CENTRAL BANK of SOLOMON ISLANDS

29th April 2011

Hon. Gordon Darcy Lilo
Minister of Finance
Department of Finance and Treasury
Honiara

Dear Honourable Minister,

As required by the provision of Section 47(1) of the Central Bank of Solomon Islands Act, CAP 49, I hereby submit a report on the operations of the Central Bank for 2010, including the 2010 audited annual accounts.

Yours sincerely,

Gane Simbe
Deputy Governor

CC: Permanent Secretary, Ministry of Finance and Treasury

CENTRAL BANK OF SOLOMON ISLAND

CBSI Vision

"Facilitating economic growth and financial stability in Solomon Islands"

Central Bank Value

"Upholding intergrity, excellence, professionalism, corporate governance, team spirit and friendly service.'

Central Bank Mission

(a) Conduct monetary policy to foster balance economic growth and financial stability;
(b) Provide proactive and sound advice to government and people of Solomon Islands;
(c) Develop and promote a reputable financial system;
(d) Recruit and equip a professional team; and
(e) Disseminate timely quality information.

THE PRINCIPAL OBJECTIVES OF THE CENTRAL BANK SHALL BE:

(a) to regulate the issue, supply, availability and internatinal exchange of money;
(b) to advise the Government on banking and monetary matters;
(c) to promote monetary stability;
(d) to supervise and regulate banking business;
(e) to promte a sound financial structure; and
(f) to foster financial conditions conducive to the orderly and balanced economic develpment of the Solomon Islands.

Section 4
Central Bank of Solomon Islands Act. CAP49

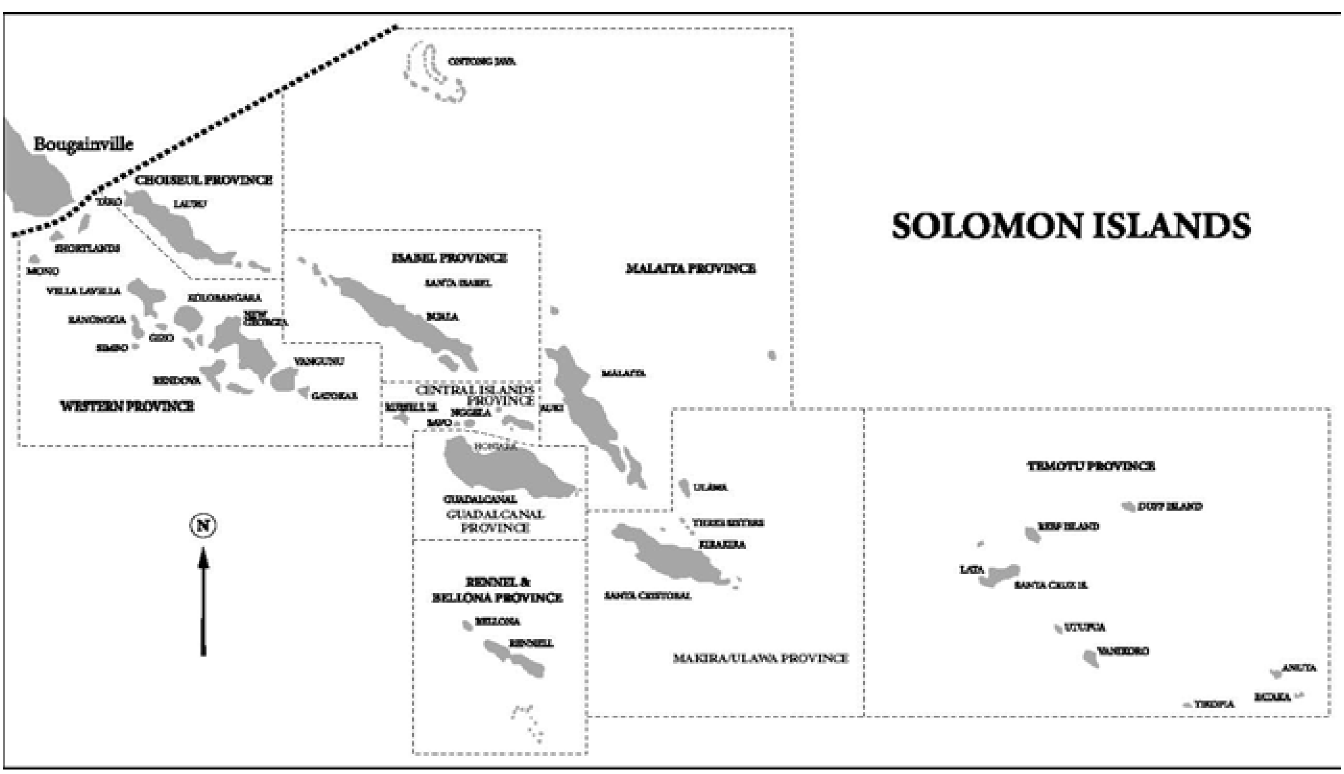
Foreword

This is the twenty eight Annual Report issued by the Central Bank of Solomon Islands and the thirty three in the series begun by the Solomon Islands Monetary Authority in 1977.

In this report, data was provided by the various government departments, statutory corporations, financial institutions, resident diplomatic missions, country representatives of international institutions, non-government organisations and firms in the private sector. The Central Bank is very grateful for the ready cooperation and assistance it received.

Data on the monetary system are derived from Central Bank records. The interpretations and conclusions in this report are entirely the responsibility of the Central Bank.

Central Bank of Solomon Islands
April 2011



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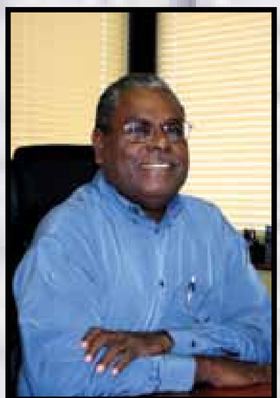
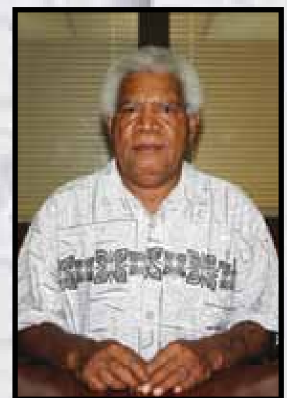
BOARD OF THE CENTRAL BANK, at the end of 2010

Mr. Denton Rarawa
Chairman, ex-officio



Mr. Gane Simbe
Director, ex-officio

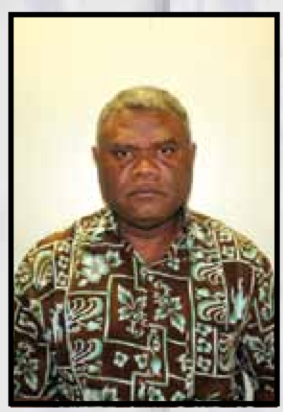
Mr. Shadrach Fanega
Permanent Secretary,
Ministry of Finance (ex-officio)



Mr. Leslie Teama
Director

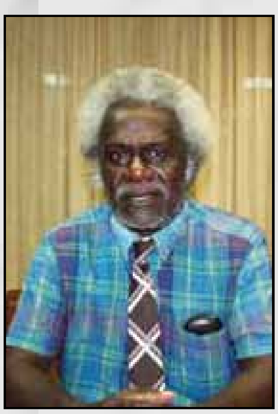
Mr. Loyley Ngira
Director
(as of December 2010)

Mr. Katalulu Maepioh
Director



Dr. Steven Aumanu
Director

Mrs. Lily Lomulo
Director
(as of December 2010)

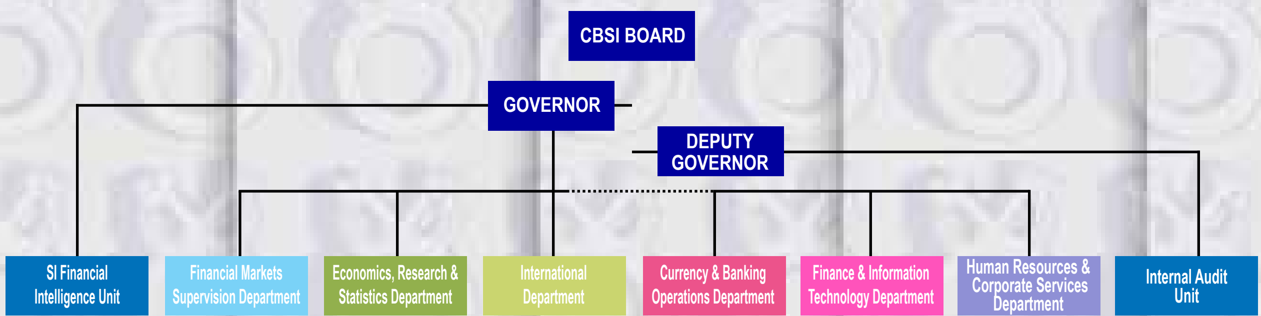


Mr. Moses Pelomo
Director
(up to March 2010)

Mr. Antonio Lee
Director

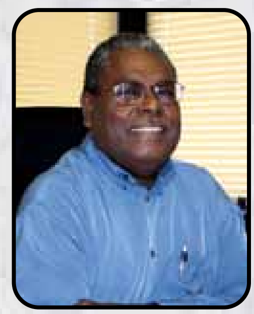
Mrs. Bella Simiha
Secretary to the Board

Organization of the Central Bank of Solomon Islands



MANAGEMENT OF THE CENTRAL BANK 2010

Mr. Denton Rarawa
Governor



Mr. Gane Simbe
Deputy Governor

Mr. Daniel Haridi
Chief Manager, Currency & Banking Operations

Mrs. Bella Simiha
Chief Manager, Human Resource & Corporate Services,
Secretary to the Board

Mr. Raynick Aquillah
Chief Manager, International

Raynold Moveni
Chief Manager, Financial Markets Supervision

Mr. Edward Manedika
Chief Manager (Ag), Finance & Info. Tech.

Mr. Luke Forau
Chief Manager, Economics, Research & Statistics

GLOSSARY

The following terminologies are defined in the context of Solomon Islands.

Balance of Payments (BoP): records all payments and receipts relating to transactions between a country and foreign countries.

Bank Liquidity: Total amount of cash held by banks and not used for investment or other transactions.

Capital & Financial account: records international transactions relating to capital and financial flows between a country and foreign countries, such as investment, loans and grants etc

Current account: records international transactions relating to the flow of goods, services, income and transfers. A surplus indicates higher inflows than outflows and a deficit indicates the opposite.

Domestic credit: value of loans and advances obtained from within the country.

Excess Liquidity: The liquidity that banks possess that is greater than the minimum prescribed by the Central Bank.

Exchange rate: the price of foreign currencies stated in terms of the local currency or vice versa.

Exports: goods that a country sells abroad.

External reserves: stock of foreign currency assets of the Central Bank. These assets are earned though exports, foreign aid and loans obtained from institutions abroad.

Gross Domestic Product (GDP): Total value of all final goods and services produced in an economy during the course of a year.

Honiara Retail Price Index (HRPI): a consumer price index which shows the price level and changes in price level of goods and services in Honiara over time. This information forms the basis for calculating inflation in the economy.

Imports: goods that a country buys from abroad.

Liquid Asset Requirement: Usually defined as a percentage of deposit liabilities of a commercial bank that shall be held as cash or as balances with the Central Bank.

Money Supply: the total quantity of money in a country's economy at a particular time.

Narrow money: notes and coins in the hands of the public plus money held on demand deposits at the Central Bank.

Net Credit to Government: value of borrowings by Government less its deposits at the commercial banks and the Central Bank.

Private sector credit: value of borrowings by private companies and individuals within the country.

Quasi money: Total of time deposits and savings deposits.

Trade balance: the difference between merchandise exports (goods sold overseas) and merchandise imports (goods purchased from overseas).

Trade surplus/deficit: a trade surplus is when the value of exports is higher than the value of imports, whilst a trade deficit is when receipts from exports are less than payments for imports.

I. ECONOMIC OVERVIEW, POLICY ISSUES AND ECONOMIC OUTLOOK

The Solomon Islands economy recovered strongly in 2010 following a slight decline in 2009. The positive outcome was attributed primarily to strong performances from primary commodities. Non-commodity sectors also contributed. Demand from China and other emerging economies for commodities pushed up commodity prices. The relatively low inflation across major trading partners influenced similar trend domestically as well. However, challenges to future growth in Solomon Islands remains. These include the narrow economic base, the dominance and dependence on a declining logging sector, aid dependence, political will, and a growing population that seeks employment opportunities and demand quality social services.

Primary commodities remain the significant contributors to growth in the economy. All primary commodities except for copra recorded increases during the year. This positive outcome propelled the production index to surge upward by 28.1% to 146.4, more than offsetting the 27.5% contraction a year back. The notable contributor to the rise in the production index is log production, which unexpectedly grew in 2010 by 37% to 1,428,211 cubic meters as a result of firm prices, increased logging activities, back felling, and exportation of new species.

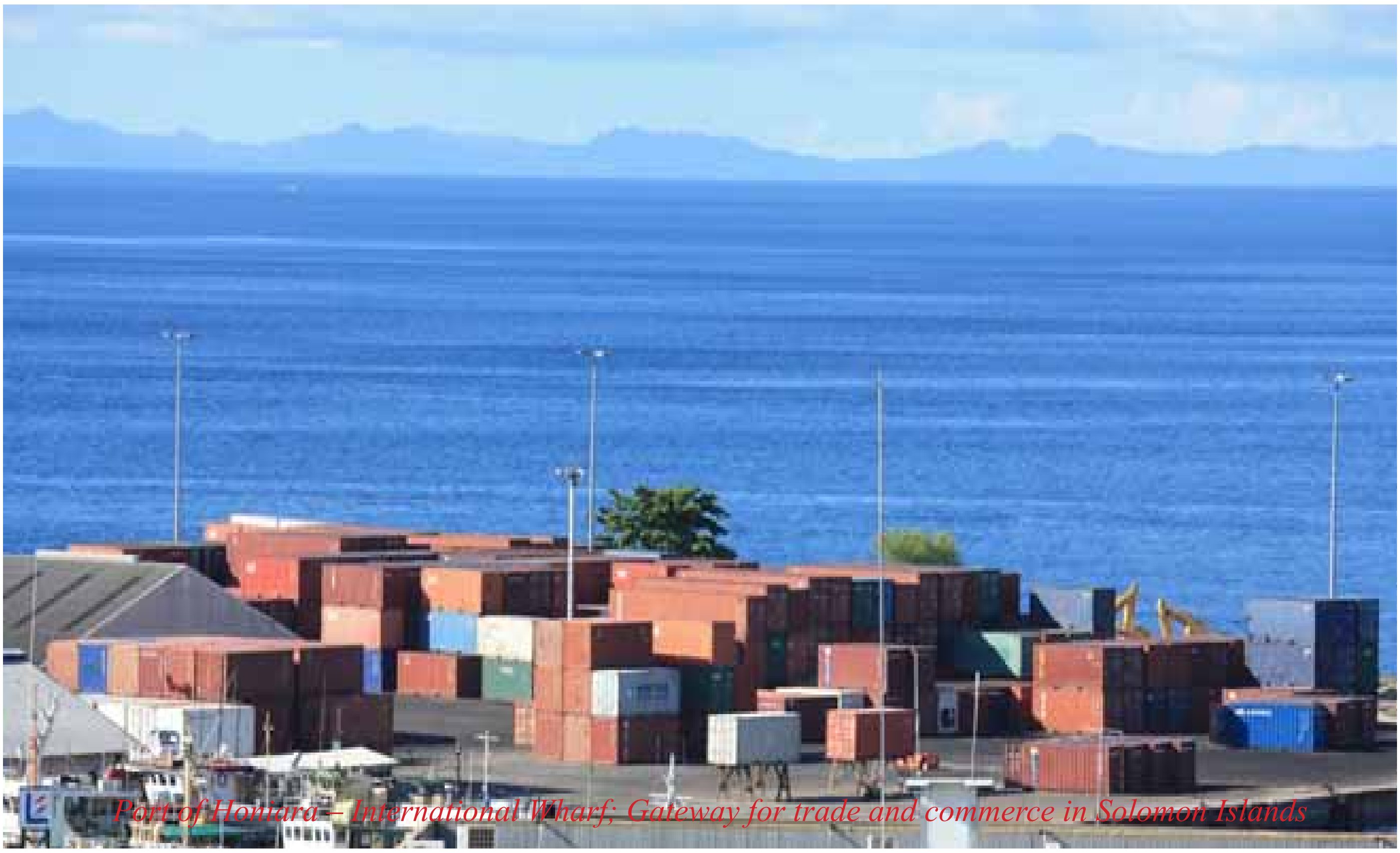
The real gross domestic product (GDP) for the country is estimated to have grown by 7.1% in 2010 as a result of strong performance in agriculture, forestry, and fisheries sectors. Also contributing to the growth were other services, retail and wholesale trade and transport and communication. Favorable macroeconomic conditions such as strong commodity prices fueled by demand from the global recovery, and low inflation among trading partners set the backdrop for domestic production. However, the current growth rate is not sustainable for long term growth of the economy as it depended very much on the forestry sector. Emphasis should be focused on the diversification of the economic base in particular encouraging development of non-commodity sectors to minimize vulnerabilities to commodity price shocks and ensure balanced and sustained long term growth.

Inflation in Solomon Islands in 2010 remained relatively low. Overall inflation as measured by the twelve months moving average of the Honiara Retail Price Index was 1.0%, compared to 7.9% in 2009. The historically low inflation was driven mainly by food, housing utilities, and household operations categories. Food prices, in particular rice prices, substantially fell as a result of increased competition in the retail market. The domestic price index posted an increase of 1.3% during the year compared with 7.2% in the preceding year. Similarly the imported index grew at a subdued rate of 0.3% as opposed to 7.1% in 2009. However, inflation has started to pick up in early 2011 with pressures coming from rising oil and food prices globally.

The foreign reserves position markedly improved, setting a historical high of 9.3 months of import cover of goods and non-factor services. As at the end of 2010 foreign reserves stood at $2,143.8 million compared to the $1,177.3 million in 2009. The positive outcome was due to considerable inflows of foreign exchange from donors, rising export receipts, and foreign investments.

Despite the record foreign reserves position, Solomon Islands current account balance with the rest of the world remains in deficit. The current account deteriorated further to a deficit of $1,584.4 million on the back of the rising deficits in the trade, services and primary income accounts. Exports posted a decent growth of 37.5% to $1,826.5 million but this was outweighed by imports which jumped 50.8% to $2,905.9 million as a consequence of large capital imports from Gold Ridge Mining Limited. Capital account on the other hand, increased from $216.2 million surplus to $395.4 million surplus in 2010. This was directly associated with the large capital grants the government received during the year as well as inflows to deposit taking corporations. Similarly the financial account's net borrowing widened to $1,225.3 million relative to the net borrowing of $748.9 million in 2009. This reflected increased foreign investment inflows, and raising the financial liabilities to the rest of the world.

The Solomon Islands dollar remained stable against USD throughout the year. The SBD remained pegged to the USD at $8.06 per USD. Consequently as the USD depreciated against the AUD, NZD and JPY during the year, SBD also depreciated against these currencies to $7.42 per AUD, $5.78 per NZD, and $9.20 per Japanese Yen. At the same time, the SBD



Port of Honiara – International Wharf: Gateway for trade and commerce in Solomon Islands

strengthened against pound sterling, and the EUR.

The Government recorded a preliminary fiscal surplus of 7.1% of GDP in 2010 owing to robust collection from local sources, and instituted expenditure control measures including the 35% reservation on other charges. Overall revenue rose by 32.3% over 2009 to $2,257.3 million. Of the total revenue, tax revenue accounted for two thirds, nontax revenue was 6.5%, and the remainder was mainly budget support. Total expenditure was contained within budget by 6.6% at $1,871.9 million, reflecting significant savings in other charges and SIG development contribution that outweighed increases in other major expenditure categories. Despite the positive outcome, it was noted that not all budgeted programs were implemented in 2010.

Solomon Islands continued to service its debt obligations to external and domestic lenders. Sovereign debt obligations were reduced in 2010 from $1,422 million at the end of 2009 to $1,346 million. The reduction in turn improved the debt to GDP ratio from 31% a year ago to 25%. The incremental decline over the years was consistent with the Honiara Club agreement that bound the Government from making any new borrowings since 2005. Debt repayments in 2010 alone were $117.6 million, of which external repayments accounted for $84.3 million while domestic repayments accounted for $33.2 million.

Broad money (M3) registered a further growth of 16.5% to $2,132.7 million. The monetary growth was fuelled mainly by net foreign assets, which built up as a result of donor inflows, export receipts, and foreign investment. Credit to the private sector declined by 4.8% to $1,165.4 million due to two large one-off loan repayments totaling $97 million in the third quarter. Excluding these abnormal repayments, private sector credit grew moderately by 3%.

With very low inflation and high level of foreign reserves in 2010, monetary policy was accommodative to support the economy recover from the recession in 2009. The high level of liquidity, externally generated, during the year, did not trigger inflationary pressures due to the following factors. First, subdued lending as evidenced in the decline in credit to private sector was the main leading indicator for low inflation. Second, the Government's expenditure switching and reducing policies were evidenced in the 35% reservation on other charges, coupled with the non-implementation of some major projects in 2010 also contributed. Essentially, these two factors are really automatic stabilizers that complemented monetary policy. Finally, the low inflation environment benefited from the stable exchange rate against the US dollar which has mitigated external inflationary pressures as major tradings are denominated in the US currency.

During the year CBSI reviewed its monetary policy framework as part of on-going efforts to monetary policy formulation and implementation. Revisions were made to the exchange control policies to improve efficiency and promote business friendly conditions. In late 2010, the foreign exchange overnight limit was raised to $10 million. Similarly, the exchange control threshold for trade and services payments was increased to $100,000 to raise efficiencies in the administrative processes and facilitate trading activities. In another development, the exchange rate margin for USD transactions was reduced to 2%, to be at par with the margin applied to AUD transactions.

Outlook for 2011

The macroeconomic conditions for 2011 are sound and provide a window of opportunity for the country to develop other sectors. The CBSI anticipates the economic recovery in 2010 to be sustained in 2011 with economic growth projected to be slightly lower than in 2010. Key commodities are expected to remain upbeat on the back of firm prices and growing demand for commodities from Asia and other emerging economies. The coming on stream of gold production in 2011 will further boost the export sector and provide some impetus for economic activities. Log production is expected to level off in 2011 but should remain as the top export earner in the country. However negative deviations in log output may dampen the growth forecasts. Other possible downside risks to sustained growth in 2011 are political uncertainties, and security issues. The upside risk, on the other hand, are the rising oil and food prices in the world market. The recent Japanese earthquake/tsunami is not expected to have a major impact on the Solomon Islands economy. However, the full extent of the fallout in the nuclear crisis poses a greater longer term risk to the environment including migratory fish species such as tuna.

The positive outlook from the productive sector generates optimism in the external sector. This should see a reduction in the trade deficit as exports in 2011 are boosted by gold receipts, and import payments fall from 2010 levels. Gold receipts, which could become the second leading export earner behind logs, should see some spin offs in the second quarter of 2011. Given the foreseeable reduction in log receipts in the medium term, the recommencement of gold production in March 2011 could at least provides a soft landing for the economy.

Tuna loin product ready for export

On prices, the most probable sources of inflationary pressures in 2011 are expected to come from rising oil and food prices in the world market. Oil in particular has hovered above US$100 per barrel in the first quarter of 2011 and is expected to contribute towards inflation in the same manner as experienced in 2008 when oil prices peaked. CBSI will continue to monitor these developments and hope the oil price shock is temporary. Domestic demand is not expected to pose significant concerns in the short term but may increase should private sector credit bounce back.

Plantation Logs

With inflation expected to increase in 2011, the focus of monetary policy would be to ensure that further increases are contained within single digits. In line with the new monetary policy guidelines, the CBSI introduced the Bokolo bills in February 2011, with the commercial banks as the main targets. The key objective is to gradually develop the securities markets as well as absorb excess liquidity from the banking system. Moreover, the new credit facilities for commercial banks that will be on a repo basis have also been introduced to provide commercial banks with liquidity needs. This is consistent with the long term goal of the Bank to be able to influence the monetary aggregates. Besides, the Solomon Islands Government Treasury bills facility that is administered by the CBSI is still in operation and the cap was raised to $40 million from $30 million towards end of the year.

The Government anticipates a budget surplus of $24.2 million in 2011 on the back of strong revenue growth from local sources and expenditure discipline particularly on the recurrent component. Projected revenue for 2011 is $2,255.6 million as against an expenditure budget of $2,231.4 million. Recurrent budget increased marginally by 1.2% to $1,681 million while SIG contribution to the development budget increased substantially to $418 million from $243 million. The latter reflects the Government's commitment to invest more in development projects. It is imperative to institute quality spending on public funds and ensure transparency, and moreover stringent measures instituted to account for monies such as constituency funds. More importantly, the development budget allocation goes to projects that are economically viable and benefits a wider segment of the population.

Gold Ridge Mine Site

The Government is a major player in the provision of business enabling environment for investment and entrepreneurship to flourish. It is crucial therefore that reforms are expedited to benefit from the window of opportunity provided by the positive macroeconomic conditions. This should set the pace for investor confidence in the country.

In a developing country like the Solomon Islands, basic infrastructures such as roads, wharfs, airports, schools, and clinics remain important investment areas to ensure the country enjoys sustained growth in the long term. Ongoing reform programs including those in the utilities sector should be allowed to continue till completion. These reforms particularly in the utilities sector should go a long way in helping to lower the cost of doing business to make Solomon Islands a more competitive investment destination for potential investors.

Furthermore, with land tenure system mainly customarily owned, land reform program is particularly imperative to attract new investments into the country and for long term economic prospects. These reforms should be inclusive and accommodative so that all parties receive fair and maximum returns from the resources and investments.

Commodities such as copra and cocoa have been the mainstay of the economy since independence, but assistance and/or investments into these sectors have been very poor over the years. It was important these commodities and others like vanilla, kava, and coffee are accorded with adequate assistance because experience has shown that during bad times it is these commodities that held the economy. Besides, investment into the transport sector must also be improved, particularly to complement the investment in the agricultural sector. Also, investments into the services industry must be enhanced and pushed further for high quality services. The services industry can be seen as a backstop industry to cushion the external shocks normally witnessed in the country's export commodities. Moreover, downstream processing and manufacturing must continue and be encouraged with necessary and adequate resources for long term sustainability. The manufacturing products can relieve our import dependence on certain products and provide employment opportunities.

Essentially, the bottom line is adequately allocating resources to where they are best used so that optimal returns to the economy are gained for a necessary and sufficient condition for long term growth.

II. INTERNATIONAL ECONOMIC DEVELOPMENTS

2010 saw the continuation of a two-speed recovery in the global economy, with emerging economies experiencing strong recoveries supported by buoyant private consumption, strong terms of trade and resurgent inflows of private capital. In advanced economies, the recovery has been stronger than expected but hampered by persistent high-unemployment rates and restrained levels of private consumption. The two speed recovery has led to the need for contrasting policy responses in the two types of economies.

Advanced economies have seen the maintenance of record low interest rates to support the sluggish recovery with countries like the US and Japan approving additional monetary stimulus measures in a bid to support economic recovery.

Fears of unsustainable levels of public debt in various European states led to the unfolding of the European sovereign debt crisis in early 2010. Worries concerning the ability of a few states to finance their debt led to soaring borrowing costs and the fear of contagion effects to other major economies. Greece and, eventually, Ireland were forced to accept EU-IMF bailouts. As a response to the debt crisis, measures to tighten fiscal policy have been rolled-out across the majority of European countries although fiscal sustainability worries remain.

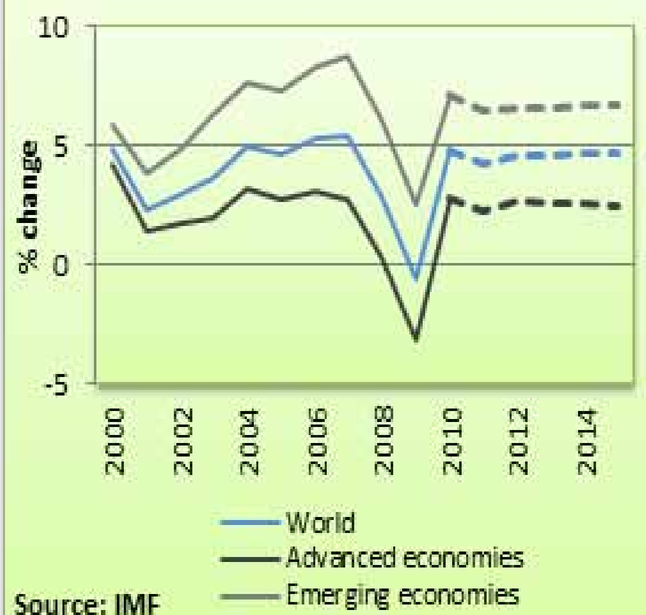
In contrast, the main concern in 2010 for emerging economies was of over-heating and the need to pursue measures to tighten monetary policy in a bid to curb rising inflation.

Commodity prices surged in 2010 amidst rising global demand and disaster-related supply shocks adding further inflationary pressure in the already over-heating emerging economies. In 2011, rising oil and food prices are likely to represent the major downside risk to growth in advanced economies but will also present challenges to policy makers in emerging economies looking to prevent over-heating.

Economic Growth

Global growth reached 5.0% in 2010, driven by the strong growth rates witnessed in the emerging economies. This outcome was stronger than expected after a pick-up in the speed of recovery in advanced economies towards the end of 2010. Global growth is expected to be 4.4% in 2011 and 4.5% in 2012 (See Figure ii.i).

Figure II.i: World GDP Growth Rates



Source: IMF

Average economic growth for the advanced economies reached 3.0% in 2010, a stronger recovery than expected but still sluggish compared to pre-crisis levels. This growth was supported by the unprecedented amounts of expansionary policy stimulus, the maintenance of interest rates at record lows and buoyant demand from emerging economies. Growth in 2011 is projected to be 2.5%, on average, with high unemployment and high levels of public debt dampening the pace of recovery in these economies.

The US grew by 2.8% in 2010, on the back of further monetary stimulus from the Federal Reserve during the year and the maintenance of record low interest rates. Growth of 3.0% is expected in 2011; however, this may be dampened by an expected rapid increase in oil prices and persistent high unemployment rates.

The Euro area recorded a growth rate of just 1.8% in 2010 following a troubled year that saw various European states in fear of defaulting on their debts or suffering from spill-over effects from struggling neighbouring states. Initial worries of contagion effects to other major world economies have been subdued as 2010 saw spill-over effects contained to the Euro area and the positive response of world markets following the bail-out that was coordinated in response to the Greek crisis. To date, the debt crisis has had a limited impact on the global recovery. Growth of 1.5% is expected in 2011 in the Euro area as fiscal austerity measures take effect.

The Australian economy grew by 3.3% in 2010, outperforming other advanced economies. Australia's buoyant growth was supported by strong demand for its commodity exports and strong trade links with Asia. Growth is projected at 3.5% in 2011 on the back of continued demand for commodities. Japan achieved a growth rate of 4.3% in 2010 and is projected to achieve 1.6% in 2011. However, the recent earthquake and tsunami that destroyed the north eastern part of Japan could dampen the expected outcomes.

Average economic growth amongst emerging economies was recorded at 7.1% in 2010 supported by the timely return and the maintenance of global trade after the global economic crisis, resurgent capital inflows and accommodative monetary policies. Average growth in 2011 is projected at 6.5% with downside risks coming from rising commodity prices and the continuation and likely increase in capital inflows as interest rates rise in these economies to prevent over-heating.

China, the powerhouse of the global recovery, recorded a growth rate of 10.3% in 2010. Growth in 2011 is expected to be 9.6% although there are concerns of a 'hard-landing' if contractionary policies fail to restrain rising credit growth and rising asset prices. In 2010, India recorded a growth rate of 9.7% and is expected to record a further growth rate of 8.4% in 2011.

Inflation and Commodity Prices

Average inflation amongst the advanced economies reached 1.5% in 2010. Despite expansionary monetary policies; ample spare capacity, persistent high unemployment rates and well-anchored inflation expectations are expected to keep inflation rates low amongst the advanced economies in 2011 with an expected average inflation rate of 1.6%.

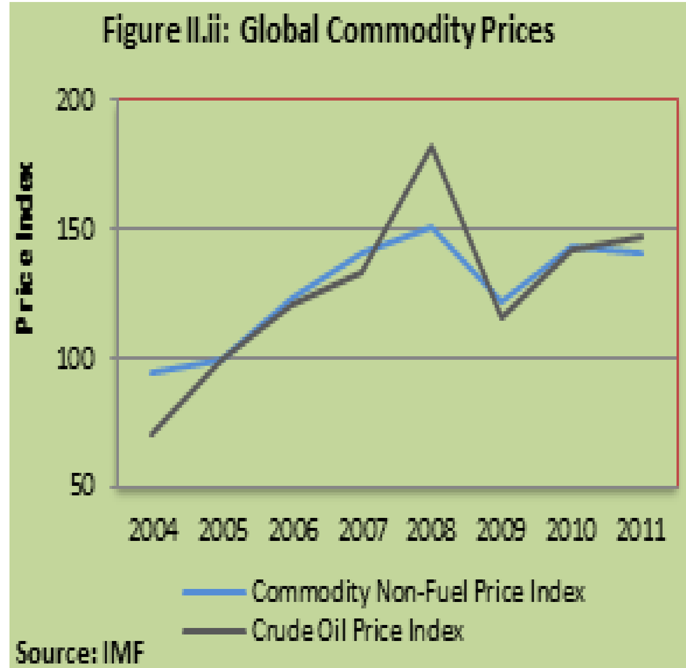


Figure II.ii: Global Commodity Prices

In contrast, emerging countries have experienced rising inflation due to strong growth rates prior to the financial crisis, resurgent capital inflows and strong terms-of-trade for commodity exports. Average inflation for these economies reached 6.3% in 2010 with many of these economies adopting tight monetary policy towards the end of the year. Average inflation in emerging economies is projected to reach 6.0% in 2011.

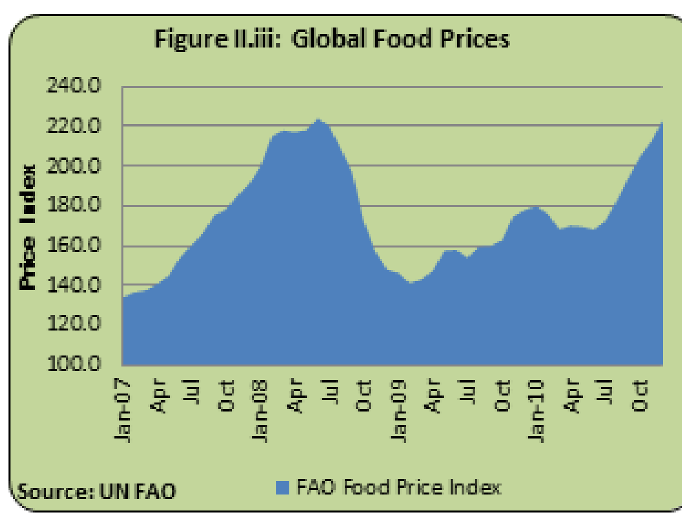


Figure II.iii: Global Food Prices

Commodity prices rose in 2010 due to strong global demand and weather-related supply shocks. Oil prices recorded a 27.8% increase across 2010 and non-fuel commodity prices registered a 23.0% increase across the year (see Figure II.ii).

The UN Food Price Index registered a 24% increase in 2010 marking the end of falling prices witnessed during the global financial crisis (see Figure II.iii). Such rises in commodity prices threaten to fuel inflationary pressures in many of the emerging economies and in response will require further tightening of monetary policy.

Price rises for both oil and non-fuel commodities are expected to continue across 2011 on the back of continued global demand and a slow supply response to increased demand. In the short-term, political turbulences in the Middle East represent an acute risk to global supply of oil and is likely to trigger surges in the price of fuel in the coming months.

III. DOMESTIC ECONOMIC OUTCOMES

Gross Domestic Product

The domestic economy grew by 7.1% compared to a negative 1.2% growth in 2009 on the back of unexpectedly buoyant economic activity in the second half of the year (see Figure III.i). The major drivers of this growth in output came from **forestry** with an increase of 32%, **fisheries** recorded a 9% increase, **agriculture** with a 5% rise, manufacturing with 11%, electricity and water with 5% and **other services** with a 2% increase.

Table iii.i
Estimated Real GDP
(Index 1985=100)

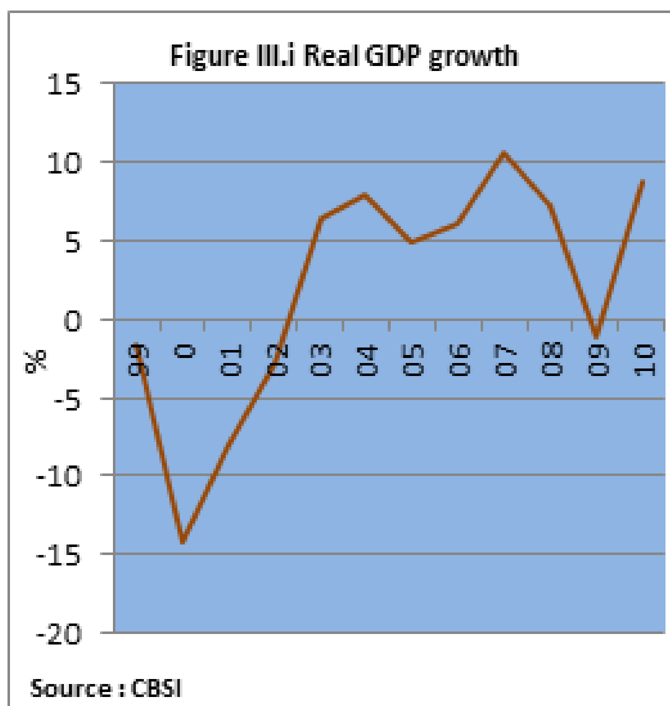
Industry	2007	2008	2009	2010
Agriculture	147.6	167.7	167.7	176.1
Forestry, Logging	381.5	398.6	287.0	379.5
Fishing	116.5	122.1	117.4	128.0
Mining & Exploration	-5.0	-5.6	-55.7	-55.7
Manufacturing	144.1	147.7	145.1	161.5
Electricity and Water	285.6	291.1	283.0	296.1
Construction	101.2	110.3	115.3	115.2
Retail and Wholesale Trade	152.6	165.0	164.3	167.4
Transport and Comm.	225.9	250.9	301.7	330.9
Finance	257.8	262.6	267.5	272.5
Other Services	153.8	170.4	183.4	187.0
Index of Monetary GDP Prod.	179.1	194.3	191.0	206.8
Annual % movement	13.0	8.5	-1.7	8.3
Index of primary prod (Min)	190.3	206.6	181.8	208.6
Annual % movement	17.2	8.5	-12.0	14.7
Non-Monetary: Food	179.2	184.2	189.4	194.7
Non-Monetary: Constr	173.8	178.6	183.6	188.8
Non-Monetary GDP Index	178.8	183.8	188.9	194.2
Index of Total GDP Prod.	178.4	191.5	189.1	202.6
Annual % movement Real)	10.7	7.3	-1.2	7.1

Source: CBSI

Nominal GDP rose by 17.8% to $5,409.9 million. Similarly, nominal GDP per capita rose by 15% to $10,251 (US$1,272) in 2010, compared to the 9% growth in GDP per capita recorded in 2009.

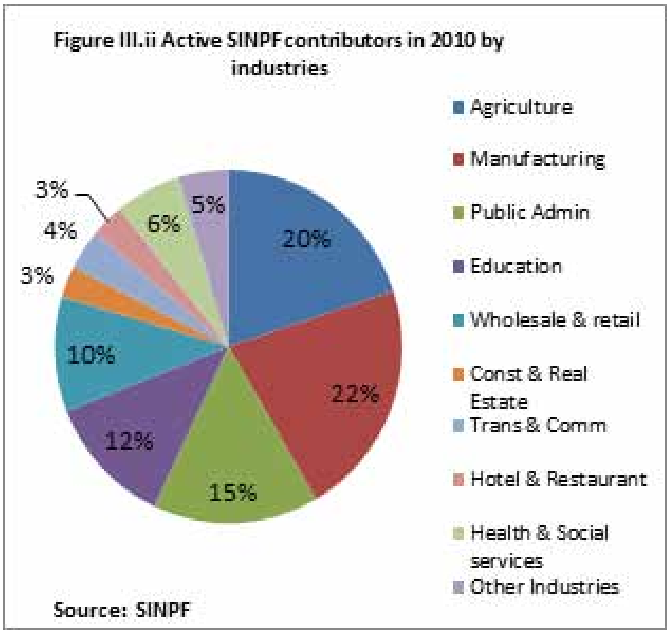
In real terms, real GDP per capita, a widely accepted indicator to measure the standard of living, went up by 4.6% following a drop of 3.9% in 2009. The increase mainly reflected very low inflation recorded during the year. However, this growth was generated with the formal sector the main driver; implying uneven distribution of growth in the local economy given the majority of the population lives in the informal sector. That is to say, the informal sector (majority of whom lives in the rural village and accounts for about 80% of total population) does not directly reap the benefits of economic prosperity.

The Solomon Islands economy is expected to grow by around 6.3% in 2011, in light of the positive outlook for all sectors and assumes that logging activities to remain flat in 2011. A substantial decline in logging activities however, could dampen the forecast growth. The coming on stream of gold production in March 2011 should help broaden the economic base of the country and compliment the more traditional sectors.



Employment

Based on member contributions from the Solomon Islands National Provident Fund (SINPF) on active contributors, 2010 saw an increase in total active contributors from 30,747 in 2009 to 41,096 – suggesting a 33.7% increase in employment. Using the International Standard of Classification by Industry (ISIC), the largest employment sectors were manufacturing (22%), followed by the agricultural sector (20%), public administration (15%), education services (12%) and wholesale & retailing (10%) (See Figure III.ii).



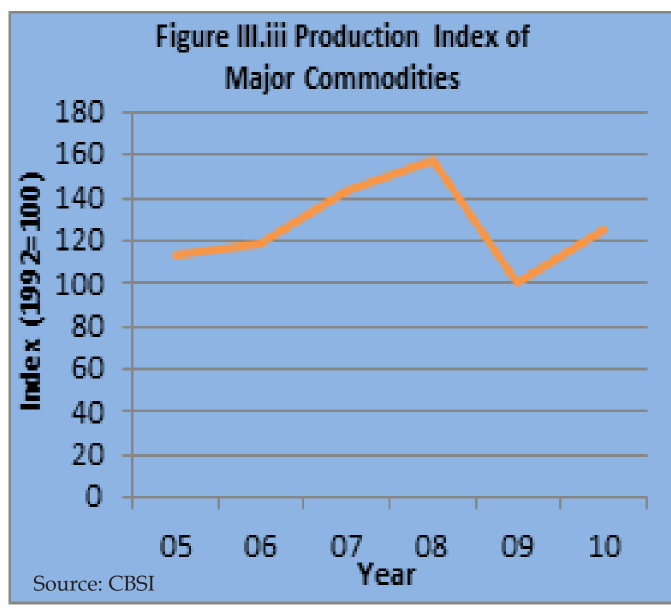
A CBSI survey of job advertisements showed a decline of 4% across the year to 1,235 compared to 1,288 vacancies posted in the previous year. The decline in vacancies recorded via newspaper advertisements could also indicate a shift to other means of advertising such as posting vacancies on shop windows and through word of mouth, rather than a decline in employment opportunities across 2010.

Investment

Foreign investment applications received by the Investment Division (ID) of the Ministry of Commerce, Employment and Industries showed an increase of 24% in 2010 to 151 applications following a 74% drop in 2009. Of the total applications, ID approved 138 investment applications valued at $4.8 billion, with the largest share of investments going to the forestry sector, followed by the 'wholesaling and retailing', and 'other services' sectors. Less than 5% of the approved investments actually started in 2010, mainly in prospecting for minerals in other parts of the country. Australian investors accounted for the majority of the likely FDI inflows in 2010, followed by Malaysia and China. Successive governments have expressed their desire to promote manufacturing and export oriented industries in the country, but this was hampered by lack of proper and adequate infrastructures, political instability, security issues, unreliable utility services, and the high cost of doing business in the Solomon Islands. Tourism, fisheries and mining industries are expected to attract FDI in the medium-term as the activities in these sectors increase over the next few years.

Production

The commodities production index registered a 24% increase over the year to 125 (See Figure III.iii). The increase is attributed mainly to the logging sector which in 2010 registered a 37% increase to 1,428,211 cubic meters. All other major commodities contributed positively except for copra which fell marginally.



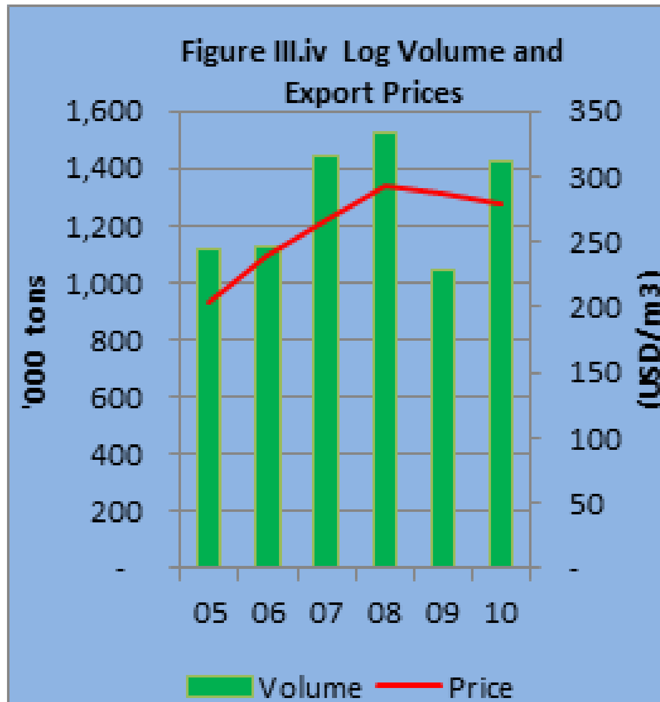
Forestry

Logging activities picked up unexpectedly in 2010 after weakening in the previous year. 'Back felling' and the increased demand for log species not sellable in previous years are some of the driving factors. The action by the Ministry of Finance to gradually raise the determined export value of logs over the years may have also contributed to the overall increase. Log export volumes[1] increased by 36.7% to 1,428,211 cubic metres in 2010 compared to the 31.4%

[1]Sourced from Customs & Excise Division

decline witnessed in 2009 (See Figure III.iv). This was lower than the 1,815,000 cubic meters log export applications[2] and the approved export volume of 1,790,000 cubic metres valued at US$152 million ($1.2 billion).

International log prices registered US$258 per cubic metre at the beginning of 2010 and ended the year 19.0% higher at US$307 per cubic metre. On average, however, log prices in 2010 weakened by 3.1% to US$278 from US$287 in 2009. In terms of the determined export value of logs set by the Government, domestic prices ranged from US$55.0 ($444.0) per cubic metre to US$123.0 per cubic metre ($992.0) in 2010. Determined export values for logs were reviewed in October 2010 with a two-stage increase in the export value for logs set, the first increase came into effect in October and the second in December. The latter increase is effective until June 2011.



Source: CBSI


Plantation Logs

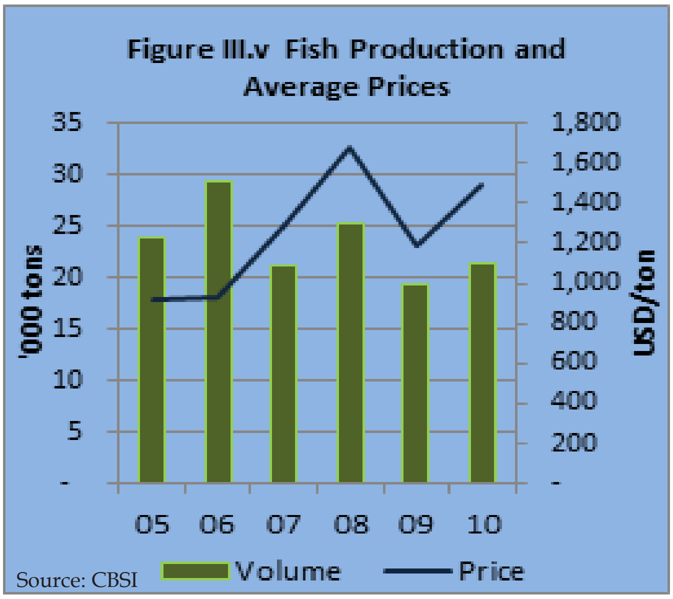
The Ministry of Forestry continued to encourage down stream processing as its first policy objective, with the provision of processing equipment to smallholders. Furthermore, the Forestry Act requires that 20% of felled logs must be milled locally. However, this mandatory requirement has never been complied with, indicating weaknesses in the execution agency. Second policy objective, the Ministry continues to stress the importance of replanting and reforestation to ensure sustainable harvesting in the future. It is a mandatory commitment for logging operators in the country to replant at least a third of the logged areas.

Two companies involved in plantation logs have improved their operations in 2010, both in planting and exporting. Both also received 'Forest Stewardship Council Certificate' at each point in time which enabled them to get premium international prices and achieved their total targets of 100,000 cubic meters in 2010 (representing 40,000 and 60,000 cubic meters). About 1,520 hectares were planted in 2010 with 12 to 17 years planting rotation depending on the species. The main species planted in both plantations is the 'Eucalyptus'.

Fishing

Total fish catch increased by 10.8% to 21,385 tons in 2010 following a large drop of 23.9% in 2009 (See Figure III.v). The increase is due to the restructure and improved management by the two major fishing companies in 2010. The increase in the number of boats from 3 to 5 in 2010 also contributed to the increase.

[2]Sourced from Ministry of Forestry, Solomon Islands Government



Source: CBSI

Canning operations showed a decline in overall canned, loin and fishmeal production during the year. Canned fish dropped 29.2% from 320,832 cartons to 227,216 cartons in 2010. Fish loin and fish meal also declined by 37.5% and 4.6% to 264,276 bags and 19,430 bags respectively[3]. The fall was due to a halt in cannery production in the second quarter of 2010 due to financial constraints.

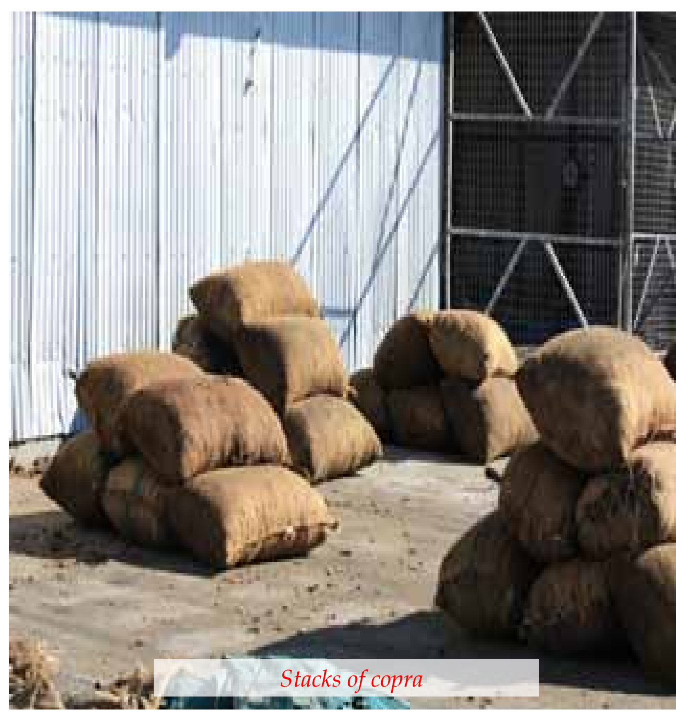
Average international price for frozen fish increased by 25.3% to US$1,491 per ton compared to the 29.3% decline to US$1,189 per ton in 2009.


Tuna loin product ready for export

2010 saw renewed impetus in efforts to conserve the tuna stocks in the Western Pacific Ocean. This saw the establishment of the Secretariat of the Parties to the Nauru Agreement (PNA)[4] in April 2010 to limit the number of purse seine vessels licensed by the parties to the agreement. There was greater emphasis towards the use of sustainable fishing methods and equipment that will promote conservation of the resource in the long run.

Copra and Coconut Oil

Copra output in 2010 dropped by 1.4% to 24,395 tons (See Figure III.vi). The decline in copra production was explained by continued fluctuation in prices over the period due to the high price elasticity of supply. Another reason for the drop in production was due to increase in the number of senile coconut trees which, in 2010, accounted for about 60% of the country's plantations. An increase in coconut milling was also a major reason behind the drop in copra production. Copra production by provinces showed that Guadalcanal accounted for the largest share with 27% of the annual output, followed by Western and Malaita provinces with 18% and 17% respectively.

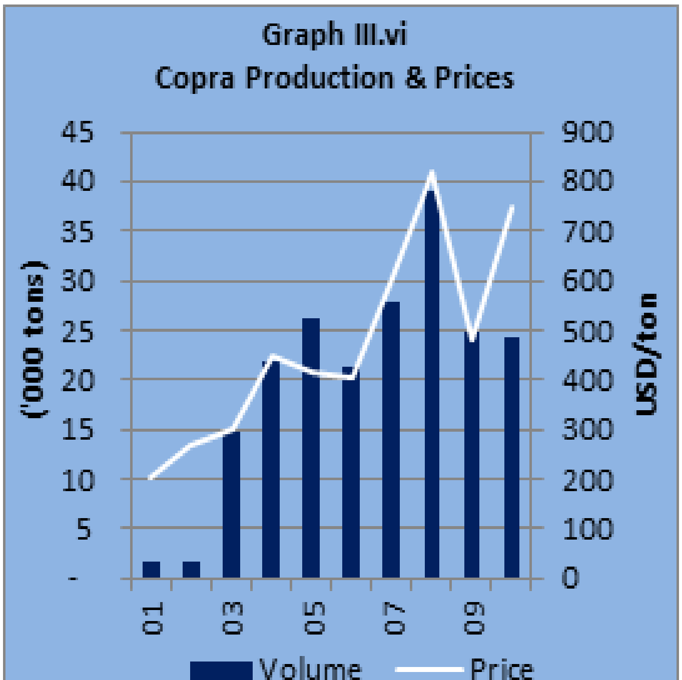

Stacks of copra

The average international price for copra registered a significant 56.3% increase during 2010, from US$480 per ton to US$750 per ton.
This was a massive turnaround from the 41.2% decline in 2009. Contracted export prices also increased

[3] **Each fish meal bag weighs 25kilograms and each loin bag weighs 75 kilograms**

4 An agreement between Pacific Island Countries to limit fishing and strengthen conservation and management of tuna.

markedly by 39.6% to US$437 per ton compared to the 26.9% decline recorded in 2009. Domestically, the average copra price gained $1.01 over the year to move from $1.93 per kilogram in 2009 to $2.94 per kilogram in 2010, reversing the 29.5% decline in 2009.



Source: CBSI

Inadequate and unreliable inter-island transport services are still major challenges for the copra industry. The Government with the support of some donors have initiated the Franchise Shipping Scheme aimed at improving safety, reliability and frequency of inter-island shipping services to the rural areas. However, the Scheme is yet to materialise amidst concerns that it is economically unsustainable after coverage of eight routes was trialled.

Production of coconut oil increased in 2010, but the product was sold mostly in the domestic market. Despite lack of data for coconut oil production, consensus from the market indicated a positive performance for the industry in 2010. Copra producers received prices ranging from $13.75 to $20.00 per kilogram. In addition, there was optimism on growth prospects in the industry on the back of increasing world prices for coconut oil sustained by increasing world demand which offered major incentives to produce more coconut oil.

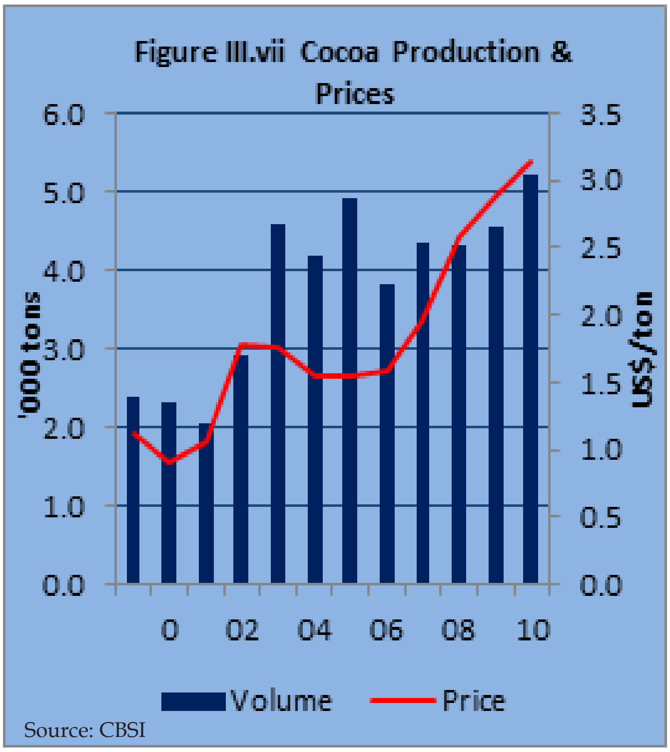

Offloading copra from the outer islands

Cocoa

2010 was another good year for the cocoa industry. Production increased by 14.3% to a record volume of 5,205 tons following the 5.3% increase witnessed in 2009 (See Figure III.vii). The improvement in production was due to more awareness and the positive effects of cocoa projects funded via the Cocoa Livelihood Program (CLIP) and the Ministry of Agriculture in 2010. Rural farmers are increasingly aware that cocoa as a commodity is in high demand in world markets and this is leading to the sustained price rises. As a result, the incentive to rehabilitate cocoa farms in response to the awareness of the greater returns has contributed significantly to the improvement in production witnessed in 2010.

In terms of provincial contributions to total production, Guadalcanal was the largest contributor with 60% followed by Malaita at 21% and Makira producing 15% of total output.

Cocoa production is expected to increase further in 2011 due to continued rehabilitation of old plantations through CLIP and the cocoa funded projects planned by the Ministry of Agriculture for 2011. The 2010 budget allocation for cocoa has doubled to $4 million from $2 million in 2009 which indicates the potential for growth in the cocoa industry in the years ahead.



The average international price for cocoa increased by 8.5% to US$3,134 per ton across 2010. The upward trend in international prices since 2006 has resulted in higher contract and domestic prices during the year. Average contracted export prices rose by 23.5% to US$1,750 per ton whilst the average domestic price grew by 29.5% to $18.01 per kilogram.

Palm Oil

Production for all palm oil products registered increases in 2010. Crude palm oil (CPO) production rose by 13.9% to 28,615 tons, following the 14.3% increase in 2009. Palm kernel rose by 6.3% to 7,532 tons. Palm kernel oil (PKO) also increased by 3.5% to 3,205 tons, while palm kernel meal grew by 4.5% to 3,794 tons compared to a 21% growth in the previous year. The improvement in overall output since 2009 was due to improved yield of fresh fruit bunches which rose by 11% to 132,338 tons. Palm oil production is expected to increase in 2011 as newly replanted areas come into production.

The average international price for CPO rose by 32.1% to US$901 per ton following a drop of 28.2% in the previous year. International average price for PKO also rose significantly by 69.3% to US$1,184 per ton following a decline by 38.1% in 2009. The favourable international price was attributed to the high demand for oil and other complementary products in world markets.

Other Commodities

Production of **honey** recorded an increase from 24 tons in 2009 to 61 tons in 2010[5]. At present, domestic prices for final honey products are at $25.00 for 400 grams and $30.00 for 500 grams. In terms of major production centres, Malaita has the highest number of hive keepers. In the medium-term, there is potential for the industry to expand if there is assistance and support from the Government and other development partners.

Provisional data on **coffee** production showed a decline to 25,541 kilograms in 2010 from 133,822 kilograms in 2009, despite sustained high local demand for the product. The reason for the decline in coffee production was due to producers shifting from growing coffee to growing kava which offered greater returns than those for coffee in 2010, combined with the fact that production of coffee is subject to significant seasonal effects. In terms of production by region, Guadalcanal has the highest number of coffee growers followed by Isabel province.

Production of **kava** continued to rise with increasing demanded from overseas buyers. About 50 tons of kava was produced in 2010, of which 50% was consumed locally and 50% exported. Major export destinations are Fiji, Kiribati and Nauru. Most suppliers of kava were from Isabel Province. The price for kava root was $165.00 per kilogram, while kava chips reached $155.00 per kilogram with export prices at approximately $200.00 per kilogram.

Vanilla production substantially dropped from 17,865 kilograms in 2009 to 699 kilograms (provisional) in 2010. This outcome was unexpectedly low given the high price for vanilla. Vanilla producers however, had been reliant on the Community Sector Programme (CSP) supported by AUSAID and following the expiry of the programme at the end of 2009, many suppliers were not able to improve or sustain their production in 2010.

The Government, through the Ministry of Agriculture continued to encourage **rice** farming in the country with a budget allocation for support programmes

[5]**Sourced from Ministry of Agriculture**

worth $10 million in 2010. Actual spending on rice projects totalled $6.5 million; support for the industry had resulted in an increase in the number of small rice farmers from 30 in 2009 to 47 in 2010. The objective to set up at least two commercial rice growers was also achieved in 2010.

Sea weed production reached 411,780 kilograms, mainly sold locally with only 1% exported in 2010. Support for the industry, came in the form of programmes designed to help rural farmers practice sustainable harvesting of marine resources including sea weed. This was implemented under the Fish Aggregation Device (FAD) programme jointly funded by donors and the Ministry of Fisheries. These activities are still at infant stages and are expected to improve in the coming years.

Minerals

Developing the mining and exploration sector of the economy has been a major focus of successive governments. The Gold Ridge mine project is in line with successive governments' policy to develop other sectors to reduce the economic reliance on the logging sector. Gold Ridge Mining Limited expects gold production to commence in March 2011 with an estimated annual output of 85,000 ounces in the first year and 120,000 ounces per year thereafter over the remaining life span of the mine. It is anticipated that the re-opening of the Gold Ridge mine will help contribute to the economy in 2011 in terms of government revenue, trade balances, employment opportunities, and other spill over benefits.

Small scale production of alluvial gold by landowners around the Gold Ridge area continued in 2010. About 130 kilograms of alluvial gold worth $30 million were extracted in 2010, the same level as that recorded in 2009. Ten alluvial gold mining permits and three mining leases were issued in 2010.

Nickel prospecting and exploration licenses both on-shore and off-shore increased to fourteen, three of which are at their final stage of 6 to 7 years, after which time mining lease applications are expected to be submitted.

Energy

Total energy generated in 2010 went up 4.7% to 79,143 Mega Watt Hours (MwH), following a 3.5% decline in the previous year. Of the total energy generated, 70.6% or 55,893 MwH was sold, lower than the 93.5% or 70,669 MwH sold in 2009. The electricity price for domestic use in Honiara, rose from $3.80 per kilowatt hour (KwH) to $4.15 per KwH while the price of electricity for commercial use declined by 5% from $4.80 to $4.56 in 2010.

Tourism

The tourism industry continued to improve in 2010 compared to 2009 with the total visitors' arrivals increasing by 6% from 19,440 in 2009 to 20,521 in 2010. Of the total visitors' arrivals, 52% were from Australia followed by other Asian countries (9%) and New Zealand with 8%.

The increase in the total visitors arrival was supported with an improvement in international airline services and expansion of tourism industry such as new hoteliers and rest-house built during the year. This saw high occupancy rate of 80% in major hotels during the year. Steady economic recovery in major market such as Australia also contributed. The tourism industry is among the sectors that the present Government is promoting as a new source of growth in the economy.

One of the potential areas of tourist attraction in the country is 'product development' in terms of tour activities. Among other marketing strategies, hiking promotion is advertised overseas as one of the prominent tourist attractions of the country. Touring opportunities in the country have not been fully exploited due to lack of initiative in the organisation of such products. In addition, investment into the conversion and maintenance of WWII relics into sites of tourist interest has been low.

Challenges to greater development come in the form of the uncertain political situation in the country and low levels of infrastructure. Domestic travel routes still presents a challenge to the development of the tourism sector with frequent changes and cancellation of flights and that many airfields in the country are unserviceable. Improvements to these challenges would improve further the tourist industry in the country.

Telecommunication

Following the liberalisation of the telecommunications industry in 2009, the general availability and coverage of telecommunication services in the country have improved markedly. The entry of a second telecommunications provider in 2010 has led to an increased level and improved quality of telecommunications in the country. The cost of telecommunication services had declined with the additional 65% increase in network coverage by Bemobile. About 60,000 subscribers have been established since the company entered the market, employing a large labour force through direct employment, dealers and sub-dealers throughout the country. Despite the new competition, Our Telekom continued with new investments in 2010 with the number of new sites increasing from 30 in 2009 to 32 by the end of 2010. The company invested in expanding internet capacity via satellite connection in 2010. In 2011, both companies are looking to build additional towers to widen mobile connection.

Manufacturing

Manufacturing sector contributed 11% to the overall economic growth in 2010. This sector also contributed the largest number of employment comprising of 22% compared to 14% recorded in 2009. Overall, the manufacturing industry has improved prospects for 2011. A continued objective of the Government is the promotion of the manufacturing sector by ensuring an environment conducive to manufacturing activities in the country.

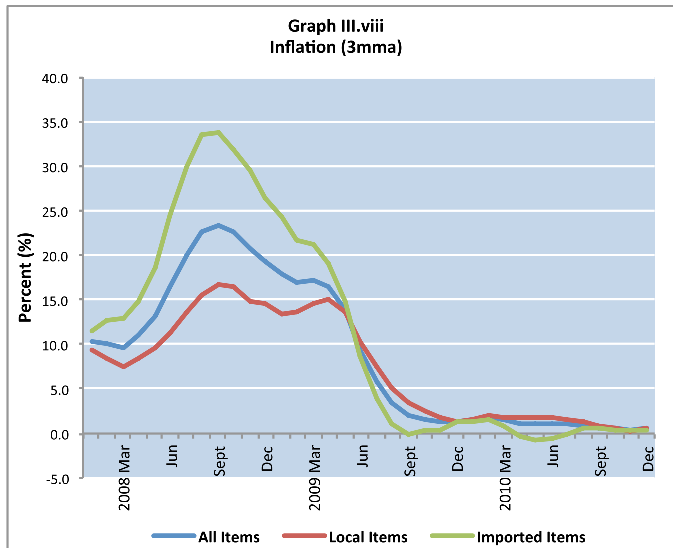
Construction

The emergence of new constructions around Honiara in 2010 was evidence of the buoyant investments in the construction industry. Commercial bank loans to the construction sector recorded an increase of 18% from $108 million to $127 million during 2010. Loans for commercial and industrial properties rose by 64% to $85 million. Lending to private residences was more than twofold from $13 million to $36 million at the end of 2010, while loans to other unspecified construction activities went up by 77% to $114 million.

Total building permits approved in 2010 increased by 13% to 229, following a 38% increase in 2009. The increase comprised of 38% rise in commercial and industrial building permits, which more than offset the 17% decline in residential permits. Construction activities are expected to remain buoyant in 2011 according to a CBSI Expectations Survey.

Inflation

Headline inflation as measured by the three months moving average recorded an annualised rate of 0.6% in December 2010 (see Figure III.viii). On average, across 2010, inflation was at 1.0% (12mma) compared to the average annual rate of 7.9% in 2009.



Source: CBSI

The drop in the rate of inflation was underpinned by falls in all categories of the Honiara Retail Price Index (HRPI) except for the housing utility and household operation with an increase of 1.6% and 6.5% respectively.

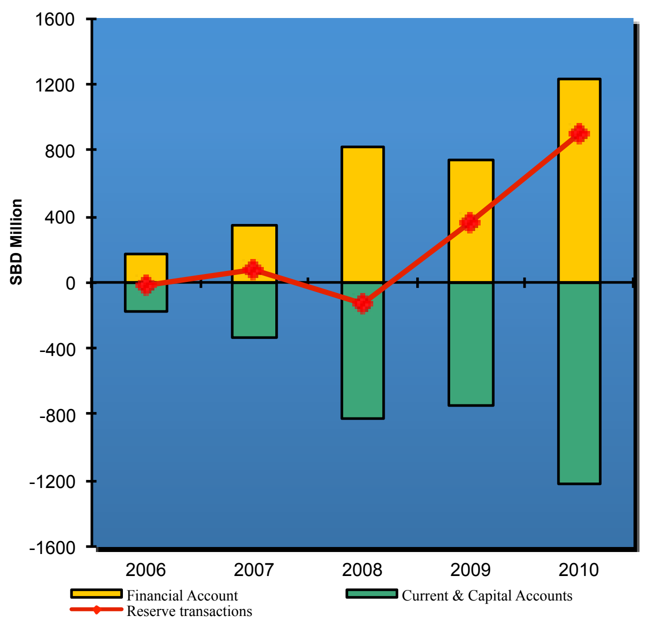
The domestic component recorded a small increase of 0.7% in 2010 compared to 1.3% in 2009. The decline in the domestic index comprised of a 0.5% reduction in the 'Food' category, 23% drop in the 'Clothing & footwear' category and 3.3% drop in 'Transport & Communication'.

The imported component declined from 1.2% in 2009 to 0.4% in 2010. This fall was due to the decline in food prices by 6.4%, drink and tobacco by 0.9% and household operation by 2.7%. Imported inflation is expected to rise during 2011, on the back of increasing oil and food prices fuelled by the current political crisis in the Middle East and natural disasters affecting many parts of the world.

IV. BALANCE OF PAYMENTS

Solomon Islands' external position improved in 2010 with marked increase in gross foreign reserves from $1,177.3 million in 2009 to $2,143.8 million. The favourable outcome was largely due to significant inflows from donors, foreign investment and export receipts. This level of reserves is equivalent to 9.3 months of imports of goods and non-factor services, up from 6.0 months at the end of 2009.

Graph IV.i
Balance of Payments



Source: CBSI

In the balance of payments accounts, a pick-up in economic activity and considerable investment related to the current account payments during the year resulted in a 'net borrowing from current and capital accounts' expanding to $1,188.9 million, up from the 'net borrowing' of $816.2 million in 2009. The net borrowing in the financial account also widened to $1,225.3 million from $748.9 million in 2009, due to the rise in financial liabilities associated with foreign investment flows during the year. Despite considerable investment related imports, Solomon Islands will remain a net importer unless structural challenges such as export diversification and increased productivity in the export commodities and services sectors are pursued and achieved.

Current Account

The current account registered a deficit of $1,584.4 million; a 53.5% deterioration from the previous year. This outcome emanated from the widening deficits in the balance on trade in goods and services which more than offset the increase in the secondary income surplus and the slight improvement in the primary income deficit.

Trade in Goods

The trade in goods deficit widened from $598.0 million to $1,079.1 million in 2010. The outcome reflected the large increase in imports (f.o.b) from $1,926.6 million to $2,905.9 million, accounted for mainly by mining related imports. This was despite the exceptional 37.5% growth in exports (f.o.b) to $1,826.8 million.

Table IV.i
Balance of Payments - Trade in Goods

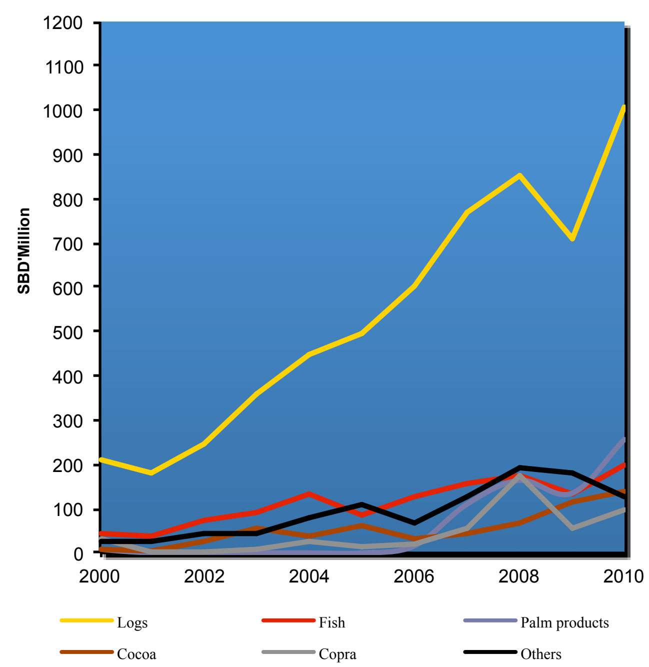
			(SBD millions)
	2008	**2009**	**2010**
Balance on Trade in Goods	-635.6	-598.0	-1,079.1
Exports FOB	1,631.4	1,328.6	1,826.8
Imports FOB	2,267.1	2,926.6	2,905.9
% trade balance to total trade	16.3	18.4	22.8

The positive performance of exports during the year was attributed to increased export volumes combined with favourable international prices. Major export commodities like logs, palm oil, fish and copra all rose in 2010, reversing the declines experienced amidst the downturn in 2009.

Round log export receipts increased by 41.6% to $1,005.7 million in 2010. This strong rebound after the 23.9% drop in 2009 came from a 36.7% jump in log production volumes. Favourable export prices also contributed to the result with average export prices of logs rising by 19.3% to US$84.30 per cubic meter.

Logs remained the primary export commodity in 2010, comprising 55.4% of total foreign exchange from exports and is expected to remain buoyant in the short term despite concerns of the anticipated reduction in commercially harvestable forests in the medium term. At current rates, it is expected that logs will remain the principal export commodity in 2011 at an estimated 42.9% of total export receipts. This is in light of the harvesting of lower value log species in previously logged areas combined with new entrants to the industry.

Graph IV.ii
Export Value of Major Commodities



Source: CBSI

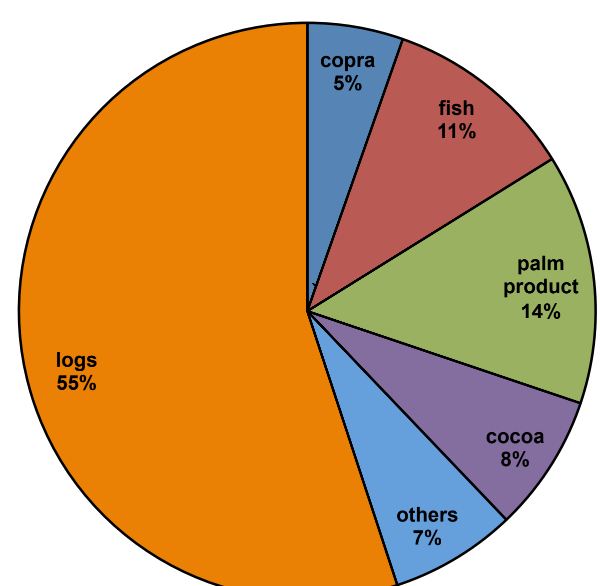
Palm oil and kernels recovered from the 18.0% slump in 2009 with receipts nearly doubling to $256.2 million in 2010. The increase stemmed from high production volumes and the rise in global palm oil prices. Average palm oil export prices increased by 27.2% to $7,060.3 per ton. Palm oil exports accounted for 14.4% of total exports. The outlook for palm oil exports in 2011 is positive in anticipation of buoyant international prices, combined with expected increase in production.

Fish exports performed strongly in 2010 with receipts rising by 46.9% to $196.8 million. The strong performance was due to favourable fishing conditions, rising international prices and the resumption of enhanced cannery production for the loin and tuna exports to the European Union (EU) markets towards the last quarter of 2010. Fish export receipts accounted for 10.8% of total foreign exchange from exports in 2010. The establishment of an additional fishing company in the country is anticipated to further increase exports in 2011.

Cocoa, an important export crop for rural farmers saw export receipts recording a 20.5% increase to $140.7 million during the year, continuing the upward movement from 2009. Strong international prices and increased production contributed to the positive result. In 2010, export volumes increased by 14.1% to 5,481 tons. Cocoa comprised 7.8% of total export receipts.

Despite a 6.2% drop in export volumes to 20,987 tons, export receipts from **coconut oil and copra** increased considerably to $98.2 million from $53.4 million. This growth, in an industry that is also important for many rural communities was driven by soaring global prices that have translated into high domestic copra buying prices. However, despite the soaring prices, production has not matched demand as challenges remain in the industry including the production capacity of aging palms and inadequate infrastructure.

Graph IV.iii
Major exports by commodity shares in 2010



Source: CBSI

Other export commodities, on the other hand, declined during the year. **Sawn timber** export receipts fell by 9.3% to $46.8 million. **Minerals**, mostly alluvial gold receipts dropped by 12.9% to $25.7 million; this is expected to surge in 2011 with the resumption of gold production by Gold Ridge Mining Ltd. **Other exports** decreased by 43.2% to $25.9 million, reflecting the decline in small holder crops like vanilla and coffee, as production shifted to higher value products such as cocoa and copra during the year.

Total imports (f.o.b), on the other hand, shot up by 50.8% to $2,905.9 million, reversing the 15.0% drop witnessed in 2009. In 2010, almost all major import categories increased, in particular machinery, food, mineral fuels and basic manufactures. This strong performance, apart from the mining related imports, indicated more robust demand for inputs as the local economy recovered from the downturn in 2009.

'Machinery and transport equipment', which accounted for 35.8% of all import payments, nearly doubled from $598.0 million to $1,156.3 million during the year. This large increase was related to the imports of machines and equipment mainly for the Gold Ridge mining project, as well as telecommunications sector related imports. **'Food and live animals'** rose by 30.2% to $633.3 million, accounting for 19.6% of total import payments and the increase came from both higher import volume as well as rising food prices. **Basic manufactures**, which included items such as steel materials used in telecommunications and construction projects, and made up 14.4% of total import payments, jumped by 54.4% to $464.7 million. Meanwhile, **mineral fuels**, which accounted for 14.2% of all imports, rose moderately by 9.4% to $457.0 million. While, fuel prices were relatively stable for most of 2010, spikes in global fuel prices at the end of the year will drive up fuel import costs for the Solomon Islands in 2011.

Miscellaneous items, which included general household and consumer goods surged by 59.6% to $260.9 million. Chemical imports in particular chemicals used in industrial production increased to $180.8 million. **'Beverages and tobacco'** also rose by 29.5% to $40.5 million, and **'animal, vegetable and oil fats'** went up to $15.5 million. On the other hand, **'crude materials'** was the only import category that declined during the year, down by 7.5% to $16.9 million.

Trade in Services

The balance on trade in services further deteriorated to a deficit of $590.5 million in 2010 from a deficit of $282.7 million in 2009. This was primarily due to a 69.8% surge in services debit from $846.0 million to $1,436.1 million, which more than offset the 50.1% increase in services credit to $845.6 million.

Table IV.ii
Balance of Payments - Service Account
(SBD millions)

	2008	2009	2010
Balance on Trade in Services	-440.5	-282.7	-590.5
Services Credit	457.6	563 3	845.6
Transport	54.6	111.3	292.9
Travel	286.4	354 9	427.1
Other	116.7	97.1	125.7
Services Debit	898.1	846 0	1,436.1
Transport	322.4	286.7	362.0
Travel	263.7	255 8	315.3
Other	312.1	303.4	758.8

The rise in services credit reflected increases in transport, travel and other services credit. Transport credit shot up to $292.9 million from $111.3 million on the back of increases in both sea transport and air transport services. Travel credit increased by 20.3% to $427.1 million spurred by increased visitor arrivals as evident with a 23.7% growth in business travel to $210.2 million and a 17.2% rise in personal travel to $216.8 million. Meanwhile, 'other services' credit went up 29.5% to $125.7 million. This rise was attributed to increases in financial services, other business services and telecommunications receipts.

Services debit also surged on the back of increases in all three major categories. Transport debit rose 26.3% to $362.0 million, coming on the back of a 56.6% rise in sea transport payments to $273.8 million, despite a 19.4% drop in air transport payments to $92.2 million. Travel debit went up by 23.2% to $315.3 million on the back of a 19.2% rise in business travel payments to $122.1 million, and a 26.0% increase in personal travel payments to $193.2 million. While, 'other services' debit jumped to $758.8 million from $303.4 million. This marked growth came on the back of an increase in construction payments related to capital projects in the country that registered $317.1 million from $4.6 million and other business services that rose by 37.3% to $230.9 million. Payments on government services n.i.e, financial services and insurance services also contributed to the rise in other services debit during the year.

Primary Income

The deficit balance on primary income narrowed to $972.8 million from a deficit of $1,088.3 million in the previous year. This outcome was attributed to a 6.8% decline in the primary income debits to $1,113.9 million despite a 32.3% increase in the primary income credits to $141.1 million.

Table IV.iii
Balance of Payment - Primary Income Account
(SBD millions)

	2008	2009	2010
Balance on Primary Income	**-735.6**	**-1,088.3**	**-972.8**
Credits	159.0	106.6	141.1
Compensation of Employees	11.9	18.5	9.9
Investment income	74.2	46.1	48.6
Direct investment	27.3	20.4	20.7
Portfolio investment	1.0	1.9	3.5
Other investment	6.8	6.4	0.3
Reserve assets	39.1	17.4	24.1
Other primary income	72.9	42.1	82.7
Debits	**894.6**	**1,194.9**	**1,113.9**
Compensation of Employees	19.8	35.6	24.0
Investment income	874.8	1,159.4	1,089.9
Direct investment	802.2	1,092.0	1,024.0
Portfolio investment	–	-	-
Other investment	72.6	67.4	65.9
Other primary income	–	-	-

The positive movement in primary income credit was due, in part, to the rise in 'other primary income credit' to $82.7 million from $42.1 million, in particular fishing rights rent that the government received from foreign fishing vessels licensed to operate in Solomon Islands Exclusive Economic Zone. Also contributing to the increase in primary income credit was the 5.5% rise in investment income credits to $48.6 million, especially interest income earned from reserve assets and direct investments.

Meanwhile, the decline in primary income debits was attributed to the 6.0% drop in investment income debits to $ 1,089.9 million. This was underscored by decreases in direct investment income debits including dividend payments by 6.2% to $1,024.0 million and other investments debits by 2.3% to $65.9 million. In addition, compensation of employees debits dropped by 32.4% to $24.0 million.

Secondary Income

The surplus balance on secondary income rose by 13.0% to $1,058.0 million. The positive development came from the 25.9% growth in the secondary income credits to $1,535.0 million. This more than offset the 68.8% rise to $477.0 million in the secondary income debits.

Table IV iv
Balance of Payment - Secondary Income
(SBD millions)

	2008	2009	2010
Balance on Secondary Income	**851.6**	**936.5**	**1,058.0**
Credits	**952.2**	**1,219.0**	**1,535.0**
General government	713.6	976.0	1,356.0
Deposit-taking corporations and other sectors	238.7	243.0	179.0
Personal transfers	58.9	82.3	92.2
Other current transfers	179.7	160.7	86.7
Debits	**100.7**	**282.6**	**477.0**
General government	12.4	3.1	5 0
Deposit-taking corporations and other sectors	88.3	279.5	471.9
Personal transfers	88.3	279.5	471.9
Other current transfers	-	-	-

General government credit which surged 38.9% to $1,356.0 million was the primary contributor to the increase on the credit side. This was primarily aid assistance provided by donors to the country, especially technical assistance, 'aid in cash' and 'aid in kind'. Technical assistance increased to $719.7 million from $500.1 million. Aid in cash or budget support to government (particularly from the EU, Australia, New Zealand and ROC) surged to $397.8 million. On the other hand, aid in kind declined by 15.9% to $116.3 million. Credits from 'deposit-taking corporations and other sectors' also dropped by 26.4% to $179.0 million due to declines in transfers to churches by 10.4% to $59.6 million and in personal transfers by 9.6% to $88.6 million.

Meanwhile, the increase in secondary income debits was underscored by the rise in private sector or 'deposit-taking corporations and other sectors' debits to $471.9 million, in particular workers' remittances. In addition, general government debits, primarily international membership fees went up to $5.0 million from $3.1 million in the previous year.

Capital Account

The balance on the capital account in 2010 surged to a surplus of $395.4 million from a surplus of $216.2 million in 2009. This outcome resulted from high capital inflows (capital account credits) driven largely by the country's development partners, outweighing the increase in capital outflows (capital account debits).

Table IV.v
Balance of Payment - Capital Account

	2008	2009	2010
			(SBD millions)
Balance on Capital Account	**110.9**	**216.2**	**395.4**
Credit	**115.4**	**216.2**	**399.7**
disposals of nonproduced nonfinancial assets	1.5	-	-
Capital transfers	113.9	216 2	399.7
General government	113.9	216 2	315.5
Private sector	-	-	84.2
Debit	**4.5**	**-**	**4.2**
acquisitions of nonproduced nonfinancial assets	3.0	-	-
Capital transfers	1.5	-	4.2
General government	1.5	-	-
Private sector	-	-	4.2

Capital inflows increased by 84.8% to $399.7 million during the year due to inflows both from the general government and private sectors. General government which comprised more than three quarter of the capital inflows in 2010 increased to $315.5 million from $216.2 million in the previous year. This came entirely from donor funded capital projects. Private sector capital inflows were $84.2 million and most were machineries used for capital projects, a contra entry of machineries imports.

Capital outflows recorded $4.2 million during the year compared to none in the previous year. This was related to the purchases of assets owned by a non-resident entity.

Financial Account

The balance on the financial account in 2010 registered a net borrowing of $1,225.3 million, an increase from net borrowing of $748.9 million in the previous year. This resulted from increasing financial liabilities (financial inflows) despite the increasing financial assets (financial outflows).

Financial liabilities during the year increased to $2,198.8 million from $1,148.1 million in the previous year. This was largely driven by foreign direct investment (FDI) which almost doubled to $1,918.0 million. The substantial rise in FDI resulted from a new entrant in the telecommunications sector, additional investments by major companies particularly in the mining sector, and reinvestments of earnings. This boost in foreign investment indicated growing investor confidence in the economy. Other investments liabilities also increased to $280.7 million due to increases in both trade credits payable abroad and net loans incurred which include an IMF standby credit facility.

Table IV.vi
Balance of Payments - Financial account

	2008	2009	2010
			(SBD million)
Balance on financial account.**	**-823.6**	**-748.9**	**-1,225.3**
Asset	**-5.7**	**399.2**	**973.5**
Direct investment abroad	29.1	24.1	18.5
Portfolio investment	-26.2	-9.8	0.5
Other investment	119.8	23.8	48.0
Reserve assets	-128.4	361.1	906.5
Liabilities	**818.0**	**1,148.1**	**2,198.8**
Direct investment (FDI)	735.6	964.7	1,918.0
Portfolio investment	0.0	0.0	0.0
Other investment	82.4	183.4	280.7

*** (+) is net lending & (-) is net borrowing*

Financial assets during the year recorded $973.5 million, up from $399.3 million in 2009. This largely came from reserve assets which increased more than two fold to $906.5 million. Reserve asset also comprised the largest component of the financial assets at 93.1%. Direct investments abroad dropped from $24.1 million to $18.5 million as less equity capital was purchased abroad. Other investment assets abroad increased to $48.1 million from $23.8 million due to increasing trade credits receivable abroad and currency and deposits abroad.

International Investment Position

The international investment position (IIP) is the country's balance sheet of the stock of external financial assets and liabilities at a point in time and has an opening and closing value. At the end of 2010 (closing value) net IIP registered a net liability of $4,665.1 million, up 48.5% from the previous year. This was attributable to the increasing net borrowing under the financial account and other revaluation effects on the stocks. The increasing net liabilities indicate that the stock of financial liabilities have continued to exceed the stock of financial assets as more foreign investment enter the country and also implies the country's financial obligations to the rest of the world.

The stock of financial liabilities stood at $8,386.3 million at the end of 2010 compared to $5,957.0 million at the end of 2009. The increase stemmed from upward movement in the stock on foreign direct investments and other investments. The former increased to $5,274.5 million from $3,356.5 million while the latter rose to $3,079.8 million from $2,568.4 million.

The stock of financial assets went up to $3,721.2 million from $2,814.9 million. This came from increasing stock of reserve assets by 82.1% to $2,143.8 and the stock of Solomon Islands direct investments abroad by 9.3% to $216.3 million. The stock of other investment assets, however, fell by 5.9% to $1,264.6 million.

External Debt

The country's total stock of external debt at the end of 2010 rose by 23.8% to $2,336.6 million. This came from a 55.6% increase in the stock of private sector external debt to an estimate of $1,293.6 million which more than offset the 8.5% reduction in the stock of Government external debt to $966.8 million. An IMF credit facility of $76.2 million also contributed to the increase.

Table IV.vii
External Debt

(SBD millions)

	2008	2009	2010
Total external debt stock	**1,678.5**	**1,887.4**	**2,336.5**
(I) Private Sector	620.9	831.2	1,293.5
(II) Government Sector	1,057.6	1,056.2	966.8
of which arrears	*25.1*	*25.7*	*5.7*
(III) IMF credit and loans from the MF	-	-	76.2
Govt actual external debt service	**115.6**	**68.0**	**84.3**
Principal	82.5	53.2	70.3
Interest	33.1	14.8	14.0

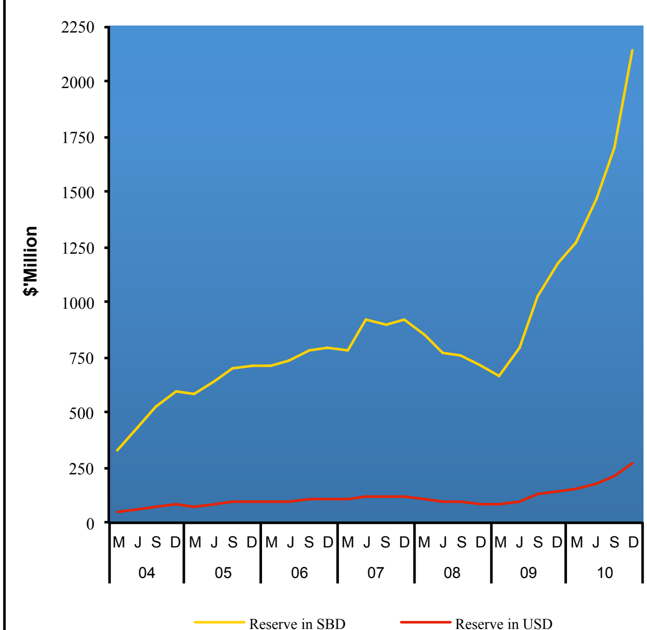
The decrease in Government external stocks including external debt arrears was due to increasing debt servicing particularly on principal debt repayments which increased by 32.1% to $70.3 million during the year. Exchange rate movements also contributed to the fall in external debt stock. Government debt arrears dropped from $25.7 million to $5.7 million. The reduction in sovereign external debt stock signaled continued commitment by the Government to service its debt obligations.

The increase in external debt stock of the private sector came from net loans obtained during the year which more than doubled to an estimate of $223.6 million. This largely came from loans obtained for mining sector operations which included an IFC loan for the Gold Ridge mining project.

Foreign Reserves

Solomon Islands foreign reserves increased to a record high of $2,143.8 million (US$266.0 million) at the end of 2010 from $1,177.3 million (US$146.2 million) at the end of 2009. This considerable rise was due to strong inflows from donors which gave rise to the surge in 'general government' receipts in the secondary income and capital accounts. Substantial increase in export receipts, inflows from the IMF standby credit facility, and foreign exchange revaluation gains also contributed to the outcome.

Graph IV.iv
Foreign Reserves

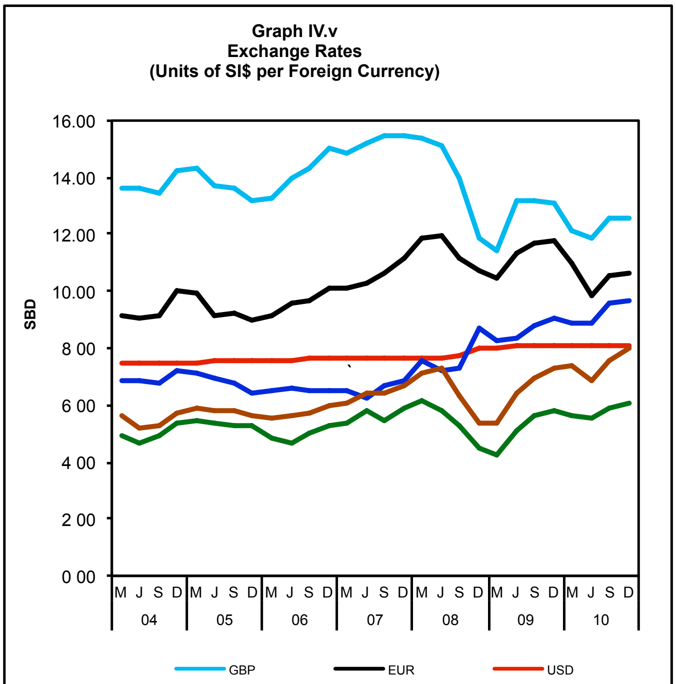


Source: CBSI

This buoyant level of foreign reserves has resulted in a marked improvement in the level of import cover. At the end of 2010, the level of foreign reserves was equivalent to 9.3 months of import cover of goods and non-factor services, compared to 6.0 months at the end of 2009.

Exchange Rates

The Solomon Islands dollar (SBD) remained pegged against the US dollar trading at $8.06 in 2010. Year-on-year comparison showed that the SBD depreciated slightly by 1.0% against the US dollar from $8.05 per USD in 2009.



Source: CBSI

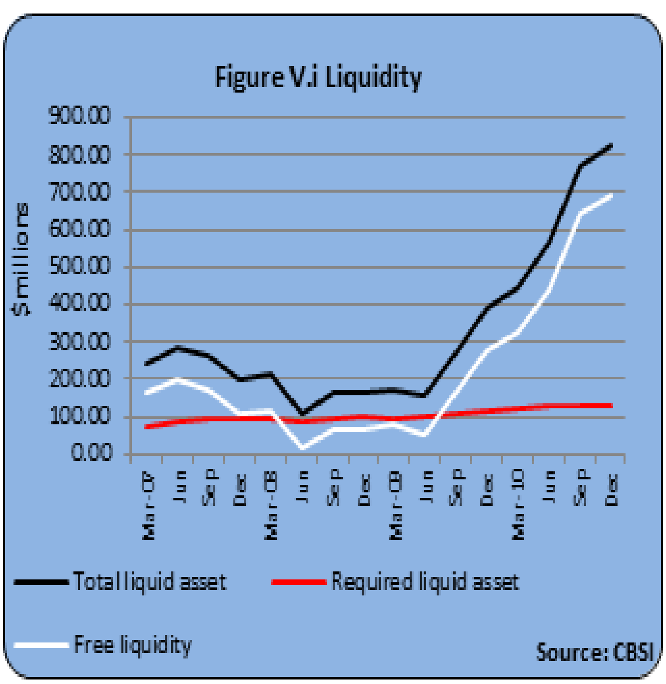
The SBD depreciated on average, against the Australian dollar by 16.4% to $7.42 per AUD, 6.3% against the Japanese yen to $9.20 per 100 JPY, and 13.0% against the New Zealand dollar to $5.78 per NZD. On the other hand, the SBD appreciated by 1.0% against the British Pound to $12.48, and by 4.7% against the EUR to $10.71 per EUR.

V. MONEY AND BANKING

Developments in the monetary sector saw broad money (M3) increasing further in 2010, with net foreign assets (NFA) driving this outcome. Low inflation during 2010 combined with subdued growth in credit to the private sector in the first half of the year prompted the Central Bank to pursue a moderate accommodative monetary policy stance. This saw large quantities of unsterilized foreign inflows fuelling the expansion of the money supply. However, despite, overall strong economic growth in 2010 due to higher than expected economic activity in the second half of the year, the translation of free liquidity into credit was subdued. This, in part, led to the maintenance of unprecedently low inflation across the year,

Liquidity

Liquidity in the banking system has increased sharply across 2010, as a result of foreign inflows (See Figure V.i). These inflows came mainly from donors, export receipts, and foreign direct investment, causing NFA to increase by 67.1% to $2,060.3 million. Weak lending by other depository corporations (ODC) in 2010 also contributed to the build-up in liquidity.



Liquidity grew by more than two-fold to $822.4 million at the end of 2010, following the strong growth seen in 2009. Subsequently, free liquidity (the difference of total liquidity and the 7.5% (of ODCs deposit liabilities) monetary policy cash reserves requirement) went up from $274.4 million to $692.2 million by the end of 2010. This high liquidity did not threaten inflationary pressure during the year because they were not transmitted into the economy by way of credit.

Narrow Money

Narrow money (M1), which consists of currency-in-circulation and transferable (demand) deposits, went up across 2010, by 20.9% to $1,362.9 million. The increase in M1 was attributed to the rise in the transferable deposits of the ODCs and CBSI. For the ODCs, the increase in transferable deposits was due in part to large deposits by non-financial corporations in the first three quarters of the year, combined with the downturn in credit lending by the ODCs. Currency-in-circulation increased at the end of the year by 34.9% to $411.8 million.

Broad Money

Broad money (M3) continued an upward trend in 2010, recording a 16.5% increase to $2,134 million, following a 16.8% rise in 2009. The overall rise in M3 was consistent with the general pick-up in economic activities across 2010. In addition, the increase in M3 mirrored the movement in M1 which across the year rose by 20.9%. 'Other deposits' (time and savings deposits) also contributed with time deposits of other non-financial corporations rising by 42% and other residents by 26.1% at the end of 2010.

Net Domestic Credit

Total net domestic credit declined by 31.7% to $811.2 million in 2010, following an 18.9% fall in 2009. Credit to the private sector fell by 4.7% to $1,165.4 million in 2010 for the third consecutive year, while net credit to the government (NCG) declined at the end of the year indicating increase in Government deposits (See Figure V.ii). In the first half of 2010, NCG declined steadily as a result of improvement in the Government's cash flow management that increased the build-up of Government (transferable) deposits within the banking system. Despite a dip in the third quarter, NCG surged sharply in the fourth quarter, reflecting the one off receipt, of $157 million, from the European Union in December. Year-on-year, NCG stood at $315.9 million at the end of 2010 compared to $26.4 million in the previous year.

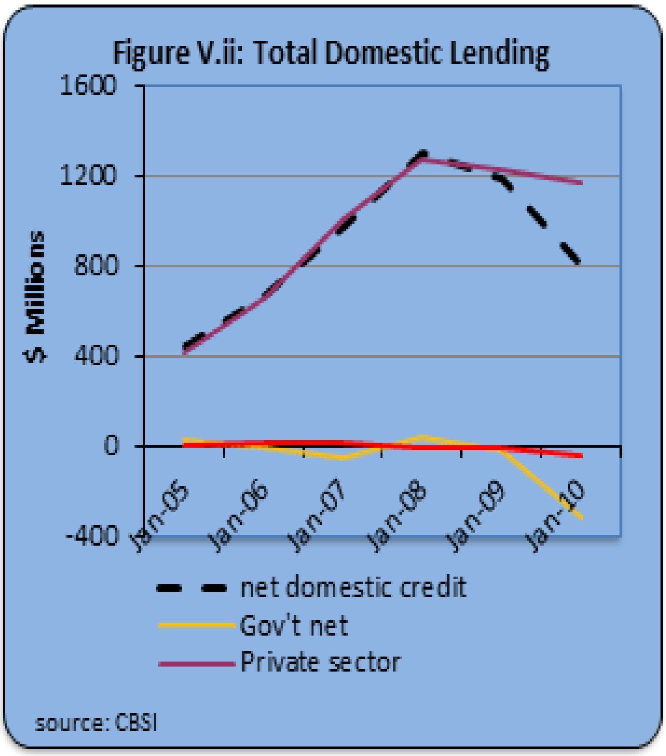


Figure V.ii: Total Domestic Lending

The fall in total credit to the private sector across 2010 was due mainly to two large one off loan repayments, totalling around $98.8 million, in the third quarter. Excluding these one-off loan repayments, private sector credit in 2010 grew by 3%. Such growth in credit is considered subdued when compared to the level of economic activity witnessed in the latter half of 2010. Despite this, there is potential for increased credit demand, especially from small stakeholders in response to the general pickup in economic activities.

The fall in credit were mainly seen in the major sectors such as manufacturing, forestry, fisheries and communication and personal loans. Despite the overall fall in total credit, lending to some sectors registered increases. They were construction sector which went up 38.9% to $148.8 million, distribution up by 3.7% to $182.5 million, tourism sector up by 14% and professional services sector up 37.8%. At end-2010 the distribution of loans and advances from ODCs saw personal loans accounting for 28.0% (of which 15.3% was for 'housing loans'), loans for 'distribution' operations accounted for 17.0% and loans to the construction sector accounted for 14.0% of total credit (See Figure V.iii).

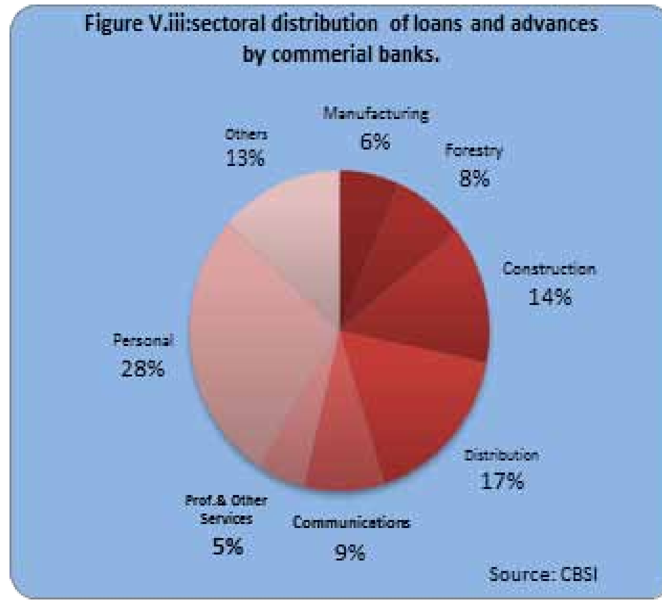


Figure V.iii:sectoral distribution of loans and advances by commerial banks.

Interest rates

The indicative weighted average deposit rate of the ODCs rose to 3.24% by end-2010 compared to 2.65% at end-2009. In 2010, the average deposit rate peaked at 4.33% in April before declining towards the end of the year. The indicative weighted average interest rate on lending reduced by 200 basis points to 13.42% in 2010 from 15.42% at end 2009. As a result, the indicative ODCs interest rate margin trended downward to 10.18% from 12.80% in 2009 (See Figure V.iv).

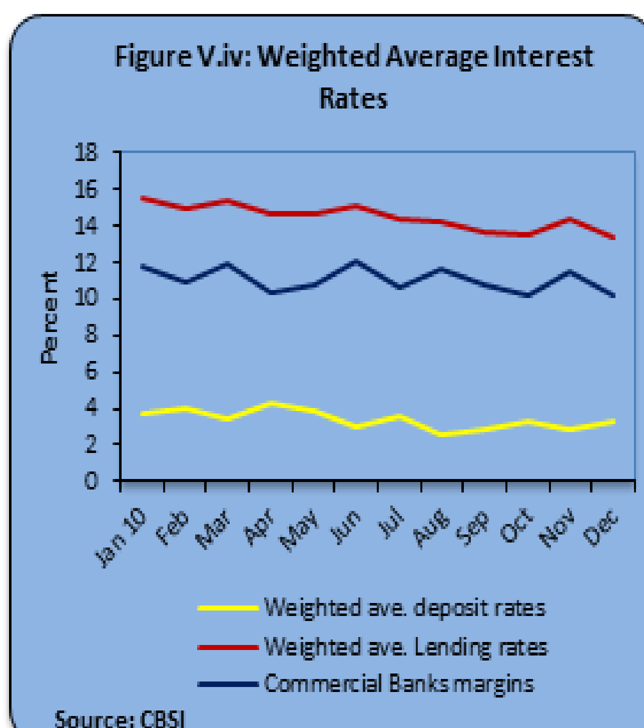


Figure V.iv: Weighted Average Interest Rates

Domestic Open Market Operations

CBSI continued to sell, on behalf of the Government, treasury bills on auction basis in 2010. The auction treasury bills were initially offered for maturities 7-days, 14-days, 28-days, 56 days, 91 days and 182 days. However, by mid-2010 the 7-days, 14-days and 28 days maturities were no longer issued with the intention for the government to take the longer end maturities and the CBSI issued paper to take the shorter maturities to avoid competing with each other.

During the year, a total of $362.2 million worth of bids were received, against the stock of $179.1 million treasury bills floated. Of the total bids received, only $157.8 million were accepted and the rest rejected. In 2010, the cap on treasury bills issuance was raised from $30 million to $40 million per issuance during the year. The average weighted yield was 2.40% for 56 days and 2.74% for 182 days maturities. The 91 days average weighted yield fell from 4.00% in 2009 to 2.75% in 2010.

In complementing the role of the treasury bills to mop up excess liquidity in the banking system and to curb a potential increase in inflationary pressures, CBSI introduced a long term (up to two years) Bokolo deposit facility in late 2008, locking up some $39 million. By the end of 2010 the total amount in the Bokolo deposit facility fell to $27 million. In 2011, this facility will be phased out and replaced with the short term Bokolo bills in line with the new monetary policy framework being implemented by the CBSI.

VI. GOVERNMENT FINANCE

The fiscal sector reported much improved outcomes in 2010 with strong collections in revenues and effective management of government finances. This resulted in a favourable outcome in the overall fiscal position, registering a preliminary surplus of 7.1% of GDP, significantly exceeding the revised budget deficit of $27.0 million and higher than the revised surplus of $4.6 million recorded in 2009. This result came on the back of strong collections of goods tax, log duties, private sector PAYE and withholding tax combined with the under budget spending.

With the commitment to set aside 10% of revenues collected for debt servicing, the government continued to meet its debt obligations without difficulty. This saw government debt falling by 6.2% to $1,334 million by the end of 2010, or 24.6% of GDP compared to 31% of GDP in the previous year.

Revenue

Total revenue collected and grants received in 2010 stood at $2,261.6 million, 18.0% above budget and 32.7% higher than the revenue performance in the previous year. Domestic revenue which grew by $253.8 million over the previous year to $1,743.5 million accounted for 77.1% of total revenue whilst grants represented the remaining 22.9%. The increase in domestic revenue reflected improved collections from the Inland Revenue Division (IRD) and the Customs and Excise Division (CED), which more than outweighed weak collections from other ministries. Similarly, grants received were higher than 2009 due to large donor inflows in the latter part of 2010.

IRD collection in 2010 totalled $1,106.8 million, exceeding the revised budget by 1.5% and 19.7% above 2009 collection. Goods tax collection, which contributed the highest portion (36.7%) of total IRD collection in 2010, rose by 8% on the back of increased imports for telecommunication infrastructure projects, resurgent capital expenditure from the logging sector and a general increase in imports reflecting upbeat economic activity in 2010. Total withholding tax also rose by 43.5% to $137.4 million indicating increased of foreign owned businesses operating in the country; higher declared dividend payments by companies and increased activities in the construction and housing sectors. Increased license collection was attributed, in part, to the increased monitoring of valid vehicle licenses by Police as well as the 108% rise in the number of imported vehicles in 2010. Private sector PAYE collection increased to $194.6 million, up 35% from the previous year. The increase was in line with the general rise in economic activities in 2010, suggesting improved employment opportunities in the private sector. The enhanced business activity was also consistent with the higher sales tax collection, especially coming from the telecommunication sector as well as higher demand for fuel consumption. Conversely, revenues from company tax, which accounted for 19.6% of the total IRD collection, fell by 1.9% to $216.8 million. Many companies that were affected by the global economic crisis in 2009 and into 2010, were still not able to recover fully to pre-crisis levels. Exemption granted on goods tax in 2010 totalled $50.1 million, of which statutory exemption accounted for 38.2% while 61.8% was for remission. Of the total remission, 2.6% was related to the Rural Constituency Development Fund project.

Customs and Excise Division revenue collection totalled $496.3 million, up 16.4% over the revised budget and 29.7% against the previous year. The increase resulted from improvements in tax administration and compliance monitoring as well as the unexpected strong collections from log duties. The rise in log duties reflected increased export volumes combined with increases in the log determined price across 2010. Import duties also increased by 10.5% to $141.3 million in 2010, although this was a 13.8% fall against budget estimates. The rise in import duties against the previous year emanated from increased import tariff rates for vehicles and luxury goods as a measure to mitigate the negative impact of the global economic crisis. Improved administration of import duty also contributed. A total of $123.8 million was forgone through exemption and remission on import duty, which accounted for approximately 50% of the shortfalls in the budget. Excise duties collected increased by 28% to $105.8 million with the rise attributed to a pick-up in the production of beer and twist tobacco sticks in 2010. The value of excise duty collections is expected to increase in 2011 with an expected 2½% increase in the specific tax rate for tobacco. Revenue collected from other sources also increased significantly, which included a $2.7 million penalty for an attempt to illegally smuggle gold nuggets overseas. Projected revenue collection from the Customs and Excise Division is expected to drop in 2011, 1.8% below revenue collected in

2010 on the back of the expected drop in log duties. Additionally, following the passing of the 2007 Tariff Guideline in 2011, which will include new tariffs for various duties, adjustments to revenue collected are anticipated.

Preliminary data for other ministries showed a 22.6% decline in revenue collections to $140.4 million, 33.7% below budget estimates. The decline was attributed to significant drops in revenue received from overseas fishing licenses, airspace collection which fell from $9.7 million to $3.3 million and the failure to sell a planned $18.7 million worth of government property in 2010. The 87.2% under-budget collection associated with estate premiums also contributed to the decline due to the Ministry of Lands inability to register some of the Temporary Occupied Lands (TOL) in 2010.

Grants

Total grants received from donors stood at $518.1 million in 2010 compared to the expected budget of $253 million and $302 million higher than the previous year. The substantial increase included funds that came through the Government's consolidated account and those of budgetary support. Funds that came through the consolidated account rose over the budget by 39% to $110.8 million.

The increased assistance reflected donors' recognition of the Government's continuous commitment to reforms and prudent fiscal management. There was more collaborative effort and partnership between Government and donors that broadly improved fiscal operations. The establishment of the Core Economic Working Group (CEWG) has improved communication between donors and the Government and has established a framework for future partnership.

Total budget support registered $407.3 million in 2010, $234.3 million above the budget and up considerably from the $114.4 million recorded in 2009. A lump sum of $157.2 million received in December from the European Union (EU) was the main driver for the large increase. The budget support for 2010 comprised of $37.3 million from New Zealand was received (the other $17.7 was received in 2009), $166 million from AusAid, $40 million from the Asian Development Bank (ADB), and the rest from other agencies like United Nation Development Program and European Union.

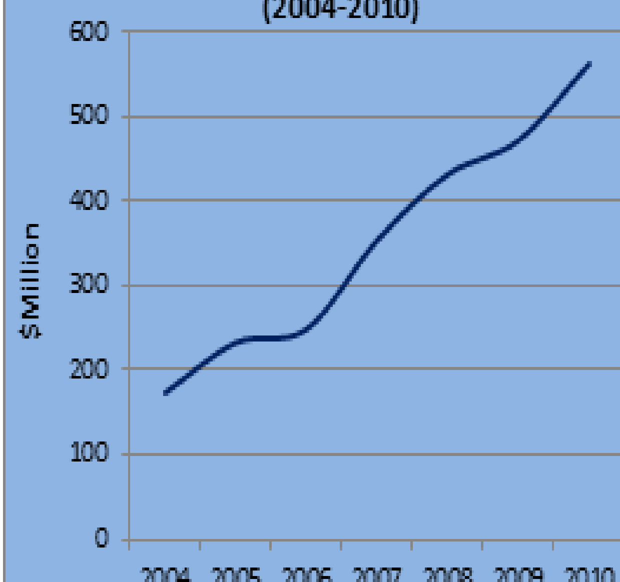
Preliminary figures showed that $66.7 million was received for the education sector, with $22.0 million of the total allocated for 'Fee-Free' education. A total of $136.6 million which exceeded the budget of $60 million was allocated for the health sector, mainly disbursed through the Sector Wide Approach Program (SWAP). A total of $40 million was donated in the form of general budget support aligned with ensuring that spending on health, education and rural development is maintained at appropriate levels and the rest was for survey projects including the national population and housing census.

Total Expenditure

Total Government spending in 2010 fell by 7% below budget to $1,871.9 million. The under budget spending mainly reflected the 35% reservation policy imposed on the 'uses of goods and services' (other charges) during the year as a measure to control government spending. The non-implementation of 25% of Government's development budget also contributed. This was however, 10% higher than the previous year's.

Payroll spending increased by 19.3% to $563 million in 2010, this was 13.8% above the original budget, but 0.1% below the revised budget (See Figure VI.i).

Figure VI.i :Payroll Expenditure (2004-2010)



Source: MOFT

The increase in payroll is attributed to unbudgeted spending including a 12.5% Cost of Living Adjustment; payment of various allowances including payment for special duty and other duty allowances; payments to contract staff, retirement benefits and payment of outstanding dues. Of the 2010 total payroll spending, the Ministry of Education and Human Resources Development accounted for 40% whilst the Ministries of Health and Medical Services, and Police and National Security accounted for 21.2% and 11.4%, respectively.

Expenditure on 'Uses of goods and services' (other charges) declined by 16.5% to $573.6 million in 2010, following a 14% decline in 2009 (see Figure VI.ii). This two consecutive falls mirrors the fiscal measures imposed by the Government during the last two years to restrain ministerial spending. These have taken the form of a 35% reservation imposed during the first half of the year, despite a 25% de-reservation in the third quarter of 2010, and imposition of a process for assessing ministries' spending requests. As a result, actual spending on "Uses of goods and services" was 1.8% below budget estimates, despite some over-expenditure on utilities, grants and administrative expenses.

Development Spending

Preliminary data showed that development expenditure registered $356.6 million in 2010, 30% and 13% higher than the previous year and the revised budget estimate. The increase largely relates to the postponement of around 80% of the 2009 development projects which have been implemented in 2010.

Development expenditure relating to donor funds in the Government's consolidated account rose by 18% to $108.3 million, exceeding budget estimates by 35%. Of the total, 36% ($29.5 million) came from ROC towards the Rural Constituency Development Fund (RCDF); 21% was ROC spending on scholarship awards for tertiary students; 12% each spent by ROC in support of the Rural Constituency Micro-Fund(RCMF) and Millennium Development Goals (MDG); and the remaining 19% coming from various other international organisations including UNDP, UN, and EEC on projects such as rural electrification, the National Adaption Plan of Action and the National Population and Housing Census.

Meanwhile, preliminary non-appropriated development expenditure totalled $1,275.8 million during the year. These funds were managed by donors' respective development agencies, most of which were spent on infrastructure development, the education sector, the finance ministry, the security and defence department, and the health sector.

The Solomon Islands Government (SIG) contribution to development expenditure was $248.2 million in 2010, 36% higher than the previous year. This was 15.8% and 24.6% less than the original and revised budget, respectively. Of the total amount, $55.0 million went to Rural Constituency Livelihood projects, $32.5 million to the construction of the Solomon Islands Chancery office in Canberra; more than $10.0 million each for the replacement of navigational equipment and the National Population and Housing Census; $7.0 million went to rural water supply and sanitation projects and approximately $6.0 million was spent on rural road development, rural rice projects and support for reforestation. Other smaller projects like purchasing of teaching materials, SIG contribution towards SIRIP, tourism training at SICHE and rehabilitation of provincial governments received a total of $113.9 million.

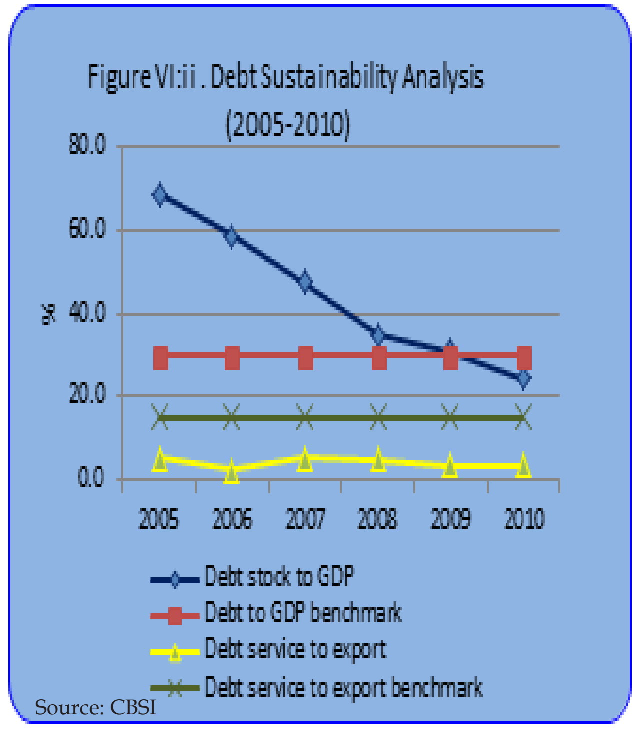
SIG Debt Stock and Arrears

Total stock of public debt declined, by 6.2% to $1,334.0 million in 2010, slightly down (1.4%) from the budget estimate. This positive outcome was attributed to declines in both the external and domestic debts reflecting increased debt servicing during the year. External debt stock fell by 8.5% to $966.8 million, due to debt repayments of $84.3 million during the year. Domestic debt decreased by 0.4% to $364.6 million, as a result of the redemption of matured bonds worth $38.0 million during the year. This debt position was equivalent to 24.6% of GDP, and surpasses the 25% of GDP predicted to be achieved in 2011.

Based on CBSI's projected debt repayment schedule of $108 million for 2011, the debt stock is expected to decline further to $1,226.0 million by the end of 2011. This positive expectation is projected to be driven by debt repayment and the flexibility in the exchange rate. The expected reduction in total debt stock at end-2011 could lead to a further fall in the debt to GDP ratio from 24.6% in 2010 to 19.4%.

Total Government debt servicing in 2010 amounted to $117.6 million, $30.9 million above the revised repayment schedule and $13.2 million more than 2009 repayments. External debt servicing rose by 23.9% to $84.3 million, exceeding the revised repayment schedule by $25.5 million. The major recipients included the ADB ($27.1 million), the European Investment Bank (EIB) ($17.9 million), EXIM Bank ($14.6 million), International Development Association ($12.4 million) and $12.3 million to other organisations. Domestic debt servicing, however, declined by 8.6% to $33.3 million in 2010, although exceeded the repayment schedule by $5.4 million. Of the total domestic debt servicing, $28.9 million was paid for maturing bonds, $0.8 million for payment of SIG loans and advances from CBSI and $2.7 million to SIG trade creditors.

External debt arrears fell significantly from $25.7 million to $5.7 million in 2010, reflecting a lump-sum debt repayment of $12.8 million to the EIB in September last year.



Source: CBSI

Debt sustainability Analysis

Under the IDA debt distress rating system, the agreed framework for analysing debt sustainability under the Honiara Club Agreement, the levels of external debt held by SIG is sustainable in the medium-term (See Figure VI.ii). In 2010, the debt to GDP ratio was 24.6%, compared to the 30% benchmark in the Debt Sustainability Framework (DSF), implying a sustainable level of debt. Other solvency ratios, debt to exports and debt to revenue registered 55.3% and 62.5% respectively in 2010, well below the respective 100% and 200% threshold of the DSF.

In terms of liquidity ratios, debt service to exports was 3.5% in 2010, well below the threshold limit of 15%. Debt service to revenue registered 5.5%, which again is well within the threshold limit of 25%, implying that the country is able to service its debts in the short to medium term.

Auditor General's Office

Despite staffing constraints, the Office of the Auditor General (OAG) made considerable advances in 2010. The majority of Government ministries achieved timely submission of their financial accounts and ahead of the statutory deadline of July. In 2010 the OAG out-sourced the auditing of the Solomon Islands Electricity Authority (SIEA) and Solomon Islands Water Authority (SIWA) to KPMG. At the end of 2010, most SOE (except ICSI) accounts were audited up to 2008 and 2009. In terms of the provincial governments, their 2007 and 2008 accounts have already been audited, with the 2009 and 2010 accounts yet to be completed.

Meanwhile, the draft National Audit Bill has been finalised for presentation to Parliament in 2011. Additionally, in 2010, the OAG has also been supporting efforts to ensure that all government ministries comply with the new international financial reporting standards known as International Public Sector Cash Standard (IPSCS) by 2013. In terms of strengthening the capacity of the Office, the five-year corporate plan, which provided goals for the OAG in terms of its workforce and control systems came to an end in 2010 and the next five-year plan is under review.

Budget Outlook

Implementing the 2011 budget is expected to be challenging for the Government, as it attempts to achieve its budgeted surplus of $24.2 million by the end of the year. However, if the budgeted spending of $92 million general budget support funds is taken into account, the overall fiscal outcome would be a deficit of $67.8 million. The expected surplus reflects an anticipated 12.9% increase in domestic revenue collection. The positive expectation for domestic revenue collection takes into account an expected 20% decline in collection from log duties as log harvesting decline due to depleted stocks. The rise therefore, comes from a 15.7% expected increase in revenue collected from the Inland Revenue Division on the back of increased revenue from mining in the form of PAYE and Goods tax in the short term, and reductions in the number of exemptions granted. Other anticipated revenue enhancing measures includes; continuing improvement in business house training, enhancement of their IT system, and increased compliance through better monitoring and improved tax administration. There is also a projected increase from revenue collection from other ministries, with expected improvement in collection efficiency. Total foreign grants are budgeted at $287.0 million in 2011, down by 45.0% compared to 2010. This is a return to more normal levels following the one-off payment received from the EU in 2010. Meanwhile a total of $195 million is expected to be expended by donors, with spending on development projects envisaged to remain at $80.0 million.

SIG funded infrastructure spending is also expected to rise by 68.2%, as projects not implemented in 2010 are carried forward to 2011. This is expected to account for 21.2% of expected domestic collection, compared to 14.2% in 2010. Payroll spending is expected to be restrained, as public sector employment is expected to reduce by 7.5%. This was as a result, in most part, from the retirement exercise carried out in 2010. The Government does not expect to fill any vacant posts, except for priority posts. Although a slight increase of 4.4% to $587.5 million for payroll spending is expected in 2011, Government has established new guidelines requiring respective ministries to be responsible for monitoring their own payroll expenses. The total payroll expense is expected to represent 9.3% of GDP against 10.4% in 2010. Expenditure on uses of goods and services is expected to rise by 49.6% in 2011, accounting for 43.6% of expected domestic revenue against 32.9% in 2010. This also represents 13.6% of 2011 GDP, against 10.6% in 2010. Spending on debt repayments is expected to be 2% higher as projected by the Ministry of Finance and Treasury, 1.9% of GDP compared to 2.2% in 2010. However, assuming favourable movement in the exchange rate, debt repayment will drop to 9% in 2011 and debt stock will reduce by 8.1%. The expected reduction in the level of debt stock is based on the assumption of no further planned borrowing by the Government.

VII. FINANCIAL SYSTEM

The structure of the Solomon Islands financial system remained largely unchanged in 2010 with the depository institutions comprising of three foreign commercial bank branches, a credit institution and seventeen active credit unions. Other financial corporations comprised of a national provident fund, a development bank (under court administration for liquidation) three insurance companies and seven intermediaries. Other financial services providers include a licensed money transfer agency and eight currency exchange bureaus.

Commercial Banking

During the year, CBSI issued new prudential guidelines and returns which saw changes to commercial banks reporting requirements and revisions to the financial soundness indicators. The new prudential guidelines were revised to meet the international supervisory standards following the experiences from the global financial crises in 2008.

TABLE VII.i Summary of Commercial banks financial statements 2008-2010

	(SBD million)		
	2008	2009	2010
Income			
Net interest income	142.4	156.5	132.2
Noninterest income	141.4	140.8	168.8
Expenses			
Operating expenses	97.3	111.6	126.3
Bad and doubtful debts	12.8	14.8	3.3
Profits			
Net operating profit before tax	173.6	170.9	171.4
Net profit after tax	111.8	111.8	108.2

Source: CBSI

In terms of financial performance, the banking sector was robust and remained profitable throughout 2010. It recorded a gross operating income of $301 million in 2010, up from the $297.3 million in 2009. This outcome was driven largely by strong flows of non-interest income. The consolidated after tax profits however, fell by 3.2% to $108.2 million from $111.8 million in 2009, owing to increased operating expenses. Consequently the return on average assets (ROAA) went down to 7.8% from 9.1% in 2009 and return on average equity (ROAE) fell to 45.1% from 52.6% in 2009.

The consolidated capital of the commercial banks totaled $435.3 million in 2010 compared with $303.1 million in 2009 mainly due to growth in retained earnings during the year and a one-off increase in assigned capital from one of the banks. As such, banks remain adequately capitalized with total regulated capital to risk weighted assets at 33%, exceeding the 15% minimum prescribed whilst Tier 1 capital to risk weighted assets was 24%, well above the 7.5% minimum requirement.

The combined banking-sector assets amounted to $2.3 billion in 2010 owing largely to increases in demand balances due from depository institutions totaling $960 million. Banks' lending portfolio however continued to fall since 2009, recording a 12.1% fall in 2010, mainly due to settlements as well as refinancing of some major loan portfolios to other financial corporations.

Liquidity remained adequate with total liquid assets held by the banking sector increasing by 14% to 47.7% in 2010 measured in terms of broad liquid assets to total assets while, core liquid assets to short term liabilities increased from 54.8% in 2009 to 65% in 2010. The latter indicates banks' ability to meet their near term obligations as they fall due.

Despite these strong performances, risks remain within the sector, in terms of the banks' overall asset quality measured in terms of the level and severity of non-performing loans (NPL), defined as Loans Past Due 90 days or above. The year saw the banks' NPL registered at $85.5 million, which expressed as a ratio of gross loans was 8.3%, emanating, particularly, from the Personal sector with the highest NPL, followed by Manufacturing, Tourism and Construction totaling $67.9 million. Adequate provisioning is required as specific provisions to NPLs were 19%.

The banking infrastructure particularly electronic banking facilities expanded in 2010, with the number of Automatic Teller Machines (ATMs) increasing to 35 in 2010, following the introduction of electronic banking services by Bank South Pacific. In addition the number of Electronic Funds Transfer at Point of Sale (EFTPOS) rose from 127 in 2009 to 137 in 2010. Mobile bank vehicles also increased to three in 2010, servicing the rural unbanked in Guadalcanal province.

TABLE VII.ii Solomon Islands Financial Soundness Indicators 2008 - 2010

(percentages)

	2008	2009	2010
Capital Adequacy:			
Regulated capital to risk weighted assets	22.6	22.0	33.5
Tier 1 Capital to risk weighted assets	18.3	15.6	24.0
Non-performing loans net of provisions to capital	7.9	10.3	15.9
Asset Quality:			
Non-performing loans to total gross loans	2.7	3.8	8.3
Sectoral distributions of loans to total loans:			
Personal	21.4	25.7	28.8
Distribution	15.1	15.2	17.4
Forestry	11.9	10.2	8.0
Communication	13.5	10.1	8.5
Manufacturing	13.4	9.1	6.7
Construction	5.8	9.0	13.7
Tourism	5.0	5.1	6.6
Transport	5.0	5.0	3.1
Fishing	1.8	4.6	0.6
Professional Services	4.3	3.4	5.0
Agriculture	1.9	1.7	0.6
All Others	0.9	0.9	1.0
Earnings and profitability:			
Return on Average Assets (before tax)	10.4	9.1	7.8
Return on Average equity (before tax)	66.8	52.6	45.1
Interest Margin to gross income	50.2	52.6	43.9
Non-interest expenses (incl. provisions) to gross income	38.8	42.5	43.1
Liquidity:			
Liquid assets to total assets (liquid asset ratio)	20.6	33.4	47.7
Liquid assets (core) to short term liabilities	26.7	54.8	65.0

Source: CBSI

During the year, commercial banks' recruited additional 42 employees totaling 401 of which 389 are Solomon Islanders.

Licensing and Legislation

The Solomon Islands National Provident Fund (SINPF) draft bill was submitted to the Ministry of Finance and Treasury [MOFT] in May 2010, to facilitate Cabinet endorsement of the draft legislation. The National Coalition for Reform and Advancement (NCRA) Government has agreed to review the draft legislation and has established a working group to hold consultations with stakeholders on the bill before presentation to Parliament. The new bill will enhance the prudential supervision and management of SINPF and protect the interests of the contributors to the Fund.

In addition to the SINPF draft bill, draft amendments to the Credit Union Act and changes to the Credit Union Regulation were also re-submitted to MOFT in October 2010. The Office of the Registrar of Credit Unions hopes to see these outstanding legislations completed to strengthen its supervisory role as well as assist credit unions to enhance safety and soundness of their members' funds.

TABLE VII.iii Number of bank branches and electronic banking facilities 2008-2010

	2008	2009	2010
Bank Branches	14	14	14
Bank Agencies	10	9	9
ATMS	20	22	35
EFTPOS	139	127	137
Mobile bank Vehicles	4	2	3

Source: CBSI

Credit Institution

Credit Corporation (Solomon Islands) Limited (CCSIL) continued with its core business in 2010 providing general financing and chattel mortgage as well as accepting fixed term interest bearing deposits from clients.

CCSIL recorded another profitable year in 2010. Despite the fall in total operating income due to the decline in their core revenue earned from interest income as lending activities slowed down during the year; after tax unaudited profits was $2.0 million compared with $2.5 million in 2009. Consequently, the return on average assets (ROAA) fell from 8.7% in 2009 to 7.2% in 2010 and the return on average equity (ROAE) went down from 18.5% to 13.8% in the same period.

The CCSIL balance sheet grew by $5 million at end December 2010 to $32.5 million driven by increased lending to transport and construction sectors, which occurred within the final quarter of 2010. The institution remained well capitalized with total capital of $15.9 million representing 34.5% relative to risk weighted assets.

Credit Unions

The total membership of the credit unions that report regularly to the Registrars' Office, increased to 4,138 by December 2010. Consolidated assets grew to $43 million in 2010 from $37 million in 2009. Lending to members remains the principal activity of the credit unions and made up 72% of the overall asset portfolio of $31 million.

Table VII.iv Summary of Credit Unions Financial Statement, 2008–2010

(SBD million)	2008	2009	2010
Balance Sheet			
Total Assets	31.4	37.2	43.2
Loans & Advances	21.0	25.6	31.1
Members Share Capital	29.2	34.3	36.8
Income Statement			
Total Income	3.3	3.5	4.7
Total Expenses	1.8	1.9	2.4
Net profit (loss)	1.4	1.5	2.3
Statistics			
No. of members	3774	4010	4138
No. of reporting credit unions	8	9	9
Self-sufficiency ratio	174%	175%	196%
Return on Asset	4%	4%	5%
Return on Equity	5%	4%	6%

Source: CBSI

Since 2008, the credit unions sector has recorded positive performances with 2010 realizing net surplus of $2.3 million, up from $1.5 million in 2009.

Sustainability indicators showed that in 2010 the return on asset (ROA) and return on equity (ROE) increased to 5% and 6% respectively. Operational self-efficiency ratio was 196% indicating that credit unions are able to cover 100% of their overhead expenses while retaining 96% as surplus revenue, an increase from 75% surplus recorded in 2009.

As part of its prudential supervision of the credit unions, the Office of the Registrar of Credit Unions conducted two onsite examinations during the year on the Solomon Islands Health Workers Credit Union Limited (SIHWCUL) and the Solomon Islands Nurses Credit Union Limited (SINCUL). The onsite examinations were to assess the level of risks associated with their operations and, control mechanisms in place to manage those inherent risks.

Membership education is one of the key drivers for success of credit unions as deposit financial institutions. Working with the Solomon Islands Credit Union League (SICUL), the Registrar's Office conducted presentations during the International Credit Union Day (ICUD), commemorated in Honiara and Buala in Isabel Province.

CBSI continued its support to strengthen the operations of SICUL, through the provision of direct financial assistance. A Memorandum of Understanding (MOU) between CBSI and SICUL was renewed in March 2010. The MOU established the provisions for accessing the annual budgetary support provided by CBSI to SICUL for a 3-year term commencing January 2010. SICUL recruited a new General Manager in April 2010 to ensure proper administration and management of SICUL to enable it to perform its mandatory responsibilities.

With the assistance, SICUL conducted two training workshops on capacity building for Board of Directors on their roles and responsibilities and, financial management training for Treasurers and credit unions management. There were also two consultative visits during the year to Soltai Staff Credit union in the Western Province and Khasakou Credit Union in Isabel Province.

SICUL generally achieved most of its planned activities for the year and was able to sustain its operations.

Solomon Islands National Provident Fund

The Solomon Islands National Provident Fund (SINPF) recorded a growth of 12% in its balance sheet to $1,181 million from $1,050 million in 2009. The increase was driven by increases in itsinvestment portfolio through purchases of a combined $86.9 million worth of shares in SASAPE International Shipyard Limited and Soltai Fishing & Processing Limited. This was boosted by a further investment in both equity and loans to Heritage Park Hotel.

Table VII.v. Summary of SINPF financial statements Balance Sheet (Up to December 2010)

			(SBD million)
	2008	2009	2010
TOTAL ASSETS	856.6	1050.0	1180.7
Cash	35.9	24.5	37.6
Term Deposits	345.1	429.7	436.0
Bond Investments	142.7	127.1	128.3
Loans	26.0	23.9	91.7
Equity Shares	197.6	271.1	313.6
Fixed Assets	57.3	121.6	124.1
Others	19.5	52.1	49.4
Income Statement (Up to June 2010)			
NET PROFIT	100.1	33.1	32.9
Total Income	134.8	73.9	64.4
Operating Expenses	34.7	40.8	31.5

Source: SINPF

For the 2010 financial year end, SINPF recorded a net profit of $32.9 million marginally lower than $33.1 million recorded in 2009. The narrowing of the profit earned in 2010 was largely owed to the performance of its offshore investment portfolio as a result of weakening of major foreign currencies against the Solomon Islands dollar. Interest payout awarded to members was 5% compared with 2.7% paid in 2009. Total membership increased to 153,609 in 2010 compared to 141,340 in 2009.

Insurance Industry

The number of licensed insurance companies remained at three in 2010, comprising of two General companies and one Life company. However the number of licensed brokers and corporate agents increased in 2010 registering three brokers and four corporate agents. The insurance industry continued to show positive progress with profits of $16.4 million in 2010, up from $12.2 million in 2009, reflective of the strong growth in gross premiums reaching $60 million. This was largely driven by increases in volume of policyholders in the particular classes of risks.

General Business policy holders represented 99% of the total premium received by the industry. Lines of general business include all risks: aviation, burglary, cash in transit, constructors all risk (CAR), workers compensation, common fire, house owners, marine cargo, marine hull, miscellaneous, motor vehicles, compulsory third party, personal accident and public liability. Fire and constructors all risk recorded 48.5% of the total gross premium received from policyholders in 2010.

Table VII.vi. Summary of Insurance Companies Financial Statements

(SBD million)

	2009	2010
Income Statement		
Gross premium	45.1	60.6
Reinsurance	9.1	16.0
Net earned Premium	34.2	43.0
Total Premium expense	13.5	12.5
Insurance Income	20.6	30.4
Management Expense	3.9	5.8
Non underwriting income	2.1	2.0
Net surplus after tax	12.2	16.4
Balance Sheet		
Total assets	102.5	110.7
Total liabilities	52.5	45.2
Net assets	50.0	65.5

Source: CBSI

Due to the small size of the local insurance market and underwriting limitations to absorb certain risks, some classes of risks were exempted under section 11 of the Insurance Act (Cap 82) and placed with insurers overseas. Funds transferred overseas in 2010 amounted to $11.5 million compared to $45.6 million in 2009. Of the total funds transferred in 2010, premiums paid for general business accounted for 52%, life business of 0.1%, whilst funds paid under others was 47%.

The balance sheet of the industry increased by $8.2 million in 2010 to $110.7 million driven largely by increases in investment with domestic depository institutions and cash holdings. In addition, liabilities of the industry declined by $7.2 million to $45.2 million resulting in a strong net asset position of $65.5 million for 2010.

During the year, the Office of the Controller of Insurance expanded its supervisory oversight of the insurance industry with two on-site examinations of international insurance companies; Tower and QBE.

VIII. CENTRAL BANK OPERATIONS

The key functions of CBSI are; as a banker to the government and banks, issuer and manager of government securities, as fiscal agent of the Government, issuer of currency notes and coins, manager of foreign reserves, administration of the exchange control regulations, supervision of commercial banks and other financial institutions under the Financial Institutions Act 1998, supervision of the Insurance industry under the Insurance Act, and as Registrar of Credit Unions under the Credit Unions Act.

Highlights of the various activities performed by CBSI during the year are summarized in this chapter.

Finance and Accounts

The audited financial accounts of CBSI for 2010 that provided details of the Bank's financial performance in 2010 are attached at the end of this chapter. As a broad indicator, the changes in the assets and liabilities of CBSI during the year reflect how the economy performed over the 12 months period.

Statement of Financial Position

CBSI's balance sheet grew by 70% in 2010, from total assets of $1.4 billion in 2009 to $2.4 billion at the end of 2010. The growth in the balance sheet came from increased foreign assets which grew 83% from $1.2 billion at the end of 2009 to $2.1 billion at the end of 2010. Total liabilities grew by 86% from $1.1 billion in 2009 to $2.0 billion in 2010. A large portion of the liabilities represented deposits held on behalf of the Government and commercial banks. CBSI's equity grew from $316.0 million in 2009 to $371.0 million in 2010, representing an increase of $55 million between the two years.

Statement of Comprehensive Income

At the end of 2010, CBSI made a net profit of $9.8 million according to the CBSI Act, and $57.5 million under the International Financial Reporting Standards (IFRS). The difference of $47.7 million between the two results comes from the treatment of unrealized gain on foreign currency revaluation. The CBSI Act does not recognize this as distributable income unlike under the IFRS.

Total income for 2010 under IFRS was $92.1 million of which $47.7 million (52%) was net unrealized income gain from foreign currency revaluation. Realized income-consistent with the CBSI Act amounted to $44.4 million (48%).This was made up of interest revenue (60%); fees and commission (27%); other income (10%) and royalties and foreign currency exchange gain (2%).

CBSI FITD Staff

Total expenses for the year were $34.6million which represented 38% of total income under the IFRS or 78% of realized income in terms of the CBSI Act. In terms of the composition of the expenses, administration expenses totaled $21.8 million which was 64% of total expenses, operational expenses $10.1 million (30%) and interest expenses $2.1 million (6%).

By comparison to 2009 results, CBSI's net profit for 2010 under the CBSI Act recovered from a loss of $45.7 million to a net operating profit of $9.8 million. This outcome came as a result of revenue generated from investments, which outperformed budgeted revenue by $11.4 million, coupled with the savings on total operational expenses of $6.6 million.

In terms of the capital expenditure, spending was $21.2 million below budget, which is further explained by the work programs implemented in 2010.

Information Technology

CBSI upgraded its SWIFT infrastructure for making and receiving payments from abroad. SWIFT operations were enhanced following the completion of the upgrade on SWIFT connectivity from Dial-Up to SWIFT Alliance Bronze Connectivity in the first quarter of the year. At the same time mandatory upgrades on the SWIFT were also performed to maintain compatibility with other SWIFT partners' applications

CBSI also upgraded its payroll software application in the second quarter of the year from MicrOpay to MicrOpay Meridian following confirmation from the supplier that it no longer offered maintenance support for the MicrOpay software application.

Currency Operations

In 2010, total currency in circulation increased by 34% to $436 million compared to a rise of 10.7% in 2009. This comprised of $425 million in currency notes and $11 million in coins. Since its introduction in 2006, the $100 denomination continued to dominate the ratio of notes in circulation by value with 79% of total notes in circulation consisting of $100 notes whilst both the $5 and $2 denominations were only 3% of total notes in circulation by value. As a proportion of total notes in circulation by volume, the $100 denomination made up 30% of the total notes in circulation in 2010, a slight increase from the previous year. It is anticipated that the ratio of $2 notes in circulation by volume will continue to remain high reflecting the level of transactions conducted using the low denomination notes.

During the year, CBSI destroyed a total of $79 million worth of mutilated notes compared to $36 million in 2009. The increase in the total value of notes destroyed compared to 2009 was expected as the $100 denomination increasingly absorbed the pressure on circulation off the $50 denomination. Consequently, the cumulative total of notes destroyed in value since independence rose to $393 million at end-year. Of the total notes destroyed in 2010, 23% were $100 notes, 65% were $50 notes, 3% were $20 notes, 4% were $10 notes and the remaining balance shared between the two low denominations.

Counterfeiting activities remained a threat to the integrity of the security features embedded in the banknotes. In 2010, 3 counterfeit notes were confiscated.

In 2010 the Bank began discussions on a new series of circulation coins for the country. Work on specific details of these new circulation coins will continue in 2011.

On numismatic operations, CBSI received $0.5 million in royalties from overseas sales of commemorative coins. This was a significant increase of 29% in royalties from sales of commemorative coins compared to 2009. Most of the sale was attributed to CBSI's contracted coin dealer expanding its European collectors market as new programmes were launched and huge popularity of existing programs. Commission received on sales of circulation notes and coins increased in 2010 together with a significant increase in domestic sales of numismatic coins from collectors.

Securities Market

The securities market remained shallow and limited only to $30 million cap for most part of the year. However towards the third quarter, the Government increased the cap by $10 million to $40 million with maturities streamlined to; 56-days, 91-days and 182-days. This was done to provide cash flow management flexibility should the Government need to use the proceeds of the treasury bills. Monthly issuance calendars were published a month prior to the auction dates giving potential investors forward information for the month. Overall weighted average yield was 2.45% for the 91-days bills in 2010.

Debt Management

Solomon Islands Government (SIG) domestic debt outstanding equalled $367.1 million as at end-December 2010. This represented approximately 28% of SIG total debt outstanding and $0.7 million higher than the balance in 2009. The increase was attributable to the inclusion of a debt to Maruha that was normalized during the year. The domestic debt outstanding comprised of $236 million in government securities, $117 million in SIG loans and advances from CBSI and $14 million in other SIG trade creditors.

The Debt Management software used by CBSI was upgraded during the year to CS DRSM 2000+ v.1.3 version. The Commonwealth Secretariat, the supplier of the software provided training for CBSI staff on the use of the software during the year.

Exchange Control Operations

The CBSI is mandated under the Exchange Control Act (1977) to administer and control foreign exchange transactions on behalf of the Government. The primary reason for exchange controls is to protect the country's foreign exchange reserves, and to ensure that the country benefits from the proceeds of all goods and services exported. CBSI is required to monitor both inflows and outflows of foreign exchange and to ensure that all export proceeds are received by the country within a reasonable time.

CBSI INTLD Staff

In fulfilling this requirement, CBSI has appointed the commercial banks as authorized dealers in foreign exchange. This allowed the authorized dealers to deal in foreign exchange and facilitate trade receipts and payments.

In 2010, CBSI reviewed the Exchange Control policies and relaxed the exchange control limits on trade and service payments. The commercial banks' approval limit for trade and service payments has been raised to $100,000 from $50,000. The limit on personal payments was maintained at $30,000. All overseas payments above these required limits and capital payments are assessed and approved by CBSI. Overnight holdings of foreign currency by the commercial banks have also been raised from $5 million to $10 million. Any excess holding of foreign exchange above the limit is to be sold to CBSI. These changes were aimed at facilitating and easing the approval processes and therefore reduce indirect costs of doing international business.

Four new applications for foreign currency accounts were approved during the year to companies that met the qualification criteria required by the CBSI to open such accounts. This brought the total approved foreign currency accounts holders to 17. These accounts are denominated in USD, AUD, NZD and EUR. CBSI also approved 4 new foreign currency borrowings valued at US$48.1 million.

The total number of licensed money changers in the country increased to 6 while the money transfer providers remained at 2.

Management of Exchange Rate

The US dollar and the Australian dollar are the main currencies used for trade and services payments in Solomon Islands. To reduce the cost of doing international business, CBSI narrowed the USD exchange rate trading margin of the authorized dealers from 3.4% to 2% at par with the AUD 2% exchange rate margin.

In December 2010, a review was conducted on the administration of the exchange rate. The review enabled CBSI to undertake administrative changes to the exchange rate regime and ensure greater flexibility in exchange rate management in the country.

Management of Foreign Reserves

The gross foreign reserves continued to grow during 2010 hitting a record of $2.1 billion at the end of December. The management and investment of the foreign reserves were conducted under the approved guidelines set by the CBSI Board. The underlying objective of the reserves management and investment is the 'prioritizing of liquidity and capital preservation'.

The reserves management policy objectives are:

1) To ensure and maintain adequate foreign reserves to meet the trading needs of the economy;
2) To control and manage the liquidity portfolio to meet current account vulnerabilities; and
3) Subject to safety, to generate reasonable earnings from the funds invested in the international financial markets.

During 2010, given the steady growth of foreign reserves, the first two objectives were achieved. This created an opportunity to build portfolio investments, and focus on the objective to earn reasonable income on the reserves.

The level of foreign reserves at the end of December was equivalent to 9.3 months of import cover of goods and non-factor services. This was an increase of 82% from the 2009 end of year level. The main driving factors behind the substantial growth in reserves during the year were funding inflows from donors, investors and export receipts.

CBSI INTLD staff serving a customer

Of these funding inflows, about $500 million were from donor funding sources during the year. Of this, the IMF Standby Credit Facility contributed $76.15 million (US$9.4 million) and receipts from the European Union for budget support totalled $160.7 million (EUR 15.2 million). Other receipts from bilateral donors - ROC funding totalling $99.7 million, AUSAID Health and Budget support funding totalled $159.0 million, ADB receipts totalling $54.5 million and other IBRD/EIB receipts totalling $32.3 million. Net foreign exchange trading and other receipts through the commercial banks amounted to $597.5 million.

As a result of foreign currency movements against the SBD, a favourable gain of $86.7 million was realised in 2010, reversing exchange losses incurred in 2009. The currency compositions of the foreign reserves at the end of 2010 were USD, AUD, GBP, EUR, NZD, SGD, SDR and JPY.

Total interest income earned from investments of foreign reserves in 2010 amounted to $24.0 million. This was an increase of 71% from $14.2 million interest earned during 2009.

During 2010, the CBSI Board approved ANZ and Westpac banks to the list of the approved financial institutions and central banks as depository institutions that hold Solomon Islands foreign reserves.

Properties

CBSI undertook several maintenance and building projects in 2010. These included internal renovations and repainting of CBSI's Head Office, construction of six new staff houses at Rifle range and a gym at the Bokona staff residential area. Some of the projects are still "work in progress" and would be completed in 2011.

Security

Security of the head-office building is a key responsibility of the Security unit of CBSI. In 2010, CBSI received assistance in security training and support from Chubb New Zealand. The training covered electronic security cameras, fire detectors and the DVR recording technology that monitors cash handling operations and movement within CBSI.

An emergency fire and evacuation drill for all staff was carried during the year to ensure that officers know what to do in the event of a fire in the building.

The installation of additional cameras and detectors has also enhanced the general security of the CBSI and especially monitoring of cash handling within the Currency and Banking Operations Department. A new public address system was also set up to provide communication to staff during emergency situations.

Personal and Training

CBSI has a total staff establishment of one hundred and five (105) as at the end of 2010, with ninety (90) positions filled and fifteen (15) vacant. This was an increase of 11% compared to the total establishment in 2009. Of the vacant positions, nine (9) remained vacant following staff resignations and promotions while the other six (6) were newly created positions pending recruitment in 2011.

The total establishment is comprised of the two (2) governors, five (5) contracted senior managers, seventy eight (78) permanent employees and five (5) ancillary staff. The CBSI is proud of its gender balance with 56% male employees and 44% female employees. Ten (10) new staff were recruited during the year while three (3) staff either resigned or retired from CBSI. CBSI also lost one of its dedicated officers who passed away after a short illness.

CBSI has engaged a New Zealand consultant to conduct a review and audit of its human resource processes since 2009. In 2010 the consultant returned to review outstanding issues including re-evaluation of positions, realignment of salaries and a new staff performance appraisal and reward system.

At the end of the year, four (4) staff completed their Masters degrees in the fields of Economics, Information Technology and Accounting from the University of the South Pacific in Fiji, and from Flinders University and the Queensland University of Technology in Australia. Another staff graduated with a Bachelor of Commerce degree from the University of South Pacific. Three (3) of these Officers were sponsored by the CBSI under its Staff Development & Training program while the fourth Officer was a recipient of a Solomon Islands Government Scholarship. Currently two (2) other officers are still on study leave overseas with the number expected to increase to four (4) in 2011.

The CBSI continued to invest in the development of its human resources, and supported staff development by encouraging employees to take part in in-house training, and by sponsoring employees to take up part-time studies at SICHE and USP Solomon Islands Centre. The CBSI also sponsored employees to attend various short courses overseas including those offered by the IMF-Singapore Training Institute.

Solomon Islands Financial Intelligence Unit (SIFIU)

The Solomon Islands Financial Intelligence Unit (SIFIU) continued to perform its functions as mandated under the Money Laundering and Proceed of Crime Act (2002). In 2010, SIFIU officially launched its first annual report, covering its operations from 2006-2009.

During the year SIFIU received 67 suspicious transactions from commercial banks, 15 of which were referred to the Royal Solomon Islands Police Force (RSIPF) for further investigations. The rest of the reports were analyzed and stored as part of data management within the Unit. Of the total referrals, 60% were politically involved and exposed persons while the other 40% public officials. The Unit had also seen four successful convictions and imprisonments emanating from previous reports submitted to the RSIPF in 2009.

In terms of International Compliance the SIFIU and the Solomon Islands Anti-Money Laundering Commission (AMLC) successfully defended a World Bank and APG Mutual Evaluation Report on the Solomon Islands at the APG's 13th Annual Meeting in Singapore. Although there were still gaps to be addressed with our compliance standards against the 40+9 Financial Action Task Force Recommendations, the Report highly recommended the country's progress and commitment towards the international community's efforts in the fight against money laundering and counter financing of terrorism.

The AMLC and the SIFIU have also ensured that Solomon Islands National Parliament pass its land mark amendment Act (MLPC Amendment Act 2010) which established the SIFIU as a statutory body within the CBSI but reporting to the Anti-Money Laundering Commission.

In terms of budgetary support the Governments of Australia and Solomon Islands have provided financial assistance towards the operations of the SIFIU and the AMLC. The Australian Government has provided SBD$418,609 while the Solomon Islands Government has given a grant of $548,295 through the Ministry of Justice and Legal Affairs. The Australian Government's assistance towards the Unit and the Commission expired at the end of 2010. CBSI continued to provide administrative support and housed the Unit as required under MLPC Amendment Act (2010).

Board

The Board met seven (7) times in 2010 with one Board meeting held at the Aruligo recreational site, and another one at Tavanipupu resort on Guadalcanal.

The Board farewelled Director Mr. Moses Pelomo, whose term expired in March 2010 after serving six years on the Board. The Minister of Finance appointed two new Directors, Mr. Loyley Ngira and Ms. Lily Lomulo for a period of two (2) years effective 21st December 2010. This brings the Board membership to its full complement of nine (9) Directors.

The Board apart from receiving and discussing the normal quarterly reports from each department approved the following issues in 2010; the 2010 Monetary Policy Stance, the 2009 Annual Report, the 2009 Audited Financial Statement, the sale of the Chinatown property to the Ministry of Finance, participation of Staff at the Isabel Trade show, that CEMA Bad debts be written off, the revised list of Depository Institutions, agreement with SIG in regards to use of the proceeds from the Auction of Treasury Bills, the establishment of an Audit Committee, the establishment of the Financial Stability Committee, the revised Monetary Policy Guideline, progress report on the IMF Safeguards Assessment, Review and Audit of the HR following 2 years of implementation of the agreed restructure, the review of the Foreign Exchange Limits, the CBSI Business Plan for 2011 and the Budget for 2011.

Relationship with International Organizations

The CBSI maintained professional relationsh
ip with international and regional organizations. These relations have enabled the CBSI to seek technical assistance and training opportunities for its staff from these organizations. .

During the year the CBSI benefited from the IMF regional training institute in Singapore and the Pacific Financial Technical Assistance Center in Suva, Fiji. Officers from the Bank attended various specialized courses and technical assistances offered by both organizations.

In 2010, Solomon Islands concluded, a Standby Credit Facility with the IMF, to assist in the promotion of fiscal and other reforms, reduce destabilizing imbalances and close financing gaps, including soliciting additional donor support. The country has so far drawn down two (first one in June and the second one in around November) tranches of the facility totaling SBD$76.15 million.

ADB also provided technical assistance to the CBSI on governance issues. The Australian Prudential Authority (APRA) continued its sponsorship of CBSI staff in supervisory training for banks, credit institutions, credit unions, superannuation funds and insurance companies during the year. The Pacific Financial Inclusion Program, of UNDP based in Suva, assisted CBSI in reviving financial inclusion activities in the country.

Solomon Islands is a member of the Alliance for Financial Inclusion (AFI). AFI has funded the Pacific Working Group on financial inclusion, and particularly the encouragement of mobile phone banking in the member countries of the South Pacific: Fiji, Papua New Guinea, Samoa, Solomon Islands and Vanuatu.

Relationship with Local Organizations

CBSI assisted various local non-government organizations in 2010. These included educational institutions, sporting bodies, church groups, people living with disabilities, youth groups, women's groups, and charity events.

CBSI is also represented on various committees and boards, some of which include the Anti-Money Laundering Commission (AMLC), Exemption Committee, the Minerals Board, Integrity Forum Group, Solomon Islands Development Trust (SIDT), the Solomon Islands Small Business Enterprise Center (SISBEC), Telecommunication Evaluation Committee, Solomon Airlines Board, Investment

Corporation of Solomon Islands (ICSI) Board, and Soltai Board. The membership on these various bodies has enabled the Bank to contribute to public policy discussions in other areas outside its core functions and responsibilities.

CENTRAL BANK OF SOLOMON ISLANDS

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Solomon Islands Office
of the Auditor-General

Independent Auditor's Report

To the Board of the Central Bank of the Solomon Islands

Scope

I have audited the accompanying financial report of Central Bank of the Solomon Islands (the Bank), which comprises the Statement of Comprehensive Income, the Statement of Transfers to the Government, the Statement of Changes in Equity and the Statement of Cash Flows for the period ended 31 December 2010 and the Statement of Financial Position as at 31 December 2010, as well as a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Report

The Board and management of the Bank are responsible for the preparation and fair presentation of the financial report in accordance with the requirements of the CBSI Act (Cap 49) and other applicable laws and regulations and in accordance with the International Financial Reporting Standards. The responsibilities of the Board and management of the Bank include implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Audit Opinion

In my opinion, the report of Central Bank of the Solomon Islands (the Bank), presents fairly in all material respects of the Bank's financial position as at 31 December 2010 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Peter Johnson
Acting Auditor-General

Office of the Auditor-General
Solomon Islands

29 April 2011

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Independent audit report to the members of Central Bank of Solomon Islands

We have audited the accompanying financial statements of Central Bank of Solomon Islands, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, statement of transfers to Solomon Islands Government, statement of cash flows and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of Central Bank of Solomon Islands are responsible for the preparation and true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Central Bank of Solomon Islands Act (Cap. 49). This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Audit Approach

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Member of
Deloitte Touche Tohmatsu

Audit Opinion

In our opinion, the accompanying financial statements are in agreement with the books of account kept by the Bank and are properly drawn up:

(a) so as to give a true and fair view of the financial position of Central Bank of Solomon Islands as at 31 December 2010, and of its financial performance and its cash flows for the year then ended;

(b) in accordance with the provisions of the Central Bank of Solomon Islands Act (Cap. 49); and

(c) in accordance with International Financial Reporting Standards as set out in Note 2(a) to the financial statements.

Port Moresby, Papua New Guinea, this 2nd day of May 2011.

DELOITTE TOUCHE TOHMATSU

By: Suzaan Theron

Partner, Chartered Accountants

Licentiate member of the Institute of Solomon Islands Accountants

CENTRAL BANK OF SOLOMON ISLANDS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 (SBD 000's)	2009 (SBD 000's)
Operating revenue			
Interest income	20(a)	26,736	18,660
Fees and commissions	20(b)	12,085	6,331
Royalties		464	358
Other income	20(c)	4,750	1,872
Net Gain on Foreign Currency Exchange		368	1,047
Net unrealized foreign exchange revaluation gain		47,723	86,673
Total revenue		**92,126**	**114,941**
Operating expenses			
Interest expense	20(d)	2,068	1,936
Fees and commissions	20(e)	117	78
Administrative expenses	20(f)	22,243	20,737
Other operating Expenses	20(g)	10,160	51,263
Total expense		**34,588**	**74,014**
Net operating profit		**57,538**	**40,927**
NET PROFIT DISTRIBUTION ACCORDING TO CBSI ACT			
Net operating profit in terms of IFRS		57,538	40,927
Add (IFRS required items not included in CBSI Law): Net unrealized gain on foreign exchange Revaluation		(47,723)	(86,673)
Net operating profit/(loss) according to CBSI Act		**9,816**	**(45,746)**
Net Profit/(loss) Transferred to General Reserve according to section 20(1) of CBSI Act (CAP 49)		4,908	(45,746)
Transfer to Other Reserves according to section 20(2) of the CBSI Act (CAP 49)		2,454	-
Due to Solomon Islands Government, section 20 (2) of the CBSI Act (CAP 49)		2 454	-

This statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 55 to 77.

CENTRAL BANK OF THE SOLOMON ISLANDS

STATEMENT OF TRANSFERS TO GOVERNMENT OF SOLOMON ISLANDS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 (SBD 000's)	2009 (SBD 000's)
Appropriation of profits according to Section 20 (2) of the CBSI Act (CAP 49)		2,454	-
Total transfer to Solomon Islands Government		**2,454**	**-**

The statement of transfers to Government of Solomon Islands is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 55 to 77.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

ASSETS	Notes	2010 (SBD 000's)	2009 (SBD 000's)
Foreign Currency Assets			
Money at call	4	661,371	298,748
Accrued Interest		5,452	1,854
Term Deposits	4	1,355,164	752,670
Holding of Special Drawing Rights	5	114,481	116,927
		2,136,468	**1,170,199**
Local Currency Assets			
Cash on Hand		155	381
Loans and Advances	7	120,800	126,746
Property, Plant and Equipment	8	76,760	68,309
Other Assets	9	47,452	30,738
		245,167	**226,174**
Total Assets		**2,381,635**	**1,396,373**
LIABILITIES			
Foreign Currency Liabilities			
Demand Deposits	10	62,328	3,220
IMF Standby Credit Facility	11	76,181	-
IMF Special Drawing Rights Allocations	5	122,506	125,105
Capital Subscriptions	5	917	917
		261,932	**129,242**
Local Currency Liabilities			
Demand Deposits	12	964,833	457,231
Currency in Circulation	13	436,570	326,445
SIG Monetary Operations Account	14	37,953	29,418
Fixed Deposits	15	292,218	125,199
Provision for transfer to SIG Consolidated Fund		2,454	-
Other Liabilities	16	15,048	13,296
		1,749,076	**951,589**
Total Liabilities		**2,011,008**	**1,080,831**
NET ASSETS		**370,627**	**315,542**
EQUITY			
Capital and Reserves			
Authorized Capital		50,000	50,000
Paid up Capital		20,000	20,000
General Reserve	17	48,222	43,314
Foreign Exchange Revaluation Reserve	18(a)	194,343	146,620
Premises and Equipment Assets Revaluation Reserve	18(c)	51,428	51,428
Capital Asset Reserve	19	56,634	54,180
TOTAL CAPITAL AND RESERVES		**370,627**	**315,542**

Denton. H. Rarawa
Governor

Emmanuel Gela
Chief Manager (Ag)
Finance and Information Technology

Signed in Honiara on 20th April 2011.

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 52 to 74.

CENTRAL BANK OF THE SOLOMON ISLANDS

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Issued & Paid up Capital	General Reserve	Foreign Exchange Assets Revaluation Reserve	Premises & Equipment Asset Revaluation Reserve	Capital Assets Reserve	Total
2009	**(SBD 000's)**	**(SBD 000's)**	**(SBD 000's)**	**(SBD 000's)**	**(SBD 000's)**	**(SBD 000's)**
At 1 January 2009	**20,000**	**89,060**	**59,947**	**44,968**	**54,180**	**268,155**
Revaluation of Bank Premises	-	-	-	6,460	-	6,460
Transfer of net operating profit/(loss) according to Section 20(1) and 20(2) of CBSI Act CAP(49)	-	(45,746)	-	-		**(45,746)**
Transfer of Foreign Exchange Revaluation Gains/(Losses) for the year according to CAP(49) section 45 (1) of CBSI Act	-	-	86,673	-	-	**86,673**
At 31 December 2009	**20,000**	**43,314**	**146,620**	**51,428**	**54,180**	**315,542**
2010						
At 1 January 2010	**20,000**	**43,314**	**146,620**	**51,428**	**54,180**	**315,542**
Revaluation of Bank Premises						
Transfer of net operating profit/(loss) according to Section 20(1) and 20(2) of CBSI Act CAP(49)		4,908			2,454	**7,362**
Transfer of Foreign Exchange Revaluation Gains/(losses) for the year according to CAP(49) section 45 (1) of CBSI Act			47,723			**47,723**
At 31 December 2010	**20,000**	**48,222**	**194,343**	**51,428**	**56,634**	**370,627**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 55 to 77

CENTRAL BANK OF THE SOLOMON ISLANDS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	2010 (SBD 000's)	2009 (SBD 000's)
Cash flows from operating activities			
Interest received		26,736	18,660
Cash received from other income		17,888	9,566
Interest paid		(2,068)	(1,535)
Cash payments in course of operations		(42,135)	(79,768)
Net cash provided by/(used in) operating activities before movement in operating assets and liabilities		**421**	**(53,077)**
Cash received in placement of deposits		674,621	235,654
(Increase)/Decrease on IMF Allocation of SDR		(2,599)	116,989
(Increase)/Decrease in government finance provided		5,946	38,614
Net cash provided by/(used in) operating activities	6	**678,389**	**338,180**
Cash flows from investment activities			
Payments for Premises, plant and equipment		(16,298)	(2,730)
Proceeds from sale of premises, plant and equipment		2,280	458
Increase in foreign investments		(918,546)	(374,009)
Net cash used in investment activities		**(932,564)**	**(376,281)**
Cash flows from financing activities			
Net movement in issue of circulating currency		**110,125**	**46,585**
Net movement in foreign currency loan		**135,289**	**(14,964)**
Solomon Islands Government Monetary Operations		**8,535**	**7,846**
Dividend paid		**0**	**(1,407)**
Net cash provided by financing activities		**253,949**	**38,060**
Net increase in cash held		**(226)**	**(41)**
Cash at the beginning of the financial year		**381**	**422**
Cash at the end of the financial year		**155**	**381**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 55 to 77.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1 THE LEGAL FRAMEWORK

The Central Bank of Solomon Islands (CBSI) operates under the Central Bank of Solomon Islands Act (CAP 49) (1996 as amended). The CBSI is an independent legal entity wholly owned by, and reporting to, the Government of the Solomon Islands. The CBSI is responsible for ensuring:

- Regulation of the issue, supply, availability and international exchange of the currency of the Solomon Islands;
- Advising the Solomon Islands Government on banking and monetary matters;
- Promoting monetary stability;
- Supervision and regulation of banking business;
- Promoting a sound financial structure;
- Fostering economic conditions conducive to the orderly and balanced economic development of the Solomon Islands.

Section 19 of the CBSI Act states that the Board shall determine the net profit of the Bank for the current financial year after meeting current expenditures and making such provisions as it views appropriate for bad and doubtful debts, depreciation in investments and other assets; contribution to staff and pension funds, and such other purposes as the Board may deem necessary. Section 43 states that any capital profit or loss resulting from the sale or maturity of Central Bank investments in securities, shall represent an accrual or charge against the General Reserve, as the case may be, and shall not be deemed a profit or loss for the purposes of the calculation of net profits of the Central Bank in accordance with Section 19. Section 45 requires that gains arising, other than from normal trading activity shall be allocated to a Revaluation Reserve Account and neither, they nor similar losses (other than from trading activity) shall be included in the computation of annual profits and losses of the Central Bank.

The Board is also aware, in terms of current best Central Bank practice, and International Financial Reporting Standards (IFRS), that the CBSI Act is somewhat outdated. Accordingly, as from 2006 financial year, pending any update of the Central Bank Act, the Board has decided to publish a profit and loss statement with the annual accounts, which shows net profit determined in terms of IFRS. A reconciliation statement then adjusts this net income figure to accord with CBSI Act profit distribution requirements. The latter remain the basis for determination of net profits, and their distribution, in terms of Section 19 and 20 of the CBSI Act.

2 BASIS AND FORMAT OF PRESENTATION

(a) Basis of preparation

The financial statements of the Bank are based on IFRS adopted by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASB except where the Central Bank of Solomon Islands Act (CAP 49) requires different treatment in which case the CBSI Act takes precedent. They are prepared under the historical cost basis and do not take into account changing money values except where stated.

The accounting policies have been consistently applied over the reporting and comparative years with the exception of Solomon Islands notes and coins. Up until 2008, the production costs of Solomon Islands notes and coins are initially capitalized under Other Local Currency Assets and later expensed when issued into circulation. As from 2009, the production cost of Solomon Islands notes and coins will be treated as an expense under Other Operating Expenses, as per note 3 (h).
This has been possible with the accounts full compliance to IFRS since 2006. The CBSI does not hold foreign currency denominated securities, and there is no defined market for domestic Government securities.

The financial statements are expressed in the Solomon Islands dollar (SBD), rounded to the nearest thousand.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

2 BASIS AND FORMAT OF PRESENTATION (CONT'D)

(b) Comparatives

All necessary information has been classified and presented to achieve consistency in disclosure with current financial year amounts and other disclosures.

3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the financial statements are set out below:

(a) Revenue recognition and Income presentation

Operating revenue
Operating revenue is generally recognized on an accrual basis and includes interest income, fees and commissions, and profit on foreign exchange dealing with commercial banks and sundry income.

Income presentation
As Discussed in Note 1, the Legal Framework, the Profit and Loss Statement continue to include income calculated on the basis of IFRS until such time the CBSI Law is amended. As an additional disclosure, CBSI presents net income restated in terms of the CBSI Act, which continues to be the basis for Central Bank profit distribution.

(b) Foreign currency assets and liabilities

Foreign currencies
Transactions in foreign currencies are converted to Solomon Islands dollars at the rates of exchange prevailing on transaction dates. Year-end assets and liabilities denominated in foreign currencies are converted at the rates of exchange ruling at the year-end.

All unrealized gains and losses, arising from the conversion of foreign currencies are taken to the Foreign Exchange Asset Revaluation Reserve Account in accordance with the provisions of Section 45 of the CBSI Act (CAP 49). These amounts are not included in the computation of the annual profits or losses of the Bank, calculated in terms of the CBSI Act.

Net losses arising from the conversion of foreign currencies and net adverse changes in the fair value of securities are set off against any credit balance in the Foreign Exchange Asset Revaluation Reserve Account, on the basis set out in the previous paragraph. If the balance of this account is insufficient to cover such losses, they are set off against any net profit remaining after the transfer to the General Reserve Account has been made in terms of Section 20 of the CBSI Act (CAP 49). If these transfers are not adequate to cover such losses, the Government is required to transfer to the ownership of the Bank non-negotiable non-interest bearing securities to the extent of the deficiency in terms of Section 44 of the CBSI Act.

Any credit balance in the Foreign Exchange Asset Revaluation Reserve Account at the end of each year is applied first to the redemption of any non-negotiable non-interest bearing securities previously transferred to the Bank by the Government to cover losses, in terms of Section 45 (3) of the CBSI Act.

As at 31 December 2010, there was a net revaluation surplus of $47.723 million (2009 : $86.673million).

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Impairment of other tangible and intangible assets

At each reporting date, the Bank reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(d) Foreign currency assets and liabilities

Treasury notes, bonds and bills

At present CBSI only holds foreign currency denominated interest bearing fixed bank deposits. If held in the future, Treasury notes, bonds and bills denominated in foreign currencies would be valued at fair value ('market value'). In terms of IAS 39, as a Central Bank, the CBSI would classify such portfolios within the residual "fair value option" through profit and loss category. Central banks do not actively trade in such securities for profit maximization purposes; activity reflects monetary policy considerations.

Under Section 43 (2) of the CBSI Act, such associated net unrealized gains and losses must accrue to the General Reserve. Section 19 also states that depreciation of such investments would accrue to profit and loss. In terms of IFRS, unrealized amounts would be accumulated in an appropriate Foreign Investments Asset Revaluation Reserve, prior to conformity with the existing dated legislation.

(e) Coins sold as numismatic items

The Bank sells, or receives royalties on, coins which are specially minted or packaged as numismatic items. These coins have not been accounted for as currency in circulation as they were not issued for monetary purposes.

(f) Non-current assets

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR 31 DECEMBER 2010

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Property, plant and equipment

Acquisitions

Items of property, plant and equipment are recorded at cost and depreciated as outlined below. All items of property, plant and equipment are carried at the lower of cost less accumulated depreciation, and any recoverable amount.

Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Disposal of assets

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the result in the year of disposal.

Depreciation

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:

- Central Bank buildings - 4 - 55 years
- Computers - 3 years
- Furniture, Plant and Equipment - 3 - 5 years
- Motor vehicles - 4 years

Assets are depreciated from the date of acquisition. Expenditure on repairs or maintenance of property, plant and equipment incurred which does not add to future economic benefits expected from the assets is recognised as an expense when incurred.

Periodic revaluations

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 due and done in late 2009. This included a review of the asset classes, estimated useful lives and depreciation rates, and current market values where deemed appropriate. The basis of this valuation is the open market value, that is, the highest and best value the property would expect to be realized if put for sale on private treaty. The Board proposes to have such assets revaluation every three years. The next revaluation will be done in 2012.

(h) Notes and coins

The printing and minting production cost of Solomon Islands notes and coins, plus all other related costs are expensed as and when it is incurred.

CENTRAL BANK OF THE SOLOMON ISLANDS

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Income Tax

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).

(j) Employee entitlements

Employee remuneration entitlements are determined by the Board in terms of Section 14 of the CBSI Act.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of 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.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Bank in respect of services provided by employees up to reporting date.

(k) Solomon Islands Pension /Provident Fund

The Bank and its employees make contributions to the Solomon Islands National Provident Fund (Fund). The Bank had contributed to the Fund on behalf of its staff at the rate of 7.5% per cent of salaries and other staff entitlements/incomes. This amounts to $0.57 million (2009 : $0.49 million) in this financial year. CBSI staff in respect of income received, also contributed $0.43 million (2009 : $0.38 million) to the Fund at the range of 5% to 7.5%. The legal minimum employee's contribution rate is 5%.

(l) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash held at the Bank as till money.

(m) Solomon Islands Government bonds

Solomon Islands Government bonds are valued at cost. Due to the present very thin secondary market for such securities in the Solomon Islands, they are held to maturity by the Central Bank. Accordingly in terms of IAS 39, they are classified as "held to maturity" and recorded at cost in the Bank's accounts.

(n) Allowance for Bad and Doubtful Debts

Any allowance for bad and doubtful debts is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the receivable.

Objective evidence that receivables are impaired includes observable data that come to the attention of the Bank about the following events:
- Significant financial difficulty to the debtor
- A breach of contract, such as default or delinquency in payments
- It becoming probable that the debtor will enter bankruptcy or other financial reorganization

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

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

4. EXTERNAL ASSETS

Section 30 of the CBSI Act requires the Bank to maintain a reserve of external assets, and lists the various ranges of assets which can be held. For a central bank, such assets would include all internationally recognised reserve assets. In these financial statements, external assets also include fully convertible foreign currency balances.

5. INTERNATIONAL MONETARY FUND

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

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

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

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

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

6. RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand at Bank (till money).

	2010 (SBD 000's)	**2009 (SBD 000's)**
Operating profit/(loss)	9,815	(45,746)
Non-cash items:		
Depreciation	5,347	3,916
Net (increase)/decrease in:		
Other receivables	(10,548)	25,885
Accrued expenses	673,773	354,125
Net cash provided by operating activities	**678,389**	**338,180**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

7. LOANS AND ADVANCES

a) Loans and advances to Solomon Islands Government	2010 (SBD 000's)	2009 (SBD 000's)
Loans and advances	14,710	15,544
Development bonds	27	27
Treasury bills		50
Other securities	4,940	4,940
Amortizing bonds	97,745	103,475
Total Loans and Advances to Solomon Islands Government	**117,422**	**124,036**

b) Staff Loans

Staff housing loans	2,437	1,606
Management car loans	211	210
Personal loans	730	894
Total staff loans	**3,378**	**2,710**
Total Loans and Advances	**120,800**	**126,746**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

8. PROPERTY, PLANT AND EQUIPMENT (PPE)

	Land & buildings	Equipment & furniture	Computer	Work in progress	Total
	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)	(SBD 000's)
At 31 December 2009					
Cost	54,208	16,784	3,102	550	74,644
Revaluation	6,460				6,460
Accumulated depreciation	(3,539)	(7,173)	(2,083)		(12,795)
Net book amount	**57,129**	**9,611**	**1,019**	**550**	**68,309**
Year ended December 2009					
Opening net book amount	51,517	10,634	901	399	63,451
Additions	307	1,674	470	279	2,730
Disposals		(398)	(18)		(416)
Internal transfers	128			(128)	
Depreciation charge	(1,283)	(2,299)	(334)		(3,916)
Revaluation surplus	6,460				6,460
Closing net book amount	**57,129**	**9,611**	**1,019**	**550**	**68,309**
At 31 December 2010					
Cost	54,629	20,974	2,208	12,719	90,530
Revaluation					
Accumulated depreciation	(1,603)	(10,339)	(1,828)		(13,770)
Net book amount	**53,026**	**10,635**	**380**	**12,719**	**76,760**
Year ended December 2010					
Opening net book amount	57,129	9,611	1,019	550	68,309
Additions	291	4,190	755	12,169	17,405
Disposals	(2,500)	(81)	(1,026)		(3,607)
Internal transfers					
Depreciation charge	(1,894)	(3,085)	(368)		(5,347)
Revaluation surplus					
Closing net book amount	**53,026**	**10,635**	**380**	**12,719**	**76,760**

The land and building is stated at its revalued amount that was determined in 2009.Similar valuation on Land & Buildings will occur again in 2012 in compliance with IAS 16. The periodical (3 year period) valuation of Land & Buildings was approved by the Board of Directors on the 7th of September 2006.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	2010 (SBD 000's)	2009 (SBD 000's)
9. OTHER LOCAL CURRENCY ASSETS		
Sundry debtors & other cheques held	46,448	30,897
Advances and prepayments	1,004	1,329
Less allowance for doubtful debts		(1,488)
	47,452	**30,738**

10. FOREIGN CURRENCY DEMAND DEPOSITS

Demand deposits	**62,328**	**3,220**

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

11. IMF STANDBY CREDIT FACILITY

IMF Standby credit facility	**76,181**	

A Standby Credit Facility with IMF concluded in 2010 to assist in the promotion of fiscal and other reforms, reduce destabilizing imbalances and close financing gaps, including soliciting addiotional donor support. The country has so far two draw downs (first in June and the second in November), totaling to the disclosed amount at year end.

12. LOCAL CURRENCY DEMAND DEPOSITS

Commercial banks	822,373	389,342
Solomon Islands Government	142,009	63,102
Financial corporations	367	4,718
Other	84	69
	964,833	**457,231**

13. CURRENCY IN CIRCULATION

Notes	425,302	315,671
Coins	11,268	10,774
	436,570	**326,445**

14. SIG MONETARY OPERATIONS ACCOUNT

Securities	**37,953**	**29,418**

15. FIXED DEPOSITS

(a) Solomon Islands Government (SIG)	235,433	105,109

This deposit represents funds received by the Solomon Islands Government (SIG) under the Stabex scheme of the European Community, Asian Development Bank, Republic of China, and Papua New Guinea Government. The SIG draws on these deposits as and when it is ready to use the funds in a manner approved by the funding agencies.

(b) Central Bank of Solomon Islands (CBSI) Securities	56,785	20,090
	292,218	**125,199**

16. OTHER LOCAL CURRENCY LIABILITIES

Unpresented bank cheques	4,473	1,679
Provision for employee entitlements	5,648	6,021
Other liabilities	4,927	5,596
	15,048	**13,296**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

17. GENERAL RESERVE AND DISTRIBUTION OF PROFITS

The general reserve is maintained to cover net losses incurred by the Bank and unforeseen events and contingencies.

The requirements of Section 19 and 20 of the CBSI Act are:

(a) When the Central Bank determines net profit for the year after meeting all current expenditures, and making allowance for bad and doubtful debts, depreciation in investments, and contribution to staff and pension funds; and such other purposes as the Board may deem necessary.

(b) The net profit shall then be allocated to a General Reserve each year until such time as the General Reserve is equal in amount to half the authorized capital of the Central Bank. After which, half of the net profit shall be allocated to this General Reserve until the General Reserve is equal to twice the authorized capital of the Central Bank.

(c) After such allocations, the Board, with the Minister's approval, may then direct such part of remaining net profit as it considers appropriate, be allocated to one or more Special Reserves, and after such allocations, the remainder of the net profit shall be transferred to the Solomon Islands Government Consolidated Fund.

(d) If there is a net loss in any year that exceeds the amount of the General Reserve at end year, then such excess shall be paid to the Bank from the Consolidated Fund.

(e) With approval of the Minister, the Board may direct that a proportion, not exceeding half, of the General Reserve may at any time after the General Reserve has reached an amount equal to half the authorized capital of the Central Bank be converted into issues and fully-paid capital; provided such amounts do not cause paid up capital to exceed authorized capital.

18. REVALUATION RESERVE ACCOUNTS

(a) Foreign Exchange Revaluation Reserve

Under Section 45 of the CBSI Act, gains arising from any change in the valuation of the Central Bank's assets or liabilities in, or denominated in, gold, foreign currencies or other units of account as a result of alterations of the external value of the currency of the Solomon Islands, or any change in the values, parities or exchange rates of such assets and liabilities with respect to the currency of the Solomon Islands other than gains arising from normal trading activity of the Central Bank, shall be credited to a Foreign Exchange Revaluation Reserve Account. Losses arising from any change other than losses from normal trading activity of the Central Bank shall be included in the computation of the annual profits or losses of the Central Bank. As discussed in the Notes, such treatment is inconsistent with IFRS. The CBSI provides additional disclosures in a profits distribution reconciliation statement accompanying the profit and loss account, which links IFRS net profit to profit distributable under the CBSI Law.

The losses arising from any such valuation changes other than losses arising from normal trading activity shall be set off against any credit balance in the Foreign Exchange Asset Revaluation Reserve Account and, notwithstanding any other provision of the Act, if such balance is insufficient to cover such losses, the Government shall issue to the Central Bank non-negotiable non-interest bearing securities to the extent of the deficiency. Any credit balance at the end of each financial year in the Foreign Exchange Asset Revaluation Reserve Account shall be applied first, on behalf of the Government, to the redemption of all securities issued and outstanding under this Section of the CBSI Act.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

18. REVALUATION RESERVE ACCOUNTS (CONT'D)

(a) Foreign Exchange Revaluation Reserve (Cont'd)

In addition, under Section 44, if at any time the total assets of the Central Bank shall be less than its total liabilities, notwithstanding any other provisions of this Act, the Government shall cause to be transferred to the Central Bank non-negotiable non-interest bearing securities issued by the Government to the extent of the deficiency.

(b) Foreign Investment Revaluation Reserve

As discussed in Note 3 (b) the CBSI does not presently hold foreign currency denominated investments other than fixed term bank deposits. In addition, because of the very limited market for Solomon Islands Government securities, holdings of such assets are recorded at cost. Accordingly, there are currently no amounts to be recorded in such an asset revaluation reserve(s) covering foreign and domestic Central Bank investments.

Under Section 43 (2) of the CBSI Act, any valuation changes in the Central Bank's holdings of securities, together with any capital profit or loss resulting from sale or maturity of such assets shall represent an accrual to, or a charge against the General Reserve and shall not be deemed profit or loss for the purpose of calculating net profits under the CBSI Act.

Section 43 is not consistent with current IFRS, specifically IAS 39, which would require such valuation changes to be included in the profit and loss account.

(c) Property, Plant and Equipment Asset Revaluation Reserve

Following the first major revaluation of the Central Bank's land and premises assets in 2006, the CBSI has established an appropriate Premises and Equipment Assets Revaluation Reserve. (Refer also Notes 3(g)).

19. CAPITAL ASSET RESERVE

Other retained earnings reserves can be established under the CBSI Law (Section 20(2)) out of net profits, with the approval of the Minister. These reserves included, as at end 2005, a capital asset replacement reserve, small business finance scheme reserve, early retirements and gratuity reserve.

With the separate establishment of provision accounts in 2006 to meet IFRS requirements in relation to early retirement and gratuity payments, the Board has determined that the relevant reserve balances be transferred to the capital asset replacement reserve to strengthen the Central Bank's equity position in relation to future major capital investment in buildings and equipment.

	2010 (SBD 000's)	2009 (SBD 000's)
Capital Asset Reserve	**56,634**	**54,180**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

	2010	2009
20. INCOME AND EXPENSES	**(SBD 000's)**	**(SBD 000's)**
(a) Interest income		
Interest received from foreign investments	24,061	14,172
Interest received from local investments	2,675	4,488
	26,736	**18,660**
(b) Fees and commissions received		
Fees and commissions – foreign dealings	11,765	5,914
Fees and commissions – local dealings	320	417
	12,085	**6,331**
(c) Other income		
Gain/(loss) from disposal of fixed assets	(220)	94
Rent Received	987	1,046
Sale of numismatic coins	3,543	53
Others	440	679
	4,750	**1,872**
(d) Interest expenses		
Interest expense on foreign liabilities	334	96
Interest expense on local liabilities	1,734	1,840
	2,068	**1,936**
(e) Fees and commissions paid	**117**	**78**
(f) Administration expenses		
Staff costs	13,934	12,620
Others	8,309	8,117
	22,243	**20,737**
(g) Other operating expenses		
Board of directors remunerations and expenses	161	33
Currency expenses	3,646	46,243
Depreciation	5,347	3,916
Auditors remuneration (Note 20)	408	469
Others	598	602
	10,160	**51,263**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

21. AUDITOR'S REMUNERATION

	2010 (SBD 000's)	2009 (SBD 000's)
Amounts received or due and receivable by the External Auditors of the bank for:		
- Auditing the financial statements	408	440
- Other services – (Morris and Sojnocki) – Internal audit		29
	408	**469**

22. RELATED PARTIES DISCLOSURES

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 CBSI Board and senior staff who have responsibility for planning, directing and controlling the activities of the Bank. In 2010, this group comprises 12 in total (12 in 2009), including the two Governors, 5 non-executive CBSI Board of Directors and 5 Chief Managers. . Fees of the non-executive members of the CBSI Board are determined by the Minister of Finance. The Governor and Deputy Governor contracts are subject to mid-term review by the Minister of Finance and annually in terms of CBSI policies. The CBSI Board of Directors determines the remuneration of the Chief Managers.

The remuneration of the CBSI's key management personnel was as follows:

Total remuneration is included in 'personnel expenses' as follows:	2010 (SBD 000's)	2009 (SBD 000's)
Short-term employee benefits	1,297	1,154
Post-employment benefits		196
Other long-term benefits		134
Total Compensation	**1,297**	**1,484**

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.
Post-employment benefits include superannuation benefits and in the case of staff, health benefits. Other long-term benefits include long service leave. The components of remuneration are reported on an accrual basis.

As at 31 December 2010 loans by the Bank to key management personnel are as follows:

	2010 (SBD 000's)	2009 (SBD 000's)
Housing loan	1,032	61
Personal loan	61	25
Management car loan	60	210
Total loans	**1,153**	**296**

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.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

23. EMPLOYEES

The number of full time permanent Central Bank employees as at 31st December 2010 was 91 (2009: 100)

24. CONTINGENT LIABILITIES

The Bank has guaranteed staff housing loans with the commercial banks to the sum of $0.8 million as at 31 December 2010 (2009:$1.0 million). The guarantee is valid until the date the staff ceases employment with the Bank.

In 2007 the Solomon Islands Government introduced and provided $10 million for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31 December 2010 a total of 28 loans with a net guarantee of $1.87million (2009: $1.64 million) have been administered under the scheme.

25. FINANCIAL INSTRUMENTS

Exposure to operational, credit, liquidity, interest rate, and currency risk arises in the normal course of the Bank's operations. The structure of the CBSI's balance sheet is primarily determined by the nature of its statutory functions, rather than commercial considerations. At the same time, CBSI continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the CBSI is regulated by internal instructions and closely monitored by the Board.

Operating loss is the risk of loss from breakdown of internal controls. The CBSI is in the process of establishing an internal audit function (either internally or outsourced) which will exercise monitoring and control over accounting policies and procedures, and the effective functioning of the system of internal controls at the CBSI. Operating risk relating to the activities of foreign currency reserves management is controlled by a number of internal instructions, and there is clear segregation of front office and back office activity. The latter is one of the mechanisms for managing operating risk.

The material financial instrument to which the Bank has exposure includes:
(i) External assets
(ii) Other liabilities.

Credit risk

CBSI takes on exposure to credit risk which is the risk that a counter party will be unable to pay amounts in full when due. CBSI's maximum credit risk, excluding the value of collateral, is generally reflected in the carrying of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. The Bank does not require collateral in respect of financial assets except in respect of loans to staff.

Management has a credit policy in place. Credit risk on transactions in foreign currency reserves is managed through the approval of transactions and placement of funds, the establishment of limits restricting risk and constant monitoring of positions. Counter party limits are set based on credit ratings and are subject to regular review. Currency risk and the exposure in the local currency portfolio is also monitored and managed.

Credit risk on financial assets is minimized by dealing with recognized monetary institutions.
At balance sheet date, there were no significant concentrations of credit risk.

Liquidity risk

Liquidity risk is defined as the risk of loss arising due to the mismatch of the maturities of assets and liabilities. The maturities of assets and liabilities is the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the CBSI and its exposure to changes in interest and exchange rates.

CENTRAL BANK OF THE SOLOMON ISLANDS

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The table below shows assets and liabilities at 31 December 2010 (and 2009 comparatives) grouped by remaining contractual maturity.

2010 Liquidity Risk

	0-3 Months (SBD 000's)	3-6 Months (SBD 000's)	6-12 Months (SBD 000's)	Over 1 year (SBD 000's)	Undefined Maturity (SBD 000's)	Total (SBD 000's)
Foreign Currency Assets						
Money at call					661,371	661,371
Accrued Interest			5,452			5,452
Term Deposits		1,355,164				1,355,164
Holding of Special Drawing Rights	114,481					114,481
Total	**114,481**	**1,355,164**	**5,452**		**661,371**	**2,136,468**
Local Currency Assets						
Cash on Hand	155					155
Loans and Advances			5,013	115,787		120,800
Property, Plant and Equipment				76,760		76,760
Other Assets	46,438		13	988	13	47,452
Total	**46,593**		**5,026**	**193,535**	**13**	**245,167**
Total Assets	**161,074**	**1,355,164**	**10,478**	**193,535**	**661,384**	**2,381,635**
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	62,328					62,328
IMF Standby Credit Facility	76,181					76,181
IMF Special Drawing Rights Allocations					122,506	122,506
Capital Subscriptions					917	917
Total	**138,509**				**123,423**	**261,932**
Local Currency Liabilities						
Demand Deposits			899,377		65,456	964,833
Currency in Circulation					436,570	436,570
SIG Monetary Operations Account			37,953			37,953
Fixed Deposits	1,390	7,010	33,630	56,785	193,403	292,218
Provision for transfer to SIG Consolidated Fund		2,454				2,454
Other Liabilities		1,299	2,424	603	10,722	15,048
Total	**1,390**	**10,763**	**973,384**	**57,388**	**706,151**	**1,749,076**
Total Liabilities	**139,899**	**10,763**	**973,384**	**57,388**	**829,574**	**1,749,076**
Net Liquidity Gap	**21,175**	**1,344,401**	**(962,906)**	**136,147**	**(168,190)**	**370,627**

CENTRAL BANK OF THE SOLOMON ISLANDS

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2009 Liquidity Risk

	0-3 Months (SBD 000's)	3-6 Months (SBD 000's)	6-12 Months (SBD 000's)	Over 1 year (SBD 000's)	Undefined Maturity (SBD 000's)	Total (SBD 000's)
Foreign Currency Assets						
Money at call					298,748	298,748
Accrued Interest					1,854	1,854
Term Deposits		752,670				752,670
Holding of Special Drawing Rights	116,927					116,927
Total	**116,927**	**752,670**			**300,602**	**1,170,199**
Local Currency Assets						
Cash on Hand	381					381
Loans and Advances				126,746		126,746
Property, Plant and Equipment					68,309	68,309
Other Assets	30,590		148			30,738
Total	**30,971**		**148**	**126,746**	**68,309**	**226,174**
Total Assets	**147,898**	**752,670**	**148**	**126,746**	**368,911**	**1,396,373**
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits	3,220					3,220
IMF Special Drawing Rights Allocations					125,105	125,105
Capital Subscriptions					917	917
Total	**3,220**				**126,022**	**129,242**
Local Currency Liabilities						
Demand Deposits	457,231					457,231
Currency in Circulation					326,445	326,445
SIG Monetary Operations Account	29,418					29,418
Fixed Deposits	125,199					125,199
Provision for transfer to SIG Consolidated Fund						
Other Liabilities	13,296					13,296
Total	**625,144**					**951,589**
Total Liabilities	**628,364**				**452,467**	**1,080,831**
Net Liquidity Gap	**(480,466)**	**752,670**	**148**	**126,746**	**(83,556)**	**315,542**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

Interest rate risk

The Bank's exposure to interest rate risk and the effective interest rates of financial assets and liabilities at the balance sheet date are as follows:

Financial assets:

Cash and current accounts	-	floating interest rates.
Short term deposits	-	fixed interest rates, maturing in 90 days or less.
Treasury notes and bonds	-	fixed interest rates, maturing in 9 years or less.
Solomon Islands Government bonds	-	fixed interest rates, maturing as detailed in note 3 (m)
Staff loans	-	fixed interest rates, maturing in 20 years or less.
Statutory bodies/banks	-	fixed interest rates, maturing in 30 days or less.
Solomon Islands Government	-	fixed interest rates, payable in 30 days or less
	-	Account No.1
	-	Redemption of bonds.

Financial liabilities:

Domestic Institutions	-	fixed interest rates, payable in 30 days or less.

All other financial assets or financial liabilities are non-interest bearing.

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

2010 Interest Rate Risk

Foreign Currency Assets	Fixed Coupon 0-1 (SBD 000's)	1-3 Months (SBD 000's)	3-12 Months (SBD 000's)	Over 1 Year (SBD 000's)	Non-Interest Bearing (SBD 000's)	Total (SBD 000's)
Money at call		661,371				661,371
Accrued Interest & Bill Collectibles					5,452	5,452
Term Deposits		1,355,164				1,355,164
Holding of Special Drawing Rights					114,481	114,481
Total		**2,016,535**			**119,933**	**2,136,468**
Local Currency Assets						
Cash on Hand					155	155
Loans and Advances				120,800		120,800
Property, Plant and Equipment					76,760	76,760
Other Assets					47,452	47,452
Total				**120,800**	**124,367**	**245,167**
Total Assets		**2,016,535**		**120,800**	**244,300**	**2,381,635**
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits					62,328	62,328
IMF Standby Credit Facility					76,181	76,181
IMF Special Drawing Rights Allocations		122,506				122,506
Capital Subscriptions					917	917
Total		**122,506**			**139,426**	**261,932**
Local Currency Liabilities						
Demand Deposits			899,377		65,456	964,833
Currency in Circulation					436,570	436,570
SIG Monetary Op/ Account			37,953			37,953
Fixed Deposits	1,390	7,010	33,630	56,785	193,403	292,218
Provision for transfer to SIG Consolidated Fund					2,454	2,454
Other Liabilities					15,048	15,048
Total	**1,390**	**7,010**	**970,960**	**56,785**	**712,931**	**1,749,076**
Total Liabilities	**1,390**	**129,516**	**970,960**	**56,785**	**852,357**	**2,011,008**
Net Sensitivity Gap	**(1,390)**	**1,887,019**	**(970,960)**	**64,015**	**(608,057)**	**370,627**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

Currency risk

Currency risk is the risk the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Bank incurs foreign currency risk on holdings of financial assets (principally external assets) that are denominated in a currency other than the Solomon Islands dollar. The currencies giving rise to this risk are primarily Australian dollars, New Zealand dollars, British pounds, Euro and United States dollars.

The Bank does not hedge its exposure to exchange fluctuations in these currencies.

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

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

2009 Interest Rate Risk

Foreign Currency Assets	**Fixed Coupon 0-1 (SBD 000's)**	**1-3 Months (SBD 000's)**	**3-12 Months (SBD 000's)**	**Over 1 Year (SBD 000's)**	**Non-Interest Bearing (SBD 000's)**	**Total (SBD 000's)**
Money at call		298,748				298,748
Accrued Interest					1,854	1,854
Term Deposits		752,670				752,670
Holding of Special Drawing Rights					116,927	116,927
Total		**1,051,418**			**118,781**	**1,170,199**
Local Currency Assets						
Cash on Hand					381	381
Loans and Advances				126,746		126,746
Property, Plant and Equipment					68,309	68,309
Other Assets					30,738	30,738
Total				**126,746**	**99,428**	**226,174**
Total Assets	**1,053,272**			**126,746**	**216,355**	**1,396,373**
LIABILITIES						
Foreign Currency Liabilities						
Demand Deposits					3,220	3,220
IMF Special Drawing Rights Allocations				125,105		125,105
Capital Subscriptions					917	917
Total					**129,242**	**129,242**
Local Currency Liabilities						
Demand Deposits					457,231	457,231
Currency in Circulation					326,445	326,445
SIG Monetary Operations Account					29,418	29,418
Fixed Deposits					125,199	125,199
Provision for transfer to SIG Consolidated Fund						
Other Liabilities					13,296	13,296
Total					**951,589**	**951,589**
Total Liabilities					**1,080,831**	**1,080,831**
Net Sensitivity Gap	**1,053,272**			**126,746**	**(864,476)**	**315,542**

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

Currency risk

Currency risk is the risk the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Bank incurs foreign currency risk on holdings of financial assets (principally external assets) that are denominated in a currency other than the Solomon Islands dollar. The currencies giving rise to this risk are primarily Australian dollars, New Zealand dollars, British pounds, Euro and United States dollars.

The Bank does not hedge its exposure to exchange fluctuations in these currencies.

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

CENTRAL BANK OF THE SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

2010 Currency Risk

	SBD	AUD	NZ	USD	EURO	GBP	OTHERS	Total
Foreign Currency Assets	**(SBD) (000's)**	**(SBD) (000's)**	**(SBD) (000's)**	**(SBD) (000's)**	**(SBD (000's)**	**(SBD) (000's)**	**(SBD) (000's)**	**(SBD) (000's)**
Money at call		71,777		417,170	171,583	836	5	661,371
Accrued Interest	1	4,531	263	333	294	20	10	5,452
Term Deposits		554,225	81,511	473,851	191,358	47,503	6,716	1,355,164
Holding of Special Drawing Rights							114,481	114,481
Total	**1**	**630,533**	**81,774**	**891,354**	**363,235**	**48,359**	**121,212**	**2,136,468**
Local Currency Assets								
Cash on Hand	155							155
Loans and Advances	120,800							120,800
Property, Plant and Equipment	76,760							76,760
Other Assets	47,452							47,452
Total	**245,167**							**245,167**
Total Assets	**245,168**	**630,533**	**81,774**	**891,354**	**363,235**	**48,359**	**121,212**	**2,381,635**
LIABILITIES								
Foreign Currency Liabilities								
Demand Deposits							62,328	62,328
IMF Standby Credit Facility							76,181	76,181
IMF Special Drawing Rights Allocations							122,506	122,506
Capital Subscriptions							917	917
Total							**261,932,**	**261,932**
Local Currency Liabilities								
Demand Deposits	964,833							964,833
Currency in Circulation	436,570							436,570
SIG Monetary Op/ Account	37,953							37,953
Fixed Deposits	292,218							292,218
Provision for transfer to SIG Consolidated Fund	2,454							2,454
Other Liabilities	15,048							15,048
Total	**1,749,076**							**1,749,076**
Total Liabilities	**1,749,076**						**261,932**	**2,011,008**
NET ASSETS	**(1,503,908)**	**630,533**	**81,774**	**891,354**	**363,235**	**48,359**	**(140,720)**	**370,627**

CENTRAL BANK OF SOLOMON ISLANDS

2010 CALENDER OF EVENTS

MONTHS	EVENTS
January	• Governor & Deputy Governor met with Minister & PS MOFT on IMF programs. • Deputy Governor attends Second STI Training organized by IMF and the Government of Singapore to review STI course curriculumand procedures. • Completion of SWIFT Connectivity Upgrade from Dialup to Broadband on the Production Server
February	• Governor attended the Reserve Bank of Australia 50th Anniversary Symposium in Sydney. • Deputy Governor attended the first meeting of the Alliance For Financial Inclusion (AFI) Pacific Central Bank Working Group Meeting in Port Villa, Vanuatu. • Ms Millisidy Pita, Mr. Norman Vavaha and Mr. Charles Rubaha were recruited by FMSD as analysts. • Acquisition of 12 new laptops and 12 desktops.
March	• Redlee Ausopa, attended security training attachment with Chubb New Zealand in Christchurch, New Zealand. • Analyst FMSD, Lynne Suti, attended a Savings & Loans Society onsite examination attachment with Bank of PNG. • Office of the Controller of Insurance conducted onsite examination on Tower Insurance (SI Branch). • Chief Manager, Human Resource & Corporate Services (Bella Simiha) and Manager Human Resources (Rose Sulu) participated at the Annual Asia & Pacific Human Resource Congress held in Malaysia
April	• Governor attended the South Pacific Central Bank Governor's meeting in Auckland, New Zealand. • Governor attended the 43rd Annual Meeting of the Board of Governors of Asian Development Bank (ADB) in Taskent, Uzbekistan. • The Bank hosted an IMF Monetary and Financial Statistics Mission, to develop a system for compilation of monetary statistic. • Doreen L Monogari, Supervisor Debt Unit, attended ComSec Workshop in Johannesburg, South Africa • Office of the Registrar of Credit Unions conducted onsite examination on SI Health Workers Credit Union • Recruitment of a new Salary Officer under Finance and Information Technology
May	• Governor, Chief Manager Human Resources and Corporate Services Department, and Legal officer attended the official opening of Reserves Bank of Vanuatu new complex in Port Villa, Vanuatu. • The Central Bank's 2009 Annual report was launched by the Governor. • An IMF Safeguards Assessment mission visited the CBSI to review the Bank's safeguards framework. • Court Appointed Management (CAM) of DBSI was extended for another 12 months. • CBSI Payroll Application upgraded from MicrOpay to MicrOpay Meridian

	•	FMSD Chief Manager, Raynold Moveni and Senior Analyst, Samuel Warunima, International Department attended the Nasfund Superannuation onsite examination attachment with Bank of PNG.
	•	Central Banking Workshop on Gold as Reserve Asset in Hongkong.
June	•	CBSI held its annual "The Money Smart Day" programs at Kirakira in the Makira Ulawa Province and at Buala, in the Isabel Province..
	•	The Solomon Islands Financial Intelligence Unit (SIFIU) launched its annual report.
	•	CBSI hosted a regional meeting of the Association of Financial Supervisors in Honiara.
	•	Receipt of the first tranche of the IMF Standing Credit Facility for SI
July	•	Deputy Governor attended the 13th Plenary Meeting of the APG in Singapore along with members of the Anti-Money Laundering Commission of Solomon Islands.
	•	Luke Forau, Chief Manager Economic, Statistics and Research Department attended a regional conference of the Heads of Statistics and Planning in Noumea, New Caledonia.
	•	RaynoldMoveni, Chief Manager, Financial Market Supervision Department attended 2010 Boulder Microfinance Program Training, Italy.
	•	Governor attended the "Asia 21 Conference" organized by the IMF in Seoul, South Korea.
	•	Office of the Controller of Insurance conducted onsite examination on QBE International Insurance (SI Branch)
	•	Senior Analyst FMSD, Tom Ha'aute, attended the Dominion Insurance attachment with Reserve Bank of Fiji.
	•	Signed contract with Fletcher Kwaimani JV Ltd to start Riffle Range Housing project
	•	Engaged EJ Construction for Mbokona trenching
	•	Top and Middle floor Reconfiguration & Glazing Contract Agreement was signed with TGA
	•	Muriel and Simon attended training on Sun System and MicrOpay Meridian in Brisbane, Australia.
August	•	Deputy Governor attended the second AFI Pacific Central Bank Working Group meeting in Nadi, Fiji.
	•	David Maru, Senior Security officer attended Chubb vocational training attachment, Christchurch, New Zealand.
	•	Governor attended the PFTAC tripartite meeting in Port Villa, Vanuatu.
	•	Office of the Registrar of Credit Unions conducted onsite examination on SI Nurses Credit Union.
	•	MFMSD attended the IMF-STI AML/CFT training for assessors.
	•	Senior Analyst FMSD, Samuel Warunima attended the ANZ Banking Group onsite examination with Bank of PNG.
	•	Chief Manager Economic Research and Statistic and Chief Manager International Department attended a meeting with the LM Investment at Gold Coast Australia
	•	Manager Exchange Controls and Manager Financial Marketing Supervision attended 5th Annual Workshop for the Centre for Central Banking Studies at Tonga
September	•	Daniel Haridi, Chief Manager, Currency & Banking Operation Department,

- attended the Mint Directors Conference in Canberra, Australia.
- ComSec Debt Advisors conducted training on the CS-SAS software application for managing the issue of Treasury Bills and Bonds.
- CBSI conducted onsite examination on SI National Provident Fund jointly with regional supervisors and technical assistance from APRA, under the APRA-Pacific Support Governance Program.
- Signed Contract with Tengemoana Contraction to do Head Office exterior painting

October

- Deputy Governor presented a paper on "Recent Economic Development and Outlook" for the Solomon Islands economy to the Second Australia and Solomon Islands Business Forum, in Brisbane, Australia.
- Governor attended the South Pacific Finance & Economic Minister's (FEMM) meeting in Niue.
- Governor attended the IMF/World Bank annual meetings in Washington DC, USA.
- Tom Coward, an ODI fellow ends his mission in Solomon Islands. Patricia Salmon begins her two year term with CBSI.
- Deputy Governor and Manager, Financial Market Supervision Department attended the annual meeting of the Association of Financial Supervisors of Pacific Countries (AFSPC), held in Nadi, Fiji.
- Office of the Registrar of Credit Union marked the International Credit Union Day with SICUL and credit unions in Honiara.
- Seven members of staff represented the Bank and participated at the Annual Premiers Meeting and Trade and Agriculture Show in Buala, Isabel Province.

November

- CBSI and Pacific Financial Inclusion Program (PFIP), held a Financial Inclusion Workshop at the Heritage Park Hotel in Honiara.
- Donald Kiriau and John Rohi, attended an IMF/ PFTAC seminar on Balance of Payments, Nadi, Fiji.
- Donald Kiriau, attended an IMF Institute course on Financial Programming in Washington DC, USA.
- George Luga, attended an IMF/STI course on Monetary and Financial Statistics, Singapore.
- CBSI Board held its provincial meeting at Tavanipupu resort on Guadalcanal.
- FMSD Senior Analyst, Trevor Manemahaga and Analyst, Millisidy Pita attended the Credit Corporation onsite examination attachment with Reserve Bank of Fiji.
- CBSI conducted onsite examination on ANZ Banking Group (SI Branch) with the assistance of PFTAC, Mr. John Vaught.
- Receipts of the second tranche of the IMF Standing Credit Facility for SI
- Oliver attended an IFRS course in Singapore.

December

- Governor and CM/FMSD attended the annual South Pacific Central Bank Governor's meeting in Wellington, New Zealand.
- Vinstar Limited conducted 2010 Review/Audit of the HR Processes Implemented in 2009.
- Receipt of EU funding for EU15.0 million (SBD160.8 million) for SIG
- CBSI reviewed Exchange Control Approval limits and commercial banks exchange rate spread limits
- Marlon attended a SWIFT Training - SWIFTNet & Alliance 7.0 in Melbourne, Australia.

STATISTICAL ANNEX (or Tables)

TABLE 1.1 - DEPOSITORY CORPORATIONS SURVEY

(SBD'millions)	Dec - 08	Dec - 09	Jan - 10	Feb - 10	Mar - 10	Apr - 10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Net Foreign Assets	844 57	1,232 93	1,260 40	1,242 38	1,368 48	1,425 87	1,389 16	1,516 59	1,564 11	1,563 06	1,686 55	1,686 35	1,795 58	2,060 34
Claims on non-residents	859 52	1,360 90	1,397 79	1,382 65	1,505 22	1,560 61	1,522 28	1,689 85	1,740 18	1,739 96	1,868 77	1,872 56	2,024 92	2,284 36
Liabilities to non-residents	-14 95	-127 97	-137 38	-140 27	-136 74	-134 74	-133 12	-173 26	-176 07	-176 90	-182 23	-186 21	-229 34	-224 02
Domestic Claims	1,327 21	1,210 43	1,291 11	1,269 85	1,212 47	1,149 79	1,182 54	1,116 54	1,159 68	1,166 87	1,092 58	1,099 35	1,094 29	863 64
Net Claims on Central Government	37 91	-26 39	17 97	19 96	-20 15	-63 79	-56 90	-114 71	-87 19	-58 24	-36 23	-38 63	-38 85	-314 98
Claims on Central Government	254 45	249 43	248 01	241 41	234 40	228 80	232 29	233 72	231 15	232 89	236 03	238 61	239 53	238 16
Liabilities to Central Government	-216 54	-275 82	-230 04	-221 45	-254 55	-292 59	-289 18	-348 43	-318 34	-291 13	-272 27	-277 24	-278 38	-553 14
Claims on other Sectors	1,289 30	1,236 82	1,273 14	1,249 89	1,232 62	1,213 58	1,239 43	1,231 25	1,246 86	1,225 11	1,128 82	1,137 98	1,133 14	1,178 61
Claims on other financial corporations	13 15	12 92	12 54	12 52	12 48	12 25	12 24	12 23	12 15	12 17	12 24	12 30	12 46	12 23
Claims on state and local government	0 10	0 05	0 04	0 03	0 04	0 16	0 03	0 04	0 00	0 00	0 16	0 05	0 00	0 00
Claims on public non-financial corporations	0 00	0 00	0 07	0 10	0 06	0 20	0 00	0 00	0 04	0 00	0 00	0 00	0 00	0 00
Claims on private sector	1,276 06	1,223 85	1,260 48	1,237 23	1,220 05	1,200 98	1,227 16	1,218 99	1,234 68	1,212 94	1,116 42	1,125 63	1,120 69	1,166 38
Broad Money Liabilities	1,567 16	1,830 75	1,889 25	1,828 69	1,940 69	1,910 87	1,916 48	2,011 28	2,017 66	2,004 65	2,013 52	2,012 17	2,089 37	2,134 39
Currency outside depository corporations	250 08	305 22	302 58	304 64	317 02	323 68	318 23	328 03	357 19	331 02	334 00	350 06	375 19	411 83
Transferable deposits	745 32	822 33	854 52	806 63	928 85	936 40	876 55	961 25	923 45	1,015 76	971 41	935 48	973 38	951 74
Other deposits	571 76	703 20	732 16	717 42	694 82	650 79	721 71	722 00	737 02	657 87	708 11	726 64	740 80	770 81
Securities other than shares	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Deposits excluded from broad money	0 37	0 35	0 35	0 35	0 25	0 25	0 25	0 25	0 26	0 26	0 26	0 26	0 26	0 26
Securities other than shares excluded from broad money	20 27	20 09	20 23	37 22	48 67	48 67	56 09	56 67	51 38	51 68	52 18	53 36	57 41	56 79
Loans	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Financial derivativevs	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Insurance technical reserves	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Shares and other equity	610 07	639 92	752 12	747 88	747 69	739 90	699 06	718 77	762 17	764 00	817 31	839 58	826 24	870 32
Other items (net)	-26 09	-47 75	-110 44	-101 92	-156 35	-124 03	-100 19	-153 85	-107 68	-90 66	-104 14	-119 67	-83 40	-137 77

Source CBSI

TABLE 1.2 - CENTRAL BANK SURVEY

(SBD'millions)	Dec - 08	Dec - 09	Jan -10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Net Foreign Assets	707 71	1,051 48	1,115 00	1,129 24	1,141 95	1,230 31	1,196 25	1,313 80	1,373 31	1,408 79	1,530 81	1,580 47	1,669 14	1,942 06
Claims on Non-residents	716 35	1,177 30	1,239 75	1,256 47	1,264 30	1,352 07	1,314 97	1,471 45	1,533 74	1,568 22	1,695 04	1,746 04	1,868 90	2,143 82
Liabilities to non-residents	-8 64	-125 82	-124 74	-127 23	-122 35	-121 77	-118 72	-157 64	-160 43	-159 42	-164 23	-165 57	-199 76	-201 76
Claims on Other Depository Corporations	33 27	29 37	2 54	3 30	26 47	15 84	3 58	19 17	4 74	18 52	5 95	5 15	4 39	46 33
Net Claims on Central Government	-51 91	-77 35	-58 70	-45 25	-82 96	-121 30	-89 16	-138 64	-74 33	-55 39	-62 55	-83 57	-91 33	-360 29
Claims on Central Government	138 35	124 07	123 58	123 23	122 41	121 89	121 35	120 81	120 23	120 00	119 42	118 65	118 01	117 46
Liabilities to Central Government	-190 26	-201 43	-182 28	-168 48	-205 37	-243 19	-210 51	-259 45	-194 56	-175 38	-181 97	-202 21	-209 35	-477 75
Claims on other Sectors	16 03	16 53	16 89	16 90	16 81	16 94	17 02	17 00	15 54	15 43	15 27	15 37	15 49	15 79
Claims on Other Financial Corporations	12 15	12 15	12 15	12 15	12 15	12 15	12 15	12 15	12 15	12 15	12 15	12 15	12 15	12 15
Claims on State and Local Government	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Claims on Public Non-financial Corporations	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Claims on Private Sector	3 88	4 38	4 74	4 75	4 66	4 79	4 87	4 85	3 39	3 28	3 12	3 22	3 34	3 64
Monetary Base	440 64	717 19	777 18	801 52	783 92	811 42	844 81	924 58	1,002 67	1,064 32	1,129 57	1,154 11	1,250 81	1,263 54
Currency in Circulation	272 54	326 06	318 96	325 26	338 76	342 44	347 14	358 48	380 23	358 14	357 65	371 45	409 38	436 41
Liabilities to Other Depository Corporations	165 91	389 34	457 43	475 13	443 69	467 45	494 24	562 56	618 74	702 77	768 94	779 50	838 86	822 37
Liabilities to Other Sectors	2 19	1 78	0 79	1 14	1 47	1 53	3 44	3 54	3 70	3 42	2 98	3 15	2 57	4 75
Other liabilities to Other Depository Corporations	0 81	0 82	0 80	0 84	0 83	7 95	7 91	7 95	7 99	7 92	7 92	1 17	1 15	1 01
Deposits and securities other than shares excluded from monetary base	25 60	25 12	25 26	42 25	49 24	49 24	56 66	57 24	51 95	64 81	52 75	53 93	57 98	57 36
Deposits included in broad money	4 97	4 68	4 68	4 68	0 32	0 32	0 32	0 32	0 32	12 88	0 32	0 32	0 32	0 32
Securities othr than shares included in broad money	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Deposits excluded from broad money	0 37	0 35	0 35	0 35	0 25	0 25	0 25	0 25	0 26	0 26	0 26	0 26	0 26	0 26
Securities other than shares excluded from broad money	20 27	20 09	20 23	37 22	48 67	48 67	56 09	56 67	51 38	51 68	52 18	53 36	57 41	56 79
Loans	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Financial derivatives	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Shares and Equity	274 83	317 31	319 27	308 69	317 64	323 00	275 60	280 06	314 40	309 47	360 79	370 27	349 12	385 29
Other Items (net)	-36 76	-40 41	-46 79	-49 11	-49 38	-49 82	-57 29	-58 50	-57 76	-59 16	-61 55	-62 05	-61 37	-63 31

Source: CBSI

TABLE 1.3 OTHER DEPOSITORY CORPORATIONS SURVEY

(SBD'millions)	Dec-08	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Net Foreign Assets	136 86	181 45	145 40	113 13	226 54	195 56	192 92	202 79	190 80	154 31	155 73	105 88	126 44	118 28
Claims on Non-Residents	143 17	183 59	158 04	126 18	240 92	208 53	207 32	218 40	206 44	171 79	173 73	126 51	156 02	140 54
Liabilities to Non-Residents	-6 32	-2 14	-12 64	-13 05	-14 38	-12 97	-14 40	-15 62	-15 64	-17 48	-18 00	-20 64	-29 58	-22 26
Claims on Central Bank	189 18	411 00	473 64	497 04	466 28	494 31	530 85	600 42	650 28	739 25	800 32	801 55	874 01	847 88
Currency	22 47	20 84	16 38	20 61	21 74	18 76	28 91	30 45	23 04	27 12	23 65	21 40	34 19	24 58
Reserve Deposits and Securities than Shares	165 91	389 34	456 45	475 59	443 71	467 60	494 03	562 02	618 75	704 21	768 75	779 20	838 87	822 28
Other claims on Central Bank	0 81	0 82	0 80	0 84	0 83	7 95	7 91	7 95	8 49	7 92	7 92	0 95	0 95	1 01
Net Claims on Central Government	89 81	50 97	76 67	65 21	62 81	57 51	32 26	23 93	-12 86	-2 85	26 32	44 94	52 49	46 07
Claims on Central Government	116 10	125 36	124 43	118 17	112 00	106 91	110 93	112 91	110 93	112 89	116 61	119 96	121 52	120 70
Liabilities to Central Government	-26 29	-74 39	-47 76	-52 96	-49 19	-49 40	-78 67	-88 98	-123 79	-115 74	-90 29	-75 03	-69 04	-74 63
Claims on Other Sectors	1,273 27	1,220 29	1,256 25	1,232 99	1,215 82	1,196 64	1,222 41	1,214 25	1,231 32	1,209 68	1,113 55	1,122 61	1,117 65	1,162 82
Claims on Other Financial Corporations	1 00	0 77	0 39	0 37	0 33	0 10	0 09	0 08	0 00	0 02	0 09	0 15	0 31	0 08
Claims on State and Local Government	0 10	0 05	0 04	0 03	0 04	0 16	0 03	0 04	0 00	0 00	0 16	0 05	0 00	0 00
Claims on Public Non-Financial Corporations	0 00	0 00	0 07	0 10	0 06	0 20	0 00	0 00	0 04	0 00	0 00	0 00	0 00	0 00
Claims on Private Sector	1,272 17	1,219 47	1,255 74	1,232 48	1,215 39	1,196 19	1,222 29	1,214 14	1,231 28	1,209 66	1,113 30	1,122 42	1,117 35	1,162 73
Liabilities to Central Bank	33 27	29 37	2 54	3 30	26 47	15 84	3 58	19 17	4 74	18 52	5 95	5 15	4 39	46 34
Transferable Deposits included in Broad Money	738 17	815 87	849 05	800 81	927 06	934 56	872 81	958 09	919 76	999 81	968 35	932 01	970 49	946 92
Securities other than shares included in Broad Money	571 76	703 20	732 16	717 42	694 82	650 79	721 71	722 00	737 02	657 87	708 11	726 64	740 80	770 81
	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Deposits excluded from Broad Money	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Securities other than shares excluded from Broad Money	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Loans	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Financial Derivatives	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Insurance Technical Reserves	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00	0 00
Shares and Other Equity	335 25	322 61	432 84	439 18	430 05	416 90	423 46	438 71	447 77	454 54	456 52	469 31	477 12	486 30
Other Items (net)	10 67	-7 34	-64 63	-52 35	-106 96	-74 06	-43 12	-96 60	-49 74	-30 37	-43 02	-58 14	-22 21	-75 32

Source CBSI

TABLE 1.4a - SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING *

(SBD'000)

End of Period	Agriculture	Forestry	Fisheries	Mining & Quarrying	Manufacturing	Construction	Transport	Telecommunications	Distribution	Tourism
2007	88,749	55,480	24,570	138	122,132	60,249	28,051	119,039	129,409	43,861
2008	22,702	145,648	21,960	369	162,661	70,133	33,795	166,412	173,055	60,880
2009	21,230	121,749	55,020	1,405	108,101	110,567	48,714	134,286	180,925	60,602
2010	7,305	84,079	6,677	1,376	70,169	148,841	48,848	93,313	182,508	68,854
2007										
Mar	10,853	87,087	30,719	2	63,622	47,733	27,258	78,167	106,075	21,219
Jun	12,961	108,839	31,237	4	72,160	48,753	21,944	78,299	110,731	30,689
Sep	9,497	126,212	32,320	278	97,481	48,993	29,007	106,753	122,912	38,564
Dec	88,749	55,480	24,570	138	122,132	60,249	28,051	119,039	129,409	43,861
2008										
Mar	13,243	127,821	28,291	377	114,690	70,891	31,351	132,958	133,435	46,315
Jun	15,880	137,168	11,480	60	172,706	69,205	31,961	142,891	151,224	47,294
Sep	18,890	157,646	17,681	730	180,889	72,629	38,348	155,754	158,921	53,702
Dec	22,702	145,648	21,960	369	162,661	70,133	33,795	166,412	173,055	60,880
2009										
Mar	24,922	128,999	32,219	3,357	149,085	63,141	49,436	189,186	202,638	62,880
Jun	26,111	126,779	64,170	1,725	108,829	78,668	71,204	177,075	205,158	76,069
Sep	26,414	113,878	63,966	1,591	101,868	102,786	65,407	94,223	197,452	61,453
Dec	21,230	121,749	55,020	1,405	108,101	110,567	48,714	134,286	180,925	60,602
2010										
Jan	8,360	109,857	63,868	1,364	82,456	107,993	49,400	126,550	186,029	59,832
Feb	9,059	112,106	57,039	1,384	82,369	107,838	51,068	130,376	174,503	60,870
Mar	9,264	102,446	56,221	1,332	80,589	106,310	39,928	129,890	172,888	62,369
Apr	5,544	100,751	55,995	1,493	80,007	109,788	38,716	135,349	170,275	59,016
May	5,698	94,525	56,530	1,327	80,653	122,737	42,667	131,567	171,085	57,571
Jun	6,728	98,612	56,030	1,819	79,199	133,678	45,135	126,356	175,294	61,427
Jul	7,458	97,989	60,656	1,461	78,973	136,596	34,595	132,465	169,987	67,840
Aug	7,409	97,911	59,903	1,138	71,570	135,253	37,079	127,997	178,922	63,495
Sept	7,601	96,386	5,141	1,425	68,395	141,320	40,431	85,785	178,512	64,056
Oct	10,532	91,877	1,045	930	68,118	142,273	37,984	93,135	174,669	62,508
Nov	7,438	86,337	3,538	863	68,387	149,917	35,167	92,447	174,537	62,491
Dec	7,305	84,079	6,677	1,376	70,169	148,841	48,848	93,313	182,508	68,854

* Part of this table is continued on the next page
Source: CBSI

TABLE 1.4b - SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT OUTSTANDING (Cont'd)

(SBD'000)

End of Period	Entertainment and Catering	Central Government	Provincial Assemblies & Local government	Staturoty Corporations	Private Financial Institutions	Professional and Other Services	Personal	TOTAL	NON-RESIDENT
2007	929	7	829	0	428	49,811	191,129	914,811	1,839
2008	5,082	13	837	0	682	46,666	263,331	1,174,227	3,173
2009	3,747	203	769	0	62	44,367	302,510	1,194,259	3,560
2010	8,450	0	1	1	82	55,724	299,080	1,075,460	152
2007									
Mar	4,257	1,589	923	769	309	54,430	134,883	669,895	476
Jun	538	25	302	0	5,869	49,533	148,513	720,397	417
Sep	572	6	672	0	325	48,938	163,664	826,194	427
Dec	929	7	829	0	428	49,811	191,129	914,811	1,839
2008									
Mar	1,079	3	1,279	0	1,049	49,843	211,006	963,630	1,577
Jun	1,499	10	651	0	969	52,686	222,452	1,058,138	2,198
Sep	3,867	18	690	1,181	685	52,792	237,247	1,151,671	2,422
Dec	5,082	13	837	0	682	46,666	263,331	1,174,227	3,173
2009									
Mar	2,212	279	565	0	641	59,381	274,548	1,243,488	3,269
Jun	2,578	298	349	6	561	54,046	280,026	1,273,652	3,479
Sep	3,478	205	237	0	361	49,827	295,726	1,178,874	3,666
Dec	3,747	203	769	0	62	44,367	302,510	1,194,259	3,560
2010									
Jan	7,846	2,084	44	12	89	71,758	335,910	1,213,718	285
Feb	7,556	2,091	32	49	42	70,205	336,345	1,203,313	333
Mar	8,358	2,446	42	0	42	71,355	330,560	1,174,202	164
Apr	7,855	474	156	103	81	66,336	319,224	1,151,320	160
May	8,000	479	0	0	15	63,134	310,230	1,146,350	133
Jun	7,295	392	0	0	93	65,891	308,229	1,166,306	128
Jul	6,916	9	0	0	17	65,273	316,727	1,180,877	3,917
Aug	7,418	258	0	0	39	62,322	311,617	1,166,235	3,904
Sep	8,329	1,128	162	0	93	62,797	305,298	1,067,018	158
Oct	8,399	50	46	82	621	61,058	304,674	1,058,161	159
Nov	8,873	0	0	210	97	62,656	299,159	1,061,088	153
Dec	8,450	0	0	1	82	55,724	299,080	1,075,460	152

Source: CBSI

TABLE 1.5 - COMMERCIAL BANK LIQUID ASSETS POSITION

(SBD'000)

	ELIGIBLE RESERVE ASSETS				REQUIRED RESERVE ASSETS	OTHER LIQUID ASSETS	SURPLUS/ DEFECIT)
End of Period	Till Cash/1	Balance With CBSI	Government Securities	Total		CBSI Securities	
2007	28,374	200,749	-	229,123	92,038	-	137,084
2008	20,369	165,906	-	165,906	98,139	-	67,768
2009	20,176	389,342	-	389,342	114,942	-	274,399
2007							
Mar	15,674	242,589	-	260,515	75,306	-	185,259
Jun	18,893	278,597	-	299,729	85,874	-	211,616
Sep	22,429	232,703	-	256,396	94,926	-	160,206
Dec	28,374	212,272	-	243,165	92,144	-	148,502
2008							
Mar	20,443	210,755	-	231,198	86,900	-	144,298
Jun	22,431	104,667	-	127,098	85,386	-	41,712
Sep	26,757	165,278	-	192,035	89,147	-	102,889
Dec	20,369	165,906	-	165,906	90,872	-	75,034
2009							
Mar	15,903	174,771	-	174,771	95,541	-	79,230
Jun	18,101	157,684	-	157,684	101,923	-	55,761
Sep	18,850	271,025	-	271,025	104,677	-	161,642
Dec	20,176	389,342	-	389,342	114,942	-	274,399
2010							
Jan	17,838	457,426	-	457,426	116,224	-	341,203
Feb	21,675	475,127	-	475,127	114,458	-	360,669
Mar	23,277	443,693	-	443,693	120,710	-	322,983
Apr	19,533	467,451	-	467,451	119,859	-	347,592
May	29,666	494,241	-	494,241	121,920	-	372,321
Jun	36,096	562,559	-	562,559	126,152	-	436,408
Jul	23,899	618,740	-	618,740	120,145	-	498,595
Aug	29,057	702,770	-	702,770	121,658	-	581,112
Sep	25,538	768,942	-	768,942	121,510	-	647,432
Oct	21,679	779,504	-	779,504	121,940	-	657,565
Nov	34,512	838,858	-	838,858	125,187	-	713,671
Dec	24,938	822,373	-	822,373	125,592	-	696,781

/1 Note As of November 2008,till cash no longer considered as liquid asset

Source: CBSI

TABLE 1.6 - ASSETS AND LIABILITIES OF DEVELOPMENT BANK OF SOLOMON ISLANDS

(SBD'000)

	ASSETS							LIABILITIES						
								Term Liabilities						
End of Period	Fixed Deposits	Treasury Bills	Term Loans	Equity Holds	Staff Loans	Fixed* Assets	Other* Assets	S.I.G	CBSI	Overseas#	N.P.F	Capital and Reserves	Other Liabil.	TOTAL ASSET= TOTAL LIABs.
2006														
Mar	350	-	30,821	-	451	1,313	-17,437	-	-	21,054	3,566	-13,386	4,264	15,498
Jun	430	-	28,327	-	383	1,416	-16,626	-	-	21,054	-3,551	-13,301	2,626	13,930
Sep	1,154	-	19,853	-	153	1,175	-9,949	-	-	21,054	-3,545	-13,481	1,268	12,386
Dec	1,752	-	17,277	-	-	1,038	-8,159	-	-	21,055	-3,528	-13,884	1,210	11,908
2007														
Mar	2,502		13,093	-	-23	831	-5,484	-	-	21,054	3,520	-14,438	783	10,919
Jun	22		10,000	-	-	1,064	-4,144	-	-	21,054	-35	-14,665	588	6,942
Sep	150		8,738	-	-	607	-2,626	-	-	21,054	-45	-14,802	662	6,869
Dec	150		8,202	-	-	641	-1,061	-	-	21,055	-45	-14,094	1,016	7,932
2008														
Mar	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Jun	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Sep	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Dec	na	na	na	na	na	na	na	na	na	na	na	na	na	n
2009														
Mar	2,485	-	922	-	-	890	1,466	-	-	40	-	-19,384	25,107	5,763
Jun	2,485	-	1,098	-	-	890	1,871	-	-	40	-	-18,996	25,300	6,344
Sep	90	-	797	-	-	890	800	-	-	40	-	-18,946	21,483	2,577
Dec	4,590	-	653	-	na	na	1,327	na	na	na	na	-14,527	21,097	6,570
2010														
Jan	4,589	na	632	na	na	na	1,373	na	na	na	na	-14,508	21,102	6,594
Feb	4,590	na	623	na	na	na	1,423	na	na	na	na	-14,461	21,097	6,636
Ma	230	na	602	na	na	na	801	na	na	na	na	-14,448	16,081	1,633
Apr	230	na	601	na	na	na	871	na	na	na	na	-14,439	16,141	1,702
May	230	na	599	na	na	na	920	na	na	na	na	-14,409	16,158	1,749
Jun	230	na	600	na	na	na	935	na	na	na	na	-14,407	16,172	1,765
Jul	230	-	559	-	-	-	989	-	-	-	-	-14,374	76,152	1,778
Aug	12,790	-	511	-	-	-	841	-	-	-	-	-2,021	16,163	14,142
Sep	13,050	-	497	-	-	-	618	-	-	-	-	-2,012	16,177	14,165
Oct	230	na	468	na	na	na	642	na	na	na	na	-2,033	3,373	1,340
Nov	230	-	452	-	-	-	642	-	-	-	-	-2,063	3,387	1,324
Dec	230	-	442	-	-	-	623	-	-		-	-2,109	3,404	1,295

* Less provision for depreciation. # Intermediated by SI Government

Source: DBSI.

TABLE 1-7 - BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION STATISTICS SUMMARY

(SBD'millions)

	2006	2007	2008	2009	2010
BALANCE OF PAYMENTS SUMMARY*					
CURRENT ACCOUNT					
Balance on Trade to Goods	**(621.6)**	**(745.8)**	**(635.6)**	**(598.0)**	**(1,079.1)**
Exports f o b	867 7	1,259 2	1,631 4	1,328 6	1,826 8
Imports f o b	1,489 3	2,004 9	2,267 1	1,926 6	2,905 9
Balance on Trade in Service	**(114.1)**	**(289.1)**	**(440.5)**	**(282.7)**	**(590.5)**
Services credit	403 5	451 2	457 6	563 3	845 6
Services debit	517 6	740 4	898 1	846 0	1,436 1
Balance on Primary Income	**(141.8)**	**(295.1)**	**(735.6)**	**(1,088.3)**	**(972.8)**
Primary income credit	95 8	109 2	159 0	106 6	141 1
Primary income debit	237 5	404 2	894 6	1,194 9	1,113 9
Balance on Secondary Income	**552.5**	**709.2**	**851.6**	**936.5**	**1,058.8**
Secondary income credit	631 1	777 6	952 2	1,219 0	1,535 0
Secondary income debit	78 5	68 4	100 7	282 6	477 0
Balance on Current Account	**(324.9)**	**(620.8)**	**(960.2)**	**(1,032.5)**	**(1,584.4)**
CAPITAL ACCOUNT					
Capital account credit	148 6	195 8	115 4	216 2	399 7
Capital account debit	-	-	4 5	-	4 2
Balance on Capital Account	**148.6**	**195.8**	**110.9**	**216.2**	**395.4**
Net Lending(+)/Borrowing(-) from Current & Capital Accounts	**(176.3)**	**(424.9)**	**(849.4)**	**(816.2)**	**(1,188.9)**
FINANCIAL ACCOUNT					
Financial assets	158 4	247 2	-5 7	399 2	973 6
Financial liabilities	336 8	588 3	818 0	1,148 1	2,198 8
Net Lending(+)/Borrowing(-) from Financial Account	**(178.3)**	**(341.0)**	**(823.6)**	**(748.9)**	**(1,232.4)**
Net errors & ommissions	(2 0)	83 9	25 8	67 3	36 3
NE&O as percent of goods trade	*-0.1%*	*2.6%*	*0.7%*	*2.1%*	*-0.8%*
Level of Official Reserves at end of period	**794.5**	**923.6**	**716.4**	**1,177.3**	**2,143.8**
INTERNATIONAL INVESTMENT POSITION					
Net Position	**(1,260.4)**	**(1,526.4)**	**(2,208.4)**	**(3,142.1)**	**(4,665.1)**
Financial Assets	**1,562.0**	**1,905.7**	**2,094.2**	**2,814.9**	**3,721.2**
Direct Investment	51 4	144 7	173 8	197 8	216 3
Portfolio Investment	-	-	105 9	96 1	96 5
Financial derivatives and employee stock options	-	-	-	-	-
Other Investments	716 1	837 3	1,098 2	1,343 7	1,264 6
Reserve Assets	794 5	923 6	716 4	1,177 3	2,143 8
Financial Liabilities	**2,822.4**	**3,432.0**	**4,302.6**	**5,957.0**	**8,386.3**
Direct Investment	1,163 2	1,656 3	2,391 8	3,356 5	5,274 5
Portfolio Investment	-	-	-	32 1	32 1
Financial derivatives and employee stock options	-	-	-	-	-
Other Investment	1,659 2	1,775 8	1,910 7	2,568 4	3,079 8

*BPM6 classifications

Source: CBSI

TABLE 1-8 - TRADE IN GOODS STATISTICS

(SBD'000)

GOODS	2006	2007	2008	2009	2010
TOTAL EXPORTS (f.o.b)	**867,659**	**1,259,150**	**1,631,436**	**1,328,586**	**1,826,805**
Copra & Coconut	21,802	53,513	177,422	53,446	98,164
Fish	129,847	157,755	176,052	134,013	196,805
Logs	600,179	766,814	854,873	710,042	1,005,692
Cocoa	30,827	45,532	69,142	116,750	140,652
Timber	24,452	40,413	50,596	51,672	46,846
Palm Oil & Kernels	16,195	110,141	164,151	134,604	256,246
Minerals	6,236	6,424	20,500	29,545	25,729
Other Exports	16,049	37,586	38,648	45,645	25,912
Re-exports & unrecorded	22,072	40,972	80,052	52,870	30,758
TOTAL IMPORTS (f.o.b)*	**1,489,287**	**2,004,937**	**2,267,051**	**1,926,569**	**2,905,890**
IMPORTS (c.i.f)	***1,671,037***	***2,246,652***	***2,542,677***	***2,159,355***	***3,269,677***
Food and live animals	269,780	386,335	492,981	486,225	633,270
Beverages and tobacco	29,359	40,371	28,081	31,285	40,516
Crude materials, excl fuels	8,155	16,479	7,874	18,315	16,947
Mineral fuels	427,225	544,451	652,044	417,593	457,015
Animal, veg and oil fats	6,666	9,575	13,712	7,149	15,502
Chemicals	100,568	122,586	170,022	77,551	180,805
Basic manufactures	181,730	276,487	335,850	301,025	464,693
Machinery and transport equipment	471,767	622,053	607,963	598,034	1,156,325
Miscillaneous	150,599	167,391	168,374	163,511	260,896
Goods not specified elsewhere	6,419	1 1,682	28,791	15,545	1,104
Re-imported & unecorded imports	18,768	49,242	36,985	43,121	33,793
'Frieghts and Insurance'	181,750	241,715	275,626	232,786	354,978
TRADE IN GOODS BALANCE (f.o.b)	**-621,628**	**-745,787**	**-635,615**	**-597,983**	**-1,079,084**

*Imports f.o.b=imports c.i.f -'freights & insurance'

Source: Customs Division - MOFT, National Statistics Office - MOFT & CBSI

TABLE 1-9 - FOREIGN EXCHANGE RECEIPTS*

(Year Ended)

(SBD'000)

	2005	2006	2007	2008	2009	2010
Current Receipts						
Exports						
Copra	16,418	14,066	36,768	177,421	30,778	31,349
Fish	86,921	145,855	151,392	188,489	132,598	48,773
Logs	510,162	643,574	838,693	934,366	773,307	1,153,149
Palm Oil & Kermels	0	30,719	105,281	233,005	80,176	104,534
Cocoa	64,329	31,444	70,838	70,166	116,212	157,441
Mineral	1,335	6,235	6,696	6,062	13,451	18,722
All Other	92,473	45,415	75,981	29,862	20,383	30,298
Total Exports	**771,636**	**917,308**	**1,285,651**	**1,639,372**	**1,166,905**	**1,544,267**
Services						
Transportation	8,759	10,956	15,608	12,365	13,728	13,842
Travel	24,736	31,377	26,867	27,295	32,690	28,114
Insurance	315	53	971	2,624	1,753	20,766
Royalties and License Fees	674	9,729	13,273	11,615	15,098	25,076
Communication	10,739	30,860	36,244	30,762	21,816	5,790
Financial Services	4,591	3,486	89	7,687	8,440	142
Others	223,277	317,945	467,602	560,051	653,795	772,182
Total Services	**273,091**	**404,406**	**560,654**	**652,398**	**747,321**	**865,913**
Income Account						
Wages and Others	32,874	50,766	22,969	27,531	31,531	35,971
Interest, Dividends and Profits	33	974	1,621	540	3,120	5,333
Official Interest	23,580	33,604	52,200	45,976	16,581	26,710
Other Income	7,366	1,617	3,215	16,066	239	47,596
Total Income	**63,853**	**86,962**	**80,006**	**90,113**	**51,471**	**115,609**
Transfers: Official						
Cash Aid	22,331	12,461	16,776	10,507	28,571	0
Other Official	31,094	42,954	60,916	42,859	75,334	59,348
Total Official Transfers	**53,425**	**55,415**	**77,692**	**53,366**	**103,905**	**59,349**
Transfers: Private						
Gifts and Donations	78,336	67,174	80,774	57,514	77,834	85,477
Transfers by Temporary Residence and Immigrants	20,334	65,737	8,028	3,842	1,926	3,677
Churches and Charitable Institutions	38,986	48,145	39,270	60,294	66,291	58,808
Foreign Governments	52,656	55,604	57,225	45,445	56,572	72,345
International Organisations	72,934	143,828	114,940	139,895	192,618	203,778
Other Transfers	185	617	267	491	629	273
Total Private Transfers	**263,432**	**381,105**	**300,503**	**307,482**	**395,870**	**424,359**
Total Current Receipts	**1,425,437**	**1,845,196**	**2,304,505**	**2,742,730**	**2,465,472**	**3,009,496**
Capital and Financial Receipts						
Private						
Investment Grants	6,828	6,011	61,907	112,712	62,548	115,107
Direct Investment	14,193	53,338	19,231	2,898	160	-
Loans	3,252	2,222	9,528	756	100,063	5,409
Other Foreign Ivestment	0	0	0	0	104	-
Total Private Inflows	**24,273**	**61,571**	**90,666**	**116,365**	**162,875**	**120,516**
Official						
Investment Grants	141,156	86,366	182,270	116,447	99,794	317,037
Loans	3,828	45	0	9,654	42,037	158,324
Central Bank	0	0	0	0	0	-
Euro Loan	0	-	0	0	116,061	76,181
IMF Transactions	**144,984**	**86,411**	**182,270**	**126,101**	**257,892**	**551,543**
Total Official Inflows						
Total Capital Receipts	**169,257**	**147,982**	**272,936**	**242,466**	**420,767**	**672,059**
TOTAL RECEIPTS	**1,594,695**	**1,993,178**	**2,577,441**	**2,985,196**	**2,886,239**	**3,681,555**

***Derived from the banking system.**
Source: CBSI

TABLE 1-10 - FOREIGN EXCHANGE PAYMENTS*

(Year Ended)

(SBD'000)

	2005	2006	2007	2008	2009	2010
Current Payments						
Imports						
Oil Imports	323,066	414,331	434,324	495,758	315,247	422,598
Food Imports	153,490	164,578	231,381	338,137	387,139	555,892
Beverages and Tobacco	17,959	13,258	26,223	52,404	32,441	61,338
Plants, Vehicles and Transport Equipment	104,237	159,522	206,847	212,838	195,307	247,765
Building and Construction Materials	60,005	63,048	95,429	133,367	125,717	127,400
Checmical	15,044	16,075	36,103	43,907	30,120	35,398
Other Imports	409,630	565,581	806,027	809,806	661,583	622,029
Total Imports	**1,083,432**	**1,396,392**	**1,836,334**	**2,086,218**	**1,747,554**	**2,072,422**
Services						
Transportation	65,727	75,018	132,134	124,965	103,212	89,808
Travel	35,649	31,369	58,745	66,523	63,816	73,452
Insurance	8,507	3,850	6,903	8,676	19,176	26,990
Communication	14,268	12,812	15,401	26,015	18,351	45,228
Financial	14,209	21,865	40,382	45,361	35,708	27,804
Royalties and License Fees etc.	1,749	891	2,074	2,487	434	3,915
Others	81,398	83,923	147,828	196,963	245,469	293,506
Total Services	**221,508**	**229,728**	**403,466**	**470,991**	**486,166**	**560,703**
Income						
Wages and Others	11,820	13,700	28,019	19,797	36,209	32,753
Interest Dividends and Profits	32,386	38,323	60,310	66,575	125,369	171,582
Official Interest	7,619	2,520	23,970	30,466	14,586	15,511
Other Income	-	-	-	-	-	2,032
Total Income Payments	**51,824**	**54,543**	**112,299**	**116,838**	**176,164**	**221,873**
Transfers						
SI Government Foreign Offices	7,946	2,432	7,541	10,585	13,665	39,893
SI Government Current Payments	30,708	44,243	43,022	62,695	40,249	68,963
Gifts and Donation	218,466	249,432	222,112	273,211	196,081	190,335
Transfers by Temporary Residents	2,797	6,220	6,014	3,156	6,148	3,372
Other Transfers	18,263	11,924	12,947	16,866	14,015	1,602
Total Transfers	**278,179**	**314,252**	**291,637**	**366,512**	**270,160**	**304,165**
Total Current Payments	**1,634,943**	**1,994,915**	**2,643,737**	**3,040,559**	**2,680,044**	**3,157,136**
Capital and Financial Payments						
Private						
Loan Repayments	16,013	2,537	7,542	15,716	11,437	58,091
Capital Repatriation	-	-	-	50	3	-
Emigrant Transfers	761	1,295	456	2,278	252	4,078
Other Payments	2,004	35,126	87,877	19,823	16,234	949
Total Private Outflows	**18,779**	**38,957**	**95,875**	**37,866**	**27,925**	**63,118**
Official						
S I Government Loans	68,617	36,485	65,542	84,529	50,174	72,196
CBSI	-	-	-	-	-	-
IMF Transactions	-	-	-	3	-	-
Total Official Outflows	**68,618**	**36,485**	**65,542**	**84,532**	**50,174**	**72,196**
Total Capital Payments	**87,397**	**75,442**	**161,417**	**122,399**	**78,099**	**135,313**
TOTAL PAYMENTS	**1,722,339**	**2,070,357**	**2,805,154**	**3,162,958**	**2,758,144**	**3,292,449**

***Derived from the banking system.**
Source: CBSI.

TABLE 1-11 - EXCHANGE RATES
(SBD per foreign currency)

Period Average	USD	AUD	GBP	JPY (per 100)	NZD	EUR	S D R
Annual							
2006	7 61	5 73	14 01	6 54	4 94	9 55	11 20
2007	7 65	6 41	15 32	6 51	5 63	10 51	11 71
2008	7 75	6 59	14 35	7 51	5 52	11 38	12 22
2009	8 05	6 37	12 60	8 66	5 12	11 23	12 38
2010	8 06	7 42	12 48	9 20	5 78	10 71	12 32
Quarterly							
2006							
Mar	7 59	5 62	13 31	6 50	5 05	9 13	10 95
Jun	7 60	5 67	13 86	6 64	4 74	9 54	11 19
Sep	7 61	5 76	14 25	6 54	4 83	9 69	11 28
Dec	7 63	5 88	14 62	6 48	5 15	9 84	11 37
2007							
Mar	7 64	6 00	14 94	6 40	5 32	10 02	11 46
Jun	7 64	6 35	15 19	6 33	5 66	10 30	11 59
Sep	7 66	6 48	15 48	6 50	5 67	10 58	11 74
Dec	7 66	6 81	15 67	6 80	5 85	11 14	12 05
2008							
Mar	7 66	6 94	15 17	7 28	6 05	11 48	12 26
Jun	7 66	7 23	15 11	7 33	5 95	11 98	12 47
Sep	7 72	6 86	14 62	7 17	5 51	11 61	12 20
Dec	7 95	5 34	12 49	8 26	4 59	10 45	11 97
2009							
Mar	8 03	5 33	11 54	8 60	4 28	10 49	11 99
Jun	8 06	6 11	12 47	8 28	4 85	11 00	12 23
Sep	8 06	6 72	13 24	8 61	5 45	11 53	12 58
Dec	8 06	7 32	13 16	9 13	5 88	11 92	12 73
Monthly							
2010							
Jan	8 06	7 38	13 04	8 83	5 87	11 53	12 63
Feb	8 06	7 14	12 63	8 94	5 63	11 05	12 47
Mar	8 06	7 35	12 15	8 91	5 67	10 95	12 29
Apr	8 06	7 46	12 38	8 63	5 29	10 83	12 24
May	8 06	7 07	11 86	8 75	5 65	10 15	11 95
Jun	8 06	6 88	11 89	8 87	5 57	9 86	11 92
Jul	8 06	7 05	12 32	9 20	5 74	10 29	12 11
Aug	8 06	7 26	12 63	9 43	5 77	10 42	12 24
Sep	8 06	7 54	12 55	9 55	5 86	10 52	12 30
Oct	8 06	7 92	12 79	9 84	6 05	11 20	12 79
Nov	8 06	7 98	12 89	9 79	6 23	11 04	12 59
Dec	8 06	7 97	12 59	9 66	6 04	10 65	12 38

Source CBSI

TABLE 1-12 - GOVERNMENT SECURITIES BY HOLDER AND INSTRUMENT

(SBD'000)

	DEVELOPMENT & TREASURY BONDS AMORTIZED						TREASURY BILLS						OTHER	
End of Period	Commercial Banks	Central Bank	SINPF	Statut. Corpn.	Public	Total	Commercial Banks	Central Bank	SINPF	Statut. Corpn.	Public	Total	Central Bank	GRAND TOTAL
2007	121,353	114,582	125,155	-	1,206	362,295	6,737	59	5,762	-	15,589	28,148	10,716	401,159
2008	110,138	109,104	115,549	-	1,095	335,886	4,993	917	5,150	-	10,797	21,856	10,364	368,107
2009	86,660	103,502	107,060	-	1,028	298,249	21,940	50	-	-	5,655	27,645	4,940	330,834
2010	95,164	97,772	99,315	-	958	293,209	23,520	-	8,992	-	6,990	39,502	4,940	337,651
2007														
Mar	126,553	118,610	131,209	-	1,258	377,630	6,170	487	2,836	1,488	21,886	32,867	10,716	421,214
Jun	124,834	117,275	128,941	-	1,241	372,291	6,772	79	6,676	-	17,635	31,162	10,716	414,169
Sep	123,101	115,932	127,024	-	1,224	367,280	7,967	79	2,355	-	19,113	29,514	10,716	407,511
Dec	121,353	114,582	125,155	-	1,206	362,295	6,737	59	5,762	-	15,589	28,148	10,716	401,159
2008														
Mar	119,597	113,224	123,466	-	1,880	358,166	13,188	40	5,450	-	14,451	33,128	10,716	402,011
Jun	117,829	111,858	121,994	-	1,171	352,852	8,265	278	5,690	-	16,356	30,589	10,364	393,805
Sep	113,918	110,485	119,566	-	1,153	345,123	4,457	139	4,965	-	18,475	28,035	10,364	383,522
Dec	110,138	109,104	115,549	-	1,095	335,886	4,993	917	5,150	-	10,797	21,856	10,364	368,107
2009														
Mar	107,790	107,714	112,300	-	1,079	328,883	14,963	0	-	-	7,696	22,659	10,364	361,907
Jun	88,976	106,319	111,117	-	1,062	307,474	-	79	-	-	6,021	6,100	10,364	323,938
Sep	87,949	104,914	109,091	-	1,045	303,000	19,946	10	-	-	6,002	25,958	4,940	333,898
Dec	86,660	103,502	107,060	-	1,028	298,249	21,940	50	-	-	5,655	27,645	4,940	330,834
2010														
Mar	100,415	102,081	104,992	-	1,011	308,499	8,885	10	13,070	-	7,755	29,719	4,940	343,159
Jun	98,411	100,653	102,898	-	994	302,956	13,675	40	9,240	-	5,834	28,789	4,940	336,685
Sep	96,848	99,216	101,307	-	976	298,347	17,773	335	9,893	-	7,243	35,244	4,941	338,532
Dec	95,164	97,772	99,315	-	958	293,209	23,520	-	8,992	-	6,990	39,502	4,940	337,651

Note: -NPF, Public and Statutory Corporations use data for the last Wednesday of the month. Commercial Banks and Central Bank use end month data.
-As of *Qtr1'03 Commercial Bank SIG Bonds include Restsructured only
*Qtr4'04 NPF SIG Bonds include Restructured & Armotised
*Qtr1'06 Central Bank SIG Bonds include Restructured & Armotised

Source : CBSI

TABLE 1-13 - SUMMARY OF GOVERNMENT ANNUAL ACCOUNTS AND BUDGET FORECASTS

(SBD million

	2008 Act.	2009 Rev. Est.	2009 Act.	2010 Est.	2010 Act.	2011 Est.
Total Revenue and Grants	**1,574.3**	**1,611.4**	**1,705.7**	**1,961.3**	**2,261.4**	**2,255.6**
Recurrent Revenue	**1,494.3**	**1,521.4**	**1,604.1**	**1,881.3**	**2,150.6**	**2,175.6**
Local Revenue	1,370.0	1,420.4	1,489.8	1,708.3	1,743.3	1,968.6
Inland Revenue Division	834.7	900.0	925.5	1,070.0	1,106.8	1,280
Customs	388.4	380.0	382.8	426.4	496.3	502.4
Non-tax (including airspace fees)	146.9	140.4	181.5	211.9	140.3	186.2
Unidentified Deposit			0.2		3.6	
Budget Support	124.3	101.0	114.4	173.0	407.3	207
Development Revenue	**80.0**	**90.0**	**101.6**	**80.0**	**110.8**	**80.0**
Grants for consolidated funds	80.0	90.0	101.6	80.0	110.8	80
SIG Surplus (Development Financing)						
Total Expenditure	**1,680.7**	**1,774.8**	**1,701.1**	**2,114.8**	**1,871.8**	**2,231.4**
Recurrent Expenditure	**1,403.7**	**1,484.8**	**1,426.8**	**1,714.5**	**1,515.3**	**1,707.2**
Payroll	432.0	455.5	471.9	576.9	563.0	587.5
Other Charges	799.0	755.9	687.0	899.8	573.6	858.2
Debt Servicing (CBSI)	163.2	172.4	104.5	64.8	117.6	120.0
Budget Support	63.6	101.0	125.3	173.0	215.1	115.0
Increased Government Debt Arrears	-54.1		1.2		-20.6	
Suspense A/c			3.0		3.6	
Imprest			33.8		63.0	
Contigency warrant						26.5
Development Expenditure	**277.0**	**290.0**	**274.4**	**400.3**	**356.5**	**524.2**
SIG-Funded Development Expenditue	197.0	200.0	182.6	320.3	248.2	417.7
Donor Funded	80.0	90.0	91.7	80.0	108.3	80
Contigency warrant						26.5
Recurrent Surplus (deficit)	**90.6**	**36.6**	**177.4**	**166.8**	**635.3**	**468.4**
Overall Surplus (deficit)	**-106.4**	**-163.4**	**4.6**	**-153.5**	**389.6**	**24.2**

Source: Ministry of Finance and CBSI

TABLE 1-14 - GOVERNMENT REVENUES

(SBD'000)

End of period	Total Customs & Inland Revenue	Total Customs	Import Duty	Log Export Duty	Timber Levy	Other Exports	Other Customs	Total Inland Revenue	Company	Personal	Govt. PAYE	Goods & Sales	Other I.R	Ministries & Others*
2007	924,954	334,557	98,960	173,899	-	7,794	53,905	590,397	103,323	91,983	50,097	282,839	62,155	138,156
2008	1,223,161	388,427	110,600	210,290	-	5,532	62,005	834,734	189,747	116,799	68,373	368,449	91,366	146,868
2009	1,308,244	382,767	127,904	164,903	-	6,777	83,183	925,477	220,995	143,261	79,300	366,971	114,951	181,490
2010	1,598,754	491,968	135,979	239,882	-	4,915	111,191	1,106,786	216,810	194,623	85,630	457,658	152,066	113,841
2007														
Q1	210,332	85,794	24,343	47,626	-	645	13,180	124,538	18,442	20,155	9,300	63,653	12,987	26,123
Q2	225,613	78,078	25,563	39,749	-	542	12,224	147,535	35,051	22,968	11,870	64,315	13,331	46,839
Q3	240,484	85,375	26,408	43,630	-	973	14,364	155,709	24,549	25,179	14,191	74,251	16,939	18,720
Q4	248,526	85,311	22,646	42,895	-	5,634	14,137	163,215	25,281	23,681	14,735	80,620	18,898	46,473
2008														
Q1	262,099	79,313	23,839	42,621	-	747	12,107	182,786	40,626	22,867	14,635	86,267	18,391	32,551
Q2	292,880	100,725	30,582	55,957	-	1,729	12,457	192,155	34,636	32,275	15,667	91,917	17,660	37,536
Q3	327,138	112,483	27,391	56,324	-	894	27,873	214,655	53,306	31,531	18,335	92,165	19,318	23,063
Q4	341,045	95,906	28,787	55,388	-	2,163	9,567	245,139	61,179	30,126	19,736	98,100	35,998	53,718
2009														
Q1	279,476	91,945	34,019	39,624	-	2,266	16,036	187,531	43,432	31,468	17,482	77,433	17,717	41,979
Q2	316,647	95,168	27,040	49,515	-	447	18,165	221,480	53,643	32,534	19,024	84,738	31,540	51,713
Q3	345,401	103,079	36,751	43,472	-	895	21,961	242,322	57,801	43,289	18,399	100,977	21,856	21,791
Q4	366,720	92,575	30,094	32,291	-	3,169	27,021	274,145	66,118	35,970	24,396	103,823	43,838	66,007
2010 *														
Q1	319,062	98,153	27,993	48,235	-	654	21,272	220,909	37,992	41,393	21,074	94,345	26,104	18,336
Q2	374,310	116,911	33,221	54,319	-	1,414	27,956	257,399	66,806	45,195	20,322	105,463	19,614	21,248
Q3	421,045	122,233	35,402	56,852	-	659	29,319	298,812	55,727	52,144	23,609	125,873	41,459	20,214
Q4	484,337	154,671	39,363	80,476	-	2,188	32,644	329,667	56,284	55,891	20,625	131,977	64,889	54,043

*Preliminary
Source: Ministry of Finance & Treasury

TABLE 1-15 HONIARA RETAIL PRICE INDEX

(1992 = 100)

End of Period	Food	Drink & Tobacco	Clothing & Footwear	Housing & Utilities	Houshold Operations	Transport & Commun.	Recreation & Others	Miscell.	Local Items	Imported Items	All Items	Annual %Change
Weight	429	47	38	181	47	164	76	18	602	398	1000	
Annual Average (12mma)												
2007	363.4	367.2	167.1	474.8	321.4	441.7	398.9	260.7	433.2	316.0	369.0	7.7
2008	451.1	400.6	167.6	552.5	372.6	504.2	411.4	311.4	487.7	393.7	433.0	17.3
2009	468.2	404.3	170.3	564.6	381.5	510.0	510.0	317.2	497.3	405.8	443.7	7.1
2010	491.8	475.9	197.1	552.0	433.8	553.2	418.7	362.3	529.7	422.7	468.2	1.0
Quarterly Average (3mma)												
2008 Q1	391.6	404.4	166.2	516.5	352.7	466.6	411.4	297.0	458.2	346.3	396.1	9.8
Q2	441.7	399.4	168.0	540.6	363.6	491.9	411.4	302.6	477.8	385.2	423.8	16.5
Q3	481.5	392.8	168.3	563.7	377.0	545.1	411.4	318.2	502.3	421.7	453.5	23.5
Q4	489.6	392.8	168.1	589.3	397.2	513.2	411.4	327.8	512.4	421.5	458.6	19.4
2009 Mar	501.2	588.9	178.1	588.9	405.6	506.9	390.0	331.3	523.8	419.6	464.0	17.3
Jun	512.6	547.8	174.6	547.8	409.0	524.8	393.8	334.5	525.3	417.7	463.8	13.3
Sep	504.6	539.1	184.3	539.1	416.7	536.7	394.4	337.2	519.7	421.3	462.6	9.7
Dec	500.8	542.4	184.4	542.4	419.7	537.8	394.8	338.1	518.2	423.1	462.7	6.2
2010 Q1	505.9	474.7	195.7	547.2	419.8	547.8	418.0	345.5	535.3	423.2	471.3	1.6
Q2	493.4	485.1	196.6	547.7	423.5	556.8	418.0	360.1	536.7	415.5	468.4	1.0
Q3	483.7	469.1	197.6	554.9	442.4	554.5	418.0	370.6	523.8	424.0	465.8	0.7
Q4	484.3	474.8	198.4	558.1	449.7	553.6	420.8	372.8	522.9	428.2	467.2	0.6
2010 Jan	502.7	548.8	195.7	548.8	422.2	544.5	418.0	344.5	526.0	429.3	469.4	1.5
Feb	501.5	545.2	195.7	545.2	419.2	547.7	418.0	346.0	535.7	419.3	469.7	1.8
Mar	513.5	547.7	195.7	547.7	418.1	551.3	418.0	346.0	544.2	421.2	474.9	1.6
Apr	497.4	546.6	195.7	546.6	417.8	551.7	418.0	347.7	543.9	411.4	470.1	1.1
May	493.6	547.7	196.1	547.7	419.2	557.3	418.0	362.2	536.4	414.1	467.6	1.0
Jun	489.1	548.8	198.0	548.8	433.4	561.3	418.0	370.2	529.7	420.9	467.3	1.0
Jul	489.4	553.6	197.6	553.6	433.4	557.7	418.0	370.0	530.1	422.5	468.3	1.0
Aug	481.5	555.5	197.6	555.5	446.8	563.8	418.0	370.0	524.9	424.4	466.7	1.0
Sep	480.3	555.5	197.6	555.5	446.8	542.1	418.0	371.8	516.3	425.0	462.6	0.7
Oct	485.0	464.1	198.2	556.2	449.9	547.7	420.8	368.1	466.0	426.3	466.0	0.5
Nov	486.3	471.9	198.5	557.4	449.6	547.7	420.8	375.2	467.0	428.2	467.0	0.3
Dec	481.5	488.3	198.5	560.7	449.6	565.4	420.8	375.2	468.6	430.1	468.0	0.6

Source: National Statistics Office, Ministry of Finance

**The figures from Q4 2005 and onward have been revised as a result of the rebasing exercise that sees Q4 2005 as the new base period.

TABLE 1-16 - INTERNATIONAL COMMODITY PRICES

End of Period	Copra (US$/m.t)	Palm Oil (US$/m.t)	Fish # (US$/m.t)	Cocoa (US$/m.t)	Logs (US$/M^3)
2007	607	780	1,289	1,952	268
2008	816	1,006	1,683	2,577	292
2009	480	682	1,189	2,890	287
2010	750	901	1,491	3,134	278
Quarterly					
2007					
Mar	499	609	1,068	1,813	265
Jun	599	762	1,162	2,000	395
Sep	607	821	1,418	1,999	270
Dec	724	926	1,508	1,999	275
2008					
Mar	914	1,384	1,479	2,477	293
Jun	1,013	1,198	1,710	2,764	282
Sep	817	928	1,937	2,826	278
Dec	520	515	1,604	2,241	316
2009					
Mar	447	577	1,083	2,597	314
Jun	513	742	1,192	2,587	285
Sep	469	678	1,508	2,955	280
Dec	491	732	974	3,420	271
2010					
Mar	557	808	1,092	3,299	254
Jun	636	814	1,533	3,210	254
Sep	769	875	2,150	3,062	294
Dec	1,038	1,108	1,188	2,966	312
Monthly					
2010					
Jan	524	795	1,100	3,523	258
Feb	538	798	1,100	3,296	253
Mar	608	832	1,075	3,077	250
Apr	628	830	1,100	3,213	246
May	630	813	1,675	3,186	254
Jun	651	798	1,825	3,231	261
Jul	689	807	2,150	3,222	275
Aug	772	905	2,150	3,091	295
Sep	847	912	2,150	2,874	311
Oct	947	987	1,375	2,927	316
Nov	1,013	1,109	1,115	2,910	313
Dec	1,154	1,228	1,075	3,060	307

Thailand Market prices. (C+F Bangkok)
Source: World Bank and Infofish.

TABLE 1-17 - PRODUCTION BY MAJOR COMMODITY

Period	Copra (m.t)	Coconut Oil (m.t)	Palm Oil (m.t)	Palm Kernel (m.t)	Cocoa (m.t)	Fish Catch (m.t)	Log ('000M^3)
2008	38,979	546	20,811	20,811	4,259	25,378	1,523
2009	21,973	89	23,204	7,083	4,671	19,300	1,045
2010	24,395	123	28,615	7,532	5,205	21,385	1,428
Quarterly							
2007							
Mar	5,661	289	3,417	829	793	4,013	374
Jun	5,257	236	4,303	1,052	614	3,778	283
Sep	5,109	115	4,991	1,464	580	5,479	371
Dec	5,271	101	4,440	1,484	1,907	7,926	418
2008							
Mar	8,516	256	4,867	4,867	1,261	5,003	415
Jun	9,990	228	4,327	4,327	556	4,628	397
Sep	11,189	54	5,226	5,226	527	7,141	425
Dec	9,285	8	6,390	6,390	1,915	8,607	382
2009							
Mar	2,905	154	5,340	1,656	1,136	3,598	392
Jun	5,849	161	5,513	1,914	909	4,420	288
Sep	6,323	160	5,708	1,783	792	4,832	261
Dec	6,896	159	6,643	1,730	1,834	6,450	292
2010							
Mar	3,926	42	7,320	1,836	951	5,540	324
Jun	5,704	42	7,936	2,171	1,490	3,130	294
Sep	6,129	26	7,125	1,907	1,479	5,625	396
Dec	8,636	14	6,233	1,619	1,286	7,090	414
Monthly							
2010							
Jan	834	15	2,760	675	274	2,725	89
Feb	1,806	8	2,036	520	354	1,855	75
Mar	1,286	19	2,525	640	322	960	160
Apr	2,204	13	2,577	696	339	1,350	83
May	1,764	11	2,616	711	566	675	101
Jun	1,736	18	2,744	764	584	805	110
Jul	1,873	13	2,893	754	661	825	170
Aug	1,927	6	2,280	603	460	2,440	107
Sep	2,328	8	1,953	550	359	2,360	119
Oct	2,701	4	1,951	522	380	2,370	87
Nov	2,759	4	2,276	608	462	2,965	126
Dec	3,175	5	2,006	490	444	1,755	206

Source: CBSI

TABLE 1-18 - REAL GROSS DOMESTIC PRODUCT
(1985 = 100)

Industry	2005	2006	2007	2008	2009	2010
Agriculture	118.1	120.8	147.6	167.7	167.7	176.1
Forestry, Logging, Sawmilling	288.3	306.5	381.5	398.6	287.0	379.5
Fishing	104.4	130.6	116.5	122.1	117.4	128.0
Mining & Exploration	-3.3	-3.3	-5.0	-5.6	-55.7	-55.7
Manufacturing	137.1	141.0	144.1	147.7	145.1	161.5
Electricity and Water	250.6	255.0	285.6	291.1	283.0	296.1
Construction	52.9	70.6	101.2	110.3	115.3	115.2
Retail and Wholesale Trade	143.3	143.3	152.6	165.0	164.3	167.4
Transport and Communications	146.7	187.6	225.9	250.9	301.7	330.9
Finance	231.7	236.0	257.8	262.6	267.5	272.5
Other Services	135.4	144.2	153.8	170.4	183.4	187.0
Index of Monetary GDP Production	147.5	158.6	179.1	194.3	191.0	206.8
Annual % movement	5.6	7.4	13.0	8.5	-1.7	8.3
Index of Primary Production	151.2	162.4	190.3	206.6	181.8	208.6
Annual % movement	6.7	7.4	17.2	8.5	-12.0	14.7
Non-Monetary: Food	169.6	174.3	179.2	184.2	189.4	194.7
Non-Monetary: Construction	164.4	169.0	173.8	178.6	183.6	188.8
Non-Monetary GDP Index	169.2	173.9	178.8	183.8	188.9	194.2
Index of Total GDP Production	**151.8**	**161.1**	**178.4**	**191.5**	**189.1**	**202.6**
Annual % movement	**5.0**	**6.1**	**10.7**	**7.3**	**-1.2**	**7.1**

Source: CBSI