and the Deputy Governor and other senior staff. Moreover, staff also attended important training programs offered locally that were aimed at broadening knowledge and skills.

CENTRAL BANK OF SOLOMON ISLANDS MANAGEMENT 2017

GOVERNORS OFFICE



DENTON RARAWA
Governor



GANE SIMBE
Deputy Governor



DR LUKE FORAU
Advisor to the Governor

CURRENCY & BANKING OPERATIONS DEPARTMENT



DANIEL HARIDI
Chief Manager



JOE VASUNI
Manager

INTERNATIONAL DEPARTMENT



ALI HOMELO
Chief Manager



DENSON DENNI
Manager

ECONOMIC RESEARCH & STATISTICS DEPT.



MICHAEL KIKIOLO
Chief Manager



DONALD KIRIAU
Manager

INFORMATION & TECHNOLOGY DEPARTMENT



EDWARD MANEDIKA
Chief Manager



MARLON HOUKARAWA
Manager

HUMAN RESOURCE & CORPORATE SERVICES DEPARTMENT



BELLA SIMIHA
Chief Manager till Jan 2017



ROSE SULU
Manager/ Human Resources



JOHN BOSCO
Chief Manager in May 2017

FINANCIAL MARKET SUPERVISION DEPT.



RAYNOLD MOVENI
Chief Manager



RONSLEY PANA
Manager (Research)



SAMUEL WARUNIMA
Manager (Supervision)

FINANCE & ACCOUNTS DEPT.



EMMANUEL GELA
Chief Manager



SIMON RAMOIFAI
Manager

INTERNAL AUDIT UNIT



OLIVER KAROA
Manager

SOLOMON ISLANDS FINANCIAL INTELLIGENCE UNIT



JIMMY SENDERSLY
Director

NATIONAL FINANCIAL INCLUSION UNIT



LINDA FOLIA
Manager

CHAPTER 3: MONETARY POLICY DEVELOPMENTS

Monetary policy formulation

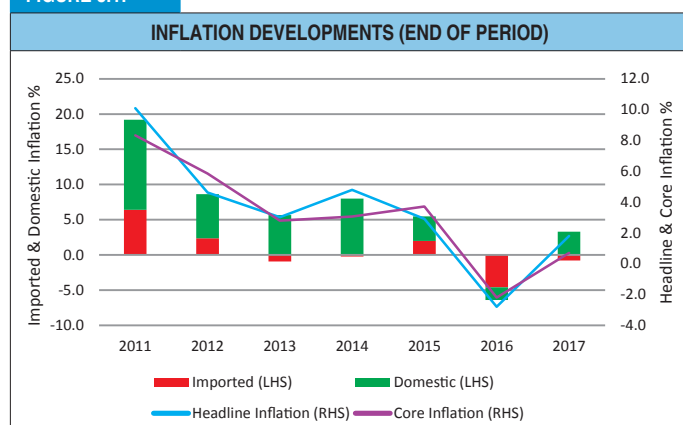
Monetary policy formulation at the Central Bank is delegated to the management Monetary Policy Committee (MPC). MPC submits policy recommendations to the Board for endorsement and implementation. This process aims to comply with the Bank's core objectives of maintaining domestic price stability.

In 2017, the MPC held four meetings, two of which focused on setting the monetary policy stance for March and September, where the Board resolved to continue with an accommodative stance for both six-month periods. The stance was maintained, in light of very low inflation, to support the Government's effort to grow the economy. Meanwhile, the other two meetings during the year focused on related macroeconomic, exchange rate and other technical assistance issues.

Monetary Policy Outcomes

Consistent with the projected inflation range for the year, headline inflation at December 2017 picked up to 1.8% compared to minus 2.8% at the end of 2016 (See Figure 3.1). This breakout from the deflationary levels into positive territory came from rises in both the imported and domestic components of inflation. The latter witnessed a general upturn in local foods, drinks and tobacco, housing and utilities, and transport while the rise in imported inflation mainly came from the increase in fuel prices and imported food. Moreover, core inflation as a measure of non-volatile long run prices, also rose during the year to 0.7% from minus 2.2% in 2016.

FIGURE 3.1:



Source: NSO & CBSI

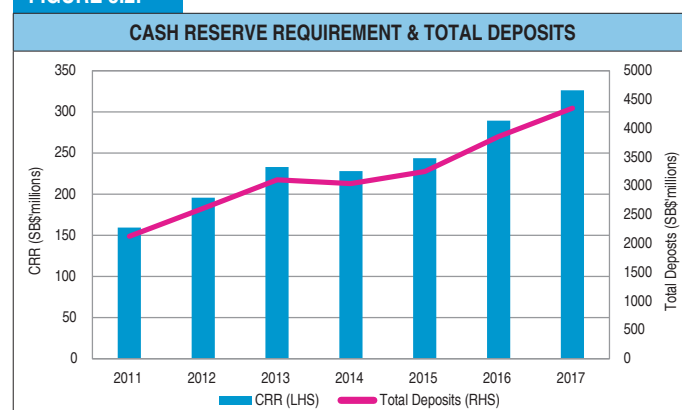
Monetary policy implementation

Despite the relatively soft prices during the year, monetary policy transmission remains weak in the country due to the underdeveloped financial system and the likely amplified impact of external sector aggregates on prices. Nonetheless, CBSI continued to utilize a variety of monetary policy instruments with the goal of gradually developing a more effective mechanism as the economy

expands. Consistent with the unchanged accommodative stance, no major changes were made to the policy tools during the year.

The cash reserve requirement (CRR), as a direct tool for monetary policy was kept at 7.5% of total bank deposits. Compared to 2016, total bank deposits grew by \$492 million to \$4,349 million, resulting in a 13% increase in the value of CRR to \$326 million at end 2017.

FIGURE 3.2:

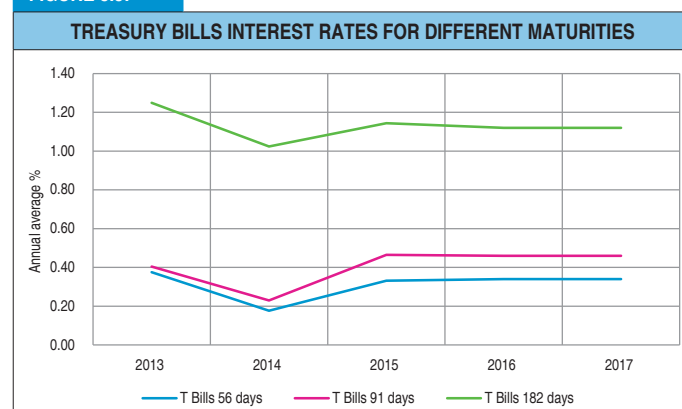


Source: NSO & CBSI

In terms of the indirect instruments, the CBSI issued-Bokolo Bills was maintained at \$750 million. While over subscription has slowed from an average of \$966 million in 2016 to an average \$858 million, this still represents sustained demand and has been used by CBSI to mop up excess liquidity in the financial system.

In terms of its annual weighted average yield (WAY), the WAY remained the same at 0.62% during the year. Similarly, Government issued-Treasury Bills remained capped at \$40 million in 2017 and the annual WAY for the 56, 91 and 181 days were unchanged at 0.34%, 0.46% and 1.12% respectively (See Figure 3.3).

FIGURE 3.3:



Source: NSO & CBSI

While the CRR and the (limited) open market operations have been able to support in mopping up liquidity in the



Members of CBSI Board hold 2 large pictures of the new 10 dollar banknote after it was launched as a new legal tender note by the Governor.

financial system over the last seven years, excess liquidity has continued to persist in the country. Compared to 2016, excess liquidity rose by 6% to \$1,392 million by the end of the year. Nonetheless, the use of these instruments

have helped taper excess liquidity growth to an average 9% between 2012 and 2017, compared to an average 131% between 2007 and 2011. Besides, as evident with the relatively low and stable inflation during the year, the link between the high excess liquidity and inflation is not quite apparent in the Solomon Islands.

On a related policy matter, the Bank maintained the exchange rate policy of pegging the Solomon Islands dollar (SBD) to an invoice-weighted basket of trading currencies and allowing it to move within a $\pm 1\%$ margin of the base rate during the year. As an indirect instrument with an effective transmission channel for inflation, the policy was deemed appropriate in both minimizing volatility and efficiently facilitating market transactions. Accordingly, the trade weighted index (TWI) appreciated by 98 basis points to an average 106.8 from an average 107.9 in 2016. This movement reflects the weaker United States dollar during the year that offset the appreciation of the Australian and New Zealand dollars against the local currency.

CHAPTER 4: CENTRAL BANKING OPERATIONS

Economic Research and Statistics

During the year, the Economics, Research & Statistics Department (ERSD) accomplished a number of its key responsibility areas. In terms of the Bank's economic reports, twelve Monthly Economic Bulletins, and four Quarterly Economic Reviews (QER) were published, with the 2016 December QER having a more comprehensive analysis of the economy over the year. As part of the bank's paperless policy, all these reports and other economic data are published and available on the CBSI website.

On research, one working paper was published on the CBSI website during the year, while other papers were still work in progress. Also, an MOU which has been signed between the Bank and the Griffith University of Australia in October 2017 is expected to further boost research activities over the next five years. In addition, staff members of the department have also made presentations, both internally and externally, on some of their work, including topics like fiscal expenditure, monetary statistics, and the economy.

With the analysis and forecasting of the economy, the department provided the monetary policy committee and two visiting IMF Missions macroeconomic analysis and projections for the country's economy in the near and medium term. This work was possible through the effective compilation of quantitative data based on global standards and the qualitative contribution from the annual economic consultations with major stakeholders.

The provision of library services was also another component of ERSD's knowledge-based services. In 2017, the section continued to hold stocks of historical and contemporary hard copy materials and provide access to electronic resources for research. It also carried out a user survey during the year to gauge feedback for future improvements to services.

To maintain and boost its technical capacity, a variety of training opportunities were provided to the ERSD staff. Aside from internally delivered trainings and self-paced online courses, staff attended short-term technical trainings through the International Monetary Fund and other regional providers on economic statistics, monetary policy and library services. Furthermore, to ensure the sustainability and quality of its macroeconomic responsibilities, two senior analysts from the department commenced post-graduate studies overseas during the year.

International and Exchange Control

As part of its mandate, the Bank is charged with the administration of the Exchange Control Act and Exchange Control Regulations, facilitating the banks official international payments and receipts on behalf of the government, management and investments of the country's official reserves, and undertaking relevant market risk and compliance management researches in the international market.

Exchange Rate Policy and Administration

There was no change in the administration and determination of the Exchange rate policy during the year. The Solomon Islands dollar (SBD) is pegged to an invoice-weighted basket of major tradable currencies with minimal interventions. The policy intention is to ensure that our exchange rate policy contributes to domestic price stability and avoids volatility in the Solomon Islands dollar and cross rates against major trading currencies.

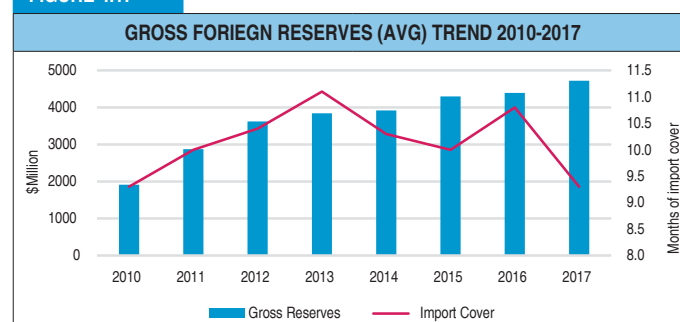
During the year, the Trade Weighted Basket index appreciated from 109.5 at the start of the year to 106.1 at the end of the year.

In 2017, a slight turnaround in the global exchange rate behaviour resulted in mixed movements of SBD against USD. At the start of the year, the SBD weakened against the USD at an average of SBD8.06 per USD, later in the year it strengthened to SBD7.77 per USD before settling at SBD 7.86 per USD at the end of December 2017. Overall, the local currency appreciated against the US dollar during the year.

Gross Foreign Reserves

The gross foreign reserves increased from \$4,410.1 million at start of year to \$4,720.1 million at end of year, an increase of 7.03%. The increase comprising mainly foreign exchange deals in the domestic market between commercial banks and CBSI more specifically log exports receipts, donor funding, SIG receipts and CBSI receipts. The level of gross reserve is equivalent to 9.3 months of import cover as at end Dec 2017.

FIGURE 4.1:



Source: NSO & CBSI

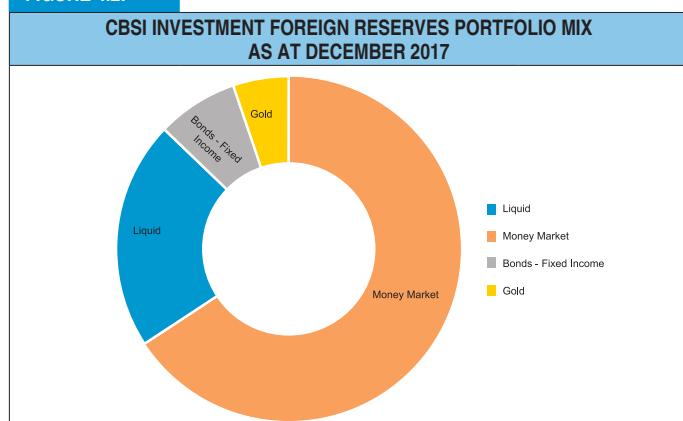
Reserve Management and Investments

Management of the foreign reserves is one of the functions of the Bank specified under CBSI Act 2012. Section 17 of the CBSI Act 2012 provides that "the Central Bank shall conduct transactions in international reserves and shall manage such reserves consistent with international best practices in order to achieve its primary objectives of maintaining domestic price stability, with respect to its safety, liquidity and yield in that order of priority".

The growth of foreign reserves and volatilities in the market impacted greatly on investment portfolio benchmarks, this and among others triggered a need for a review of the Reserves Management Policy (RMP). In October 2017, IMF technical consultants were engaged to review the RMP and recommended changes to RMP. The recommendations from the revised RMP proposal accommodates the current level of reserves and its risk management framework. It also examined its sufficiency in terms of compliance and performance measurement going forward. This revised RMP proposal has been presented to the Board in early 2018 and was approved for implementation.

Management and investment of gross foreign reserves throughout 2017 remained strong and in compliance with CBSI's investment and reserves management policy guidelines. The Bank investment policy remained conservative with its investment focus prioritising safety, liquidity, and then yield as paramount determinants of the investment portfolio mix. Figure 4.2 shows the composition of reserves investment portfolio in 2017.

FIGURE 4.2:

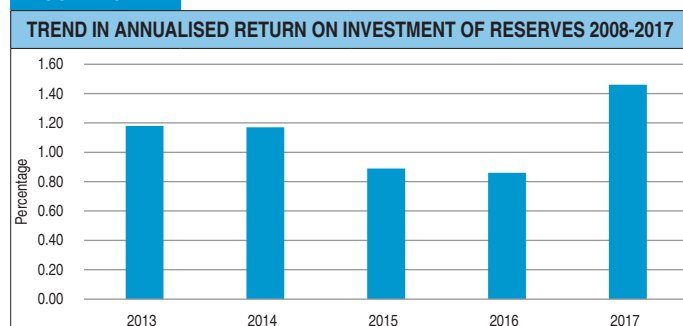


Source: NSO & CBSI

Income from Foreign Reserves Investments

In 2017, improved deposit rates from USD, AUD, and NZD has influenced positively on investment outcome, despite the negative rates in the Euro and JPY. Active intervention on the reserve currency composition to cushion potential credit risks resulting from the downgrading of the major Australian Banks and the accumulation of POB USD forestry sector receipts also has impacted positively

FIGURE 4.3:



Source: NSO & CBSI

on the overall level of reserves, hence the investment income.

The total interest earned on investments was \$50.62 million in 2017, an increase of 23.2% from \$41.1 million in 2016. This was driven mainly by the USD deposit rates, which improved to 1.50% on 3-months average compared to 0.50% last year.

The annualized rate of return on asset measured in terms of interest earnings increased in December 2017 to 1.46% from 0.86% as of December 2016 (See Figure 4.3).

Foreign Exchange Revaluation Gains and Losses

The volatility in the market in terms of exchange rate and interest rate continued to influence the CBSI's unrealized currency revaluation in terms of Solomon Islands dollar. The Bank is required to hold long position in foreign currency to ensure the availability of foreign exchange for trade. This means any changes to the exchange rate will affect the foreign currency revaluation positively or negatively. The changes will influence the Bank's financial performance.

In 2017, the impact of foreign exchange movement was minimal compared to 2016. The net movement of foreign asset at end of 2017 amounted to \$13.1 million. The cumulative net foreign currency revaluation recorded a net gain of \$9.5 million at the end of 2017, a positive turnaround from the net cumulative negative or revaluation loss of \$66.3 million in 2016.

Division of Responsibilities for Investment of Reserves.

Mechanisms are in place to ensure the effective management, control and safety of the reserves. This is reflected in the division of responsibilities within the International Department. Three units – the Front Office, the Middle Office, and the Back Office - handle the day-to-day management and investment of foreign reserves.

Middle Office Operations

The Middle Office main roles and responsibilities include identifying, analyzing and monitoring financial market risks, investment risks and operational risks and advise the management to take appropriate course of actions to mitigate these risks. The Middle Office is also responsible to make recommendations relating to the Investment Rules approved by the Board and the list of eligible counterparties with their respective limits approved by Governor. The recommendations must be discussed by the Investment Advisory Committee before they are submitted to the Board.

Furthermore, the Middle Office maintains a record of all limits and their related usage at all times, comprising those stated in the Reserve Management Policy (RMP) and the list of eligible counterparties with their respective limits approved by the Governor. Outstanding exposures and any breaches in limits are reported as soon as discovered

to the Chief Manager International Department and the Governor. The Middle Office has a direct reporting line to the Governor to ensure its independence.

The Middle Office shall review the conformity of the Front Office booking of the reserve management transactions before it is sent to the Back Office for settlement.

The Middle Office produces a quarterly compliance report on investment policy standards to the reserves management team (Front Office) and the Investment Advisory Committee. Daily compliance checks on liquidity and internal controls and processes have also been incorporated lately as key fundamental functions to guide operational processes.

The Back Office

The Back Office is responsible for settlements of payments related to investments and allocations of the reserves. It also maintains the records of all foreign currency accounts and the standard settlements instructions held by the Bank. It is also responsible to ensure that the accounts are reconciled each month. In addition to the settlement of payments for the Bank, the Back Office also facilitates both receipts and payments using the SWIFT payment transfer system for clients such as the Solomon Islands Government, commercial banks and donors.

TABLE 4.1:

NUMBER OF SWIFT MESSAGES SENT AND RECEIVED						
	2012	2013	2014	2015	2016	2017
Outgoing messages (Received)	940	953	1039	1314	1301	1272
Incoming Messages (Sent)		1589	2279	3562	3804	3178

Source: CBSI

In terms of operations, 1,272 outgoing messages were sent through the CBSI SWIFT system in 2017; a slight decrease in messaging (See Table 4.1). At the same time 3,178 messages were received, a decline of 19% from 2016.

Table 4.2 shows all receipts and payments transactions facilitated through SWIFT during 2017 with the exception of foreign exchange deals between CBSI and the commercial banks. The total value of all receipts and payments transactions facilitated through SWIFT during 2017 recorded a decrease in receipts amounting to \$780.6 million. In terms of payments, a total of \$120 million was transacted during the year, around the same level transacted in 2016.

TABLE 4.2:

VALUE OF RECEIPTS AND PAYMENTS TRANSACTION THROUGH SWIFT 2012-2017						
	2012	2013	2014	2015	2016	2017
CBSI Receipts/fx deals (\$M)	601.4	548.5	581.15	2329.6	1229.9	780.6
CBSI Payments/fx deals (\$M)	223.0	248.3	204.16	296.8	120.00	120.00

Source: CBSI

Exchange Control Administration

CBSI administers the Exchange Control Act and Regulations on behalf of the Government. The Exchange Control Act empowers the Bank to make regulations to confer powers, and impose duties and restrictions, in relation to foreign exchange, foreign exchange resources, and the 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 that all proceeds of goods and services exported are remitted back to the country.

Commercial banks are appointed as authorised dealers under the Exchange Control Act and can process and facilitate trade transactions as per the specific requirements of the exchange control policy and regulation. All the four commercial banks in the country are appointed authorised dealers.

Applications for Temporary Resident (TR) Status

Temporary Residential (TR) status is granted to non-residents, who intend to reside in Solomon Islands for a period of four years or less; or Solomon Islanders who are intending to reside overseas permanently. Non-residents working in the country on contractual basis can also apply and be granted Temporary Residents status for Exchange control purposes. Non-residents who are granted temporary residence status are permitted to repatriate income earned in Solomon Islands or brought in from abroad without limitation. In 2017, CBSI approved 264 temporary resident status permits, of which, 248 were new applicants and 16 were renewals (See Table 4.3).

TABLE 4.3:

NUMBER OF TEMPORARY RESIDENT ACCOUNTS APPLICATIONS APPROVED 2014-2017				
	2014	2015	2016	2017
Newly Approved Temporary Resident applications	105	125	149	248
TR Applications Renewals	127	85	53	16
Total TR Approved	232	210	202	264

Source: CBSI

Non-resident Accounts

Individuals and corporate entities residing outside Solomon Islands who wish to open and hold bank accounts with a resident authorised dealer (commercial banks) in Solomon Islands requires CBSI approval. In 2017, CBSI approved 5 non-residents accounts, of which 3 were for non-resident corporate entities and 2 for non-resident individuals.

Foreign Currency Account (FCA) facility

The foreign currency account facility is designed to support exporters lessen their cost of production where some of their cost involve foreign currency expenses. However, over the years the Bank recognised the importance to expand the foreign exchange market and thus extended this

facility on case by case basis to non-exporters. The operation of FCAs is a privilege and is strictly granted on merit. Individuals do not qualify for this facility for personal use. In 2017, CBSI approved 9 (nine) new FCA applications and renewed 14 expired accounts. Majority of these accounts are denominated in USD while a few are in different currencies. There was a slight increase in the reported foreign exchange exposure from \$434 million in 2016 to \$467.6 million at the end of 2017 (See Table 4.4). Most account holders complied in providing monthly data on time. To date there are 35 active foreign currency account holders approved by CBSI of which 24 FCA are held with local banks and 3 FCA held with banks outside the country.

TABLE 4.4:

NUMBER OF APPROVED FOREIGN CURRENCY ACCOUNTS HELD BY EXPORTERS AND NON-EXPORTERS 2014-2017				
	2014	2015	2016	2017
Account holders/Entities	38	44	50	27
Qualified Exporters	10	12	13	5
Non –Exporters	28	32	37	22
Total number of accounts held	63	72	78	35
On-shore	57	65	71	32
Off-shore	6	6	7	3
Total value: (SBD\$ million)	934	1,132	434	467.6

Note: Some account holder hold more than one FC Account

Source: CBSI

Foreign Exchange (FX) Restricted Classified Dealers

In 2017, the Bank promoted financial deepening through licensing foreign exchange market services dealers in the country. The Bank renewed and issued 13 classified foreign exchange dealer's licenses during the year (See Table 4.5). Of the total licenses issued, 10 were issued to eligible local companies to operate as Money Changer Services dealers whilst three (3) licenses were for Money Transfer Services providers in the country. This foreign exchange dealers licence is valid for 12 months and renewable thereafter.

TABLE 4.5:

NUMBER OF APPROVED FOREIGN EXCHANGE MONEY CHANGER LICENSE 2014-2017				
	2014	2015	2016	2017
Money Transfer services*	4	4	4	3
Money Changer Services	11	11	9	10
Total FX Classified Dealers	15	15	13	13

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

Source: CBSI

One new application was received for money changer license and approved whilst two were declined. All other licenses were renewed.

Inward remittance receipts through Classified Money

transfer agents increased by 12.1% from previous year to \$60.34 million and outbound remittance increased by 1.3% to \$275.81 million. In terms of transactions by moneychangers, a total of \$26.1 million equivalents of foreign currency notes were purchased and \$15.2 million sold to the travelling public and commercial banks.

Private Sector Debt (Private Sector Offshore Borrowing)

Resident entities wishing to borrow funds abroad or creating debt in favour of non-residents require the authorization of the CBSI. Authorization by the CBSI is necessary for proper registration and monitoring of private sector debts. This is also a prerequisite for any loan repayments in the future.

During the year, the CBSI received and approved twenty external loan applications from corporates (See Table 4.6). The purpose of these loans were for use to finance business expansion and other projects in the country. The total foreign currency exposure of these authorized external loans is equivalent to USD325.3 million (SBD1.68 billion).

TABLE 4.6:

NUMBER OF PRIVATE SECTOR OVERSEAS BORROWING APPROVED UNDER EXCHANGE CONTROL REQUIREMENT: 2014-2017				
	2014	2015	2016	2017
Applications received & approved	14	10	11	20
Value in SBD(million)	327.0	216.9	133.3	1,680.9

Source: CBSI.

Exports Administration

The primary objective of export administration is to ensure that the country fully benefits from the revenue it receives through export of goods and services. The Exchange Control Regulation requires that exported goods and services should receive a fair and reasonable market price. It also requires that export proceeds be remitted back fully within 3 months from the date of export. The Regulation requires that proceeds must be sold to a commercial bank in the Solomon Islands.

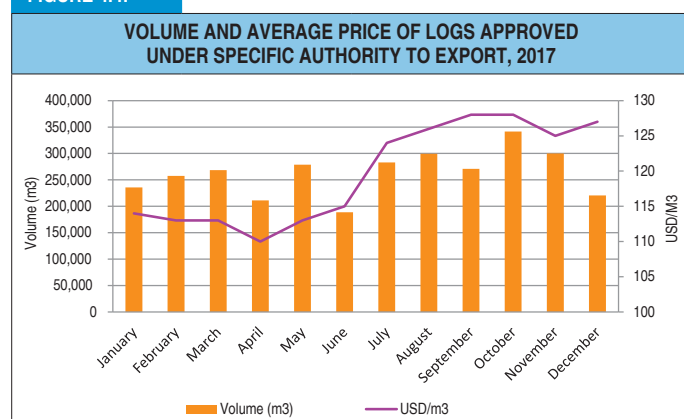
CBSI administers controls on exports using two frameworks namely: (i) the General authority and (ii) the Specific Authority. Goods exported under the general authority are permitted without any authorization from authorizing authorities. The exporters however must remit the proceeds of export with the 3 months required. Goods under Specific Authority to Export requires the exporter to meet certain conditions and authorization by authorising authorities.

In addition to round log, beche-de-mer or Sea Cucumber was added to the list as a product permitted to be exported under Specific Authority in 2017. Gazette Notice 125 on the 6th December 2017 was issued for the inclusion of the product to come under Specific Authority. The Ministry of Fisheries and Marine Resources is the authorising authority for the export of this product. The inclusion of

this lucrative marine product is aiming at strengthening its monitoring and reporting.

CBSI directly administers the export of round logs and beche-de-mer in collaboration with respective government agencies. This means that round logs and beche-de-mer must be granted 'Specific Authority' after receiving market price certification clearance from the Commissioner of Forestry and Director of Fisheries respectively.

FIGURE 4.4:



Source: NSO & CBSI

In 2017, CBSI issued 997 Specific Authorities to Export to round log exporters. This was an increase of 20% from the previous year (See Table 4.7), the volume also increased by 20.8% to 3.156 million cubic metres valued at approximately \$2,995 million (See Figure 4.4).

TABLE 4.7:

NUMBER AND VALUE LOG APPLICATION FOR SPECIFIC AUTHORITY TO EXPORT CBSI: 2014-2017				
	2014	2015	2016	2017
Total Applications approved (numbers)	848	819	829	997
Total Value of Exports-SA Approved SBD (Millions)	2,205.3	2,536	2,368	2,995
Volume of Exports- SA Approved (Million m3)	2449	2679	2,612	3,156

Source: CBSI

Towards the end of 2017, CBSI approved 16 applications for Specific Authorities to export beche-de-mer. The total weight of the product exported was 219,343 kilograms valued at SBD13.1 million. Beche-de-mer trade is unique since it is banned for harvesting and export until the Ministry of Fisheries and Marine Resources lifted the ban. This is a conservation measure to protect over exploitation of this resource.

Imports Payment Administration: Applications Above Required CBSI Limits

CBSI continues to monitor transactions between residents and non-residents in terms of trade and service payments, capital and personal transfers. All applications for travel, personal transfers and sustenance above \$30,000 requires approval by the Bank. Furthermore, Trade and

Services payments exceeding \$100,000 must be referred to CBSI for approval before the commercial banks can settle payments. The Authorised dealers (commercial banks) are permitted to approve foreign exchange payment for amounts less than \$30,000 and \$100,000 respectively.

Authorization of capital and financial account transactions such as capital transfers (dividends), loan repayment, equity proceeds, and property proceeds are not delegated to authorized dealers and must be referred to CBSI.

During 2017, the number of applications referred to CBSI for approval totalled 8,766 applications valued at \$5,977 million. This figure includes all trade of merchandise comprising around 62%, service payments at 21%, capital transfers at 15% and personal transfers comprising 2% of the total payments (See Table 4.8). The average value per application increased from \$584,742 in 2016 to \$681,839 in 2017, indicating a lot more of high value payments went out of the country compared to the previous year.

TABLE 4.8:

NUMBER AND VALUE OF FOREIGN EXCHANGE APPLICATIONS APPROVED BY CBSI: 2014-2017				
	2014	2015	2016	2017
Total Applications approved	7,503	8,135	8,992	8,766
Value of applications Approved SBD (Millions)	6,228.07	5,284	5,258	5,977

Source: CBSI

Share Transfers

The purchase and sale of shares in companies registered in Solomon Islands by emigrating residents with non-residents or residents require Exchange Control assessment and approval from the Central Bank. This is to ensure proper legal transfer of valuable considerations to the new owners who may wish to remit capital funds, profits or dividends at a later date.

In 2017, the CBSI granted authority to 3 resident companies to register ownership in favour of non-resident entities. The Foreign Exchange Control approvals were granted for the transfer of shares to two non-resident corporate entities. However, there were some applications of share transfers that were declined for non-compliance with Exchange Control requirements. CBSI encourages applicants wishing to apply for share transfers to consult the Bank if in doubt on the requirement of this facility.

Financial Market Supervision

Financial Market Supervision Department (FMS) is tasked with the responsibility of regulating and supervising financial institutions that CBSI licensed. Having a sound, stable, and healthy financial institution is important for a small economy like Solomon Islands. When institutions are sound, stable, and healthy, they will be able to allocate resources efficiently and distribute risks across the economy.

FMS has two units. These are Financial Institutions Super-

vision Unit (FIS) and Applied Research, Policy, and Regulation Unit (ARPR). FIS is responsible for general supervision and other oversight functions of licensed financial institutions. ARPR is responsible for providing a support function to FMS. The unit carries out research on prudential standards and other topical financial sector policy issues of interest to FMS.

In 2017, FMS conducted a number of Follow-up Reviews and risk-based onsite examinations to financial institutions that CBSI licensed. These Follow-up Reviews and onsite examinations are shown on Table 4.9 below.

TABLE 4.9:

SUPERVISION ACTIVITIES		
NAME OF FI	SCOPE	MONTHS
Pan Oceanic Bank	Onsite examination of government risk	January
Pan Oceanic Bank	Onsite examination on credit risk	March
Solomon Islands Police Credit Union Ltd	Interim administration	March
Solomon Islands Teachers Credit Union Ltd	Follow-up review on 2015 onsite examination	April
Capital Insurance Group	Follow-up review on 2015 onsite examination	May
Solomon Islands National Provident Fund	Follow-up review on 2015 onsite examination	July
ANZ Bank	Onsite examination on operational risk	July
Tower Insurance	Onsite examination on operational risk	August
Pan Oceanic Bank	Follow-up review on 2017 onsite examination	September
Solomon Islands Public Employees Credit Union Ltd	Onsite examination on governance, credit and operational risk	November
QBE Insurance	Follow-up review on 2016 onsite examination	December

Source: CBSI

In addition, FMS also conducted a mini onsite examination on CBSI. The scope of this onsite examination is on operational risk, and its coverage is confined to operational departments of CBSI.

During the year, FMS, as part of its oversight function, held 40 consultations with licensed financial institutions and hosted three Bankers Meetings. The consultation is an avenue where FMS and financial institutions discuss candidly technical and operational matters with management and technical staff of financial institutions. The quarterly bankers meeting, is a high-level forum whereby CBSI management and heads of banks and credit institutions converge each quarter to share information on the state of Solomon Islands economy, performances of banking sector, and any issues or concerns that both parties may have.

In 2017, FMS developed four new Prudential Guidelines (PGs), which the CBSI Board approved, for Solomon Islands financial sector. These PGs are:

1. PG on Business Continuity Management: this PG aims to provide financial institutions with a minimum framework for business continuity management to ensure critical business operations of financial institutions due to an adverse event are maintained or recovered quickly and with a

predetermined timeframe.

2. PG on Outsourcing: this PG provides a minimum framework for outsourcing activities of financial institutions.
3. PG on Related Party Transactions: this PG aims to provide a minimum framework for financial institutions to prevent conflict of interest situations and to do business on arms-length basis; and
4. PG on IT Risk management.

In addition to these PGs, FMS also developed a supervision levy model for Solomon Islands financial sector. The levy, which has been introduced for the first time in 2018, requires financial institutions to pay an industry levy to CBSI for supervision time spent by CBSI in supervising them.

Finally, as supervision and risk management are dynamic in nature, CBSI requested International Monetary Fund to review the current regulatory and supervisory framework of FMS. The review aims at identifying gaps, from which an appropriate roadmap will be designed to strengthen the supervision framework of FMS. A report from the review has already been approved by the Financial Stability Committee of CBSI. The report will be presented to the CBSI Board in 2018 for endorsement.

Finance and Accounts

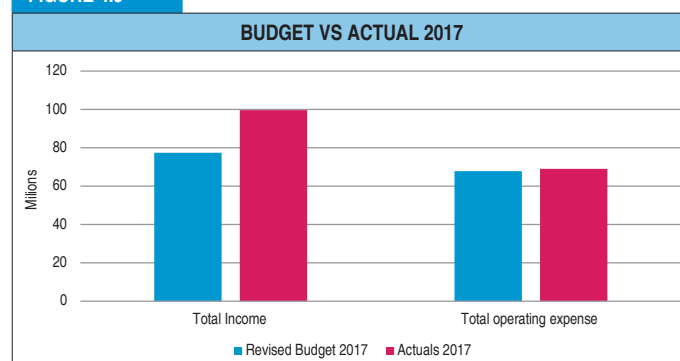
The Finance and Accounts Department (FAD) is responsible for ensuring the operation of the Bank is adequately financed, and the activities are accounted for and reported according to the International Financial Reporting Standards (IFRS) and the CBSI Act 2012. This is important as CBSI is a member of the international community.

Financial reports are produced and distributed regularly through various mediums to stakeholders, both internal and external. Some of these are mandatory while others are based on the needs and request of the stakeholders.

Budget

The Bank's annual Budget 2017 was produced and approved by the CBSI Board in November 2016. The Budget consist of four parts: estimated total revenue of \$77.4 mil-

FIGURE 4.5



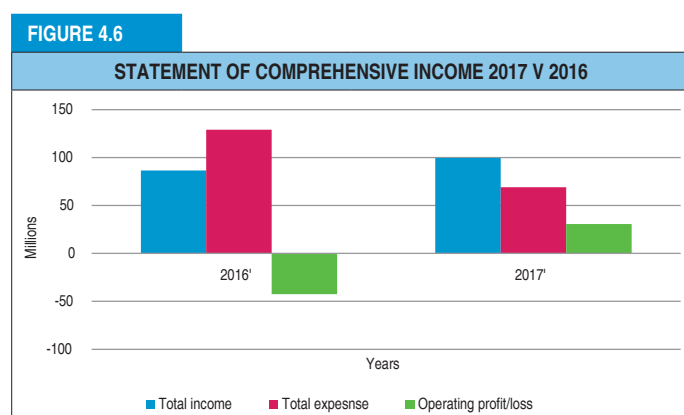
Source: NSO & CBSI

lion, operating expenses of \$50.5 million, Currency and Monetary policy costs of \$17.3 million and Capital cost, \$32.6 million. An operational surplus of \$9.5 million was anticipated. The surplus is expected to meet capital costs and additionally supplemented by the capital reserve.

Figure 4.5 shows the performance of the Budget against actuals at the end of the year 2017.

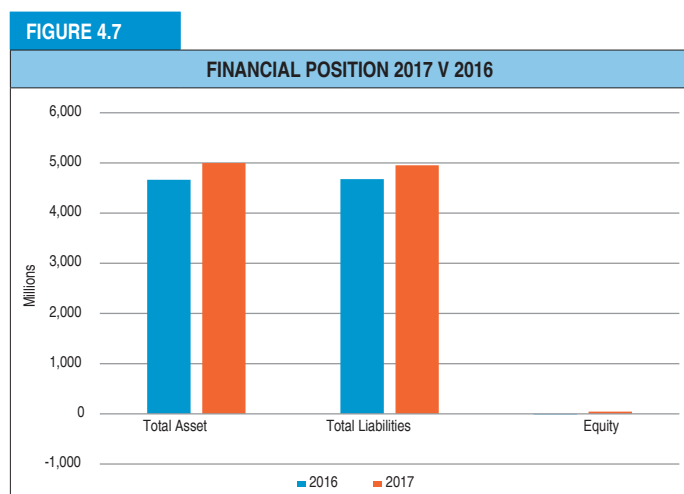
Accounting and Financial Reporting

The actual performance for 2017 showed total income for the year of \$99.5 million, total operating expenses of \$69 million and net operating profit of \$30.5 million. The total comprehensive income was \$56.5 million, after addition of \$26 million for gold revaluation gain. This does not form part of net operating profit but transferred directly to the gold reserve account in equity. In 2017 there was a net revaluation gain in foreign currency of \$15.5 million whilst in 2016, there was a loss of \$66.3 million. This had



significant effect on the net equity position of the respective years. Figure 4.6 shows the performance of 2017 relative to 2016.

The statement of financial position had improved in 2017. Net equity improved from a negative \$11.4 million in 2016 to a positive \$45.1 million; Total Assets increased from



\$4,665 million to \$4,999 million, similarly total liabilities increased from \$4,667 million to \$4,954 million. Figure 4.7 shows the financial position for years 2017 and 2016.

External Audit

External audit is a mandatory requirement on the Bank. KPMG Fiji has provided this service to the Bank through the Office of the Auditor General. A contract of five years was started in 2013 and now ceased in 2017. The Bank has made positive improvements through this service and looking forward for a new auditor for the next five years.

Financial Accounting System

The Bank's new financial system has run alone in 2017, after parallel runs with the old system was ceased in mid-2016. The Bank upgraded its financial system to support its operational needs and to be remain compatible with changes in the industry.

Capital Projects

In 2017 there were no major additional capital projects undertaken, apart from the current projects that are still work in progress (WIP). These includes the Head Quarter (HQ) office refurbishment which includes, purchasing of blinds for the ground floor, supply and installation of Lotus Retractable walls in the Training Room, HQ tinting of ground floor glazing, Reconfiguration of the HR Office, the Board Secretary and PRCO rooms. As part of the building safety assurance, a reputable structural engineering firm was engaged to conduct a structural audit on the HQ building.

The Bank has also received from the Commissioner of Lands the FTE Land titles for the Noro sites, which will host the Office branch and residential sites. Activities carried out at the Noro sites includes clearance of old WWII un-exploded ordinances (UXO) and brushing of the sites.

The Aruligo recreational site, has seen major improvements done to the water supply system, a concrete perimeter front and side fencing and gate, seafront gabion wall, installation of solar lighting, new security generator hut, and installation of a generator to provide reliable power for the site.

At the management residential site at the Rifle Range, a retainer wall was constructed, which includes, installation of sheet piles and guardrail system, to prevent soil erosion and safety to the Bank houses.

Currency and Banking Operations

The Currency and Banking Operations department (CBO) is responsible for discharging the functions mandated under section 9 (f) in conjunction with sections 18 to 25 of the Central Bank Act 2012. These sections mandate the Bank as the only authority:

1. To issue, regulate and manage the currency of the Solomon Islands; and

- To promote a safe, sound and efficient payment system.

The responsibilities include currency stock control and management; issuing of notes and coins to commercial banks for circulation; receiving of currency deposits from commercial banks and Solomon Islands government; sorting and destruction of unfit and soiled banknotes; and designing and ordering of new banknotes or coins.

The department also took on social responsibilities to advise and educate the public to care for notes and coins, and warning public about counterfeit notes.

Currency in Circulation Stock

The total value of currency in circulation (notes and coins) for 2017 increased to \$924.3 million from \$861.2 million in 2016. This represents a 7% increase in 2017 compared to 12% in the previous year. Of the total value in circulation, 97% (\$895.8 million) was currency notes while coins make up the remaining 3% (\$28.5 million.) Figure 4.8 below shows a steady increase in currency in circulation from 2012 to 2017.

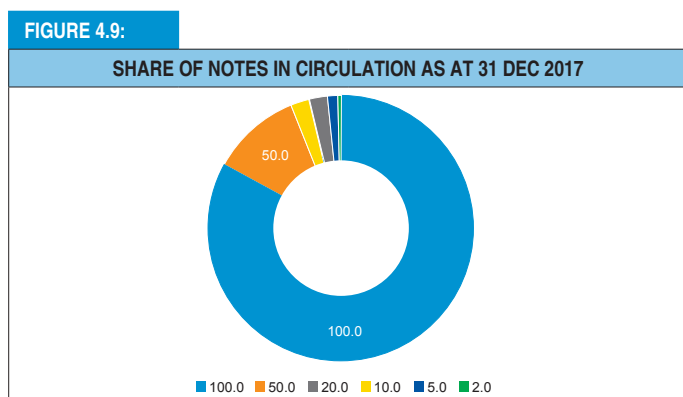
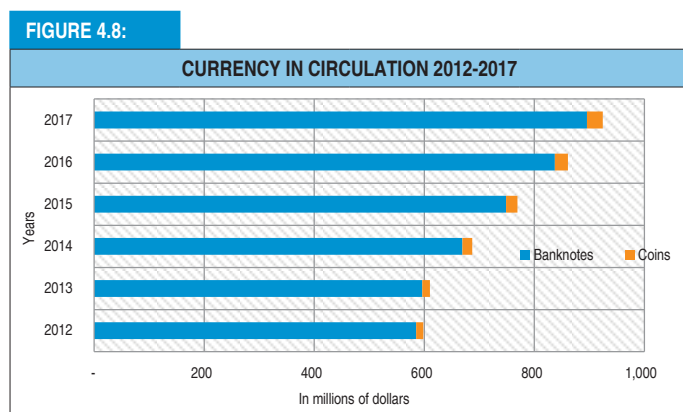


Figure 4.9 shows the share of each notes in terms of value denomination in circulation at the end of the year, 2017.

Of the total currency notes, the 100-dollar bill accounted for 83% followed by \$50 at 11% and both the \$20 and \$10

at 2%. The \$5 and \$2 accounted for the remaining balances of 1% and 0.5%, respectively. The relatively high percentage share of the \$100 and \$50 bills in circulation was the result of high usage patterns of both bills in payments and as store of value. In addition, most, if not all, ATMs in the country dispensed only these two notes. The additional ATMs installed in Honiara in 2017 also contributed to the higher demand for the said notes.

Coins in circulation increased by 19% to \$28.5 million in 2017 compared to \$24.0 million in 2016. Of the total coins, 81% consisted of \$2 [51%] and \$1 [30%] coin denominations whilst 50 cents, 20 cents and 10 cents share the remaining the balance.

Currency Reserve Stock Management

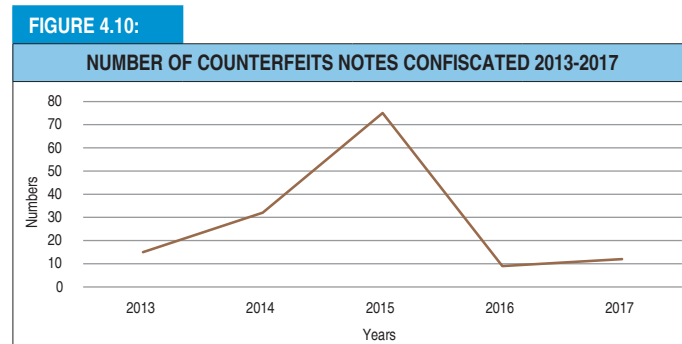
The Bank is required to ensure a sufficient availability of bank notes and coins to meet the currency requirements of the country. In 2017, the Bank replenished its stock of \$20, \$10 and \$5 bills. Not only did the Bank replenish its stock of cash, but it also upgraded the design and security specifications on the \$20 and \$10 banknotes as part of its ongoing banknote reform program to strengthen the design durability and security of the notes. The issuance of the new \$20 and \$10 notes represented new banknotes released into circulation since 2013.

The value of the new currency notes and coins issued into circulation via the commercial banks and CBSI was \$175.9 million. Of this amount, \$171.4 million represented the new notes, of which 49% was the \$100 bill, 37% was the \$50 note and the \$20 bill accounted for 9%. The \$10 and \$5 bills shared the remaining balance of 4% and 1%, respectively. For the new coins, the \$2 and the \$1 made up 87% whilst the 50 cents, 20 cents and 10 cents shared the remaining balance of 13%.

Volume of Counterfeit Notes Impounded Rose in 2017

The number of counterfeit notes confiscated from circulation in 2017 rose to 12 pieces from 9 in 2016. Of the total counterfeited notes impounded, eleven pieces were counterfeits of the old \$100 note series while one was the \$50 note of the new series introduced in 2013.

Counterfeiting is a crime and illegal in Solomon Islands and those found guilty under the provision of the Penal



Code and CBSI Act 2012 can be prosecuted and fined or imprisoned, or both.

From the statistics received and recorded, it is evident that the high denominations are the most targeted notes by counterfeiters. Figure 4.10 reveals a pattern in the introduction of counterfeits relating to the two high value denominations. What is obvious from the pattern is that there is decline in the number of counterfeits impounded after the new note was introduced. Incorporation of new security features and regular educating the public about the risks of circulating counterfeit notes, using popular media outlets contributed to the downward trend. The Bank's awareness programs to schools and communities promoted the slogan; 'know, check and feel' the currency notes before accepting them in exchange for goods or services.

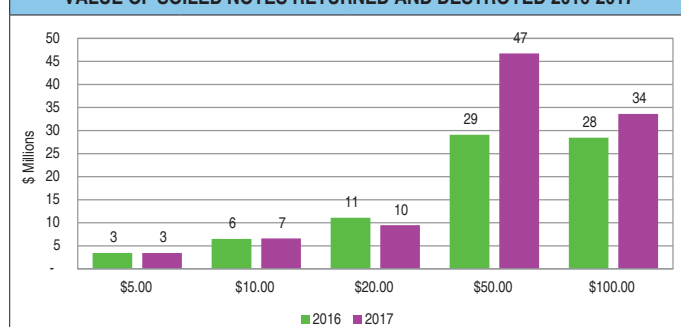
Soiled Note Processing

In 2017, the total value of soiled notes processed and destroyed was \$99.89 million compared to \$78.68 million in 2016. This represents a 26% increase in the volume of notes terminated in 2017. The high rate at which notes are returned from circulation is a concern for CBSI as pressure on replacements costs continues to rise. Poor handling of notes by the public contributes to the earlier than expected life cycle of the bank note.

De La Rue Cash Systems Engineers continued to provide maintenance and servicing support of the Bank's Cobra sorting and destruction machine. This as an important investment for the Bank that helps to improve efficiency. The machine efficiency also positively contributed to the timely processing and destructions of soiled notes as mandated by the CBSI Act 2012.

FIGURE 4.11:

VALUE OF SOILED NOTES RETURNED AND DESTROYED 2016-2017



Source: CBSI

Figure 4.11 shows the value of actual notes destroyed by denomination in 2016 and 2017.

Numismatic Activities

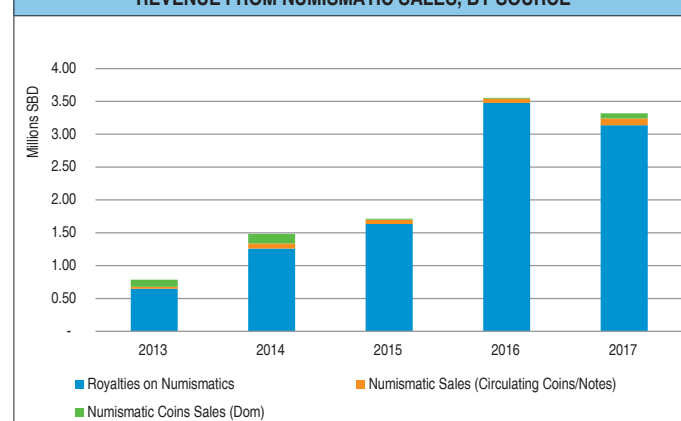
Total revenue from numismatic business operations during the year fell to \$3.32 million compared to \$3.5 million the previous year. Sales from commemorative coins and unissued circulating notes and coins locally and externally, however, increased to \$0.18 million in 2017 com-

pared to \$0.08 million in 2016. Overall, the revenue raised in 2017 exceeded the budget projections for numismatic operations. One interesting coin program in 2017 was the release of the 'World's first ever gold coin note' that was produced for the international numismatic market. The integrity of the coins continued to be the major determinant in approving the Bank's participation in the coin programs.

Figure 4.12 shows the total revenue from numismatic business operations.

FIGURE 4.12:

REVENUE FROM NUMISMATIC SALES, BY SOURCE



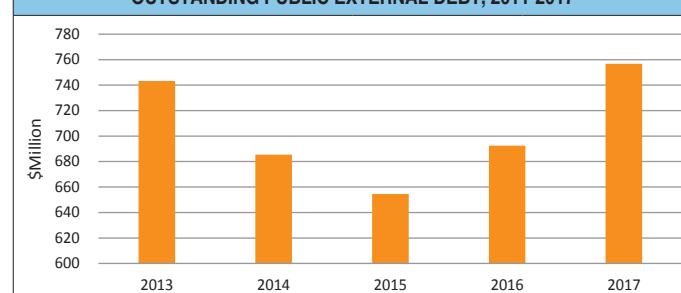
Source: CBSI

Government Debt

The CBSI Debt Unit (CBSI-DU) continues to act as the secondary site for the 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.

FIGURE 4.13:

OUTSTANDING PUBLIC EXTERNAL DEBT, 2011-2017



Source: CBSI

As part of its activities, CBSI-DU performs monthly loan validations on the CS-DRMS, dispatches quarterly external debt statistics (QEDs) to the World Bank, and uploads auction treasury bills results on the CS-SAS after each weekly auction. CBSI-DU also maintains the External Private Debt database.

As at December 2017, there were 32 (active) loans recorded in the external public debt profile. Two loans were

fully repaid in October 2017. Of the 32 loans, five (5) are still disbursing while one (1) is yet to be disbursed. The amount disbursed from January to December totalled to \$87.29 million. The Principal creditors include the Asian Development Bank (ADB), International Development Association (IDA), European Union (EU); International Fund for Agriculture Development (IFAD) and Export Import Bank of Republic of China (EXIM). Figure 4.13 shows the outstanding balance of public external debt of Solomon Islands.

The total Disbursed Outstanding debt (DOD) at 31st December 2017 increased to \$756.8 million. The increase was due to the disbursement of the ADB, IDA and IFAD Loans, as well as the movements in the exchange rate. The DOD is anticipated to increase in volume in 2018 on the back of anticipated disbursements of the new loans that were contracted in 2014 and 2015.

Total external debt repayments in 2017 were \$49.80 million of which \$41.4 million was for Principal repayments and \$8.6 million for interest payments.

In terms of currency composition of the total official debt, the Special Drawing Rights (SDR) accounted for 88.5% of the total DOD or \$669.5 million, followed by the United States Dollar with 10.4% or \$78.8 million, and the Euro currency with 1.1% or \$8.4 million.

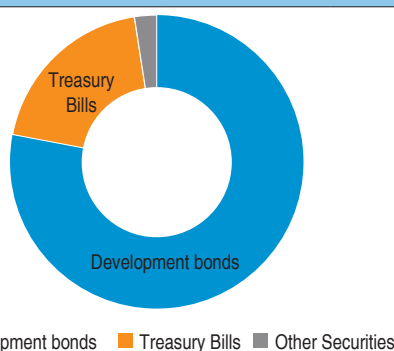
Government's Domestic Securities Debts

The Solomon Islands Government's (SIG) total domestic debt at the end of the year stood at \$192.6million, up by \$150.0 million. The outstanding balance comprised \$37.7 million in Treasury Bills, \$150 million in Development Bonds and \$4.9 million in other SIG special securities. Meanwhile, debt service repayment during the year totalled \$5.3 million.

The major holders of domestic securities are the Solomon Islands National Provident Fund (SINPF) with 86.3%, the commercial banks with 8.3%, the general public with 2.1%, and other creditors with 3.3%. The composition of the Government domestic debt is shown in Figure 4.14.

FIGURE 4.14:

COMPOSITION OF GOVERNMENT DOMESTIC BORROWING IN 2017



Source: NSO & CBSI

Banking Services

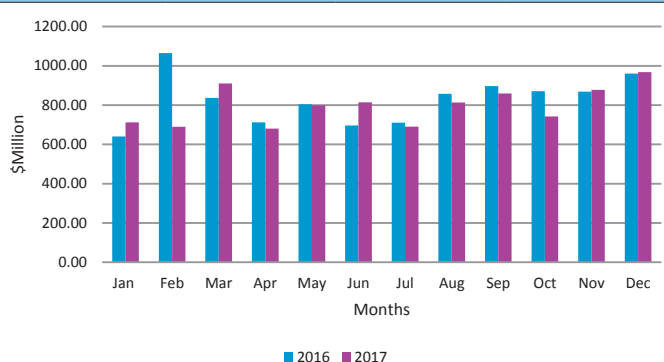
As Banker to the Government and Commercial Banks, CBSI continues to deliver banking services that include maintenance of local and foreign currency denominated accounts of SIG and its donor partners, domestic transfer payments and general account enquiry services. The Bank also monitors free liquidity of the commercial banks in line with the cash reserve requirements of banks, provide monthly account statements and reconciliations of SIG and commercial banks' call accounts. Service also include the safe up-keeping of e-registers and records for ease of access and audit trails for information by auditors and end users. The Bank strives to deliver accurate and reliable information and remains committed to deliver quality and professional banking services to all licensed financial institutions, the Solomon Islands Government (SIG) and other non-banking financial institutions as mandated in the CBSI Act 2012.

Clearing House Activities

In 2017, a monthly average of \$796 million worth of cheques was cleared through the Clearing House hosted within the Bank. On annual basis, the total value of cheques cleared during the year was 4% lower from \$9.9 billion in the previous year (See Figure 4.15 below). The rising trend in the value of cheques cleared indicate that business-to-business payment using the digital channel has not been very active in 2017. Secondly, the rise showed a general rise in economic activities during the year.

FIGURE 4.15:

VALUE OF CHEQUES CLEARED AT CBSI CLEARING HOUSE BY MONTH - 2016-2017



Source: CBSI

National Payments System Legislation

Progress to enact the National Payment System (NPS) Bill was slow in 2017. Drafting of the NPS Bill was completed in 2017 and industry consultations on the draft NPS Bill were conducted in the first quarter of 2018. This will be followed by peer review on the legislation, if necessary, before the draft bill is escalated to the Parliamentary Bills and Legislative Committee via the Cabinet for further review. CBSI collaborated with payment and legal experts from the World Bank, the International Finance Corporation, the Attorney Generals Chambers and Economic Reform Unit in the Ministry of Finance and Treasury to

advance the Bill through the legislative process. The Bank remains positive that when the NPS Bill is enacted, it will generate an efficient, safe and secure payments system infrastructure in the country.

Small Business Finance Scheme

Following the review and subsequent merge of the Small Business Guarantee Scheme with the Micro, Small and Medium Enterprises Business Loan Guarantee Scheme (MSMEBLGS) in 2016, the Government provided an additional \$2.5 million to the SBFS account held with CBSI. This additional funding brought the total available funds to \$11.4 million at the end of 2017. Three (3) commercial banks; namely, ANZ, BSP and POB have signed the "Form of Agreement" with CBSI as participating banks in the new guarantee scheme.

However, the utilization of the scheme has been slow. In 2017, only three (3) nominations were approved with a total value of \$0.96 million compared to two (2) nominations approved in 2016 with aggregate value of \$0.72 million (See Table 4.10).

There were no calls on the guaranteed loans from the participating banks, and no loan has been repaid in full since the scheme was revised at the end of Q1 of 2016. Most of the loans guaranteed are still within the respective terms of the loans. Gross loans at the end of 2017 totalled \$1.68 million with \$1.0 million guaranteed under the scheme. This represents 60% risk to the MSMEBLGS as a percentage over gross loan amount, compared to 33% risk taken by the borrower and 7% risk to the participating commercial banks (PCBs).

Table 4.10 Summary of Performance of MSMEBLGS from 2016 to 2017

TABLE 4.10: SUMMARY OF PERFORMANCE OF MSMEBLGS - 2016 TO 2017						
YEAR	GROSS AMOUNT (M)	NETT AMOUNT (M)	RISK TO BORROWER (M)	RISK TO SCHEME (M)	RISK TO PCBs (M)	NO. OF NOMINATIONS
2017	0.957	0.64	0.317	0.576	0.064	3
2016	0.718	0.473	0.245	0.426	0.047	2
YTD	1.675	1.113	0.562	1.002	0.111	5

Information Technology

The Bank continues to invest in information technology to support its operational activities and corporate objectives. The Information Technology department (ITD) is charged with establishing, strengthening, monitoring and maintaining information technology systems and services of the bank. These include:

- Overseeing the installation, maintenance and upgrades of computer network systems within the Bank.
- Facilitating the workflow and information within the departments and to the clients of the bank.

- Securing the Bank's corporate electronic data and information.
- Enabling internet connections for officers to access information through internet services
- Allowing the Bank to disseminate economic information to stakeholders on timely manner for their use and to make informed decisions.
- Deploying of computers and software/systems within the departments to help them get their job done.
- Maintaining and upgrading the banks licensed software such as the statistical software, anti-virus software, payroll software, the external email, and the trading system.

The Bank pursued the following projects during the year:

- Carried out the network upgrade project activities to enhance the quality of network services which involves upgrading both hardware and software covering the servers, network cabling, network switches, wireless LAN and firewall and UPS.
- Improved the current telephone system (PABX) by replacing it with VOIP based PABX telephone system. The VOIP PABX phone systems had been acquired.
- Enhance the international payment system through adopting the virtualized swift system from the physical swift system settings.
- Work on the Exchange Control System continues to enhance recording and monitoring with Foreign Exchange regulations on import and export transactions.
- Established a redundant internet service with another ISP, SATSOL.
- Provided support on the outsourced system for recording and reporting of national financial inclusion data.
- Maintained the replicated systems and data at the disaster recovery site datacentre.
- Drafted the department manual along with its aligned policies and procedures.

Visitors to CBSI Website Increased in 2017

During the year the total number of visits to the CBSI website was 29,424, an increase of 24% from 23,782 visits in 2016. Among visitors from all over 200 countries, Solomon Islands (40%), India (12%), United States (11%), Australia (5%), Fiji (5%) and United Kingdom (3%) made up the top six countries that visited the CBSI website. The website contains useful public information about the Solomon Islands economy.

Internal Audit Unit (IAU)

Four out of the seven audits undertaken were presented

to the Board Audit Committee during the year. Through its Charter, the Unit ensured that high risk areas or activities of the Bank, were monitored and assessed for possible control, compliance or governance gaps. Assuring the responsible management that control processes and systems that were put in place, were not only functioning as ex-

pected, but also efficient and were continually enriched, in the mitigation of risks that might have the potential to impede the proper achievement of organisational goals. The Unit is confident that it will continue to broaden and heighten the quantity and quality of the Internal Auditing function within the Bank.

TABLE 4.11:

INTERNAL AUDIT ACTIVITIES IN 2017	
AREA OF ASSESSMENT/REVIEW	OBJECTIVE AND SCOPE OF AUDIT
1. Surprise Currency Inventory/stock Counts	Ensure that processes and systems were effective in the safe custody, correct accounting and reporting of the running balances and movements for the new, reissue, numismatic & soiled currency notes and coins.
2. Effective Use and Retirement of Accountable Imprests	To assure the Management that, established controls were working as expected in the use, reporting and retirement of cash paid as imprest to Bank officers with the objective of enhancing a better achievement of the expected outcome of departmental projects or events .
3. Effective administration of Cash Receipts & other Cash Holdings (Petty Cash)	To verify that internal controls for the Receipt and Deposit activities were working as expected, and were consistently applied by custodians in the avoidance or minimisation of the inherent and other related risks, in the hold and usage of hard cash.
4. Back Office (Investment) Monthly Reconciliation	Assurance to the Management that the Foreign Reserve Investment financial data/information that was stored and used through the Bank's financial and managerial information systems and processes, were of quality. Timely completion and proper authentication by overseeing officer(s) of monthly reconciliations, consistency in the complete reconciliation of all relevant accounts and variances (if any), were timely adjusted or reversed.
5. Staff Attendance Register	Assess the usefulness of investing in this technology that should see the replacement of the Manual Registers.
6. General administration of the Operational Motor Vehicle fleet.	Assurance to the Management that motor vehicles used for the day to day operations of the Bank were appropriately indemnified, used and garaged as per established control procedures.
7. 2015 to Sept. 2017) Reconciliation - Exchange Control Approval Fees Received (& those not yet remitted) from Commercial Banks (2015 to Sept. 2017)	Ensure that commercial banks comply with the relevant exchange control requirement(s) over the period being reconciled and audited. The amount of fees that supposed to be received by the Bank had been appropriately remitted by the responsible institution. Verify that compliance issues (if any) were also dealt with accordingly.

CHAPTER 5: FINANCIAL INCLUSION

2017 marks the second year of implementing the second National Financial Inclusion Strategy (NFIS2) 2016-2020. Progress of the two overall missions of the NFIS2 is on-going, despite the measurement challenges.

The NFIS2's mission statement entails:

1. That "300,000 adults of which 150,000 are women will be active users of formal or semi-formal financial accounts"; and
2. That "90% of the population will have a financial service access point one hour of ordinary travel from their home."

The extent to which the above goals are met will measure the work of the National Financial Inclusion Taskforce (NFIT). Monitoring the progress towards achieving the mission is slow but progressive. Establishment of a standardized reporting template has been the priority in first two years. Completion of the standardized reporting template would allow commercial banks, MFIs, credit unions, insurance and savings groups to provide the data. Reporting template was completed in the last quarter of 2017.

The goal to have 300,000 adults to be active users of formal

and semi-formal financial accounts require a revised reporting template to provide the data. Data gathered from the commercial banks in 2016 indicated 350,600 deposit accounts and mobile banking accounts have been established with commercial banks, however further calibration is underway to account for double counting and other errors. It is expected that with the new reporting template coupled with the cooperation of the stakeholders, NFIU will be able to compile better statistics to measure the overall goal.

On the second goal of attaining 90% of the population having a financial access point within one hour of ordinary travel from their home also require good data to measure. This indicator requires geolocation of the financial access points against population distributions throughout Solomon Islands.

In the meantime, the available indicators of financial services access points are shown in the tables below. Table 5.1 shows the distribution of commercial banks access points by provinces at the end of the year. Table 5.2 depicts the distribution of saving clubs by the promoting bodies and by provinces for 2017.

TABLE 5.1:

COMMERCIAL BANKS ACCESS POINTS BY PROVINCES, DECEMBER 2017												
INDICATORS	2016	CHOISEUL	WESTERN	ISABEL	MALAITA	GUADALCANAL	CENTRAL	MAKIRA	RENBEL	TEMOTU	HONIARA	DEC 2017
Number of Branches	14	0	4	0	1	0	0	0	0	0	9	14
Number of Agencies	7	1	1	1	2	0	0	1	0	1	0	7
Number of ATMs	42	0	7	0	2	1	0	0	0	0	43	53
Number of EFTPOS- Terminals	310	0	56	4	18	40	7	6	0	5	280	416
Number of EFTPOS-Merchants	256	0	40	1	6	10	3	0	0	1	219	280
Number of Mobile Access points or agents	192	16	40	22	40	14	11	9	3	11	68	234
Total no. of access points	821	17	148	28	69	65	21	16	3	18	619	1004

Source: FI Data NFIU, Q4 2017

TABLE 5.2:

NUMBER OF SAVINGS GROUPS BY PROVINCES												
ORGAN.	HONIARA	GUADALCANAL	MALAITA	MAKIRA	TEMOTU	WESTERN	CHOISEUL	ISABEL	CENTRAL	RENBEL	TOTAL	MEMBERS
World Vision	8	24	108	49	26						215	3,212
MWYCFA	2	5		5		29	14	6	6	5	72	1,673
WARA	2	3	16			20			1		42	3,465
ACoM	10	4	29	39		1		22	1		106	2,668
Live & Learn								1			1	52
SIWIBA	1										1	50
TOTAL	23	36	153	93	26	50	14	29	8	5	437	11,120

Source: FI Data NFIU, Q4 2017

Progress on achieving the 6 strategic goals under the NFIS 2016-2020

In fulfilment of the NFIS2, four working groups were established in 2017 to provide thematic support to the NFIT. The working groups are:

1. the Digital Finance Working Group (DFWG),
2. the Inclusive Insurance Working Group (IIWG),
3. the Micro, Small, Medium Enterprises Working Group (MSMEWG) and
4. the Consumer Empowerment Working Group (CEWG).
5. Each working group focuses on implementing the six strategic objectives as set out in the NFIS2



Young savers and school students who were part of Tuna Trust Credit Union team during GMW2017.

Strategic Objective 1: Amplify the reach and quality of digital finance channels

DFWG was established in February 2017 and held 8 meetings during the year. One of the DFWG's area of focus is 'to promote digital payment channels for Government transactions including SOEs.' During the year, the Solomon Island Government (SIG) signed a commitment with 'Better Than Cash Alliance' (BTCA) for assistance to transform its manual payment system through digital channel.

The Inland Revenue Division of the Ministry of Finance and Treasury is the first Division assisted under this partnership to digitize its tax administration recording and payments. Phase 1 of the project called 'tax filed and paid online' was launched in December 2017. Under this Phase 1, companies, organizations and individuals can fill online form for goods tax, sales tax and PAYE returns and settle their tax obligation directly online. Phase 2 of this project will be implemented in 2018 with the support of the Pacific Financial Inclusion Program (PFIP), which would be online filing and payment for income and withholding taxes.

Other key results areas that are yet to start but, there are ongoing discussions with relevant stakeholders are, permitting non-banks to issue mobile wallet, testing of shared

super-agent and shared agents, interoperability of mobile platforms and promoting of digital payments private sector employers and association, specifically business to business payments.

Strategic Objective 2: Strengthen the MSME sector through more focussed engagement and coordination

The Micro Small Medium Enterprises Working Group (MSMEWG) was established in May 2017 and held 4 meetings during the year. The establishment of the MSMEWG achieved objective 2.2 to have a common platform for co-ordination between stakeholders to MSME financing and entrepreneur skills.

The working group held a forum with stakeholders to gather views, on current issues and way forward to assist MSMEs in Solomon Islands to thrive. The outcome of this forum will be progressed in 2018 to find alternative ways to encourage micro, small, and medium enterprises to grow in Solomon Islands. The Central Bank, at the AFI Global Policy Forum in Nadi, Fiji in 2016, made a commitment, under the Maya Declaration framework, to assist the Ministry of Commerce, Industries, Labour and Immigration (MCILI) to improve financial service delivery to the MSMEs.

Mean time the South Pacific Business Development (SPBD) is the only micro-finance institution in the country that target services and products for women in Solomon Islands. SPBD expanded its outreach to rural women through their branches in Munda and Gizo and around Guadalcanal. Apart from its lending and savings products, SPBD also offers a number of financial literacy trainings for their clients. As at end December 2017, the number of savings accounts reached 7,000 with deposits of \$4.66 million while total loans disbursed stood at \$23.66 million.

The Business Finance Scheme delivered through the commercial banks to assist the MSMEs access credits has had a slow uptake. Critical analysis must be carried out on the reasons for the inactive use of the financial resource committed for this funding scheme.

As at end of 2017 only 3 nominations with total gross loan value of \$957,000 were received and approved. Of the total \$11.4 million allocated by the government to the scheme, the year-to-date amount lent since 2016 is \$1.7 million.

Strategic Objective 3: Include women, youth and rural families as fully engaged participants in the national financial sector

The Consumer Empowerment Working Group (CEWG) was established in July 2017 and held four meetings during the year. Under this objective, CEWG coordinates with its stakeholders in the area of financial literacy and awareness and related activities to empower women and youth.

The CEWG and NFIT stakeholders provided financial literacy trainings in Honiara and rural areas with focus on budgeting, goal setting, savings, money management,

family finance, and entrepreneur trainings.

The Financial institutions also conducted financial literacy on their digital products and services. Savings groups targeted their trainings on savings groups' procedures and record keeping. CBSI participated during the International Rural Women's Day in October, which was organised by the Ministry of Women, Youth, Children and Family Affairs (MWYCFA) to deliver financial literacy training to urban and rural women in Honiara. A total of 107 women participated.

The biennial event to recognize and award women in micro-business received 112 applicants. Out of the total, 10 applicants were selected based on their businesses having the potential to grow and become a small or medium business. Assessors from CBSI, PFIP and MCILI conducted site visits to selected micro-businesses in Honiara, Guadalcanal, Makira and Western Provinces in October 2017. CBSI plans to hold the award event in 2018.

Solomon Islands joined the global community for a-week long celebrations of the Global Money Week (GMW) in March in Noro/Munda, Western Province, which was attended by more than 2,000 school children and youths. The CBSI in partnership with, the Soltuna Credit Union and Tuna Trust Credit Union delivered financial literacy to the children and youth in Dundee Community High School, Kokeqolo Community High School, Noro Community High School including other Noro Primary schools and Goldie College National Secondary School.

CBSI delivered financial literacy topics on money management and savings. An open day was also held on the final day of the program for the public, with the focus on promotion of Credit Unions' products and services for children and youth as well as financial institutions products and services. Other participating institutions were Bank South Pacific (BSP) and Pan Oceanic Bank (POBL). The activities also involved participation of school children on quizzes and speech competition. The theme of GMW was 'Learn, Save and Earn'.

CBSI also conducted financial literacy in partnership with Kokonut Pacific Solomon Islands (KPSI) to about 60 rural youths in October and November 2017. The topics delivered were on savings, money management, setting goals & budgeting. CBSI also participated in the World Tuna Open Day held in Noro, Western Province.

Strategic Objective 4: Build financial resilience in rural households

The efforts to integrate basic financial education into the core school curriculum under sub-goal 4.1, has not progressed further in 2017. However, with the support of PFIP, work begun on developing financial education curriculum for the Anglican Church of Melanesia (ACoM) Rural Training Centres (RTCs). The project will continue in 2018. The consumer empowerment working group (CEWG) was established to pursue this objective.

Offering micro insurance products to rural households and how to do so sustainably and affordably to potential clients was a subject pursued by the Inclusive Insurance Working Group (IIWG) which started its work in 2016. One of the inhibitive issues identified was stamp duty on insurance premiums. The IIWG members sought assistance from the Government to exempt stamp duty on micro-insurance products of \$20,000 and below. The Minister of Finance has approved the exemption which was formally gazetted in March 2018.

During the year, PFIP piloted two schemes. First, is the voluntary savings products marketed as 'youSave' with Solomon Islands National Provident Fund (SINPF) and launched in May 2017. The objective of the pilot is to test whether the self-employed individuals from the informal sector wish to save with the SINPF for retirement. When the pilot phase ended in December 2017, 'youSave' total



Team CBSI holding up their banner for GMW 2017.

membership unexpectedly reached 1182, of which 55% are women. The next phase is to up-scale the scheme to reach individuals in remote rural areas. SINPF and PFIP will pursue the initiative in 2018.

SINPF has been recognized for delivering this scheme and received the '2017 Rueben James Summerlin Innovation Award' during the Financial Inclusion Innovation Summit held in Port Moresby, Papua New Guinea (PNG) in August 2017.

The second pilot project was for parents living in remote villages to use the digital payments channel offered through licensed commercial banks to pay for their children's school fees. Parents of King George VI National Secondary School and St Nicholas College were selected for the pilot. If successful, the initiative would provide an avenue for parents to pay school fees digitally through mobile phones, without incurring additional costs having to travel to Honiara. Further, the pilot seeks to test whether, the payments can be made in small amounts (in instalments) that aggregates to the total school fee for the year.



Deputy Prime Minister, Hon. Manaseh Sogavare among members of stakeholders during presentation of the youSave pilot project

Strategic Objective 5: *Build financial empowerment in ways that are relevant to daily life, motivating and actionable*

With the Key Result Areas (KRA) on consumer protection, the CEWG recommended guidance for savings groups. In this regard, a 2-days workshop was facilitated on 7th and 8th November on consumer protection for savings groups. The outcome of the workshop was the development of a document on 'Members Rights for Savings Groups in Solomon Islands'. Eighteen members of savings groups' representatives from the provinces and Honiara attended the workshop.

With the assistance of ADB, CBSI issued Practice Guidance 1 (PG1) on 'Use of Cash Agents in Solomon Islands', on August 2017. The PG1 provides a standardized approach to monitoring and supervising agents including identification, selection, managing and training. The PG1 sets out the responsibility to conduct due diligence and Anti-Money Laundering (AML)/Know Your Customer (KYC) issues when dealing with customers.

Strategic Objective 6: *Execute NFIS2 through effective stakeholder coordination, responsive data and sound evidence*

The National Financial Inclusion Taskforce (NFIT) held 4 quarterly meetings with its stakeholders to oversee the progress of NFIS2 during the year.

The achievements of some of the key result areas of NFIS2 were made possible through the assistances of the stakeholders and especially, the Pacific Financial Inclusion Programme (PFIP) through its funding partners, the United Nations Capital Development Fund (UNCDF), Australian Department of Foreign Affairs and Trade (DFAT), Euro-

pean Union, New Zealand and United Nations Development Programme (UNDP).

The PFIP also assisted the NFIU staff through a one-week attachment with Reserve Bank of Fiji (RBF) financial inclusion unit. The Asian Development Bank (ADB) assisted through its Technical Assistance programme to 'Strengthening Financial Inclusion in Solomon Islands' in the development of Guidance for cash agents in Solomon Islands and digital savings product through one of the commercial banks.

During the year, the Financial Inclusion Unit also received support from the Australian Volunteers for International Development (AVID) program by providing an AVI. The officer particularly, managed the PFIP pilot projects for 'youSave' with SINPF and school fee payments with ANZ goMoney as well as assisted the NFIT and the working groups.

In terms of data framework to measure NFIS2 indicators, the NFIU undertook a revision of the reporting templates for commercial banks and developed new reporting templates for other financial institutions including, micro-finance institutions, credit unions, SINPF and insurance companies.

The revised reports for commercial banks has been issued in the fourth quarter of 2017 and work is still ongoing to ensure accuracy of reported data. The collation of data from revised reporting templates will assist to measure the active users of formal and semi-formal financial services. There is also a database management project for financial inclusion indicators which is slow in progress due to the development of the reporting templates while the online geo-spatial mapping of access points has not progressed.

CHAPTER 6: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES

The Solomon Islands Financial Intelligence Unit (SIFIU) is established under the Money Laundering and Proceeds of Crime Amendment Act 2010 (MLPCAA 2010). The vision of the SIFIU is "Protecting Solomon Islands from Money Laundering". The roles and functions of the SIFIU are provided under the MLPCAA 2010. SIFIU is one of the leading agencies in Solomon Islands that is primarily responsible for preventing and detecting money laundering and terrorist financing activities.

The Unit recruited two (2) new officers in 2017, replacing the two (2) officers who left the Unit during the year; one transferred to another department within the CBSI and the other one was recalled back to the Ministry of Police, National Security and Correctional Services. In terms of operational functions; the SIFIU reports to the Anti-Money Laundering Commission (AMLC), established under section 11 (1) of the MLPCAA 2010. The Attorney General of Solomon Islands chairs the Commission.

The Solomon Islands Anti-money laundering regime has been carrying out its obligations to fight money laundering and terrorism financing activities seriously since its establishment in 2006. This is evident from the good ratings it received for the majority of the FATF core and key recommendations in the 2009 World Bank Mutual Evaluation report. Solomon Islands has also been given good and commendable ratings for its follow-up reports on the subsequent years after the 2009 mutual evaluation by the Asia Pacific Group (APG) on Money Laundering.

Money laundering and terrorism financing are rising activities in the world today. Solomon Islands therefore, is not immune to these challenges. In combating these unwanted practices, the country has put in place mechanisms and controls to make our financial system safe from misuse by criminals. The SIFIU is committed to carrying out its obligations to ensure Solomon Islands is protected from money laundering and terrorism financing activities.

Membership to International Anti Money Laundering Groups provides support to work of SIFIU

SIFIU is a member of the Asia Pacific Group (APG) on Money Laundering and also a member of the EGMONT Group. As a member of these international and regional organizations, the SIFIU and the AMLC are committed to performing their responsibilities to meet International AML/CFT standards and requirements. In addition, being members of these international bodies ensures that Solomon Islands stays current with the best practices in combating money laundering and terrorists financing.

SIFIU Funding

Funding for the operation of the SIFIU in 2017 came from the Solomon Islands Government and the Central Bank of Solomon Islands. Of the total allocation of \$963,897.91 in 2017, \$709,800 came from the Government and \$238,315 was from the CBSI. The balance of \$15,782.91 was the re-

maining unspent funds from 2016. Government allocation for the Unit in 2017 remained unchanged as that of 2016. The SIFIU operating expenses in 2017 totalled up to \$1,139,794.65, which exceeded the available funds by \$175,896.74. Apart from meeting the salaries and other benefits of two (2) of its officers, the CBSI also supported the Unit through subsidising some of its expenditure heads, such as medical benefits, leave entitlements, office equipment and IT services.

AML/CFT National Risk Assessment

Solomon Islands undertook a comprehensive AML/CFT National Risk Assessment in 2017. The work began in June 2016 and completed in September 2017. We now have the completed NRA report which all law enforcement agencies in the country can access. As a small island jurisdiction with limited resources, institutions that are part of the global fight against money laundering and terrorism financing activities can now put in place better plans, prioritizing and allocating adequate resources on the areas that are more riskier.

SIFIU maintained its relationships with reporting agencies through regular contacts

The SIFIU maintained close working relationships with the reporting agencies during the year. Quarterly meetings were held with the AML reporting officers from the four (4) commercial banks in the country, ANZ, BSP, POB and BRED Bank to discuss AML/CFT issues. It is encouraging to note that financial institutions in the country continue to play their part in ensuring the financial system of the country is free from money laundering and terrorism financing activities.

Advising Public against Financial Scams

Despite the many past public warnings and advice against financial scam and get-rich-quick schemes, some members of the public continued to invest in such schemes. In 2017, the Unit attended to numerous queries from the public on false financial schemes and purported lottery wins. The Family Charity Fund is still a much talked about subject. Victims of the scheme are still waiting for their promised returns. Numerous advices put out by the SIFIU and the CBSI through the media have not been taken seriously. Also, advice has been given to ATM users to take extra care when using ATM machines from skimmers whose activities have been experienced in the Pacific region.

Number of Reports received from the reporting agencies increased

The number of required reports from reporting agencies has increased in 2017. For Suspicious Transaction Reports (STRs), the number has increased from 72 in 2016 to 89 in 2017. The number of Case Dissemination Reports made to law enforcement agencies rose threefold, from 8 in 2016 to 22 in 2017. The reason for the increase in the number of dissemination reports was due to more office time spent

by the analysts doing analysis of the STR reports as compared to previous years where staff time was taken up in awareness promotion to the communities and Provincial Centres.

The year also saw the number of Electronic Funds Transfer Reports (EFTRs) increased by 773 to 26,006 for 2017. The increase implied that customers are reducing their holdings of cash when travelling abroad.

On the other hand, there was a significant decrease in the number of Cash Transaction Reports received in 2017, down by 51.5 percent, from 112,970 reports in 2016 to 58,157 in 2017. One of likely reasons for the sharp drop in the cash transaction reports was due to the public's increased knowledge that large cash transactions of \$50,000 and above can draw the attention of the financial regulatory authorities and can be reported to the FIU.

On the Border Currency Reports, the number reported fell by 64.8% to 59 as compared to the 6% fall to 91 in 2016. Amongst the many reasons for the significant drop in the BCR reporting, one could be because of the knowledge the public now has that law enforcement officers are now carrying out currency checks at all points of entries and departures. In addition, financial institutions will also ask people when they turn up with large amounts of foreign currencies at the banks' counters to provide evidence of the source of fund. Because of these control measures that are in place, people are now using the services provided by financial institutions like the banks and money remitting service businesses more to remit funds than carrying them in hard cash.

Table 6.1 below show the type and number of reports received by SIFIU in 2017.

TABLE 6.1				
TYPE AND NUMBER OF REPORTS RECEIVED BY SIFIU IN 2017				
TYPE OF REPORTS	RECEIVED		DISSEMINATED	
	2017	2016	2017	2016
Suspicious Transaction Report (STR)	89	72	22	8
Cash Transaction Report (CTR)	58,157	112,970	-	0
Electronic Funds Transfer Report (EFTR)	26,006	25,233	-	0
Border Currency Report (BCR)	59	91	-	0

Meeting of the AML/CFT Groups held during the year

During the year, the AMLC met three (3) times. Attendance by members of the AML Commission was 75%. Other meetings held were AMLTEG and AMLROs. Both meetings were held 3 times during the year with average committee members' attendance of 75%. For the SIFIU Unit staff meetings, six (6) were held during the year.

Table 6.2 below show the meeting types and number of meetings held in 2017.

TABLE 6.2				
TYPE AND NUMBER OF REPORTS RECEIVED BY SIFIU IN 2017				
YEAR	MEETING TYPE	MEETINGS PLANNED	ACTUAL MEETINGS HELD	SUCCESS RATE PERCENT (%)
2017	AMLC	4	3	75
	AMLTEG	4	3	75
	AMLRO	4	3	75
	Staff	48	6	13

Over Seas & Local Trainings/Workshops and Meetings Attended

The Table below show the number of training courses and workshops attended by the SIFIU and supporting institutions in Solomon Islands.

TABLE 6.3		
SHOW THE NUMBER OF WORKSHOPS AND MEETINGS ATTENDED IN 2017		
DATE	PARTICULAR OF TRAINING	FACILITATOR
January 2017	EGMONT meeting - Gatar, Doha	EGMONT Meeting
May 2017	Solomon Islands - Australia Security Workshop, Honiara	Australian High Commission,
July 2017	EGMONT meeting - Macao	EGMONT
July - 2017	APG Plenary Meeting - Colombo	Asia Pacific Group on Money L Laundering (APG)
August - 2017	FATF Standards Training Course 1, Busan, South Korea	TREN - FATF
September 2017	ME Onsite of Palau	APG Members
September 2017	Foreign Exchange Transaction Workshop, Honiara	CBSI (ITD & ERS)
November 2017	ME Onsite of Palau	APG Members
December 2017	FinTech and Risk-based Approach Conference	South Korean FIU

Local Training and Workshops Conducted

The unit also conducted workshops for local stakeholders in the country, as shown in Table below.

TABLE 6.4			
TRAINING & WORKSHOPS CONDUCTED			
PARTICULAR OF TRAINING	PARTICIPANTS	FACILITATOR	NUMBER OF PARTICIPANTS
The Rise & Threats of Scams in Solomon Islands	Schools in Noro/Kokeqolo/Dunde/Goldie College	SIFIU	900 – 1,000
Basic KYC Information	POB Staff	SIFIU	4
ML/TF National Risk Assessment	Agencies/Institutions covered under the AML regime	SIFIU	37

CHAPTER 7: CALENDAR OF EVENTS 2017

MONTH	EVENTS
JANUARY	<ul style="list-style-type: none"> A new and upgraded \$20 note was launched into circulation. The new Australian High Commissioner paid a courtesy visit to the Bank.
FEBRUARY	<ul style="list-style-type: none"> An IMF staff mission visited Solomon Islands. Work on the National Risk Assessment of Solomon Islands begun by an ADB sponsored TA.
MARCH	<ul style="list-style-type: none"> The Pacific Financial Technical Assistance Centre (PFTAC) Steering Committee Meeting was held in Honiara, Solomon Islands. The meeting was chaired by the Governor. Chief Manager, Finance and Accounts department (CM/FAD) signed a new contract with the Bank. The first CBSI Board Meeting for the year was convened. The meeting discussed and endorsed BSP Finance Ltd's application for a license to operate as a credit institution. The Bank participated in the Global Money Week in Munda/Noro, Western province.
APRIL	<ul style="list-style-type: none"> Governor met with Officials from the US Treasury department and Federal Reserve Bank of New York (FEDRBNY) in Washington DC on the issues of de-risking and closure of correspondent banking relationships (CBRs). An ordinary Board meeting was convened during the month. Chief Manager International (CM/INT) held bilateral talks with Gilt Investment Pty Ltd, our investment broker in Brisbane.
MAY	<ul style="list-style-type: none"> The CBSI 2016 Annual Report was launched at the Heritage Park Hotel with the theme: "Building resilience for a vibrant and prosperous future in Solomon Islands". Deputy Governor and Chief Manager, Currency and Banking Operations attended International Currency Conference in Kuala Lumpur, Malaysia. Governor was part of the Solomon Islands delegation to the annual meetings of the Asian Development Bank (ADB) in Yokohama, Japan. The New Zealand High Commissioner paid a courtesy visit to the Bank.
JUNE	<ul style="list-style-type: none"> Ordinary Board Meeting. Deputy Governor and Manager Information Technology Department, attended conference on E-Commerce, organized by Pacific Islands Forum and World Trade Organization on Denarau Island, Fiji.
JULY	<ul style="list-style-type: none"> Deputy Governor, Manager FMS and Director of ERU attended ADB Workshop on Regional Solution for Disaster Risk Financing in Suva, Fiji. Governor, Director of Solomon Islands Financial Intelligence Unit (SIFIU) attended the annual meeting of the Asia Pacific Group (APG) on Money Laundering in Colombo, Sri Lanka
AUGUST	<ul style="list-style-type: none"> Governor and Chief Manager, Financial Market Supervision Department (CM/FMSD) attended the Bank of South Pacific (BSP) Supervisory College in Raratonga, Cook Islands. BRED bank opened business operations for the public after being granted a full banking license. The President of ADB, Mr Takehiko Nakao met the Central Bank during his visit to Solomon Islands. Chief Manager Information Technology Department (CM/ITD) and Digital Finance Working Group Chair attended a policy forum and training on Cybersecurity: Safeguarding the Future of Innovative Financial Inclusion in Kuala Lumpur, Malaysia Ordinary Board Meeting.
SEPTEMBER	<ul style="list-style-type: none"> Deputy Governor and MNFIU attended the RBF organised workshop on sustainable finance initiatives - Green Finance in Suva, Fiji. Governor, Advisor and M/NFIU attended the AFI Annual Meeting and Global Policy Forum in Sharm el Sheik, Egypt. An IMF Article IV Mission held consultations with SI authorities. Advisor, Chief Manager, Currency and Banking Operations, and Numismatics Officer attended RAM Coinage Seminar in Canberra, Australia World Bank Executive Director, Mr Jason Alford, visited the Bank during his visit to Solomon Islands. The new and upgraded \$10 note was launched into circulation. Deputy Governor's term was extended by the Minister of Finance for twelve months.
OCTOBER	<ul style="list-style-type: none"> CBSI and Griffith University, of Queensland Australia, signed an MOU for closer cooperation in research activities. Governor attended the annual meetings of the IMF and WBG in Washington DC. An IMF Technical Assistance mission reviewed the Bank's Reserves Management & Investment Policy. Two ordinary Board Meetings were convened. One was a Provincial Board Meeting held in Buala, Isabel Province. Core Economic Working Group (CEWG) meeting revived by the new Minister of Finance. Bechedemer was included as the second commodity to be exported under Specific Authority. It was formally gazetted in December.
NOVEMBER	<ul style="list-style-type: none"> New designed \$10 note was launched into circulation. Governor, Advisor and CM/FMSD attended the South Pacific Governors conference in Nukualofa, Tonga. Governor, Advisor and CM/FMSD met with FEDRBNY officials on the issues of de-risking and closure of CBRs in Tonga. Ordinary Board Meeting. Gilt Investment Pty Ltd, our investment broker visited CBSI. Governor officially opened the new SIPEU Credit Union complex at Town Ground. Manager Information Technology attended the 2017 Cyber Risk Workshop: Regulatory Approaches in IMF HQ in Washington DC
DECEMBER	<ul style="list-style-type: none"> Advisor and Chief Manager, Currency & Banking Operations attended the High Security Printing Asia Conference and Australian Payment Summit in Australia Governor signed off the designs of the \$40 note to be produced by De la Rue commemorating Solomon Islands 40 years of independence.



CENTRAL BANK OF SOLOMON ISLANDS

DIRECTORS' REPORT

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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 2017 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 (Deputy Governor)
- Harry D Kuma
- Sir Thomas Ko Chan
- John Usuramo
- David K.C. Quan
- Leslie Teama (Resigned on 21st August 2017)
- Rodney Rutepitu (Appointed on 20th February 2018)
- Christina Lasaga (Appointed on 20th February 2018)
- Dennis Meone (Appointed on 20th February 2018)

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 2017 and the accompanying statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, the 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;
- (b) to support the general economic policies of the government.

RESULTS

The net loss of the Bank for the year ended 31 December 2017 was \$30.57m (2016: \$42.5m loss).

RESERVES

The Board approved the following transfers of reserves in the statement of profit and loss and other comprehensive income during the year:

- (\$15.5m) (2016: \$66.35m loss) to the foreign exchange revaluation reserve; and
- \$15.07m (2016: \$23.84m) 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 depreciation and employee entitlements.

GOING CONCERN

The Board believes that the Bank will be able to continue to operate for at least 12 months from the date of this report.

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.

UNUSUAL TRANSACTIONS

Apart from these matters and other matters specifically referred to in the financial statements, in the opinion of the Directors the results of the operations of the Bank during the financial year were not substantially affected by any item, transaction or event of a material unusual nature, nor has there arisen between the end of the financial year and the date of this report any item, transaction or event of a material unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Bank in the current financial year.

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 thirtieth day of April 2018.

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



Gane Simbe

Chairman of the Board and Deputy Governor



David K.C. Quan
Director

STATEMENT BY DIRECTORS

In the opinion of the Directors:

- (a) the accompanying statement of profit and loss and other 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 2017;
- (b) 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 2017;
- (c) 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 2017;
- (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 2017;
- (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") and Central Bank Solomon Islands Act 2012 ("Act 2012").

For and on behalf of the Board of Directors by authority of a resolution of the Directors this 19th of April 2018.



Gane Simbe

Chairman of the Board and Deputy Governor



David K.C. Quan

Director

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOLOMON ISLANDS

SOLOMON ISLANDS OFFICE OF THE AUDITOR-GENERAL



Report on the financial Statements

Opinion

I have in joint consultation with the Board of Directors ("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 Central Bank of Solomon Islands ("the Bank"), which comprise the statements of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 27.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Emphasis of matter

As at 31 December 2017, the Bank's total assets amounted to \$5 billion. This was less than the sum of the Bank's total monetary liabilities and its unimpaired capital which total \$5.004 billion. These conditions have arisen from the Bank's large open position in foreign currency which is subject to foreign exchange rate movements.

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.

Basis for Opinion

I conducted the audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Bank in accordance to the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International

Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identified during my audit.

Report on Other Legal and Regulatory Requirements

I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purposes of my audit.

In my opinion:

- i) proper books of account have been kept by the Bank, sufficient to enable financial statements to be prepared, so far as it appears from my examination of those books; and
- ii) to the best of my knowledge and according to the information and explanations given to me the financial statements give the information required by the Central Bank of Solomon Islands Act 2012, in the manner so required.



PETER LOKAY
Auditor-General

Office of the Auditor-General
Honiara, Solomon Islands

30th April, 2018

**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 \$000	2016 \$000
Income			
Interest income	4(a)	49,089	41,444
Fees and commission income	4(b)	28,269	38,859
Other income	4(c)	6,728	6,153
Net unrealized foreign exchange revaluation gain		<u>15,498</u>	<u>-</u>
Total income		<u>99,584</u>	<u>86,456</u>
Expenses			
Interest expense	4(d)	5,098	5,058
Fees and commission expense		1,378	1,684
Administration expenses	4(e)	42,928	33,999
Other expenses	4(f)	19,615	21,873
Net unrealized foreign exchange revaluation loss		<u>-</u>	<u>66,346</u>
Total expenses		<u>69,019</u>	<u>128,960</u>
Net operating (loss)/profit		<u>30,565</u>	<u>(42,504)</u>
Other comprehensive losses			
Items that will not be reclassified to profit or loss			
Net change in fair value (available - for - sale financial assets)		<u>25,955</u>	<u>17,869</u>
Total other comprehensive (loss)/income		<u>25,955</u>	<u>17,869</u>
Total comprehensive (loss)/ income		<u>56,520</u>	<u>(24,635)</u>



Gane Simbe
Chairperson and Deputy Governor



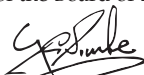
David K.C. Quan
Director

This statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 42 to 60

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Note	2017 \$000	2016 \$000
Foreign currency assets			
Cash at bank	20	777,368	1,048,532
Accrued interest		10,800	5,320
Held-to-maturity investments	5	3,457,690	2,859,056
Available-for-sale investments	6	245,034	225,460
International Monetary Fund	7	240,203	263,467
Total foreign currency assets		4,731,095	4,401,835
Local currency assets			
Cash on hand	20	191	202
Loans and advances	8	12,931	12,261
Currency inventory	9	29,244	36,116
Investment properties	10	13,262	13,262
Property, plant and equipment	12	148,940	149,644
Other assets	11	63,900	52,334
Total local currency assets		268,468	263,819
Total assets		4,999,563	4,665,654
Foreign currency liabilities			
International Monetary Fund	7	362,044	390,348
Demand deposits	13(a)	92,919	59,202
Total foreign currency liabilities		454,963	449,550
Local currency liabilities			
Demand deposits	13(b)	2,579,384	2,519,783
Currency in circulation	14	931,519	868,395
Fixed deposits	15	761,658	761,658
SIG monetary operations account	16	199,222	51,359
Employee entitlements	17	18,920	15,671
Other liabilities	18	8,769	10,630
Total local liabilities		4,499,472	4,227,496
Total liabilities		4,954,435	4,677,046
Net assets/(liabilities)		45,128	(11,392)
Capital and reserves			
Paid up capital	21	50,000	50,000
General reserve	22(a)	92,088	77,021
Foreign exchange revaluation reserve	22(b)	(199,179)	(214,677)
Asset revaluation reserve	22(c)	104,318	104,318
Gold revaluation reserve	22(d)	(63,974)	(89,929)
Capital asset reserve	22(e)	61,875	61,875
Total capital and reserves		45,128	(11,392)

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


Gane Simbe

Chairperson of the Board and Deputy Governor


David K.C. Quan
Director

This 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 42 to 60

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Issued & paid up capital \$000	Gold revaluation reserve \$000	General reserve \$000	Foreign exchange assets revaluation reserve \$000	Asset revaluation reserve \$000	Capital assets reserve \$000	Total \$000
Balance at 1 January 2016	50,000	(107,908)	53,179	(148,331)	104,318	61,875	13,243
Total comprehensive income for the year							
Profit (loss) for the year (Note 19)	-	-	23,842	(66,346)	-	-	(42,504)
<i>Other comprehensive income/(losses)</i>							
Fair value losses – gold	-	17,869	-	-	-	-	17,869
Fair value gain – Property, plant and equipment	-	-	-	-	-	-	-
Total comprehensive income/(losses)	-	17,869	23,842	(66,346)	-	-	(24,635)
Balance as at 31 December 2016	50,000	(89,929)	77,021	(214,677)	104,318	61,875	(11,392)
Balance at 1 January 2017	50,000	(89,929)	77,021	(214,677)	104,318	61,875	(11,392)
Total comprehensive income for the year							
Profit (loss) for the year (Note 19)	-	-	15,067	15,498	-	-	30,565
<i>Other comprehensive income/(losses)</i>							
Fair value losses – gold	-	25,955	-	-	-	-	25,955
Fair value gain – Property, plant and equipment	-	-	-	-	-	-	-
Total comprehensive income/(losses)	-	25,955	15,067	15,498	-	-	56,520
Balance as at 31 December 2017	50,000	(63,974)	92,088	(199,179)	104,318	61,875	45,128

This 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 42 to 60

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 \$000	2016 \$000
Operating activities			
Interest received		43,610	42,666
Other income		34,716	45,013
Interest paid		(5,249)	(4,943)
Cash paid to suppliers and employees		(50,727)	(55,549)
Net movement in held to maturity investments		(598,634)	235,427
Net movement in International Monetary Fund accounts		25,357	33,759
Net movement in other receivables		(4,441)	(45,819)
Cash flows (used in)/from operating activities		(555,368)	250,554
Investing activities			
Acquisition of property, plant and equipment		(4,843)	(4,803)
Proceeds from sale of premises, plant and equipment		301	-
Net movement in available-for-sale investments		-	(670)
Net movement in loan to government		(10)	(27)
Net movement in loans and advances to staff		(660)	(652)
Cash flows used in investing activities		(5,212)	(6,152)
Financing activities			
Net movement in currency in circulation		63,124	91,754
Net movement in demand deposits		93,317	(10,485)
Net movement in fixed deposits received		-	39,981
Solomon Islands government monetary operations		147,863	(7,063)
Net movement in International Monetary Fund credit facilities		(30,397)	(25,222)
Cash flows (used in)/from financing activities		273,907	88,965
Net effect of exchange rates		15,498	(66,346)
Net increase/(decrease) in cash		(271,175)	267,021
Cash and cash equivalents at the beginning of the financial year		1,048,734	781,713
Cash and cash equivalents at the end of the financial year	20	777,559	1,048,734

This 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 42 to 60

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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) to support the general economic policies of the government.

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

The financial statements were authorised for issue by the Board of Directors on 19th April 2018.

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.

The Bank has not complied with the requirements of the Central Bank of Solomon Islands Act

(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, then-

- (a) The Board, with the advice of the external audit of the 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 Bank shall request the Minister of 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 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 at 31 December 2017, the Bank's total assets amounted to \$5 billion. This was less than the sum of the Bank's total monetary liabilities and its unimpaired capital which totalled \$5.04 billion.

The Bank had requested the Ministry of Finance for a capital contribution during the year to remedy the prior year deficit but the request had been repudiated. An emphasis of matter has been included in the audit report relating to this matter.

(b) Going concern basis of accounting

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 are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgement

The preparation of the financial statements 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 recognised 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 in the payment status of borrowers or issuers in the Bank, economic conditions that con-elate with defaults or the disappearance

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

of an active market for a security

3. Statement of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rates prevailing 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 exchange rate prevailing 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 exchange rate prevailing at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate prevailing at the date the fair value was determined.

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

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

(b) Interest income and expense recognition

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 profit and loss and other 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 to transaction and service fees, which are recognised as revenue when services are rendered or expensed as the services are received.

Fees and commission income and expense that are integral to the effective interest rate of a financial asset or financial liability is recognised using the effective interest method as interest income or interest expense respectively.

(d) Other income

Other income are comprise of sale of numismatic notes and coins which is measured at fair value of the consideration received or receivable.

(e) 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).

(f) 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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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.

(g) 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.

(h) 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 prior to maturity 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.

(i) 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 recognised 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 recognised in profit or loss.

(j) Loans and receivables

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans and advances comprise of loans and advances to the 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.

(k) Currency Inventory

Currency inventory are recognised 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.

(l) 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.

(m) Property, plant and equipment

Recognition and measurement

Certain items of property, plant and equipment are initially measured at cost less accumulated depreciation and any accumulated impairment losses. Land and buildings are initially recognised at cost less accumulated depreciation and subsequently revalued to fair value.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Costs includes expenditure 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 recognised within other income in profit or loss.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed 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	30 - 50 years
Computers	3 years
Furniture, plant and equipment	3 - 5 years
Motor vehicles	4 years

Periodic revaluation

With Board approval, a three year periodical revaluation of its land and buildings was first done in 2012 and recently done in 2015. 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 realised for, if put for sale on private treaty. The Board proposes to have such asset revaluations done every three years. The next revaluation will be done in 2018.

(n) Investment property

Investment property, is properly 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 recognised in profit or loss. Costs include expenditure 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 recognised 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 general reserve.

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.

(o) Demand deposits

Demand deposits represent funds placed with the Bank by financial institutions and other organisations. 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.

(p) Employee entitlements

Short-term employee benefits

Short-term employee benefits comprising 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 the external bonds portfolio.

(q) 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 recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

(r) Comparative figures

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

(s) New standards and interpretations not yet adopted

There was no significant impact to the current year financial statement of changes in standards, amendments and interpretations to existing standards. Of these yet to be adopted standards, amendments and interpretations, the following standards have been published which are relevant to the Bank and are mandatory to accounting periods beginning on or after 1 January 2018, but the Bank does not plan to early adopt them. The impact of these standards and interpretations on the financial statements of the Bank has not been fully determined.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

IFRS 9 'Financial instruments', published in July 2014, replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. The standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 16 'Leases', removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The standard is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

IFRS 15 Revenue from Contracts with Customers was issued in 2014 by IASB. The standard is not mandatorily effective for the Bank until 1 January 2018. IFRS 15 contains new requirements for the recognition of revenue and additional disclosures about revenue. It is expected that a significant proportion of the Bank's revenue will be outside the scope of IFRS 15.

	2017 \$000	2016 \$000
4. Income and expenses		
(a) Interest income		
Overseas investments	48,824	41,214
Local investments	265	230
	<u>49,089</u>	<u>41,444</u>
(b) Fees and commission income		
Foreign currency dealings	27,662	38,283
Local dealings	607	576
	<u>28,269</u>	<u>38,859</u>
(c) Other income		
Gain on disposal of fixed assets	301	0
Rent received	1,000	882
Sale of numismatic coins	180	78
Royalties on numismatics	4,558	4,239
Others	689	954
	<u>6,728</u>	<u>6,153</u>
(d) Interest expense		
Foreign liabilities	483	66
Local liabilities	4,615	4,992
	<u>5,098</u>	<u>5,058</u>
(e) Administrative expenses		
Staff costs	32,093	23,516
Telecommunication	1,876	1,785
Utilities	1,906	2,101
Repairs and maintenance	3,052	3,021
Insurance	675	516
Consumables	512	424
Stationery, printing and postage	544	490
Consultancy	-	452
Other	2,270	1,694
	<u>42,928</u>	<u>33,999</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 \$'000	2016 \$'000
(f) Other expenses		
Board of directors remunerations and expenses	238	161
Currency expenses	11,872	11,569
Depreciation	5,547	5,339
Auditors remuneration	384	300
Other	1,574	4,504
	19,615	21,873
5. Held-to-maturity investments		
Fixed term deposits	3,105,070	2,680,828
Short term commercial paper	182,623	57,990
Bonds	169,997	120,238
	3,457,690	2,859,056
<i>Current</i>		
Fixed term deposits	3,105,070	2,680,828
Short term commercial paper	182,623	57,990
	3,287,693	2,738,818
<i>Non Current</i>		
Bonds	169,997	120,238
	169,997	120,238
6 Available-for-sale investments		
Unallocated gold - at fair value	118,773	109,285
Gold bullion - at fair value	126,261	116,175
	245,034	225,460

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 Solomon Islands' fiscal agency (through which the Government deals with the IMF) and as the depository for the IMF's holding in Solomon Islands dollars.

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

- (i) payment to the IMF out of the Central Bank's external assets which have been reimbursed by the Government of Solomon Islands by issue of non-interest bearing securities;
- (ii) the funding of accounts in favor of the IMF in the books of the Central Bank by the Government of Solomon Islands.
- (iii) 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.

The 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. Financing under this facility carried zero interest rate till June 2014 thereafter 0.25% interest rate applicable through 2019. It has a grace period of 4 years and a final maturity of 9.5 years. The first repayment under this facility commenced in June 2014 until its maturity in December 2019.

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

IMF related assets and liabilities

	2017 \$'000	2016 \$'000
Foreign currency assets		
- Reserve tranche position	35,185	34,155
- Special drawing rights	7,879	37,944
- Currency subscription	197,139	191,368
	240,203	263,467

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 \$000	2016 \$000
Foreign currency liabilities		
- Standby credit facility	42,593	73,069
- Special drawing rights allocation	110,670	109,918
- Extended credit facility	11,616	11,537
- Securities	192,104	190,895
- Capital subscription	5,061	4,929
	362,044	390,348
8. Loans and advances		
<i>Solomon Islands Government</i>		
Loans and advances	46	46
Development bonds	27	27
Treasury bills	20	10
Other securities	4,936	4,936
	5,029	5,019
<i>Staff loans</i>		
Staff housing loans	6,117	5,780
Management car loans	771	512
Personal loans	1,014	950
	7,902	7,242
	12,931	12,261
9. Currency inventory		
Notes	7,851	11,164
Coins	21,393	24,952
	29,244	36,116
10. Investment properties		
Balance at beginning of financial year- at fair value	13,262	13,262
Add: Changes in fair value	-	-
Balance at end of financial year- at fair value	13,262	13,262

Investment property comprises of a commercial and a residential property that are leased to third parties. Each lease contains a lease period of 3 and 2 years respectively with annual rental subject to increase upon renewal indexed to the Honiara retail price index. Subsequent renewals are negotiated with the lessee.

When rent reviews or lease renewals have been pending with anticipated reversionary increases, all notices, when appropriate counter-notices, have been served validly and within the appropriate time.

Rental income from investment properties of \$1000,183 (2016: \$881,845) has been recognised in other income.

Fair value hierarchy

The fair value of investment property and land and building (refer to note 12) was determined by an external, independent property valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuer provides the fair value of the Bank's investment property portfolio on a regular basis.

The fair value of the Bank's investment property are categorised into Level 3 of the fair value hierarchy.

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as significant unobservable inputs used.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Replacement cost method: where the improvements are valued using current replacement cost and an allowance for depreciation and obsolescence plus the freehold value of the land (notable sales of comparable vacant sites within Honiara are noted).	<ul style="list-style-type: none"> • Depreciation rate applied. • Locality of the property • Proximity to civic amenities • Topography/geographical feature of the land • Demand for the land 	The estimated fair value would increase (decrease if: <ul style="list-style-type: none"> • depreciation rate were lower (higher); • the property located in urban locality; • closer to civic amenities; • the higher the demand for the land.

11. Other assets

Commercial bank clearing	53,714	49,274
Others	10,186	3,060
	63,900	52,334

12. Property, plant and equipment

	Land & buildings \$000	Plant, equipment & furniture \$000	Motor vehicles \$000	Computer \$000	Work in progress \$000	Total \$000
<i>Cost/valuation</i>						
Balance at 1 January 2016	140,972	24,089	1,905	8,213	1,946	177,125
Acquisitions	-	-	-	-	4,803	4,803
Transfers	-	643	-	1,194	(1,837)	-
Disposals	-	(122)	-	-	-	(122)
Balance at 31 December 2016	140,972	24,610	1,905	9,407	4,912	181,806
Acquisitions	-	1,420	1,124	1,113	1,186	4,843
Transfers	-	-	-	-	-	-
Disposals	-	(8)	(931)	-	-	(939)
Balance at 31 December 2016	140,972	26,022	2,098	10,520	6,098	185,710
<i>Accumulated depreciation</i>						
Balance at 1 January 2016	15	19,919	1,389	5,622	-	26,945
Depreciation charge for the year	2,963	784	293	1,299	-	5,339
Disposals	-	(122)	-	-	-	(122)
Balance at 31 December 2016	2,978	20,581	1,682	6,921	-	32,162
Depreciation charge for the year	2,978	770	375	1,424	-	5,547
Disposals	-	(8)	(931)	-	-	(939)
Balance at 31 December 2016	5,956	21,343	1,126	8,345	-	36,770
<i>Carrying amount</i>						
At 1 January 2016	140,957	4,170	516	2,591	1,946	150,180
At 31 December 2016	137,994	4,029	223	2,486	4,912	149,644
At 31 December 2016/7	135,016	4,679	972	2,175	6,098	148,940

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 \$000	2016 \$000
13. Demand deposits		
(a) Foreign currency demand deposits		
Demand deposits	92,919	59,240
Demand deposits include deposits from international organisations such as the Asian Development Bank (ADB), European Development Bank (EDB), International Fund for Agricultural Development (IFAD) and International Development Association		
	2017 \$000	2016 \$000
(b) Local currency demand deposits		
Commercial banks	1,875,049	1,747,864
Solomon Islands Government	694,609	759,033
Other financial corporations	1,273	4,809
Other	8,453	8,077
	2,579,384	2,519,783
14. Currency in circulation		
Notes	895,790	837,146
Coins	35,729	31,249
	931,519	868,395
15. Fixed deposits		
Bokolo bills	761,658	761,658
Boko1o 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.		
	2017 \$000	2016 \$000
16. SIG monetary operations account		
SIG monetary operations account	199,222	51,359
17. Employee entitlements		
Gratuity	1,082	1,080
Long service leave	734	631
Early retirement benefit	17,104	13,960
	18,920	15,671
18. Other liabilities		
Unpresented bank cheques	6,086	6,913
Other liabilities	2,683	3,715
	8,769	10,628
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:

- Section 54(2)(a) states that unrealised revaluation gains shall be deducted from the net profits and shall not be available to be distributed but allocated to the respective unrealised revaluation reserve account;
- The realised gains from previous years shall be deducted from the appropriate revaluation reserve account and added to the distributable earnings as determined in section 54(2)(a).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	\$000	\$000
<i>Net profit distribution according to CBSI Act 2012</i>		
Net operating loss	30,565	(42,504)
Add/(less) net unrealised foreign exchange loss/(gain)	(15,498)	66,346
Net (loss)/gain to be recorded in general reserve	15,067	23,842

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 authorised capital.

	2017	2016
	\$000	\$000

20. Cash and cash equivalents

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

Cash on hand - local currency	191	202
Cash and cash equivalents- foreign currency	777,368	1,048,532
	777,559	1,048,734

21. Share capital

Section 6 (I) of the CBSI Act, states that the authorised and paid up capital of the bank shall be an amount equivalent to \$50 million dollars (2015: \$50 million). The capital is fully subscribed by the Government of Solomon Islands.

	2017	2016
	\$000	\$000
Balance at the beginning of the year	50,000	50,000
Transfer from General Reserve according to Section 6(1) of CBSI Act., 2012	-	-
Balance at the end of the year	50,000	50,000

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 recognised 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. Unrealised gains and losses arising from revaluation are recognised in the gold revaluation reserve at the 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 for 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 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.

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).

The Central Bank of Solomon Islands Act (Section 56) requires that in the event that the value of its assets falls below the sum of its monetary liabilities and its unimpaired authorised capital, then –

- (a) The Board, with the advice of the external auditors of the 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 Bank shall request the Minister of 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 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 at 31 December 2017, the Bank's total assets amounted to \$5 billion. This was less than the sum of the Bank's total monetary liabilities and its unimpaired capital which totalled \$5.04 billion.

Maturity analysis as at 31 December 2017

The maturity analysis noted below includes all financial assets and liabilities as at 31 December 2017

	On Demand \$000	0-3 Months \$000	3-6 Months \$000	6-12 Months \$000	Over Year \$000	Undefined \$000	Total \$000
Foreign currency financial assets							
Money on demand	777,368	-	-	-	-	-	777,368
Fixed term deposit	-	1,913,882	723,377	490,059	-	-	3,127,318
Holding on special drawing rights	-	-	-	-	-	7,878	7,878
Reserve tranche	-	-	-	-	-	35,185	35,185
Subscription	-	-	-	-	-	197,139	197,139
Gold investment	-	-	-	-	-	245,034	245,034
Bonds	-	919	3,445	4,363	191,353	-	200,080
Short term commercial paper	-	61,237	122,474	-	-	-	183,711
	777,368	1,976,038	849,296	494,422	191,353	485,236	4,773,713

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	On Demand \$000	0-3 Months \$000	3-6 Months \$000	6-12 Months \$000	Over Year \$000	Undefined \$000	Total \$000
Local currency financial assets							
Cash on hand	191	-	-	-	-	-	191
Other receivables	-	53,714	-	-	-	-	53,714
Loans and advances	-	-	-	-	12,931	-	12,931
	191	53,714	-	-	12,931	-	66,836
Total Financial Assets	777,559	2,029,752	849,296	494,422	204,284	485,236	4,840,549
Foreign currency financial liabilities							
Demand deposits	92,919	-	-	-	-	-	92,919
IMF standby credit facility	-	-	-	-	42,593	-	42,593
IMF special drawing rights allocation	-	-	-	-	-	110,670	110,670
IMF extended credit facility	-	-	-	-	11,616	-	11,616
IW' securities	-	-	-	-	-	192,104	192,104
Capital subscription	-	-	-	-	-	5,061	5,061
	92,919	-	-	-	54,209	307,835	454,963
Local currency financial liabilities							
Demand deposits	2,579,384	-	-	-	-	-	2,579,384
Currency in circulation	-	-	-	-	931,519	-	42,593
SIG monetary operations account	-	199,222	-	-	-	-	199,222
Fixed deposits	-	750,620	11,259	-	-	-	761,879
Employee entitlements	-	-	-	-	18,920	-	18,920
Other liabilities	6,086	2,683	-	-	-	-	8,769
	2,585,470	952,525	11,259	-	18,920	931,519	4,499,693
Total Financial Liabilities	2,678,389	952,525	11,259	-	73,129	1,239,354	4,954,656
Net assets/(liabilities)	(1,900,830)	1,077,227	838,037	494,422	131,155	(754,118)	(114,107)

Maturity analysis as at 31 December 2016

The maturity analysis noted below includes all financial assets and liabilities as at 31 December 2016

	On Demand \$000	0-3 Months \$000	3-6 Months \$000	6-12 Months \$000	Over Year \$000	Undefined \$000	Total \$000
Foreign currency financial assets							
Money on demand	1,048,532	-	-	-	-	-	1,048,532
Fixed term deposit	-	1,929,862	743,184	17,606	-	-	2,690,652
Holding on special drawing rights	-	-	-	-	-	37,944	37,944
Reserve tranche	-	-	-	-	-	34,155	34,155
Subscription	-	-	-	-	-	191,368	191,368
Gold investment	-	-	-	-	-	225,460	225,460
Bonds	-	31,828	655	61,666	35,044	-	129,193
Short term	-	-	29,121	29,121	-	-	58,242
	1,048,532	1,961,690	772,960	108,393	35,044	488,927	4,415,546
Local currency financial assets							
Cash on hand	202	-	-	-	-	-	202
Other receivables	-	49,215	59	-	-	-	49,274
Loans and advances	-	-	-	-	12,261	-	12,261
	202	49,215	59	-	12,261	-	61,737
Total financial assets	1,048,734	2,010,905	773,019	108,393	47,305	488,927	4,477,283

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	On Demand \$000	0-3 Months \$000	3-6 Months \$000	6-12 Months \$000	Over Year \$000	Undefined \$000	Total \$000
Foreign currency financial liabilities							
Demand deposits	59,202	-	-	-	-	-	59,202
IMF standby credit facility	-	-	-	-	73,069	-	73,069
IMF special drawing rights allocation	-	-	-	-	-	109,918	109,918
IMF extended credit facility	-	-	-	-	11,537	-	11,537
IW' securities	-	-	-	-	-	190,895	190,895
Capital subscription	-	-	-	-	-	4,929	4,929
	59,202	-	-	-	84,606	305,742	449,550
Local currency financial liabilities							
Demand deposits	2,519,784	-	-	-	-	-	2,519,784
Currency in circulation	-	-	-	-	-	868,395	868,395
SIG monetary operations account	-	51,359	-	-	-	-	51,359
Fixed deposits	-	750,771	11,258	-	-	-	762,029
Employee entitlements	-	-	-	-	15,670	-	15,670
Other liabilities	6,913	3,344	-	-	-	-	10,257
	2,526,697	805,474	11,258	-	15,670	868,395	4,227,494
Total Financial Liabilities	2,585,899	805,474	11,258	-	100,276	1,174,137	4,677,044
Net assets/(liabilities)	(1,537,165)	1,205,431	761,761	108,393	(52,971)	(685,210)	(199,761)

(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.

Concentration of credit exposure

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

	2017 \$000	2016 \$000
Foreign currency assets		
Cash at Bank	777,368	1,048,532
Held to maturity investment	3,457,690	2,859,056
International monetary fund	240,203	263,467
Gold investment	245,034	225,460
	<u>4,720,295</u>	<u>4,396,515</u>
Local currency assets		
Loans and advances	12,931	12,261
	<u>4,733,226</u>	<u>4,408,776</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

Concentration by currency	2017		2016	
	\$000	%	\$000	%
USD	2,690,277	57	2,436,841	56
AUD	1,155,426	25	986,192	23
EURO	61,197	1	129,059	3
SDR	240,203	5	263,468	6
NZD	240,398	5	232,219	5
SGD	143,777	3	154,076	3
STD	186,166	4	194,074	4
SBD	12,931	-	12,261	-
JPY	4	-	3	-
CNY	2,847		583	
Total financial assets	4,733,226	100	4,408,776	100
Concentration by sector				
Foreign currency assets				
Central banks	774,520	25	1,226,178	41
Commercial banks	3,705,572	66	2,906,870	59
International Monetary Fund	240,203	6	263,467	6
	4,720,295	100	4,396,515	100
Local currency assets				
Solomon Islands Government loan and advances	5,029	41	5,019	41
Staff loan and advances	7,902	39	7,242	59
	12,931	100	12,261	100
Total financial assets	4,733,226		4,408,776	

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.

At the reporting date the interest rate profile of the Bank's interest-bearing financial instruments was:

	2017	2016
	\$000	\$000
	Carrying amount	
Fixed rate instruments		
Cash at Bank (Financial assets)	66,148	575,273
Held-to-maturity investments (Financial assets)	3,457,690	2,859,056
Loans and advances (Financial assets)	12,931	12,261
Demand deposits (Financial liabilities)	-	-
SIG monetary operations account (Financial liabilities)	-	-
Fixed deposits (Financial liabilities)	(761,658)	(761,658)
	2,775,111	2,684,932
Variable rate instruments		
Cash at Bank (Financial assets)	711,220	267,896

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

International Monetary Fund (Financial assets)	7,879	37,944
International Monetary Fund (Financial liabilities)	(110,670)	(107,430)
	<u>608,429</u>	<u>198,410</u>

Fair value sensitivity analysis for fixed instruments

The Bank does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore a change in interest rates at the reporting date would not affect the profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the reporting date would have increased (decreased) equity and the profit or loss by amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	
	100bp increase	100bp decrease
31 December 2017		
Variable rate instruments	6,984	(6,084)
31 December 2016		
Variable rate instruments	1,981	(1,984)

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.

(e) Market risk

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

2017 foreign currency risk

Foreign currency financial assets	USD \$000	NZD \$000	AUD \$000	EURO \$000	STG \$000	Others \$000	Total \$000
Money on demand	661,421	-	49,566	61,197	2,333	2,851	777,368
Fixed term deposit	1,783,108,228	240,398	753,240	-	183,833	143,777	3,105,070
Holding on special drawing rights	-	-	-	-	-	7,879	7,879
Reserve tranche	-	-	-	-	-	35,185	35,185
Subscription	-	-	-	-	-	197,139	197,139
Gold investment	245,034	-	-	-	-	-	245,034
Bonds	-	-	169,997	-	-	-	169,997
Short term commercial paper	-	-	182,623	-	-	-	182,623
Total	2,690,277	240,398	1,155,426	61,197	186,166	386,831	4,720,295
Foreign currency financial liability							
Demand deposits	86,997	-	1,897	-	-	-	88,894
IMF standby credit facility	-	-	-	-	-	42,593	42,593
IMF special drawing rights allocation	-	-	-	-	-	110,670	110,670
IMF extended credit facility	-	-	-	-	-	11,616	11,616
IMF securities	-	-	-	-	-	192,104	192,104
Capital subscription	-	-	-	-	-	5,061	5,061
Total	86,997	-	1,897	-	-	362,044	450,938
Net foreign currency asset	2,603,280	240,398	1,153,529	61,197	186,166	24,787	4,269,357

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2016 foreign currency risk

Foreign currency financial assets	USD \$000	NZD \$000	AUD \$000	EURO \$000	STG \$000	Others \$000	Total \$000
Foreign currency financial assets							
Money on demand	575,273	-	267,313	129,059	76,300	587	1,048,532
Fixed term deposit	1,636,108	232,219	540,650	-	117,773	154,076	2,680,826
Holding on special drawing rights	-	-	-	-	-	37,944	37,944
Reserve tranche	-	-	-	-	-	34,155	34,155
Subscription	-	-	-	-	-	191,368	191,368
Gold investment	225,460	-	-	-	-	-	225,460
Bonds	-	-	120,238	-	-	-	120,238
Short term commercial paper	-	-	57,990	-	-	-	57,990
Total	2,436,841	232,219	986,191	129,059	194,073	418,130	4,396,513
Foreign currency financial liability							
Demand deposits	59,202	-	-	-	-	-	59,202
IMF standby credit facility	-	-	-	-	-	73,069	73,069
IMF Special drawing rights allocation	-	-	-	-	-	109,918	109,918
IMF extended credit facility	-	-	-	-	-	11,537	11,537
IMF securities	-	-	-	-	-	190,895	190,895
Capital subscription	-	-	-	-	-	4,929	4,929
Total	59,202	-	-	-	-	390,348	449,550
Net foreign currency asset	2,377,639	232,219	986,191	129,059	194,073	27,782	3,946,963

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 2017:

	2017		2016	
	\$000	%	\$000	%
USD	2,603,280	59	2,377,639	58
AUD	1,153,529	27	986,191	24
EURO	61,197	1	129,059	3
NZD	240,398	6	232,219	6
SGD	143,777	3	154,076	4
STG	186,166	4	194,073	5
JPY	4	-	4	-
CNY	2,847	-	583	-
	4,391,198	100	4,073,844	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		
	2017	2016
AUD	0.1633	0.1717
USD	0.1272	0.1236
NZD	0.1797	0.1780
STG	0.0947	0.1010
EURO	0.1066	0.1182
JPY	14.370	14.484
SGD	0.1703	0.1792
SDR	0.0895	0.0922
CNY	0.8320	0.8594

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Sensitivity to foreign exchange rate risk	2017 \$M	2016 \$M
Impact of a:		
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	(97)	(78)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	87	80

(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.

Operational 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 operational 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 organised 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:

- 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.

If the inputs used to measure the fair value of an asset might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The table below analyses financial instruments measured at fair value at the end of the reporting period

31 December 2017	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Investment securities</i>					
Available for sale financial assets (Gold)	6	245,034			245,034
31 December 2016	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Investment securities</i>					
Available for sale financial assets (Gold)	6	225,460			225,460

Refer to note 10 which shows a reconciliation from the opening balances to the closing balances for the Level 3 fair values above.

It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

25. Related parties

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The Board of Directors during the year and up to the date of this report were as follows:

Denton Rarawa	(Chairman and Governor)
Ganc Simbe	(Deputy Governor)
Harry Kuma	
Thomas Ko Chan	
John Usuramo	
David K.C. Quan	
Leslie Teama	(Resigned on 21/08/2017)
Rodney Rutepitu	(Appointed on 20/02/2018)
Christina Lasaga	(Appointed on 20/02/2018)
Dennis Meone	(Appointed on 20/02/2018)

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 contracts of the Governor and Deputy Governor are subject to mid-term review by the Minister of Finance and annually in accordance with Bank policy. 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
Luke Forau	Advisor to Governors
Ali Homelo	Chief Manager International
Daniel Haridi	Chief Manager Currency and Banking Operations
Michael Kikiolo	Chief Manager Economics Research and Statistics
John Bosco	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:

	2017 \$000	2016 \$000
Short-term employee benefits	3,028	2,647
Long-term benefits	1,046	1,120
	<u>4,074</u>	<u>3,767</u>

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

Long-term benefits include gratuity, long service leave and early retirement benefits.

As at 31 December 2017 loans by the Bank to key management personnel are as follows:

	2017 \$000	2016 \$000
Housing Loan	1,667	1,631
Personal Loan	63	59
Management Car Loan	131	180
	<u>1,861</u>	<u>1,870</u>

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 \$nil (2016: \$.03m) to the Government in accordance with Section 34 of the CBSI Act, 2012. The balance of the Bank's investment in Government securities at year end amounted to \$4.98 million (2016: \$4.97m).

26. Commitments and contingent liabilities

The Bank has guaranteed staff housing loans with the commercial banks to the sum of \$0.79 million as at 31 December 2017 (2016: \$0.79m). The guarantee scheme was no longer available to staff since 2011 and is valid for eligible staff until the date of cessation of 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 2017, a total of 3 (2016: 5) loans with a net guarantee of \$0.576m (2016: \$.678m) 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.





