



# **ANNUAL REPORT 2015**

Central Bank of Solomon Islands





## VISION, MISSION, AND VALUE STATEMENTS

### VISION

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

### MISSION

Our mission is defined by Section 8 of the Central Bank 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.

## TABLE OF CONTENTS

<b>GOVERNOR'S FOREWORD</b>	<b>1</b>
<b>CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2015</b>	<b>3</b>
International Developments	3
Domestic Developments	3
Economic Outlook	5
<b>CHAPTER 2: GOVERNANCE AND ORGANISATION</b>	<b>7</b>
Corporate Governance	6
Organization Structure and Human Resources	7
<b>CHAPTER 3: MONETARY POLICY DEVELOPMENTS</b>	<b>14</b>
<b>CHAPTER 4: CENTRAL BANKING OPERATIONS</b>	<b>16</b>
Research and Macroeconomic Statistics	11
Exchange Rate Policy and Administration	11
Currency Administration and Management	15
Prudential Supervision	18
Information Technology	19
Internal Audit Unit Activities	20
<b>CHAPTER 5: FINANCIAL INCLUSION</b>	<b>21</b>
<b>CHAPTER 6: FINANCIAL STABILITY</b>	<b>24</b>
Overview of the Financial System and Stability	25
Financial System Development	26
Banking Sector	27
Credit Union Sector	29
Superannuation Sector	30
The Insurance Sector	31
<b>CHAPTER 7: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES</b>	<b>32</b>
<b>CHAPTER 8: CALENDAR OF EVENTS 2014</b>	<b>34</b>

**LIST OF FIGURES:**

Figure 1: Economic Growth - Solomon Islands	4
Figure 2: Production Index	4
Figure 3: Gross Foreign Reserves (annual average)	11
Figure 4: Annualized return on Investment 2009-2015	12
Figure 5 Currency in Circulation	15
Figure 6: Notes in Circulation as at end December 2015 by Denominations	15
Figure 7: Number of counterfeit notes impounded, 2008-2015	15
Figure 8: Value of Actual Notes Destroyed by Denomination	16
Figure 9: External Public Debt	16
Figure 10: Composition of SIG's Domestic Debt at 31st December 2015	17
Figure 11: Value of Cheques cleared each month at the Clearing House	17
Figure 12: Nominations by Provinces	18
Figure 13: Website Visits by Country	20
Figure 14: Solomon Islands 2015 Financial Inclusion Strand	22
Figure 15: Consolidated Assets of Banks, 2011-2015	26
Figure 17: Liquidity trends for banks, 2010-2015	27
Figure 19: CCSIL Total Assets, 2011-2015	28
Figure 20 Capital adequacy Trend, 2011-2015	28
Figure 21: Credit Unions Financial Position Summary, 2012 - 2015	28
Figure 22: Credit Unions Financial Performance	28
Figure 23: Total Assets of SINPF	29
Figure 24: Investment Allocation of SINPF 2012-2015	29
Figure 25: Members contributions and withdrawals trend, 2011-2015	29
Figure 26: Operational Trend	30
Figure 27: Gross Insurance Claims	30
Figure 28: Consolidated Balance sheet of the Insurance Industry	31

**LIST OF TABLES:**

Table 1: Board of Directors Attendance 2015	6
Table 2: Number of SWIFT Messages Send and Received	12
Table 3: Receipts and Payments Transactions through SWIFT	13
Table 4: Temporary Resident (TR) Accounts Applications	13
Table 5: Approved Foreign Currency Accounts held by	13
Table 6: Approved Foreign Exchange Money Changer License	14
Table 7: Number of Private Sector Overseas Borrowing Applications CBSI approved	14
Table 8: Round Log Export Applications for Specific Authority to Export	14
Table 9: Number and Value of Foreign Exchange Applications	14
Table 10: Components in the new Technology Financial	19
Table 12: Internal Audit Reviewed Areas in 2015	20
Table 13: Number of New Bank Accounts opened by Commercial Banks in 2011-2015	21
Table 14: Regulated Access Points by Provinces at end of 2015	22
Table 15: Financial Soundness Indicators (Banks & CCSIL)	24
Table 16: Banking Infrastructure 2011 - 2015	25
Table 17: Financial System Assets 2011-2015	25
Table 18: Commercial Banks Profit and Loss Statement	26
Table 19: Consolidated Loans and Advances, 2012- 2015	27
Table 20: Credit Corporation Profit & Loss	27
Table 21: Income Table (audited) for SINPF, 2012- 2015	29
Table 22: Insurance Industry Income Statement	30
Table 23: Type and Number of Reports received by SIFIU in 2015	33
Table 24: Number of Meetings held in 2015	33
Table 26: Number of Workshops held for local stakeholders in 2015	33



CENTRAL BANK OF SOLOMON ISLANDS

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April 2016

Hon. Snyder Rini, MP  
Minister of Finance & Treasury  
Ministry of Finance & Treasury  
P.O. Box 26,  
Honiara

Dear Minister,

**RE: 2015 ANNUAL REPORT AND FINANCIAL STATEMENTS**

In accordance with Section 58(2) of the Central Bank of Solomon Islands (CBSI) Act 2012, I submit to you the CBSI Annual Report, along with the Audited Financial Statements for 2015.

Yours Sincerely;

A blue ink signature of Denton Rarawa, consisting of stylized, flowing letters.

**Denton Rarawa**  
Governor



## GOVERNOR'S FOREWORD



The Governor, Denton Rarawa

2015 had been a challenging but much better year for the Central Bank of Solomon Islands (CBSI).

The Bank reported positive outcomes at year-end for the key macroeconomic and financial stability indicators under its purview and also in its internal financial operations.

The Solomon Islands economy grew by an estimated 2.9% in 2015, attributed in large part, to growth in the forestry, transportation, construction and communication sectors.

There were also positive developments on other fronts. Government repaid most of its domestic debts resulting in the country's public debt levels among the lowest in the region.

Inflation was low at 2.9% at year-end, aided in large part by the prevailing low oil prices. The country's foreign reserves at around 10 months of import cover were adequate to meet the foreign transactions needs of the economy.

Private sector credit grew by 17% attributed to increased lending to the personal, retail and distribution, construction and communication sectors.

The Bank recorded a profit of \$44 million in 2015, compared to a loss of \$29 million in 2014. This has allowed the Bank to strengthen its balance sheet from an \$18 million net liability position in 2014 to net assets of \$13 million in 2015.

The Bank's monetary policy stance in 2015 remained accommodative aimed largely, at addressing excess liquidity in the financial system, enhancing financial deepening and maintaining price stability.

### Highlights in 2015

Some of the highlights for the Bank during 2015 are briefly described below:

The three-year IMF Enhanced Credit Facility that was to end in December 2015 was extended to end March 2016 to allow the Fund and Solomon Islands authorities properly conclude the program. The reforms instituted under the program have contributed towards enhancing macroeconomic and financial stability in the country and it is my hope that the other reforms already started will continue and concluded even after the program.

The currency reform process continued in 2015 culminat-

ing with the issuance of a new and upgraded \$100 note in April. The introduction of the new note was enthusiastically received by the market and the public at large.

The Bank resumed its practice of holding one of its Board meetings during the year in the provinces. In 2015 the provincial board meeting was held in Munda, Western Province. The Board used the occasion to visit Goldie College and the SolTuna fish cannery at Noro. In terms of Board membership, the former Permanent Secretary (PS) of the Ministry of Finance & Treasury (MoFT), Fred Fakarii and Katalulu were farewelled and replaced during the year by new PS MoFT, Harry Kuma and prominent businessman, Sir Thomas Chan.

Our work in the financial inclusion space continued with several milestones achieved during the year. A national demand side survey was completed and launched. The results of the survey provided sombre reading. Two thirds of the population are still excluded from accessing financial services and products in the country. We need to step up our work to reduce this high level of financial exclusion in the country.

A new National Financial Inclusion Strategy was completed at year end. This strategy will be the guiding document for our financial inclusion work in the country in the next five years 2016-2020.

To assist fund some of our financial inclusion efforts in the country, the Bank entered into a funding arrangement with the United Nations Capital Development Fund (UNCDF). A Memorandum of Understanding (MOU) sealing this arrangement was signed by Judith Karl, the UNCDF Secretary General and Governor Denton Rarawa in September.

One of the initiatives launched by the National Financial Inclusion Taskforce (NFIT) in 2015 was the National Women's Micro Entrepreneur Award to recognize champion women involved in small business activities in the country. The inaugural awards were presented during the regional Pacific Microfinance week in September. In recognition of its strong commitment and focus on empowering women in the country, the NFIT received the Australian High Commissioners International Women's Day Award for 2015.

CBSI hosted two regional meetings in Honiara during the year. The annual meeting of the Association of Financial Supervisors in Pacific Countries (AFSPC) was held in August and the Pacific Microfinance Week (PMW) in September.

Bank South Pacific's (BSP) acquisition of the Westpac branch in the country during the year changed the bank-



ing landscape in Solomon Islands. The number of banks operating in the country reduced to 3 and BSP became the dominant player in the banking system.



Governor Rarawa meeting with ADB President Mr Takehiko Nakao

A new financial system was installed and deployed into its production environment for live usage by the Central Bank in 2015 to replace its aging Sun System. The Project began in 2014 and continued into 2015 when the installation of the new system was completed, tested, accepted for its live usage and allowed for parallel-run until

the end of May this year.

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

- Pacific Financial Technical Assistance Centre (PFTAC) Steering Committee meeting in Cook Islands in March,
- Asian Development Bank (ADB) Annual meetings in Azerbaijan in May,
- International Monetary Fund (IMF) & World Bank Group Annual meetings in Peru in October, and the
- Forum Economic Ministers Meeting (FEMM) in Cook Islands in October.

### Outlook for 2016

The outlook for 2016 is heavily weighed on by downside risks and challenges expected to emanate from the slow-down in emerging economies and global financial and economic uncertainties.

Growth in 2016 is projected at 2.9% and is 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 stable outlook, by Moody's rating agency last year. The positive rating indicated that economic and financial reforms in the country are generating positive results. We should continue with on-going reform programs and embark on new ones in 2016.

As well, urgent focus should be accorded to building resilience and buffers to mitigate natural disasters and other shocks in 2016 given the increasing frequency and intensity of natural disasters in the region.

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

A special thanks to our external auditor KPMG and the Office of the Auditor General for certifying our 2015 financial accounts.

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 Fred Fakarii and Mr Katalulu Maepioh for their services to the Board.

The passing away of Mr Raynick Aquillah, our Chief Manager, International department earlier in the year was a major blow for the Bank. Mr Aquillah was not only the longest serving officer in the Bank but also the most experienced and knowledgeable foreign reserves manager at the time of his death. Fortunately the ensuing transition went ahead smoothly with minimal disruption.



The Solomon Islands delegation to the International Monetary Fund/World Bank annual meetings in October 2015 in Peru with their liaison and security personnel inside the Fortaleza del Real Felipe garrison at Callao bay. Callao (pronounced as Keiao) bay is where Alvaro de Mendana set sail on his two voyages to Solomon Islands in 1567 and 1595.

Lastly, but certainly not the least, let me thank all my staff for all their contribution to the Bank during 2015. 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 2015. Thank you all.

A blue ink signature of Denton Rarawa.

Denton Rarawa  
Governor

## CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2015

The Solomon Islands economy continued to show resilience in 2015. An unexpected strong performance from the forestry sector, particularly in the fourth quarter, served as one of the lead drivers of growth. A fall in global commodity prices, which affected the primary commodity export industry, was somewhat mitigated by a depreciation of the local currency against the US dollar. Growth was also further supported by falling global oil prices, which translated to lower fuel and energy costs in the domestic economy.

### International Developments

The global economy is estimated to have grown by 3.1%<sup>1</sup> in 2015, a fall of 0.3 percentage points from the previous year. This followed further declines for growth in emerging and developing economies, which accounted for the bulk of global growth, while recovery in advanced economies remained modest. Lower commodity prices also played a part in dampening global growth over the year.

Growth in advanced economies is estimated to have picked up slightly to 1.9% in 2015 compared to 1.8% in 2014. This was primarily driven by growth in the euro area and Japan which are each estimated to have gained 0.6 percentage points compared to the preceding year. The euro area benefited from strong private consumption over the year owing to low oil prices, a weak euro and expansionary monetary policy. Similarly, Japan's growth through the year was attributed to low oil prices and a strengthening in consumer confidence. Meanwhile, the United States saw an uptick of 0.1 percentage points to estimated growth of 2.5% in 2015. Conversely, the United Kingdom (UK) and Canada saw marked contractions of 0.7 and 1.3 percentage points respectively. The UK economy suffered owing to weak global demand, a strong pound sterling, and increased uncertainty about the domestic economy.

Growth in emerging market and developing economies is estimated to have reduced to 4.0% in 2015 compared to 4.6% in 2014. By and large, this fall stemmed from a 0.4 percentage point contraction in growth in China with an even greater plunge in the performance of the Russian economy, which contracted by 3.7%. The growth of 6.9% recorded for China in 2015, while in line with government targets, was the slowest rate seen since 1990. As the world's second largest economy, this slowdown had far reaching effects on global growth. Meanwhile, Russia bore the brunt of low oil prices and international sanctions, suffering its steepest economic contraction in six years. This was compounded by a sharp depreciation of the ruble and subsequent spike in inflation, as well as a marked decline in investment. Meanwhile, economic growth in India and the ASEAN countries remained relatively stable between 2014 and 2015.

Closer to home, the Australian economy managed to post growth of 2.5%<sup>2</sup>, down from 2.8% in 2014, despite the steep falls in commodity prices, and the slowdown in China, its main trading partner. This was possible partly owing to a weak Australian dollar and low production costs, which made exports competitive in global markets. Similarly, the performance of the New Zealand economy remained relatively strong, despite low commodity prices putting a strain on its dairy industry. This growth was primarily driven by the services industry and manufacturing.

The outlook for the global economy for 2016 shows a pick-up from 2015, but it has been revised downwards by 0.2 percentage points to 3.4% compared to projections made in October 2015. This follows expectations for the euro area to do slightly better in 2016, Asian economies to remain on course, and natural resource-based economies to continue to suffer but still find some stability. Recessions in emerging markets outside Asia, particularly Brazil and Russia, are expected to have a dampening effect on global growth, while China is predicted to slow down further to a projected 6.3%. Other downside risks to global growth include a sudden rise in global risk aversion, an escalation of ongoing geopolitical tensions, and the continued dampening effects of low commodity prices on commodity exporting countries. However, continued low oil prices could also provide a boost to demand in oil importing countries.

Global inflation is expected to increase moderately in 2016 as commodity prices level off and start to pick up slightly, but will still be subdued by historical standards. Inflation in advanced economies is expected to increase to 1.1% in 2016 from 0.3% in 2015, effectively staying well below desired target rates. Meanwhile, inflation in emerging and developing countries is expected to remain relatively flat up 0.1 percentage points to 5.6% in 2016. In Australia, inflation remained subdued throughout 2015 peaking at 1.7%<sup>3</sup> at the end of the year. This is expected to start to rise gradually in 2016 to be between 2-3% by the end of the year. In New Zealand, on the other hand, prices stood at the brink of deflation falling to 0.1%<sup>4</sup> by the end of the year. Nonetheless, New Zealand is expected to avoid falling into deflation in 2016 with the Reserve Bank of New Zealand predicting inflation to rise above 2%.

### Domestic Developments

Domestic economic activities saw a marked improvement in 2015 following a subdued performance in 2014. CBSI estimated an overall real GDP growth of 2.9% in 2015 with the recovery buoyed by robust activity across most sectors during the year with the exception of mining, agriculture and fishing which saw contractions (see Figure 1). Economic activity was particularly strong in the forestry,

<sup>1</sup> All statistics in this section obtained from IMF World Economic Outlook, January 2016 Update unless otherwise stated.

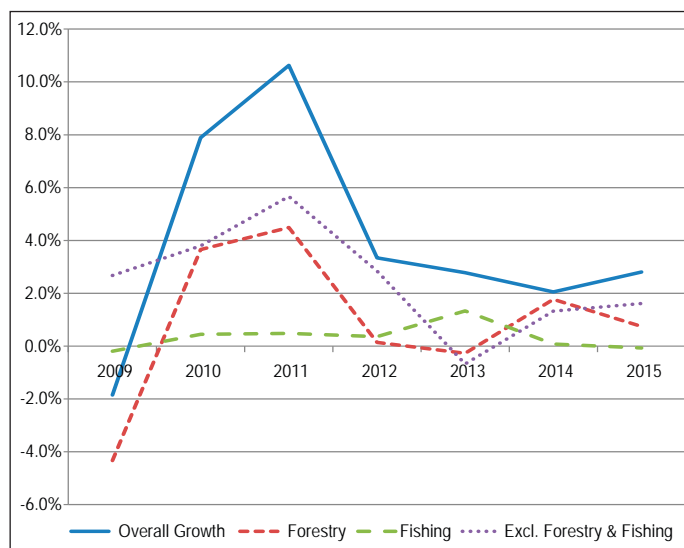
<sup>2</sup> Reserve Bank of Australia, retrieved from <http://www.rba.gov.au/snapshots/economy-snapshot/> [Feb 2016]

<sup>3</sup> Reserve Bank of Australia, retrieved from [www.rba.gov.au/inflation/measures-cpi.html](http://www.rba.gov.au/inflation/measures-cpi.html) [Feb 2016]

<sup>4</sup> Reserve Bank of New Zealand, retrieved from [www.rbn.govt.nz/monetary-policy/inflation](http://www.rbn.govt.nz/monetary-policy/inflation) [Feb 2016]



Figure 1: Economic Growth - Solomon Islands



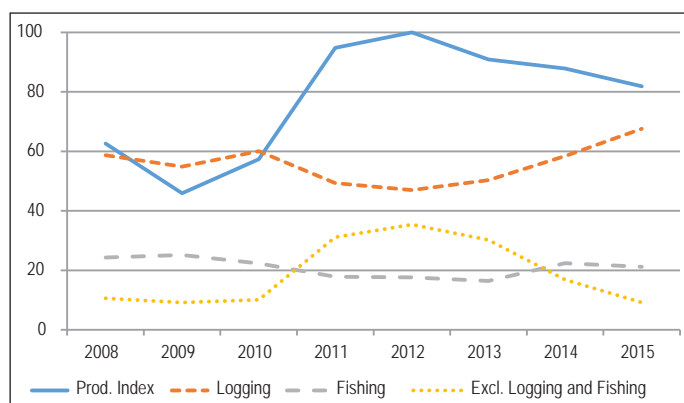
Source: CBSI

construction, manufacturing, transport, communication, and most services sectors.

Labour market conditions saw some improvement during the year. Employment indicators from the Solomon Islands National Provident Fund (SINPF) showed the total annual average of active contributors increasing moderately by 4% to 55,438 contributors in 2015. Data collected through the CBSI annual industry consultations showed that most private companies reported increases in their workforce in 2015, while approximately a quarter retained their staff numbers and just over a third recorded declines. These employment movements were mixed across all sectors.

Production of key export commodities in the economy weakened in 2015 with the CBSI average annual production index contracting by 7% against the previous year (see Figure 2). This reflected a broad based downward trend from non-logging commodities associated with weak commodity prices in the international market. Over the fourth quarter, the El Nino phenomenon added a dampening effect on production in the fisheries sector, as well as affecting other agricultural activities in general due to

Figure 2: Production Index



Source: CBSI

harsh weather conditions.

Nonetheless, this was somewhat countered by a strong performance in round logs and palm oil production in the fourth quarter. By year end, log production had increased by 8% to 2.29 million cubic meters owing to the expansion of commercial logging in unlogged areas and re-entry into previously logged areas, combined with agro-forestry activities during the first half of the year. Additionally, strong demand from other markets including India, Korea, Philippines, and Vietnam helped offset the weakened demand from China, the largest importer of Solomon Islands logs.

The balance of payments (BOP) position of the country improved markedly in 2015 to an overall surplus of \$395 million. The buoyant outcome was due to improvements in both the current account and the financial account. The pickup in the current account primarily stemmed from growth in secondary income owing to higher donor inflows in the first half of the year, while the financial account benefited from direct investment and other investments. The balance on trade in goods recorded a deficit of \$43 million in 2015, reflecting a 1% drop in exports which outweighed a similar fall in imports. Meanwhile, the International Investment Position (IIP)<sup>5</sup> registered a \$189 million deficit, a substantial reduction from a \$2,164 million deficit in 2014. Gross foreign reserves stock at year end increased by 11% to \$4,190 million compared to December 2014 and was equivalent to 10.0 months of import cover.

On exchange rate developments, the strengthening of the United States dollar (USD) in global currency markets saw the Solomon Islands dollar (SBD) depreciate against the USD by 6.8% on an annual average basis. This affected trade for many importers and exporters in the country for whom the USD is the primary trading currency. However, most of these costs were absorbed. Meanwhile, the SBD appreciated against the Australian dollar (AUD), the country's other major trading currency, by 11.8% on annual average. Overall, the exchange rate basket index<sup>6</sup> saw a 7% depreciation on an annual average basis with the index moving from an average of 100.3 in 2014 to 107.6 in 2015.

Money supply expanded by 15% to \$4,180 million by December 2015, following a 6% rise in 2014. This stemmed from an increase in narrow money by 23% to \$3,272 million. Total liquidity also saw an increase over the year, bucking the falling trend seen over the preceding two years. Similarly, excess liquidity increased by 30% to \$1,096 million by December 2015. Credit to private sector continued on its upward trajectory, increasing by 17% to \$1,988 million by the end of the year. As seen in the past, most of the private sector credit went to personal loans, thus boosting private consumption of both domestic and imported goods. Other key sectors that recorded an increase in credit included transportation, manufacturing

<sup>5</sup> The IIP records the country's stock of external assets and liabilities.

<sup>6</sup> The basket is a trade weight index to 100 with a base of 2012.

and construction.

In terms of fiscal operations, 2015 fiscal year got off to a slow start due to delays in passing the national budget, thereby recording a surplus in the first half of the year. However, fiscal spending gained momentum in the second half of the year as pressure mounted to expend the development budget. Consequently, the Government ended the 2015 fiscal year with a deficit of \$172 million or 2% of GDP, with expenditure rising faster than revenue collections. On the debt front, Government debt stock continued to fall, particularly following a large one-off advance repayment of domestic debt made in the final quarter.

On inflation, the headline inflation had slowed from 4.8% in December 2014 to 2.9% by end of 2015. This was primarily driven by the domestic component which ended the year at 3.5% compared to 8% in December 2014. Meanwhile, imported inflation increased to 2% from the negative inflation observed throughout 2014. Starting in March and over the course of the second and third quarter, headline inflation fell into deflation with the trough bottoming out at minus 4.8% in June 2015. This period of negative inflation mainly reflected low domestic food prices, combined with declining fuel prices throughout the year. However, core inflation remained positive throughout the year, rising to 3.7% in December 2015 from 3.1% in the previous year.

### Economic Outlook

The growth trends experienced in the past few years are expected to continue in 2016, although at a slightly reduced pace. The economy is forecast to grow at 2.9% in 2016 from 2.9% in 2015. The key sectors that are expected to drive this growth will be fishing, construction, manufacturing, transportation, and communication sectors. Logging volumes are expected to remain flat while fishing volumes are expected to pick up as the effects of El Nino subside. Global commodity prices are forecast to start to pick up slightly, but are likely to remain below the highs seen in the past.

The balance of payments position of the country is expected to move to a smaller surplus in 2016. The current account deficit is forecast to narrow due to projected improvements in the goods, income and current transfers. The export sector is expected to pick up as an improvement is anticipated in the price of logs, while an increase in the volume of fish catch will also contribute to the improvement. Meanwhile, global oil prices are expected to remain subdued during the year thus continuing to keep the economy's fuel import bill down while businesses and households reap the benefits of relatively cheaper utility costs. The capital account is anticipated to rise on the back

of major donor funded projects and the gross foreign reserves position is forecast to rise accordingly to approximately 11 months of import cover.

Money supply is projected to increase by 9% in 2016, resulting from a significant growth projected in the monetary base by 34%. The growth in monetary base was expected to be driven by the increase in gross foreign assets, mainly from donor inflows. Meanwhile, private sector credit is anticipated to grow at a slower rate than seen in 2015 at 9%. This is expected to be driven by continuing increase in personal and investment loans. Average weighted interest rate margins are expected to reach around 11% in 2016, a slight increase from 2015.

Inflation is projected to continue to increase slightly given the anticipated pick up in imported food and fuel prices. However, it is expected to remain within the 3-5% range, possibly moving towards the upper end of this band. Nonetheless, oil prices are expected to remain at relatively low levels which will likely keep electricity tariffs subdued in 2016. However, the depreciation of the local dollar against the USD could pose upward inflationary pressure.

The Government projects yet another expansionary budget with a budget deficit forecast to increase by 23% to \$568 million or 7% of GDP. The Government expects to ramp up recurrent outlays by 6% against the 2015 budget while development spending is forecast to increase by 3% to \$1,178 million. Fiscal resources in the development budget are geared towards investments in public infrastructures and rural developments. The 2016 budget will be funded mainly from domestic revenue sources including grants and drawing on reserves accrued by successive governments to finance the expected shortfall.

As the Government embarks on another year of implementing an expansionary budget, they continue to play a big role in determining the development path of the country. It remains the Government's mandate to ensure that all spending is economically justifiable so that the country produces better and long term positive return for its citizens. By raising and sustaining a high public investment to GDP ratio in areas such as infrastructure, for example, the Government would create spill over effects that would help other sectors to thrive and be a driving force for future growth. Moreover, as donor funding receipts continue to decrease, it is important for currently available funds are used even more productively and that alternative, sustainable sources of funding are sought. As such, the Government needs to come up with a better mix of its expenditure switching and expenditure reducing policy; and continue to endeavour to stem out costly practices such as corruption and resource wastage.

## CHAPTER 2: GOVERNANCE AND ORGANISATION

### Corporate Governance

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

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

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

Directors for 2015 are Mr. Denton Rarawa, Governor and Chairperson; Mr. Gane Simbe, Deputy Governor and deputy Chairperson; the Permanent Secretary of the Ministry of Finance & Treasury (MoFT); Mr. Fred Fakarii (up to March) and Mr. Harry Kuma (from May 2015) as ex-officio director. The six non-executive directors are; Mr. Katalulu Maepioh (up to March 2015), Mr. Loyley Ngira, Mrs. Lilly Lomulo, Mrs. Tele Bartlett, Mr. Primo Afeau and Mr. John Usuramo. Sir Thomas Chan was appointed in August 2015.

### Board Meetings

The Board met eleven times during the year, five (5) more than the minimum of six (6) meetings required under the CBSI Act. The provincial meeting was held at Hobuhobu Island in the Western Province.

**Table 1: Board of Directors Attendance 2015**

Director Name	Number of Meetings attended
Denton Rarawa	10
Gane Simbe	11
Fred Fakarii	3
Harry Kuma	2
Loyley Ngira	9
Lilly Lomulo	11
Tele Bartlett	9
Primo Afeau	9
John Usuramo	11
Katalulu Maepioh	2
Sir Thomas Chan	1

Source: CBSI

The Board also visited Goldie College, and the Soltuna Ltd fish processing factory at Noro. The table below shows the number of meetings each Director attended in 2015.

### Board businesses

In 2015 a total of 34 Board papers were submitted for Board deliberation, seven (7) less than in 2014 although there was one more Board meeting than in 2014. This was

due to the fact that there was one major issue that had to be discussed over several meetings. Of the total, 19 papers were quarterly progress reports for noting; and 15 were policy papers for Board decisions. These policy papers included two bi-annual Monetary Policy Statements, the 2014 Annual Report and the 2014 Audited Financial Accounts, BSP acquisition of Westpac Bank, Fit and Proper Guideline for Superannuation Funds, Whistle Blowing Policy, the 2016 Business Plan and 2016 Budget.

### Board Committees

There are three Committees that were set up to assist with the governance and management of the Bank. The Committees are; the Board Audit Committee, the Board Staff Remuneration Committee and the Board Disciplinary Appeal Committee.

#### Board Audit Committee

The Board Audit Committee was established at the end of 2010. The Committee has four members; three non-executive Directors, the Deputy Governor and the Manager of Internal Audit Unit who is Secretary to the Committee. One of the Non-Executive Directors is appointed by the committee members as the Chairperson of the Committee. The Chairman of the Board Audit Committee reports to the Board after each meeting. In 2015, the Board Audit Committee met four times as planned for the year. The Board Audit Committee provided feedback to the IMF on matters required to ensure the Bank meets the IMF Safe-guard Assessment standards.

#### Board Staff Remuneration Committee

The Board Remuneration Committee was established in 2012 to consider and determine all aspects of the remuneration of Bank employees. The Committee is chaired by a non-executive Director, with two other non-executive Directors as members. The CBSI Legal & Compliance Officer is the Secretary to the Committee. No meetings were held in 2015

#### Board Disciplinary Appeal Committee

As the name suggests, the Board Disciplinary Appeal Committee (BDAC) is set up to hear and review appeals by staff against any disciplinary actions that the Disciplinary Committee of the Bank may take against a staff. There are five members to the BDAC consisting of the Governor as the Chairman, one non-executive Board Director, two chief managers appointed by the Chair, one of whom must be from the department from which the staff is the subject of disciplinary action, and a member of the Staff Association. The Legal Officer and the Chief Manager of Human Resources & Corporate Services department are in attendance at meetings. There were no meetings held in 2015.



## Organization Structure and Human Resources

The Bank organizes its functions into seven (7) departments namely Economics, Research and Statistics; International; Currency and Banking Operations; Financial Market Supervision; Finance and Accounts; Information Technology; and Human Resources and Corporate Services. In addition to the departments there are three smaller units; the Internal Audit Unit, the National Financial Inclusion Unit, and the Solomon Islands Financial Intelligence Unit (SIFIU).

All the departments and units work together to achieve the mission statement of the Bank. With the exceptions of the Internal Audit Unit which reports directly to the Board Audit Committee and the SIFIU which reports to the Solomon Islands Anti-Money Laundering Commission (AMLC), all the departments and units report to the Governors' Office.

## Staff Complement

At the end of 2015, total staff establishment at the Bank reached 138 (inclusive of service staff). Around 94% of which, were filled positions while 6% remain vacant and pending recruitment in 2016. Around 16% of those employed are in the management level. The gender composition of the Bank's human resource capital is 60% male and 40% female. Excluding the governors, five out of eighteen management positions are filled by females. The Bank continues to scan the human resource market in Solomon Islands for qualified females to fill its technical and management positions.

In 2015, the Bank recruited six (6) new officers for various positions within the Bank. Three (3) officers were also internally transferred within various departments while four (4) officers were on job rotation. Three (3) officers resigned voluntarily from the Bank to pursue other career options.

## Staff Training and Development

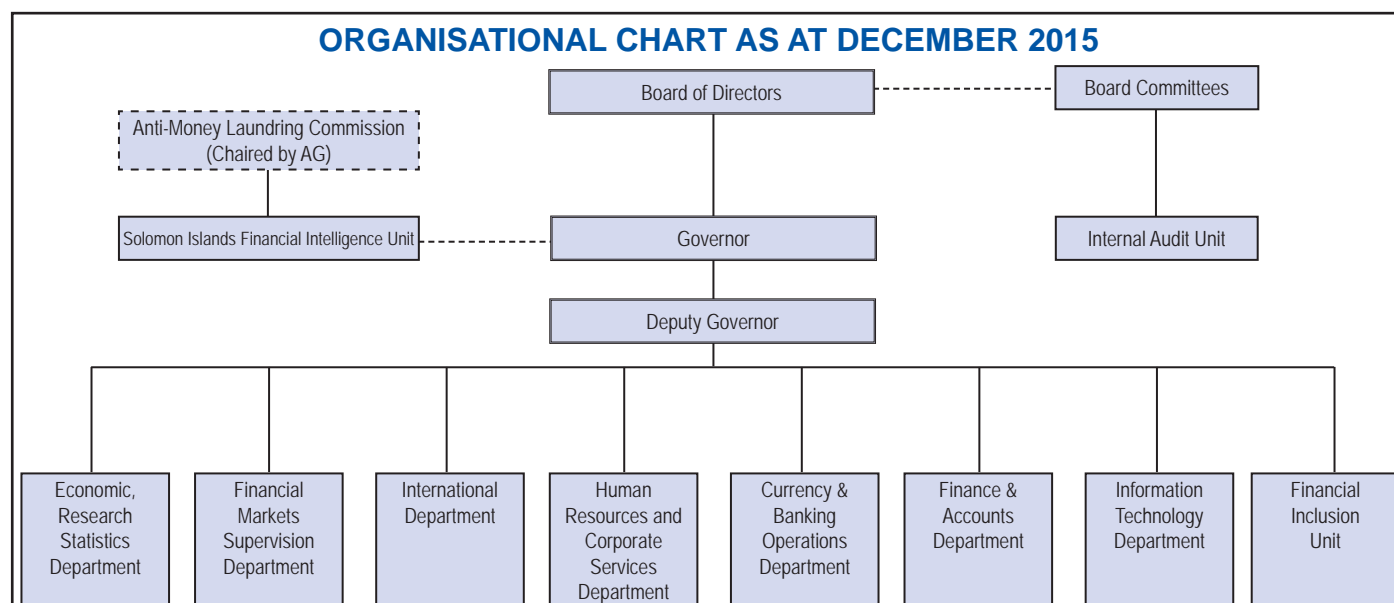
The Bank values its investment in the quality and calibre of its human capital as a critical input to enhance productivity and to position the Bank to meet its mandate. As such the Board sets aside an annual training budget towards human capacity development. Apart from its own budget, CBSI also received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

The Bank also assisted staff pursue further academic qualifications through full-time and part-time training sponsorships. Around 15% of Bank staff undertook trainings in 2015. Most of these staff pursued higher qualifications while others enrolled in the Distance Flexible Learning (DFL) training for up-skilling in knowledge gaps that were identified through the annual performance assessments. As at the year-end eight (8) officers completed their studies; one with a PhD in Economics, four with Master's Degrees (two in Management & Business Administration, one in Banking Finance and one in Economics), one with Bachelor of Commerce Degree in Accounting and Banking, and the other two with Certificates in Official Statistics and Plumbing respectively.

## Community Relations

In 2015, the CBSI spent most of its donations budget assisting various community groups including the sporting teams to the Pacific Games, local church funded projects, Solomon Islands Women in Business, charity organisations, and schools.

### ORGANISATIONAL CHART AS AT DECEMBER 2015





## CENTRAL BANK OF SOLOMON ISLANDS BOARD OF DIRECTORS



### DENTON RARAWA

Governor and Chairman of the Board

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

Previous positions held:

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



### HARRY KUMA

Permanent Secretary, Ministry of Finance and Treasury



### LOYLEY NGIRA

Chief Executive Officer, Telekom

- Member CBSI Audit Committee

- Chairman, Solomon Islands Broadcasting Corporation

Previous positions held:

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



### TELE BARTLETT

Managing Director, Liberty Holdings

- Board Member, Women in Business Association

Previous positions held:

- Teacher, Honiara Technical Institute



### FRED FAKARI'I

Permanent Secretary, Ministry of Finance and Treasury

Previous positions held:

- Permanent Secretary, Ministry of Home Affairs
- Under-Secretary, Department of National Unity, Reconciliation and Peace
- Under-Secretary, Department of Public Service, Office of the Prime Minister
- Director of Public Sector Reform
- Chairman of the National Disaster Council



### BELLA SIMIHA

Chief Manager, Human Resource & Corporate Services

Secretary to the Board since 2009



### GANE SIMBE

Deputy Governor

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

Previously held position:

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



### LILLY LOMULO

Human Resource Manager

Solomon Tobacco Co. Ltd

- Member, CBSI Remuneration Committee



### PRIMO AFEAU

Private Legal Practitioner

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

Previous positions held:

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



### JOHN USURAMO

Campus Director,

USP Solomon Islands Campus

Previous positions held:

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



### SIR THOMAS KO CHAN



### KATALULU MAEIOH

Board Member

Manager, Eagon Pacific Plantation Ltd

- Chairman, CBSI Board Committee 2014

Previous positions held:

- Manager, Banking Supervision, CBSI
- Manager, Currency & Banking Operations, CBSI
- Manager, Adventist Book Centre

# CENTRAL BANK OF SOLOMON ISLANDS MANAGEMENT 2015

## GOVERNORS OFFICE



**DENTON RARAWA**  
Governor



**GANE SIMBE**  
Deputy Governor

## NATIONAL FINANCIAL INCLUSION UNIT



**CAROLINE KANOKO**  
Manager

## SOLOMON ISLANDS FINANCIAL INTELLIGENCE UNIT



**JIMMY SENDERSLY**  
Director

## CURRENCY & BANKING OPERATIONS DEPARTMENT



**Daniel Haridi**  
Chief Manager



**Joe Vasuni**  
Manager

## INTERNATIONAL DEPARTMENT



**Raynick Aquillah (Late)**  
Chief Manager



**Ali Homelo**  
Manager

## FINANCE & ACCOUNTING DEPT.



**Emmanuel Gela**  
Chief Manager

## INFORMATION & TECHNOLOGY DEPARTMENT



**EDWARD MANEDIKA**  
Chief Manager



**MARLON HOUKARAWA**  
Manager

## ECONOMIC RESEARCH & STATISTICS DEPT.



**MICHAEL KIKIOLO**  
Chief Manager



**ELIZABETH RAGIMANA**  
Manager

## INTERNAL AUDIT UNIT



**OLIVER KAROA**  
Manager

## HUMAN RESOURCE & CORPORATE SERVICES DEPARTMENT



**BELLA SIMIHA**  
Chief Manager



**ROSE SULU**  
Manager/ HR

## FINANCIAL MARKET SUPERVISION DEPARTMENT



**JOHN BOSCO**  
Manager/ CS



**RAYNOLD MOVENI**  
Chief Manager



**TREVOR MANEMAHAGA**  
Manager



### CHAPTER 3: MONETARY POLICY DEVELOPMENT

The Central Bank of Solomon Islands maintained an accommodative monetary policy stance in 2015 with the intention to support economic growth in the near to medium term. The accommodative stance was considered appropriate given low inflation in the country and the need to compliment the expansionary fiscal policy of the current government.

Like in any other developing economy with a shallow financial system, the monetary policy transmission mechanism in Solomon Islands is weak. This is further exacerbated by the excess liquidity in the banking system. Notwithstanding this constraint, the Bank continued to conduct monetary policy operations through the use of a direct policy instrument i.e. a cash reserve requirement (CRR) and an indirect instrument i.e. bokolo bills.

The cash reserve requirement was maintained at 7.5% of total bank deposits. This effectively removed \$264 million from the commercial banks in December 2015, an increase from \$239 million at the end of 2014. The increase corresponds with growth in total deposits which rallied strongly in the final quarter to \$3,526 million in December, an increase of 16% year-on-year. The CBSI maintained its policy not to remunerate the required reserves and call account deposits held by the commercial banks with CBSI. This policy is aimed at encouraging the commercial banks to channel excess liquidity into productive sector lending to support economic growth.

The 28 days Bokolo bills CBSI issued on a fortnightly basis remained at \$355 million per auction. The Bokolo bills market showed under subscriptions in the first half of the year. However there was a marked improvement in the second half due in part to ongoing consultations between the Central Bank and the participating commercial banks as well as the commercial banks' growing appetite for more Bokolo bills. Within 2015, participation in the bokolo bills improved from an average of \$620 million in the first half to \$710 million in the second half. The annual weighted average yield for Bokolo bills rose slightly to 0.62% in 2015 from 0.61% in the previous year. As highlighted in the September 2015 Monetary Policy Stance, the Bokolo bills auctioned volume will remain the same until further

reviewed in 2016.

The Solomon Islands Government continued to cap the Treasury bills stock at \$40 million. The overall weighted average yield (WAY) for the different maturity periods was 0.76%. The annual WAY for the 91 days Treasury bills was 0.47%. Meanwhile, advance repayments of SIG restructured bonds held by domestic financial corporations led to a substantial decline in public debt to around 11% of GDP. This recent development helped to boost public confidence in Government backed instruments.

Excess liquidity remained high with the average excess volume for 2015 rising by 2% over 2014 to \$1022 million. Due to budget constraints, the Central Bank could not sterilise the excess liquidity in addition to the \$710 million it siphoned in the Bokolo bills market.

The Central Bank maintained the exchange rate policy of pegging the local currency to a basket of its major trading currencies. In 2015, the exchange rate basket depreciated by 7.2% year-on-year as a result of the strong appreciation of the US dollar against all other major currencies. On the other hand, the SBD strengthened against the AUD and NZD, benefiting importers that traded using these two currencies. The exchange rate policy was considered appropriate given low energy prices and the low inflation environment throughout the year.

Inflation rate picked up slightly to 2.9% in December 2015 following a deflation in the first half of 2015. The renewed pressure in the second half reflected, to a large extent, domestic pressures particularly from food, and household and utilities categories. Imported inflation was also on the rise at the back end of last year despite low international prices particularly for food and energy items. The upward pressure could have stemmed from a combination of factors including the weaker SBD particularly against the US dollar and price rigidities within the domestic economy. However, overall inflation remained at tolerable range with low energy prices providing some buffers. The Central Bank will continue to monitor price developments in the economy and will take appropriate action if and when inflationary pressures intensify.

## CHAPTER 4: CENTRAL BANKING OPERATIONS

### Research and Macroeconomic Statistics

During the year, officers conducted research papers on a broad range of topics relevant to various tasks and functions of the Central Bank. This culminated with the production of several policy papers for internal policy discussions and formulation, and the publication of two empirical working papers on the CBSI website ([www.cbsi.com.sb](http://www.cbsi.com.sb)). These papers are in addition to the first two empirical papers in 2014. The working papers were titled “Determinants of inflation in the Solomon Islands” and “Constructing a Quarterly Measure of Gross Domestic Product and Output Gap for Solomon Islands”.

In 2015, CBSI officers continued to receive specialised trainings from international agencies such as the International Monetary Fund (IMF), Asian Development Bank, Pacific Financial Technical Assistance Centre, Australia Bureau of Statistics, and Reserve Bank of Australia (RBA). These trainings led to improvements in the quality of macroeconomic data; timely dissemination and publication of macroeconomic statistics; and improved the analysis and formulation of policies at the Central Bank. Notable statistical developments in 2015 include; submissions of Coordinated Direct Investment Survey (CDIS) and quarterly external debts to the IMF in line with the balance of payment manual six (BPM6) standards; and the alignment of fiscal accounts statistics to 2014 GFS manual standards and submission of a set of central government statistics to the IMF in December for publication.

A total of six IMF technical assistance (TA) missions visited the Central Bank in 2015, an increase from three TA missions in 2014. During these missions, major statistical projects such as the monetary and financial statistics, government finance statistics, and external sector statistics were concluded. On the policy oriented TA missions, a set of recommendations were provided to CBSI with specific focus on monetary policy implementation and liquidity management in Solomon Islands. This mission was followed through with four officers from the Economics, Research and Statistics Department and International Department going on short term attachments with RBA in 2015. The benefits from the attachment scheme are immeasurable and CBSI would like to see such an arrangement continuing into the future.

### Exchange Rate Policy and Administration

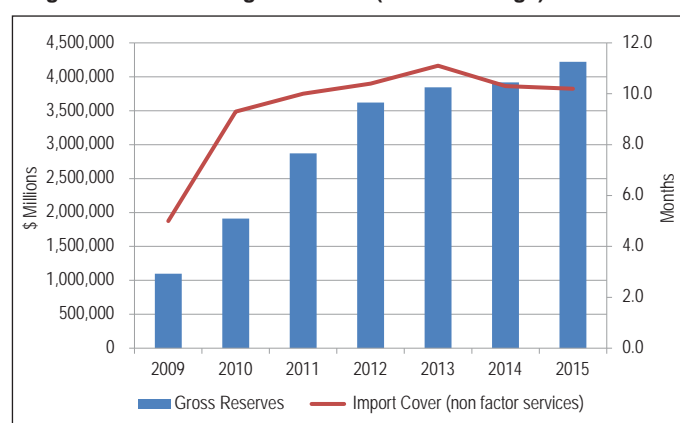
The Bank is responsible for the administration of the exchange rate policy as mandated in sections 9(b) and 16 of the CBSI Act 2012. In terms of the exchange rate regime, the SBD is calculated based on a basket of invoice-weighted currencies. In 2015, the SBD depreciated by 6.8% against the USD, to \$8.05 from \$7.38 in 2014. The strengthening of the USD against other currencies in the Basket was the main driver for the depreciation of the SBD. The Bank also adopted the policy to allow the SBD move with the basket without intervention taking into account the domestic price level as well. On the other hand, the SBD

strengthened against the AUD by 11.8% while recording mixed movements against other weighted trading currencies in the basket. CBSI daily exchange rates and the basket's trade weighted index are published in the CBSI website.

### Gross Foreign Reserves

During the year, gross foreign reserves<sup>7</sup> hit a record high in July 2015 at USD 586.1 million (\$4,272 million) but this had since declined to USD 533.1 million (\$4,222 million) at the end of December 2015, which was equivalent to 10.2 months of import cover.

Figure 3: Gross Foreign Reserves (annual average)



Source: CBSI

### Foreign Reserves Management and Investments

The CBSI Act 2012 mandates the Bank to conduct transactions in international reserves and “manage such reserves consistent with international best practices in order to achieve its primary objectives of maintaining domestic price stability, with respect to its safety, liquidity and yield in that order of priority”.

In line with the legal mandate, the Bank invested the reserves with the underlying principles that reserves should maintain domestic price stability, safety, liquidity, and yield. To achieve these objectives, the Bank allocated the reserves in three portions; liquid funds to meet the trading needs of economic agents in the country, short term investments and fixed long term investments including gold holdings.

In order to ensure safety of the reserves, CBSI invested in a number of currencies mainly the Australian dollar, Euro, Pound Sterling, New Zealand dollar, Singapore dollar, Special Drawing Rights (SDR) and the United States dollar. In addition, the Bank invested in rated financial institutions and central banks around the world.

As part of ensuring the management and safety of the reserves, the Bank has an Investment Advisory Committee (IAC) chaired by the Governor to oversee the investment

<sup>7</sup> The gross foreign reserve position quoted here includes IMF subscription.



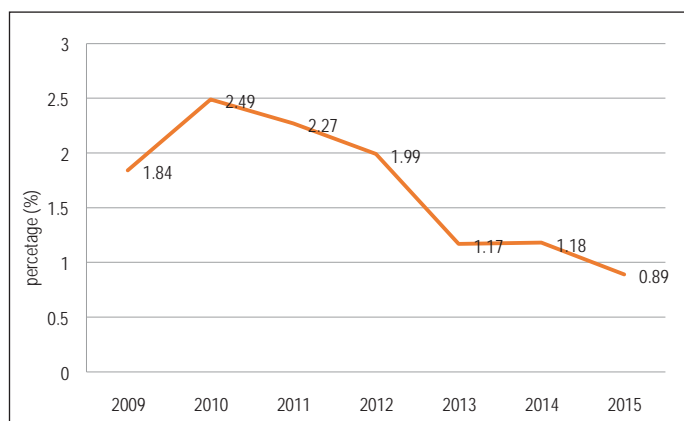
of the reserves. The International Department of the Bank is responsible for; the daily management and investment of the reserves; provision of quarterly performance reports to the IAC; and the implementation of any recommendations from IAC and the Board. In 2015, four meetings were held and the Middle Office provided regular risk management commentaries, advices and benchmark-monitoring of the operational guidelines, strategies and performances of reserve management.

### Income from Foreign Reserves Investments

2015 was a very challenging year particularly for yield and return on our investments of financial assets. The global financial market remained fragile throughout the year and interest rates of major currencies remain subdued. The EURO rates remained negative with some of the major financial institutions around the globe, which meant that it cost us money to hold deposits in EURO. Reserves management targeted only highly rated investment instruments which narrowed our investment options to safe market instruments. Safety of the reserves had priority over yield and returns and the Bank continued to hold low to risk free investment instruments.

Total interest earned from foreign reserves investments in 2015 amounted to \$39.8 million; a fall of 12.4% compared to 2014, underpinned mainly by continuous low market interest rates available from reputable financial institutions in the market. Average calculated annualised return on investments as at end December 2015 declined to 0.89% from 1.18% annualised return recorded in 2014.

**Figure 4: Annualized return on Investment 2009-2015**



Source: CBSI

### Foreign Exchange Revaluation Gains/Losses

Volatility in international currencies in 2015 in particular those currencies in which we placed the reserves affected the valuation of the reserves. Unlike previous years, the Bank was able to make an unrealized revaluation gain of \$29.3 million by year end. This was a positive turnaround compared to the revaluation loss of \$35.5 million in 2014 and was a result of measures the Bank undertook in the second half of 2015 to review the currency mix of the foreign reserves.

### Division of responsibilities for investment of reserves

Further mechanisms to ensure the effective management, control and safety of the reserves are reflected in the division of responsibilities within the International department of the Bank. Three units - the front office, the middle office and the back office - handle the day-to-day management and investment of the reserves.

#### The Front Office

The Front Office is assigned the responsibility to select and place the investments in line with the approved portfolio guidelines and limits. In addition to placement of investments, the Front Office is also responsible for preparing the quarterly investment reports for the Investment Advisory Committee and the Board.

#### Middle Office Operations

The Middle office acts as a watchdog to both the Front and Back Offices in terms of compliance with the approved investment guidelines. Any breaches or non-compliance are reported directly to the Governor's Office for appropriate actions.

#### The Back Office

The Back Office is responsible for settlement of payments related to investments and allocations of the reserves. The Back Office also maintains the records of all foreign currency accounts held by the Bank. It is also responsible to ensure that the accounts are reconciled each month. In addition to the settlement of payments for the Bank, the Back Office also facilitates both receipts and payments using the SWIFT payment transfer system (see Table 2), for Bank clients such as the Solomon Islands Government, commercial banks and donors.

**Table 2: Number of SWIFT Messages Send and Received**

	2013	2014	2015
Outgoing messages (Sent)	953	1,039	1,314
Incoming Messages (Received )	1,589	2,279	3,562

Source: CBSI

In terms of SWIFT operations, 1,314 outgoing messages were sent through CBSI SWIFT system in 2015, an increase of 26.5% compared to 2014. At the same time, 3,562 incoming messages were received, up by 56% from the previous year. Table 3 shows all receipts and payments through CBSI SWIFT with the exception of foreign exchange deal data's between CBSI and the commercial banks. The total value of all receipts and payments transactions facilitated through SWIFT during 2015 recorded an unprecedented increase in receipts amounting to \$2,369 million. This substantial increase was driven by receipts relating to Pan Oceanic Bank (POB) proceeds facilitated through CBSI during the year. In terms of payments, a total of \$296.8 million was transacted during the year.

**Table 3: Receipts and Payments Transactions through SWIFT**

	2012	2013	2014	2015
Receipts (\$M)	\$601.2	\$548.5	\$581.2	\$2,329.6
Payments (\$M)	\$223.0	\$248.3	\$204.2	\$ 296.8

Source: CBSI

### Exchange Control Administration

CBSI administers the Exchange Control Act and Regulations on behalf of the Government. The Exchange Control Act empowers the Bank to make regulations to confer powers, and impose duties and restrictions, in relation to foreign exchange resources, and protection of currency, public credit or revenue. The primary goal of exchange control is to ensure that the country benefits from its resources especially ensuring that proceeds from all goods and services exported are remitted back to the country.

Commercial banks are appointed authorised dealers under Exchange Control and can process and facilitate trade transaction as per the specific requirements of the exchange control policy and regulation. The commercial banks continued to facilitate international transaction dealings as authorised dealers. The four commercial banks in the country are appointed authorised dealers; ANZ Bank, Westpac Bank, Bank South Pacific and Pan Oceanic Bank. However, in October 2015, only three authorised dealers remained when Westpac relinquished and sold its operations to Bank South Pacific.

### Applications for Temporary Resident (TR) Status

Temporary Resident (TR) status is normally granted to non-residents who intend to reside in Solomon Islands for a period of four years or less; or Solomon Islands residents who intend to permanently reside overseas within the next few years. Non-residents working in the country on contractual basis can also be granted Temporary Residents status for Exchange Control purposes. Non-residents who are granted temporary resident status are permitted to repatriate income earned in SI or brought in from abroad without limitation. In 2015, CBSI approved 210 temporary resident status permits, of which, 125 were new applications and renewed 85 TR permits for another four years.

**Table 4: Temporary Resident (TR) Accounts Applications**

	2012	2013	2014	2015
Newly Approved TR applications	143	101	105	125
TR Applications for Renewals	156	85	127	85
Total TR Approved	299	186	232	210

Source: CBSI

### Non-resident Accounts

Individuals and corporate entities residing outside Solomon Islands who wish to open and hold a bank account

with a resident authorized dealer (commercial banks) in Solomon Islands require the approval of CBSI. In 2015, CBSI authorized a total of 15 non-resident accounts of which 2 are for non-resident corporate entities and 13 are for non-resident individuals.

### Foreign Currency Account (FCA) Facility

The foreign currency account facility is designed to support exporters who meet certain criteria to be considered eligible for this facility. However, over the years the Bank recognised the importance to expand the foreign exchange market and thus extended this facility on case by case basis to non-exporters. The operation of FCAs is a privilege and is strictly granted on merit. Individuals do not qualify to use this facility for personal use. In 2015, CBSI approved ten (10) new applications all denominated in USD which brought the total foreign exchange exposure to \$1,132 million, of which 90.3% were held onshore. To date there are 72 active FCA approved by CBSI of which 65 FCA are held with local banks and 7 FCA held with banks outside the country.

**Table 5: Approved Foreign Currency Accounts held by Exporters and Non-Exporters**

	2012	2013	2014	2015
Account holders/Entities	22	23	38	44
Qualified Exporters	7	10	10	12
Non –Exporters	15	13	28	32
Total number of accounts held	69	55	63	72
On-shore	58	46	57	65
Off-shore	11	9	6	7
Total value: (\$ million)	1,406	896	934	1,132
Note: Some account holder hold more than one FC Account				

Source: CBSI

### Foreign Exchange (FX) Restricted Classified Dealers

In 2015, the Bank promoted financial deepening by supporting foreign exchange market services expansion in the country. The Bank issued fifteen classified foreign exchange dealer's licenses during the year (see Table 6). Of the total licenses issued, eleven were issued to eligible companies to operate as providers of money changer services while four licenses were issued for money transfer services. The foreign exchange licence is valid for 12 months and renewable thereafter.

In 2015, no new application was received and all licenses remained valid. The CBSI renewed appointments of 7 money changer licenses and 3 money transfer agents and no revocation was issued. Inward remittance receipts through classified money transfer agents increased by 28% from previous year to \$50.52 million and outbound remittance increased by 32.3% to \$158.51 million. In terms of transactions by money changers, a total of \$14.8 million

equivalents of foreign currency notes were purchased and \$13.7 million sold to the travelling public and commercial banks.

**Table 6: Approved Foreign Exchange Money Changer License**

	2012	2013	2014	2015
Money Transfer services*	4	5	4	4
Money Changer Services	6	9	11	11
Total FX Classified Dealers	10	14	15	15
*As Western Union and Money Gram Agency and Sub-agents Source: CBSI				

## Private Sector Offshore Borrowing

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

Of the twelve external loan applications CBSI received during the year, ten applications were authorized while two applications were declined for falling short of the prudential requirements. The approved external loans were purposely to finance business expansions. The total foreign currency exposure of the authorized offshore loans is equivalent to USD26.9 million or equivalent to \$216.9 million.

**Table 7: Number of Private Sector Overseas Borrowing Applications CBSI approved**

	2012	2013	2014	2015
Applications received	6	12	14	10
Value(\$M)	997.2	106.8	327.0	216.9
Source: CBSI				

## Exports Administration

The primary objective of export administration is to ensure that the country fully benefits from its export of goods and services. The exchange control regulation requires that exported goods and services receive a fair and reasonable market price and that export proceeds are fully remitted back and immediately sold to a commercial bank in the Solomon Islands within 3 months from the export date. There are two frameworks under which the Bank administers controls on exports (i) General Authority and (ii) Specific Authority.

The export of all goods and services other than round log is administered by government agencies that issue export permits and do not require Exchange Control authorization from the Bank. However, exporters and government agencies are required to report to the Bank all the details pertaining to each export consignment to the Exchange Control Unit of the Bank which is required to monitor and to reconcile proceeds. Any other export that does not meet

the requirements under the General Authority is referred to the Bank for issuance of Specific Authority.

**Table 8: Round Log Export Applications for Specific Authority to Export**

	2012	2013	2014	2015
Total Applications approved	866	846	848	819
Total Value of Exports-SA Approved (\$Million)	1,750	1,875	2,205	2,536
Volume of Exports- SA Approved ( Million m3)	2.096	2.269	2.449	2.679
Source: CBSI				

The export of round logs is directly administered by CBSI in collaboration with respective government agencies under 'Specific Authority'. Round log exports must be granted 'Specific Authority' after receiving clearance from the respective government ministry. Currently, only round log exports is administered under the Specific Authority in consultation with the Commissioner of Forest for indicative log prices. In 2015, the Bank issued 819 'Specific Authority to export' to log exporters. The numbers issued however is 3.4% lower than that of 2014 (see Table 8). However the volume exported increased by 8.6% to 2.679 million cubic metres valued at approximately \$2,205 million.

## Import Payments Administration: Applications above required CBSI limits

The Bank continues to monitor transactions between residents and non-residents in terms of trade and service payments, capital and personal transfers. All applications for travel, personal transfers and sustenance above \$30,000 requires approval by the Bank. Furthermore, trade and services payments exceeding \$100,000 are referred to the Bank for approval before the commercial banks can settle payments. Foreign exchange payment for amounts less than \$100,000 and \$30,000 respectively can be assessed and facilitated by the Authorised dealers (commercial banks) without CBSI approval.

**Table 9: Number and Value of Foreign Exchange Applications approved by CBSI**

	2012	2013	2014	2015
Number of approved applications	6,898	6,439	7,503	8,135
Value of applications approved (Million)	4,754	5,044	6,228	5,284
Source: CBSI				

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

During 2015, a total of 8,135 applications valued at \$5,284 million were referred to CBSI for authorization. This total figure includes merchandise trade comprising around 70%, service payments and capital transfers at 14% and personal transfer comprising 2% of the total payments received. Several applications referred to the CBSI valued



at \$39 million were declined due to breach of exchange control requirements.

### Company Share Transfers

The purchase and sale of shares in companies registered in Solomon Islands by emigrating residents to non-residents or residents require Exchange Control approval from the Central Bank. This is to ensure proper legal transfer of valuable consideration to the new owners who may wish to remit capital funds, profits or dividends at a later date. In 2015, the CBSI authorised three resident companies to register ownership in favour of non-resident entities. Foreign exchange approval was granted for the transfer of shares to five non-resident corporate entities and the issuance of additional shares to two non-resident individuals.

### Currency Administration and Management

The Bank is the sole issuer of currency notes and coins in Solomon Islands. Under Sections 9 (f) and Sections 18 to 25 of the CBSI Act 2012, the Bank's responsibilities include: currency stock control and management; issuing of notes to commercial banks for circulation; receiving of currency deposits from commercial banks and Solomon Islands government; sorting and destruction of unfit and soiled banknotes; designing and ordering of new banknotes or coins; advising and educating the public on handling of notes and coins; and warning public about counterfeit notes. Outlined below are the activities performed by the Bank to implement this function.

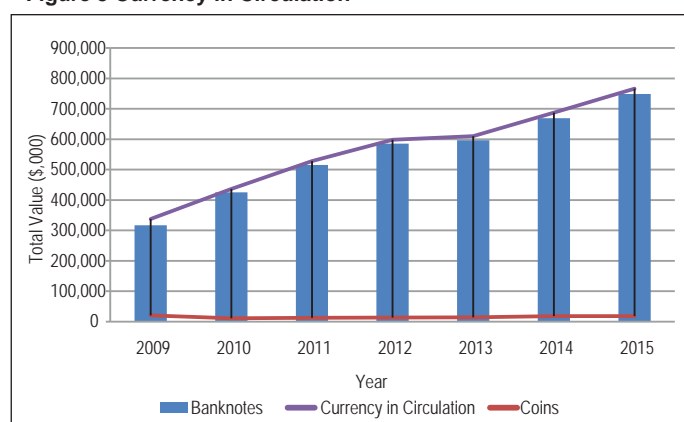
### Currency in Circulation Stock

As at the end of 2015, the total value of currency notes and coins in circulation increased to \$769 million, an increase of 12% from the previous year.

Currency notes made up \$748 million of the total circulation whilst coins made up \$21 million. Figure 5 shows the trend in the currency in circulation from 2010 to 2015.

The \$100 dollar note represented 82% of the notes in the hands of the public; reflecting its demand and popularity

Figure 5 Currency in Circulation



Source: CBSI

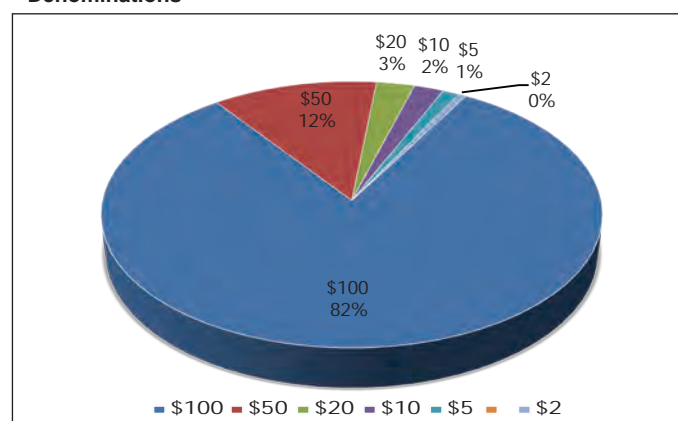
of the note for payments and store of value. Coins in circulation increased by 17% in 2015 compared to 2014. Of the

total coins, 50% represented \$2, 28% in \$1, 14% in 50 cents and the balance is shared by the 20 cents and 10 cents.

### New enhanced \$100 banknote launched in 2015

The new \$100 banknote with enhanced security features was issued for circulation in March 2015. The most promi-

Figure 6: Notes in Circulation as at end December 2015 by Denominations



Source: CBSI

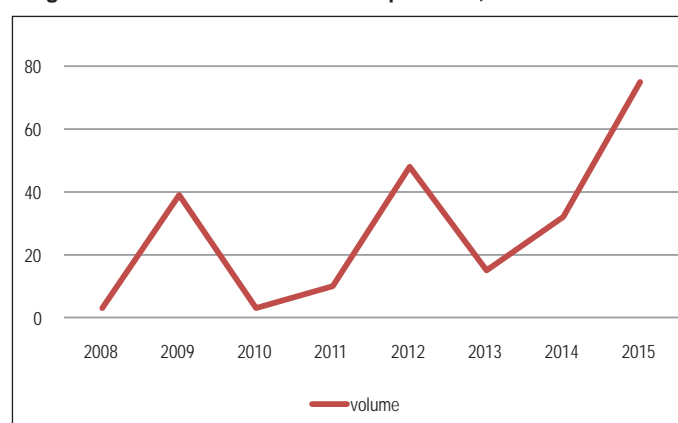
nent security feature of the \$100 banknote is the Optiks™ super wide security thread with a transparent window (as in the new \$50 banknote) in which images of the shark and crocodile from the country's Coat of Arms can be seen by the naked eye. The main design motifs in the \$100 banknote portrays rural livelihood, social and economic activities in rural Solomon Islands.

### Counterfeit Notes were still in circulation

The Central Bank received counterfeited bank notes during the year. A total of 75 pieces of counterfeit notes were confiscated in 2015 compared to 32 pieces in 2014 (see Figure 7). The face value of the notes impounded was \$5900, 44 pieces were counterfeits of the old \$100 note series, 30 pieces of the \$50 note of which 25 pieces were of the new series introduced in 2013 and a \$10 piece. The higher denominations are the most targeted notes by counterfeiters.

The rising trend in counterfeits was seen since 2008. This

Figure 7: Number of counterfeits impounded, 2008-2015



Source: CBSI



highlights the need for continuous education of the public to be on guard against counterfeit notes. The Bank used the radio and print media throughout the year and through awareness programs to various schools and institutions around the country under the theme; 'check, look and feel' your currency notes. These efforts however, must be supported by the people to internalise the habits of checking the notes they receive.

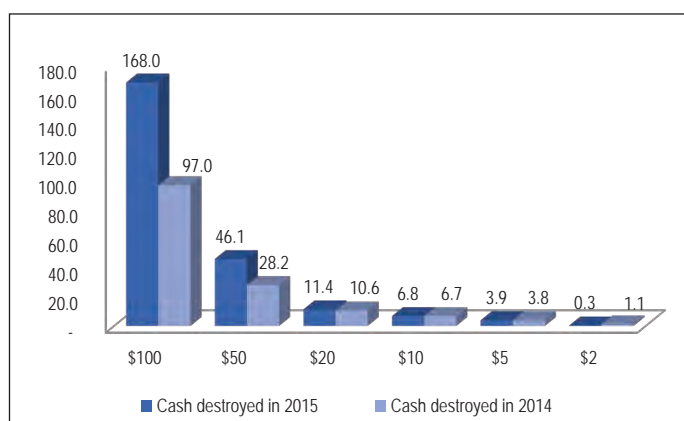
### Quality Note Management

Maintaining and keeping currency notes clean remains one of the challenges for the Bank. The value of notes returned to the Bank for destruction is a key indicator of the way people care for currency notes. In 2015, the value of soiled notes that were processed and destroyed was \$236.5 million compared to \$148.8 million in 2014 (see Figure 8). Of all the soiled notes that were processed in 2015, \$2 million was re-introduced into circulation as ATM fit and re-usable notes.

Despite public awareness on proper handling and care for currency notes, the Bank is concerned at the high replacement rates for the notes which generally reflected poor handling of currency notes by the general public.

In order to cope with the volume of notes that are returned for sorting and destruction, the Bank invested in a Cobra sorting and destruction machine. The sorting machine was an important investment for the Bank and helped to improve efficient quality note management and build local capacity in the Bank's back-office cash operations. Maintenance and servicing of the Cobra machine is outsourced to De La Rue Cash System Engineering.

**Figure 8: Value of Actual Notes Destroyed by Denomination**



Source: CBSI

During the year, De La Rue Cash Systems engineers conducted a Level II advanced training on the Cobra Note Sorter/ Shredder machine for Bank staff and an engineer from Bank of Papua New Guinea. The Bank continues to invest on training of its engineers to improve efficiency and build local capacity in the Bank's back office cash operations.

### Numismatic Business

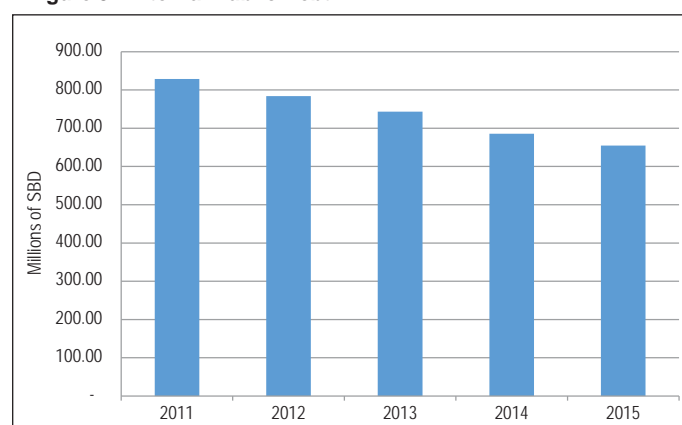
The Bank's participation in the numismatic business is largely in the coin collectors market. This included gold and silver coins of high value. Most of the numismatic products consisted of commemorative coins, note folders, uncut banknote sheets, uncirculated silver proofs and brilliant uncirculated notes and coins in mint condition. Sale of the numismatic items is one of the sources of revenue for the Bank.

In 2015, total revenue earned through local and international sales of numismatic items increased by 60.5% to \$2.4 million compared to 2014. The increased revenue exceeded the 2015 budget projection of \$1.26 million. The Bank has approved the following coin programs in 2015: Opus Manificum, Famous Landmarks, Dome Coins, Ancient Egypt, Precious" 8-In-1", Battle of Verdun, Railways, Tapio Rautava'ara and the Lunar Series.

### Government Debt Statistical Database

The CBSI Debt Unit (CDU) continues to act as the secondary site for the Government's external public debt database. Public debt data is kept on the CS-DRMS system while a portfolio analysis tool is maintained by the Government Debt Management Unit (DMU) for analysis of multicurrency loans. As part of its activities, CDU performed monthly loan validations on the CS-DRMS, dispatched quarterly external debt statistics (QEDs) to the World Bank and uploaded auction treasury bills results on the CS-SAS after each weekly auction. CDU also maintained the external private debt database and held regular meetings with the DMU on administrative and technical issues including capacity development issues.

**Figure 9: External Public Debt**



Source: CBSI

The external public debt profile is made up of thirty four (34) active loans, of which 29 were fully disbursed and 5 are yet to be disbursed. The principal creditors included the Asian Development Bank (ADB), International Development Association (IDA), European Union (EU); International Fund for Agriculture Development (IFAD) and Export Import Bank of Republic of China (EXIM). Figure 9 shows the outstanding balance of public external debt of Solomon Islands.

Solomon Islands disbursed outstanding debt (DOD) decreased by 4% to \$654.6 million at end December 2015. The decrease in the total debt stock was mainly due to exchange rate movements and also as a result of the continuous financial commitments by SIG to repay its external loans during the year. The DOD is anticipated to increase in volume in 2016 due to forecasted disbursements on the new loans that were contracted in 2014 and 2015.

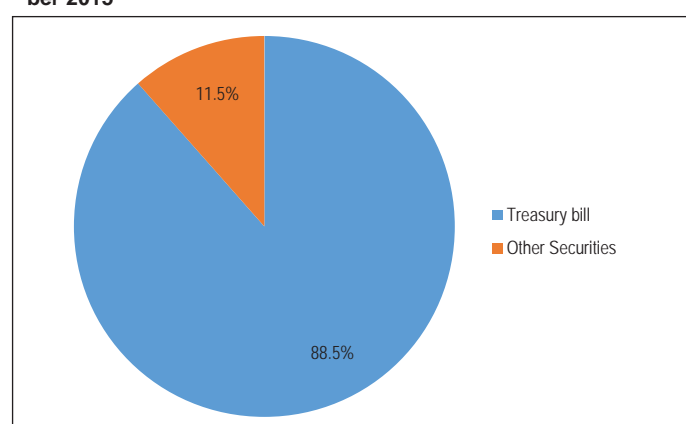
Total external debt repayments in 2015 were \$51.1 million of which \$42.7 million was for principal repayments and \$8.4 million for interest payments. In terms of currency composition, the Special Drawing Rights (SDR) accounted for 80.7% or \$528.3 million of the total DOD, followed by the United States Dollar with 16.3% or \$107.0 million, and the Euro with 3% or \$19.3 million.

### Government Domestic Debts

The Solomon Islands Government (SIG) outstanding domestic debt at the end of the year was \$42.9 million, compared to \$173.6 million at the end of 2014. The outstanding balance comprised of \$37.9 million in Treasury Bills, and \$4.9 million in SIG special securities. Debt repayment during the year totalled \$135.7 million, of which \$132.7 million was for principal and \$3.0 million was for interest payments. The increase in the debt repayment was a result of an early repayment made by the SIG on the restructuring bonds which totalled to \$99.5 million in the fourth quarter of 2015.

The major holders of domestic securities were the Solomon Islands National Provident Fund (SINPF) with 37.2%, commercial banks with 33.6%, CBSI with 11.6%, general public with 9.4%, and other creditors with 8.3%. The composition of the Government domestic debt is shown in Figure 9.

**Figure 10: Composition of SIG's Domestic Debt at 31st December 2015**



Source: CBSI

### Banking Services

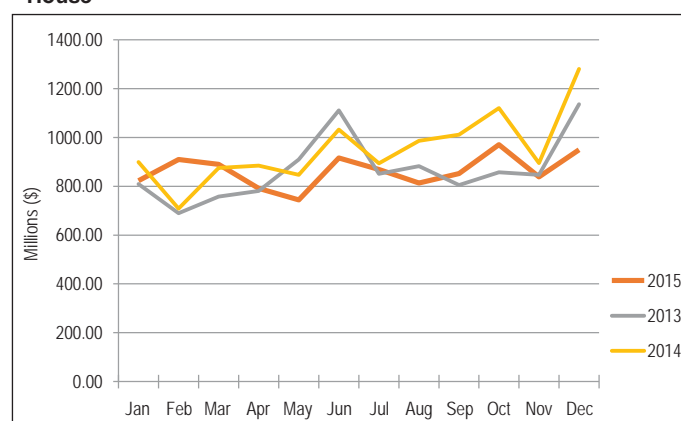
The Bank continued to provide banking services to its main clients, specifically, the licensed financial institutions, the Solomon Islands Government (SIG) and other non-bank financial institutions as mandated in the CBSI Act 2012. Banking services provided to clients include, but

are not limited to, administering the local and foreign currency denominated accounts established with the Bank by SIG and its donor partners, facilitating domestic transfer payments, providing general account enquiry services, daily monitoring of free liquidity of the commercial banks and the safe up-keeping of e-registers and records for audit requirements.

### Clearing House Activities

The CBSI facilitates daily clearing of cheques drawn on the commercial banks operating in the country. In 2015, the Bank cleared a total of \$10.4 billion as opposed to \$11.2 billion a year ago. This means that an average of \$864 million passed through the clearing house in each month. As shown in Figure 10, the months of June, October and December, are the peak months for value of cheques cleared.

**Figure 11: Value of Cheques cleared each month at the Clearing House**



Source: CBSI

### National Payments System

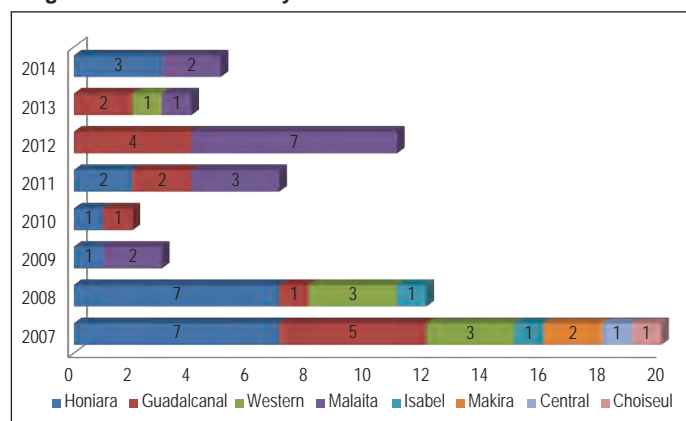
Work on the National Payments System (NPS) reform project for Solomon Islands progressed at a very slow pace in 2015. A Policy Paper on the NPS reform project is awaiting Cabinet endorsement. Consultations with stakeholders will be conducted as soon as the Cabinet endorses the Policy Paper. CBSI will provide support for the implementation of the project as required by Section 6 of the CBSI Act 2012. The need for a secure and efficient national payments system that can cater for both high value and retail payments using an electronic platform is critical to the development of Solomon Islands payments infrastructure. CBSI continues to work closely with the World Bank and IFC experts to prepare the necessary documentations required for the enactment of the payment legislation.

### Small Business Finance Scheme

As required under the MOU with the Government, CBSI administers the Small Business Finance Scheme (Scheme) and reports to Solomon Islands Government on a quarterly and annual basis. The report card for 2015 showed zero nomination from the participating commercial banks as compared to five (5) loans approved in 2014, four (4) in 2013 and eleven (11) in 2012. In terms of number, the gross loan outstanding was \$14.5 million in 2015, of which \$5.5

million was the YTD amount committed by the Scheme on the approved loans as at end 2015. Outstanding commitment for the scheme however dropped to \$1.4 million from \$3.8 million at end 2014. The reduction followed the cancellation of twenty (20) guaranteed loans after their terms expired.

Figure 12: Nominations by Provinces



Source: CBSI

Overall, participating commercial banks did not access the scheme for SME financing in 2015 as compared to the previous years. Some of the banks consulted expressed that they wanted the scheme to be more accommodative of the financing needs of the semi-formal sectors. Others raised concerns over the cost of processing loan applications and the need to simplify the process to be able to claim under the guarantee scheme. A review of the scheme was carried out by ADB and a report was published in 2015. CBSI is working closely with stakeholders to implement the recommendations of the report.

### Prudential Supervision

The Bank conducted seven (7) risk-based onsite prudential reviews that were earmarked for 2015, as part of its role to enhance and foster stability in the financial system. These reviews were conducted across the year for the following licensed financial institutions (LFIs):

- Pan Oceanic Bank Limited (POBL)
- ANZ Bank Limited (ANZ)
- Capital Insurance Group Limited (CIG)
- Solomon Islands National Provident Fund (SINPF)
- SINTA Credit Union Limited (SINTACUL)
- Credit Corporation (SI) Limited (CCSIL) and
- Solomon Islands Nurses Credit Union Limited (SINCUL)

As part of its surveillance role, the Bank held regular meetings with LFIs on quarterly basis. In 2015, officers held a total of 46 bilateral consultations with LFIs. These consultations helped to resolve prudential concerns that the Bank has with LFIs, including commercial banks, SIN-

PF, credit unions, insurance and other non-bank licensed institutions.

Off-site surveillance is the second prudential tool the Bank uses. Each quarter, respective supervision units collect mandated reports from LFIs and carried out assessments on the soundness of individual institutions. In total 26 offsite assessments were done as part of the overall surveillance function during the year.

### Meetings and Consultations

The Bank organized three bankers meetings during 2015. The bankers' meeting is a forum where trends of macro-economic aggregates and consolidated performances of banking sector for preceding quarters were presented to financial institutions. These information sharing meetings also gives an opportunity for commercial bank managers to discuss issues with the Bank.

### Financial Stability Committee

Financial Stability Committee (FSC) is one of the core committees within the Bank set up to discuss financial stability and micro and macro-prudential policies and issues. During 2015 three meetings were held and endorsed a number of prudential guidelines, onsite examination reports and research papers. The reports and prudential guidelines were presented to the CBSI Board for formal approval in the case of policies or for information in the case of reports and updates.

### Legislations, Prudential Guidelines and Research Papers

In 2015, the Bank established a new unit - Applied Research, Policy and Regulation Unit- within the Financial Market Supervision Department. As part of its mandate, the Unit is in charge of tracking the progress of two draft legislations, the Credit Union bill and the SINPF bill, with the Ministry of Finance and Treasury. In addition, two other bills that were under review during the year are the Financial Institutions bill and the Insurance bill. Meanwhile, four prudential standards were drafted in 2015; three of which are specifically designed for the SINPF and one for the Credit Union sector. The four guidelines are:

- Fitness and Propriety Standards for Persons holding Responsible Positions of SINPF;
- Investment guidelines for SINPF;
- Investment guidelines for Credit Unions and;
- Guidelines for bad and doubtful debts of the SINPF.

These new guidelines are expected to improve the corporate and investment governance of SINPF and the credit unions and would further strengthen their risk management practices.

In terms of research, a number of papers were written on specific topics during the year. One of the papers was on the export of logs, and analyses the performance of the



industry and the socio-economic benefits and losses that emerged from the industry. Other papers were on personal loan demand and SME lending. The latter was jointly done with Economics, Research and Statistics Department of CBSI.

### Licensing and Registration

In 2015, no new application for banking license was received. However the banking sector saw the expansion of Bank South Pacific Limited (BSP) after it acquired the Westpac Bank operation in the country in October. As a result of that acquisition, Solomon Islands banking sector now has three licensed commercial banks, namely: ANZ, BSP and POBL.

### Capacity Building, Workshops and Conferences

On-going training and capacity building is vital for staff of the FMS department. Accordingly, staff underwent various seminars and workshops held both locally and overseas. Six overseas training were attended by the staff covering an array of areas in supervision and other financial sector issues. Australian Prudential Regulatory Authority (APRA) organized and funded the workshops which gave staff opportunities to attend onsite reviews of licensed financial institutions in other South Pacific countries. The APRA trainings are valued because of the peer learning opportunities given to participants to see how different countries in the region deal with supervisory issues.

In August 2015, the Bank hosted a PFTAC Training and AFSPC Meeting for the Pacific Islands Supervision Heads and Supervisors at the Heritage Park Hotel in Honiara, Solomon Islands. The training and meeting was co-organized by the Bank and PFTAC. The main objectives of those trainings and workshops were to upgrade the supervisory skills and techniques of financial sector supervisors and to enable them keep abreast with latest knowledge and developments in the field of financial sector supervision.

Finally, as part of its contribution to internal trainings and information sharing, the FMSD team conducted two internal workshops for the supervision staff on hypothesis testing and estimating of credit loss function. The latter training will continue in 2016. The Supervision team also conducted two trainings for the industry players on how to compile call reports.

### Information Technology

The Information Technology department provides the vital supportive services to the Bank's operations and specifically:

- Encourage the use of technology to facilitate work flows across departments and to Bank clients;
- Reduce the cost through electronic processing of high volume transactions that could require many man-hours if done manually;
- Safe-keeping of records electronically which can

be retrieved for use in various requirements for the Bank;

- Allowing officers to access information through internet services and
- Allowing the Bank to disseminate economic information to stakeholders on timely manner for their use and to make informed decisions.

In 2015 the Bank focused on the following projects and activities:

- **Technology One Financial System installation and testing:** This project started in 2014 for the Bank to replace its accounting system (see Table 11 for modules). The tasks involved the setup of vital servers, configuration of systems to meet the Bank's requirements, designing of customized reports, testing, training of users and monitoring the outcomes of parallel running of the old system with the new one. The system provider handed over the project as complete on 1 October 2015 and the two systems are running in parallel until end of May 2016. Ten user licenses were acquired to allow more staff to access the system at the same time.

**Table 10: Components in the new Technology Financial System**

Core Modules	Systems Interfaces
i. General Ledger	i. Commercial Bank Balance Sheet
ii. Fixed Asset	ii. Deposit and Investment
iii. Accounts Payable	iii. Payroll / Loans
iv. Accounts Receivable	
v. Budget (Manual Entry)	
Source: CBSI	

- **Currency Working Store system.** This in-house developed program is for maintaining of stock records of currency notes and coins. The software has been developed in the last three years and the main focus for this year was to resolve some outstanding issues with the software; imputing data to the system and checking the balances from the working store system and reconciling the general ledger balances.
- **International Payment system upgrade.** The Department upgraded its SWIFT international payment system to meet changes required by the software providers.
- **Local Area Network (LAN) services.** These included servers security updates and operating system patches, maintained replication images to replica servers, restored failed LAN connections, administered access for LAN users, replaced existing wireless devices with new and stronger CISCO wireless devices to enhance network access through wireless connectivity, acquired and



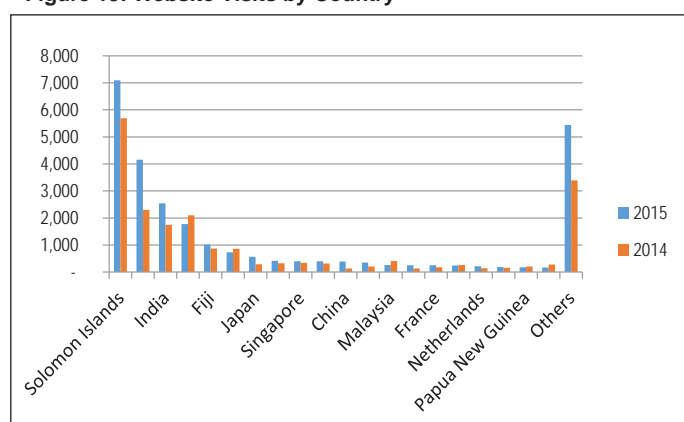
setup removable Hard Disk Drives (HDD) to ease data and systems backup and restore processes, setup dedicated servers for the Antivirus Server and the Print Server to enhance security, access and resolved servers corruption/failure.

- **Upgrading of statistical forecasting software:** New version of statistical software EvIEWS 9 application was purchased to replace the older version. The Economic Research and Statistical staff are the main users of the software.
- **ASYCUDA system:** The Bank also installed the ASYCUDA software, the new system used by the Customs & Excise Division of the Ministry of Finance and Treasury to enable the Bank to do clearance of its cargoes online.
- **The Bank also provided support and maintenance services on its internet, emails, databases, and computer hardware.** The Bank replaced its aging IT hardware items including seventeen (17) desktops, twenty three (23) laptops, two (2) printers and an overhead projector. Seven (7) old desktops and six (6) old laptops were disposed through tender process in the first quarter of the year.
- **Exchange Control System (ECS) coding** remain as 'work-in-progress' by end of the year. The ECS will enhance the Bank's recording, accessing and monitoring compliance with Foreign Exchange Control regulations on imports and exports transactions.

### Visitors to CBSI Website increased during the year

In 2015, the number of visitors to the CBSI website increased by 33% to 20,237. Visitors from 200 countries visited the website but the majority came from Solomon Islands. The Bank also provided new and updated information on its website for public to access and gather useful information about the Solomon Islands economy.

Figure 13: Website Visits by Country



Source: CBSI

### Disaster Recovery Policies and Procedures

A local area network was established at the Bank's tempo-

rary Disaster Recovery (DR) office with DR servers connected to the available workstations to access, test and confirm working, availability and appropriateness of the systems and data at the Disaster Recovery Office. Two (2) docking stations for the Hard Disk Drive (HDD) with the HDD were acquired to support the manual backup and restore programs and data from Production servers to the Offsite Servers. Work on the online connection between servers at the production site and servers at the DR site will be supported by Our Telekom's installation of Fibre Optic cabling.

The review of the Bank's IT Policy along with its related procedures which began in 2015 will be continued in 2016. The completion of this review will enable the Bank to have an updated IT policy with clear set procedures that supports each given policy.

### Internal Audit Unit Activities

The Internal Audit Unit carries out its responsibility as provided for in the Internal Audit Charter approved by the Board. In broad terms, the key responsibility of the Internal Auditor is to ensure that internal control systems are robust and areas of potential risks are mitigated. In 2015, the major activities that the Internal Audit Unit conducted and submitted its reports and findings to the Board Audit Committee and/or Management for comments or actions covered the following:

Table 12: Internal Audit Reviewed Areas in 2015

Major Areas of review/activity	Objective of the Review
Currency & Banking Operations	Accuracy & completeness in the: <ul style="list-style-type: none"> <li>• reporting of SIG &amp; Commercial Banks' deposits</li> <li>• reporting of currency in circulation (CIC)</li> <li>• Administration of the Bank's numismatic notes and coins.</li> </ul>
Corporate Services Operations	Proper and appropriate administration of the: <ul style="list-style-type: none"> <li>• Gym property and equipment to better achieve its purpose.</li> <li>• Bank's storage and archival facility. This is to ensure that there is compliance to best practices in the safe keeping and proper accountability for equipment and fittings that had been stored at (and transferred or used from) the storage facility.</li> </ul>
Follow-up reviews of previous Audit (External & Internal) raised issues	To ensure that the issues or improvements recommended through the Internal and External audit (2014 financial statement raised Management Letter Points (MLPs) together with the unresolved 2013 MLPs) activities were actioned or responded to by the Management
IMF weekly/monthly Monetary Reports	Ensuring the integrity of the weekly and monthly monetary data/report sent to the IMF by the Bank.
IMF Safeguards Assessment of Central Bank of Solomon Islands	

During the year, the Internal Audit Unit was also responsible for the compilation of the Management responses to the International Monetary Fund (IMF) Safeguards Assessment team's recommendations. This is an ongoing diagnostic review of the Bank's governance and control framework as long as the Solomon Islands as a member country, has an outstanding credit facility with the IMF.

## CHAPTER 5: FINANCIAL INCLUSION

The main highlights of financial inclusion activities in 2015 were: the achievement of the 2017 target earlier than expected; completion of a demand side survey; and the formulation of the second National Financial Inclusion Strategy (NFIS2). Despite these positive outcomes, much remained to be achieved, which include, but not limited to, the inclusion of financial education into schools' curriculum, empowerment and protection of consumers, and active consumer awareness on the use of and improving access to digital financial services.

### Numerical target: Additional 160,000 new bank accounts by 2017

In August 2014, the National Financial Inclusion Taskforce (NFIT) raised the numerical target of 160,000 new bank accounts (an addition of 90,000 new bank accounts to the initial target), to be achieved by 2017. Of this, half of the new accounts must be held by women and 50% must be held by those from the rural areas. This new target implies that, on pro-rata basis, for the remaining three and a quarter year would require an estimated additional 27,693 new accounts opened annually. However, by the end of December 2015, the cumulative number of new bank accounts opened for Solomon Islander customers, since 2011, soared to 196,536, which exceeded the 2017 target (of 160,000) earlier than expected. In 2015 alone, 56,464 new accounts were opened. Unfortunately, the estimated 80,000 new accounts aimed for women and 80,000 new accounts for the rural were not met due to under reporting. This is an area that NFIT will continue to work on, in order to measure progress towards achieving the target.

The earlier than expected achievement of the overall target in 2015 was attributed to the following reasons. First, the expansion of branchless banking in the Provinces has allowed more customers access to the banks and to open new bank accounts. Second, the Know Your Customer (KYC) identification requirements by commercial banks have been simplified by the Anti-Money Laundering Commission (AMLC). Third, the on-going promotion of financial products and services by the commercial banks within Honiara and out in the Provinces has had positive impact by encouraging people to open new bank accounts to save money. Fourth, the increasing wide coverage of telecommunication infrastructures has also enabled commercial banks to expand their mobile banking or branchless banking services. Finally, continuous support from international stakeholders<sup>8</sup> in the form of technical and financial assistance also contributed to the positive achievements in 2015. In addition, the support rendered by the Solomon Islands Government and other stakeholders in promoting and expanding financial inclusion policy is providing the impetus to achieve yet another milestone.

<sup>8</sup> Includes Pacific Financial Inclusion Program (PFIP); Alliance for Financial Inclusion (AFI), which is supported by Bill & Melinda Foundation; Pacific Islands Regional Initiative (supported by AFI and Central Banks in the South Pacific Region) on financial inclusion; and donor partners particularly DFAT, UNCDF, NZAID and multilateral institutions such as the Asian Development Bank, the International Finance Corporation (IFC) and the World Bank.

In spite of the numerical target being achieved earlier than expected, the year-on-year outcome in 2015 saw total new deposit accounts falling by 27.6% to 56,464 accounts, of which 30,824 were accounts opened at bank branches while 25,640 were accounts opened using branchless banking channels (see Table 7.1). The fall stemmed from the impending merger of Westpac Bank with BSP, which slowed down the field activity of both banks. However, women participation in formal financial services in 2015 registered an increase usage in deposit accounts, credit accounts and mobile banking accounts, although the increase was not sufficient to offset the decline.

**Table 13: Number of New Bank Accounts opened by Commercial Banks in 2011-2015**

	2011	2012	2013	2014	2015
Total new deposit accounts opened at bank branches	8,235	21,896	16,788	44,276	30,824
Total new accounts opened using branchless banking channels (mobile Merchants, In-store and Tablets)	0	0	15,127	33,749	25,640
Total new Accounts opened each year	8,235	21,896	31,915	78,025	56,464
Cumulative Total year to date	8,235	21,896	62,046	140,071	196,536

Source: CBSI

While the numerical target was met earlier than expected, there are concerns about the possibility of double counting and inclusion of dormant accounts at the source data. Therefore, a new reporting template will be issued to commercial banks which should address these concerns. Another concern is the infrequent usage of financial services due to limited knowledge on 'how to use' the digital technology, especially by the rural dwellers. This requires full participation of NFIT and all concerned stakeholders to actively provide awareness and education.

Table 14 displayed channels to which financial services can be accessed, by provinces. As clearly shown, EFT-POS and the number of mobile banking merchants and agents have seen significant increases with 353 and 137 respectively. Of the total EFTPOS, Honiara has the highest number with 269 (76%), followed by Western and Malaita provinces with 40 (11%) and 18 (5%) respectively. The remainder are shared between Makira with 8 (2%), 5 (1.4%) in Central, 4 (1.1%) each in Guadalcanal and Isabel, 3 (0.8%) in Temotu, and 2 (0.6%) in Choiseul.

In terms of the number of mobile banking merchants and agents, Honiara has the majority, commanding 33% (45) of the total. This is followed by Western, Malaita, and Guadalcanal with 17.5% (24), 13.9% (19), and 9.5% (13) respectively. Isabel accounted for 8.0% (11) while Central and Choiseul each accounted for 5.8% (8), Makira accounted

4.4% (6), Temotu 1.5% (2), and Renbel 0.7% (1).

**Table 14: Regulated Access Points by Provinces at end of 2015**

Access Indicators	Choiseul	Western	Isabel	Malaita	Guadalcanal	Central	Makira	Renbel	Temotu	Honiara	Total
No. of Bank Branches	0	4	0	2	0	0	0	0	0	8	14
No. of ATMS	0	8	0	2	1	0	0	0	0	29	49
No. of EFPOS	0	40	4	18	4	5	8	0	3	269	353
No. of Bank Agents (manuel passbook based)	1	1	1	2	0	0	1	0	1	0	7
No. of In Store Banking Agents	1	4	2	1	1	2	1	0	2	10	24
No. of Mobile Banking Merchants and Agents	8	24	11	19	13	8	6	1	2	45	137
Total Access Points per Province	12	81	18	44	19	15	16	1	8	361	575
Total Access points (2014)	11	87	11	41	28	14	17	1	9	319	538

Source: Commercial Banks and CBSI

## Demand Side Survey

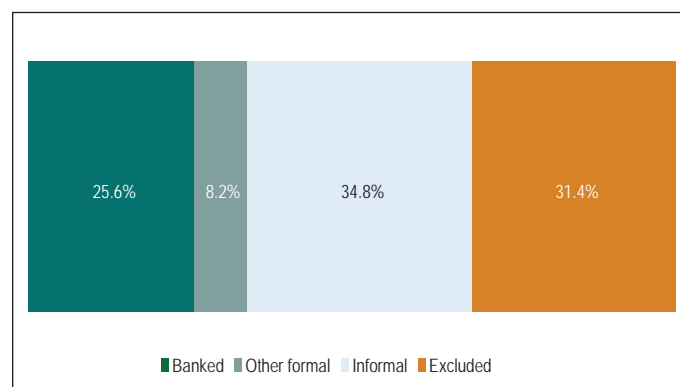
In the first quarter of 2015, the National Financial Inclusion Unit (NFIU) and NFIT along with the assistance from the Pacific Financial Inclusion Program (PFIP) conducted a Demand Side Survey (DSS) in the country. Data collection took place between February and March 2015. The main objectives of DSS are: to assist the Solomon Islands Government (SIG) and relevant stakeholders to better understand the needs of Solomon Islanders in terms of financial services and products; assist SIG and relevant stakeholders to design and develop evidence based policy solutions to address gaps and monitor the growth of Financial Inclusion; and finally the result will be used to determine and agree on a new set of Financial Inclusion targets and action plans. The survey established baseline data which offers useful information on access, usage, and quality of financial services and products that are currently available in the country from consumers' perspective.

Findings from the survey indicated that salaried employees dominate the formal financial inclusion. This means that the majority of the population, dispersed over approximately 300 islands, are formally financially excluded. The survey revealed that only 25.6% of the sampled population have bank accounts while 8.2% uses other formal financial services like insurance, superannuation funds, credit unions or microfinance services. Around 34.8% use other informal services such as savings groups, shop credit, hire purchase or money lenders while another 31.4% are excluded from the entire financial services.

Another significant finding from the survey was that despite women not using banks, their saving behaviour are comparable to that of men in terms of utilizing the informal financial services. It was revealed that 85% of females

have saved using the informal mode of financial services. This implies that Solomon Islander females are likely to have an unmet need for formal financial savings products.

**Figure 14: Solomon Islands 2015 Financial Inclusion Strand**



Source: CBSI

The survey also identified important areas that need to be addressed in order to improve and expand financial Inclusion in Solomon Islands. Of significance is the gender disparity, where female adults have the highest percentage (36.4%) of exclusion from financial services compared to 25.5% of sampled males. Only 20.1% of women have bank accounts compared to 31.8% of males. The majority of young adults are excluded from accessing financial services. Moreover, the distance and access to the nearest access points in remote areas is prohibitive. There is also limited knowledge on financial services access points and use of products that require financial education to customers. The survey also revealed that only 7% are insured while 93% are not due to limited knowledge of insurance in rural areas. Another concern is to improve the channel used for remittance to ensure monies transferred are not only safe, but cost-effective. The DSS report was launched during the Microfinance week in September 2015.



Governor Mr Denton Rarawa (CBSI), Andrew Byrne (Australian High Commissioner) Eliko Boletawa (AFI) and Judith Karl (Head of UNCDF) during the launching of Solomon Islands Demand Side Survey report at Heritage Park Hotel.

## Pacific Microfinance Week

The CBSI successfully hosted the fifth (5th) Pacific Microfinance week with assistance from the Foundation for Development Cooperation and Microfinance Pasifiki. The event was organised for 5 days from 21st – 25th September 2015. Other sponsors of the event included the Pacific Financial Inclusion Program (PFIP), Australian Aid,



NZAid, UNDP, European Union, ADB, Capital Insurance group, IFC, Software group, SPBD, MiBank and Good Return. The event attracted more than 150 participants and discussed issues that impact the success and growth of inclusive finance across the region. It included representatives from microfinance institutions, development partners, commercial and central banks, learning institutions, government agencies, and private companies Pacific-wide. During the summit Solomon Islands was given the opportunity to share its experiences in areas such as the role of savings clubs, mobile banking as the bridge to the formal financial system, and stakeholder partnerships and cooperation. Also during the summit, a Solomon Islands National Women Micro Entrepreneur Awards was staged, and five women were recognised for their entrepreneurship.



Eliki Boletawa (AFI), Andrew Byrne (Australian High Commissioner), Judith Karl (Head of UNCDF) and Governor Denton Rarawa (CBSI) during the opening of the Microfinance week on 22nd September 2015, Heritage Park Hotel.



Five winners of the National Women Micro Entrepreneur Awards from left to right (front row); Christina Rofeta (5th Place), Clotilda Maeli (2nd Place), Rebecca Ropo (3rd Place), Agnes Pilopaso (1st Place) and Mulbrey Konai (4th Place).

### National Financial Inclusion Strategy

From 24th – 25th November 2015, the second National Financial Inclusion Strategy (NFIS2) summit was organised, following several consultations with relevant stakeholders. Representatives from government, non-government organisations, commercial banks and private sector had



Participants of the Pacific Microfinance Week Conference enjoying lunch hosted by the CBSI at the CBSI's recreational site at Aruligo, West Guadalcanal.



Solomon Islands Savings groups' promoters Osbert Lalahu (World Vision), Dr Alice Pollard (Rokotanikeni Association) Mr Krishnan Narasimhan (Moderator) Ms Rebecca Tahosonau (ACOM) and Ms Salome Topo (GELCA-WWF) sharing their experiences on Savings Clubs during the Pacific Microfinance Week.

intensive and constructive discussions on the new strategy to advance financial Inclusion in the next 5 years from 2016-2020. The NFIS2 replaced the NFIS1, as the new guideline for NFIT members to achieve and accomplish the objectives and key result areas (KRA) for the next five years.

### Microfinance Institution

The South Pacific Business Development (SPBD) continues to assist women by empowering them to save and to access credit. To date, since inception in 2013, the total number of SPBD savings accounts increased to more than 4,000 while total loans disbursed increased from around \$12 million in 2014 to more than \$30 million in 2015.

### Financial Literacy

Financial Literacy is one of the vital components of Financial Inclusion. NFIT members including Commercial Banks, World Vision, SPBD, Rokotanikeni Association and other relevant stakeholders continued to provide financial literacy trainings in the rural areas. The topics of the trainings were on specific areas such as budgeting, savings and money management. Commercial banks also carried out financial literacy trainings and awareness on branchless banking and the products and services they offer.



## CHAPTER 6: FINANCIAL STABILITY

For a small open economy like the Solomon Islands, maintaining the stability of the financial system is critical for economic growth. More importantly, the ability to deliver critical financial services, even under adverse circumstances, to corporate consumers and domestic households is critical.

The Solomon Islands financial system has been resilient in 2015 in line with the regulatory requirements. Banks total regulatory capital to risk weighted assets was 31.3% against the minimum requirement of 15%. The Tier 1 capital was 24.5% of risk weighted assets, this is well above the required 7.5%. With the strong capital position, banks were well placed to cushion any rising risks and losses. Further, banks were able to maintain strong liquidity positions that enabled them to supply financial resources to private individuals and corporate entities, engaged in money creation activities, and meeting their financial obligations as and when they fall due. During the year, banks' total liquid assets to total assets were 48.4% and their liquid assets to short term liability coverage ratio was 66.8%.

The strong performance of the financial system was also attributed to notable improvement in the asset quality of the banks during the year with robust profitability. Aggregate credit growth was 16% and impaired loans were effectively managed and thereby declined to 4.1% (Table 15).

**Table 15: Financial Soundness Indicators (Banks & CCSIL)**

FSI Indicators	2011	2012	2013	2014	2015
Regulatory Tier 1 Capital ratio (%)	28.5	24.9	26.5	26.9	24.5
Min. Regulatory Tier 1 Capital Requirement (%)	7.5	7.5	7.5	7.5	7.5
Total Regulatory Capital ratio (%)	30.9	33.2	32.4	31.6	31.3
Min. Total Regulatory Capital Requirement (%)	15.0	15.0	15.0	15.0	15.0
Nonperforming Loans to Gross Loans and Advances (%)	5.8	3.6	7.0	4.7	4.1
Nonperforming Loans and Advances (\$m)	67.4	44.7	101.4	79.2	81.0
Gross Loans and Advances (\$m)	1170.9	1249.7	1439.6	1688.9	1959.6
Total Loan Loss Provisions (\$m)	58.8	30.3	17.7	30.1	39.9
Over/(short) provision for Loan Losses as per CBSI minimum requirement	34.0	30.0	17.7	27.9	37.4
Return on assets (before tax) (%)	5.2	5.1	3.7	3.3	3.4
Return on equity (before tax) (%)	26.9	27.6	23.2	20.8	21.1
Cost to income ratio (excluding pro exp) (%)	47.4	48.9	52.8	51.6	51.9
Liquid Assets to Total Assets (liquid asset ratio) [%]	55.9	59.0	57.2	54.6	48.4
Liquid Assets to Short Term Liabilities [%]	87.3	79.2	79.6	74.2	66.8
Total Liquid Assets (LA) (\$Million)	1656.9	2043.9	2302.3	2259.3	2451.9
Open Foreign Currency Position to Capital (%)	5.2	3.9	9.1	11.8	8.5
Max. Open Foreign Currency Position to Capital (%)	25.0	25.0	25.0	25.0	25.0

Source: CBSI

Consequently, the improvements in asset performances and operational efficiencies have boosted banks' profitability and assisted them built up their capital buffers through retained earnings in 2015. Two key drivers of profitability in 2015 were net interest income and trading income. About 54.7% of total income was from their core operations. The cost of operations was maintained at around 51%.

Non-bank financial institutions have also performed well during the year despite the challenging environment in relation to the domestic market conditions and internal operational management. For the SINPF, the opportunity to expand investments domestically remains a challenge. As at end December 2015, NPF's total investment portfolio fell to \$2.384 billion from \$2.398 billion in December 2014. Despite the fall, income from investments increased during the year due to strong returns on equity and fixed-income investments.

The insurance sector remained subdued, as the ability to penetrate into the economy remains challenging. In 2015, profitability performance was subdued, attributed to high cancellations and non-renewal of policies.

The credit union sector, although has potential to grow and provide alternative financing sources for Solomon Islanders, made small gains in 2015 and is being plagued by governance issues. Governance is a critical issue for credit unions. It needs to be addressed as non-compliance to good governance can stall the sector's ability to expand and provide the required financial services to credit union members.

### Overview of the Financial System and Stability

Across 2015, the Solomon Islands financial system had been stable and appeared resilient to risks of financial shocks. This is reflected by the stability within the financial intermediaries, in particular, the systematically important institutions, performing above the regulatory requirements. The financial soundness indicators (FSI) showed strong capital and domestic liquidity positions and inherent risks, in particular, asset quality and foreign exchange risks, were maintained within manageable levels.

The resilience of the financial system is also due to limited integration to international markets thereby limiting international financial exposures by the financial institutions in Solomon Islands. A notable development towards the end of 2015 was the growth in aggregate credit, which was allocated mainly to personal sector lending for purposes of current consumption rather than for domestic capital formation or developmental purposes.

### Financial System Development

Following the acquisition of Westpac Banking Corporation (WBC) Solomon Islands branch in October 2015 by Bank South Pacific, the financial system now has three li-

censed commercial banks compared to four a year ago. Meanwhile, the financial system now comprises of one credit institution, 11 credit unions, 4 insurance companies, 4 insurance brokers, 3 insurance agents, 1 superannuation fund and 1 development bank in 2015. The latter has been under Court Appointed Management since June 2004.

In terms of accessibility to and delivery of banking services, the Solomon Islands financial system continues to witness growths in the introduction of modern electronic financial infrastructure for efficient delivery of financial services to its customers. 2015 saw increases in the number of ATMs to 41 while EFTPOs terminals increased to 400. EFTPOs merchants as well as mobile banking agents also witnessed growth registering 353 and 164 respectively.

**Table 16: Banking Infrastructure 2011 - 2015**

	2011	2012	2013	2014	2015
Commercial Banks	3	3	3	4	3
Agencies	7	7	7	7	7
Branches	13	13	12	14	14
ATMs	36	38	38	39	41
EFTPOS Terminals	175	224	306	346	400
EFTPOS Merchants			72	325	353
Mobile Banking Agents			0	105	164

Source: CBSI

While most of the ATMs are serving customers around the urban centres, EFTPOS merchants and mobile banking agents have enabled the rural customers to also gain access to much-needed payments and banking services. The rollout of required infrastructure to expand payments and banking services will assist to reach the unbanked rural populace and reduce the unit cost of accessing financial services.

### Aggregated Assets of Financial Sector

**Table 17: Financial System Assets 2011-2015**

(\$million)	2011	2012	2013	2014	2015
Commercial Banks	2989.1	3457.9	4010.9	4122.6	5042.6
SINPF	1324.9	1555.4	2467.1	2683.7	2826.3
Insurance Companies	120.3	117.5	124.4	126.0	115.0
Credit Corporation [SI] Ltd	69.3	87.1	113.1	134.5	151.1
Credit Unions	51.7	49.7	50.6	52.6	58.4
(\$million Total Assets)	4555.3	5267.6	6766.1	7119.4	8193.4

Source: CBSI

The consolidated assets of the financial system grew by 15% over the year to \$8.2 billion in 2015. The rate of growth from 2014 to 2015 period is higher than the rate of growth of 5.2% recorded for 2013-2014 review period. Growth in total assets largely reflected growth in the as-

sets of commercial banks, SINPF and Credit Corporation (SI) Limited. The growth in assets is positive for the sector because of its potential to fortify the capital position of licensed financial institutions and drive service delivery and credit growth in the future. Of the total assets reported in 2015, commercial banks and SINPF accounted for 61.5% and 34.5% respectively while Credit Corporation (SI) Limited, insurance companies and credit unions made up the remaining 4.0%.

### Regulatory and Supervisory Developments

The Central Bank continued to initiate and improve the regulatory and prudential measures in 2015 with the view to enhancing the safety and soundness of the financial sector. Accordingly, CBSI continued to pursue with the Ministry of Finance and Treasury (MOFT) a number of outstanding legislative reforms and at the same time, five prudential guidelines were completed and are ready to be issued in 2016.

The ongoing legislative reforms on the Credit Union Act and SINPF Act are advancing but at a very slow pace due to lack of political push these forward. However, it is expected that the reform of the two legislations should progress in 2016. This reform will improve the effectiveness of the existing legal mechanism in administering both the SINPF and the Credit Unions. Meanwhile, the two other legislations that went through the early phase of reform are the Financial Institutions Act (FIA) and the Insurance Act. The FIA went as far as the consultation phase on the policy revisions and that task is expected to be pursued in 2016, while a policy paper is also being drafted for the insurance legislation by an external consultant to be reviewed and discussed in early 2016.

In addition to the legislative reforms, CBSI also introduced new prudential guidelines. Considering the growing importance of SINPF to the national economy and enhancing its soundness and safety of member's contribution, the Central Bank introduced three guidelines for the SINPF, the investment guideline, the guideline on asset classification and provisioning and a fit and proper guideline for persons holding responsible positions in the Fund.

The investment guideline outlines the broad principles a superannuation fund should follow in undertaking investments. The guideline on asset classification and provisioning requires the Fund to properly classify its investments and apportion appropriate provisioning to its assets. This is to ensure it does not overstate or understate its financial performance. Meanwhile, the fit and proper standard was introduced to enhance good governance practice.

The Central Bank has also taken further steps to strengthen the Credit Unions and accordingly introduced an investment guideline pursuant to Section 40 of the Credit Union Act. The new guideline specifies the types and concentration of investment portfolio of the credit unions, complementing the liquidity and cash management activities. More particularly, this guideline requires the Credit

Unions to seek approval from CBSI prior to investing in non-financial assets.

Further steps were also taken to improve the oversight of the insurance sector and in 2015; CBSI with the concurrence of the Controller of Insurance, introduced a directive on minimum requirements for off-shore placement of insurance business. The directive spells out clearly the minimum requirements an insurance company should follow in taking up re-insurance policy cover offshore. An approval for off-shoring is conditioned on getting withholding tax clearance from the Inland Revenue Division (IRD) and evidence that the policy cannot be offered domestically.

In all, legislative reforms and prudential regulatory measures initiated during 2015 were expected to contribute positively to enhancing the resilience of the financial sector by providing firm foundation for effective supervision and oversight of the Solomon Islands financial system.

### Banking Sector

Profitability for the banking sector, following a fall for the past two consecutive years, rebounded strongly resulting in the after-tax-profit of the banking sector rising by 17.9% from 2014 to 2015. This rebound reflected improvement in key performance indicators.

**Table 18: Commercial Banks Profit and Loss Statement**

	2011	2012	2013	2014	2015
Net interest income	135.2	140.3	156.8	174.1	192.7
Non interest income	160.6	164.6	146.1	145.5	173.9
Foreign exchange gains	104	111.9	98.1	96.0	118.2
Foreign & Charges	31.6	33.3	33.5	28.0	26.6
Others	24.9	19.4	14.5	21.5	29.1
Operating Income	295.8	304.9	302.9	319.6	366.7
Operating Expenses	142.6	154.3	166.3	170.7	196.2
Provision for bad debts	19.6	-0.2	2.4	24.0	30.3
Profit Before Tax	133.6	150.8	134.3	124.9	140.1
Profit After Tax	84.7	102.2	84.8	77.9	91.8

Source: CBSI

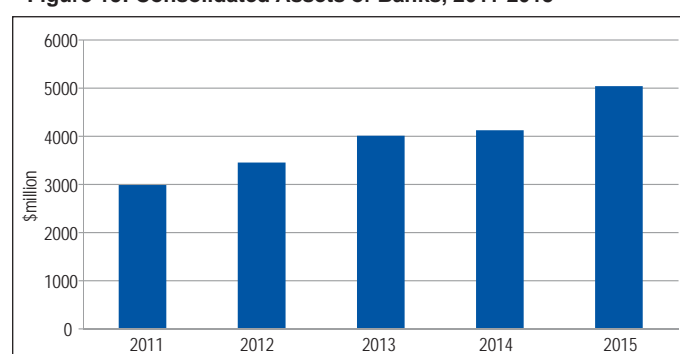
The commercial banks profit increased to \$91.8 million in 2015 from \$77.9 million in 2014. This increase was driven by earnings from net interest income due to additional lending extended during the year of \$18.7 million. Trading income also rose, by \$28.4 million to \$173.9 million in 2015, due to increased earnings from foreign exchange trading and other fees and commissions. As a result, banks ROA and ROE improved to 3% and 21%, respectively.

Meanwhile the cost of banks doing business surged in 2015. Their operating expenses increased by 15% to \$196.2 million in 2015 due principally to costs associated with the

acquisition of WBC and from costs associated with tenancy and administration and labour and outsourcing services fees and charges. Consequently, the ratio of cost to income for the banking sector deteriorated to 54% in 2015 from 53% in 2014.

Despite the rise in the cost of doing business, the banking sector further enhanced its financial strength in 2015 where its total assets grew 22% to \$5.04 billion. Of this growth, non-financial assets contributed 18% and financial assets the rest. Over the year, loans and advances grew by 16%, balances with depository institutions grew by 12% and debt securities grew by 11%.

**Figure 15: Consolidated Assets of Banks, 2011-2015**



Source: CBSI

Banking sector lending in 2015 increased by 16% to \$1,823.4 million. Substantial share of these loans and advances were extended to the personal sector, which accounted for 36% followed by Distribution (12%), Communication (11%), Construction (9%), Manufacturing (7%) and the remaining 6% to Tourism, Professional services and Transport sectors. During the year, 90% of the lending was in terms of funding for long term credits while 10% was for short term credit facilities like trade bills, overdrafts and lease financing.

Customer deposits remain the key source of funding for the banks, which accounted for 88% of total liabilities. During the year, deposits rose by 17% to \$3,739 million largely from increased deposit mobilization by banks as they expanded their outreach and service networks to tap unserved segments of the market. Notable increases were for demand and savings deposits. Non-financial corporations accounted for the major portion of deposits with private sector non-financial corporations accounted for 43% while private sector individuals accounted for 19%.

During the year, commercial banks maintained their strong capital positions mainly backed by solid retained earnings and additional capital injection. For 2015, regulatory capital adequacy ratio was 31.5% while regulatory Tier 1 capital adequacy ratio stood at 24.6%, above the required minimum of 15% and 7.5%, respectively.



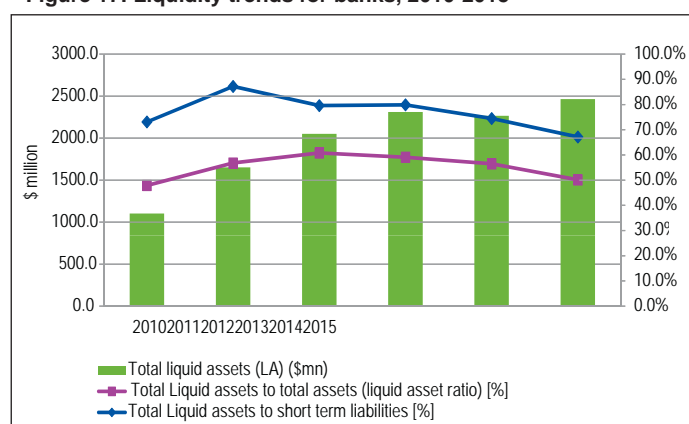
**Table 19: Consolidated Loans and Advances, 2012- 2015 (\$'Millions)**

	2012	2013	2014	2015
Manufacturing	54.1	44.7	74.0	122.0
Agriculture	24.7	35.9	29.1	31.6
Forestry	52.4	38.7	16.0	34.9
Fishing	0.1	0.1	1.9	5.0
Mining & Quarrying	5.1	0.1	2.0	1.9
Construction	174.6	164.4	128.4	167.6
Distribution	151.6	190.4	229.9	218.2
Tourism	78.5	99.9	104.0	118.7
Transportation	39.2	47.0	56.6	70.5
Communication	107.4	139.6	189.3	207.9
Entertainment & Caterings	16.1	11.6	5.3	3.2
Central Government	0.0	0.0	0.0	0.0
Provincial & Local Governments	0.4	0.0	0.0	0.0
Statutory Corporations	35.5	36.8	41.0	35.1
Private Financial Institutions	0.1	0.1	0.1	0.0
Professional & Other Services	56.4	62.2	103.3	114.8
Personal	372.5	465.6	586.4	692.0
Non Residents	0.2	0.1	0.1	0.1
Total	1,168.9	1,337.2	1,567.3	1,823.4

Source: CBSI

Total liquid assets of the banking sector grew by 8.7% to \$2,465 million in 2015 compared to \$2,267 million in 2014. Conversely, the liquidity ratios fell with liquid asset to total asset went down to 50.1% in 2015 from 56.5% in 2014 while liquid asset to short term liabilities declined to 67.1% in 2015 from 74.5% in 2014. The declining ratios were a result of a 22% growth in total assets that outweighed liquid asset growth. Banks liquidity position however, remained intact.

The quality of banks loan portfolio is an important mea-

**Figure 17: Liquidity trends for banks, 2010-2015**

Source: CBSI

sure given that lending is the core business for banks in Solomon Islands and is measured in terms of its non-performing loans (NPLs). After peaking in 2013, NPLs improved further in 2015 as a result of improved loan appraisals and debt recoveries taken by banks. In addition, provisioning provided by the banks was in excess of the total non-performing loans incurred during the year.

Over the year, gross NPLs declined by 13% to \$62.0 million in 2015. As a percentage of gross loans, NPLs was 3.4% in 2015 compared to 4.6% in 2014. The fall in NPLs was particularly evident in the tourism and manufacturing sectors.

During the year, total provisioning (specific and general provisioning) set aside by banks to cushion any immediate downside impacts from NPLs amounted to \$68 million. This indicates more than 100% coverage of NPLs recorded for the year while specific provisions were adequate to cover 29.1% of NPLs.

### Credit Institutions

Credit Corporation Solomon Islands Limited (CCSIL) is a locally incorporated credit institution, which is wholly owned by Credit Corporation Papua New Guinea Limited. Since its inception 10 years ago, CCSIL has registered continual positive growth.

For the year ended December 2015, CCSIL posted a net profit after tax of \$8.5 million, which was marginally lower than the \$8.8 million after-tax profit recorded in 2014. The decline in profitability reflected increases in provisions for bad debts, by 27% to \$4.2 million while on the contrary, the total income increased by 8%. As a result, both ROA and ROE before tax in 2015 fell to 9.2% and 23%, respectively.

In terms of operating expenses, CCSIL's total expenses grew by 12% and this was attributed to expenses incurred from administrative costs, depreciation and other operational expenses. Consequently, cost to income ratio deteriorated to 20.8% in 2015 from 19.8% in 2014.

**Table 20: Credit Corporation Profit & Loss**

	2012	2013	2014	2015
Net interest income	14.58	17.87	17.64	18.47
Noninterest income	1.94	0.78	0.78	0.89
Operating Income	16.52	18.65	18.42	19.36
Operating Expense	2.86	3.52	3.60	4.04
Provision for bad debts	0.50	1.93	3.30	4.20
Profit before tax	13.16	13.20	11.52	11.12
Profit after tax	9.89	9.36	8.81	8.45

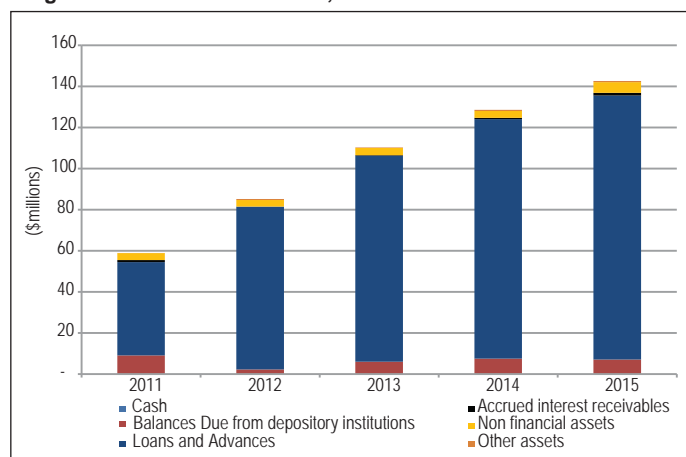
Source: CBSI

Total assets of CCSIL grew by 12% to \$151.1 million in 2015, down from 19% growth registered in 2014. This out-



come reflected moderate growth in core lending activities of CCSIL during the year.

**Figure 19: CCSIL Total Assets, 2011-2015**

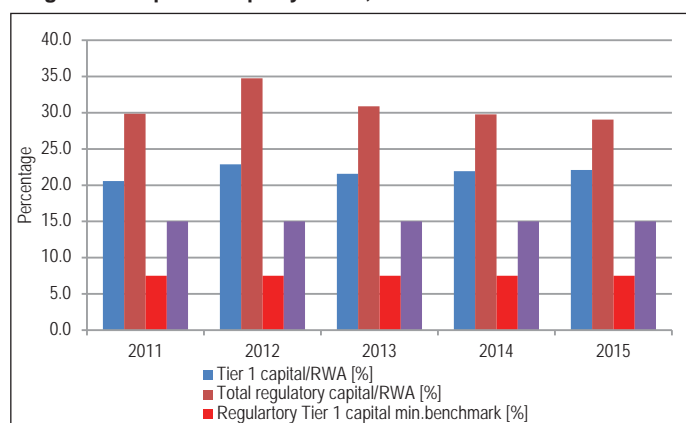


Source: CBSI

As a percentage of gross loans & advances, non-performing loans (NPLs) rose to 13.9% in 2015. As a result, an additional \$2.6 million loan loss provisioning was allocated in 2015.

During the year customer deposits rose 11% and constituted 90% of CCSIL's total liabilities. In terms of value, customer deposits amounted to \$97.7 million in 2015. Meanwhile the 11% rise in customer deposits was underpinned by increase in deposits of depository institutions (33%) and other financial corporations (37%).

**Figure 20 Capital adequacy Trend, 2011-2015**



Source: CBSI

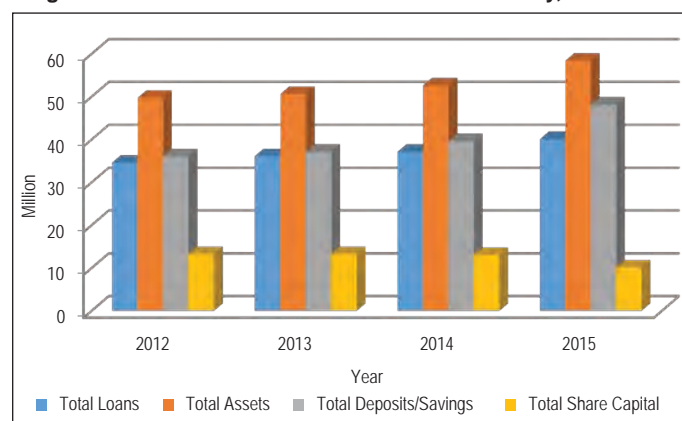
CCSIL remains adequately capitalized with both regulatory capitals to risk weighted assets and regulatory tier 1 capital ratio standing at 29% and 22.1% respectively, well above the minimum regulatory limits of 15% and 7.5%. In terms of value, total regulatory capital remained at \$43 million in 2015, the same level as in 2014.

### Credit Union Sector

The credit union sector, despite its 1% representation in

the financial Sector, is equally important as an alternative financing channel for its members. Members of credit unions in the Solomon Islands can have access to credit and finance through their credit unions. By end of 2015, only 11 active credit unions reported their financial status to the Registrars' Office. The consolidated assets of these credit unions increased by 11% to \$58.4 million in 2015 reflected by an 8% increase in lending extended during the year. Total loans were \$40.1 million compared to \$37.1 million from a year ago.

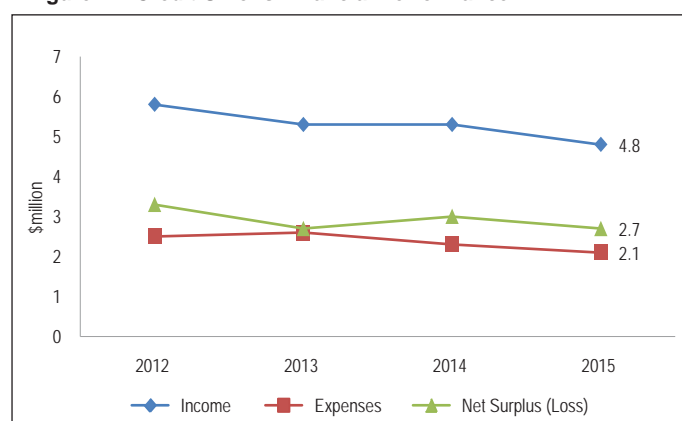
**Figure 21: Credit Unions Financial Position Summary, 2012 - 2015**



Source: CBSI

Credit Unions membership increased to 6,232 in 2015. Total members' savings increase by 22% to \$48.1 million from \$39.6 million in 2014. Profitability for the credit union sector however, declined by 10% to \$2.7 million in 2015 following a rise in 2014. Fall in interest income despite, increase in lending during the year, indicated that the net interest margin declined over the year.

**Figure 22: Credit Unions Financial Performance**



Source: CBSI

Despite the decline, the sector remained stable and as reflected by the efficiency ratio, credit unions can cover additional 29% of their operating costs from the revenue generated and as such can sustain their current operations.

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additional 29% of their operating costs from the revenue generated and as such can sustain their current operations.

During the year, as part of the ongoing supervision and monitoring of the sector, two prudential onsite reviews were conducted. Based on the review findings, the key challenges facing the credit union sector identified were governance; in terms of inadequate policy framework and procedures to manage risks associated with these institutions as well as lack of prudent practices to manage members' funds prudently.

### Superannuation sector

Going towards 40 years of operations in the country, the Solomon Islands National Provident Fund (SINPF) total membership stood at 171,590 as at 31st December 2015. SINPF is the largest supervised financial institution which accounts for 37% of the total financial system assets. Given that SINPF is of systemic importance in the financial system, imposing prudential supervision and regulation on the Fund's overall operations is of prominence and importance in the public interest.

For the financial year ended 30th June 2015, SINPF posted a profit of \$99.9 million, down from \$117.5 million profit recorded a year ago. The fall in earnings was largely from its offshore investments as a result of low yields in global markets in 2015.

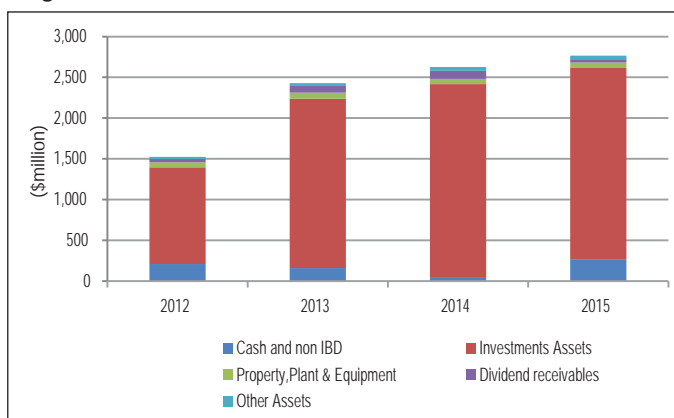
<b>Table 21: Income Table (audited) for SINPF, 2012- 2015</b>				
<b>For the period ending June (\$'Millions)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Investment Income	125.0	836.1	161.1	147.6
Investment Expense	0.0	27.8	20.7	16.9
Net return on investment	125.0	808.3	140.4	130.7
Other Income	12.9	4.0	20.8	7.0
Total Income	137.9	812.3	161.2	137.7
Operating Expenditure	49.3	36.2	43.7	37.7
Gross Surplus	88.6	776.1	117.5	100.0
Appropriation to Members	64.0	246.6	236.2	187.5
Net Surplus/(Loss) - Transfer in (out) to (from) General Reserves	24.6	529.5	(118.7)	(87.5)

Source: CBSI

SINPF total assets stood at \$2,826.3 million as at 31st December 2015. This was a growth of 5% over the year from \$2,683.7 million in 2014. The annual growth in total assets was driven by increases in cash and demand deposits reflecting the continuous inflow of members' contribution payments.

Investment portfolio made up 85% of total assets, followed by cash and non-interest bearing deposits with 10%, property, plant & equipment with 2% and the remaining 3% from 'other' assets. Total investments declined by 1% to \$2,384 million compared to \$2,398 million in 2014. The fall

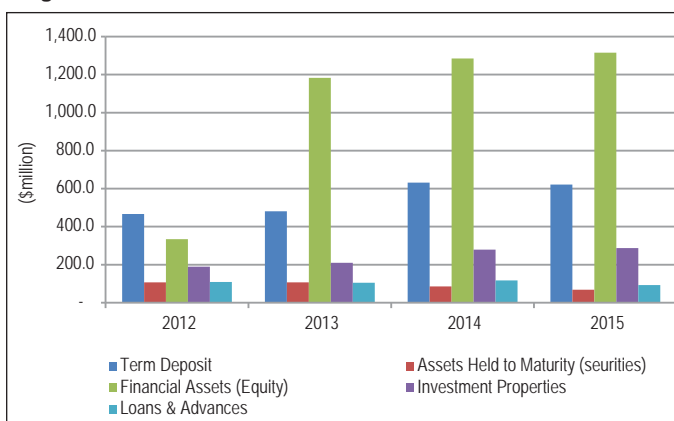
**Figure 23: Total Assets of SINPF**



Source: CBSI

reflected the reduction in government securities as a result of SIG settlements of its outstanding restructured bonds with SINPF. Majority of SINPF investment portfolio of 89% is invested locally of which, shares and equity accounted for 55% followed by term deposit with financial institutions of 26%, investment properties of 12%, loans and advances of 4% and 3% invested in securities.

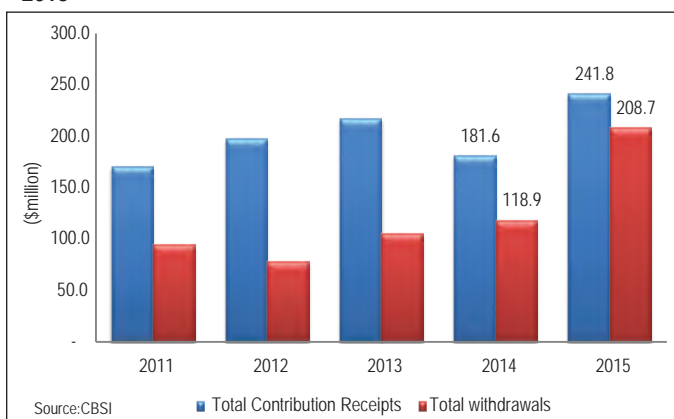
**Figure 24: Investment Allocation of SINPF 2012-2015**



Source: CBSI

Total membership contributions expanded by 11% to \$2,334 million in 2015 from \$2,099 million in 2014. The increase was mainly driven by continuous inflow of contri-

**Figure 25: Members contributions and withdrawals trend, 2011-2015**



Source: CBSI

butions and partly due to additional contributions inflow from the 10% interest credited to members account at the end of the financial year. Contributions collected during 2015 amounted to \$241.8 million up by 33% from a year ago. Withdrawals in 2015 also increased significantly by 76% to \$208 million. The peak in withdrawal is attributed by significant claim by lenders due to default by members pledging two thirds of their contributions.

In terms of the general reserves account, SINPF total reserves declined by 19% to \$419.7 million compared to \$515.5 million in December 2014. The result was largely due to transfer of interest credited to members account from reserve accounts and further transfers from the reserves account to special death benefit account during 2015.

## The Insurance Sector

Overall, the industry remained sound and stable despite reduction in profitability in 2015, which was attributed to slow growth in premium underwriting and high cancellations and non-renewals of policies. The challenge for the industry is its ability to penetrate the market however, have continued to maintain its solvency.

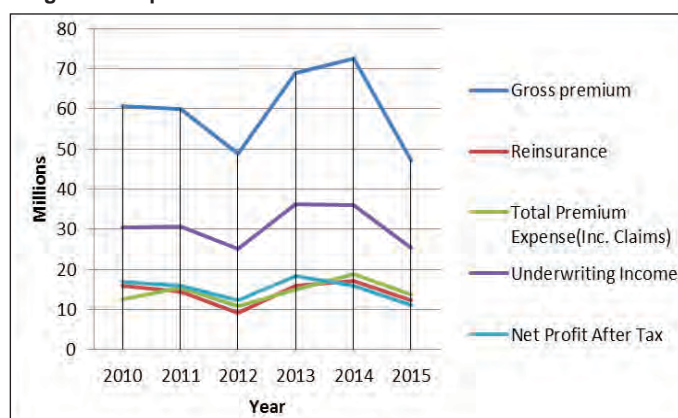
**Table 22: Insurance Industry Income Statement**

(\$millions)	2010	2011	2012	2013	2014	2015
Gross premium	60.6	60.0	48.7	68.9	72.6	47.2
Reinsurance	16.0	14.4	9.0	15.8	17.2	12.3
Premium Reserve	1.6	0.3	-3.8	-2	0.69	4.2
Net Earned Premium	43.0	45.9	35.9	51.1	54.7	39.1
Total Premium Expense(Inc. Claims)	12.6	15.3	10.8	15	18.7	13.8
Underwriting Income	30.4	30.6	25.1	36.1	36	25.3
Management Expense	5.8	6.6	6.2	8.3	11.5	9.6
Non-Underwriting Income	2.0	1.3	-0.06	0.3	0.27	0.2
Net Profit Before Tax	26.6	25.3	18.9	28.1	24.8	15.9
Net Profit After Tax	16.8	16	12.3	18.3	15.9	11.1
Balance sheet(\$millions)						
Total Assets	110.7	120.3	117.5	124.4	126.0	115.0
Total liabilities	45.2	38.7	50.4	49.3	55.1	52.0
Net Assets	65.5	81.6	67.1	75.1	70.9	63.0

Source: CBSI

Gross premiums for the industry plummeted by 35% to \$47.2 million by year-end, which was mainly attributed to the cancellations and non-renewal of policies. This reduction came from the major insurance classes of business except Contractors All Risk (CAR), which increased by 46% in 2015. Reduction in insurance policies were from the marine class by 88%, Burglary by 78%, householders' policies by 61%, the Liabilities class (Public, Personal and

**Figure 26: Operational Trend**



Source: CBSI

General Liabilities) by 97%, Motor vehicle by 55% and Motor CTP by 68%.

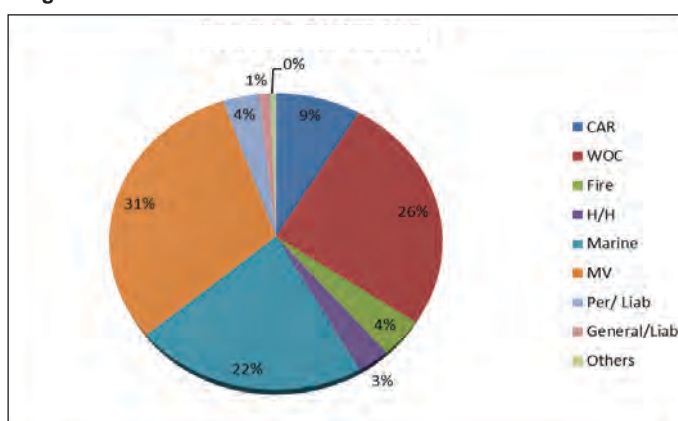
Consequently, net earned premium declined by 29% to \$33.1 million in 2015 and underwriting income declined by 30% to \$25.3 million. Further, the fall in total expenses in 2015 reflected the decline in underwriting expenses for the industry to 17%.

The reinsurance arrangements can assist to mitigate claims exposure by capping the net amount that insurance industry will pay on total claims. Reinsurance arrangements, facultative and treaty insurance, stood at \$12.3 million in 2015, down by 28.4% from \$17.2 million in 2014. The decline stemmed from the reduction in policies underwritten during the year.

The reinsurance cover was mainly against fire, which accounted for 76%, CAR for 6% while marine and householders accounted for 5% and 4%, respectively. The retention ratio (net premium to gross premium) for the industry was 82.8% in 2015 indicating that the industry has retained the majority of the premium received than being passed on to reinsurers thereby, undertakes the risk to any claims exposure.

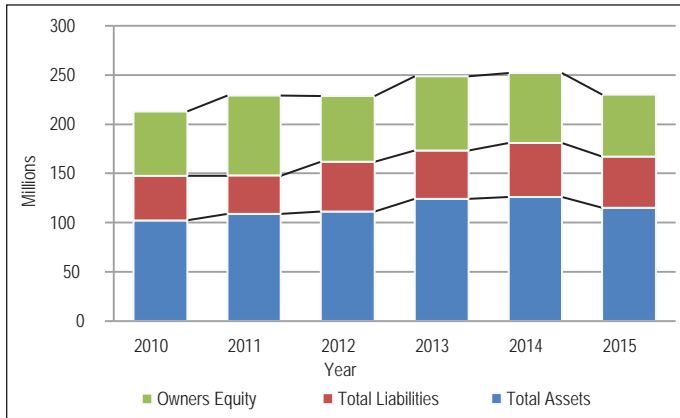
In terms of gross claims, the total claims paid out by the industry were \$7.6 million in 2015, lower than \$9.6 million

**Figure 27: Gross Insurance Claims**



Source: CBSI



**Figure 28: Consolidated Balance sheet of the Insurance Industry**

Source: CBSI

claims made in 2014. The lower claims paid out was attributed to minimal catastrophic events reported over the

year as well as a decline in underwriting business. Of the total claims made, motor vehicles accounted for 31%, employees liability (WOC) 26%, marine class 22% and CAR 9%. Both fire and personal liabilities accounted for 4%.

The Insurance Sector's total assets were \$115 million, a decrease of \$11 million (9%) from 2014. The slight decline in assets was due to a large drop in savings balances. This was mainly due to transfers from insurance companies for intercompany transactions (Branch Investments abroad) as well as decreases in receivables.

On the liability side, industry liabilities declined 6% to \$52 million in 2015. The decline reflected decreases in liabilities due to reinsurance and underwriting provisions as well as decline in outstanding claims. Despite these movements, the industry maintained a positive net asset position of \$63 million.

## CHAPTER 7: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES

The Solomon Islands Financial Intelligence Unit (SIFIU) is established under the Money Laundering and Proceeds of Crime Amendment Act 2010 (MLPCAA 2010). SIFIU's vision is "Protecting Solomon Islands from Money Laundering". The roles and functions of SIFIU are provided under the MLPCAA 2010. SIFIU is one of the leading agencies in Solomon Islands that is primarily responsible for preventing and detecting money laundering and terrorist financing activities. The Unit maintains its four (4) seconded officers in 2015, three from the CBSI and one from the Ministry of Police, National Security and Correctional Services. In terms of operational functions; the SIFIU reports to the Anti-Money Laundering Commission (AMLC), established under section 11 (1) of the MLPCAA 2010. The Attorney General of Solomon Islands chairs the Commission.

The Solomon Islands Anti-money laundering regime had been carrying out its obligations to fight money laundering and terrorism financing activities seriously, since its establishment in 2006. This is evident from the positive ratings it received for the majority of the FATF core principles and key recommendations in the 2009 World Bank Mutual Evaluation report. Solomon Islands had 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. SIFIU is hoping for even better ratings in the next Mutual Evaluation review in 2018.

Money laundering and terrorism financing are increasing activities around the world. Solomon Islands therefore is not immune to these problems. In combating these unwanted practices, the country has put in place mechanisms and controls to safeguard the financial system from being misused by criminals. The SIFIU is committed to carrying out its obligations to ensure Solomon Islands is protected from money laundering and terrorism financing activities.

### Membership to International Anti Money Laundering Groups

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

In 2015, the SIFIU was given the opportunity to present Solomon Island's experience on wild life smuggling during the APG Typologies and Capacity Building Workshop held in Nepal. Furthermore, the SIFIU continued to participate in the activities of the Egmont Group of FIUs during 2015. This included providing regular updates through-

out the year to the Egmont Group and also assistance with information sharing to other Egmont Group members through request via the Egmont Secure Website.

### Financing of SIFIU operations

The Solomon Islands Government funds the operations of the SIFIU and the AMLC through budgetary provisions from the Ministry of Justice and Legal Affairs. In 2015, the financial support to SIFIU provided by the Government totalled \$676,000. This was 5% less than the 2014 funding received. SIFIU expended the whole amount on its operations in 2015. The CBSI also contributed to the operations of the SIFIU in 2015 as the Unit is housed within the CBSI building. Along with meeting the salaries and other benefits of its three (3) seconded officers, the Unit also benefited from the CBSI through subsidising some of SIFIU's expenditure heads, such as medical benefits, leave entitlement, office space and equipment and IT services.

### SIFIU maintained its relationship with reporting agencies

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

### Advising Public against Financial Scams

The SIFIU in 2015 was again 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. Two of the most widely known fast money making schemes that SIFIU continuously warned the public against since 2014 are the Five (5) Golden Dreams Investments and the JJ Ark Investment. There were also increased enquiries on the Family Charity Fund and other similar false financial schemes in 2015. SIFIU was able to provide expert advices to those who sought the advice of the Unit prior to making payments to promoters of the money schemes either locally or offshore. Unfortunately, some of the people sought advice after they had already paid hence lost their money to the scheme perpetrators.

### Numbers of suspicious transactions (STRs) received

The number of Suspicious Transaction Reports (STRs) received increased from 32 in 2014 to 60 in 2015 while the number of case disseminated reports to law enforcement agencies remained around the same level as in 2014. The reason behind the significant increase in the reports received is due to the increase in the level of understandings of AML/CFT matters by front line officers of reporting agencies. The SIFIU is confident, reporting agencies in

the country now have good and sufficient knowledge to deal with AML/CFT matters. They now have good understanding on when and how to raise suspicious transaction reports. There were slight falls for both the Cash Transactions Reports (CTRs) and Electronic Funds Transfer Reports (EFTRs) in 2015 as compared to 2014, probably due to business houses making fewer payments in 2015 as compared to 2014.

**Table 23: Type and Number of Reports received by SIFIU in 2015**

Type of Reports	2015	2014	2015	2014
Suspicious Transaction Report (STR)	60	32	13	14
Cash Transaction Report (CTR)	51,058	54,399	0	0
Electronic Funds Transfer Report (EFTR)	14,402	15,628	0	0
Border Currency Report (BCR)	97	77	0	2

Source: CBSI

### Meeting of the AMLC held during the year

The AMLC met three (3) times during the year. Attendance by members of the AML Commission was 75%. The Anti-Money Laundering Technical Expert Group (AMLTEG) and the Anti-Money Laundering Reporting Officers (AMLRO) were able to meet four (4) times respectively during the year with good turn outs by all member institutions. For the Unit staff meetings, twenty one (21) meetings were held during the year with only 44 percentage turn out rate. The lower turnout rate is due to the small size of the Unit where not all officers are always present in the office as part of their job responsibilities involves undertaking other activities outside of office.

**Table 24: Number of Meetings held in 2015**

Year	Meeting Type	Meetings Planned	Actual Meetings Held	Success Rate Percent (%)
2015	AMLC			
	AMLTEG			
	AMLRO			
	Staff			

Source: CBSI

### Over Seas Trainings/Workshops and Meetings Attended

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

**Table 25: Number of Workshops and Meetings attended in 2015**

Date	Particular of Training	Facilitator
19/02/2015	Security Seminar	CBSI
24/02/2015	Branchless Banking Agents Workshop	NFIU/World Bank
11-12/03/2015	Staff Handbook & Policies	CBSI

17-19/03/2015	SI Joint Agency Border Protection Training	Pacific Islands Forum Secretariat
14-16/04/2015	Practical Interviewing & Statement Taking Symposium	Queensland Police Service Australia
15/04/2015	Performance & Role of Financial Sector	CBSI
6/5/2015	Internal Control Procedures	CBSI
12-14/05/2015	Extradition and Mutual Assistance	ODPP
18-22/05/2015	FIU Attachment	Fiji FIU
26-28/05/2015	Anti-Corruption Workshop	SIG, UNODC & UNDP
2-4/09/2015	16th International Anti - Corruption Conference 2015	International Anti-Corruption - Malaysia
8-10/09/2015	Solomon Islands National Action Plan Against Human Trafficking and People smuggling	International Organisation for Migration (IOM) and Solomon Islands Immigration Division
19 - 23/10/2015	Revised AML/CFT Standards (FATF Recommendations)	IMF (STI) - Singapore
26 -30/10/2015	Egmont - Train the trainers Course	Egmont - Morocco
22 -23/10/2015	Intelligence analysis workshop	Transnational Crime Unit
02 - 05/11/2015	Asset Recovery Inter-Agency Network Training	AFP & Australia Attorney General - Australia
16 - 20/11/2015	APG Typologies & Capacity Building	APG - Nepal
9 - 10/12/2015	Anti-Corruption Forum	TSI + Integrity & Accountability Institutions

Source: CBSI

### Local Training and Workshops

The unit also conducted workshops for local stakeholders in the country as well, as shown Table 26.

**Table 26: Number of Workshops held for local stakeholders in 2015**

Date	Particular of Training	Participants	Facilitator	No. of Participants
23-26/03/15	Gizo – AML/CFT workshop	Banks, NGOs, Province & LEAs	SIFIU	9
30/06/15	AML/CFT workshop for front line bank officers	Commercial Banks – ANZ, BSP,WBC, POB & CBSI	SIFIU	39
12/08/15	AML/CFT workshop for Money remittance service providers	Western Union Agents & Sub-agents	SIFIU	10
31/08/15	Makira Banana Festival – Awareness on Scams	FM Campbell High School	SIFIU & CBOD	Form 4 – 5 Students plus teachers
01/09/2015	Makira Banana Festival – Awareness on Scams	Waimapuru NSS	SIFIU & CBOD	400+
2-3/9/2015	Makira Banana Festival – Awareness on Scams	Kirakira – Members of the General Public	SIFIU & CBOD	41
18/09/15	Scam/Pyramid Awareness	Visale Community High School	SIFIU & CBOD	40+
09/10/15	Scam/Pyramid Awareness	Nguvia Community High School	SIFIU & CBOD	40+

Source: CBSI



## CHAPTER 8: CALENDAR OF EVENTS 2015

Month	Events
<ul style="list-style-type: none"> <li>January</li> </ul>	<ul style="list-style-type: none"> <li>IMF Mission conducted the 4th review of the IMF Enhanced Credit Facility with Solomon Islands.</li> <li>Chief Manager, International department, Raynick Aquillah passed away</li> <li>Governor launched the Solomon Islands Credit Bureau.</li> <li>CBSI established the Applied Research, Policy and Regulation Unit within Financial Market Supervision Department.</li> </ul>
<ul style="list-style-type: none"> <li>February</li> </ul>	<ul style="list-style-type: none"> <li>Governor and Deputy Governor welcomed staff as part of 2015 staff orientation.</li> <li>Governor attended the MSG Governors meeting in Port Vila, Vanuatu.</li> </ul>
<ul style="list-style-type: none"> <li>March</li> </ul>	<ul style="list-style-type: none"> <li>Governor led the SI delegation to the PFTAC Steering Committee meeting in Raratonga, Cook Islands.</li> <li>Isabel province Premier, Mr James Habu, visited the Bank.</li> <li>The National Financial Inclusion Taskforce (NFIT) was awarded the Australian High Commissioners 2015 Womens International Day Award for its financial inclusion working supporting women.</li> <li>CBSI conducted onsite examinations of Pan Oceanic Bank and Solomon Islands National Teachers Association Credit Union Limited.</li> </ul>
<ul style="list-style-type: none"> <li>April</li> </ul>	<ul style="list-style-type: none"> <li>MPS for first half of 2015 issued to the public. New upgraded \$100 note launched.</li> <li>CBSI's 2014 financials submitted to the Minister of Finance &amp; Treasury.</li> <li>Chief Manager Financial Market Supervision Department attended the Federal Reserve Bank and the Australian Prudential</li> <li>Regulatory Authority seminar on Capital Planning and Stress Testing.</li> </ul>
<ul style="list-style-type: none"> <li>May</li> </ul>	<ul style="list-style-type: none"> <li>Governor led the SI delegation to the annual meetings of the Asian Development Bank in Baku, Azerbaijan. Governor attended the launch of the Pacific Islands Regional Initiative (PIRI) in Dili, Timor Leste.</li> <li>Manager ERSD and Senior Analyst Monetary Sector were on one week (May 25th – June 4th 2015) attachment with the Reserve Bank of Australia on Liquidity management and Monetary Policy Implementation.</li> </ul>
<ul style="list-style-type: none"> <li>June</li> </ul>	<ul style="list-style-type: none"> <li>Analyst and Snr. Analyst of Insurance Unit with the Financial Market Supervision Department participated in the onsite examination of Tower Insurance (Fiji) Limited in Suva, Fiji.</li> <li>CBSI conducted an onsite examination of ANZ Bank and Credit Corp (SI) Limited.</li> </ul>
<ul style="list-style-type: none"> <li>July</li> </ul>	<ul style="list-style-type: none"> <li>Research Officer and Snr Analyst Credit Union Unit participated in the onsite examination of Teachers Savings and Loan Society in Port Moresby, Papua New Guinea.</li> <li>CBSI ran a refresher workshop for call report compilers of licensed financial institutions.</li> </ul>
<ul style="list-style-type: none"> <li>August</li> </ul>	<ul style="list-style-type: none"> <li>CBSI Board held its provincial meeting at Munda, Western province.</li> <li>CBSI hosted the annual meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC) in Honiara and assumed the AFSPC chairmanship role.</li> <li>CBSI participated in Bank South Pacific (BSP) Supervisory College organized by Bank of Papua New Guinea.</li> <li>Chief Manager ERSD and Human Resource Manager attended SEACEN's Directors of Research and Training in Nadi Fiji from August 18 – 21, 2015. CBSI is invited by SEACEN and the host Reserve Bank of Fiji as observers.</li> </ul>
<ul style="list-style-type: none"> <li>September</li> </ul>	<ul style="list-style-type: none"> <li>Governor and Manager Financial Inclusion Unit attended the Alliance for Financial Inclusion (AFI) Global Policy Forum in Maputo, Mozambique.</li> <li>MPS for second half of 2015 published and issued for public consumption</li> <li>CBSI hosted the Pacific Microfinance Week in Honiara.</li> <li>Governor opened the new ANZ (SI) Head Office at Ranadi.</li> <li>Analyst Credit Union and Snr. Analyst Banking Unit within the Financial Market Supervision Department participated in the onsite examination of Westpac Bank (PNG) Limited in Port Moresby, PNG.</li> <li>CBSI conducted an onsite examination of Solomon Islands Nurses Credit Union Limited.</li> </ul>
<ul style="list-style-type: none"> <li>October</li> </ul>	<ul style="list-style-type: none"> <li>Governor led the SI delegation to the International Monetary Fund and World Bank annual meetings in Lima, Peru.</li> <li>Governor led the SI delegation to the Forum Economic Ministers Meeting in Raratonga, Cook Islands.</li> <li>BSP acquired the Westpac branch operations in Solomon Islands.</li> <li>CBSI signed and accepted the deployment of the new financial System on its production environment for live usage.</li> <li>CBSI conducted an onsite examination of Capital Insurance.</li> </ul>
<ul style="list-style-type: none"> <li>November</li> </ul>	<ul style="list-style-type: none"> <li>CBSI hosted the national conference on the second five-year National Financial Inclusion Strategy (NFIS2) 2016-2020.</li> <li>CBSI and regional financial sector supervisors under the Australian Prudential Regulatory Authority Pacific Governance Support Program conducted an onsite examination of Solomon Islands National Provident Fund.</li> </ul>
<ul style="list-style-type: none"> <li>December</li> </ul>	<ul style="list-style-type: none"> <li>Governor and Chief Manager, Financial Market Supervision department attended the South Pacific Governors conference in Wellington and the University of New South Wales conference on regulating Digital Financial Services in Sydney.</li> </ul>



The new headquarter building for ANZ Bank located in East Honiara



A new brewery situated at the Lunga area, East Honiara



\_MG\_7365.JPG



CBSI Front Office staff show their certificates after completing their training



CBSI Staff Jenny and ODI officer Nana at SIBC during launch of the new \$100



Heavy machinery work at Ranadi beach moving sawn timber and logs



Students study the security features of banknotes



Sawn and dressed timber ready for export



Students learn more about counterfeiting at CBSI





One of the new shopping buildings located next to Fishing Village in Honiara



D/Gov Gane Simbe (L) and De LaRue Reg. Manager Ms. Brooke Banks et al



The launch of the Credit & Data Bureau operations in Solomon Islands



CBSI family Easter picnic at Aruligo enjoyed annually by staff and their kids



Currency awareness at Nguvia Community H.S. at Tetere, Guadalcanal



CBSI Board members visit to Soltuna Boardroom in Noro, Western Province



Gov. Rarawa (c) hands over donation to the Principal & staff of Goldie College



CBSI Staff pose during the launch of the new \$100 banknote at SIBC





## CENTRAL BANK OF SOLOMON ISLANDS

## DIRECTORS' REPORT

## TABLE OF CONTENTS

1.	DIRECTORS' REPORT	38-39
2.	STATEMENT BY DIRECTORS	40
3.	INDEPENDENT AUDITORS' REPORT	41-42
4.	STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME	43
5.	STATEMENT OF FINANCIAL POSITION	44
6.	STATEMENT OF CHANGES IN EQUITY	45
7.	STATEMENT OF CASH FLOWS	46
8.	NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS	47-64

## 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 2015 and the auditors' report thereon.

### DIRECTORS

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

- Denton Rarawa (Chairman and Governor)
- Gane Simbe (Deputy Governor)
- Fred Fakarii (term expired on 13 May 2015)
- Harry Kuma (appointed on 13 May 2015)
- Katululu Maepioh (term expired on 5 March 2015)
- Sir Thomas Ko Chan (appointed on 3 August 2015)
- Loyley Ngira
- Lily Lomulo
- Tele Bartlett
- Primo Afeau
- John Usuramo

### 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 2015 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 2015 was \$44.31m (2014: \$28.91m loss).

### RESERVES

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

- \$15.23m (2014: \$2.25m) to the asset revaluation reserve;
- \$26.10m (2014: (\$28.86m) to the foreign exchange revaluation reserve; and
- \$17.61m (2014: (\$2.3m) to the general reserve.

### PROVISIONS

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

**Assets**

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

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

**DIRECTORS' BENEFIT**

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

**UNUSUAL TRANSACTIONS**

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

**EVENTS SUBSEQUENT TO BALANCE DATE**

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

**OTHER CIRCUMSTANCES**

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

Dated at Honiara this twenty-first day of April 2016.

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



Denton Rarawa  
Chairman of the Board and Governor



Harry Kuma  
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 2015;
- (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 2015;
- (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 2015;
- (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 2015;
- (e) at the date of this statement there are reasonable grounds to believe the Bank will be able to pay its debts as and when they fall due;
- (f) all related party transactions have been adequately recorded in the books of the Bank, and
- (g) the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS").

For and on behalf of the Board of Directors by authority of a resolution of the Directors this



Denton Rarawa  
Chairman of the Board and Governor



Harry Kuma  
Director

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

### SOLOMON ISLANDS OFFICE OF THE AUDITOR-GENERAL



### Report on the financial Statements

I have in joint consultation with the Board of the Bank pursuant to Section 60(1) of the Central Bank of Solomon Islands Act 2012 contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of the Central Bank of Solomon Islands, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and cash flow statements for the year then ended, and Notes 1 to 27 comprising of a summary of significant accounting policies and information.

### Boards' and Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015 and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Emphasis of matter

Without modifying my opinion, the Bank's total assets amounted to \$4.51 billion. This was less than the sum of the Bank's total monetary liabilities and its unimpaired capital which totalled \$4.55 billion. This has arisen from unfavourable foreign exchange fluctuation and market prices movements

of the Bank's foreign reserves.

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

  
**PETER LOKAY**  
Auditor-General

28 April, 2016

Office of the Auditor-General  
Honiara, Solomon Islands



**STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015 \$000	2014 \$000
<b>Income</b>			
Interest income	4(a)	39,844	48,176
Fees and commission income	4(b)	43,898	11,896
Other income	4(c)	4,695	3,283
Change in fair value of investment properties	10	600	2,245
Net unrealized foreign exchange revaluation gain		<u>26,101</u>	<u>-</u>
<b>Total income</b>		<u>115,138</u>	<u>65,600</u>
<b>Expenses</b>			
Interest expense	4(d)	12,463	9,864
Fees and commission expense		1,221	1,126
Administration expenses	4(e)	34,919	33,202
Other expenses	4(f)	22,227	21,460
Net unrealized foreign exchange revaluation loss		<u>-</u>	<u>28,860</u>
<b>Total expenses</b>		<u>70,830</u>	<u>94,512</u>
<b>Net operating (loss)/profit</b>		<u>44,308</u>	<u>(28,912)</u>
<b>Other comprehensive losses</b>			
Net change in fair value (available - for - sale financial assets)		<u>14,626</u>	<u>-</u>
Net change in revaluation (property, plant and equipment)		<u>(26,890)</u>	<u>275</u>
<b>Total other comprehensive (loss)/income</b>		<u>(12,264)</u>	<u>275</u>
<b>Total comprehensive (loss)/ income</b>		<u>32,044</u>	<u>(28,637)</u>



Acting Chairperson and Governor



Director

*This statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 47 to 64*

**STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2015**

	Note	2014 \$000	2014 \$000
<b>Foreign currency assets</b>			
Cash at bank	20	781,517	576,723
Accrued interest		6,495	5,151
Held-to-maturity investments	5	3,094,483	2,884,550
Available-for-sale investments	6	206,921	221,368
International Monetary Fund	7	206,302	214,940
<b>Total foreign currency assets</b>		<b>4,295,718</b>	<b>3,902,732</b>
<b>Local currency assets</b>			
Cash on hand	20	196	224
Loans and advances	8	11,629	75,299
Currency inventory	9	36,623	32,347
Investment properties	10	13,262	12,662
Property, plant and equipment	12	150,180	138,116
Other assets	11	4,516	40,707
<b>Total local currency assets</b>		<b>216,406</b>	<b>299,355</b>
<b>Total assets</b>		<b>4,512,124</b>	<b>4,202,087</b>
<b>Foreign currency liabilities</b>			
International Monetary Fund	7	324,646	361,409
Demand deposits	13(a)	16,240	11,549
<b>Total foreign currency liabilities</b>		<b>340,886</b>	<b>372,958</b>
<b>Local currency liabilities</b>			
Demand deposits	13(b)	2,573,231	2,481,652
Currency in circulation	14	776,640	694,344
Fixed deposits	15	721,677	621,729
SIG monetary operations account	16	58,422	30,215
Employee entitlements	17	17,000	13,946
Other liabilities	18	11,025	6,044
<b>Total local liabilities</b>		<b>4,157,995</b>	<b>3,847,930</b>
<b>Total liabilities</b>		<b>4,498,881</b>	<b>4,220,888</b>
<b>Net assets</b>		<b>13,243</b>	<b>(18,801)</b>
<b>Capital and reserves</b>			
Paid up capital	21	50,000	50,000
General reserve	22(a)	53,179	35,572
Foreign exchange revaluation reserve	22(b)	(148,331)	(174,432)
Asset revaluation reserve	22(c)	104,318	89,092
Gold revaluation reserve	22(d)	(107,798)	(80,908)
Capital asset reserve	22(e)	61,875	61,875
<b>Total (deficiency)/surplus in capital and reserves</b>		<b>13,243</b>	<b>(18,801)</b>

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

  
Denton Rarawa  
Chairperson of the Board and Governor

  
Harry Kuma  
Director

*This statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 47 to 64*

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Issued & paid up capital \$000	Gold revaluation reserve \$000	General reserve \$000	Foreign exchange assets revaluation reserve \$000	Asset revaluation reserve \$000	Capital assets reserve \$000	Total \$000
Balance as at 1 January 2014	50,000	(81,183)	37,869	(145,572)	86,847	61,875	9,836
<b>Total comprehensive income for the year</b>							
Profit (loss) for the year (Note 19)	-	-	(2,297)	(28,860)	2,245	-	(28,912)
<i>Other comprehensive income/(losses)</i>							
Fair value gains – gold	-	275	-	-	-	-	275
<i>Total other comprehensive income/(losses)</i>	-	275	(2,297)	(28,860)	2,245	-	(28,637)
<b>Balance as at 31 December 2014</b>	<b>50,000</b>	<b>(80,908)</b>	<b>35,572</b>	<b>(174,432)</b>	<b>89,092</b>	<b>61,875</b>	<b>(18,801)</b>
Balance at 1 January 2015	50,000	(80,908)	35,572	(174,432)	89,092	61,875	(18,801)
Profit (loss) for the year (Note 19)	-	-	17,607	26,101	600	-	44,308
<i>Other comprehensive income/(losses)</i>							
Fair value losses – gold	-	(26,890)	-	-	-	-	(26,890)
Fair value gain – Property, plant and equipment	-	-	-	-	14,626	-	14,626
<b>Total comprehensive income/(losses)</b>	<b>-</b>	<b>(26,890)</b>	<b>17,607</b>	<b>26,101</b>	<b>15,226</b>	<b>-</b>	<b>30,044</b>
<b>Balance as at 31 December 2015</b>	<b>50,000</b>	<b>(107,798)</b>	<b>53,179</b>	<b>(148,331)</b>	<b>104,318</b>	<b>61,875</b>	<b>13,243</b>

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 47 to 64



# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 \$000	2014 \$000
<b>Operating activities</b>			
Interest received		38,500	49,760
Other income		48,494	15,098
Interest paid		(12,427)	(8,057)
Cash paid to suppliers and employees		(57,050)	(43,345)
Net movement in held to maturity investments		(209,933)	(128,293)
Net movement in International Monetary Fund accounts		(1,160)	10,121
Net movement in other receivables		38,990	61,548
Net movement in other payables		4,945	(3,359)
<b>Cash flows used in operating activities</b>		<b>(149,641)</b>	<b>(46,527)</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment		(2,777)	(4,179)
Proceeds from sale of premises, plant and equipment		99	81
Net movement in available-for-sale investments		(12,443)	(8,021)
Net movement in loan to government		63,950	5,894
Net movement in loans and advances to staff		(280)	85
<b>Cash flows used in investing activities</b>		<b>48,549</b>	<b>(6,140)</b>
<b>Financing activities</b>			
Net movement in currency in circulation		82,297	76,774
Net movement in demand deposits		96,270	(154,450)
Net movement in fixed deposits received		99,948	9,797
Solomon Islands government monetary operations		28,207	(3,390)
Net movement in International Monetary Fund credit facilities		(26,965)	(3,237)
<b>Cash flows (used in)/from financing activities</b>		<b>279,757</b>	<b>(74,506)</b>
<b>Net effect of exchange rates</b>		<b>26,101</b>	<b>(28,860)</b>
Net increase/(decrease) in cash		204,766	(156,033)
Cash and cash equivalents at the beginning of the financial year		576,947	732,980
<b>Cash and cash equivalents at the end of the financial year</b>	<b>20</b>	<b>781,713</b>	<b>576,947</b>

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 47 to 64

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 1. Principal activities and principal place of operations

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

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

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

The financial statements were authorised for issue by the Board of Directors on twenty-first day of April 2016.

### 2. Basis of preparation

#### (a) Statement of compliance

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

The Bank has not complied with the requirements of the Central Bank of Solomon Islands Act (Section 56) which requires that in the event that the value of its assets falls below the sum of its monetary liabilities and its unimpaired authorised capital, then –

- (a) The Board, with the advice of the external auditors of the Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall and assess the situation within a period of no more than 30 calendar days;
- (b) If the Board approves the report under paragraph (a), the Bank shall request the Minister of Finance for a capital contribution to be made by the Government to remedy the deficit; and
- (c) Upon receipt of this request the Government shall, within a period of no more than 30 calendar days, transfer to the Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at market-related interest rates prevailing in Solomon Islands.

As at 31 December 2015, the Bank's total assets amounted to \$4.51 billion. This was less than the sum of the Bank's total monetary liabilities and its unimpaired capital which totalled \$4.55 billion. The Bank had requested the Minister of Finance for a capital contribution during the year to remedy the prior year deficit but the request had been repudiated. An emphasis of matter has been included in the audit report relating to this matter.

#### (b) 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.

#### (c) Functional and presentation currency

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

#### (d) Use of estimates and judgement

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

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

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

#### Impairment of financial assets

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

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

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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.

### 3. Statement of significant accounting policies

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

#### (a) Foreign currency

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

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

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

#### (b) Interest

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

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

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

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

#### (c) Fees and commission

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

#### (d) Other income

Other income are brought to account on an accrual basis.

#### (e) Tax expense

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

#### (f) Financial assets and financial liabilities

##### i. Recognition

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

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

##### ii. Classification

#### Financial assets

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

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

#### Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost

##### iii. Derecognition

#### Financial assets

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

### Financial liabilities

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

#### iv. Amortised cost measurement

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

#### v. Fair value measurement

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

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

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

#### (g) Cash and cash equivalents

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

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

#### (h) Held-to-maturity

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

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

#### (i) Available-for-sale

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

Fair value changes other than impairment losses are recognised in other comprehensive income and presented in the gold revaluation reserve in equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss. Impairment losses are recognised in profit or loss.

#### (j) Loans and 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.

#### (k) Currency Inventory

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

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

#### (l) Currency in circulation

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

#### (m) Property, plant and equipment

##### Recognition and measurement

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

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

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



### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 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 at values approximating recoverable market values. With Board approval, a three year periodical revaluation of its land and buildings was first done in 2012 and recently done in 2015. This included a review of the asset classes, estimated useful lives and depreciation rates, and current market values where deemed appropriate. The basis of this valuation is the open market value, that is, the highest and best value the property would expect to be realised for, if put for sale on private treaty. The Board proposes to have such assets revaluation every three years. The next revaluation will be done in 2018.

#### (n) Investment property

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

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

#### (o) Demand deposits

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

#### (p) Employee entitlements

##### Short-term employee benefits

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

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

##### Long-term employee benefits

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

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

#### (q) Impairment

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

#### (r) Comparative figures

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

#### (s) New standards and interpretations not yet adopted

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

IFRS 16 'Leases', removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The standard is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

	2015 \$000	2014 \$000
<b>4. Income and expenses</b>		
<b>(a) Interest income</b>		
Overseas investments	38,371	46,482
Local investments	1,473	1,694
	<b>39,844</b>	<b>48,176</b>
<b>(b) Fees and commission income</b>		
Foreign currency dealings	43,249	8,958
Local dealings	649	2,938
	<b>43,898</b>	<b>11,896</b>
<b>(c) Other income</b>		
Gain on disposal of fixed assets	99	81
Rent received	1,075	870
Sale of numismatic coins	80	223
Gains on foreign currency exchange	1,016	114
Royalties on numismatics	2,301	1,261
Others	124	734
	<b>4,695</b>	<b>3,283</b>
<b>(d) Interest expense</b>		
Foreign liabilities	57	106
Local liabilities	12,406	9,758
	<b>12,463</b>	<b>9,864</b>
<b>(e) Administrative expenses</b>		
Staff costs	25,012	24,162
Telecommunication	1,727	2,291
Utilities	1,801	2,340
Repairs and maintenance	2,304	1,837
Insurance	441	610
Consumables	430	307
Stationery, printing and postage	478	918
Consultancy	1,351	127
Other	1,375	610
	<b>34,919</b>	<b>33,202</b>
<b>(f) Other expenses</b>		
Board of directors remunerations and expenses	326	190
Currency expenses	14,952	13,551
Depreciation	5,335	5,721
Auditors remuneration	330	386

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	\$'000	\$'000
Other	1,284	1,612
	<b>22,227</b>	<b>21,460</b>

### 5. Held-to-maturity investments

Fixed term deposits	2,828,000	2,629,234
Short term commercial paper	175,294	124,081
Bonds	91,189	131,235
	<b>3,094,483</b>	<b>2,884,550</b>

### 6 Available-for-sale investments

Unallocated gold - at fair value	100,299	107,302
Gold bullion - at fair value	106,622	114,066
	<b>206,921</b>	<b>221,368</b>

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

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

The standby credit facility with IMF commenced in 2010 with first disbursement received 23 June 2010. The final disbursement was transacted on the 1<sup>st</sup> December 2011.

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

#### IMF related assets and liabilities

	2015	2014
	\$'000	\$'000
<b>Foreign currency assets</b>		
- Reserve tranche position	5,981	6,253
- Special drawing rights	93,243	96,724
- Currency subscription	107,078	111,963
	<b>206,302</b>	<b>214,940</b>
<b>Foreign currency liabilities</b>		
- Standby credit facility	101,753	130,038
- Special drawing rights allocation	107,714	112,627
- Extended credit facility	8,076	6,755
- Securities	102,388	107,059
- Capital subscription	4,715	4,930
	<b>324,646</b>	<b>361,409</b>

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

Subsequent renewals are negotiated with the lessee.

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

Rental income from investment properties of \$1,075,000 (2014: \$870,000) has been recognised in other income.

### Fair value hierarchy

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

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

	2015 \$000	2014 \$000
<b>8. Loans and advances</b>		
<i>Solomon Islands Government</i>		
Loans and advances	46	46
Development bonds	27	27
Treasury bills	30	10
Other securities	4,936	4,936
Amortising bonds	-	63,970
	<b>5,039</b>	<b>68,989</b>
<i>Staff loans</i>		
Staff housing loans	5,039	4,729
Management car loans	453	424
Personal loans	1,044	1,157
	<b>6,590</b>	<b>6,310</b>
	<b>11,629</b>	<b>75,299</b>
<b>9. Currency inventory</b>		
Notes	11,339	10,759
Coins	25,284	21,588
	<b>36,623</b>	<b>32,347</b>
<b>10. Investment properties</b>		
Balance at beginning of financial year- at fair value	12,662	11,935
Less: transferred to PPE	-	(1,518)
Changes in fair value	600	2,245
Balance at end of financial year- at fair value	<b>13,262</b>	<b>12,662</b>

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



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 \$000	2014 \$000
<b>11. Other assets</b>		
Commercial bank clearing	696	36,930
Others	3,820	3,777
	<b>4,516</b>	<b>40,707</b>

## 12. Property, plant and equipment

	Land & buildings \$000	Plant, equipment & furniture \$000	Motor vehicles \$000	Computer \$000	Work in progress \$000	Total \$000
<i>Cost/valuation</i>						
<b>Balance at 1 January 2014</b>	129,234	24,602	242	6,403	4,412	166,893
Transfer from Investment property	1,518	-	-	-	-	1,518
Acquisitions	-	535	300	738	2,606	4,179
Transfers	4,522	195	-	-	(4,717)	-
Disposals	-	(7)	(351)	(75)	-	(433)
Balance at 31 December 2014	<b>135,274</b>	<b>25,325</b>	<b>2,191</b>	<b>7,066</b>	<b>2,301</b>	<b>172,157</b>
Acquisitions	-	162	237	570	1,808	2,777
Transfers	28	465	-	1,670	(2,163)	-
Disposals	-	(1,863)	(523)	(1,093)	-	(3,479)
Net revaluation increment	5,670	-	-	-	-	5,670
Balance at 31 December 2015	<b>140,972</b>	<b>24,089</b>	<b>1,905</b>	<b>8,213</b>	<b>1,946</b>	<b>177,125</b>
<i>Accumulated depreciation</i>						
Balance at 1 January 2014	3,288	19,085	1,410	4,970	-	28,753
Depreciation charge for the year	2,751	1,505	465	1,000	-	5,721
Disposals	-	(7)	(351)	(75)	-	(433)
Balance at 31 December 2014	6,039	20,583	1,524	5,895	-	34,041
Depreciation charge for the year	2,932	1,199	388	816	-	5,335
Disposals	-	(1,863)	(523)	(1,089)	-	(3,475)
Reversal at revaluation	(8,956)	-	-	-	-	(8,956)
Balance at 31 December 2015	15	19,919	1,389	5,622	-	26,945
<i>Carrying amount</i>						
At 1 January 2014	125,946	5,517	832	1,433	4,412	138,140
At 31 December 2014	129,235	4,742	667	1,171	2,301	138,116
At 31 December 2015	<b>140,957</b>	<b>4,170</b>	<b>516</b>	<b>2,591</b>	<b>1,946</b>	<b>150,180</b>

	2015 \$000	2014 \$000
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## 13. Demand deposits

(a) Foreign currency demand deposits		
Demand deposits	<b>16,240</b>	11,549

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

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 \$000	2014 \$000
<b>(b) Local currency demand deposits</b>		
Commercial banks	1,510,974	1,164,859
Solomon Islands Government	1,050,278	1,305,694
Other financial corporations	5,077	4,121
Other	6,902	6,978
	<b>2,573,231</b>	<b>2,481,652</b>

### 14. Currency in circulation

Notes	748,548	669,299
Coins	28,092	25,045
	<b>776,640</b>	<b>694,344</b>

### 15. Fixed deposits

Bokolo bills	<b>721,677</b>	<b>621,729</b>
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Boko1o bills are short term discount securities issued and backed by the Central Bank of Solomon Islands. The instrument is used by the Bank for its monetary operations.

	2015 \$000	2014 \$000
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### 16. SIG monetary operations account

SIG monetary operations account	<b>58,422</b>	<b>30,215</b>
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### 17. Employee entitlements

Gratuity	1,096	1,107
Long service leave	1,404	376
Early retirement benefit	14,500	12,463
	<b>17,000</b>	<b>13,946</b>

### 18. Other liabilities

Unpresented bank cheques	6,258	3,845
Other liabilities	4,767	2,199
	<b>11,025</b>	<b>6,044</b>

### 19. Determination of distributable profit

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

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

	2015 \$000	2014 \$000
<i>Net profit distribution according to CBSI Act 2012</i>		
Net operating loss	44,308	(28,912)
Add/(less) net unrealised foreign exchange loss/(gain)	(26,101)	28,860
(Less) changes in fair value in investment properties	(600)	(2,245)
Net (loss)/gain to be recorded in general reserve	<b>17,607</b>	<b>(2,297)</b>

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.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 \$000	2014 \$000
<b>20. Cash and cash equivalents</b>		
Cash and cash equivalents included in the statement of cash flows comprise of the following:		
Cash on hand - local currency	196	224
Cash and cash equivalents- foreign currency	781,517	576,723
	<b>781,713</b>	<b>576,947</b>

## 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 (2013: \$50 million). The capital is fully subscribed by the Government of Solomon Islands.

	2014 \$000	2014 \$000
Balance at the beginning of the year	50,000	50,000
Transfer from General Reserve according to Section 6(1) of CBSI Act., 2012	-	-
Balance at the end of the year	<b>50,000</b>	<b>50,000</b>

## 22. Reserves

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

- General reserve**  
The general reserve was established under Section 53(1) as a reserve for the purposes of covering losses sustained by the Bank.
- Foreign exchange asset revaluation reserve**  
Unrealised gains and losses on revaluation of foreign exchange balances are recognised in the profit and loss under other comprehensive income and are transferred to the foreign exchange asset revaluation reserve at the end of the accounting period.
- Asset revaluation reserve**  
The asset revaluation reserve reflects the impact of changes in the market value of property.
- Gold revaluation reserve**  
The unallocated and allocated gold is valued at current quoted market prices. Gold is accounted for as an available for sale financial asset. Unrealised gains and losses arising from revaluation are recognised in the gold revaluation reserve at the end of the accounting period.
- Capital asset reserve**  
The capital asset reserve is used to strengthen the Bank's equity position in relation to future major capital investment in buildings and equipment.

## 23 Financial risk and management policies

### (a) Introduction and overview

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

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

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

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

### Risk management framework

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

The Bank's management seeks to ensure that strong and effective risk management and control systems are in place for assessing, monitoring

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

and managing risk exposure. The Board of Directors and management are responsible for managing and monitoring the business strategy, risks and performance of the Bank.

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

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

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

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

### (b) Liquidity risk

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

#### *Management of liquidity risk*

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

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

- The Board, with the advice of the external auditors of the Bank, shall assess the situation and prepare a report on the causes and extent of the shortfall and assess the situation within a period of no more than 30 calendar days;
- If the Board approves the report under paragraph (a), the Bank shall request the Minister of Finance for a capital contribution to be made by the Government to remedy the deficit; and
- Upon receipt of this request the Government shall, within a period of no more than 30 calendar days, transfer to the Bank the necessary amount in currency or in negotiable debt instruments with a specified maturity issued at market-related interest rates prevailing in Solomon Islands.

As at 31 December 2015, the Bank's total assets amounted to \$4.51 billion. This was less than the sum of the Bank's total monetary liabilities and its unimpaired capital which totalled \$4.55 billion.

#### Maturity analysis as at 31 December 2015

The maturity analysis noted below includes all financial assets and liabilities as at 31 December 2015.

	On Demand	0-3 Months	3-6 Months	6-12 Months	Over Year	Undefined	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Foreign currency financial assets</b>							
Money on demand	781,517	-	-	-	-	-	781,517
Accrued interest	-	5,959	536	-	-	-	6,495
Fixed term deposit	-	2,083,482	744,518	-	-	-	2,828,000
Holding on special drawing rights	-	-	-	-	-	93,243	93,243
Reserve tranche	-	-	-	-	-	5,981	5,981
Subscription	-	-	-	-	-	107,078	107,078
Gold investment	-	-	-	-	-	206,921	206,921
Bonds	-	-	-	-	91,189	-	91,189
Short term commercial paper	-	175,294	-	-	-	-	175,294
	781,517	2,364,735	745,054	-	91,189	413,223	4,295,718
<b>Local currency financial assets</b>							
Cash on hand	196	-	-	-	-	-	196
Other receivables	-	-	696	-	-	-	696
Loans and advances	-	-	-	-	11,629	-	11,629
	196	-	696	-	11,629	-	12,521
<b>Total Financial Assets</b>	<b>781,713</b>	<b>2,264,735</b>	<b>745,750</b>	<b>-</b>	<b>102,818</b>	<b>413,223</b>	<b>4,308,239</b>
<b>Foreign currency financial liabilities</b>							
Demand deposits	16,240	-	-	-	-	-	16,240



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

	On Demand \$000	0-3 Months \$000	3-6 Months \$000	6-12 Months \$000	Over Year \$000	Undefined \$000	Total \$000
IMF standby credit facility	-	-	-	-	-	101,753	101,753
IMF special drawing rights allocation	-	-	-	-	-	107,712	107,712
IMF extended credit facility	-	-	-	-	-	8,076	8,076
IW' securities	-	-	-	-	-	102,389	102,389
Capital subscription	-	-	-	-	-	4,716	4,716
	16,240	-	-	-	-	324,646	340,886
<b>Local currency financial liabilities</b>							
Demand deposits	2,573,231	-	-	-	-	-	2,573,231
Currency in circulation	-	-	-	-	-	776,640	776,640
SIG monetary operations account	-	58,422	-	-	-	-	58,422
Fixed deposits	-	710,432	11,245	-	-	-	721,677
Employee entitlements	-	-	-	-	17,000	-	17,000
Other liabilities	6,258	4,767	-	-	-	-	11,025
	2,579,489	773,621	11,245	-	17,000	776,640	4,157,995
<b>Total Financial Liabilities</b>	2,595,729	773,621	11,245	-	17,000	1,101,286	4,498,881
<b>Net assets/(liabilities)</b>	(1,814,016)	1,491,114	734,505	-	85,818	(688,063)	(190,642)

### Maturity analysis as at 31 December 2014

The maturity analysis noted below includes all financial assets and liabilities as at 31 December 2014.

	On Demand \$000	0-3 Months \$000	3-6 Months \$000	6-12 Months \$000	Over Year \$000	Undefined \$000	Total \$000
<b>Foreign currency financial assets</b>							
Money on demand	576,723						576,723
Accrued interest		3,197	1,954				5,151
Fixed term deposit		2,226,852	402,382				2,629,234
Holding on special drawing rights						96,724	96,724
Reserve tranche						6,253	6,253
Subscription						111,963	111,963
Gold investment						221,369	221,369
Bonds				31,195	100,040		131,235
Short term		124,081					124,081
	576,723	2,354,130	404,336	31,195	100,040	436,309	3,902,733
<b>Local currency financial assets</b>							
Cash on hand	224						224
Other receivables			36,930				36,930
Loans and advances					75,299		75,299
	224		36,930		75,299		112,453
<b>Total Financial Assets</b>	576,947	2,354,130	441,266	31,195	175,339	436,309	4,015,186
<b>Foreign currency financial liabilities</b>							
Demand deposits	11,549						11,549
IMF standby credit facility						130,038	130,038
IMF special drawing rights allocation						112,627	112,627
IMF extended credit facility						6,755	6,755
IW' securities						107,059	107,059
Capital subscription						4,930	4,930
	11,549					361,409	372,958

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

	On Demand \$000	0-3 Months \$000	3-6 Months \$000	6-12 Months \$000	Over Year \$000	Undefined \$000	Total \$000
<b>Local currency financial liabilities</b>							
Demand deposits	2,481,652	-	-	-	-	-	2,481,652
Currency in circulation	-	-	-	-	-	694,344	694,344
SIG monetary operations account	-	30,215	-	-	-	-	30,215
Fixed deposits	-	610,484	11,245	-	-	-	621,729
Employee entitlements	-	-	-	-	13,946	-	13,946
Other liabilities	3,845	2,199	-	-	-	-	6,044
	2,485,497	642,898	11,245	-	13,946	694,344	3,847,930
<b>Total Financial Liabilities</b>	2,497,046	642,898	11,245	-	13,946	1,055,753	4,220,888
<b>Net assets/(liabilities)</b>	(1,920,099)	1,711,232	430,021	31,195	161,393	(619,444)	(205,702)

### (c) Credit risk

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

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

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

#### Concentration of credit exposure

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

	2015 \$000	2014 \$000
<b>Foreign currency assets</b>		
Cash at Bank	781,517	576,723
Held to maturity investment	3,094,483	2,884,550
International monetary fund	206,302	214,940
Gold investment	206,921	221,369
	4,289,233	3,897,582
<b>Local currency assets</b>		
Loans and advances	11,629	75,299
	4,300,852	3,972,881

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

Concentration by currency	2015 \$000	%	2014 \$000	%
USD	2,293,297	53	1,744,765	44
AUD	841,733	20	1,133,668	29
EURO	214,842	5	245,543	6
SDR	206,302	5	214,940	5
NZD	267,494	6	191,719	4
SGD	155,461	4	64,518	2
STD	310,091	7	302,426	8
SBD	11,629	-	75,299	2
JPY	3	-	3	0
<b>Total financial assets</b>	4,300,852	100	3,972,881	100
<b>Foreign currency assets</b>				
Central banks	1,048,000	24	832,039	21
Commercial banks	3,034,921	71	2,850,602	73
International Monetary Fund	206,302	5	214,940	6
	4,289,223	100	3,676,213	100

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### Local currency assets

Solomon Islands Government loan and advances	5,039	43	68,988	92
Staffloan and advances	6,590	57	6,311	8
	11,629	100	75,299	100
<b>Total financial assets</b>	<b>4,300,852</b>		<b>3,972,881</b>	

### 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:

	2015 \$000	2014 \$000
	<b>Carrying amount</b>	
<b>Fixed rate instruments</b>		
Held-to-maturity investments (Financial assets)	3,094,483	2,884,550
Loans and advances (Financial assets)	11,629	75,299
Demand deposits (Financial liabilities)	(340,603)	(600,110)
SIG monetary operations account (Financial liabilities)	(37,923)	(16,449)
Fixed deposits (Financial liabilities)	(721,677)	(621,729)
	<u>2,005,909</u>	<u>1,721,561</u>
<b>Variable rate instruments</b>		
Cash at Bank (Financial assets)	192,180	204,078
International Monetary Fund (Financial assets)	92,243	96,724
International Monetary Fund (Financial liabilities)	(107,714)	(112,627)
	<u>177,709</u>	<u>188,175</u>

#### Fair value sensitivity analysis for fixed instruments

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

#### Cash flow sensitivity analysis for variable rate instruments

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

	<b>Profit or loss</b>	
	100bp increase	100bp decrease
31 December 2015 Variable rate instruments	1,777	(1,777)
31 December 2014 Variable rate instruments	1,882	(1,882)

#### Foreign exchange risk management

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

In accordance with the CBSI Act, 2012, the task of maintaining the safety and liquidity of foreign reserve assets, as well as the returns from reserves asset management, are achieved through diversification of investment by entering into transactions in international capital

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

and money markets. Analysis of risks is the process of managing the currency reserves by comparing factual risk levels with set limits.

### (e) Market risk

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

<b>2015 foreign currency risk</b>						
<b>Foreign currency financial assets</b>	<b>USD \$000</b>	<b>NZD \$000</b>	<b>AUD \$000</b>	<b>EURO \$000</b>	<b>STG \$000</b>	<b>Others \$000</b>
Money on demand	581,342	-	41,067	151,112	7,993	3
Fixed term deposit	1,505,034	267,494	534,183	63,730	302,098	155,461
Holding on special drawing rights	-	-	-	-	-	93,243
Reserve tranche	-	-	-	-	-	5,981
Subscription	-	-	-	-	-	107,078
Gold investment	206,921	-	-	-	-	-
Bonds	-	-	91,189	-	-	-
Short term commercial paper	-	-	175,294	-	-	-
<b>Total</b>	<b>2,293,297</b>	<b>267,494</b>	<b>841,733</b>	<b>214,842</b>	<b>310,091</b>	<b>361,766</b>
<b>Foreign currency financial liability</b>						
Demand deposits	-	-	-	-	-	101,753
IMF standby credit facility	-	-	-	-	-	107,714
IMF special drawing rights allocation	-	-	-	-	-	8,076
IMF extended credit facility	-	-	-	-	-	102,389
IMF securities	-	-	-	-	-	4,716
Capital subscription	-	-	-	-	-	324,648
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>324,648</b>
<b>Net foreign currency asset</b>	<b>2,293,297</b>	<b>267,494</b>	<b>841,733</b>	<b>214,842</b>	<b>310,091</b>	<b>37,118</b>

<b>2014 foreign currency risk</b>						
<b>Foreign currency financial assets</b>						
Money on demand	369,385	-	131,087	72,964	3,284	3
Fixed term deposit	939,075	191,719	747,265	172,579	299,142	64,517
Holding on special drawing rights	-	-	-	-	-	96,724
Reserve tranche	-	-	-	-	-	6,253
Subscription	-	-	-	-	-	111,963
Gold investment	-	-	-	-	-	221,369
Bonds	-	-	131,235	-	-	-
Short term commercial paper	-	-	124,081	-	-	-
<b>Total</b>	<b>1,308,460</b>	<b>191,719</b>	<b>1,133,668</b>	<b>245,543</b>	<b>302,426</b>	<b>500,829</b>
<b>Foreign currency financial liability</b>						
Demand deposits	-	-	-	-	-	-
IMF standby credit facility	-	-	-	-	-	130,03
IMF Special drawing rights allocation	-	-	-	-	-	112,627
IMF extended credit facility	-	-	-	-	-	6,755
IMF securities	-	-	-	-	-	107,059
Capital subscription	-	-	-	-	-	4,930
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>361,409</b>
<b>Net foreign currency asset</b>	<b>1,308,460</b>	<b>191,719</b>	<b>1,133,668</b>	<b>245,543</b>	<b>302,426</b>	<b>139,420</b>



## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### Concentration of foreign exchange

The Bank's net holdings of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at 31 December 2015:

	2015		2014	
	\$000	%	\$000	%
USD	2,293,297	56	1,744,765	46
AUD	841,733	21	1,133,668	32
EURO	214,842	5	245,543	7
NZD	267,494	7	191,719	5
JPY	3	-	3	-
SGD	155,461	4	64,517	2
STD	310,091	8	302,426	8
	<b>4,082,921</b>	<b>100</b>	<b>3,682,642</b>	<b>100</b>

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

Reporting date spot rate		
	2014	2014
AUD	0.1701	0.1603
USD	0.1240	0.1310
NZD	0.1810	0.1677
GBP	0.0837	0.0843
EURO	0.1135	0.1077
JPY	14.940	15.674
SGD	0.1753	0.1733
SDR	0.0920	0.0880

Sensitivity to foreign exchange rate risk	2014	2014
	\$M	\$M
<b>Impact of a:</b>		
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	(78)	(76)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	80	80

### (e) Operational risk management

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

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

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

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

## 24. Fair value of financial assets and liabilities

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

### Valuation of financial instruments

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

- Level I: Quoted market price (unadjusted) in an active market for an identical instrument.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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

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

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

31 December 2015	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Investment securities</i>					
Available for sale financial assets (Gold)	6	206,921			206,921
Investment Property	10			13,262	13,262
Property, plant and equipment (only Land & Building)	12			140,957	140,957
31 December 2014	Note	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<i>Investment securities</i>					
Available for sale financial assets (Gold)	6	221,369			221,369
Investment Property	10			12,662	12,662

Refer to note 10 and note 12 which shows a reconciliation from the opening balances to the closing balances for the Level 3 fair values above.

## 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 (Deputy Governor)  
 Fred Fakarii (resigned on 13 May 2015)  
 Harry Kuma (appointed on 13 May 2015)  
 Katululu Maepioh (resigned on 5 March 2015)  
 Thomas Ko Chan (appointed on 3 August 2015)  
 Loyley Ngira  
 Lily Lomulo  
 Tele Bartlett  
 Primo Afeau  
 John Usuramo

### *Directors' fees and emoluments*

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

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

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

Denton Rarawa	Governor
Gane Simbe	Deputy Governor

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Reynick Aquillah	Chief Manager International - deceased
Ali Homelo	Acting Chief Manager International
Daniel Haridi	Chief Manager Currency and Banking Operations
Luke Forau	Chief Manager Economics Research and Statistics – on leave
Michael Kikiolo	Acting Chief Manager Economics Research and Statistics
Bella Simiha	Chief Manager HR and Corporate Services
Emmanuel Gela	Chief Manager Finance and Accounts
Raynold Moveni	Chief Manager Financial Market Supervision
Edward Manedika	Chief Manager Information Technology

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

	2015 \$000	2014 \$000
Short-term employee benefits	2,568	2,490
Long-term benefits	785	660
	<b>3,353</b>	<b>3,150</b>

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

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

As at 31 December 2015 loans by the Bank to key management personnel are as follows:

	2015 \$000	2014 \$000
Housing Loan	1,494	1,032
Personal Loan	62	105
Management Car Loan	126	105
	<b>1,682</b>	<b>1,242</b>

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

### Transactions with the Solomon Islands Government

The transactions with the Solomon Islands Government include banking services, foreign exchange transactions, registry transactions and purchase of Government securities. During the year, the Bank received \$1.3 million (2014: \$1.5m) of interest income relating to their investments in Government securities. The Bank also paid \$8.3 million (2014: \$3.9m) to the Government in accordance with Section 34 of the CBSI Act, 2012.

The balance of the Bank's investment in Government securities at year end amounted to \$4.9 million (2014: \$68.9m).

## 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 2015 (2014: \$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 2015, a total of 64 (2014: 64) loans with a net guarantee of \$5.53m (2014: \$6.92m) million have been administered under the scheme.

## 27. Events subsequent to balance date

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

