VISION, MISSION, AND VALUE STATEMENTS

VISION

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

MISSION

Our mission is defined by Section 8 of the Central Bank of Solomon Islands Act 2012 in the following priorities:

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

VALUE

We are committed to uphold the following values:

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

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2018 CBSI Annual Report

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CENTRAL BANK OF SOLOMON ISLANDS

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

Dear Minister,

Re: 2018 CBSI Annual Report and Financial Statements

As required by Section 58(2) of the Central Bank of Solomon Islands (CBSI) Act 2012, I hereby submit to you the Central Bank of Solomon Islands Annual Report and the Bank's Audited Financial Statements for 2018.

Yours sincerely,

DENTON RARAWA
Governor

GOVERNOR'S FOREWORD

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

Overall, 2018 had been a positive year for the Bank and the country as a whole.

The Solomon Islands economy grew by an estimated 3.9% in 2018, attributed in large part, to growth in the forestry, transportation, construction and communication sectors.

There were also positive developments on other fronts. Government continue to repay its debt obligations resulting in the country's public debt levels among the lowest in the region.

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

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

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

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

2018 Highlights

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

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

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

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

Governor Denton Rarawa

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

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

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

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

Governor Rarawa and Mr. Malcolm McDowell of Note Printing Australia (NPA) after the sign off, of the new $5 polymer note in Melbourne

Bank Group Annual meetings in Bali in October.

Outlook for 2019

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

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

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

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

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

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

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

Thank you all.

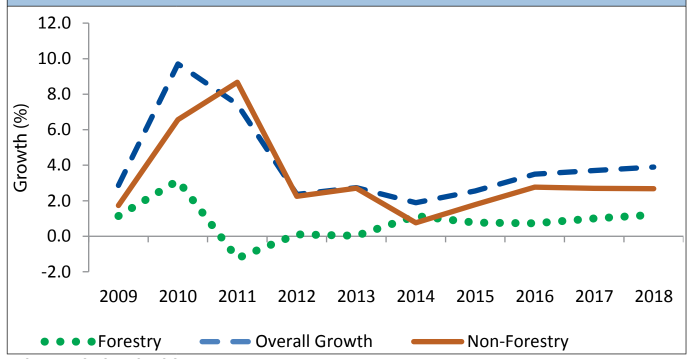
Denton Rarawa
Governor

CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2018

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

FIGURE 1.1:

ECONOMIC GROWTH



Source: CBSI & SINSO

International Economy

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

Within the region, the slowdown in China remained a concern as growth slid 30 basis points to 6.6%, due to the prevailing trade actions and a gradual realignment of the economy after years of bumper growth. In Australia, the economy is estimated to have expanded on an annual basis by 20 basis points to 2.8% in 2018, aided by strong net exports and fiscal spending that were offset by a severe downturn in the second half of the year as domestic activity softened[2]. Meanwhile, growth in New Zealand accelerated in 2018 to 3.1%, underpinned by a fiscal stimulus, strong labour demand and low interest rates[3].

Meanwhile, average oil prices were volatile in the second half of 2018 and rose by 29.9% year on year; this stemmed mainly from global supply-side geo-political pressures. The high energy prices led to a rise in global inflation, affecting both the advanced and emerging economies. In the latter, headline inflation rose by 60 basis points to 4.9%, while in the former, by 30 basis points to 2%. Within the region, inflation in Australia remained low at 1.9% as fuel prices dissipated at the end of the year amidst slow growth in labour costs and rents2. While, consumer prices in New Zealand were up 30 basis points, year on year to 1.9% on the back of fuel increases in the first half of the year and tighter labour conditions3.

Domestic Economy

Output in the domestic economy grew by 3.9%, primarily driven by a 2.1% expansion in the services sector, along with a 1.7% and 0.5% contributions from the primary and secondary sectors respectively[4]. The robust outturns from the services sector stemmed from the growth in wholesale retail, transport and financial services. Meanwhile the increase in forestry and fisheries production accounted for the rise in the primary sector, and the smaller growth in the secondary sector came from manufacturing and construction activities.

In tandem with the positive economic environment, employment conditions[5] improved during the year, with a 7% rise in the Solomon Islands National Provident Fund's (SINPF) total contributors to 58,736 members. Similarly, the Solomon Islands Government (SIG) increased its staffing levels by 2% to 17, 864 positions. Also, the World Bank's locally based Rapid Employment program increased its short-term labour work force activities in the country. Moreover, there was an uptick in local workers travelling to Australia and New Zealand to work under the Seasonal Worker arrangement.

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

External sector conditions remained vibrant during the year with the Balance of Payments (BOP) surplus position more than doubled to 5% of GDP (or $527 million) in 2018. This was principally due to a relative improvement in the current account deficit, and in particular, the positive outturn in exports. Meanwhile, the capital and financial account surplus slid from $790 million to $549 million

1 Information within the 'International Economy' section is sourced from the IMF World Economic Outlook update January 2019 unless otherwise stated.
2 RBA Statement on Monetary Policy February 2019.
3 RBNZ Monetary Policy Statement February 2019.
4 Statistical - Imputed items accounted for -0.5%.
5 Using SINPF total members (both slow and active) as proxy.

on the back of lower foreign investment inflows. Accordingly, the positive BOP result led to a 10% growth in the country's Gross Foreign Reserves[6] to $4,984 million and is sufficient to cover up to 12.5 months of imports. This is well above the CBSI's 6 months import cover threshold.

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

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

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

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

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

Economic Outlook

The forecast for the global economy in 2019 is lower at 3.5% due to the negative and escalating effects of the US - China trade dispute, disquiet with Brexit in the UK, and growth moderation in the Euro area. As such, the advanced economies are expected to slow to 2% in 2019, with the United States expected to slow to 2.5% as the impact of the tax incentive dissipates. Growth trends in the emerging markets are also slated to ease to 4.5% for the coming year. Where Chinese growth is expected to tick down to 6.2% due to the trade tensions and stringent financial sector regulations. Moreover, global oil and commodity prices are expected to fall in 2019, and result in lower projected global inflation[7].

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

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

Similarly, monetary conditions are expected to remain positive. Reserve money is projected to trend upward to $3.2 billion, aided by the expected rise in CBSI's net foreign assets. While broad money will moderately grow by 5% to $5.5 billion accompanied by expected slower credit growth. As such, excess liquidity will continue to rise over the forecast horizon.

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

CBSI's forecast range for headline inflation in 2019 is 3% - 5%. While external prices are projected to slow due to the expectation for slower global oil and commodity prices, domestic price pressures are expected to weigh heavily on consumer prices. This is related to potential supply disruptions due to chaotic weather conditions, and higher

6 The Gross Foreign Reserves in this section omits IMF Subscriptions as per Balance of Payments definitions.

7 IMF Wordl Economic Outlook update January 2019

Governor Denton Rarawa and PS MoFT Harry Kuma unveil the new $40 commemorative bank note, marking the 40th Independence Anniversary celebrations of Solomon Islands

utility costs. Moreover, structural changes to the Consumer Price Index methodology could also lead to uptick in recorded inflation.

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

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

CHAPTER 2: GOVERNANCE AND ORGANISATION

THE BOARD

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

(a) The Governor, as the chairperson

(b) The Deputy Governor;

(c) The Permanent Secretary, Ministry of Finance & Treasury; and

(d) Six non-executive directors.

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

The Governor

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

Board of Directors

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

Board Meetings

Under the CBSI Act, the Board is required to meet as often, but not less frequently than 6 times in a calendar year. At least two-thirds of the members are present, including at least one non-executive member and the Governor to form a quorum. Where no quorum is present, the Governor may convene an extraordinary meeting at which decisions may be made and must be ratified at the next regular meeting of the Board.

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

TABLE 2.1

BOARD OF DIRECTORS ATTENDANCE 2018

Directors Name	Number of Meetings attended (8)
Denton Rarawa	7
Gane Simbe/Luke Forau	5
Harry Kuma	3
John Usuramo	7
Thomas Ko Chan	3
David K C Quan	6
Rodney Rutepitu	7
Christina Lasaqa	7
Dennis Meone	7

Board Committees

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

Board Remuneration Committee

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

STAFF COMPLEMENT

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

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

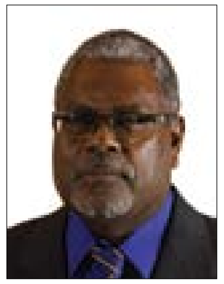
Retirement and Resignations

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

CENTRAL BANK OF SOLOMON ISLANDS BOARD OF DIRECTORS

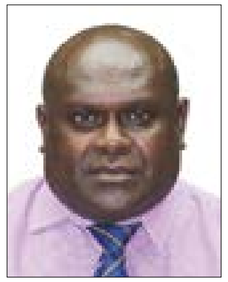
DENTON RARAWA
Governor and Chairman of the Board
- Governor since August 2008;
- Chairman, National Financial Inclusion Taskforce (NFIT);
- Deputy Chairman, Solomon Islands Anti-Money Laundering Commission (AMLC);
- Deputy Chairman, Investment Corporation of Solomon Islands (ICSI);
- Controller of Insurance
- Registrar of Credit Unions

Previous positions held:
- Deputy Governor, CBSI;
- Chairman, Solomon Airlines.



GANE SIMBE
Deputy Governor (up to September 2018)
- Appointed Deputy Governor, 18th September, 2008
- Member, CBSI Board Audit Committee
- Director, SolTuna Limited

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



HARRY KUMA
Permanent Secretary - Ministry of Finance and Treasury (up to December 2018)

Previous positions held:
- Under Secretary - Ministry of Finance and Treasury
- Board Chairman - Solomon Telekom Company LTD

DR LUKE FORAU
Deputy Governor
Appointed Deputy Governor, (From September 2018)
- Chairman, Economics Association of Solomon Islands
- Previous Positions held:
- Advisor to the Governors; CBSI
- Chief Manager, Economics Research & Statistics Department; CBSI
- Assistant Manager, Economics Department; CBSI

DAVID K.C. QUAN, MBE., MAICD., FIML.
Chairman, Solomon Islands Electricity Authority Board
- Managing Director - Quan Chee Corporation Limited

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

MR. RODNEY RUTEPITU
Management Accountant, Pacific Islands Forum Fisheries Agency.

Previous Positions held:
- Manager, Accounts & Information Technology Department; CBSI
- Assistant Manager, Accounts & Information Technology Department; CBSI
- Project Accountant – IPU; Ministry of Education & Human Resource Development

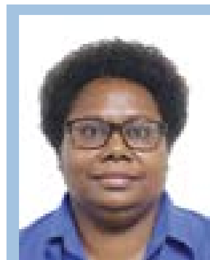
SIR THOMAS KO CHAN
Private businessman

CHRISTINA LASAQA
Assistant Chief Executive; Our Telekom

Previous Positions held:
- Head of Sales and Marketing; Our Telekom

DENNIS MEONE
Chief Executive Officer; Solomon Islands Chamber of Commerce and Industry (up to December 2018)

Previous Positions held:
- Senior Program Manager, Education and Scholarship Division, DFAT; Australian High Commission.
- Director (Acting) and Chief Policy Analyst, Economic Reform Unit (ERU); Ministry of Finance & Treasury.



SONIA MARAHARE
Legal Compliance, Governors Office
Appointed as Secretary to the Board in May 2017

TRAINING AND DEVELOPMENT

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

Long Term Training

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

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

Gender

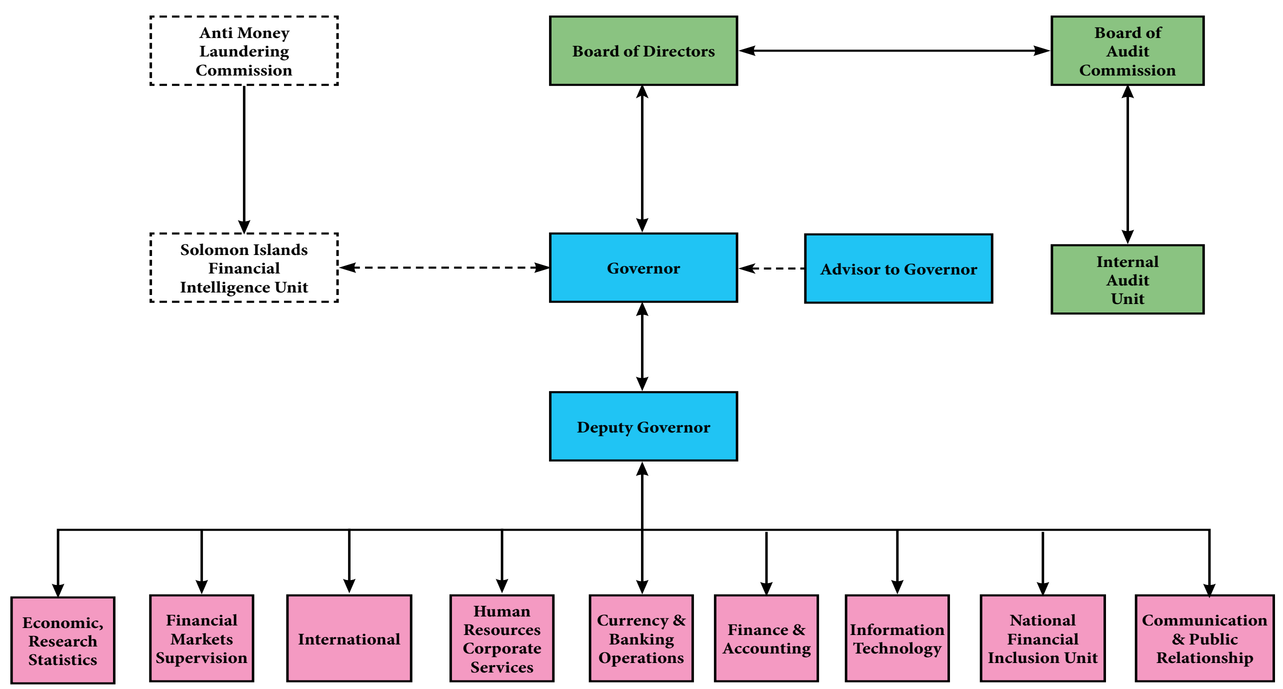
The CBSI is very supportive of women in training. Fifty five percent (55%) of staff currently on study are females. Seven (7) enrolled in postgraduate studies while four (4) are currently doing undergraduate studies. Three (3) of the officers have graduated from the USP with Postgraduate Certificates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

Short Term Training

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

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

CBSI ORGANISATIONAL CHART 2017



Members of the Bank's Investment Advisory Committee farewell outgoing Deputy Governor, Gane Simbe in August, 2018.

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

COMMUNITY AND PUBLIC RELATIONS

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

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

The Central Bank was also engaged in its annual programs which received significant public coverage. These included the Global Money Week, Careers Market and the Money Smart Day (MSD) open day events held in Honiara. CBSI officials along with staff from the Solomon Islands National Provident Fund (SINPF) conducted awareness on a new savings product called 'YouSave' to three major schools in Honiara, mainly St. John Secondary, Mbokona School and Mbokonavera High School. The Bank also participated for the second time at the Schools Careers Market day at Woodford, and later in the year organized and conducted its own MSD event with participation of three other schools and commercial banks. Moreover, CBSI was also a key sponsor to the 2018 National Oratory Competition by sponsoring the1st cash prize for the winners.

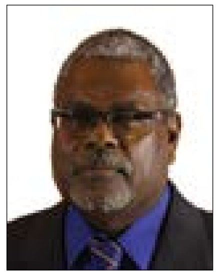
In terms of community outreach, CBSI participated in the Kodili Festival in Buala, Isabel Province conducting awareness talks, presentations and shared with the public issues regarding currency, roles and functions of the Bank. CBSI was also able to launch a public radio campaign program in September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

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

CENTRAL BANK OF SOLOMON ISLANDS MANAGEMENT 2018

GOVERNORS OFFICE

DENTON RARAWA
Governor



GANE SIMBE
Deputy Governor
(To Sept 2018)

DR LUKE FORAU
Advisor to the Governor
(Deputy Governor from Sept 2018)

CURRENCY & BANKING OPERATIONS DEPARTMENT

DANIEL HARIDI
Chief Manager

JOE VASUNI
Manager

INTERNATIONAL DEPARTMENT

DENSON DENNI
Chief Manager (Ag)

ELLEN FALASI
Manager (Ag)

HUBERT VAHIA
Manager (Ag)

ECONOMIC RESEARCH & STATISTICS DEPARTMENT

DONALD KIRIAU
Chief Manager (Ag)

LOUISA BARAGAMU
Manager (Ag)

VITARINA TAKANA
Manager (Ag)

INFORMATION & TECHNOLOGY DEPARTMENT

EDWARD MANEDIKA
Chief Manager

MARLON HOUKARAWA
Manager

HUMAN RESOURCE & CORPORATE SERVICES DEPARTMENT

JOHN BOSCO
Chief Manager

ROSE SULU
Manager/ Human Resources

SIMON IIO
Manager/ Corporate Service (Ag)

FINANCIAL MARKET SUPERVISION DEPARTMENT

RAYNOLD MOVENI
Chief Manager

RONSLEY PANA
Manager (Research)

CHARLES RUBAHA
Manager Supervision (Ag)

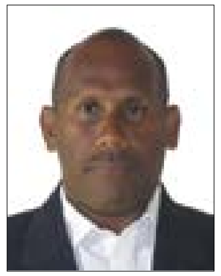
TOM HA'AUTE
Manager Supervision (Ag)

MILLISIDY PITA
Manager Supervision (Ag)

LYNNE SUTI
Manager Supervision (Ag)

FINANCE & ACCOUNTS DEPARTMENT

EMMANUEL GELA
Chief Manager



SIMON RAMOIFAI
Manager

INTERNAL AUDIT UNIT

OLIVER KAROA
Manager

SOLOMON ISLANDS FINANCIAL INTELLIGENCE UNIT

JIMMY SENDERSLEY
Director

NATIONAL FINANCIAL INCLUSION UNIT

LINDA FOLIA
Manager

2018 CBSI Annual Report

CHAPTER 3: MONETARY POLICY DEVELOPMENTS

Monetary policy formulation

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

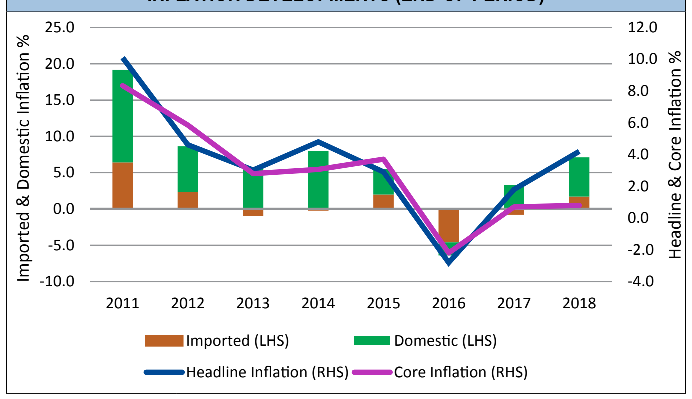
In 2018, four MPC meetings were held, two of which were macroeconomic presentations along with a review of the business expectation survey and other macroeconomic outlooks. The other two meetings contained the March and September Monetary Policy Stance, where the Board endorsed accommodative monetary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

MONETARY POLICY OUTCOMES

Headline inflation was broadly around the expected range of 3-5% in 2018. By end December, inflation stood at 4.2% from 2.5% recorded in January 2018. This outcome was triggered by the combined influences of the high fuel and food prices seen in the second half of the year, coupled with the change in the methodology[8] implemented by the National Statistics Office since July 2018. (See Figure 3.1)

FIGURE 3.1:

INFLATION DEVELOPMENTS (END OF PERIOD)



Source: SINSO & CBSI

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

8 The key changes in the HCPI Series 3 included a new index reference period of 2017=100 along with 12 categories from the previous 8 groups. Additionally, the number of items in the CPI basket increased from 187 items to 205 items.

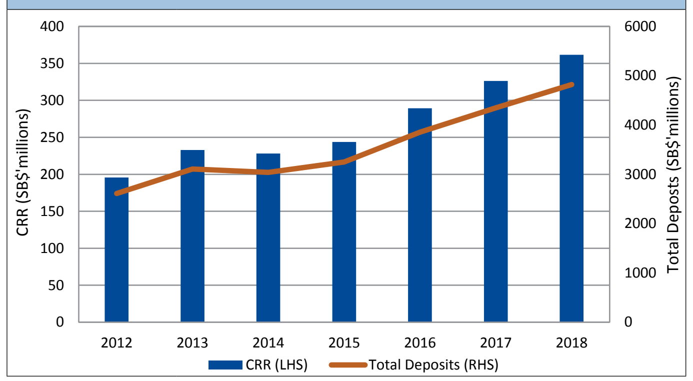
Monetary policy implementation

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

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

FIGURE 3.2:

CASH RESERVE REQUIREMENT & TOTAL DEPOSITS



Source: CBSI

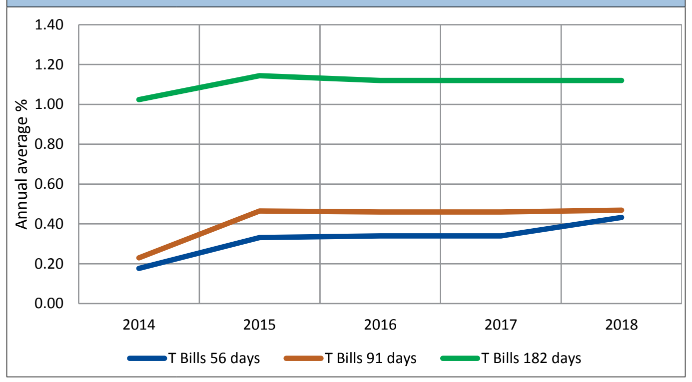
The Bokolo Bills on the other hand, is one of the indirect instruments used by the Central Bank in its monetary policy operations on a fortnightly basis. The issuance of Bokolo Bills was maintained at $750 million during the year. During the year, over subscriptions were noticeable in every auctions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

Governor Denton Rarawa and Chief Manager Daniel Haridi (Currency and Banking Operations Department) discuss with Note Printing Australia (NPA) officials about the new $5 polymer bank Note

In terms of the annual weighted average yield (WAY), the WAY for Bokolo Bills slightly fell to 0.59% in Dec 2018 with an average of 0.61% for the year, against 0.62% in 2017. In contrast, the Government's Treasury Bills was gradually increased in the final quarter of the year with the target holdings of $100 million. This compares to the stock of $40 million in the previous year. The annual WAY for 56 days, 91 days were both increased by 0.9 basis points to 0.43% and by 0.1 basis point to 0.47% respectively. Meanwhile WAY for 182 days remained unchanged at 1.12%. Additionally, a new long term bill of 365 days was introduced in September 2018 carrying a WAY of 2%.

FIGURE 3.3:

TREASURY BILLS INTEREST RATES FOR DIFFERENT MATURITIES



Source: CBSI

The execution of both the direct and indirect tools and the recent increase in the Government –issued Treasury Bills, were geared towards mopping the excess liquidity in the financial system. Nonetheless, the level of excess liquidity has remained at high levels over the last eight years. In 2018 excess liquidity grew by 21% to $1,595 million compared to $1,317 million in 2017. While the Bank continued to monitor the evolvement of excess liquidity, it continued to observe the weak correlation of the monetary aggregates on inflation due to the weak monetary transmission mechanism.

Additionally, the Exchange rate policy regime, although an indirect tool is an important monetary tool, which directly affects inflation via the imported component of inflation. Like in the previous year, the Bank maintained the exchange rate policy of pegging the local currency to an invoiced-weighted basket comprising of trading currencies with a ±1% margin of the base rate. Accordingly, the trade weighted index (TWI) depreciated by 90 basis points to an average of 107.8 recorded by year end 2018, compared to an appreciation of 98 basis points a year ago. This reflected a relatively stronger United States dollar against the local currency although New Zealand and Australian dollars showed mixed movements against the local currency during the course of the year.

CHAPTER 4: CENTRAL BANKING OPERATIONS

ECONOMIC RESEARCH AND STATISTICS

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

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

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

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

INTERNATIONAL OPERATIONS

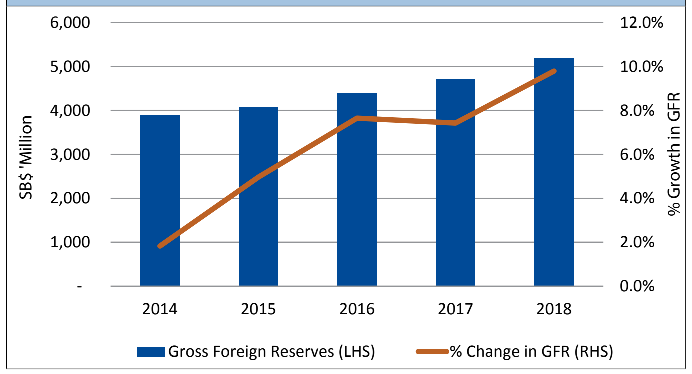
The International Department is mandated to implement three core functions of the Central Bank. These are the management of the country's official external reserves, administration of the Regulations under the Exchange Control Act (Cap 51) and the management of the exchange rate regime.

Foreign Reserve Management

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

FIGURE 4.1:

GROSS FOREIGN ASSETS



Source: CBSI

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

Governance structure

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

Foreign Reserves Position

The gross external assets[9] closed at $5,182.32 million at the end of 2018, up by 9.8%. This was driven by the sizable rise in trade inflows, SIG inflows from fishing rights and donor support.

Composition of Foreign Reserves

As per the revised RMP 2017, the strategic asset allocation was revised to deal with the persistent risk exposure that had been partly responsible for the depletion of foreign

9 The Gross Foreign Reserves Assets (or Reserves) discussed in this section are methodologically distinct from the Gross Foreign Reserve discussed in Chapter 1, Economic Developments as the latter excludes the IMF subscriptions as per Balance of Payments definitions.

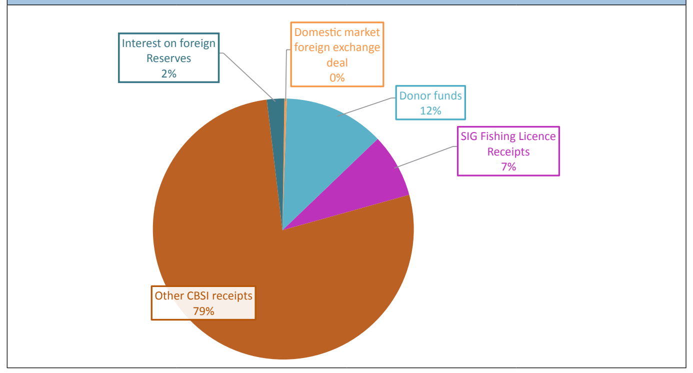
reserves. Accordingly, in 2018 the Bank appropriately allocated the USD, the intervention currency, a significant portion of the reserves, along with the AUD as the second largest component. The NZD, JPY, GBP and other currencies were assigned lesser portions of the reserves.

Sources and use of Foreign Reserves Receipts

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

FIGURE 4.2:

SOURCES OF FOREIGN RESERVES, 2018



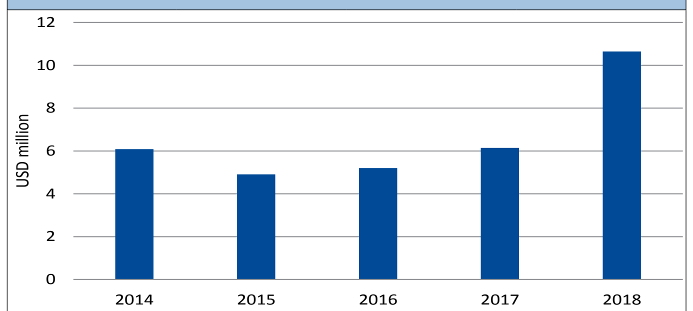
Source: CBSI

Investment Income generated from Foreign Reserves

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

FIGURE 4.3:

INTEREST INCOME FROM FOREIGN RESERVES



Source: CBSI

Middle Office Operations

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

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

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

The Back Office

The Back Office is responsible for settlements of payments related to investments and allocations of the reserves. It also maintains the records of all foreign currency accounts and the standard settlements instructions held by the Bank.

It is also responsible to ensure that the accounts are reconciled each month. The Back Office facilitates both receipts and payments using the SWIFT system for clients such as the Solomon Islands Government and the Commercial Banks.

TABLE 4.1:

NUMBER OF SWIFT MESSAGES SENT AND RECEIVED

	2012	2013	2014	2015	2016	2017	2018
Outgoing messages (Sent)	940	953	1,039	1,314	1,301	1,272	1,853
Incoming Messages Received)		1,589	2,279	3,562	3,804	3,178	3,690

Source: CBSI

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

Table 4.2 shows the transaction values of receipts and payments facilitated through SWIFT during 2018 with the exception of foreign exchange deals between CBSI and the commercial banks. The total value of all receipts and payments transactions facilitated through SWIFT during

2018 recorded an increase in receipts amounting to $3,214 million, mostly proceeds of log receipts. In terms of payments, a total of $74 million was transacted during the year.

TABLE 4.2:

VALUE OF RECEIPTS AND PAYMENTS TRANSACTION THROUGH SWIFT 2012-2018

	2012	2013	2014	2015	2016	2017	2018
CBSI Receipts/fx deals ($M)	601.4	548.5	581.15	2329.6	1229.9	780.6	3,214
CBSI Payments/fx deals ($M)	223.0	248.3	204.16	296.8	120	120	74

Source: CBSI

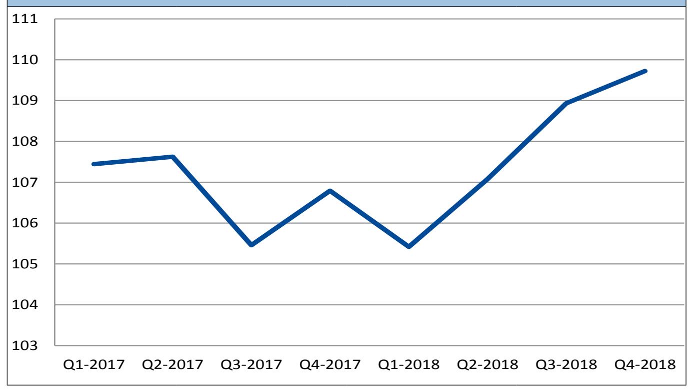
Exchange rate regime

During the year, the Central Bank maintained the current exchange rate regime where the Solomon Islands dollar (SBD) is pegged to an invoice-weighted basket of major trading currencies. During the course of the year, some exchange rate interventions were made against the USD to stabilize the SBD against market shocks. Fundamentally, the policy intention was necessary to ensure that the exchange rate policy contributes to domestic price stability and mitigates the volatility of the Solomon Islands dollar against major trading currencies.

The Exchange Rate Trade Weighted Basket Index (TWI) on an annual average basis depreciated by 0.9 percent to 107.8 points in 2018. Likewise, on a quarterly basis, the TWI on average declined by 1 percent over the last three quarters of the year (see Figure 4.4). This trend reflects the dynamic macroeconomic conditions of the international

FIGURE 4.4:

QUARTERLY EXCHANGE RATE BASKET INDEX TREND 2018



Source: CBSI

market and considerable mitigation by the Central Bank to maintain stability in the SBD.

In 2018, uncertainties over geopolitical tensions including Brexit and the US-China trade war have seen a weakening of safe haven currencies relative to their forecast levels. The USD's confidence on the other hand indicated minimal signal of slowing down and as the US-China trade tensions escalated, the USD sustained shocks slightly towards the end of Q1 and continued to appreciate against the G7 currencies throughout the year. The SBD at $7.84 against the USD at the beginning of the year was under immense pressure for further depreciation. As the US-China trade tensions intensified through Q3 and Q4, the basket currencies also lost momentum against the USD, the SBD inevitably followed suit and depreciated by up to 3.9% to $8.13 per USD in Q4.

Exchange Control Administration

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

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

Applications for Temporary Resident (TR) Status

Temporary Residential (TR) status is granted to non-residents, who intend to reside in Solomon Islands for a period of four years or less; or Solomon Islanders who are intending to reside overseas permanently. Non-residents working in the country on contractual basis can also apply and be granted Temporary Residents status for Exchange control purposes. Non-residents who are granted temporary residence status are permitted to repatriate income earned in Solomon Islands or brought in from abroad without limitation. In 2018, CBSI approved 446 temporary resident status permits, of which, 302 were new applicants and 144 were renewals (See Table 4.3).

TABLE 4.3:

NUMBER OF TEMPORARY RESIDENT ACCOUNTS APPLICATIONS APPROVED 2014-2018

	2014	2015	2016	2017	2018
Newly Approved Temporary Resident applications	105	125	149	248	302
TR Applications Renewals	127	85	53	16	144
Total TR Approved	232	210	202	264	446

Source: CBSI

Non-resident Accounts

Individuals and corporate entities residing outside Solomon Islands who wish to open and hold bank accounts with a resident authorised dealer (commercial banks) in Solomon Islands require CBSI approval. In 2018, CBSI approved 8 non-residents accounts, of which 1 was for a non-resident corporate entity and 7 for non-resident individuals.

Foreign Currency Account (FCA) facility

The foreign currency account facility is designed to support exporters minimize their foreign currency costs. Over the years the Bank recognised the importance of expanding the foreign exchange market and thus extended the facility on a case by case basis to non-exporters. The operation of FCAs is a privilege and is strictly granted on merit. Individuals do not qualify for this facility for personal use.

In 2018, CBSI approved 5 (Five) new FCA applications and renewed 12 expired accounts. A majority of these accounts were denominated in USD while a few were in different currencies. There was an increase in the reported foreign exchange exposure from $467.6 million in 2017 to $749.6.6 million at the end of 2018 (See Table 4.4). Most account holders complied in providing monthly data on time. To date there are 38 active foreign currency account holders approved by CBSI of which 35 FCA are held with local banks and 3 FCA held with banks outside the country.

TABLE 4.4:

NUMBER OF APPROVED FOREIGN CURRENCY ACCOUNTS HELD BY EXPORTERS AND NON-EXPORTERS 2014-2018:

	2014	2015	2016	2017	2018
Account holders/Entities	38	44	50	27	30
Qualified Exporters	10	12	13	5	5
Non –Exporters	28	32	37	22	25
Total number of accounts held	63	72	78	35	38
On-shore	57	65	71	32	35
Off-shore	6	6	7	3	3
Total value: (SBD$ million)	934	1,132	434	467.6	749.6
Note: Some account holders hold more than one FC Account					

Source: CBSI

Foreign exchange (FX) Restricted Classified Dealers

The Bank promoted the financial services sector through the licensing of foreign exchange market dealers in the country. In 2018, CBSI renewed and issued 13 classified foreign exchange dealer's licenses during the year (See Table 4.5). Of the total licenses issued, 10 were issued to eligible local companies to operate as Money Changer Services dealers whilst three (3) licenses were for Money Transfer Services providers in the country. This foreign exchange dealers licence is valid for 12 months and renewable thereafter.

TABLE 4.5:

NUMBER OF APPROVED FOREIGN EXCHANGE MONEY CHANGER LICENSE 2014-2018

	2014	2015	2016	2017	2018
Money Transfer services*	4	4	4	3	3
Money Changer Services	11	11	9	10	10
Total FX Classified Dealers	15	15	13	13	13
*As Western Union and Money Gram Agency and Sub-agents					

Source: CBSI

A separate application was received for a money changer license by an existing exchange dealer to operate at a Sea Port Area and was approved. All other licenses were renewed.

Inward remittance receipts through Classified Money transfer agents increased by 1.16% from the previous year to $73.25 million and outbound remittance increased by 4.6% to $312.14 million. In terms of transactions by money changers, a total of $27.9 million equivalent of foreign currency notes were purchased and $43.4 million sold to the travelling public and commercial banks.

Private Sector Debt (Private Sector Offshore Borrowing)

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

During the year, the CBSI received and approved seven external loan applications from corporations (See Table 4.6). The purpose of these loans were to finance business expansions and other projects in the country. The total foreign currency exposure of these authorized external loans is equivalent to US$34.96 million (SB$291.26 million).

TABLE 4.6:

NUMBER OF PRIVATE SECTOR OVERSEAS BORROWING APPROVED UNDER EXCHANGE CONTROL REQUIREMENT: 2014-2018

	2014	2015	2016	2017	2018
Applications received & approved	14	10	11	20	7
Value in SB$ million	327.0	216.9	133.3	1,680.9	291.26

Source: CBSI

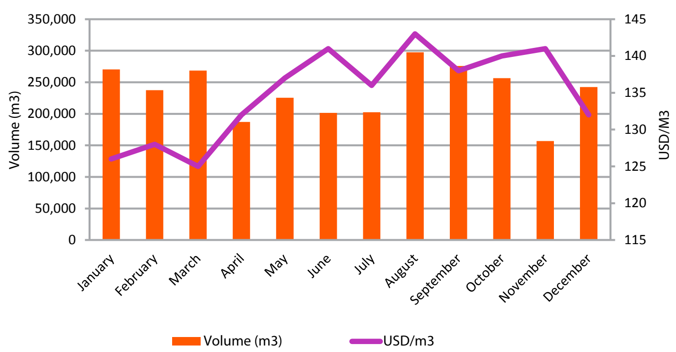
Exports Administration

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

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

FIGURE 4.5:

ROUND LOG APPLICATIONS APPROVED UNDER SPECIFIC AUTHORITY TO EXPORT, 2018



Source: CBSI

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

In 2018, CBSI issued 924 Specific Authorities to Export to round log exporters. This was a decrease of 7% from the previous year. The estimated volume also decreased by 10.6% to 2.822 million cubic metres valued at approximately $2,997 million (See Table 4.7).

TABLE 4.7:

NUMBER AND VALUE LOG APPLICATION FOR SPECIFIC AUTHORITY TO EXPORT CBSI: 2014-2018

	2014	2015	2016	2017	2018
Total Applications approved (numbers)	848	819	829	997	924
Total Value of Exports-SA Approved SBD (Millions)	2,205.3	2,536	2,368	2,995	2,997
Volume of Exports- SA Approved (Million m3)	2449	2679	2.612	3.156	2.822

Source: CBSI

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

Imports payment administration: Applications above required CBSI limits.

As part of its exchange control duties, CBSI monitors most major overseas payment transactions. All applications for travel, personal transfers and sustenance above $30,000 require approval by the Bank. Furthermore, Trade and Services payments exceeding $100,000 must be referred to CBSI for approval before the commercial banks can settle payments. The Authorised dealers (commercial banks) are permitted to approve foreign exchange payment for amounts less than $30,000 and $100,000 respectively.

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

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

TABLE 4.8:

NUMBER AND VALUE OF FOREIGN EXCHANGE APPLICATIONS APPROVED BY CBSI: 2014-2018

	2014	2015	2016	2017	2018
Total Applications approved	7,503	8,135	8,992	8,766	8,700
Value of applications Approved SBD (Millions)	6,228.07	5,284	5,258.	5,977.	6,167

Source: CBSI

Share Transfers

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

In 2018, the CBSI granted authority to one resident company to register ownership in a non-resident entity overseas. Additionally, approvals were also granted for two applications to transfer of shares of resident companies to non-resident corporate entities. However, some applications for share transfers were declined for non-compliance with the Exchange Control requirements. CBSI encourages applicants wishing to apply for share transfers to consult the Bank if in doubt on the requirements for this regulation.

FINANCIAL MARKET SUPERVISION

The Financial Markets Supervision Department (FMSD) addresses the second key objective of the Central Bank as stipulated in Sec 8(2) of the CBSI Act 2012. It is responsible for licensing, regulating and supervising Financial Institutions (FI) licensed by CBSI. The FMSD discharges these responsibilities through its licensing and supervision framework. This framework is principally aimed at promoting a stable financial system, which is critical to enhancing the stability of licensed financial institutions, the stability of domestic financial markets, and the stability of domestic financial infrastructures.

In 2018, the FMS conducted 12 follow-up reviews and risk-based onsite examinations to licensed financial institutions. These follow-up reviews and onsite examinations are shown on Table 4.9 below.

In addition to the supervision activities above, the FMS, as part of its oversight and financial stability functions, also conducted two refresher workshops covering topics on governance, liquidity, and cashflow planning for credit unions. It also held 40 bilateral consultations with licensed financial institutions to discuss critical operational matters with operational staff. The department also hosted

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four Bankers' Meetings to discuss trends of the main macroeconomic aggregates and developments in the financial sector.

TABLE 4.9:

SUPERVISION ACTIVITIES		
NAME OF FI	SCOPE	MONTHS
Solomon Islands Nurses Credit Union	Full Scope Onsite Examination	February
Solomon Islands National Provident Fund	Follow-up review	February
Pan Oceanic Bank	Follow-up review	February
Capital Insurance	Follow-up review	February
Credit Corporation Solomon Islands Ltd	Onsite Examination on credit risk	March
Tower Insurance	Follow-up review	April
QBE Insurance	Follow-up review	April
Pan Oceanic Bank	Onsite Examination on compilation of prudential returns	May
Tuna Trust Credit Union Ltd	Full Scope Onsite Examination	July
Bred Bank	Full Scope Onsite Examination	October
Three credit unions (Solomon Islands Public Employees Credit Union Limited, Solomon Islands National Teachers Association Credit Union Limited, and Solomon Island Police Credit Union Limited)	Follow-up review	Various dates

Source: CBSI

As part of information dissemination, the FMS published a Financial Stability Report in 2018. The report discusses performances of licensed financial institutions, highlights vulnerabilities and risks confronting Solomon Islands' financial sector, and describes policy responses taken across 2018 to mitigate risks and vulnerabilities confronting the sector.

During 2018, FMS Department developed eight new Prudential Guidelines (PGs) and one Practice Guidance Note (PGN). Four of the PGs are developed specifically for Anti-Money Laundering and Counter financing of Terrorism (AML/CFT) requirements. The Practice Guidance Note was developed for Mobile Money Services providers. Once approved, the PGs will be implemented in 2019. These PGs are:

1. PG on Corporate Governance: this PG provides a minimum framework for Corporate Governance requirements of FIs.
2. PG on Operational Risk Management: this PG provides a minimum requirement for Operational Risk Management framework for FIs.
3. Practice Guidance Note 2 on Mobile Money Service Providers: this PGN provides minimum framework for Mobile Money Service Providers requirements and will be applicable to all licensed FIs and Non-FIs who are keen of embarking on a business of Mobile Money Services.
4. PG on Fit and Propriety for Persons Holding Responsible Position: this PG provides a minimum requirement to determine the fitness and propriety of individuals who serve in responsible person positions for FIs.
5. PG on AML/CFT requirements for Dealing with higher Risk Countries: this PG provides minimum AML/CFT requirements to deal with high risk countries by having in place appropriate safeguard measures in terms of dealing with high risk countries for FIs.
6. PG on AML/CFT requirements for Risk Assessment of New Products, New Business Practices and Technology: this PG provides minimum AML/CFT requirements for risk assessment of new products and new business practices including technologies and delivery mechanisms for new and pre-exiting products of FIs.
7. PG on AML/CFT requirements for Money Laundering (ML) and Financing of Terrorism (FT) Risk Management: this PG provides a minimum AML/CFT requirements for ML and FT risk management framework for FIs, and;
8. PG on AML/CFT requirements for Politically Exposed Persons (PEPs): this PG provides minimum AML/CFT requirements for PEPs risk management framework for FIs.

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

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

FINANCE AND ACCOUNTS

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

Budget

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

TABLE 4.10:

CBSI BUDGET VS ACTUAL 2018		
	Budget ($m)	Actual ($m)
Revenue	87.6	163.9
Operation expense	58.1	
Currency & Monetary policy costs	22.5	
Total expense	80.6	80.3
Surplus	7	83.6
Capital expense	37	37

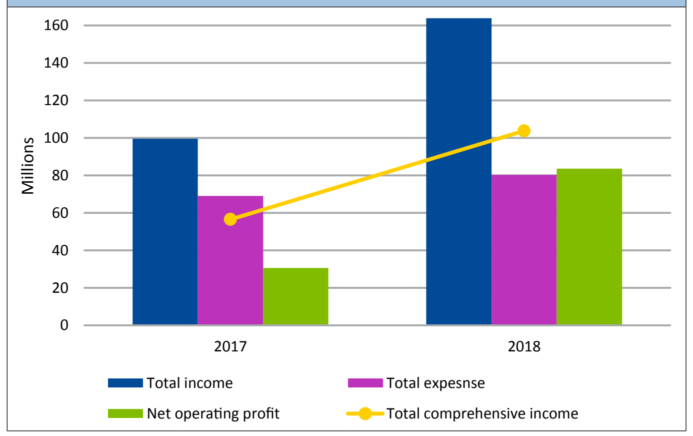
Source: CBSI

Accounting and Financial Reporting

The actual performance for 2018 showed total income for the year at $163.9 million, total operating expenses of $80.3 million and net operating profit of $83.6 million. The total comprehensive income was $128.3 million, after the addition of $32.2 million for property revaluation gains and deducting $1.8 million for revaluation losses. These two latter items in the other comprehensive income do not form part of net operating profit and are transferred directly to the asset revaluation reserve and the gold reserve account in the Bank's equity holdings.

FIGURE 4.6:

COMPREHENSIVE INCOME STATEMENT 2017 V 2018



Source: CBSI

In 2018, the revaluation gain in foreign currency was $2.6 million compared to the gain of $15.5 million in 2017. Moreover, the statement of financial position improved in 2018. Net equity improved from $45.1 million in 2017 to $173.5 million; Total Assets increased from $4,999 million to $5,507 million, similarly total liabilities increased from $4,954 million to $5,334 million. Table 4.11 shows the financial position for years 2018 and 2017.

TABLE 4.11:

TABLE 4.11. SUMMARY OF FINANCIAL POSITION		
	2018	2017
	($'000)	($'000)
Assets	5,507	4,999
Liabilities	5,334	4,954
Equity	173	45

Source: CBSI

External Audit

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

Financial accounting system

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

CAPITAL PROJECTS

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

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

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

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

CURRENCY AND BANKING OPERATIONS

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

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

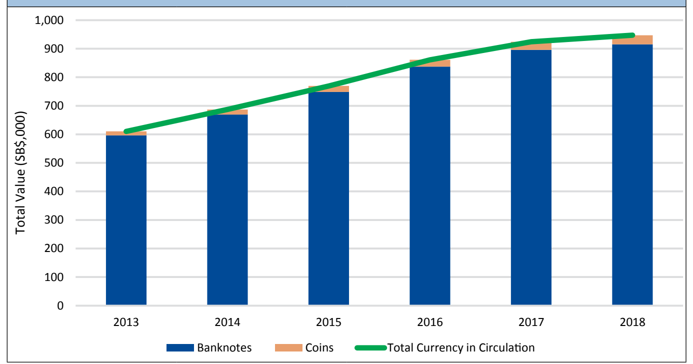
Currency

Stock of Currency in Circulation

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

FIGURE 4.7:

CURRENCY IN CIRCULATION: 2013 – 2018

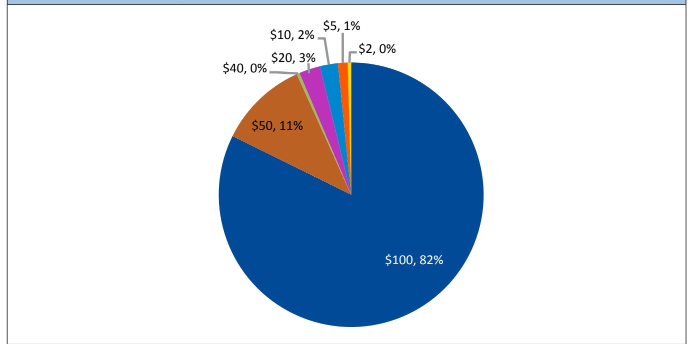


Source: CBSI

Of the total currency notes, the 100-dollar note accounted for 82% followed by the $50 denomination at 11%. The $20, $10, $5 and $2 notes accounted for the remaining balances of 3%, 2%, 1% and around 0% respectively. The higher $100 and $50 denomination are the well represented notes in the hands of the public. It also reflects its demands and popularity of the notes for payments and store of value. The continued increase in the $100 & $50 denominations is attributed to the rise in the number of ATMs introduced by the banks in the country during the year.

FIGURE 4.8:

NOTES IN CIRCULATION BY VALUE AT DEC 2018

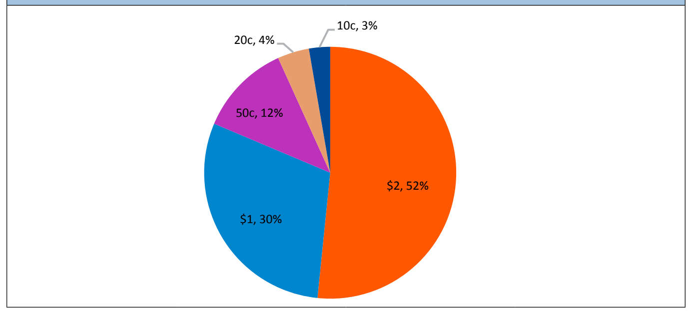


Source: CBSI

Coins in circulation increased by 10% to $31.8 million in 2018 compared to $28.5 million in 2017. Of the total coins, 52% is in the $2 coin, 30% is $1, 12% is in 50 cents and the balance shared by the two lower coin denominations, 20 cents and 10 cents with 4% and 3% respectively.

FIGURE 4.9:

COINS IN CIRCULATION AT DEC 2018



Source: CBSI

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

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

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

In 2018, new currency notes and coins issued into circulation via the commercial banks and the CBSI counter stood at $113.1 million. Of this amount, 7% or $109.7 million represented new currency notes, of which over 4% was for $100 denomination, 0.5% was for $50 denomination, 0.2% is for $40 denomination and $10 and $5 notes shared the remaining balance of 2.3%. With coins, 97% represent new coins being issued to circulation via the commercial banks by CBSI. Again, the $2 and the $1 continued to absorb over 87% of the total coins issued in to circulation whilst the 50 cents, 20 cents and 10 cents maintained or shared the remaining balance of 13%.

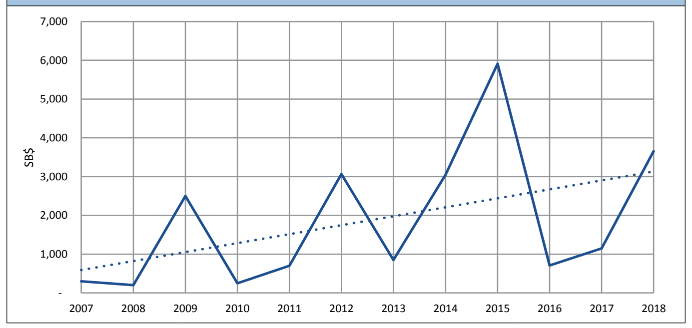
Counterfeit Notes Retrieved from public circulation

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

Thirty-eight pieces of counterfeit notes were confiscated from circulation in 2018, which is a 32% increase from the record in 2017. Of the total counterfeit notes impounded, thirty-six pieces were counterfeits of the old $100 notes series, and one piece of the $50 note from the old 2004 series. The higher denominations are the most targeted notes by counterfeiters. Figure 4.10 shows a rising trend in counterfeits from 2007 to 2015 and a sudden drop in 2016. This may have been the result of the introduction of the new series of $100 notes in 2015 and the new $50 notes in 2013. However, it picked up again in 2017 and 2018. The need to aggressively educate the public about the risks of circulating counterfeit notes is still a priority. Therefore, the Bank continues to use radio and print media throughout the year. The public were encouraged to develop the basic habit to know, check and feel the security features of all currency notes before accepting them in exchange for goods or services.

FIGURE 4.10:

VALUE OF COUNTERFEIT NOTES: 2007 – 2018



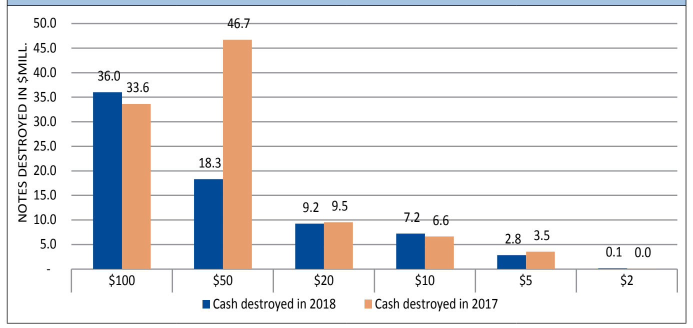
Source: CBSI

Note Processing

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

FIGURE 4.11:

VALUE & DENOMINATION OF NOTES DESTROYED



Source: CBSI

Cash Processing Solutions Engineers continued to provide maintenance and servicing support for the Bank's Cobra sorting and destruction machine during the year. The latest introduction of the X-Range Notes Processing Machine in 2018 is an added advantage to capacitate and enhance this objective of sorting and retaining much quality notes for reuse in circulation. The Bank sees this as an important investment for the Bank that helps to improve efficiency and build local capacity in the Bank's back-office cash operations. Figure 4.11 shows the Value of actual notes destroyed by denomination in 2017 and 2018.

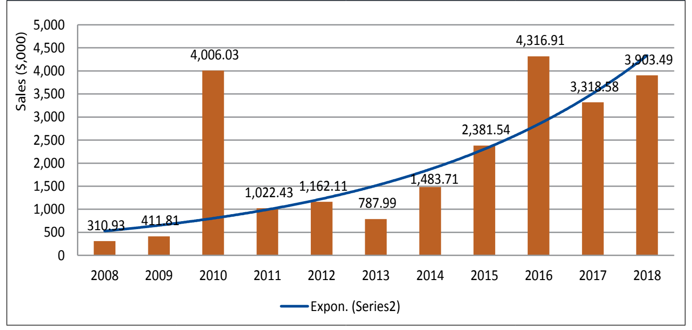
Proceeds from Numismatic Programs and products.

Numismatic operations recorded another successful year for 2018 with improvements to its income generating royalties earned from signed numismatic contracts. The overall revenue on Numismatic Operations during the year increased by over 17% to $3.90 million compared to $3.32 million in 2017. The recorded increase was expected as a result of the increased participation of signed numismatic contracts both from MDM/WCA and Royal Mint Australia (RAM). Of the total revenue, 92% ($3.59m) was from royalty receipts whilst 8% ($0.31m) was raised from the sale of commemorative coins and, numismatic notes both locally and internationally. The total revenue raised also exceeded the budget estimate by 11% and reflects the Bank's positive business relationship and effective communication with its clients and customers.

The Bank continues to ensure that only high demanding commemorative and attractive royalty returns are renewed in conjunction with concurrent popular coins program running contracts initiated by the Bank. During the year, two programs the Bank signed up on were the Coin Notes "Money of the World" and "The 7 Wonders of the Ancient World" and are reputational coin programs within the international numismatic market. Moreover, CBSI is expected to participate in several new commemorative coin programs, with prospect for better revenue in 2019 and 2020.

FIGURE 4.12:

TOTAL REVENUE FROM NUMISMATIC BUSINESS OPERATIONS.



Source: CBSI

Debt Management

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

As part of its activities, CDU performs monthly loan validations on the CS-DRMS, dispatches quarterly external

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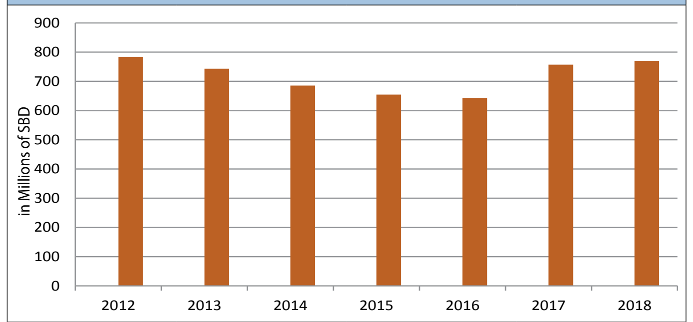
debt statistic (QEDs) to the World Bank and uploads auction treasury bills results on the CS-SAS after each weekly auction. CDU also maintains the External Private Debt database. Moreover, CDU holds regular meetings with the DMU on administrative and technical issues including capacity development issues.

The external public debt profile is made up of 32 active loans as at December 2018. Out of the 32 active loans, 5 are still disbursing while 1 is yet to be disbursed. The amount disbursed from January to December totalled to $42.1 million. The Principal creditors includes the Asian Development Bank (ADB), International Development Association (IDA), European Union (EU); International Fund for Agriculture Development (IFAD) and Export Import Bank of the Republic of China (EXIM).

FIGURE 4.13:

OUTSTANDING BALANCE OF PUBLIC EXTERNAL DEBT OF SOLOMON ISLANDS.



Source: CBSI

The Public Disbursed Outstanding debt (DOD) of the Solomon Islands at 31st December 2018 increased to $771.1 million. The increase in the total stock was due to exchange rate movements and the disbursement of ADB and IDA loans. The DOD is anticipated to increase in volume in 2019 due to forecasted disbursements on the loans that are still disbursing.

Total external debt repayments in 2018 were $47.1 million of which $38.5 million was for Principal repayments and $8.6 million for interest payments.

In terms of currency composition of the total official debt, the Special Drawing Rights (SDR) accounted for 89.8% of the total DOD or $691.3 million followed by the United States Dollar with 9.2% or $71.2 million, and the Euro with 1.0% or $7.6 million.

Government's Domestic Securities

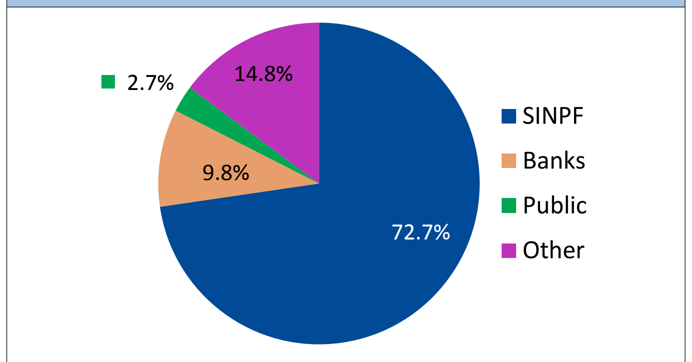
The auction treasury bills market continued to function during the year. The cap in the auction treasury bills market was increased by an additional SBD60 million in September. A one-year maturity term was also introduced in conjunction with the increase in the cap. The Banks and non-financial institutions continue to dominate the weekly auctions with higher volume of the total stock in the 182-day maturity compared to the 56, 91 and 365-days maturities. The average interest rates for the terms were maintained throughout the year with 0.49% for 91days, 1.12% for 182 days and 2.00% for 365 days. The 91 days maturity however, slightly increased by 0.16% from 0.34% to 0.50% towards the end of the year.

Solomon Islands Government (SIG) domestic debt outstanding at the end of the year was $245.2million, an increase of $52.6 million compared to $192.6 million in December 2017. The increase was due to the introduction of the one-year maturity on the SIG Treasury bills as well as the issuance of a SIG Bond to Solomon Power. The domestic debt outstanding balance comprised of $60.2 million in SIG Treasury Bills, $180 million in Development Bonds and $4.9 million on other SIG special securities. Domestic Debt service repayments during the year totalled $10.2 million.

The major holders of domestic securities were the Solomon Islands National Provident Fund (SINPF) with 72.7%, Other Creditors with 14.8%, Commercial Banks with 9.8% and the general public with 2.7%. The composition of the government domestic debt is shown in Figure 4.14

FIGURE 4.14:

OUTSTANDING PUBLIC EXTERNAL DEBT, 2011-2017



Source: CBSI

Banking Support Services

The Bank remained committed to ensure that it delivers quality and professional banking services to all licensed financial institutions, the Solomon Islands Government (SIG) and other non-banking financial institutions as mandated in the CBSI Act 2012.

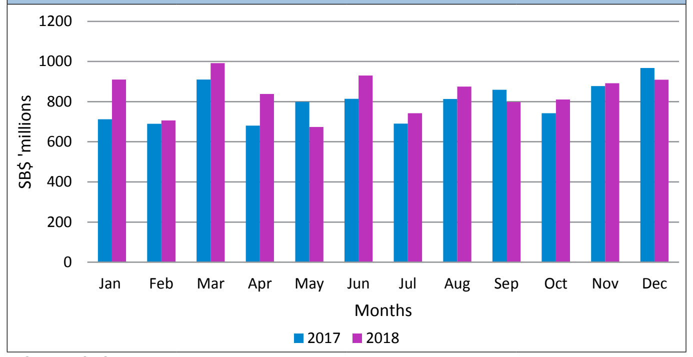
The broad banking support services include, but are not limited to, administering the local and foreign currency denominated accounts established with the Bank by SIG and its donor partners, and facilitating domestic transfer payments. In addition, it facilitates general account enquiry services, and daily monitoring of free liquidity of the commercial banks. Moreover, CBSI provides the monthly statements and reconciliations of SIG and commercial banks' call accounts and the safe keeping of e-registers and records for ease of access and audit trails by auditors and end users

Clearing House Activities

The Central Bank facilitates the daily business of clearing cheques drawn on all the licensed commercial banks operating in Honiara. In 2018, a monthly average value of $932.2 million worth of cheques with a total value of $10.1 billion passed through the Clearing House. This was an increase of over 5% as compared to $9.5 billion in 2017.

FIGURE 4.15:

VALUE OF CHEQUES CLEARED



Source: CBSI

Progress on the establishment of a National Payments System.

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

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

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

It is expected that the deployment of the ATS and CSD modules, will take between 8 -12 months. In the interim period, however, CBSI has progressed review of the End User License Agreement (EULA) and the Software Maintenance Agreement, which are necessary documentations before signing off the main Contract. The review of the EULA and Software Maintenance Agreements were finalised and signed off in the first quarter of 2019.

Small Business Finance Scheme

The CBSI is required under the Memorandum of Understanding (MOU), signed between the Government of Solomon Islands (SIG), through the Ministry of Commerce Industry Labour & Immigration (MCILI), and the Ministry of Finance & Treasury to submit progressive reports on the operations of the Micro, Small & Medium Enterprise Business loan guarantee scheme (MSMELGS).

This aims to present an overview on the progress of the Micro, Small & Medium Enterprise scheme in 2018, along with statistical analysis on the total number of nominations received, operating activities, review process and issues identified within the year. It is anticipated, that the provision of these reports will be used to inform and guide SIG in their decision makings on matters relating to the scheme and the best way forward to accessing financial support for SMEs on viable projects.

TABLE 4.12:

SUMMARY OF PERFORMANCE FROM 2016 – 2018

Year	Gross Amount ($m)	Risk to Borrower ($m)	Net Amount ($m)	Risk to Scheme ($m)	Risk to Finance Providers (m)	No. of Nominations
2016	0.718	0.245	0.473	0.426	0.047	2
2017	0.957	0.317	0.640	0.576	0.064	3
2018	0.720	0.330	0.390	0.351	0.039	2
YTD	2.395	0.892	1.503	1.353	0.15	7

Source: CBSI

Table 4.12 presents a summary of performance of the Micro, Small & Medium Enterprise Scheme for 2018 as compared to previous years in terms of nominations approved for guarantee, gross loan amounts, the risks indicated by the borrower, the scheme and Participating Commercial Banks (PCBs).

A total of two (2) loans were approved for guarantee under the scheme in 2018 as compared to three (3) nominated in 2017 and two (2) in 2016, which brings YTD total loans accepted to seven (7). The uptake with the scheme is graded as very low.

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

Nominations by Provincial Location

By provincial location over the last three years, two (2) nominations each were received from Honiara, Malaita and Guadalcanal Provinces, while one (1) nomination was from Makira/Ulawa Province. Of these nominations, four (4) were for agriculture, one (1) each for professional services, manufacturing and transportation

General Observations

It has been noted that it would be difficult to expect all PCBs to fully utilize the scheme of arrangement as they have different policies that defines their lines of business interest and expectations from the scheme. The distribution also clearly indicate the accessibility of banking services within Honiara, Guadalcanal and Malaita. Moreover, most of the other provinces find it difficult to operate a business or access the scheme because of the non-availability of bank branches.

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

INFORMATION TECHNOLOGY

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

The key projects carried out during the year included:

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

Disaster Recovery & Security

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

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

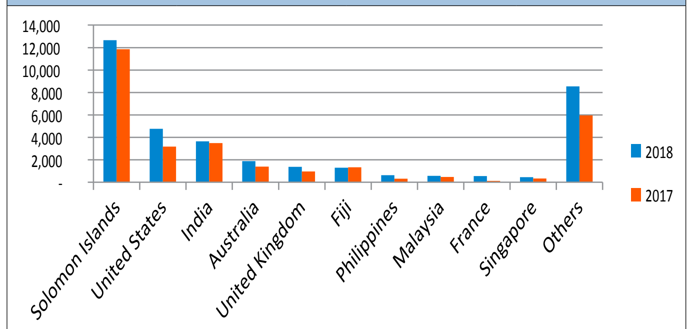
Documentation of the IT manual including the policies and procedures continued during the year. When completed it will provide direction and guidance on the ICT department responsibilities, system of internal controls, and also support the management and implementation of the Bank's information security.

Visitors to CBSI Website increased in 2018

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

FIGURE 4.16:

WEBSITE VISITS BY COUNTRY



Source: CBSI

INTERNAL AUDIT

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

TABLE 4.13

INTERNAL AUDIT ACTIVITIES IN 2018

Area of Assessment/Review	Objective and Scope of Audit
1. GENERAL SUSPENSE (ASSET & LIABILITY ACCOUNTS)	Suspense accounts are generally vulnerable to incomplete reconciliation. The review was to ensure that the accounts contained the transactions and balances that were free from error and were of quality for Financial and Management Reporting purposes.
2. CASH TILL ON THE SPOT CHECK	Internal Control mechanisms established by the Oversight Body was effective in the prevention, detection and correction of hard cash handlings related risks. Till cash Reconciliation performed to rough book cash records and teller holding (cash-safe) had agreed to cash till actual count. Both manual and excel spreadsheet recordings are accurate, complete and timely updated. IAU was pleased with what was observed during the time of audit.
3. EFFECTIVE INVENTORYING OF STAFF UNIFORM	Though staff uniform cost had been expended when incurred, the materiality of the expenditure involved, merited proper documentation and safe custody. Furthermore, staff uniforms are usually ordered in bulk (2-4 years of supply) and then issued to staff either through replacement requests or through new issue to new staff, as and when needed.
4. STAFF SUBSIDISED LOAN SCHEMES/BENEFITS	IAU had conducted the audit to assure the Board and Management that applicable policies and other related requirements had been complied to and collateral and serviceability risks were appropriately managed and mitigated. The audit scope covered the Housing and Personal Loans. IAU also made visits, verification and assessments of the physical existence and worth of the collaterals used.
5. ON-THE-SPOT AUDIT OF THE USE AND GARRAGING OF OPERATIONAL VEHICLES (HILUX & PICKUP)	This audit was to ensure that these assets that were vulnerable to overuse and misuse, were used and kept as per established policy. Assuring the Management that objectives of having such asset were not only effectively achieved but also efficient. The cost of vehicle operation could be very significant and therefore any instances of non compliance could result in penalties.
6. IA INDEPENDENT VERIFICATION OF MUTILATED NOTES PROCESSED THROUGH THE OFF-LINE SHREDDER	Assuring the Management that risks that could impede the correct establishment of the true volume and value of mutilated currency notes that had been withdrawn from the Currency in Circulation for destruction, were appropriately mitigated, and that established controls are consistently applied.
7. OTHERS; i. 2017 FINANCIAL STATEMENTS EXTRNAL AUDIT MLPs ii. Physical Gold Deposit - sighting and verification	Ensure that corrective actions were made by responsible management or department on audit issues that were highlighted by the Bank's External Auditor through the Management Letter Points (MLPs). Responses were compiled and communicated to the External Auditor by the IAU. IAU was also part of the team that had visited the physical gold investments in Hong Kong and Perth, Australia. IAU was able to attest the Gold Bars' physical existence with their true and correct descriptions and numberings.

CHAPTER 5: FINANCIAL INCLUSION

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

The NFIS2's mission statement stipulates that;

By 2020:

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

Table 5.1 below shows aggregate active users from reporting institutions. By end of 2018, total active users of financial accounts reached 233,972, which is 78% of the overall target. Approximately, 116,708 were women active users, representing 49% of the total active users.

TABLE 5.1:

AGGREGATE ACCESS TO FINANCIAL ACCOUNTS

Source: CBSI

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

TABLE 5.2:

TABLE 5.2. COMMERCIAL BANKS ACCESS POINTS BY PROVINCES, DECEMBER 2018

Indicators	2016	2017	2018	Choiseul	Western	Isabel	Malaita	Guadalcanal	Central	Makira	Renbel	Temotu	Honiara
Number of Branches	14	14	15	0	4	0	1	1	0	0	0	0	9
Number of Agencies	7	7	7	1	1	1	2	0	0	1	0	1	0
Number of ATMs	42	53	56	0	8	0	2	1	0	0	0	0	45
Number of EFTPOS- Terminals	310	416	440	6	51	3	15	12	5	4	0	4	340
Number of EFTPOS-Merchants	256	280	306	0	44	1	6	11	3	1	0	1	239
Number of Mobile Access points or agents	192	234	210	17	30	19	50	11	12	11	2	10	48
Total no. of access points	821	1004	1034	24	138	24	76	36	20	17	2	16	681

Source: CBSI

REVIEW OF THE SOLOMON ISLANDS NATIONAL FINANCIAL INCLUSION STRATEGY 2 (NFIS2)

In August 2018, the Pacific Financial Inclusion Programme (PFIP) undertook a mid-term review of the Strategy. With the main objective of ensuring effective implementation of the NFIS2, the review was; (i) to measure the progress of NFIS2 based on the relevant key indicators, (ii) to assess the appropriateness of the key result areas, action plans and targets, and (iii) to determine the way forward for the implementation of NFIS2. Consultations were held with 84 stakeholders from the public, private, civil society and development partner sectors.

Findings from the review indicated that the five key areas as shown in Table 5.3 remained relevant to drive financial inclusion work in the Solomon Islands.

TABLE 5.3:

AREAS TO DRIVE FINANCIAL INCLUSION

1. ACCESS	90% of Solomon Islanders within 60 minutes of a financial service access point
2. USAGE	300,000 adults with active accounts (half of which are women)
3. LITERACY	A variety of proxies focusing largely on financial literacy programs, users of formal savings and insurance products and savings club members
4. FORMAL CREDIT	43,000 adults with formal or financial institutions
5. SAVINGS CLUBS	43,000 members

Source: CBSI

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

The six strategic objectives under the NFIS2, 2016-2020

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

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

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

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

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

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

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

By the end of 2018, the total number of MSMEs assisted through the Business Finance Scheme increased to 7 with 2 nominations approved in 2018 with total gross loan value of $720,000. Under the revised scheme, which includes participation of other financial service providers, it is expected to increase outreach to MSMEs. The MSMEWG also plans to improve awareness on the revised scheme in 2019.

The only micro-finance institution in the country, the South Pacific Business Development (SPBD) continues to provide savings and micro credits to women in Solomon Islands. As at end December 2018, the number of savings accounts reached 7,218 with deposits of $3.26 million while total loans disbursed reached $14.5 million.

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

The Consumer Empowerment Working Group (CEWG) held 3 meetings during the year. Financial literacy is one of the key activities. The financial institutions, micro finance institution, savings groups, the Ministry of Women, Youth, Children and Family Affairs (MWYCFA), Small Business Enterprise Centre (SBEC) and other institutions continue to provide financial literacy sessions in Honiara and the rural areas.

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

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

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

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

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

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

Strategic Objective 4: Build financial resilience in rural households

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

Two other schemes supported by PFIP, were successfully implemented in 2018. The SINPF youSave savings scheme for the informal sector continue to attract self-employed individuals to save at SINPF for retirement. Membership continued to increase reaching its target by end of 2018 at 5807 of which 55% were women. Total savings from the scheme stands at $3.74 million.

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

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

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

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

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

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

CHAPTER 6: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES

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

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

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

Financing of SIFIU operations

Funding for the operation of the SIFIU in 2018 came from the SI Government and the Central Bank of Solomon Islands, totalled up to $1,104,403.80; $809,800 from the Government and $294,603.80 from the CBSI. At the end of 2017, the SIFIU overspent its budgeted revenue by $175,896.74. The amount was carried forward as money owed to the CBSI at the beginning of 2018. The SIFIU settled the amount when the first grant payment was received from the government at the beginning of the year. Considering the debt paid to the CBSI at the beginning of the year, SIFIU's actual funding available for its operation in 2018 was only $928,507.06. Apart from a funding contribution that goes toward meeting the salaries and other benefits of two (2) of its officers, the CBSI also supported the Unit through subsidising some of its vital expenditure heads, such as medical benefits, leave entitlements, office equipment and IT services.

AML/CFT NATIONAL RISK ASSESSMENT

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

SIFIU Membership

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

Relationships with reporting agencies

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

Financial Scams

The SIFIU was involved in advising the public against "financial scams". The Unit attended to numerous queries from the public during the year on false financial schemes and purported lottery wins. The infamous Family Charity Fund scam is still prevalent in Honiara and victims of the scheme are still waiting for their promised returns. Numerous advices put out by the SIFIU and the CBSI through the media have however not been heeded.

AML REPORTS RECEIVED BY SIFIU

There was a decline in the number of reports SIFIU received from the reporting entities in 2018. The underlining cause for the decline in the Suspicious Transaction Reports (STRs) was the high turnover of front-line officers in most of the financial institutions, especially banks. New officers taking up jobs lacked the knowledge and skills to identify red flags and to raise suspicious reports. The introduction of new technology with the use of mobile phones for mobile and internet banking also brought about some changes to the way people use cash. People are now making transactions through internet and mobile banking.

For the Electronic Funds Transfer Reports (EFTR), people have now become more aware of the thirty thousand dollars threshold, hence are now making transactions below the threshold amount. SIFIU was not able to undertake AML/CFT trainings for the reporting entities in 2018 due to heavy commitments it had with the National Risk Assessment and the mutual evaluation. The Suspicious Transaction Report (STR)reports decreased by 29.2%, from 89 reports in 2017 to 63 reports in 2018. The Cash Transaction Report (CTR) reports decreased by 26.6%, from 58,157 reports in 2017 to 42,703 reports in 2018. The EFTR reports decreased by 18.4%, from 26,006 in 2017 to 21,226 in 2018. Border Currency Report (BCR)dropped by 10.2% from 59 reports in 2017 to 53 reports in 2018.

TABLE 6.1:

TYPE AND NUMBER OF REPORTS RECEIVED BY SIFIU IN 2018				
Type of Reports	Received		Disseminated	
	2018	2017	2018	2017
Suspicious Transaction Report (STR)	63	89	10	22
Cash Transaction Report (CTR)	42,703	58,157	-	-
Electronic Funds Transfer Report (EFTR)	21,226	26,006	-	-
Border Currency Report (BCR)	53	59	-	-

Source: CBSI

AML/CFT Groups Meeting

During the year, the AMLC met only once, with 25% attendance by members of the AML Commission. The Anti-Money Laundering Technical Expert Group (AMLTEG) did not meet formally for meetings during the year; hence the percentage of attendance to meetings by members is zero. The main reason why no formal meetings held by the AMLTEG during the year was that members were heavily involved in other meetings organised by the SIFIU for the National Risk Assessment and mutual evaluation. The Anti-Money Laundering Reporting Officers (AMLROs) met only once during the year with only a 6% turn out rate. The lower turnout rate for meetings is also due to the small size of the Unit where not all officers are always present in the office during scheduled meeting times. Moreover, it is part of SIFIU officers' job responsibilities to undertake other activities outside of office, such as travelling outside of the country to attend workshops and trainings and also conducting awareness workshops and training in the Provincial centres.

TABLE 6.2:

TABLE 6.2. SIFIU MEETINGS HELD IN 2018.				
Year	Meeting Type	Meetings Planned	Actual Meetings Held	Success Rate Percent (%)
2018	AMLC	4	1	25
	AMLTEG	4	0	0
	AMLRO	4	1	25
	Staff	48	3	6

Source: CBSI

Over Seas & Local Trainings/Workshops and Meetings Attended

TABLE 6.3

TABLE 6.3 NUMBER OF OVERSEAS WORKSHOPS AND MEETINGS ATTENDED IN 2018			
Date	Particular of Training	Facilitator	Venue
January	FATF/APG Assessor Training Workshop	FATF/APG	Hong Kong
January	Anti-Corruption Workshop	UNODC	Fiji
January	ADB Workshop	ADB	Australia
February	APG Regional Pre-Mutual Evaluation Training Workshop	APG	Brunei Darussalam
February	National Security Working Group Seminar	Australian Embassy	Honiara
May	Criminal Networks Training & Pre-Operational Meeting on Drugs	INTERPOL	Nadi, Fiji
May	SI - Australia National Security Dialogue	Australian Government	Brisbane, Australia
September	Egmont Group Meeting	Egmont Group	Sydney
October	2nd National Training on Financial Investigations Relating to Forestry Crime	INTERPOL	Port Moresby, PNG
November	Consultation on the Cyber Security Regional Standardisation Enhancement Program	Australian Consultants	Honiara
November	Introduction to Cybercrime Investigation	AFP	Honiara
December	2018 Joint EAG/APG Typologies Workshop	APG	Russia

Source: CBSI

Local Training and Workshops Conducted

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

TABLE 6.4

LOCAL TRAININGS CONDUCTED BY SIFIU			
Particular of Training	Participants	Facilitator	Number of Participants
Pre-ME Workshop	FIs, Cash Dealers, LEAs, Public & Private Sector	APG	27
Credit Union Refresher Training	Licensed Credit Unions	CBSI/SIFIU	20+

Source: CBSI

CHAPTER 7: CALENDAR OF EVENTS 2018

MONTH	EVENTS
JANUARY	• Deputy Governor hosted a staff talk to set the vision for the year
FEBRUARY	• Minister of Finance appoints three new Board Directors. • Board Meeting No. 1 is held in Honiara.
MARCH	• IMF Staff mission visited the Bank • Board induction conducted for the new Directors. • Board Meeting No. 2 approves the March 2018 Monetary Policy Stance.
APRIL	• Board Meeting No. 3 is held in Honiara.
MAY	• The 2017 CBSI Annual Report with the theme "Reform to Transform" is launched and presented to the Minister of Finance. • CBSI hosted its Microfinance Business Award with five women entrepreneurs receiving awards.
JUNE	• CBSI staff attend the Kodili Festival in Isabel Province and conducted currency exchange for the public. • Board Meeting No. 4 is held in Honiara.
JULY	• To mark the country's 40th anniversary of Independence, the Bank launched a commemorative $40 note and coloured $2 coin. • CBSI and MOFT hosted a regional PFTAC workshop on 'Macroeconomic Policy for Stabilization and Growth in the Pacific' in Honiara. • CBSI hosted staff from BPNG and RBV for the Pacific Central Bank Exchange Program with an MOU for greater cooperation and social events. • An IMF Article IV mission visits CBSI.
AUGUST	• Institutional Review Consultant, John Mendzela visits CBSI. • The CBSI Board held its first provincial meeting in Tigoa, Rennel Bellona Province.
SEPTEMBER	• Governor and Norma Qurusu were recognized with awards at the AFI Global Policy Forum in Russia for their contributions to financial inclusion. • Dr Luke Forau attended the Australia-Solomon Islands Business Forum in Brisbane. • The Bank farewelled Deputy Governor Gane Simbe. Dr. Luke Forau appointed the new Deputy Governor of the CBSI. • Board Meeting No. 6 approves the September 2018 Monetary Policy Stance.
OCTOBER	• Governor attended IMF-World Bank Annual meeting in Bali, Indonesia • US Federal Reserve Bank officials visit CBSI
NOVEMBER	• Governor, CM/FMS, and CM/ERS attended the South Pacific Governors Meeting in Apia, Samoa. • Board Meeting No. 7 considered the Institutional Review Report. While, Board Meeting No. 8 approved the Bank's 2019 Business Plan and Budget.
DECEMBER	• Governor attended and was a panellist at PFTAC's 25^{th} Anniversary in Nadi, Fiji • Governors and staff from ERSD and FMSD attend the inaugural South Pacific Central Banking Research Conference in Suva, Fiji

CENTRAL BANK OF SOLOMON ISLANDS

DIRECTORS' REPORT

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DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Central Bank of the Solomon Islands ("the Bank") for the year ended 31 December 2018 and the auditors' report thereon.

DIRECTORS

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

- Denton Rarawa (Chairman and Governor)
- Gane Simbe/Luke Forau (Deputy Governor)
- Harry Kuma (Permanent Secretary of Finance)
- Thomas Ko Chan
- John Usuramo
- David K C Quan
- Christina Lasanga
- Dennis Meone
- Rodney Rutepitu

STATE of affairs

In the opinion of the Directors:

- there were no significant changes in the state of affairs of the Bank during the financial year under review not otherwise disclosed in this report or the financial statements;
- the accompanying statement of financial position gives a true and fair view of the state of affairs of the Bank as at 31 December 2018 and the accompanying statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, of the Bank for the year then ended.

PRINCIPAL activities

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

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

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

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

RESULTS

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

RESERVES

The Board approved the following transfers of reserves in the statement of profit and loss and other comprehensive income during the year ($83.6 million) to the general reserve and the capital asset reserve.

PROVISIONS

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

GOING Concern

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

GOING CONCERN

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

ASSETS

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

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

DIRECTORS' BENEFIT

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

UNUSUAL TRANSACTIONS

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

EVENTS SUBSEQUENT TO BALANCE DATE

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

OTHER CIRCUMSTANCES

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

Dated at Honiara this sixth day of May 2019

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

Luke Forau
Deputy Governor

David KC Quan
Director

STATEMENT BY DIRECTORS

In the opinion of the Directors:

(a) the accompanying statement of profit and loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2018;

(b) the accompanying statement of financial position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 31 December 2018;

(c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the changes in equity of the Bank for the year ended 31 December 2018;

(d) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Bank for the year ended 31 December 2018;

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

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

(g) the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") and Central Bank Solomon Islands Act 2012 ("Act 2012").

For and on behalf of the Board of Directors by authority of a resolution of the Directors this 6th of May 2019.

Luke Forau
Deputy Governor

David KC Quan
Director

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

SOLOMON ISLANDS OFFICE OF THE AUDITOR-GENERAL

REPORT ON THE FINANCIAL STATEMENTS

Opinion

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

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

Basis for Opinion

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

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

Other information

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

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

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

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

Responsibilities of Directors and Management for the Financial Statement

Directors and Management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirement of the Central Bank of Solomon Islands Act, 2012, and for such internal control as the directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors and management are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (IS As) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

Report on Other Legal and Regulatory Requirements

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

In my opinion:

i.) proper books of account have been kept by the Bank, sufficient to enable financial statements to be prepared, so far as it appears from my examination of those books; and

ii) to the best of my knowledge and according to the information and explanations given to us the financial statements give the information required by the Section 51 (1) of the Central Bank of Solomon Islands Act 2012, in the manner so required.

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

PETER LOKAY
Auditor-General
10th May, 2019

Office of the Auditor-General
Honiara, Solomon Islands

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 $000	2017 $000
Income			
Interest income	4(a)	**85,587**	49,089
Fees and commission income	4(b)	**73,495**	28,269
Other income	4(c)	**1,302**	6,728
Change in fair value of investment properties	10	**836**	-
Net unrealized foreign exchange revaluation gain		**2,680**	15,498
Total income		**163,899**	99,584
Expenses			
Interest expense	4(d)	**5,508**	5,098
Fees and commission expense		**1,296**	1,378
Administration expenses	4(e)	**48,220**	42,928
Other expenses	4(f)	**25,260**	19,615
Total expenses		**80,284**	69,019
Net operating (loss)/profit		**83,615**	30,565
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss			
Net change in fair value (property, plant and equipment)		**14,958**	-
Net change in fair value (available - for - sale financial assets)		**(1,806)**	25,955
Income from demonetisation	27	**7,209**	-
Total comprehensive (loss)/ income		**20,361**	56,520

Luke Forau
Deputy Governor

David KC Quan
Director

This statement of profit and loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 42 to 65

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 $000	2017 $000
Foreign currency assets			
Cash at bank	20	**955,001**	777,368
Accrued interest		**26,784**	10,800
Held-to-maturity investments	5	**3,748,353**	3,457,690
Available-for-sale investments	6	**251,538**	245,034
International Monetary Fund	7	**248,309**	240,203
Total foreign currency assets		**5,229,985**	4,731,095
Local currency assets			
Cash on hand	20	**599**	191
Loans and advances	8	**13,857**	12,931
Currency inventory	9	**37,511**	29,244
Investment properties	10	**2,324**	13,262
Property, plant and equipment	12	**174,267**	148,940
Intangibles	10	**443**	-
Other assets	11	**27,216**	63,900
Total local currency assets		**256,220**	268,468
Total assets		**5,486,205**	4,999,563
Foreign currency liabilities			
International Monetary Fund	7	**355,488**	362,044
Demand deposits	13(a)	**145,908**	92,919
Total foreign currency liabilities		**501,395**	454,963
Local currency liabilities			
Demand deposits	13(b)	**3,038,648**	2,579,384
Currency in circulation	14	**947,167**	931,519
Fixed deposits	15	**761,673**	761,658
SIG monetary operations account	16	**60,242**	199,222
Employee entitlements	17	**21,395**	18,920
Other liabilities	18	**6,581**	8,769
Total local liabilities		**4,835,706**	4,499,472
Total liabilities		**5,337,102**	4,954,435
Net assets		**149,103**	45,128
Capital and reserves			
Paid up capital	21	**50,000**	50,000
General reserve	22(a)	**172,188**	92,088
Foreign exchange revaluation reserve	22(b)	**(196,499)**	(199,179)
Asset revaluation reserve	22(c)	**120,112**	104,318
Gold revaluation reserve	22(d)	**(65,781)**	(63,974)
Capital asset reserve	22(e)	**69,084**	61,875
Total capital and reserves		**149,103**	45,128

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

Luke Forau
Deputy Governor

David KC Quan
Director

This statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 42 to 65

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

	Issued & paid up capital	Gold revaluation reserve	General reserve	Foreign exchange assets revaluation reserve	Asset revaluation reserve	Capital assets reserve	Total
	$000	$000	$000	$000	$000	$000	$000
Balance at 1 January 2017	50,000	(89,929)	77,021	(214,677)	104,318	61,875	(11,392)
Total comprehensive income for the year							
Profit (loss) for the year (Note 19)	-	-	15,067	15,498	-	-	30,565
Other comprehensive income/(losses)							
Fair value losses – gold	-	25,955	-	-	-	-	25,955
Fair value gain – Property, plant and equipment	-	-	-	-	-	-	-
Total comprehensive income/(losses)	**-**	**25,955**	**15,067**	**15,498**	**-**	**-**	**56,520**
Balance as at 31 December 2017	**50,000**	**(63,974)**	**92,088**	**(199,179)**	**104,318**	**61,875**	**45,128**
Balance at 1 January 2018	**50,000**	**(63,974)**	**92,088**	**(199,179)**	**104,318**	**61,875**	**45,128**
Total comprehensive income for the year							
Profit (loss) for the year (Note 19)	-	-	80,100	2,680	836	-	83,616
Other comprehensive income/(losses)							
Fair value losses – gold	-	(1,806)	-	-	-	-	(1,806)
Fair value gain – Property, plant and equipment	-	-	-	-	14,958	-	14,958
Income from demonetisation						**7,209**	**7,209**
Total Other comprehensive income/(losses)	**-**	(1,806)	**80,100**	2,680	**15,794**	**-**	**103,976**
Balance as at 31 December 2018	**50,000**	**(65,781)**	**172,188**	**(196,499)**	**120,112**	**69,084**	**149,103**

This statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 42 to 65

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 $000	2017 $000
Operating activities			
Interest received		**69,603**	43,610
Other income		**74,979**	34,716
Interest paid		**(5,508)**	(5,249)
Cash paid to suppliers and employees		**(76,457)**	(50,727)
Net movement in held to maturity investments		**(476,991)**	(598,634)
Net movement in International Monetary Fund accounts		**(2,649)**	25,357
Net movement in other receivables		**36,683**	(4,441)
Net movement in other receivables		**-**	-
Cash flows (used in) operating activities		**(380,524)**	(555,368)
Investing activities			
Acquisition of property, plant and equipment		**(5,337)**	(4,843)
Proceeds from sale of premises, plant and equipment		**-**	301
Net movement in available-for-sale investments		**(8,311)**	-
Net movement in loan to government		**(49)**	(10)
Net movement in loans and advances to staff		**(877)**	(660)
Cash flows used in investing activities		**(14,574)**	(5,212)
Financing activities			
Net movement in currency in circulation		**22,858**	63,124
Net movement in demand deposits		**512,253**	93,317
Net movement in fixed deposits received		**14**	-
Solomon Islands government monetary operations		**(138,980)**	147,863
Net movement in International Monetary Fund credit facilities		**(12,013)**	(30,397)
Cash flows from financing activities		**384,132**	273,907
Net effect of exchange rates		**2,680**	15,498
Net increase/(decrease) in cash		**(8,286)**	(271,175)
Cash and cash equivalents at the beginning of the financial year		**777,559**	1,048,734
Cash and cash equivalents at the end of the financial year	**20**	**769,272**	777,559

This statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 42 to 65

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

1. Principal activities and principal place of operations

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

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

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

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

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

(b) Going concern basis of accounting

The financial statements have been prepared on a going concern basis not withstanding that as at 31 December 2018 the Bank had a surplus in net assets of $173m.

The Bank's continuation as a going concern is dependent upon the continued support of the Solomon Islands Government. These condi-

tions indicate the existence of a material uncertainty which may cast doubt on the Bank's ability to continue as a going concern.

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

(c) Basis of measurement

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

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

(d) Functional and presentation currency

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

(e) Use of estimates and judgement

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

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

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

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

3. Statement of significant accounting policies

Changes in accounting policies

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

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

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

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

i) IFRS 15 Revenue from Contracts with Customers

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

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

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

ii) IFRS 9 Financial Instruments

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

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

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

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

Classification of financial assets and financial liabilities

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

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

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

Impairment of financial assets

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

Transition

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

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in general reserve as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The determination of the business model within which a financial asset is held is an assessment that has been made on the basis of the facts and circumstances that existed at the date of initial application.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank assumed that the credit risk on the asset had not increased significantly since its initial recognition.

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

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

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

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

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 $'000	New carrying amount under IFRS 9 $'000
Financial assets				
Debt securities	Held to maturity	Amortised cost	3,468,490	3,468,490
Loans and advances	Loans and receivables	Amortised cost	12,931	12,931
International Monetary Fund	Loans and receivables	Amortised cost	240,203	240,203
Cash at bank	Loans and receivables	Amortised cost	777,368	777,368
Total financial assets			**4,498,992**	**4,498,992**
Financial liabilities				
International Monetary Fund	Other financial liabilities	Other financial liabilities	362,044	362,044
Fixed deposits	Other financial liabilities	Other financial liabilities	761,658	761,658
Demand deposits	Other financial liabilities	Other financial liabilities	2,672,303	2,,672,303
SIG monetary operations account	Other financial liabilities	Other financial liabilities	199,222	199,222
Other liabilities	Other financial liabilities	Other financial liabilities	8,769	8,769
Total financial liabilities			**4,003,996**	**4,003,996**

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

Cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost and allowance for impairment was recognised in opening general reserve at 1 January 2018 on transition to IFRS 9.

Debt securities that were previously classified as loans and receivables and held-to-maturity are now classified at amortised cost. The Bank intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

No differences have been identified between the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018, due to re-classification and re-measurement.

(a) Finance income and finance costs

Policy applicable from 1 January 2018

The Bank's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses (and reversals) on investments in debt securities carried at amortised cost;

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

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

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

Interest income and expense presented in the statement of profit and loss and other comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

Policy applicable before 1 January 2018

Foreign currency

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

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

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

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

(b) Revenue from contracts with customers

Policy applicable from 1 January 2018

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

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

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Sale of numismatic coins/Royalties on numismatic	Sales include the selling of numismatic to the customer. Performance obligation is satisfied when the customer received the numismatic coins. At this point, the revenue is recognised.	Revenue and associated costs are recognised when the goods are provided - i.e. when the numismatic is issued to the customer.
Dealing profit – fees and commissions	The income involves the spreads earned by the Bank in buy and sell arrangements (sold deals) and sell and buy back arrangements (bought deals) of foreign currencies. Performance obligation is satisfied when the customer is issued with a deal voucher of the deals. At this point, the revenue is recognised.	Revenue and associated costs are recognised when the deals are provided - i.e. when the deal is issued to the customer.

Policy applicable before 1 January 2018

Fees and commission

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

Other income

Other income are brought to account on an accrual basis.

(c) Tax expense

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

(d) Financial assets and financial liabilities

Policy applicable from 1 January 2018

Recognition and initial measurement

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

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

Classification and subsequent measurement

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

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

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

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

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

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

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the require-

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

ments to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Bank's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Bank considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Derecognition

Financial assets

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

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

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

Financial liabilities

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

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

Modifications of financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Offsetting

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

Impairment

Financial assets

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

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

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

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

The Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Bank considers a financial asset to be in default when:

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

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank considers this to be Baa3 or higher per rating agency Moody's or BBB- or higher per rating agency Standards & Poor's.

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

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

Measurement of ECLs

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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

Credit-impaired financial assets

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

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

Evidence that a financial asset is credit-impaired includes the following observable data:

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

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

Amortised cost measurement

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

Fair value measurement

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

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

Policy applicable before 1 January 2018

Recognition and initial measurement

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

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

Classification

Financial assets

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

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

Financial liabilities

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

Derecognition

Financial assets

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

Financial liabilities

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

Amortised cost measurement

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

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

Fair value measurement

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

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

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

Impairment of financial assets

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

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Bank on terms that the Bank would not consider otherwise, indications that a debtor or issuer will enter into bankruptcy, adverse changes in the payment status of borrowers or issuers in the Bank, economic conditions that correlate with defaults or the disappearance of an active market for a security.

(e) Cash and cash equivalents

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

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

(f) Held-to-maturity investments

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

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

(g) Available-for-sale investments

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

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

(h) Loans and advances

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

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

(i) Currency inventory

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

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

(j) Currency in circulation

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

(k) Property, plant and equipment

Recognition and measurement

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

Costs includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functional-

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

ity of the related equipment is capitalised as part of that equipment.

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

Subsequent costs

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

Depreciation

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

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

Periodic revaluation

The Board has determined that apart from land and buildings, the remaining fixed assets of the Bank are recorded on an historical cost basis. With Board approval, a three year periodical revaluation of its land and buildings is done. As part of this cycle a revaluation was completed at 31 December 2018. This included a review of the asset classes, estimated useful lives and depreciation rates, and current market values where deemed appropriate. The basis of this valuation is the open market value, that is, the highest and best value the property would expect to be realised for, if put for sale on private treaty. The valuations are performed by an independent valuer. The Board will continue to have such asset revaluations every three years. The next revaluations will be done in 2021.

(l) Investment properties

Investment property, is property held either to earn rentals or for capital appreciation or for both. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. Costs include expenditure that is directly attributable to the acquisition of the investment property. The fair values are determined on a similar basis as with other property valuations referred to above and are based on valuations performed by an independent valuer.

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

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

(m) Demand deposits

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

(n) Employee entitlements

Short-term employee benefits

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

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

Long-term employee benefits

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

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

(o) Impairment

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

(p) Comparative figures

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

(q) New standards and interpretations not yet adopted

IFRS 16 'Leases', removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. The Bank will now be required to recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

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The standard is effective for annual reporting periods beginning on or after 1 January 2019. The Bank has yet to fully assess the impact of this standard and intends to adopt the standard from 1 January 2019.

		2018 $000	2017 $000
4.	**Income and expenses**		
(a)	**Interest income**		
	Overseas investments	**85,319**	48,824
	Local investments	**268**	265
		85,587	49,089
(b)	**Fees and commission income**		
	Foreign currency dealings	**70,833**	27,662
	Local dealings	**2,662**	607
		73,495	28,269
(c)	**Other income**		
	Gain on disposal of fixed assets	**221**	301
	Rent received	**453**	1,000
	Sale of numismatic coins	**247**	180
	Gains on foreign currency exchange	**-**	-
	Royalties on numismatics	**66**	4,558
	Others	**314**	689
		1,301	6,728
(d)	**Interest expense**		
	Foreign liabilities	**977**	483
	Local liabilities	**4,532**	4,615
		5,508	5,098
(e)	**Administrative expenses**		
	Staff costs	**36,961**	32,093
	Telecommunication	**2,399**	1,876
	Utilities	**1,737**	1,906
	Repairs and maintenance	**2,222**	3,052
	Insurance	**463**	675
	Consumables	**253**	512
	Stationery, printing and postage	**404**	544
	Consultancy	**431**	-
	Other	**3,349**	2,270
		48,220	42,928
(f)	**Other expenses**		
	Board of directors remunerations and expenses	**349**	238
	Currency expenses	**15,668**	11,872
	Depreciation	**6,299**	5,547
	Auditors remuneration	**427**	384
	Other	**2,517**	1,574
		25,260	19,615

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

	2018 $'000	2017 $'000
5. Held-to-maturity investments		
Fixed term deposits	**3,590,339**	3,105,070
Short term commercial paper	**187,749**	182,623
Bonds	**156,493**	169,997
	3,934,681	3,457,690
6 Available-for-sale investments		
Unallocated gold - at fair value	**121,926**	118,773
Gold bullion - at fair value	**129,612**	126,261
	251,538	245,034

7. International Monetary Fund

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

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

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

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

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

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

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

IMF related assets and liabilities

	2018 $'000	2017 $'000
Foreign currency assets		
- Reserve tranche position	**35,567**	35,185
- Special drawing rights	**13,467**	7,879
- Currency subscription	**199,275**	197,139
	248,309	240,203
Foreign currency liabilities		
- Standby credit facility	**38,540**	42,593
- Special drawing rights allocation	**111,870**	110,670
- Extended credit facility	**3,656**	11,616
- Securities	**196,361**	192,104
- Capital subscription	**5,061**	5,061
	355,488	362,044

	2018 $'000	2017 $'000
8. Loans and advances		
Solomon Islands Government		
Loans and advances	46	46
Development bonds	27	27
Treasury bills	69	20

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

	2018 $'000	2017 $'000
Other securities	4,936	4,936
	5,078	**5,029**
Staff loans		
Staff housing loans	8,738	6,117
Management car loans	-	771
Personal loans	41	1,014
	8,779	7,902
	13,857	12,931
9. Currency inventory		
Notes	**18,449**	**7,851**
Coins	**19,062**	**21,393**
	37,511	**29,244**
10. Investment properties		
Balance at beginning of financial year- at fair value	**13,262**	**13,262**
Transfer to Property, Plant and Equipment	**(11,804)**	**-**
Changes in fair value	**866**	**-**
Balance at end of financial year- at fair value	**2,324**	**13,262**

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

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

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

Fair value hierarchy

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

The fair value of the Bank's investment properties and land and buildings included within Property, plant and equipment are categorised into Level 3 of the fair value hierarchy.

Valuation techniques and significant unobservable inputs

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

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Replacement cost method: where the improvements are valued using current replacement cost and an allowance for depreciation and obsolescence plus the freehold value of the land (notable sales of comparable vacant sites within Honiara are noted).	• Depreciation rate applied. • Locality of the property • Proximity to civic amenities • Tonography/geographical feature of the land •Demand for the land • Comparative Sales	The estimated fair value would increase (decrease) if: • depreciation rate were lower (higher); • the property located in urban locality; • closer to civic amenities; • the demand for the land increases.

	2018 $000	2017 $000
(a) **Intangibles assets**		
Computer software		
Reclassification from property, plant and equipment		

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

	2018 $000	2017 $000
- Cost	**4,315**	**4,301**
- Accumulated amortisation	**(3,637)**	**(2,927)**
Amortisation - current year	**(235)**	**(695)**
Balance at end of financial year	**443**	679

	2018 $000	2017 $000

11. Other assets

Commercial bank clearing	**22,645**	53,714
Others	**4,574**	10,186
	27,219	63,900

12. Property, plant and equipment

	Land & buildings $000	Plant, equipment & furniture $000	Motor vehicles $000	Computer $000	Work in progress $000	Total $000
Cost/valuation						
Balance at 1 January 2017	**140,972**	**24,610**	**1,905**	**9,407**	**4,912**	**181,806**
Transfer from Investment property	-	1,420	1,124	1,113	1,186	4,843
Acquisitions	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Disposals	-	(8)	(931)	-	-	(939)
Balance at 31 December 2017	**140,972**	**26,022**	**2,098**	**10,520**	**6,098**	**185,710**
Acquisitions	-	362	558	2,635	1,479	5,035
Transfer from Investment properties	11,804	-	-	-	-	11,804
Revaluation gain	10,977	-	-	-	3,981	11,804
Transfer to tangibles	-	-	-	(4,315)	-	(4,315)
Adjustments to prior year balances	-	7	-	41	-	48
Disposals	-	-	(389)	-	-	(389)
Balance at 31 December 2018	**163,753**	**26,391**	**2,267**	**8,881**	**11,559**	**212,838**
Accumulated depreciation						
Balance at 1 January 2017	**2,978**	**20,581**	**1,682**	**6,921**	**-**	**32,162**
Depreciation charge for the year	2,978	770	375	1,424	-	5,547
Disposals	-	(8)	(931)	-	-	(939)
Balance at 31 December 2017	**5,956**	**21,343**	**1,126**	**8,345**	**-**	**36,770**
Depreciation charge for the year	3,204	780	384	1,258	-	6,298
Transfer to Intangibles	-	-	-	(3,609)	-	(3,622)
Disposals	-	-	(203)	-	-	(203)
Balance at 31 December 2018	**9,160**	**22,123**	**1,307**	**5,994**	**-**	**38,625**
Carrying amount						
At I January 2017	137,994	4,029	223	2,486	4,912	149,644
At 31 December 2017	135,016	4,679	972	2,175	6,098	148,940
At 31 December 2018	154,593	4,268	960	2,887	11,559	174,940

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

	2018 $000	2017 $000

13. Demand deposits

(a) Foreign currency demand deposits

Demand deposits	**145,908**	92,919

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

	2018 $000	2017 $000
(b) **Local currency demand deposits**		
Commercial banks	**2,171,897**	1,875,049
Solomon Islands Government	**861,346**	694,609
Other financial corporations	**5,508**	1,273
Other	**-**	8,453
	3,038,648	**2,519,783**

	2018 $000	2017 $000

14. Currency in circulation

Notes	**915,320**	895,790
Coins	**31,847**	35,729
	947,167	931,519

15. Fixed deposits

Bokolo bills	**761,673**	**761,658**

Boko1o bills are short term discount securities issued and backed by the Central Bank of Solomon Islands. The instrument is used by the Bank for its monetary operations.

	2018 $000	2017 $000

16. SIG monetary operations account

SIG monetary operations account	**60,242**	**199,222**

17. Employee entitlements

Gratuity	**2,283**	**1,082**
Long service leave	**695**	**734**
Early retirement benefit	**18,417**	**17,104**
	21,395	**18,920**

18. Other liabilities

Unpresented bank cheques	**3,975**	**6,086**
Other liabilities	**2,606**	**2,683**
	6,581	**8,769**

19. Determination of distributable profit

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

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

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

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

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

	2018 $000	2017 $000
Net profit distribution according to CBSI Act 2012		
Net operating loss	**83,616**	30,565
Add/(less) - net unrealised foreign exchange loss/(gain)	**(2,680)**	(15,498)
- changes in fair value in investment properties	**(836)**	-
Net (loss)/gain to be recorded in general reserve	**80,100**	15,067

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

20. Cash and cash equivalents

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

	2018 $000	2017 $000
Cash and cash equivalents included in the statement of cash flows comprise of the following:		
Cash on hand - local currency	**599**	191
Cash and cash equivalents- foreign currency	**768,673**	777,368
Held-to-maturity term deposits with maturities up to 3 months	**186,328**	-
	955,600	777,559

21. Share capital

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

	2018 $000	2017 $000
Balance at the beginning of the year	**50,000**	**50,000**
Transfer from General Reserve according to Section 6(1) of CBSI Act., 2012	**-**	**-**
Balance at the end of the year	**50,000**	**50,000**

22. Reserves

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

a) **General reserve**

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

b) **Foreign exchange asset revaluation reserve**

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

c) **Asset revaluation reserve**

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

d) **Capital asset reserve**

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

23 Financial risk and management policies

(a) **Introduction and overview**

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

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

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

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

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

Risk management framework

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

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

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

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

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

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

(b) **Liquidity risk**

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

Management of liquidity risk

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

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

Maturity analysis as at 31 December 2018	On Demand $000	0-3 Months $000	3-6 Months $000	6-12 Months $000	Over Year $000	Undefined $000	Total $000
Foreign currency financial assets							
Money on demand	768,673	-	-	-	-	-	768,673
Accrued Interest	-	-	26,784	-	-	-	26,784
Fixed term deposit	-	1,146,308	2,444,032	-	-	1,146,308	3,590,340
Holding on special drawing rights	-	-	-	-	-	13,467	13,467
Reserve tranche	-	-	-	-	-	35,567	35,567
Subscription	-	-	-	-	-	199,276	199,276
Gold investment	-	-	-	-	-	251,538	251,538
Bonds	-	-	-	-	156,493	-	156,493
Short term	-	187,848	-	-	-	-	187,848
	768,673	1,334,156	2,470,816	--	156,493	499,848	5,229,986
Local currency financial assets							
Cash on hand	599	-	-	-	-	-	599
Other receivables	-	27,216	-	-	-	-	27,216
Loans and advances	-	-	-	-	13,857	-	13,857
	599	**27,216**	**-**	**-**	13,857	**-**	**41,672**
Total Financial Assets	**769,272**	**1,361,372**	**2,470,816**	**-**	**170,350**	**499,808**	**5,271,658**
Foreign currency financial liabilities							
Demand deposits	145,908	-	-	-	-	-	145,908

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

IMF standby credit facility	-	-	-	-	-	38,540	38,540
IMF special drawing rights allocation	-	-	-	-	-	111,870	111,870
IMF extended credit facility	-	-	-	-	-	3,656	3,656
Securities	-	-	-	-	-	196,361	196,361
Subscription	-	-	-	-	-	5,061	5,061
	145,908	**-**	**-**	**-**	**-**	**355,488**	**501,396**
Local currency financial liabilities							
Demand deposits	3,038,648	-	-	-	-	-	3,038,648
Currency in circulation	-	-	-	-	-	947,167	947,167
SIG monetary operations account	-	60,242	-	-	-	-	60,242
Fixed deposits	-	-	-	-	-	-	-
Employee entitlements	-	-	-	-	18,271	-	18,271
Other liabilities	-	-	-	-	-	-	-
	3,038,648	60,242	-	-	18,271	947,167	4,064,328
Total Financial Liabilities	**3,184,556**	**60,242**	**-**	**-**	**18,271**	**1,302,655**	**4,565,724**
Net liquidity gap	**(2, 415,284)**	**1,301,130**	**2,470,816**	**-**	**152,079**	**(802,807)**	**705,934**

Maturity analysis as at 31 December 2017	On Demand $000	**0-3 Months** $000	**3-6 Months** $000	**6-12 Months** $000	**Over Year** $000	**Undefined** $000	**Total** $000
Foreign currency financial assets							
Money on demand	-	-	-	-	-	777,368	777,368
Accrued Interest	-	-	11,979	-	-	-	11,979
Fixed term deposit	-	1,461,718	1,643,353	-	-	-	3,105,071
Holding on special drawing rights	-	-	-	-	-	7,878	7,878
Reserve tranche	-	-	-	-	-	35,185	35,185
Subscription	-	-	-	-	-	197,139	197,139
Gold investment	-	-	-	-	-	243,994	243,994
Bonds	-	-	-	-	170,812	-	170,812
Short term	-	-	-	-	-	-	182,623
	-	**1,644,341**	**1,655,332**	**-**	**170,812**	**1,261,564**	**4,732,049**
Local currency financial assets							
Cash on hand	191	-	-	-	-	-	191
Other receivables	-	62,744	-	-	-	-	62,744
Loans and advances	-	-	-	-	12,931	-	12,931
	199	62,744	-		12,931	-	75,866
Total financial assets	**191**	**1,707,085**	**1,655,332**	**-**	**183,743**	**1,261,564**	**4,807,915**
Foreign currency financial liabilities							
Demand deposits	152,999	-	-	-	-	-	152,999
IMF standby credit facility	-	-	-	-	-	8,297	8,297
IMF special drawing rights allocation	-	-	-	-	-	110,670	110,670
IMF extended credit facility	-	-	-	-	-	3,535	3,535
Securities	-	-	-	-	-	190,895	190,895
Capital subscription	-	-	-	-	-	4,928	4,928
	152,999	**-**	**-**	**-**	**-**	**318,326**	**471,325**
Local currency financial liabilities							
Demand deposits	2,756,763	-	-	-	-	-	2,756,763
Currency in circulation	-	-	-	-	-	924,300	924,300
SIG monetary operations account	-	17,695		-	-	-	17,695
Fixed deposits	-	-	-	-	-	-	-
Employee entitlements	-	-	-	-	18,485	-	18,485
Other liabilities	-	-	-	-	-	-	-
	2,756,763	17,695	-	-	18,485	924,300	3,717,243
Total Financial Liabilities	**2,909,762**	**17,695**	**-**	**-**	**18,485**	**1,242,626**	**4,188,567**
Net liquidity gap	**(2,909,570)**	**1,689,390**	**-**	**1,655,332**	**165,258**	**18,938**	**619,347**

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

(c) Credit risk

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

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

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

Concentration of credit exposure

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

	2018 **$000**	2017 $000
Foreign currency assets		
Cash at Bank	**768,673**	777,368
Held to maturity investment	**3,934,381**	3,457,690
International monetary fund	**248,309**	240,203
Gold investment	**251,538**	245,034
	5,203,201	4,720,295
Local currency assets		
Loans and advances	**13,857**	12,931
	5,217,058	4,733,226

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

Concentration by currency	**2018** %	**2017** %
Aaa	21	34
Aa1 – Aa3	37	30
A1 – A3	21	16
Baa1+ - Baa3	21	12
Ba1+ - Ba3	-	7
B1 – B3	-	2
N/R	-	-
	100	100

Cash

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

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

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

The Bank uses a similar approach for assessment of ECLs for cash to those used for debt securities.

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

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

Debt investment securities

The Bank held debt investment securities of $3,934.7 million at 31 December 2018 (2017: $3,457.7m). The debt investment securities are held with banks and the Solomon Island Government. Debt investment securities held with banks and the Solomon Island Government are rated B3 to Aaa, based on Moody's ratings.

Impairment on debt investment securities held with banks has been measured on the 12 month expected loss basis and reflects the short maturities of the exposures. The Bank considers that its debt investment securities held with banks have low credit risk based on the external credit ratings of the counterparties (in relation to banks) and available press and regulatory information (in relation to credit institutions).

Impairment on debt investment securities held with the Solomon Islands Government has also been measured on the 12 month expected loss basis.

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

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

Concentration by currency	2018 $,000	%	2017 $'000	%
USD	**3,303,211**	**63**	2,690,277	57
AUD	**1,192,210**	**23**	1,155,426	25
EURO	**11,816**	**-**	61,197	1
SDR	**239,027**	**5**	240,203	5
NZD	**245,775**	**5**	240,398	5
SGD	**86,509**	**2**	143,777	3
STG	**136,770**	**2**	186,166	4
SBD	**13,857**	**-**	12,931	-
JPY	**3**	**-**	4	-
CNY	**585**	**-**	2,847	
Total financial assets	**5,217,058**	**100**	4,733,226	100

Concentration by sector				
Foreign currency assets				
Central banks	**1,019,638**	**16**	774,520	25
Commercial banks	**3,935,254**	**78**	3,705,572	66
International Monetary Fund	**248,309**	**5**	240,203	6
	5,203,201	**100**	4,720,295	100
Local currency assets				
Solomon Islands Government loan and advances	**5,078**	**40**	5,029	41
Staff loan and advances	**8,779**	**60**	7,902	59
	13,857	**100**	12,931	100
Total financial assets	**5,217,058**		4,733,226	

d) Market risk

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

Interest rate risk management

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

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

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

	2018 $000	2017 $000
	Carrying amount	
Fixed rate instruments		
Cash at Bank (Financial assets)	**768,673**	575,273
Held-to-maturity investments (Financial assets)	**3,934,082**	3,457,690
Loans and advances (Financial assets)	**13,856**	12,931
Demand deposits (Financial liabilities)	**-**	-
SIG monetary operations account (Financial liabilities)	**-**	-
Fixed deposits (Financial liabilities)	**761,673**	761,658
	3,954,938	2,775,111
Variable rate instruments		
Cash at Bank (Financial assets)	**768,673**	711,220
International Monetary Fund (Financial assets)	**248,309**	7,879
International Monetary Fund (Financial liabilities)	**(355,488)**	(110,670)
	661,494	608,429

Fair value sensitivity analysis for fixed instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss	
	100bp **increase**	100bp **decrease**
31 December 2018	$000	$000
Variable rate instruments	**1,810**	**(1,810)**
31 December 2017	-	-
Variable rate instruments	6,984	(6,084)

Foreign exchange risk management

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

In accordance with the Central Bank of Solomon Islands Act., 2012, the task of maintaining the safety and liquidity of foreign reserve assets, as well as the returns from 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.

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

2018 foreign currency risk

Foreign currency financial assets	AUD SBD $000	NZD SBD $000	USD SBD $000	EURO SBD $000	GBP SBD $000	SGD SBD $000	CNY SBD $000	JPY SBD $000	OTHER SBD $000	TOTAL SBD $000
Money at Call	102,848	-	624,371	15,030	25,886	-	573	4	-	768,712
Accrued Interest	5,509	2,147	18,421	-	247	460	-	-	-	26,784
Term deposit	755, 208	239,793	2,,385,487	-	105,939	103,873	-	-	-	3,590,300
Holding on special drawing rights	-	-	-	-	-	-	-	-	13,467	13,467
Reserve tranche	-	-	-	-	-	-	-	-	35,567	35,567
Subscription	-	-	-	-	-	-	-	-	199,276	199,276
Gold investment	-	-	251,538	-	-	-	-	-	-	251,538
Bonds	156,493	-	-	-	-	-	-	-	-	156,493

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Short term commercial paper	187,849	-	-	-	-	-	-	-	-	187,849
Total	**1,207,907**	**241,940**	**3,279,817**	**15,030**	**132,072**	**104,333**	**573**	**4**	**248,310**	**5,229,986**
Foreign currency financial liability										
Demand deposits	145,908	-	-	-	-	-	-	-	-	145,908
IMF standby credit facility	-	-	-	-	-	-	-	-	38,540	38,540
IMF special drawing rights allocation	-	-	-	-	-	-	-	-	111,870	111,870
IMF extended credit facility	-	-	-	-	-	-	-	-	3,656	3,656
IMF securities	-	-	-	-	-	-	-	-	196,361	196,361
Capital subscription	-	-	-	-	-	-	-	-	5,061	5,061
Total	**145,908**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**355,488**	**501,396**
Net foreign currency asset	**1,061,999**	**241,940**	**3,279,817**	**15,030**	**132,072**	**104,333**	**573**	**4**	**107,178**	**4,728,590**

2017 foreign currency risk

Foreign currency financial assets	**AUD**	**NZD**	**USD**	**EURO**	**GBP**	**SGD**	**CNY**	**JPY**	**OTHER**	**TOTAL**
	SBD $000	**SBD $000**	**SBD $000**	**SBD $000**	**SBD $000**	**SBD $000**	**SBD $000**	**SBD $000**	**SBD $000**	**SBD $000**
Money at Call	49,567	-	661,421	61,197	2,333	-	-	-	2,851	777,369
Accrued Interest	5,648	1,147	4,648	-	278	219	-	-	-	11,980
Term deposit	753,240	240,398	1,783,822	-	183,833	143,776	-	-	-	3,105,069
Holding on special drawing rights	-	-	-	-	-	-		-	7,878	7,878
Reserve tranche	-	-	-	-	-	-	-	-	35,185	35,185
Subscription	-	-	-	-	-	-	-	-	197,139	197,139
Gold investment	-	-	243,994	-	-	-	-	-	-	243,994
Bonds	170,812	-	-	-	-	-	-	-		170,812
Short term commercial paper	**182,623**	**-**	**-**	**-**	**-**	**-**	-	-	-	182,623
Total	**1,161,890**	**241,545**	**2,693,925**	**61,197**	**186,444**	**143,995**	**-**	**-**	**243,053**	**4,732,049**
Foreign currency financial liability										
Demand deposits	152,999	-	-	-	-	-	-	-	-	152,999
IMF standby credit facility	-					-		-	8,297	8,297
IMF special drawing rights allocation	-	-	-	-	-	-		-	110,670	110,670
IMF extended credit facility	-	-	-	-	-	-		-	3,535	3,535
IMF securities	-	-	-	-	-	-		-	190,895	190,895
Capital subscription	-	-	-	-	-	-		-	4,928	4,928
Total	**152,999**	**-**	**-**	**-**	**-**	**-**		**-**	**318,326**	**471,325**
Net foreign currency asset	**1,008,891**	**241,545**	**2,693,925**	**61,197**	**186,444**	**143,995**	**-**	**-**	**75,273**	**4,260,724**

Concentration of foreign exchange

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

	2018		2017	
	$000	%	$000	%
USD	**3,303,211**	**60**	2,603,280	58
AUD	**1,192,210**	**26**	1,153,529	24
EURO	**11,816**	**1**	61,197	3
NZD	**245,775**	**5**	240,398	6
SGD	**86,509**	**3**	143,777	4
STG	**136,770**	**5**	186,166	5
JPY	**3**	**-**	4	-
CNY	**585**	**-**	2,847	-
	4,976,879	**100**	4,391,198	100

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

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

Reporting date spot rate		
	2018	2017
AUD	**0.1745**	0.1633
USD	**0.1230**	0.1272
NZD	**0.1832**	0.1797
STG	**0.0971**	0.0947
EURO	**0.1077**	0.1066
JPY	**13.6100**	14.370
SGD	**0.1684**	0.1703
SDR	**0.0886**	0.0895
CNY	**0.8452**	0.8320

Sensitivity to foreign exchange rate risk	**2018** **$M**	2017 $M
Impact of a:		
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	**(121)**	(97)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	**(60)**	87

(e) Operational risk management

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

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

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

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

24. Fair value of financial assets and liabilities

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

Valuation of financial instruments

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

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

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

valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

31 December 2018	Note	Level 1	Level 2	Level 3	Total
		$000	$000	$000	$000
Investment securities					
Available for sale financial assets (Gold)	6	251,538			251,538

31 December 2017	Note	Level 1	Level 2	Level 3	Total
		$000	$000	$000	$000
Investment securities					
Available for sale financial assets (Gold)	6	243,994			243,994

25. Related parties

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

The Board of Directors during the year were:

Denton Rarawa (Chairman and Governor)

Gane Simbe/Luke Forau (Deputy Governor)

Harry Kuma

Thomas Ko Chan

John Usuramo

David K C Quan

Christina Lasanga

Dennis Meone

Rodney Rutepitu

Directors' fees and emoluments

Directors' fees and emoluments

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

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

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

Denton Rarawa	Governor
Gane Simbe	Deputy Governor (up to September 2018)
Luke Forau	Advisor to Governors/Deputy Governor (from September 2018)
Denson Deni	Chief Manager International
Daniel Haridi	Chief Manager Currency and Banking Operations
Donald Kiriau	Chief Manager Economics Research and Statistics
John Bosco	Chief Manager HR and Corporate Services
Emmanuel Gela	Chief Manager Finance and Accounts
Raynold Moveni	Chief Manager Financial Market Supervision
Edward Manedika	Chief Manager Information Technology

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

	2018 $000	2017 $000
Short-term employee benefits	**1,484**	3,028
Long-term benefits	**1,997**	1,046
	3,481	4,074

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

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

As at 31 December 2018 loans by the Bank to key management personnel are as follows:

	2018 $000	2017 $000
Housing Loan	**1,100**	1,667
Personal Loan	**26**	63
Management Car Loan	**65**	131
	1,191	1,861

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 favourable than similar transactions with other employees or customers.

Transactions with the Solomon Islands Government

The transactions with the Solomon Islands Government include banking services, foreign exchange transactions, registry transactions and purchase of Government securities. During the year, the Bank received $nil (2017: $0.0m) of interest income relating to their investments in Government securities. The Bank also paid $nil million (2017: $0.0m) to the Government in accordance with Section 34 of the CBSI Act., 2012. The balance of the Bank's investment in Government securities at year end amounted to $5.0 million (2017: $5.0m).

26. Commitments and contingent liabilities

The Bank has guaranteed staff housing loans with the commercial banks to the sum of $0.79 million as at 31 December 2018 (2017: $0.79m). The guarantee scheme was no longer available to staff since 2011 and is valid for eligible staff until the date of ceasation of employment with the Bank.

In 2007 the Solomon Islands Government introduced and provided $10 million for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31 December 2018, a total of 3 (2017: 3) loans with a net guarantee of $0.576m (2017: $0.576m) million have been administered under the scheme.

27. Income from demonetisation

The Bank has recognised demonetisation income of $7.2 million (2017: $Nil). Under Section 22 of the Central Bank of Solomon Islands Act the Bank is empowered to redeem currency from circulation. Upon issue of new coins in 2012, a demonetisation period of 5 years was allowed for exchange at face value and the old coins were removed from circulation. During 2018, the remaining balance of demonetised coins physically in circulation ceased to be legal tender disposing the Bank's liability of exchange at face value.

28. Events subsequent to balance date

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

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


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10 YEARS
OF AFI
CELEBRATING
MONEY
MATTERS
MATTER
Women in Micro-business Awards