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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Welcome readers to the CBSI 2018 Annual Report. In this report, the Central Bank presents a summary of its assessment of the Solomon Islands economy in 2018 and also tries to look ahead into 2019 and beyond. At the same time, the report provides a platform for the Bank to report on its activities during the year and account for its actions and operations as part of its accountability role to its stakeholders.

Overall, 2018 had been a positive year for the Bank and the country as a whole. The Solomon Islands economy grew by an estimated 3.9% in 2018, attributed in large part, to growth in the forestry, transportation, construction and communication sectors. There were also positive developments on other fronts. Government continue to repay its debt obligations resulting in the country’s public debt levels among the lowest in the region.

Inflation rose to 4.2% at year-end, driven by domestic supply side shocks and elevated oil prices during the second quarter. The country’s foreign reserves at around 12 months of import cover were adequate to meet the foreign transactions needs of the economy.

Private sector credit grew by 4% attributed to increased lending to the personal, retail and distribution, construction and communication sectors.

The Bank reported strong financial outcomes for 2018 in its operations. The Bank recorded a profit of $83.6 million in 2018, compared to $30.6 million in 2017 enabling the Bank to strengthen its balance sheet to $5.5 billion.

The Bank’s monetary policy stance in 2018 was accommodative with the primary focus of maintaining price and financial system stability and enhancing financial deepening in the economy.

2018 Highlights

Some of the highlights for the Bank during 2018 are briefly described below:

The currency reform process that begun in 2010 continued in 2018 with the approval of a new $5 polymer note in August. The new note was issued for circulation in early May 2019.

The CBSI Board held its provincial meeting at Tigoa, Renbell province. Directors used the occasion to meet with Renbell provincial government leaders, community leaders, Schools and also visited the World Heritage site of Lake Tengano.

In terms of Board membership, the former Permanent Secretary (PS) of the Ministry of Finance & Treasury (MoFT), Harry Kuma and John Usuramo were farewelled and replaced during the year by new PS MoFT, McKinnie Dentana and private consultant, David Dennis. Former Deputy Governor Mr Gane Simbe retired after 32 years of service with the Bank and was replaced by Dr Luke Forau.

The National Financial Inclusion Strategy II was reviewed in August by the Pacific Financial Inclusion Program (PFIP), resulting in a refocus of the strategy for implementation during the latter years of the strategy.

In recognition for its efforts and commitment in the financial inclusion space in the country and the region, the Bank received two Awards from the Alliance for Financial Inclusion (AFI) at its Global Policy Forum in Sochi, Russia. One of the awards was for the Bank’s contribution to regional efforts championing the issue of ‘de-risking’ and closure of ‘correspondent banking relationships’ (CBRs) on the global stage.

The Bank represented the Minister of Finance at several important international economic and finance meetings during the year. Governor Rarawa led the Solomon Islands delegations to the following meetings in 2018:

- Pacific Financial Technical Assistance Centre (PFTAC) Steering Committee meeting in Fiji in March,
- Forum Finance & Economic Ministers Meeting (FEMM) in Palau in April, and the,
- International Monetary Fund (IMF) & World
Outlook for 2019

The outlook for 2019 is heavily weighed on by downside risks and challenges expected to emanate from the slowdown in emerging economies and global financial and economic uncertainties.

Growth in 2019 is projected to be around 3.7% and is expected to be driven by growth in the communication, manufacturing, construction and transportation sectors.

Headline inflation is projected to be within the 3%-5% range with low oil prices expected to continue to dampen inflationary pressures in the economy.

The country should build on the positive rating (B3) with the stable outlook, by Moody’s rating agency. The positive rating indicated that economic and financial reforms in the country are generating positive results and should be continued.

To conclude, I would like to acknowledge the many organizations, government ministries, financial institutions and private sector companies who have contributed the data and other information used in this report.

I would also like to thank the CBSI Board of Directors for their continuing guidance and contribution to policy making during the year. I would like to specifically mention and thank outgoing Directors Mr Harry Kuma, Mr John Usuramo and former Deputy Governor Mr Gane Simbe for their services to the Board.

Lastly, but certainly not the least, let me thank all my staff for all their contribution to the Bank during 2018. Without their support the Bank would not have come this far. A special mention is due to those staff involved in the compilation and production of this report for 2018.

Thank you all.

Denton Karawa
Governor

CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2018

The Solomon Islands economy remained firm in 2018 with CBSI’s estimate of real GDP growth improving to 3.9% from 3.7% in 2017. Despite earlier expectations for slower growth, strong performance from the services sector particularly from wholesale retail and transport, along with increased output in the forestry and fisheries sectors accounted for the outcome. The boost in economic activity is evident in the surge in exports and foreign reserves which contributed to sustaining the continued rise in the monetary aggregates. Additionally, the Government’s fiscal operations markedly improved as seen in the re-building of buffers. As a result, the general macroeconomic environment in the local economy was positive in 2018.

International Economy

As anticipated, world output tumbled in 2018 by 10 basis points to 3.7%.1 Driving the global slowdown was the subdued outturns from Japan, and lukewarm European growth particularly in Germany and Italy. Slower growth in emerging market economies saddled by the impact of the trade tensions and financial market contractions also contributed to the result. In contrast, the United States continued to expand in 2018, by 7 basis points to 2.9% on the back of the sustained impact of the fiscal stimulus.

Within the region, the slowdown in China remained a concern as growth slid 30 basis points to 6.6%, due to the prevailing trade actions and a gradual realignment of the economy after years of bumper growth. In Australia, the economy is estimated to have expanded on an annual basis by 20 basis points to 2.8% in 2018, aided by strong net exports and fiscal spending that were offset by a severe downturn in the second half of the year as domestic activity softened.2 Meanwhile, growth in New Zealand accelerated in 2018 to 3.1%, underpinned by a fiscal stimulus, strong labour demand and low interest rates3.

Meanwhile, average oil prices were volatile in the second half of 2018 and rose by 29.9% on year; this stemmed mainly from global supply-side geo-political pressures. The high energy prices led to a rise in global inflation, affecting both the advanced and emerging economies. In the latter, headline inflation rose by 60 basis points to 2.3%, while in the former, by 30 basis points to 2%. Within the region, inflation in Australia remained low at 1.9% as fuel prices dissipated at the end of the year amidst slow growth in labour costs and rents.2 While, consumer prices in New Zealand were up 30 basis points, year on year to 1.9% on the back of fuel increases in the first half of the year and tighter labour conditions.

Domestic Economy

Output in the domestic economy grew by 3.9%, primarily driven by a 2.1% expansion in the services sector, along with a 1.7% and 0.5% contributions from the primary and secondary sectors respectively. The robust outturns from the services sector stemmed from the growth in wholesale retail, transport and financial services. Meanwhile the increase in forestry and fisheries production accounted for the rise in the primary sector, and the smaller growth in the secondary sector came from manufacturing and construction activities.

In tandem with the positive economic environment, employment conditions improved during the year, with a 7% rise in the Solomon Islands National Provident Fund’s (SINPF) total contributors to 58,736 members. Similarly, the Solomon Islands Government (SIG) increased its staffing levels by 2% to 17,864 positions. Also, the World Bank’s locally based Rapid Employment program increased its short-term labour work force activities in the country. Moreover, there was an uptick in local workers travelling to Australia and New Zealand to work under the Seasonal Worker arrangement.

Meanwhile, the country’s productive commodities witnessed another bumper year as evident in the primary sector growth in the real GDP. The CBSI annual production index increased by 8% to 101 points, driven by the positive outturns in round logs, fish, palm oil and cocoa. This reflected sustained demand and positive commodity price movements. Copra, a key commodity and source of income for rural dwellers, on the other hand, declined considerably during the year on the back of very weak prices and the continued infestation of the Coconut Rhinoceros Beetle (CRB) in some provinces.

External sector conditions remained vibrant during the year with the Balance of Payments (BOP) surplus position more than doubled to 5% of GDP (or $527 million) in 2018. This was principally due to a relative improvement in the current account deficit, and in particular, the positive outturn in exports. Meanwhile, the capital and financial account surplus slid from $790 million to $549 million...
on the back of lower foreign investment inflows. Accord-
ingly, the positive BOP result led to a 10% growth in the country’s Gross Foreign Reserves to $4,984 million and is sufficient to cover up to 12.5 months of imports. This is well above the CBSI’s 6 months import cover threshold.

With the exchange rate, the Solomon Islands dollar rallied against the Australian and New Zealand dollars while it weakened against the United States dollar by 0.8% to $7.95 per USD during the year. Consequently, the currency basket as measured by the trade weighted index slid by 0.9% to 107.8 and the Nominal Effective Exchange Rate weakened by 1.2% to 99.5 points. In contrast, the Real Effective Exchange rate slightly appreciated by 0.3% to 148.5 points and reflected higher domestic inflation compared to the country’s major trading partners.

Developments in the monetary sector point to sustained growth compared to the prior year. Broad money increased by 7% to $5,243 million and was due to the increases in both the export-related net foreign assets and private sector credit. Lending by banks to the private sector rose by 4% to $2,425 million during the year. This was driven by lending to the construction, distribution, transport and manufacturing industries. Nonetheless, excess liquidity remained high and increased by 14% to $2,158 million.

The Government’s overall financial position recovered considerably after two years of deficits to a surplus of $191 million in 2018. The positive result was attributed to a 14% jump in revenues to $4,068 million and a more restrained expenditure that only increased by 1% to $3,877 million. Strong collection from tax and donor grants contributed to the improved revenue. While the rise in recurrent outlays against the reduction in development expenses drove the expenditure outcome. The curb in development expenditure however means that services delivery were affected.

In terms of debt, the Government’s debt stock rose by 7% to $1,012 million as it took in new domestic and external loans during the year. As at December 2018, the debt-to-GDP ratio rose to 11% of GDP. Although, still at a sustainable level, it is expected that the level will increase in 2019 and beyond as new debts are being sought for infrastructure development.

Headline inflation picked up to 4.2% in December 2018 compared to 1.8% at the end of the previous year. Despite the turnaround of imported inflation from -0.8% in 2017 to 1.7% in the reference year, the primary driver for the result was the spike in domestic inflation from 3.3% to 5.4%. Categories responsible for the uptick in consumer prices during the period were education, fuel-associated transport, food and, alcohol and tobacco. Meanwhile, core inflation only rose by 10 basis points to 0.8% at the end of the year, implying that the volatile items drove overall inflation during the period.

Economic Outlook
The forecast for the global economy in 2019 is lower at 3.5% due to the negative and escalating effects of the US - China trade dispute, disquiet with Brexit in the UK, and growth moderation in the Euro area. As such, the advanced economies are expected to slow to 2% in 2019, with the United States expected to slow to 2.5% as the impact of the tax incentive dissipates. Growth trends in the emerging markets are also slated to ease to 4.5% for the coming year. Where Chinese growth is expected to tick down to 6.2% due to the trade tensions and stringent financial sector regulations. Moreover, global oil and commodity prices are expected to fall in 2019, and result in lower projected global inflation.

As for the Solomon Islands, CBSI projects the economy to grow by 3.7% in 2019. The slower growth outlook reflects the key assumption that forestry will finally decelerate as part of the government’s forestry sustainability initiatives. Nevertheless, growth during the year is projected to be driven by the services sector, especially wholesale retail and transport that is related to the major pipeline projects. Major construction activities, manufacturing and the onset of new mineral production within the secondary sector, and fisheries in the primary sector will also contribute to growth for the year.

The outlook for the external sector in the near term is for a widening of the current account deficit and is associated with the higher imports for the major construction and mining projects. This will have a dampening effect on the overall BOP position, although with a projected reduced surplus, as capital and financial inflows are anticipated to remain positive. Accordingly, the Gross External Reserves is expected to expand over $5 billion.

Similarly, monetary conditions are expected to remain positive. Reserve money is projected to trend upward to $2.5 billion, aided by the expected rise in CBSI’s net foreign assets. While broad money will moderately grow by 5% to $5.5 billion accompanied by expected slower credit growth. As such, excess liquidity will continue to rise over the forecast horizon.

While, the outgoing government passed a balanced budget of $3.93 billion for 2019 as part of its fiscal consolidation measures, CBSI expects a new government formed after the April elections to undertake an expansionary fiscal stance, as it cements itself to carry out its new projects. Due to the rebuilding of the fiscal buffers during 2018, and timing constraints to fully implement its activities, a fiscal surplus balance is anticipated for 2019.

CBSI’s forecast range for headline inflation in 2019 is 3% - 5%. While external prices are projected to slow due to the expectation for slower global oil and commodity prices, domestic price pressures are expected to weigh heavily on consumer prices. This is related to potential supply disruptions due to chaotic weather conditions, and higher utility costs. Moreover, structural changes to the Consumer Price Index methodology could also lead to uptick in recorded inflation.

Near term risks to the economic outlook weigh prominently on the downside. This include the potential for the global slowdown to severely affect the country’s exports. On the domestic side, the sustained impact of the CRB could destroy the future productivity capacity of young palms, while, an indecisive fiscal stance could taper consumer demand.

Moreover, structural issues need to be addressed by the government to mitigate the economy’s long term risks and vulnerabilities. On the monetary front, slower credit could hinder growth and would need remedial policy actions, such as proper and efficient registration of collateral and corresponding support by government to targeted credit sectors. With respect to consumer prices, non-price impediments such as within the fuel distribution sector ought to be managed to minimize its systemic impact on inflation. While, the realization of a drawdown in forestry, should be an impetus to grow the other productive sectors. It also presents a challenge where the fall in forestry revenue necessitates more fiscal discipline to ensure that government’s budgets remain affordable and sustainable.
CHAPTER 2: GOVERNANCE AND ORGANISATION

THE BOARD

The oversight of the operations and governance of the Central Bank of Solomon Islands (CBSI) are vested in the Board of Directors that consists of:

(a) The Governor, as the chairman
(b) The Deputy Governor;
(c) The Permanent Secretary, Ministry of Finance & Treasury; and
(d) Six non-executive directors.

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

The Governor

The Governor serves as the Chief Executive of the CBSI and is charged with the day to day management of the operations of the Bank and is assisted by the Deputy Governor. The Governor is accountable to the Board and reports, at least 6 times each year, to the Board on the conduct of the Bank’s operations and policies.

Board of Directors

The Board of Directors for 2018 comprises the Governor and Chairperson, Mr. Denton Rara; the Deputy Governor, Mr. Gane Simbe, whose contract ended in September 2018) and was succeeded by Dr. Luke Forau; and the Permanent Secretary of the Ministry of Finance & Treasury; Mr. Harry Kuma (who was succeeded by Mr. McKinnie Dentana in December) as ex-officio member. The six non-executive members are Mr. John Usuramo whose 5 years’ term expired in December 2018, Sir Thomas Ko Chan, Mr. David K C Quan, Mr. Rodney Rutepitu, Mrs. Christina Lasaga and Dennis Meone. The Governor and the Deputy Governor are appointed for a term of 6 years while the non-executive members of the Board are appointed for 5 years.

Board Meetings

Under the CBSI Act, the Board is required to meet at least six times each year, at least twice of the members are present, including at least one non-executive member and the Governor to form a quorum. Where no quorum is present, the Governor may convene an extraordinary meeting at which decisions may be made and must be ratified at the next regular meeting of the Board.

During the year, the Board met six times including one provincial board meeting held in Tégga, Rennell Belona Province. As required by the Act, the meeting time, venue and agenda is communicated to all members of the Board at least 7 working days before the meeting date.

Central Bank of Solomon Islands Board of Directors

Table 2.1: Board of Directors Attendance 2018

<table>
<thead>
<tr>
<th>Directors Name</th>
<th>Number of Meetings attended (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denton Rara</td>
<td>6</td>
</tr>
<tr>
<td>Gane Simbe/Luke Forau</td>
<td>6</td>
</tr>
<tr>
<td>Harry Kuma</td>
<td>7</td>
</tr>
<tr>
<td>John Usuramo</td>
<td>7</td>
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<tr>
<td>Thomas Ko Chan</td>
<td>7</td>
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<tr>
<td>David K C Quan</td>
<td>7</td>
</tr>
<tr>
<td>Rodney Rutepitu</td>
<td>7</td>
</tr>
<tr>
<td>Christina Lasaga</td>
<td>7</td>
</tr>
<tr>
<td>Dennis Meone</td>
<td>7</td>
</tr>
</tbody>
</table>

Board Committees

There are three Committees of the Board that were set up to assist with the governance and management of the Bank. The Committees are; the Board Audit Committee, the Board Remuneration Committee and the Board Disciplinary Appeals Committee. Decisions made by the Committees are sent to the Board for final endorsement.

Board Remuneration Committee

The Board Remuneration Committee was established to consider and determine all aspects of the remuneration of the Bank’s employees. The Committee is chaired by a non-executive Director, with two other non-executive Directors as members. One meeting was held in 2018 to consider and review staff benefits, which was endorsed by the Board and awarded to staff accordingly.

STAFF COMPLEMENT

At the end of 2018, the Bank’s staff complement (inclusive of service staff) increased to 159 from 143, compared to the 4% rise in 2017. The growth was associated with the creation of new positions identified in the institutional review. The additional positions in the 2018 review ensures that the mandated functions of the Bank are delivered efficiently. Around 90% of the total positions were filled with 4% comprising new recruits hired during the year. Recruitment for the remaining 10% of the vacant positions will be conducted in 2019.

The management team comprised around 16% of the total positions filled, 14% of which are male managers. Overall, the Bank encourages equality of employment opportunities for all and currently maintains a gender balance of 60% male to 40% female.

Retirement and Resignations

A senior member of the Executive retired from the Bank after having served for almost 32 years in September. Meanwhile another senior Bank manager was engaged on a two (2) year Secondments to the International Monetary Fund Executive Director’s Office in Washington D.C. Two (2) officers were terminated for disciplinary reasons.

Table 2.1: Past Involvements

<table>
<thead>
<tr>
<th>Name</th>
<th>Previous Positions held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denton Rara</td>
<td>Governor since August 2008; Chairman, National Financial Inclusion Taskforce (NFIT);</td>
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<tr>
<td></td>
<td>Director, Solomon Islands Anti-Money Laundering Commission (AILC);</td>
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<tr>
<td></td>
<td>Deputy Chairman, Investment Corporation of Solomon Islands (CISI);</td>
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<tr>
<td></td>
<td>Chairman, Solomon Airlines.</td>
</tr>
<tr>
<td>Gane Simbe/Luke Forau</td>
<td>Previous positions held; Under Secretary - Ministry of Finance and Treasury;</td>
</tr>
<tr>
<td></td>
<td>Chairman, Solomon Telekom Company LTD</td>
</tr>
<tr>
<td>Harry Kuma</td>
<td>Permanent Secretary, Ministry of Finance and Treasury</td>
</tr>
<tr>
<td></td>
<td>Under Secretary - Ministry of Finance and Treasury</td>
</tr>
<tr>
<td></td>
<td>Board Chairman - Solomon Airlines</td>
</tr>
<tr>
<td>John Usuramo</td>
<td>previous positions held; Managing Director - Quan Chee Corporation Limited</td>
</tr>
<tr>
<td></td>
<td>Director (Acting) and Chief Policy Analyst, Economic Reform Unit (ERU); Ministry of</td>
</tr>
<tr>
<td></td>
<td>Finance &amp; Treasury</td>
</tr>
<tr>
<td>Thomas Ko Chan</td>
<td>previous positions held; Managing Director - Quan Chee Corporation Limited</td>
</tr>
<tr>
<td></td>
<td>Chief Manager, Economics Research &amp; Statistics Department; CBSI;</td>
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<tr>
<td></td>
<td>Director - Quan Chee Corporation Limited</td>
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<tr>
<td>Christina Lasaga</td>
<td>previous positions held; Head of Sales and Marketing, Our Telekom</td>
</tr>
<tr>
<td></td>
<td>Assistant Chief Executive - Our Telekom</td>
</tr>
<tr>
<td>Sir Thomas Ko Chan</td>
<td>previous positions held; Manager, Accounts &amp; Information Technology Department; CBSI;</td>
</tr>
<tr>
<td></td>
<td>Acting Chairman, National Bank of Solomon Islands</td>
</tr>
<tr>
<td></td>
<td>Acting Chairman - Solomon Airlines</td>
</tr>
<tr>
<td>Dennis Meone</td>
<td>previous positions held; Legal Compliance, Governance Office</td>
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<tr>
<td></td>
<td>Appointed as Secretary to the Board in May 2017</td>
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</tbody>
</table>

Table 2.1: Directors

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<td>Managing Director - Quan Chee Corporation Limited</td>
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<tr>
<td>Christina Lasaga</td>
<td>previous positions held; Head of Sales and Marketing, Our Telekom</td>
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<td>Assistant Chief Executive - Our Telekom</td>
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<tr>
<td>Sir Thomas Ko Chan</td>
<td>previous positions held; Manager, Accounts &amp; Information Technology Department; CBSI;</td>
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<td>Acting Chairman, National Bank of Solomon Islands</td>
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<td>Acting Chairman - Solomon Airlines</td>
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<tr>
<td>Dennis Meone</td>
<td>previous positions held; Legal Compliance, Governance Office</td>
</tr>
<tr>
<td></td>
<td>Appointed as Secretary to the Board in May 2017</td>
</tr>
</tbody>
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Figure 2.1: Governance Structure Chart

Figure 2.2: CBSI Infrastructure

Figure 2.3: CBSI Staff Complement

Figure 2.4: CBSI Financial Statements

Figure 2.5: CBSI Regulatory and Supervision

Figure 2.6: CBSI International Cooperation
TRAIINING AND DEVELOPMENT

The new training policy approved by the CBSI Board in 2017 was implemented in 2018. One of the areas implemented was the selection of priority study areas for 2019 scholarships. The selection is based on the needs of CBSI Scholarship opportunities that were identified in the areas of Applied Finance, Project Management, Cyber Risk and Actuarial Science.

Long Term Training

In 2018, the CBSI supported 20 staff to pursue their academic training. Ten (10) of whom were on full-time studies and the other ten (10) on part-time. Fourteen (14) staff enrolled in postgraduate studies while six (6) undertook undergraduate studies. The training of sixteen (16) of these staff are fully funded by the Bank and the rest on partial scholarships funded by other sources.

In terms of 2018 study achievements, six (6) staff graduated from the University of the South Pacific (USP). Five (5) officers graduated with Postgraduate certificates in Finance Administration and one (1) with a Bachelor in Banking and Finance. Furthermore, nine (9) staff have completed their study programs and will formally graduate in 2019. One each in Masters in Business Administration, Masters in Professional Accounting, Post Graduate Diploma in General Management, Bachelor of Commerce majoring in Management, Public Administration & Land Management and five (5) Post Graduate Diplomas in Financial Administration. In other training achievements one staff has been awarded a “Dean’s Commendation for Academic Excellence” which is a formal University award in recognition for outstanding results.

Gender

The CBSI is very supportive of women in training. Fifty five percent (55%) of staff currently on study are females. Seven (7) enrolled in postgraduate studies while four (4) are currently doing undergraduate studies. Three (3) of the officers have graduated from the USP with Postgraduate Certificates in Financial Administration. These women have also completed their Post Graduate Diplomas in Financial Administration and together with another female officer who completed her Masters in Professional Accounting will graduate in 2019. This is a great achievement for women in CBSI.

Short Term Training

The Bank has been able to access short and technical trainings supported by external multilateral and bilateral institutions. A total of 42 trainings were co-funded by these institutions and CBSI throughout the year. Other general trainings are fully funded by the Bank. In all, 57 individuals have attended overseas short training in 2018. Like previous years’, technical trainings were in the areas of monetary policy analysis, economic forecasting, banking and financial supervision, financial inclusion and economic statistics. Other trainings were in the areas of human resource management, project management, risk management and security.

Participation and attendance of important international conferences, seminars, attachments and working groups are also regarded as part of staff capacity development.

In 2018 a total of 73 short training, seminars, conferences and meetings were attended by the CBSI staff including the Governor, Deputy Governor and members of the CBSI Board.

COMMUNITY AND PUBLIC RELATIONS

At the end of 2018, CBSI has supported various communities and organizations in the country as part of its corporate social responsibility. Support to these communities and organizations during the year totalled $130,000.

The Central Bank’s usual support is by way of sponsoring programs such as dinner fundraisers and direct sponsorship. CBSI focuses mainly on health, education, religion and sports related requests, as well as to disaster related efforts. Groups with favourable response from the Bank in 2018 were generally assessed based on their need. Recipients of the CBSI monetary donations for 2018 therefore included those from the main churches, religious organizations, schools, various sporting bodies, women’s groups, associations and private individuals (health).

The Central Bank was also engaged in its annual programs which received significant public coverage. These included the Global Money Week, Careers Market and the Money Smart Day (MSD) open day events held in Honiara. CBSI officials along with staff from the Solomon Islands National Provident Fund (SINPF) conducted awareness on a new savings product called ‘YouSave’ to three major schools in Honiara, mainly St. John Secondary, Mbokona School and Mbokonavera High School. The Bank also participated for the second time at the Schools Careers Market day at Woodford, and later in the year organized and conducted its own MSD event with participation of three other schools and commercial banks. Moreover, CBSI was also a key sponsor to the 2018 National Oratory Competition by sponsoring the 1st cash prize for the winners.

In terms of community outreach, CBSI participated in the Kodili Festival in Buala, Isabel Province conducting awareness talks, presentations and shared with the public issues regarding currency, roles and functions of the Bank. CBSI was also able to launch a public radio campaign program in September entitled “Mekem Selemi Waka For Gutafala Future” in partnership with the Asian Development Bank and Good Return. The radio campaign was well received by the public with its on-going life coaching programs rolling out in 2019. The Bank hosted the Solomon Islands Women in Micro-business Awards event, at the Heritage Park Hotel for small business women from around the country.

In terms of its online presence for both its local and global audiences, the CBSI website is a platform that continues to develop and grow. As the premiere source of information, much effort was put into improving this area in 2018.
CHAPTER 3: MONETARY POLICY DEVELOPMENTS

Monetary policy formulation

The core objective of the Bank is to maintain price stability. In pursuing this objective, the Bank has in place a Monetary Policy Committee (MPC) chaired by the Governor. The main task of the MPC is to deliberate on the monetary policy options in relation to the macroeconomic analysis, forecasts and review of the fundamentals in the economy. The Committee’s recommendations are then presented to the Board for endorsement, thereafter it becomes the Bank’s monetary policy stance. The monetary policy stance is announced twice a year, one in March and the other in September.

In 2018, four MPC meetings were held, two of which were macroeconomic presentations along with a review of the business expectation survey and other macroeconomic outlooks. The other two meetings contained the March and September Monetary Policy Stance, where the Board endorsed accommodative monetary policy stances for both six-month periods. Maintaining the accommodative stance was appropriate considering the low level of inflation and in support of Government’s effort to grow the economy.

MONETARY POLICY OUTCOMES

Headline inflation was broadly around the expected range of 3.5% in 2018. By end December, inflation stood at 4.2% from 2.5% recorded in January 2018. This outcome was triggered by the combined influences of the high fuel and food prices seen in the second half of the year, coupled with the change in the methodology implemented by the National Statistics Office since July 2018. (See Figure 3.1)

Driving the headline inflation was a rebound in the price of food and non-alcoholic beverages, which rose to 3% by the end of 2018. This was followed by a 6% surge in the transport category reflecting higher fuel prices, a 1% increase in utility and housing costs, alcohol and tobacco rising by 14%, and education categories index being doubled to 23% against a 12% rise a year ago. On the other hand, clothing and footwear, household equipment’s and miscellaneous categories moderated while health, communication, and “recreation and culture” remained the same.

Monetary policy implementation

The financial market in the country is still under developed, with low participation in the financial market as indicated by the stagnant private sector credit growth seen throughout the year. Consequently, the excess liquidity remained a challenge for the Banks due to several reasons like non-bankable projects, higher non-performing loans, perceptions that Solomon Islanders are high risk borrowers, and other impediments preventing lending. Nevertheless, CBSI remained committed using its monetary policy instruments to manage the monetary aggregates. With the manageable level of inflation over the year, the Bank resolved to implement an accommodative monetary policy in both the March and September stance in 2018. The monetary instruments used by the Bank included the Cash Reserve Requirement (CRR), the Bokolo Bills and the Treasury Bills.

The CRR is a direct monetary policy tool and has been kept unchanged at 7.5% of total bank deposits. By end of 2018, the CRR grew by 11% to $362 million driven by the increase in total bank deposits to $4,822 million against $4,254 million in the previous year. (See Figure 3.2)

The Bokolo Bills on the other hand, is one of the indirect instruments used by the Central Bank in its monetary policy operations on a fortnightly basis. The issuance of Bokolo Bills was maintained at $750 million during the year. During the year, over subscriptions were noticeable in every auction recording an average of $988 million by year-end, higher than the $858 million a year ago. This indicated an uptake in demand for the Bills that the Bank may consider over the near term.

FIGURE 3.1: INFLATION DEVELOPMENTS (END OF PERIOD)

Source: SINSO & CBSI

FIGURE 3.2: CASH RESERVE REQUIREMENT & TOTAL DEPOSITS

Source: CBSI

The key changes in the HICP Series 3 included a new index reference period of 2017=100 along with 12 categories from the previous 8 groups. Additionally, the number of items in the CPI basket increased from 192 items to 233 items.
In the annual weighted average yield (WAY), the WAY for Bokuo Bills slightly fell to 0.59% in Dec 2018 with an average of 0.61% for the year, against 0.62% in 2017. In contrast, the Government’s Treasury Bills was gradually increased in the final quarter of the year with the target holdings of $100 million. This compares to the stock of $40 million in the previous year. The annual WAY for 56 days, 91 days were both increased by 0.9 basis points to 0.43% and by 0.1 basis point to 0.47% respectively. Meanwhile, the WAY for 182 days remained unchanged at 1.12%. Additionally, a new long term bill of 365 days was introduced in September 2018 carrying a WAY of 2%. The execution of both the direct and indirect tools and the recent increase in the Government-issued Treasury Bills, were geared towards mopping the excess liquidity in the financial system. Nonetheless, the level of excess liquidity has remained at high levels over the last eight years. In 2018 excess liquidity grew by 21% to $1925 million compared to $1,317 million in 2017. While the Bank continued to monitor the evolution of excess liquidity, it continued to observe the weak correlation of the monetary aggregates on inflation due to the weak monetary transmission mechanism.

Additionally, the Exchange rate policy regime, although an indirect tool is an important monetary tool, which directly affects inflation via the imported component of inflation. Like in the previous year, the Bank maintained the exchange rate policy of pegging the local currency to an invoiced-weighted basket comprising of trading currencies with a ±3% margin of the base rate. Accordingly, the trade weighted index (TWI) depreciated by 0.9 basis points to an average of 107.8 recorded by year end 2018, compared to an appreciation of 98 basis points a year ago. This reflected a relatively stronger United States dollar against the local currency although New Zealand and Australian dollars showed mixed movements against the local currency during the course of the year.

**ECONOMIC RESEARCH AND STATISTICS**

In 2018, the Economics Research & Statistics Department (ERSD) maintained the publication of its core economic and statistical reports. This included the bi-annual Monetary Policy Stance (MPS) that outlines the Bank’s expectations on monetary conditions, four quarterly economic reviews of comprehensive sectoral analysis and twelve concise monthly economic bulletins. Additionally, the department published statistical data on the Bank’s website.

The department’s research activities gained traction during the year with the first full year of engagement with the Cardiff University’s South Pacific Centre for Central Banking (SPCCB). In July, the Centre and the department organized a two-day seminar for Staff. Thereafter, authors from ERSD as well as the Financial Markets Supervision Department worked with academic co-authors on a variety of papers. In December, staff presented four working papers at the inaugural South Pacific Central Banking Research Conference in Fiji.

As part of its macroeconomic analysis function, ERSD provided the Monetary Policy Committee with two cycles of GDP estimates and forecasts in preparation for the March and September MPS to ensure that the economic indicators were rigorously updated and consistent with conditions. This was also shared with visiting International Monetary Fund (IMF) staff. Moreover, the department undertook scenario analysis on a variety of potential shocks to the economy, supported the Governors appearing before the Parliamentary Accounts Committee, as well as assisting in other interagency working groups and activities during the year.

Within the macroeconomic analysis sphere, the Bank and the Ministry of Finance and Treasury co-hosted a regional IMF-Pacific Financial Technical Assistance Centre workshop on macroeconomic policies for stabilization in July. ERSD also welcomed three technical assistance missions from the IMF and also has its staff attend short courses in the region, Singapore and Washington DC. Additionally, as part of its technical capacity building and succession planning, four senior staff were under full-time postgraduate training overseas with three expected to return to post in 2019.

**INTERNATIONAL OPERATIONS**

The International Department is mandated to implement three core functions of the Central Bank. These are the management of the country’s official external reserves, administration of the Regulations under the Exchange Control Act (Cap 51) and the management of the exchange rate regime.

**Foreign Reserve Management**

Prudent management and operation of the foreign exchange operations is one of the functions specified under section 17 of the CBSI Act 2012. This ensures it is consistent with achieving the Bank’s price stability objective, and the international best practice of managing it by order of priority in terms of safety, liquidity and yield.

Following the review of the Reserves Management Policy (RMP) in 2017 to address systemic foreign exchange and credit risks, a revised policy was instituted in 2018. The revised policy aimed at streamlining the strategic asset allocation, vulnerabilities and risk management framework. During the year, the Reserve Management section initiated the ‘grandfathering’ process in which the administration of the revised procedures were implemented starting with the strategic asset allocation (SAA) and the reserve tranche.

**Governance structure**

The operational oversight of the reserves management activities is delegated to the Investment Advisory Committee (IAC), which reports to the Board of Directors. The IAC establishes the framework that quantifies parameters at the operational levels and executed by the three reserve management units; front office, middle office and back office. In turn, these operational units provide periodic updates to the IAC on the reserves portfolio performance and developments in the financial markets.

**Foreign Reserves Position**

The gross external assets9 closed at $5,182.32 million at the end of 2018, up by 9.8%. This was driven by the sizable rise in trade inflows, SIF inflows from fishing rights and donors support.

**Composition of Foreign Reserves**

As per the revised RMP 2017, the strategic asset allocation was revised to deal with the persistent risk exposure that had been partly responsible for the depletion of foreign assets; however, the framework was updated to align with the revised framework to ensure prudent management of the foreign reserves. Notably, as per Balance of Payments definitions.
reserves. Accordingly, in 2018 the Bank appropriately allo-
cated the USD, the intervention currency, a significant portion
of the reserves, along with the AUD as the second
largest component. The NZD, JPY, GBP and other curren-
cies were assigned lesser portions of the reserves.

Sources and use of Foreign Reserves Receipts

As is the case in the previous years, round log exports con-
thributed a substantial portion of the foreign exchange in-
flows. In 2018, round log receipts made up 79% of foreign
reserves receipts. Multilateral and bilateral aid contribut-
ed 12% while fishing licence receipts contributed 7%. Interest on foreign reserves including SDR, call account
interest and investment returns made up 2% of the foreign
reserves inflows while domestic market foreign exchange
deals contributed under 1% (see figure 4.2).

Investment Income generated from Foreign Re-

sources

In line with the third primary Reserve Management ob-
jective of generating income, the Central Bank earned an
equivalent of USD10.6 million (SBD85.5 million) in inter-
est income from the foreign reserves holdings in 2018. This
was an increase of 73% from the previous year, driven by
improved deposit rates particularly in the USD allocations
following the US Federal Reserve rate hikes from 2.00% to
2.50%. Favourable deposit rates in other trading curren-
ties including the AUD, NZD and SCD also contributed
to earnings during the year. Figure 4.3 below provides the
interest income trend over the period 2014 – 2018.

Middle Office Operations

The Middle Office is one of the key support units in the
management of foreign reserves. Its primary responsibil-
ity is to act as overseer of all key operational risks, and sets
limits and rules relating to the Reserve Management Pol-
icy and Investment Rules as approved by the Governor.
Moreover, the Middle Office continues to provide over-
sight roles between the front and back office units in terms
of controls and compliance to ensure it operates within the
required standards and procedures.

The key operational function of the unit is to make sub-
stantiated recommendations relating to Investment Rules
as and where necessary to the Investment Advisory
Committee. Following the implementation of the revised Re-
serve Management Policy in 2018, the middle office made
significant changes in its risk management approach to reserve management.

During the year, the Middle Office assessed a couple of
counter parties for Investment purposes that were recom-
mented to IAC for deliberation, in which one counter par-
ty was endorsed by the Board for investments. The Middle
Office also engaged in Know Your Customer Assessments
(KYC) to its counterparties as part of its due diligence and
had successfully complied with this requirement.

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 recon-
ciled each month. The Back Office facilitates both receipts
and payments using the SWIFT system for clients such as
the Solomon Islands Government and the Commercial
Banks.

Exchange rate regime

During the year, the Central Bank maintained the current
exchange rate regime where the Solomon Islands dollar
(SBD) is pegged to an invoice-weighted basket of major
trading currencies. During the course of the year, some ex-
change rate interventions were made against the USD to
stabilize the SBD against market shocks. Fundamentally,
the policy intention was necessary to ensure that the ex-
change rate policy contributes to domestic price stability and
mitigates the volatility of the Solomon Islands dollar against major trading currencies. The Exchange Rate Weighted Basket Index (TWI) on an annual average basis depreciated by 0.9 percent to 107.8 points in 2018. Likewise, on a quarterly basis, the
TWI on average declined by 1 percent over the last three
quarters of the year (see Figure 4.4). This trend reflects the
dynamic macroeconomic conditions of the international

In terms of operations, 1,853 outgoing and 3,690 inbound
messages were sent and received through the CBSI SWIFT
system in 2018 (See Table 4.1). This was an increase in both
inflow and outflow traffic and reflected the uptake of SWIFT transactions conducted throughout the year.

Table 4.2 shows the transaction values of receipts and
payments facilitated through SWIFT during 2018 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
2018 recorded an increase in receipts amounting to $3.214
million, mostly proceeds of log receipts. In terms of pay-
ments, a total of $74 million was transacted during the
year.

Exchange Control Administration

As the administrator of the Exchange Control Act and
 Regulations on behalf of the Government, CBSI is empow-
ered to ensure that the country benefits from its resources
and that all proceeds of exported goods and services are
remitted back into the country.

Moreover, under the Exchange Control Act, commercial
banks are appointed as authorised dealers to process and
facilitate trade transactions as per the specific require-
ments of the exchange control policy and regulations. 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-res-
idents, who intend to reside in Solomon Islands for a pe-
riod 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 Resident status for Exchange
control purposes. Non-residents who are granted tempo-
rary residence status are permitted to repatriate income
earned in Solomon Islands or brought in from abroad
without limitation. In 2018, CBSI approved 446 temporary
resident status permits, of which, 302 were new applicants
and 144 were renewals (See Table 3.4).
Inward remittance receipts through Classified Money transfer agents increased by 1.16% from the previous year to $73.23 million and outbound remittance increased by 4.6% to $312.14 million. In terms of transactions by money changers, a total of $27.9 million equivalent of foreign currency notes were purchased and $43.4 million sold to the travelling public and commercial banks.

Private Sector Debt (Private Sector Offshore Borrowing)

Resident entities wishing to borrow funds from 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 debt. This is also a prerequisite for any loan repayments in the future.

During the year, the CBSI received and approved seven external loan applications from corporations (See Table 4.6). The purpose of these loans were to finance business expansions and other projects in the country. The total foreign currency exposure of these authorized external loans is equivalent to US$54.96 million (SBD$291.26 million).

Export Administration

The primary objective of export administration is to ensure that the country fully benefits from the proceeds of the exported 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 receipts 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 frame-works namely: (i) the General authority and (ii) the Specific Authority. Goods exported under the General authority are permitted to be shipped without any authorization from CBSI. The exporters however must remit the proceeds of export within the required 3 months. Goods under Specific Authority to Export requires the exporter to meet certain conditions and approvals by authorizing authorities.

Goods administered under the Specific Authority to Export are round logs and beche-de-mer or Sea Cucumber. In both cases, the ‘Specific Authority’ is granted after market price certification clearance has been given by the Commissioner of Forests and Director of Fisheries for round logs and beche-de-mer respectively.

In 2018, CBSI issued 924 Specific Authorities to Export to round log exporters. This was a decrease of 7% from the previous year. The estimated volume also decreased by 10.6% to 922 million cubic metres valued at approximately $2,997 million (See Table 4.7).

In 2018, CBSI approved 13 applications for specific Authorities to export beche-de-mer. The total weight of the product exported was 132,748 kilograms valued at $5.3 million. Beche-de-mer trade is unique since it was banned for harvesting and trading until it was lifted by the Ministry of Fisheries and Marine Resources. The ban had been a conservation measure to protect the resource from over exploitation.

Imports payment administration: Applications above required CBSI limits

As part of its exchange control duties, CBSI monitors most major overseas payment transactions. All applications for travel, personal transfers and sustenance above $30,000 require 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 repayments, equity proceeds, and property proceeds are not delegated to authorized dealers and must be referred to CBSI for endorsement.

During 2018, the number of applications referred to CBSI for approval totalled 8,700 applications valued at $6,167 million. This figure includes all merchandise trade comprising around 66%, service payments at 17%, capital transfers at 15% and personal transfers comprising 2% of the total payments (See Table 4.8). The average value per application increased from $681,839 in 2017 to $708,851 in 2018, indicating a rise in high value payments overseas.
four Bankers' Meetings to discuss trends of the main macroeconomic aggregates and developments in the financial sector.

5. PG on AML/CFT requirements for Dealing with higher Risk Countries: this PG provides minimum AML/CFT requirements to deal with high-risk countries by having in place appropriate safeguard measures in terms of dealing with high-risk countries for FIs.

6. PG on AML/CFT requirements for Risk Assessment of New Products, New Business Practices and Technology: this PG provides minimum AML/CFT requirements for risk assessment of new products and new business practices including technologies and delivery mechanisms for new and pre-existing products of FIs.

7. PG on AML/CFT requirements for Money Laundering (ML) and Financing of Terrorism (FT) Risk Management: this PG provides a minimum AML/CFT framework for ML and FT risk management framework for FIs, and;

8. PG on AML/CFT requirements for Politically Exposed Persons (PEPs): this PG provides minimum AML/CFT requirements for PEPs risk management framework for FIs.

The FMS imposed a supervision levy on financial institutions it licensed and supervised for the first time in 2018. The industry levy is computed based on a model developed by the FMS.

There were also improvements in the operation of the Bank.

Finally, on regulation, the FMS developed and submitted two policy papers, recommending to the Cabinet for consideration of the importance of reviewing the current Credit Union and Insurance Acts. The Cabinet approved the policy paper in late 2018 and directed the CBSI and the Ministry of Finance and Treasury to proceed to public consultations. The consultation on the Credit Union Bill was completed in the fourth quarter of 2018, while the consultation on the Insurance Bill commenced in the first half of 2019.

FINANCE AND ACCOUNTS

The Finance and Accounts Department (FAD) is responsible for the financial affairs of the Bank. This ensures that the operation of the Bank is sufficiently financed and the activities are accounted for and reported to the stakeholders in a timely manner. The department maintains the accounts and provides reports in accordance with the International Financial Reporting Standards (IFRS) and the CBSI Act 2012. This is important for the successful delivery of the work plans of the Bank and be compliant with global standards.

Budget

The Bank's annual budget 2018 was produced and approved by the CBSI Board in November 2017. The budget consisted of four parts: estimated total revenue of $87.6 million, operational expenses of $58.1 million, currency and monetary policy costs of $22.5 million and capital expenditure of $37 million.

External Audit

External audit is a mandatory requirement for the Bank. PwC Fiji was appointed as the external auditors for the Bank for the 2018 accounts. This is the first year as part of a five-year contract from 2019 to 2023. The Bank has made positive improvements through this service in the past and strives to work together with the new auditors.

Financial accounting system

The Bank's new financial system has run successfully for the second year in 2018, after going live in 2016. With this success, the Bank is moving forward to make further improvements to enhance the system to support management in its operational needs.

CAPITAL PROJECTS

In 2018 there were no major capital projects undertaken, apart from the completion of the Aruligo Recreational Site Improvement Project at the end of the year.

The Bank also completed a perimeter fencing and backfill on the plots of lands acquired for its future office and residence at Noro Township in the Western Province.

The Bank also engaged James Cubitt Architects (ICA) as Project Management Consultants to carry out, the design, development and documentation works for its new HQ Office Building. This project will be developed on the site fronting to Mud Alley, immediately behind the CBSI building on Mendana Avenue. The main role of the Project Management firm is to produce a schematic design, design development, contract documentation and tendering.

Following a Structural Audit done by FMC Pacific in October 2017, it was recommended that a seismic assessment be done on the CBSI (HQ) to ascertain the safety of the building structure as a result, the Bank engaged NRW Engineers Macallan (Fiji) Ltd to carry out this seismic assessment exercise in 2018.

CURRENCY AND BANKING OPERATIONS

Section 9 (b) of the Central Bank Act 2012 provides one of the functions of the Bank which is “to issue, regulate and manage the currency of Solomon Islands” and in conjunction with Sections 18 to 25 provision in Part 5 of the CBSI Act 2012.

The Currency Banking Department’s specific responsibilities under this function includes but not limited to currency stock control and management and issuing of notes to commercial banks for circulation. Moreover, it receives currency deposits from commercial banks and the Solomon Islands banks; sorts and destroys unfit and soiled banknotes, and designs and orders new banknotes or coins. It also advises and educates the public and individuals on the care for notes and coins. At the
same time, the Bank warns the public, businesses and communities about the illegal practice of counterfeiting notes.

**Currency**

**Stock of Currency in Circulation**

The total value of currency in circulation (notes and coins) in 2018 increased by 2% to $947.2 million. Of the total value in circulation, currency notes accounted for 97% ($915.3 million) whilst coins held the remaining 3%, which represents $31.8 million.

**Procurement and supply of new currency notes and coins by CBSI in 2018.**

Part 5 of section 19 (4) and Section 23 of the Central Bank Act 2012, specifically provides that the Bank shall be responsible for maintaining an appropriate supply of banknotes and coins in Solomon Islands. It must also ensure that the reserve currency stocks or inventories are regularly administered and available for supply to meet the currency requirements of the country.

In an effort by the Bank to effectively accomplish these currency mandates, the Bank engaged an additional printing company, Note Printing Australia, apart from the two specialised international printing and minting companies, De La Rue Ltd (United Kingdom) and Royal Australia Mint (Australia) to supply new currency notes and coins for the country. New orders of currency notes with a Face Value of $533.5 million were received from the suppliers in 2018. Of this, $100 bills represented 94%, $10 bills represented 4%, $5 bills and $40 commemorative note represented around 1% respectively.

In 2018, new currency notes and coins issued into circulation via the commercial banks and the CBSI counter stood at $113.1 million. Of this amount, 7% or $10.7 million represented new currency notes, of which over 4% was for $100 denomination, 0.5% was for $50 denomination, 0.2% is for $40 denomination and $10 and $5 notes shared the remaining balance of 23%. With coins, 97% represent new coins being issued to circulation via the commercial banks by CBSI. Again, the $2 and the $1 continued to absorb over 87% of the total coins issued in to circulation whilst the 50 cents, 20 cents and 10 cents remained 13%.

**Counterfeit Notes Retrieved from public circulation**

Counterfeiting is a crime and is illegal in Solomon Islands. Those found and guilty under the provision of the Penal Code and CBSI Act 2012 can be prosecuted and fined or imprisoned or both.

Thirty-eight pieces of counterfeit notes were confiscated from circulation in 2018, which is a 32% increase from the record in 2017. Of the total counterfeit notes impounded, thirty-six pieces were counterfeit of the old $100 notes ser-

**Note Processing**

In 2018, $73.6 million worth of soiled notes were processed and destroyed compared to $99.9 million in 2017, a decrease of 7% in the volumes of destroyed notes in 2018. The high rate at which notes are returned from circulation is a huge concern for CBSI as pressure on replacement costs continues to rise. This indicated continuous poor handling of currency notes despite much public awareness on how to care for the notes.

**Debt Management**

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

As part of its activities, CDU performs monthly loan valuations on the CS-DRMS, dispatches quarterly external...
In terms of currency composition of the total official debt, $8.6 million for interest payments.

Total external debt repayments in 2018 were $47.1 million.

The major holders of domestic securities were the Solomon Islands National Provident Fund (SINPF) with 72.7%, Other Creditors with 14.8%, Commercial Banks with 9.8% and the general public with 2.7%.

The Central Bank facilitates the daily business of clearing cheques drawn on all the licensed commercial banks operating in Honiara. In 2018, a monthly average value of $932.2 million worth of cheques with a total value of $101.1 billion passed through the Clearing House. This was an increase of over 5% as compared to $95.9 billion in 2017.

Progress on the establishment of a National Payments System.

Under Sections 26 and 27 of the CBSI Act 2012, the Central Bank is granted the power to provide facilities, including intra-day credit, to payment, clearing and securities settlement systems, and to fully participate to ensure the safety, soundness and efficiency of the system.

In 2018, the CBSI in collaboration with MoFT together with the Attorney General’s Office progressed the National Payment System Bill to the Parliament for enactment. The Bill went through the first and second reading stages of Parliamentary procedures during the December sitting of the House. However, with the dissolution of the 10th Parliament before its passage, the Bill will be resubmitted for the new 11th Parliament’s consideration in 2019.

In terms of procurement of the Automated Transfer System (ATS) and the Central Securities Depository (CSD) module, Payment System experts at the World Bank Group Office and the International Financial Corporation (IFC) in Sydney have commenced work on the necessary procurement requirements for the engagement of a vendor to develop the ATS and CSD module. In that regard, CBSI participated in the selection process for the tenders in Sydney, along with central bank representatives from Samoa and Vanuatu. At the end of the process, Montran was awarded the contract.

It is expected that the deployment of the ATS and CSD modules, will take between 8 - 12 months.

At end of 2018, total gross loan value is $0.72 million, a decrease of $0.24 million from previous year of $0.96 million. Risk to the borrower, the scheme and bank is $0.33 million, $0.35 million and $0.05 million respectively which is lower as compared to 2017. The decrease in value correspond to less nominations accepted for guarantee in 2018. Nominations by Provincial Location

By provincial location over the last three years, two (2) nominations each were received from Honiara, Malaita and Guadalcanal Provinces, while one (1) nomination was received from Makira/Ulawa Province. Of these nominations, four (4) were for agriculture, one (1) each for professional services, manufacturing and transportation.
General Observations
It has been noted that it would be difficult to expect all PCBs to fully utilize the scheme of arrangement as they have different policies that defines their lines of business interest and expectations from the scheme. The distribution also clearly indicate the accessibility of banking services within Honiara, Guadalcanal and Malaita. Moreover, most of the other provinces find it difficult to operate a business or access the scheme because of the non-availability of bank branches.

CBSI, as required under the new Memorandum of Understanding (MOU) with the Ministry of Commerce, Industries, Labour and Immigration (MCILI), will continue to provide the administrative support, and monitor the progress of the scheme with quarterly and annual reports.

INFORMATION TECHNOLOGY

The information technology department maintained a high level of uninterrupted IT services provision to the Bank’s internal and external customers during the year. These include improving, monitoring and maintaining the information and communication technology systems to support the Bank’s corporate functions.

The key projects carried out during the year included:
- The upgrading of the Bank’s server and storage infrastructure to provide a more resilient platform for its critical IT services. The Bank will realize this investment within the first quarter of 2019.
- The upgrading of the Bank’s current telecommunication system to a digital system using IP-based phone systems (VOIP). The upgraded communication system when fully deployed in the first half of 2019 will help the Bank not only in aligning to current communication technology infrastructure but also enhancing its communication services to both internal and external customers.
- The completed upgrading of the SWIFT System to comply with the SWIFT mandatory security requirements and strengthens the Bank’s international payment system.
- Commence the development of the Human Resource Management system to automate some functions of the Bank’s internal payment system.
- Development and enhancement work also continued on other systems, such as the Exchange Control System, Internet Connectivity and on the Bank’s website.

Disaster Recovery & Security

During the year, the Bank also focussed on upgrading the server component of the Disaster Recovery Infrastructure to enhance the systems and data storage capacity for supporting the effective recovery processes during major system failure. Furthermore, the completion of the upgrade work in the second quarter of 2019 will enable simulation tests between the primary site and the disaster recovery site to be carried out for effective disaster preparedness and recovery.

The Bank continued to strengthen its security measures to protect against unauthorised access to its data centres and computerized support systems especially with ongoing cyber security threats. These include being compliant with the required upgrades on the Bank’s software and systems as well as attending trainings and workshops on cyber security and other related security trainings. These aim to increase awareness and knowledge on the latest threats and also to minimize the risks.

Documentation of the IT manual including the policies and procedures continued during the year. When completed it will provide direction and guidance on the ICT department responsibilities, system of internal controls, and also support the management and implementation of the Bank’s information security.

Visitors to CBSI Website increased in 2018

The total number of visits to the CBSI website was 36,318, an increase of 23% from 29,424 visits in 2017. Among visitors from all over 200 countries, the same six countries Solomon Islands (34%), United States (13%), India (10%), Australia (5%), United Kingdom (4%), and Fiji (4%) remain the dominant visitors to the CBSI website. The website contains updated information for public to access and gather useful information about the Solomon Islands economy.

Internal Audit

The Central Bank of Solomon Islands Internal Audit Charter is the authority and mandate and acts as the policy or guideline of the Internal Auditing Function within the CBSI. The Internal Audit Unit (IAU) continued to maintain its independence in its objective assurance and consulting activities during the year. The Unit strives to see ongoing enhancement to its responsibility and obligation in Risk Management and the maintenance of good governance. With the philosophy of adding value to the operations of the Bank (and amongst other consultative activities), the Unit had conducted the following IA reviews during the financial year:

<table>
<thead>
<tr>
<th>TABLE 4.13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area of Assessment/Review</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>1. GENERAL SUSPENSE (ASSET &amp; LIABILITY ACCOUNTS)</td>
</tr>
<tr>
<td>2. CASH TILL ON THE SPOT CHECK</td>
</tr>
<tr>
<td>3. EFFECTIVE INVENTORYING OF STAFF UNIFORM</td>
</tr>
<tr>
<td>4. STAFF SUBSIDISED LOAN SCHEMES/BENEFITS</td>
</tr>
<tr>
<td>5. ON-THE-SPOT AUDIT OF THE USE AND GARRAGING OF OPERATION-AL VEHICLES (HILUX &amp; PICKUP)</td>
</tr>
<tr>
<td>6. IA INDEPENDENT VERIFICATION OF MUTILATED NOTES PROCESSED THROUGH THE OFF-LINE SHRED- DER</td>
</tr>
<tr>
<td>7. OTHERS:</td>
</tr>
</tbody>
</table>

IAU was also part of the team that had visited the physical gold investments in Hong Kong and Perth, Australia. IAU was able to attest the gold bars’ physical existence with their true and correct descriptions and numberings.
CHAPTER 5: FINANCIAL INCLUSION

The Solomon Islands National Financial Inclusion Strategy 2, 2016 – 2020 (NFIS2) is in its third year of implementation. While there is ongoing progress of the overall strategy, some measurement challenges remained to be addressed.

The NFIS2’s mission statement stipulates that;

1. “300,000 adults (of which 150,000 must be women) will be active users of formal or semi-formal financial institutions.” and
2. “90% of the population will have a financial service access point one hour of ordinary travel from their home.”

Table 5.1 below shows aggregate active users from report 2018 is shown in Table 5.2 below.

The second goal of measuring the geolocation of the access points has not started, however there are ongoing discussions with relevant stakeholders to undertake preliminary work in 2019. In the meantime, the distribution of commercial banks access points by provinces as at December 2018 is shown in Table 5.2.

The review also noted that the four broad themes of digital finance, Micro Small Medium Enterprises, consumer empowerment and inclusive insurance are fundamental to address the aforementioned key areas. Furthermore, in order to progress the implementation of NFIS2, the following areas require attention: (i) the need to revise the key results and targets to enable NFIT to measure progress of the strategy, (ii) the strengthening of data collation with increased focus on the collection of savings groups data in the provinces, and (iii) stakeholders’ awareness of the links between financial inclusion and Sustainable Development Goals (SDGs).

The six strategic objectives under the NFIS2, 2016-2020

The four working groups that were established in 2017 continue to provide support to the NFIT to implement the six objectives under NFIS2. The working groups are, Digital Finance Working Group (DFWG), Micro Small Medium Enterprises Working Group (MSMEWG), Insurance Industry Working Group (IIWG) and the Consumer Empowerment Working Group (CEWG).

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

DFWG held 5 meetings during the year with the key focus on digital payment channels for government transactions including SOEs. The Solomon Islands Government in 2017 made a commitment under the ‘Better Than Cash Alliance’ (B2CA) digital payments. The main project led by the Inland Revenue Division on e-tax was launched in September 2018 with more than 50 registered clients. Phase 2 of the project will be implemented in 2019 with the assistance of the Pacific Financial Inclusion Programme (PFIP).

Key result areas under this objective that are still work in progress include the National Payment System Bill and the Practice Guidance Note on Mobile Money, which both are expected to be rolled out in 2019. Other key result areas that have not started but have begun discussions with stakeholders are; MNOs providing mobile money, shared agent network, MNOs providing payments through air-time services and promoting digital payments to the private sector.

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

The Micro Small Medium Enterprises Working Group (MSMEWG) held 6 meetings during the year. One of the MSMEWG key result areas was to conduct consultation to identify the constraints of access to finance by MSMEs. A review was undertaken on the SIG MSME Business Loan Guarantee Scheme administered by CBSI, with the plan to extend it to other financial institutions to access the guarantee fund. An MSMEWG sub-committee was formed to lead this task with the assistance of Strongim Bisnis. A consultant was engaged to undertake the review in consultation with the MSMEWG subcommittee and the Ministry of Commerce, Industries, Labour and Immigration (MCILI).

As a result of the review, the SME Credit Guarantee Scheme was revised and included participation of other financial service providers, allow for an expansion to eligible financial products and, provide a clear business project eligibility based on exclusion list. The review also work collaboratively with MCILI and Strongim Bisnis on the action strategy to improve capabilities of local business service providers. Moreover, the reviewer assisted MCILI to revise the National SME plan to better align to address SME issues as highlighted in the report. The revised SME Credit Guarantee Scheme will be implemented in 2019.

The only micro-finance institution in the country, the South Pacific Business Development (SPBD) continues to provide savings and micro credits to women in Solomon Islands. As at end December 2018, the number of savings accounts reached 7,218 with deposits of $3.26 million while total loans disbursed reached $14.5 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) held 3 meetings during the year. Financial literacy is one of the key activities. The financial institutions, microfinance institutions, savings groups, the Ministry of Women, Youth, Children and Family Affairs (MWYCFA), Small Business Enterprise Centre (SBEC) and other institutions continue to provide financial literacy sessions in Honiara and the rural areas.

During the year CBSI held its biennial Women Micro-Business Award event to recognise women participating in micro businesses. Five women in the provinces were awarded certificates and cash prizes for their businesses, selected based on having the potential to grow and become small and medium businesses. The women were from Guadalcanal, Makira and Western provinces engaged in cocoa, poultry and honey production.

The Bank also participated in the Global Money Week (GMW), an international event to deliver financial literacy to children and youths. The theme of GMW was ‘Money Matters Matter’. CBSI in partnership with SINPF youSave team delivered financial literacy awareness to the Honiara Town Council Schools, namely St John and Mbokonav-
era Schools, with around 811 students and teachers attending. The financial literacy topics delivered were on money management and savings. SINPF also delivered the youSave savings product.

Celebrating the Money Smart Day, CBSI also conducted financial literacy to 82 selected students from three Honiara Town Council Schools, St John, Mbokona and White River Schools.

Other financial literacy awareness programs undertaken during the year were, at Tigoa, Renbel Province to a total of 32 men and women groups including the Renbel women’s savings groups, Kaibla SSEC youths, and 15 Youth at Work members in Honiara. The CBSI also participated with UN Women to deliver financial literacy to 35 selected market vendors at the Henderson market, Fishing village market and White River market.

On insurance, the Insurance Industry Working Group with the support of PFIP engaged READ SI and developed insurance awareness posters and calendars. A total of 200 posters and 500 calendars were distributed to business houses, government ministries, selected schools and other organisations.

CBSI in partnership with the Asian Development Bank (ADB) Financial Inclusion Strengthening project and Good Return Australia develop the Financial Competency Materials and the Agent Management Framework document. The Financial Competency program involved a 7-weeks Coaching program and Media Program under the theme ‘Mekem Selen Waaka ko Gudlafa Future’ (Make Money Work for a Better Future). The media program delivered under CBSI Money Matters is a 7-weeks live-program with sessions and interactions with public on the National Broadcaster that has a reach to 6000 communities. The face to face coaching program involved Training of Trainers and piloted with participants from market vendors, United Pentecostal Women’s Savings Group, POBL and Don Bosco, a total of about 190 trainers.

Strategic Objective 4: Build financial resilience in rural households

With the assistance of PFIP, the financial education curriculum for the Anglican Church of Melanesia (AGCM) TVETs was developed and successfully piloted during the year. Implementation will continue in 2019 with financial education curriculum introduced to other AGCM TVETs.

Two other schemes supported by PFIP, were successfully implemented in 2018. The SINPF youSave savings scheme for the informal sector continue to attract self-employed individuals to save at SINPF for retirement. Membership continued to increase reaching its target by end of 2018 at 8807 of which 55% were women. Total savings from the scheme stands at $53.74 million.

The second project is the digital payments for school fees offered through licensed commercial banks where parents can pay their children’s school fees using digital channels. As at end December, 8 schools participated, of which 2 are in Malaita province with a total of 210 parents being registered.

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

On consumer protection, following the development of Members Rights for Savings Groups in Solomon Islands’, there are ongoing follow up with savings groups practitioners in Honiara of its implementation. CBSI continues to make available copies of the members’ rights, with a total of 1,000 copies of which 719 have been distributed to 14 savings groups.

During the year, CBSI in liaison with PFIP developed a draft Practice Guidance Note 2 (PGN2) on Mobile Money Services. This is a policy framework to support innovation, competition, financial inclusiveness, and protection of users of Mobile Money Services in the market. The PGN will be issued for consultations in 2019.

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

The National Financial Inclusion Taskforce (NFIT) held 2 quarterly meetings during the year, informing stakeholder of the progress of financial inclusion efforts. Data were collated under the revised reporting template from commercial banks, which assisted to report the aggregate active users of financial accounts in formal and semi-formal institutions. There is also a database management project for financial inclusion indicators, which is slow in progress.

CHAPTER 6: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES

The Solomon Islands Financial Intelligence Unit (SIFIU) was established under the Money Laundering and Proceeds of Crime Amendment Act 2010 (MLPCA 2010). The vision of the SIFIU is “Protecting Solomon Islands from Money Laundering”. The roles and functions of the SIFIU are provided under the MLPCA 2010.

SIFIU is the leading agency in Solomon Islands that is primarily responsible for preventing and detecting money laundering and terrorist financing activities. The SIFIU is a small unit with only four (4) officers; three full time officers and the seconded officer from the Ministry of Police, National Security and Corrective Services. In terms of operational functions; the SIFIU reports to the Anti-Money Laundering Commission (AMLCC), established under section 11 (1) of the MLPCA 2010. The Attorney General of Solomon Islands chairs the Commission.

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

Funding of SIFIU operations

Funding for the operation of the SIFIU in 2018 came from the SI Government and the Central Bank of Solomon Islands, totalled up to $1,104,403.80; $809,820 from the Government and $294,603.80 from the CBSI. At the end of 2017, the SIFIU overspent its budgeted revenue by $157,896.74. The amount was carried forward as money owed to the CBSI at the beginning of 2018. The SIFIU settled the amount when the first grant payment was received from the government at the beginning of the year. Considering the debt paid to the CBSI at the beginning of the year, SIFIU’s actual funding available for its operation in 2018 was only $928,907.06. Apart from a funding contribution that goes toward meeting the salaries and other benefits of two (2) of its officers, the CBSI also supported the SIFIU through some of its vital expenditure heads, such as medical benefits, leave entitlements, office equipment and IT services.

AML/CFT NATIONAL RISK ASSESSMENT

Solomon Islands undertook a comprehensive Anti Money Laundering / Counter Financing of Terrorism (AML/ CFT) National Risk Assessment in 2017. The work began in June 2016 and was completed in September 2017. The Attorney General, also the Chairman of the AML/CFT National Risk Assessment Commission signed the report in November 2018. The AML/CFT NRA report now is available for all law enforcement agencies in the country to access. As a small island jurisdiction with limited resources, institutions that are part of the global fight against money laundering and terrorism financing activities could now put in place better plans, as well as prioritizing and allocating adequate resources on the riskier areas.

SIFIU Membership

SIFIU is a member of the Asia Pacific Group (APG) on Money Laundering and also a member of the EGMUNT 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.

Relationships with reporting agencies

The SIFIU maintained close working relationships with the reporting agencies during the year. Quarterly meetings were held with the AML reporting officers from the four (4) commercial banks in the country, ANZ, IRP, POBL 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.

Financial Scams

The SIFIU was involved in advising the public against “financial scams”. The Unit attended to numerous queries from the public during the year on false financial schemes and purported lottery wins. The infamous Family Charity Fund scam is still prevalent in Honiara and 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 however not been heeded.

AML REPORTS RECEIVED BY SIFIU

There was a decline in the number of reports SIFIU received from the reporting entities in 2018. The underlying cause of this was mainly due to changes to the way people use cash. People are now making transactions through internet and mobile banking. The introduction of new technology with the use of mobile phones has however not been heeded.

For the Electronic Funds Transfer Reports (EFTR), people continue to play their part in ensuring the financial system of the country is free from money laundering and terrorism financing activities.

<table>
<thead>
<tr>
<th>Type of Report</th>
<th>Received 2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>STR</td>
<td>63</td>
<td>89</td>
<td>15</td>
<td>22</td>
</tr>
<tr>
<td>CTR</td>
<td>42,710</td>
<td>58,157</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>EFTR</td>
<td>21,226</td>
<td>26,006</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>BCR</td>
<td>53</td>
<td>59</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The percentage of attendance to meetings by members is zero. The main reason why no formal meetings held by the AMLTEG during the year was that members were heavily involved in other meetings organised by the SI-FIU for the National Risk Assessment and mutual evaluation. The Anti-Money Laundering Reporting Officers (AMLROs) met only once during the year with only a 6% turnout rate. The lower turnout rate for meetings is also due to the small size of the Unit where not all officers are always present in the office during scheduled meeting times. Moreover, it is part of SIFIU officers’ job responsibilities to undertake other activities outside of office, such as travelling outside of the country to attend workshops and training in the Provincial centres.

### CHAPTER 7: CALENDAR OF EVENTS 2018

<table>
<thead>
<tr>
<th>MONTH</th>
<th>EVENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>JANUARY</td>
<td>• Deputy Governor hosted a staff talk to set the vision for the year</td>
</tr>
<tr>
<td>FEBRUARY</td>
<td>• Minister of Finance appoints three new Board Directors.</td>
</tr>
<tr>
<td>MARCH</td>
<td>• Board Meeting No. 1 is held in Honiara.</td>
</tr>
<tr>
<td>APRIL</td>
<td>• Board Meeting No. 3 is held in Honiara.</td>
</tr>
<tr>
<td>MAY</td>
<td>• The 2017 CBSI Annual Report with the theme “Reform to Transform” is launched and presented to the Minister of Finance.</td>
</tr>
<tr>
<td>JUNE</td>
<td>• CBSI hosted its Microfinance Business Award with five women entrepreneurs receiving awards.</td>
</tr>
<tr>
<td>JULY</td>
<td>• To mark the country’s 40th anniversary of Independence, the Bank launched a commemorative $40 note and coloured $2 coin.</td>
</tr>
<tr>
<td>AUGUST</td>
<td>• CBSI and MOFT hosted a regional PFTAC workshop on ‘Macroeconomic Policy for Stabilization and Growth in the Pacific’ in Honiara.</td>
</tr>
<tr>
<td>SEPTEMBER</td>
<td>• CBSI hosted staff from BPNG and RBV for the Pacific Central Bank Exchange Program with an MOU for greater cooperation and social events.</td>
</tr>
<tr>
<td>OCTOBER</td>
<td>• If an Article IV mission visits CBSI.</td>
</tr>
<tr>
<td>NOVEMBER</td>
<td>• The CBSI Board held its first provincial meeting in Tigoa, Renell Bellona Province.</td>
</tr>
<tr>
<td>DECEMBER</td>
<td>• Governor and Norma Qureshi were recognized with awards at the API Global Policy Forum in Russia for their contributions to financial inclusion.</td>
</tr>
<tr>
<td></td>
<td>• Dr Luke Forau attended the Australia-Solomon Islands Business Forum in Brisbane.</td>
</tr>
<tr>
<td></td>
<td>• The Bank farewell Deputy Governor Gane Simbe. Dr. Luke Forau appointed the new Deputy Governor of the CBSI.</td>
</tr>
<tr>
<td></td>
<td>• Board Meeting No. 6 approves the September 2018 Monetary Policy Stance.</td>
</tr>
<tr>
<td></td>
<td>• Governor attended IMF-World Bank Annual meeting in Bali, Indonesia</td>
</tr>
<tr>
<td></td>
<td>• US Federal Reserve Bank officials visit CBSI.</td>
</tr>
<tr>
<td></td>
<td>• Governor, CM/FMS, and CM/ERS attended the South Pacific Governors Meeting in Apia, Samoa.</td>
</tr>
<tr>
<td></td>
<td>• Board Meeting No. 7 considered the Institutional Review Report. While, Board Meeting No. 8 approved the Bank’s 2019 Business Plan and Budget.</td>
</tr>
</tbody>
</table>

### TABLE 6.1: TYPE AND NUMBER OF REPORTS RECEIVED BY SIFIU IN 2018

<table>
<thead>
<tr>
<th>Type of Reports</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suspicious Transaction Report (STR)</td>
<td>63</td>
<td>89</td>
<td>15</td>
</tr>
<tr>
<td>Cash Transaction Report (CTR)</td>
<td>42,710</td>
<td>58,157</td>
<td>-</td>
</tr>
<tr>
<td>Electronic Funds Transfer Report (EFTR)</td>
<td>21,226</td>
<td>26,006</td>
<td>-</td>
</tr>
</tbody>
</table>

### TABLE 6.2: OVER SEAS & LOCAL TRAININGS/WORKSHOPS AND MEETINGS ATTENDED IN 2018

<table>
<thead>
<tr>
<th>Month</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>JANUARY</td>
<td>Board induction conducted for the new Directors.</td>
</tr>
<tr>
<td></td>
<td>Board Meeting No. 2 approves the March 2018 Monetary Policy Stance.</td>
</tr>
<tr>
<td>FEBRUARY</td>
<td>IMF Staff mission visited the Bank</td>
</tr>
<tr>
<td>MARCH</td>
<td>Board Meeting No. 1 is held in Honiara.</td>
</tr>
<tr>
<td>APRIL</td>
<td>IMF Article IV mission visits CBSI.</td>
</tr>
<tr>
<td>MAY</td>
<td>The CBSI Board held its first provincial meeting in Tigoa, Renell Bellona Province.</td>
</tr>
<tr>
<td>JUNE</td>
<td>CBSI hosted its Microfinance Business Award with five women entrepreneurs receiving awards.</td>
</tr>
<tr>
<td>JULY</td>
<td>To mark the country’s 40th anniversary of Independence, the Bank launched a commemorative $40 note and coloured $2 coin.</td>
</tr>
<tr>
<td>AUGUST</td>
<td>Institutional Review Consultant, John Mendzela visits CBSI.</td>
</tr>
<tr>
<td>SEPTEMBER</td>
<td>Governor attended IMF-World Bank Annual meeting in Bali, Indonesia</td>
</tr>
<tr>
<td>OCTOBER</td>
<td>US Federal Reserve Bank officials visit CBSI.</td>
</tr>
<tr>
<td>NOVEMBER</td>
<td>Governor, CM/FMS, and CM/ERS attended the South Pacific Governors Meeting in Apia, Samoa.</td>
</tr>
<tr>
<td>DECEMBER</td>
<td>Governor attended and was a panellist at PFTAC’s 25th Anniversary in Nadi, Fiji.</td>
</tr>
</tbody>
</table>

Local Training and Workshops Conducted

The unit also conducted workshops for local stakeholders in the country as well, as shown in Table 6.4.

### TABLE 6.4: LOCAL TRAININGS CONDUCTED BY SIFIU

<table>
<thead>
<tr>
<th>Particular of Training</th>
<th>Participants</th>
<th>Facility</th>
<th>Number of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-HE Workshop</td>
<td>27</td>
<td>CBSI</td>
<td>CBSI/SIFIU</td>
</tr>
<tr>
<td>Credit Union Refresher Training</td>
<td>20+</td>
<td>Licensed Credit Unions</td>
<td></td>
</tr>
</tbody>
</table>
# 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 2018 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/Luke Forau (Deputy Governor)
- Harry Kuma (Permanent Secretary of Finance)
- Thomas Ko Chan
- John Usuramo
- David K C Quan
- Christina Lasanga
- Dennis Meone
- Rodney Rutepitu

## 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 2018 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, of the Bank for the year then ended.

## PRINCIPAL activities

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

(a) to achieve and to maintain domestic price stability;
(b) to foster and to maintain a stable financial system;
(c) to support the general economic policies of the government.

## RESULTS

The net profit of the Bank for the year ended 31 December 2018 was $83.6 million (2017: $30.5 million profit).

## RESERVES

The Board approved the following transfers of reserves in the statement of profit and loss and other comprehensive income during the year ($83.6 million) to the general reserve and the capital asset 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 believe that the Bank will be able to continue to operate for at least 12 months from the date of this report.
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, 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 sixth day of May 2019

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

[Signatures]

Luke Forau       David KC Quan
Deputy Governor      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 2018;

(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 2018;

(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 2018;

(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 2018;

(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 6th of May 2019.

[Signatures]

Luke Forau       David KC Quan
Deputy Governor      Director
INDEPENDENT AUDITOR’S REPORT TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOLOMON ISLANDS

REPORT ON THE FINANCIAL STATEMENTS

Opinion
I have in joint consultation with the Board of Directors of the Central Bank of Solomon Islands (“the Bank”) and pursuant to Section 60(1) of the Central Bank of Solomon Islands Act 2012 contracted PricewaterhouseCoopers Fiji which is part of the PricewaterhouseCoopers International network, to assist me to audit the accompanying financial statements of the Bank as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 with 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.

Other information
Directors and Management are responsible for the other information. The other information comprises the information included in the Bank’s Annual Report for the year ended 31 December 2018 (but does not include the financial statements and my auditor’s report thereon).

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsible for the Audit of the Financial Statements
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 my 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 the directors and 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. However, future events or conditions may cause the Bank to cease to continue as a going concern and

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 the directors and management 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, are 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 us the financial statements give the information required by the Section 51 (1) of the Central Bank of Solomon Islands Act 2012, in the manner so required.

iii) the Bank has not complied with Section 58 of the Central Bank of Solomon Islands Act 2012 which requires the audited financial statements and the auditor’s report thereon to be presented to the Minister of Finance within four months of the end of the financial year. The management signed financial statements were not presented to me until 7th May 2019. The Bank did inform the Minister of Finance prior to the due date that it expected the audited statements to be delayed.

PETER LOKAY
Auditor-General
Honaiara, Solomon Islands
10th May, 2019
**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

<table>
<thead>
<tr>
<th>Note</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>4(a)</td>
<td>85,587</td>
</tr>
<tr>
<td>Fees and commission income</td>
<td>4(b)</td>
<td>73,495</td>
</tr>
<tr>
<td>Other income</td>
<td>4(c)</td>
<td>1,302</td>
</tr>
<tr>
<td>Change in fair value of investment properties</td>
<td>10</td>
<td>836</td>
</tr>
<tr>
<td>Net unrealized foreign exchange revaluation gain</td>
<td></td>
<td>2,680</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td></td>
<td>163,899</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>4(d)</td>
<td>5,508</td>
</tr>
<tr>
<td>Fees and commission expense</td>
<td>4(e)</td>
<td>1,296</td>
</tr>
<tr>
<td>Administration expenses</td>
<td>4(f)</td>
<td>48,220</td>
</tr>
<tr>
<td>Other expenses</td>
<td>4(g)</td>
<td>25,360</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td></td>
<td>80,284</td>
</tr>
<tr>
<td><strong>Net operating (loss)/profit</strong></td>
<td></td>
<td>83,615</td>
</tr>
<tr>
<td><strong>Other comprehensive income/(loss)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that will not be reclassified to profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net change in fair value (property, plant and equipment)</td>
<td></td>
<td>14,958</td>
</tr>
<tr>
<td>Net change in fair value (available for sale financial assets)</td>
<td></td>
<td>(1,806)</td>
</tr>
<tr>
<td>Income from demonetisation</td>
<td></td>
<td>27</td>
</tr>
<tr>
<td><strong>Total comprehensive (loss)/income</strong></td>
<td></td>
<td>20,361</td>
</tr>
</tbody>
</table>

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

Luke Fotua
Deputy Governor

David KC Quan
Director

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**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2018**

<table>
<thead>
<tr>
<th>Note</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign currency assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash at bank</td>
<td>20</td>
<td>955,001</td>
</tr>
<tr>
<td>Accrued interest</td>
<td></td>
<td>26,784</td>
</tr>
<tr>
<td>Held-to-maturity investments</td>
<td>5</td>
<td>3,748,353</td>
</tr>
<tr>
<td>Available-for-sale investments</td>
<td>6</td>
<td>251,538</td>
</tr>
<tr>
<td>International Monetary Fund</td>
<td>7</td>
<td>248,309</td>
</tr>
<tr>
<td><strong>Total foreign currency assets</strong></td>
<td></td>
<td>5,229,985</td>
</tr>
<tr>
<td><strong>Local currency assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash on hand</td>
<td>20</td>
<td>599</td>
</tr>
<tr>
<td>Loans and advances</td>
<td>8</td>
<td>13,857</td>
</tr>
<tr>
<td>Currency inventory</td>
<td>9</td>
<td>37,511</td>
</tr>
<tr>
<td>Investment properties</td>
<td>10</td>
<td>174,267</td>
</tr>
<tr>
<td>Intangibles</td>
<td>11</td>
<td>443</td>
</tr>
<tr>
<td>Other assets</td>
<td>12</td>
<td>27,216</td>
</tr>
<tr>
<td><strong>Total local currency assets</strong></td>
<td></td>
<td>256,220</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>5,486,205</td>
</tr>
<tr>
<td><strong>Foreign currency liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Monetary Fund</td>
<td>7</td>
<td>355,488</td>
</tr>
<tr>
<td>Demand deposits</td>
<td>13(a)</td>
<td>145,908</td>
</tr>
<tr>
<td><strong>Total foreign currency liabilities</strong></td>
<td></td>
<td>501,395</td>
</tr>
<tr>
<td><strong>Local currency liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand deposits</td>
<td>13(b)</td>
<td>3,038,648</td>
</tr>
<tr>
<td>Currency in circulation</td>
<td>14</td>
<td>947,167</td>
</tr>
<tr>
<td>Fixed deposits</td>
<td>15</td>
<td>761,673</td>
</tr>
<tr>
<td>SIG monetary operations account</td>
<td>16</td>
<td>7,209</td>
</tr>
<tr>
<td>Employee entitlements</td>
<td>17</td>
<td>43</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>18</td>
<td>6,581</td>
</tr>
<tr>
<td><strong>Total local liabilities</strong></td>
<td></td>
<td>4,955,796</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td>5,337,102</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td>149,103</td>
</tr>
<tr>
<td><strong>Capital and reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid up capital</td>
<td>21</td>
<td>50,000</td>
</tr>
<tr>
<td>General reserve</td>
<td>22(a)</td>
<td>172,188</td>
</tr>
<tr>
<td>Foreign exchange revaluation reserve</td>
<td>22(b)</td>
<td>196,499</td>
</tr>
<tr>
<td>Asset revaluation reserve</td>
<td>22(c)</td>
<td>120,112</td>
</tr>
<tr>
<td>Gold revaluation reserve</td>
<td>22(d)</td>
<td>60,242</td>
</tr>
<tr>
<td>Capital asset reserve</td>
<td>22(e)</td>
<td>69,084</td>
</tr>
<tr>
<td><strong>Total capital and reserves</strong></td>
<td></td>
<td>149,103</td>
</tr>
</tbody>
</table>

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

Luke Fotua
Deputy Governor

David KC Quan
Director

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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 65.
### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

<table>
<thead>
<tr>
<th>Issued &amp; paid up capital</th>
<th>Gold revaluation reserve</th>
<th>General reserve</th>
<th>Foreign exchange assets revaluation reserve</th>
<th>Asset revaluation reserve</th>
<th>Capital assets reserve</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>Balance at 1 January 2017</td>
<td>50,000</td>
<td>(99,929)</td>
<td>77,021</td>
<td>(214,677)</td>
<td>104,318</td>
<td>61,875</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit (loss) for the year (Note 19)</td>
<td>-</td>
<td>-</td>
<td>15,967</td>
<td>15,498</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other comprehensive income/(losses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value losses - gold</td>
<td>-</td>
<td>25,955</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25,955</td>
</tr>
<tr>
<td>Fair value gain - Property, plant and equipment</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total comprehensive income/(losses)</td>
<td>-</td>
<td>25,955</td>
<td>15,967</td>
<td>15,498</td>
<td>-</td>
<td>51,418</td>
</tr>
<tr>
<td>Balance as at 31 December 2017</td>
<td>50,000</td>
<td>(63,974)</td>
<td>92,088</td>
<td>(199,179)</td>
<td>104,318</td>
<td>61,875</td>
</tr>
<tr>
<td>Balance at 1 January 2018</td>
<td>50,000</td>
<td>(63,974)</td>
<td>92,088</td>
<td>(199,179)</td>
<td>104,318</td>
<td>61,875</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit (loss) for the year (Note 19)</td>
<td>-</td>
<td>-</td>
<td>80,100</td>
<td>2,680</td>
<td>836</td>
<td>83,616</td>
</tr>
<tr>
<td>Other comprehensive income/(losses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value losses - gold</td>
<td>-</td>
<td>(1,806)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,806)</td>
</tr>
<tr>
<td>Fair value gain - Property, plant and equipment</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Income from demonetisation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7,209</td>
<td>7,209</td>
</tr>
<tr>
<td>Total Other comprehensive income/(losses)</td>
<td>-</td>
<td>(1,806)</td>
<td>80,100</td>
<td>2,680</td>
<td>15,794</td>
<td>103,976</td>
</tr>
<tr>
<td>Balance as at 31 December 2018</td>
<td>50,000</td>
<td>(65,781)</td>
<td>172,188</td>
<td>(196,499)</td>
<td>120,112</td>
<td>69,084</td>
</tr>
</tbody>
</table>

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

<table>
<thead>
<tr>
<th>Note</th>
<th>2018 $000</th>
<th>2017 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>69,603</td>
<td>43,610</td>
</tr>
<tr>
<td>Other income</td>
<td>74,979</td>
<td>34,716</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(5,508)</td>
<td>(5,249)</td>
</tr>
<tr>
<td>Cash paid to suppliers and employees</td>
<td>(76,497)</td>
<td>(50,727)</td>
</tr>
<tr>
<td>Net movement in held to maturity investments</td>
<td>(476,991)</td>
<td>(998,634)</td>
</tr>
<tr>
<td>Net movement in International Monetary Fund accounts</td>
<td>(2,649)</td>
<td>25,357</td>
</tr>
<tr>
<td>Net movement in other receivables</td>
<td>36,683</td>
<td>(4,441)</td>
</tr>
<tr>
<td>Net movement in other receivables</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash flows (used in) operating activities</td>
<td>(380,524)</td>
<td>(555,386)</td>
</tr>
</tbody>
</table>

### Investing activities | | |
| Acquisition of property, plant and equipment | (5,337) | (4,943) |
| Proceeds from sale of premises, plant and equipment | - | 301 |
| Net movement in available-for-sale investments | (9,311) | - |
| Net movement in loan to government | (49) | (10) |
| Net movement in loans and advances to staff | (877) | (660) |
| Cash flows used in investing activities | (14,574) | (5,212) |

### Financing activities | | |
| Net movement in currency in circulation | 22,858 | 63,124 |
| Net movement in demand deposits | 512,253 | 93,317 |
| Net movement in fixed deposits received | 14 | - |
| Solomon Islands government monetary operations | (138,960) | 147,863 |
| Net movement in International Monetary Fund credit facilities | (12,013) | (30,973) |
| Cash flows from financing activities | 384,132 | 273,907 |
| Net effect of exchange rates | 2,680 | 15,498 |
| Net increase/(decrease) in cash | (9,286) | (271,175) |
| Cash and cash equivalents at the beginning of the financial year | 777,559 | 1,048,734 |
| Cash and cash equivalents at the end of the financial year | 769,272 | 777,559 |
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 Medall Alley Street, Honiara, Solomon Islands.

The financial statements were authorised for issue by the Board of Directors on 6th of May 2019.

2. Basis of preparation

(a) Statement of compliance

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

The Bank has complied with the requirements of Section 56 of the Central Bank of Solomon Islands Act, 2012.

(b) Going concern basis of accounting

The financial statements have been prepared on a going concern basis not withstanding that as at 31 December 2018 the Bank had a surplus in net assets of $173m. The Bank’s continuation as a going concern is dependent upon the continued support of the Solomon Islands Government. These conditions indicate the existence of a material uncertainty which may cast doubt on the Bank’s ability to continue as a going concern.

The Bank’s going concern assumption is based on the assumption that the Bank will be able to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability or classification of recorded asset amounts and classification of liabilities that might be necessary should the Bank be unable to continue as a going concern.

(c) Basis of measurement

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

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

(d) 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.

(e) Use of estimates and judgement

The preparation of the financial statements in conformity with IFRS requires management to make judgments, 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.

The 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:

The more significant areas of estimation include the estimation of factors that go into the determination of any impairment allowances for financial assets, the determination of fair values and particularly those level 3 type valuations of properties, and in the determination of the general economic policies.

3. Statement of significant accounting policies

Changes in accounting policies

The Bank has adopted the following accounting standards which became effective from 1 January 2018:

Due to the transition methods chosen by the Bank in applying IFRS 9 Financial Instruments, comparative information throughout these financial statements has not been restated to reflect its requirements.

Except for the changes below, the Bank has consistently applied the accounting policies to all periods presented in the financial statements.

(i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – a point in time or over point in time – requires judgement.

The Bank has adopted IFRS 15 using the cumulative effective method with the effect of initially applying this standard recognised at the date of initial application (i.e., 1 January 2018) and applying the requirements to only contracts that are not completed at the date of initial application. Accordingly, the information presented for 2017 has not been restated - i.e., it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements of IFRS 15 have not generally been applied to comparative information.

The adoption of IFRS 15 Revenue from Contracts with Customers did not impact the timing or amount at revenue from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on comparative information is limited to new disclosure requirements of the standards.

(ii) IFRS 9 Financial Instruments

The Bank has adopted IFRS 9 Financial Instruments issued with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Bank adopted consequential amendments to IAS 1 Presentation of Financial Statements which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Bank’s approach was to include the impairment on financial assets in other expenses.

Additionally, the Bank adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

The nature and effects of the key changes to the Bank’s accounting policies resulting from its adoption of IFRS 9 are summarised below:

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

For an explanation of how the Bank classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 3(j).

The adoption of IFRS 9 has not had a significant effect on the Bank’s accounting policies for financial liabilities.

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets, debt investments at FVTPL, but not to investments in equity instruments. Under IFRS 9, credit losses are generally recognised earlier than under IAS 39 – see note 3(j).

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

• Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in general reserve as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

• The determination of the business model within which a financial asset is held is an assessment that has been made on the basis of the facts and circumstances that existed at the date of initial application.

• If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The impact of transition to IFRS 9 as at 1 January 2018 was not considered material by the Bank thus the general reserve at 1 January 2018 had not been adjusted.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Bank’s financial assets and financial liabilities as at 1 January 2018:

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The Bank’s accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3(d). The application of these policies resulted in the reclassifications set out in the table above and explained below:

Cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost and allowance for impairment was recognised in opening general reserve at 1 January 2018 on transition to IFRS 9. Debt securities that were previously classified as loans and receivables and held-to-maturity are now classified at amortised cost. The Bank intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

No differences have been identified between the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9. On 1 January 2018, the calculation of interest income reverts to the gross basis in case the asset is credit-impaired. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Interest income or expense is recognised using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Revenue from contracts with customers

Policy applicable from 1 January 2018

Revenue is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers.

<table>
<thead>
<tr>
<th>Nature, timing of satisfaction of performance obligations and significant payment terms</th>
<th>Revenue recognition under IFRS 15 (applicable from 1 January 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales include the selling of numismatic to the customer. Performance obligation is satisfied when the customer received the numismatic coin. At this point, the revenue is recognised.</td>
<td>Revenue and associated costs are recognised when the goods are provided - i.e. when the numismatic is issued to the customer.</td>
</tr>
<tr>
<td>The income involves the spreads earned by the Bank in buy and sell arrangements (sold deals) and sell and buy back arrangements (bought deals) of foreign currencies. Performance obligation is satisfied when the customer is issued with a deal voucher of the deals. At this point, the revenue is recognised.</td>
<td>Revenue and associated costs are recognised when the deals are provided - i.e. when the deal is issued to the customer.</td>
</tr>
</tbody>
</table>

Other income

Other income is brought to account on an accrual basis.

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).

Financial assets and financial liabilities

Policy applicable from 1 January 2018

Recognition and initial measurement

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 (FVPL), transaction costs that are directly attributable to its acquisition or issue.

Classification and subsequent measurement

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment’s fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the require-
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In those cases, the transferred assets are not derecognised.

Financial liabilities
The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss. In other cases, it is presented as interest income.

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment
Financial assets
The Bank recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

The Bank measures loss allowances at an amount equal to the lifetime ECL, except for the following, which are measured as 12-month ECLs:

• debt securities that are determined to have low credit risk at the reporting date; and
• other debt securities and Bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and including forward-looking information.

The Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Bank considers a financial asset to be in default when:

• the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
• the financial asset is more than 90 days past due.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Bank considers this to be a higher per rating agency Moody’s or BBB- or higher per rating agency Standard & Poor’s.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

• financial assets that are non-credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
• financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Derecognition Financial assets
The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss. In other cases, it is presented as interest income.

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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• other debt securities and Bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and analysis, based on the Bank’s historical experience and informed credit assessment and including forward-looking information.

The Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Bank considers a financial asset to be in default when:

• the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
• the financial asset is more than 90 days past due.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Bank considers this to be a higher per rating agency Moody’s or BBB- or higher per rating agency Standard & Poor’s.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

• financial assets that are non-credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
• financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Derecognition Financial assets
The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss. In other cases, it is presented as interest income.

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment
Financial assets
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The Bank measures loss allowances at an amount equal to the lifetime ECL, except for the following, which are measured as 12-month ECLs:

• debt securities that are determined to have low credit risk at the reporting date; and
• other debt securities and Bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative and qualitative information and analysis, based on the Bank’s historical experience and informed credit assessment and including forward-looking information.

The Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Bank considers a financial asset to be in default when:

• the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
• the financial asset is more than 90 days past due.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Bank considers this to be a higher per rating agency Moody’s or BBB- or higher per rating agency Standard & Poor’s.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

• financial assets that are non-credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
• financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Derecognition Financial assets
The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.
Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a receivable by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowances for ECL in the statement of financial position
Loss allowances for ECL for financial assets measured at amortised cost are presented in the statement of financial position as a deduction from the gross carrying amount of the assets.

Write-off
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank’s procedures for recovery of amounts due.

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.

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.

Policy applicable before 1 January 2018

Recognition and initial measurement
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 (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

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

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

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

Derecognition
Financial assets
The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not maintain effective control over the transferred financial asset. Any interest in such transferred or derecognised financial assets that qualify for derecognition are created or retained by the Bank is recognised as a separate asset or liability.

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.

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.

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.

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 deferral 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 correlate with defaults or the disappearance of an active market for a security.

(c) 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.

(f) Held-to-maturity investments
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.

(g) Available-for-sale investments
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.

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

(l) Currency inventory
Currency inventory is recognised in the statement of financial position at cost.

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

(f) 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.

(k) 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.

Costs includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functional-
ity 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: 4 - 55 years
- Computers: 3 years
- Furniture, plant and equipment: 3 - 5 years
- Motor vehicles: 4 years

**Periodic revaluation**

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded on an historical cost basis. With Board approval, a three year periodical revaluation of its land and buildings is done. As part of this cycle a revaluation was completed at 31 December 2018. 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 valuations are performed by an independent valuer. The Board will continue to have such asset revaluations every three years. The next revaluations will be done in 2021.

**Investment properties**

Investment property is 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. The fair values are determined on a similar basis as with other property valuations referred to above and are based on valuations performed by an independent valuer.

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 retained earnings.

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

**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.

**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 comprise of long service leave and early retirement benefits.

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 portfolios.

**Impairment**

The carrying amounts of the Bank’s non-financial 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.

**Comparative figures**

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

**New standards and interpretations not yet adopted**

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. The Bank will now be required to 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.
5. Held-to-maturity investments

Fixed term deposits  3,590,339  3,105,070
Short term commercial paper  187,749  182,623
Bonds  156,493  169,997
Net 3,834,601  3,457,690

6. Available-for-sale investments

Unallocated gold - at fair value  121,926  118,773
Gold bullion - at fair value  129,622  126,261
Balance 251,538  245,034

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

The IMF related assets and liabilities

(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 favour 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 subscriptions. 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 extended credit facility with IMF commenced in 2010 with first disbursement received 23rd June 2010. The final disbursement was transected on the 1st of December 2011.

8. Loans and advances

Solomon Islands Government

Loans and advances  46  46
Development bonds  27  27
Treasury bills  49  20

9. Currency inventory

Notes  10,449  7,851
Coins  19,062  21,293
Balance 39,511  29,144

10. Investment properties

Balance at beginning of financial year- at fair value  13,362  13,362
Transfer to Property, Plant and Equipment - (11,806) -
Changes in fair value  866 -
Balance at end of financial year- at fair value  2,324  13,362

Investment property comprises of a commercial and a residential property that are leased to third parties. Each lease contains a lease-investment property comprises of a commercial and a residential properties 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.

Honiara retail price index. Subsequent renewals are negotiated with the lessee.

Investment income from investment properties of $452,935 has been recognised in other income.

Fair value hierarchy

The fair values of investment property and land and buildings included within Property, plant and equipment 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.

<table>
<thead>
<tr>
<th>Valuation technique</th>
<th>Significant unobservable inputs</th>
<th>Inter-relationship between key unobservable inputs and fair value measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>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).</td>
<td>• Depreciation rate applied.</td>
<td>The estimated fair value would increase (decrease) if: • the property located in urban locality; • depreciation rate were lower (higher); • the demand for the land increases.</td>
</tr>
<tr>
<td>Locality of the property</td>
<td>Proximity to civic amenities</td>
<td>Tonnage/ geographical feature of the land</td>
</tr>
<tr>
<td>Demand for the land</td>
<td>Comparative Sales</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Other securities</td>
<td>4,096</td>
</tr>
<tr>
<td>Staff loans</td>
<td>5,078</td>
</tr>
<tr>
<td>Staff housing loans</td>
<td>8,738</td>
</tr>
<tr>
<td>Management car loans</td>
<td>-</td>
</tr>
<tr>
<td>Personal loans</td>
<td>41</td>
</tr>
<tr>
<td>Balance</td>
<td>8,779</td>
</tr>
<tr>
<td>Interest on balances</td>
<td>13,857</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td>Foreign currency assets</td>
<td>35,967</td>
</tr>
<tr>
<td>Reserve tranche position</td>
<td>13,467</td>
</tr>
<tr>
<td>Special drawing rights</td>
<td>199,275</td>
</tr>
<tr>
<td>Currency subscription</td>
<td>248,309</td>
</tr>
<tr>
<td>Foreign currency liabilities</td>
<td>38,540</td>
</tr>
<tr>
<td>Standby credit facility</td>
<td>111,670</td>
</tr>
<tr>
<td>Special drawing rights allocation</td>
<td>3,656</td>
</tr>
<tr>
<td>Extended credit facility</td>
<td>196,361</td>
</tr>
<tr>
<td>Securities</td>
<td>240,203</td>
</tr>
<tr>
<td>Capital subscription</td>
<td>253,538</td>
</tr>
<tr>
<td>Notes</td>
<td>10,884</td>
</tr>
<tr>
<td>Coins</td>
<td>19,062</td>
</tr>
<tr>
<td>Balance</td>
<td>37,932</td>
</tr>
</tbody>
</table>

Note:

- Comparative Sales
- Demand for the land increases.
- Locality of the property
- Proximity to civic amenities
- Tonnography/geographical feature of the land
- Comparative Sales
- The estimated fair value would increase (decrease) if:
- the property located in urban locality;
- • depreciation rate were lower (higher);
- • the demand for the land increases.
### 2018 CBSI Annual Report

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

#### 11. Other assets

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial bank clearing</td>
<td>22,645</td>
<td>53,714</td>
</tr>
<tr>
<td>Others</td>
<td>4,574</td>
<td>10,186</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27,219</strong></td>
<td><strong>63,900</strong></td>
</tr>
</tbody>
</table>

#### 12. Property, plant and equipment

<table>
<thead>
<tr>
<th></th>
<th>Land &amp; buildings</th>
<th>Plant, equipment &amp; furniture</th>
<th>Motor vehicles</th>
<th>Computer Work in progress</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost/valuation</strong></td>
<td><strong>2018</strong></td>
<td><strong>2017</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 1 January 2017</td>
<td>140,972</td>
<td>24,610</td>
<td>1,905</td>
<td>4,907</td>
<td>181,806</td>
</tr>
<tr>
<td>Transfer from Investment property</td>
<td>-</td>
<td>1,420</td>
<td>1,124</td>
<td>1,113</td>
<td>4,843</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfers</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Depreciations</td>
<td>(8)</td>
<td>(931)</td>
<td>-</td>
<td>-</td>
<td>(939)</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2017</strong></td>
<td><strong>140,972</strong></td>
<td><strong>26,022</strong></td>
<td><strong>2,098</strong></td>
<td><strong>10,520</strong></td>
<td><strong>185,710</strong></td>
</tr>
<tr>
<td>Transfer from Investment properties</td>
<td>11,804</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revaluation gain</td>
<td>10,977</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfer to tangibles</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustments to prior year balances</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciations</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Balance at 31 December 2018</strong></td>
<td><strong>163,753</strong></td>
<td><strong>26,391</strong></td>
<td><strong>2,267</strong></td>
<td><strong>8,881</strong></td>
<td><strong>192,838</strong></td>
</tr>
</tbody>
</table>

#### 13. Demand deposits

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency demand deposits</td>
<td>145,908</td>
<td>92,919</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>2,271,897</td>
<td>1,875,049</td>
</tr>
<tr>
<td>Solomon Islands Government</td>
<td>861,346</td>
<td>694,609</td>
</tr>
<tr>
<td>Other financial corporations</td>
<td>5,508</td>
<td>1,273</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,098,648</strong></td>
<td><strong>2,519,833</strong></td>
</tr>
</tbody>
</table>

#### 14. Currency in circulation

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes</td>
<td>915,320</td>
<td>895,790</td>
</tr>
<tr>
<td>Coins</td>
<td>1,347,427</td>
<td>35,729</td>
</tr>
</tbody>
</table>

#### 15. Fixed deposits

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bokolo bills</td>
<td>781,673</td>
<td>781,468</td>
</tr>
</tbody>
</table>

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

#### 16. SIG monetary operations account

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>SIG monetary operations account</td>
<td>60,242</td>
<td>199,222</td>
</tr>
</tbody>
</table>

#### 17. Employee entitlements

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gratuity</td>
<td>2,283</td>
<td>1,082</td>
</tr>
<tr>
<td>Long service leave</td>
<td>745</td>
<td>873</td>
</tr>
<tr>
<td>Early retirement benefit</td>
<td>16,417</td>
<td>17,604</td>
</tr>
</tbody>
</table>

#### 18. Other liabilities

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpresented bank cheques</td>
<td>3,975</td>
<td>8,072</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>2,686</td>
<td>2,483</td>
</tr>
</tbody>
</table>

#### 19. Determination of distributable profit

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

(a) Section 54(2)(a) states that 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;

(b) 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 2018

Accordingly, the profit for the year has been distributed as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018 $000</th>
<th>2017 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit distribution according to CBSI Act. 2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net operating loss</td>
<td>83,616</td>
<td>30,565</td>
</tr>
<tr>
<td>Add/(less) - net unrealised foreign exchange loss/(gain)</td>
<td>(2,680)</td>
<td>(15,498)</td>
</tr>
<tr>
<td>- changes in fair value in investment properties</td>
<td>(83)</td>
<td>-</td>
</tr>
<tr>
<td>Net (loss) /gain to be recorded in general reserve</td>
<td>80,106</td>
<td>15,067</td>
</tr>
</tbody>
</table>

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.

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

<table>
<thead>
<tr>
<th></th>
<th>2018 $000</th>
<th>2017 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents included in the statement of cash flows comprise of the following:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash on hand - local currency</td>
<td>994</td>
<td>191</td>
</tr>
<tr>
<td>Cash and cash equivalents - foreign currency</td>
<td>768,673</td>
<td>777,368</td>
</tr>
<tr>
<td>Held-to-maturity term deposits with maturities up to 3 months</td>
<td>186,328</td>
<td>-</td>
</tr>
<tr>
<td>955,600</td>
<td>777,359</td>
<td></td>
</tr>
</tbody>
</table>

21. Share capital
Section 6 (1) of the CBSI Act, states that the authorised and paid up capital of the bank shall be an amount equivalent to $50 million dollars (2014: $50 million). The capital is fully subscribed by the Government of Solomon Islands.

<table>
<thead>
<tr>
<th></th>
<th>2018 $000</th>
<th>2017 $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Transfer from General Reserve according to Section 6(1) of CBSI Act, 2012</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>50,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

22. Reserves
Under Section 55(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 55(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 and 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) 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. 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.

2018 CBSI Annual Report

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 risk management framework 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 reviews.

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 maturity analysis noted below includes all financial assets and liabilities at the respective dates.

<table>
<thead>
<tr>
<th>Maturity analysis as at 31 December 2018</th>
<th>On Demand $000</th>
<th>0-3 Months $000</th>
<th>3-6 Months $000</th>
<th>6-12 Months $000</th>
<th>Over Year $000</th>
<th>Undefinable $000</th>
<th>Total $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign currency financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money on demand</td>
<td>768,673</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>768,673</td>
<td></td>
</tr>
<tr>
<td>Accrued Interest</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fixed term deposit</td>
<td>-</td>
<td>1,146,308</td>
<td>2,444,032</td>
<td>-</td>
<td>1,146,308</td>
<td>3,590,340</td>
<td></td>
</tr>
<tr>
<td>Holding on special drawing rights</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13,467</td>
<td>13,467</td>
</tr>
<tr>
<td>Reserve tranche</td>
<td>-</td>
<td>35,567</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>35,567</td>
<td></td>
</tr>
<tr>
<td>Subscription</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Geld investment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>251,538</td>
<td>251,538</td>
</tr>
<tr>
<td>Bonds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>156,493</td>
<td>156,493</td>
</tr>
<tr>
<td>Short term</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>187,484</td>
<td>187,484</td>
</tr>
<tr>
<td></td>
<td>768,673</td>
<td>1,334,156</td>
<td>2,470,816</td>
<td>156,493</td>
<td>499,848</td>
<td>5,229,986</td>
<td></td>
</tr>
<tr>
<td>Local currency financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash on hand</td>
<td>999</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>999</td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>-</td>
<td>27,216</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>27,216</td>
<td></td>
</tr>
<tr>
<td>Loans and advances</td>
<td>-</td>
<td>13,857</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13,857</td>
<td></td>
</tr>
<tr>
<td></td>
<td>999</td>
<td>27,216</td>
<td>13,857</td>
<td>-</td>
<td>-</td>
<td>41,472</td>
<td></td>
</tr>
<tr>
<td>Total Financial Assets</td>
<td>769,272</td>
<td>1,361,372</td>
<td>2,470,816</td>
<td>170,350</td>
<td>499,808</td>
<td>5,271,658</td>
<td></td>
</tr>
<tr>
<td>Foreign currency financial liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand deposits</td>
<td>145,908</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>145,908</td>
<td></td>
</tr>
</tbody>
</table>

56
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Maturity analysis as at 31 December 2017

<table>
<thead>
<tr>
<th>Maturity analysis as at 31 December 2017</th>
<th>On Demand</th>
<th>0-3 Months</th>
<th>3-6 Months</th>
<th>6-12 Months</th>
<th>Over Year</th>
<th>Undefined</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>Foreign currency financial assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money on demand</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Interest</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed term deposit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Holding on special drawing rights</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve tranche</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gold investment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short term</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,644,341</td>
<td>1,665,332</td>
<td>-</td>
<td>170,812</td>
<td>1,261,564</td>
<td>4,752,049</td>
<td></td>
</tr>
</tbody>
</table>

Local currency financial assets

<table>
<thead>
<tr>
<th>Local currency financial assets</th>
<th>On Demand</th>
<th>0-3 Months</th>
<th>3-6 Months</th>
<th>6-12 Months</th>
<th>Over Year</th>
<th>Undefined</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand</td>
<td>191</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>191</td>
</tr>
<tr>
<td>Loans and advances</td>
<td>199</td>
<td>62,744</td>
<td>-</td>
<td>12,931</td>
<td>-</td>
<td>75,866</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>191</td>
<td>1,707,085</td>
<td>1,665,332</td>
<td>183,743</td>
<td>1,261,564</td>
<td>4,807,915</td>
<td></td>
</tr>
</tbody>
</table>

Foreign currency financial liabilities

<table>
<thead>
<tr>
<th>Foreign currency financial liabilities</th>
<th>On Demand</th>
<th>0-3 Months</th>
<th>3-6 Months</th>
<th>6-12 Months</th>
<th>Over Year</th>
<th>Undefined</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand deposits</td>
<td>152,999</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>152,999</td>
<td></td>
</tr>
<tr>
<td>IMF standby credit facility</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>IMF special drawing rights allocation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>IMF extended credit facility</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Securities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Capital subscription</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,928</td>
<td>4,928</td>
</tr>
<tr>
<td>Total</td>
<td>152,999</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>152,999</td>
<td></td>
</tr>
</tbody>
</table>

Local currency financial liabilities

<table>
<thead>
<tr>
<th>Local currency financial liabilities</th>
<th>On Demand</th>
<th>0-3 Months</th>
<th>3-6 Months</th>
<th>6-12 Months</th>
<th>Over Year</th>
<th>Undefined</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand deposits</td>
<td>2,786,763</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,786,763</td>
<td></td>
</tr>
<tr>
<td>Currency in circulation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>924,300</td>
<td>924,300</td>
</tr>
<tr>
<td>SIG monetary operations account</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17,695</td>
<td>17,695</td>
</tr>
</tbody>
</table>

(c) Credit risk

Credit risk is the risk of loss arising from a counterparty to a financial contract failing to discharge its obligations. Selection of a counterparty is made based on their respective credit rating. Investment decisions are based on the credit rating of the particular issuer, country limits and counterparty limits in place to control exposure risk. The Bank uses Standard and Poor’s, Moody’s and Fitch credit ratings for assessing the credit risk of foreign counterparties. The credit ratings of counterparties 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:

<table>
<thead>
<tr>
<th>Portfolio Type</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000</td>
<td>$000</td>
</tr>
<tr>
<td>Foreign currency assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>768,673</td>
<td>777,368</td>
</tr>
<tr>
<td>Held to maturity investment</td>
<td>3,934,381</td>
<td>3,457,690</td>
</tr>
<tr>
<td>International monetary fund</td>
<td>240,309</td>
<td>240,203</td>
</tr>
<tr>
<td>Gold investment</td>
<td>251,530</td>
<td>245,674</td>
</tr>
<tr>
<td>Local currency assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and advances</td>
<td>13,857</td>
<td>12,931</td>
</tr>
<tr>
<td>Total</td>
<td>5,217,058</td>
<td>4,720,295</td>
</tr>
</tbody>
</table>

The following table presents the Bank’s financial assets and Gold held with financial institutions based on Moody’s credit rating of the foreign counterparties. Aaa is the highest quality rating possible and indicates the counterparty has a strong capacity to pay interest and principal. N/R indicates that the counterparty has not been rated by Moody.

Concentration by currency

<table>
<thead>
<tr>
<th>Credit Rating</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aaa</td>
<td>21</td>
<td>34</td>
</tr>
<tr>
<td>Aa1 – Aa3</td>
<td>37</td>
<td>30</td>
</tr>
<tr>
<td>A1 – A3</td>
<td>21</td>
<td>16</td>
</tr>
<tr>
<td>Ba1+ – Ba3</td>
<td>21</td>
<td>12</td>
</tr>
<tr>
<td>B1+ – B3</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>N/R</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Cash

The Bank held cash of $769.3 million at 31 December 2018 (2017: $777.6 million). The cash is held with banks, which are rated Baa2 to Aaa, based on Moody’s ratings.

Impairment on cash has been measured on the 12 month expected loss basis and reflects the short maturities of the exposures. The Bank considers that its cash has low credit risk based on the external credit ratings of the counterparties.

Impairment on cash has been measured on the 12 month expected loss basis and reflects the short maturities of the exposures. The Bank considers that its cash has low credit risk based on the external credit ratings of the counterparties.

The Bank uses a similar approach for assessment of ECLs for cash to those used for debt securities.
Accordingly, due to short maturities and low credit risk, on initial application of IFRS 9, the Bank did not recognise an impairment allowance against cash as at 1 January 2018. The amount of the allowance did not change during 2018.

Dollar investment securities
The Bank held debt investment securities of $3,942.7 million at 31 December 2018 (2017: $3,457.7 million). The debt investment securities are held with banks and the Solomon Island Government. Debt investment securities held with banks and the Solomon Island Government are rated B3 to Aaa, based on Moody’s ratings. Impairment on debt investment securities held with banks has been measured on the 12 month expected loss basis and reflects the short maturities of the exposures. The Bank considers that its debt investment securities held with banks have low credit risk based on the external credit ratings of the counterparties (in relation to banks) and available press and regulatory information (in relation to credit institutions). Impairment on debt investment securities held with the Solomon Islands Government has also been measured on the 12 month expected loss basis.

Accordingly, due to short maturities and low credit risk, on initial application of IFRS 9, the Bank did not recognise an impairment allowance against debt investment securities as at 1 January 2018. The amount of the allowance did not change during 2018.

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

<table>
<thead>
<tr>
<th>Concentration by Currency</th>
<th>2018 $'000</th>
<th>%</th>
<th>2017 $'000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>3,303,211</td>
<td>63</td>
<td>2,690,277</td>
<td>57</td>
</tr>
<tr>
<td>AUD</td>
<td>1,192,210</td>
<td>23</td>
<td>1,155,426</td>
<td>25</td>
</tr>
<tr>
<td>EURO</td>
<td>11,816</td>
<td>-</td>
<td>61,197</td>
<td>1</td>
</tr>
<tr>
<td>SDR</td>
<td>239,027</td>
<td>5</td>
<td>280,203</td>
<td>6</td>
</tr>
<tr>
<td>NZD</td>
<td>245,775</td>
<td>5</td>
<td>240,398</td>
<td>5</td>
</tr>
<tr>
<td>SGD</td>
<td>86,509</td>
<td>2</td>
<td>143,777</td>
<td>3</td>
</tr>
<tr>
<td>STG</td>
<td>136,770</td>
<td>2</td>
<td>186,166</td>
<td>4</td>
</tr>
<tr>
<td>SBD</td>
<td>13,857</td>
<td>-</td>
<td>12,931</td>
<td>-</td>
</tr>
<tr>
<td>JPY</td>
<td>3</td>
<td>-</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>CNY</td>
<td>885</td>
<td>-</td>
<td>2,847</td>
<td>-</td>
</tr>
</tbody>
</table>

Total financial assets 5,017,058 100 | 4,733,226 100 |

Concentration by sector

<table>
<thead>
<tr>
<th>Foreign currency assets</th>
<th>2018 $'000</th>
<th>%</th>
<th>2017 $'000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central banks</td>
<td>1,019,638</td>
<td>16</td>
<td>774,520</td>
<td>25</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>3,935,254</td>
<td>78</td>
<td>3,715,572</td>
<td>66</td>
</tr>
<tr>
<td>International Monetary Fund</td>
<td>248,309</td>
<td>5</td>
<td>240,203</td>
<td>6</td>
</tr>
</tbody>
</table>

Total financial assets 5,203,201 100 | 4,720,295 100 |

Local currency assets

| Solomon Islands Government loan and advances | 5,078 | 40 | 5,029 | 41 |
| Staff loan and advances                      | 8,779 | 60 | 7,902 | 59 |

Total financial assets 13,857 100 | 12,931 | 100 |

Total financial assets 5,017,058 100 | 4,733,226 100 |

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:

<table>
<thead>
<tr>
<th>Foreign currency assets</th>
<th>AUD</th>
<th>NZD</th>
<th>USD</th>
<th>EURO</th>
<th>GBP</th>
<th>SGD</th>
<th>CNY</th>
<th>JPY</th>
<th>OTHER</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money at Call</td>
<td>102,848</td>
<td>624,371</td>
<td>15,030</td>
<td>25,886</td>
<td>573</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>768,712</td>
<td></td>
</tr>
<tr>
<td>Accrued Interest</td>
<td>5,509</td>
<td>2,147</td>
<td>18,421</td>
<td>-</td>
<td>460</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>26,794</td>
</tr>
<tr>
<td>Term deposit</td>
<td>755,258</td>
<td>239,793</td>
<td>2,305,487</td>
<td>-</td>
<td>105,516</td>
<td>105,516</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,500,300</td>
</tr>
<tr>
<td>Holding on special writing rights</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13,467</td>
</tr>
<tr>
<td>Reserve tranche</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>35,567</td>
</tr>
<tr>
<td>Subscription</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>199,276</td>
</tr>
<tr>
<td>Gold investment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>251,538</td>
</tr>
<tr>
<td>Bonds</td>
<td>156,493</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>156,493</td>
</tr>
</tbody>
</table>

Profit or loss

<table>
<thead>
<tr>
<th>100bp increase</th>
<th>100bp decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2018</td>
<td>$'000</td>
</tr>
<tr>
<td>Variable rate instruments</td>
<td>1,810</td>
</tr>
<tr>
<td>Variable rate instruments</td>
<td>6,984</td>
</tr>
</tbody>
</table>

Foreign currency 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 Central Bank of Solomon Islands Act, 2012, the task of maintaining the safety and liquidity of foreign reserve assets, as well as the returns from reserve 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 actual risk levels with set limits.

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

<table>
<thead>
<tr>
<th>Foreign currency assets</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Cash at Bank (Financial assets)</td>
<td>768,673</td>
<td>575,273</td>
</tr>
<tr>
<td>Held-to-maturity investments (Financial assets)</td>
<td>3,954,062</td>
<td>3,457,690</td>
</tr>
<tr>
<td>Loans and advances (Financial assets)</td>
<td>13,856</td>
<td>12,931</td>
</tr>
<tr>
<td>Demand deposits (Financial liabilities)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>SIK monetary operations account (Financial liabilities)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fixed deposits (Financial liabilities)</td>
<td>761,673</td>
<td>764,458</td>
</tr>
</tbody>
</table>

Fair value 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.

<table>
<thead>
<tr>
<th>Profit or loss increase</th>
<th>Profit or loss decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2018</td>
<td>$'000</td>
</tr>
<tr>
<td>Variable rate instruments</td>
<td>1,810</td>
</tr>
<tr>
<td>Variable rate instruments</td>
<td>6,984</td>
</tr>
</tbody>
</table>
Net foreign currency asset 1,061,999 241,940 3,279,817 15,030 132,072 104,333 573 4 107,178 4,728,590

-   -   -   -   -   - - -

Capital subscription
IMF securities
IMF extended credit facility
IMF special drawing rights allocation
IMF extended credit facility
IMF securities
Capital subscription
Total
145,908 - - - - - - - 355,488 501,396

Net foreign currency asset 1,207,907 241,940 3,279,817 15,030 132,072 104,333 573 4 248,310 5,229,986

2017 foreign currency risk
Foreign currency financial assets
AUD NZD USD EURO GBP SGD CNY JPY OTHER TOTAL
Money at Call 49,567 661,421 61,197 2,333 - 2,851 - 777,369
Accrued Interest 5,648 1,347 4,648 - 278 219 - 15,980 -
Term deposit 753,240 243,994 - 183,833 143,776 - 278 219 - 3,105,069
Holding on special_8.388 8.388
Reserve tranche - - - - - - - 55,185 35,185
Subcription - - - - - - - 197,139 197,139
Gold investment - - 243,994 243,994
Bonds 170,812 - - 170,812
Total 1,161,890 241,545 2,693,925 61,197 186,444 143,995 - 75,273 4,260,724

Foreign currency financial liability
Demand deposits 145,908 - - - - - - 145,908
IMF standby credit facility - - - - - - - 38,540 38,540
IMF special drawing rights allocation - - - - - - - 111,870 111,870
IMF extended credit facility - - - - - - - 3,656 3,656
IMF securities - - - - - - - 196,361 196,361
Capital subscription - - - - - - - 5,081 5,081
Total 145,908 - - - - - - 355,488 501,396

Concentration of foreign exchange
The Bank’s net holding of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at year end:

<table>
<thead>
<tr>
<th>Currency</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>2,603,280</td>
<td>58</td>
</tr>
<tr>
<td>AUD</td>
<td>1,153,529</td>
<td>24</td>
</tr>
<tr>
<td>EURO</td>
<td>633,976</td>
<td>3</td>
</tr>
<tr>
<td>SGD</td>
<td>143,777</td>
<td>4</td>
</tr>
<tr>
<td>CNY</td>
<td>240,398</td>
<td>6</td>
</tr>
</tbody>
</table>

Sensitivity to foreign exchange rate risk
Impact of a:
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar

Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar

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.

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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 valuations are fair values 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.

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

- 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 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
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

25. Related parties

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

The Board of Directors during the year were:
- Denton Rarawa (Chairman and Governor)
- Gane Simbe/Luke Forau (Deputy Governor)
- Harry Kuma
- Thomas Ko Chan
- John Usuramo
- David K C Quan
- Christina Lasanga
- Dennis Meone
- Rodney Rutepitu

 Directors' fees and emoluments

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 require 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 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.

The Board of Directors determines the remuneration of the Chief Managers.

The Board of Directors determines the remuneration of the Governor and Deputy Governor are subject to mid-term review by the Minister of Finance and annually in accordance with Bank policy.

Fees of the non-executive members of the Board are determined by the Minister of Finance. The contracts of 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.

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 (up to September 2018)
Luke Forau   Advisor to Governors/Deputy Governor (from September 2018)
Denson Deni     Chief Manager International
Daniel Haridi   Chief Manager Currency and Banking Operations
Donald Kiriau   Chief Manager Economics Research and Statistics

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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 2018 (2017: $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 2018, a total of 3 (2017: 3) loans with a net guarantee of $0.576m (2017: $0.576m) million have been administered under the scheme.

27. Income from demonetisation

The Bank has recognised demonetisation income of $8.2 million (2017: $8.6 million). Under Section 22 of the Central Bank of Solomon Islands Act, the Bank is empowered to redeem currency from circulation. Upon issue of new coins in 2012, a demonetisation period of 5 years was allowed for exchange at face value and the old coins were removed from circulation. During 2018, the remaining balance of demonetised coins physically in circulation ceased to be legal tender disposing the Bank’s liability of exchange at face value.

28. 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.