VISION, MISSION, AND VALUE STATEMENTS[1]

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.

1 As of January 2020, CBSI instituted a Strategic Plan for 2020 – 2023 with a new set of Vision, Mission and Value Statements. The Vision, Mission and Value statements herein were for the period to December 2019.

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CENTRAL BANK OF SOLOMON ISLANDS

13th May 2020

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

Dear Minister,

Re: 2019 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 2019.

Yours sincerely,

LUKE FORAU, Ph.D
Governor

GOVERNOR'S FOREWORD

Governor, Dr. Luke Forau

This annual report provides commentaries on the work of the Central Bank of Solomon Islands (CBSI) for 2019 as part of its mandated role to design and implement public policies relating to central banking. In doing so, the Bank mobilizes its internal resources to implement the said policies.

On the public policy front, domestic economic activities in 2019 slowed down significantly, owing to both external and domestically driven factors. On the external side, weak global market conditions and the continued US-China trade war has led to low demand for Solomon Islands' main export commodities. Domestically, the continued economic structural issues combined with low fiscal stimulus and weak investment opportunities constraint economic inducement during the year. Against this background and amidst the low inflation environment, monetary policy in 2019 has been accommodative to help stimulate the economy.

Looking ahead, outlook for the domestic economy is bleak, with 2020 growth projection estimated to contract

Former Governor, Denton Rarawa congratulates Dr. Luke Forau following his appointment as Deputy Governor, and witnessed by Executive Secretary, Louisa Sulega.

by up to minus 5%. This rather pessimistic outlook stems from the fact that the emergence and the spread of the coronavirus (COVID-19 for short), now a pandemic, has in fact increased unknowns, its magnitude and extent. From an economic policy lens, such uncertainty calls for more precautionary but strategic approaches by the authorities to ensure that economic activities are maintained from further deteriorating. Perhaps, the COVID-19 pandemic brings a new normal that requires the country to start exploring new ways of doing things. It calls for creativity

CBSI Management and staff pose for a group photo with former Governor, Denton Rarawa in 2019.

and innovation in our effort to develop the country. Time to do things differently.

In terms of the Bank's operations and governance, 2019 has been a positive year, with a net profit of $93.9 million. The Bank continued to maintain a high level of standard and ensures to meet its mandate as required under the CBSI Act 2012.

The achievements and the maintenance of the Bank's mandate, let alone its image and reputation, rests entirely on the conduct and productivity of the people who have been entrusted to look after. Over the years, the Bank has been investing and continued to invest in its human capital. To date, I am pleased to say that the Bank is one of the institutions in the country that has very highly qualified and dedicated staff compliment. Not only that, but their dedication and commitment to the mandate of the Bank reflected who we are today. Of course, this has been made possible by the continued support and foresight of a very active Board, for which I am also indebted.

In addition, I would like to convey my sincere gratitude and commendation to my predecessor, Mr Denton Rarawa, whose leadership for the last eleven years has seen the Bank progressing thus far.

In this report, readers will find commentaries on the economic performance of the Solomon Islands economy, this is part of the Bank's monitoring and surveillance role to contribute to economic policy discussions. The report also highlights the operations of the Bank and the financial results for 2019.

It is now my pleasure to commend the Central Bank of Solomon Islands' 2019 Annual Report for your reading.

Thank you

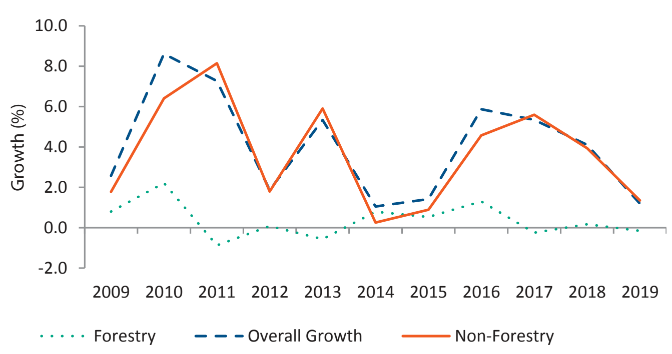
Luke Forau, Ph.D
Governor

CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2019

Weak global demand and slower domestic activity led to a slowdown in the Solomon Islands economy in 2019, with CBSI estimating real GDP growth of 1.2% from 3.9% in 2018. On the external front, the US – China trade tensions have had an impact on the sluggish demand for the country's export commodities. On the domestic environment, weaker fiscal activity in the first half of the year, along with muted investment and consumer demand, contributed to the slowest rate of growth since 2014.

FIGURE 1.1

ECONOMIC GROWTH



Source: CBSI & SINSO

International Economy

A sluggish global environment saw global growth tapered to 2.9% in 2019 from 3.6% in the prior year. The effects and persistence of the US-China trade tensions, weaker trade and investment activities in both emerging and advanced economies, coupled with social unrest and weather-related shocks in some countries contributed to the outcome[1].

Growth in China, the country's largest trading partner, was projected to have slowed to 6.1% in 2019 as the economy underwent a structural slowdown. The effects of the protracted trade war with the US also contributed to this outcome. Meanwhile, growth in Australia grew at a slower pace to 1.8% in December 2019, driven by weak consumption growth amongst households coupled with subdued business confidence from the farm sector as a result of the effects of the drought and bushfires. While growth in New Zealand slowed to 2.2% for the year, reflecting low business confidence and headwinds from global economic conditions.

On the commodities side, global oil prices while volatile during the year declined year on year with the tapis oil price falling by 8% to an average US$68.72 per barrel in 2019. This influenced the annual fall in overall global commodity prices during the year as global demand also waned. Likewise, global inflation decelerated by 6 basis points to 3.6% in 2019, as consumer spending slowed and was muted in both advanced and emerging market economies. On the regional front, inflation outcomes in Australia and New Zealand remained stable and within targets; both at 1.6% for the year.

Domestic Economy

The muted economic performance of 1.2% in 2019 was cross sectional across industries and was most pronounced in agriculture and forestry, the two largest contributors to rural incomes and government revenue. The sectoral driver for this outturn was principally the fall in the primary sector that accounted for -0.4%, as export prices declined for the country's key commodities. Additionally, the secondary sector contributed a flat 0.6%, while services only accounted for 1.1% of the real GDP growth during the year.

The CBSI annual production index slid by 6.8% to 98 points. This outcome stemmed mainly from the declines in the production of the country's key primary commodities during the year, despite the increases in fish catch and cocoa. Logs, palm oil, copra and coconut oil fell by 2.4%, 1.3%, 59.0% and 15.1%, respectively. The fall in these commodities reflects the soft demand for these products in overseas markets, and the structural issues such as the future stock of harvestable logs and senile coconut plantations.

The balance of payments likewise swung sharply to a net deficit of $292 million from the $527 million net surplus in 2018. This sharp turnaround emanated from the fall in exports, particularly round logs and agriculture, and the surge in service payments that led to a wider current account deficit of $1,167 million. The deficit was partially financed by the capital and financial account surplus that increased by 20% to $737 million and the gross foreign reserves which declined by 6% to $4,706 million. Nonetheless, the foreign reserves remained at comfortable levels equivalent to 11.9 months of imports compared to the target of 6 months.

In the exchange rate market, the stronger US dollar (USD) in the global financial markets during the year led to the weakening of the Solomon Islands dollar (SBD) by 1.4% to $8.23 per USD. On the other hand, the SBD appreciated against the Australian and New Zealand dollars by 3.7% to $5.63 per AUD and 1.5% to $5.32 per NZD, respectively. Due to the prominence of the USD, the SBD fell by 1.4% against the trade weighted basket to 111.9 points. Meanwhile, the Real Effective Exchange Rate on average strengthened by 0.9% during the period, reflecting the inflation differentials between the country and its trading partners.

Reflecting the subdued economic environment, monetary conditions weakened in 2019, with broad money declining by 3% to $5,082 million due to the fall in net foreign assets. Accordingly, total liquidity went down by 12% to $1,907 million and excess liquidity, while still high, fell by

1 Statistics in this 'International Economy' section were obtained from the International Monetary Fund (IMF) World Economic Outlook, April 2020.

15% to $1,370 million. On the other hand, credit offered by banks continued to rise, up by 5% to $2,557 million with personal, transport, distribution and construction sectors as the key drivers.

Preliminary data showed that the Government's financial position turned negative in 2019 with a $202 million deficit against a surplus of $191 million in 2018. This turnaround reflected the 11% fall in total revenue to $3,633 million, amidst a smaller 1% fall in total expenditure to $3,834 million. The weaker revenue was driven by falls in log export duties, donor grants, and lower collections across most tax categories reflecting the weaker business conditions. On the expenditure side, a fall in development spending drove the outcome, although spending pressures, particularly for salaries and 'goods and services' were evident in the second half of the year. Meanwhile, Government's debt level at end-2019 remained at a sustainable level of 11% of GDP, having risen by 6% to $1,074 million due to new debt disbursements during the year.

Labour market conditions grew slowly in 2019. Proxy indicators from the Solomon Islands National Provident Fund show 'active and slow active' contributors only grew by 3% to 60,643 compared to the 5% growth in 2018. Moreover, filled public service establishment numbers rose 2% to 18,190 positions, and newspaper job advertisements declined during the period. On the other hand, temporary employment for large national events surged with thousands of workers engaged as polling officials for the national elections and as enumerators for the national census. Additionally, seasonal workers contracted to work in New Zealand and Australia jumped 31.4% to 1,130 and 70 local nurses were engaged to work in the Republic of Vanuatu in 2019.

Consumer prices remained at acceptable levels during the year. End period headline inflation for December 2019 was 2.8% compared to the 4.2% in December 2018 while annual average inflation slowed from 3.3% in 2018 to 1.8% in 2019. These price developments were driven by the falls in both the import and domestic categories in particular food, fuel, 'clothing and footwear' and 'hotel and restaurants'. This offsets price pick-ups in 'alcohol and tobacco' category related to betel nuts, and utilities. Meanwhile, annual average core inflation in 2019 levelled off at 1.6% as in 2018 indicating demand side pressures on consumer prices were minimal.

Economic Outlook

The growth outlook for the global economy in 2020 is grim with an anticipated slide to a global recession of -3% as the world grapples with the effects and uncertainties surrounding the duration and spread of the coronavirus (Covid-19) pandemic. For key trading partners like China, the projected growth for 2020 has been significantly downgraded by -4.8 percentage points to 1% as factories, consumer spending and business activities are affected by Covid-19. The outlook for the US, Australia and New Zealand is similar with significant economic downturns as they attempt to contain the pandemic with thousands falling ill, and the countries going into lockdown; closing businesses and raising unemployment levels. Nonetheless, stimulus measures have been implemented to mitigate the impact of the unprecedented shock, and global growth is projected to recover in 2021.

For the Solomon Islands, the outlook is equally pessimistic. Economic growth is projected to tilt downward to between -3% and -5% in 2020 should the effects of Covid-19 persist throughout the year. This comes on the heels of the deterioration in both the external and domestic environments. Sectors that are expected to drive the fall in growth are forestry, tourism, transport, manufacturing, education and government services. Moreover, the restrictions on movements from overseas could mean delays in national projects. Meanwhile, fisheries and palm oil, as intermediate goods for final food products are projected to have the least negative impact, as their production would remain uninterrupted unless the pandemic were to affect workers at their respective sites.

The expected recession could have a significant blow on the external sector. While the current account deficit is projected to be relatively narrow as primary income payments related to dividends decline and secondary income associated with donor grants rise, goods and services exports would tumble during the year. On the contra side, the capital and financial account surplus is forecasted to slow as investments and capital grants decelerate. As such, the country's gross foreign reserves is expected to decline, although remain above the precautionary level of 6 months of import cover.

Monetary conditions are also expected to worsen in the near term. Reserve money is forecasted to fall by 2% to $2,802 million, associated with the projected fall in CBSI's gross foreign reserves. While, broad money is slated to decline by 3% to $5,028 million, in line with the weak economic environment. Private sector credit is also projected to fall as the uptake of new loans are delayed and repayment schedules are deferred due to Covid-19. On the other hand, excess liquidity will broadly pick up, as activities slow down.

The Government's central role in mitigating the impact of Covid-19, in addition to its challenging financial position means that a fiscal deficit is anticipated for the year. Revenues are projected to fall as logs and other goods and services taxes decline. Expenditures, while at high levels, will need to fall or be reprioritized to focus on the health measures and a possible fiscal stimulus. Government debt might pick up as part of the measures to kick-start the economy and ensure development activities are recommenced.

With the economy heading into recession, along with a considerable fall in global fuel prices, CBSI projects headline inflation for 2020 to ease to between 1% – 2%. However, annual average inflation is expected to pick up to around 3.0% on account of the high inflationary developments in the first part of the year. Nonetheless, the Government has importantly put in place price controls on key food items as part of the Covid-19 mitigation measures.

The great uncertainty on the horizon from Covid-19 that has swamped the world means the Solomon Islands economy has been placed under considerable downside risk. To deal with the immediate issue of Covid-19, the Government's stimulus measures must be able to sustain key economic sectors and continue to support public health activities and work with other stakeholders including development partners to minimize the effects the crisis may have on affected workers and firms. In the aftermath of the crisis, the implementation of the stimulus package should continue to be rolled out to help restart the economy. Moreover, the country must earnestly build up its resilience buffers, through rainy-day funds, institutional policy measures and a broader economic base to cushion future shocks.

TABLE 1.1

IMPACT OF COVID-19 AND POTENTIALS FOR RECOVERY IN THE SOLOMON ISLANDS ECONOMY

In view of the expected recession in 2020, this special analytical snapshot provides an overview of the likely effects of Covid-19 on the Solomon Islands economy, the impact and responses by firms and workers, the role of government to mitigate the impacts, and the possible lessons to be learned for the economy from the pandemic.

The surge in global Covid-19 cases and deaths in 2020, and the sudden stop in economic activity due to the public health containment measures around the world will lead to a recession or even depression in the world economy. Likewise, this pandemic will have a significant effect on the Solomon Islands economy, affecting all sectors. The most affected so far include tourism, air transport and some government services, where activities have come to a standstill or slowed. Even commodity exports are likely to be affected by the fall in global demand, and declining domestic demand might affect wholesale retail, manufacturing and utilities. On the plus side, the plunge in oil prices could mean softer imported inflation.

At the micro-economy level, the impact will lead to a sharp downturn or even to sudden stop in sales, fall in revenue and loss of wages as thousands of workers are laid off (some temporarily). As a severe once in a generation shock, firms have therefore strategically planned and reacted to the situation. To address the immediate impact, some businesses have closed operations as a form of hibernation from the sudden shock. While, those in operation have had to scale down and only focus on essential activities. Others have had to strategically reoriented their business, such as offering special sales deals, takeaway services for restaurants, suspended capital projects and engage in new ventures. The disruption to the global supply chain, provides an opportunity for local firms to delve into manufacturing of essential and highly demanded goods.

In such circumstances, the role of government is central in mitigating the severe impact of Covid-19 on the economy and local businesses. Its stimulus package once implemented should focus on targeted areas and sectors, provide much needed support to small and medium-sized firms and ensure that essential services continue. Importantly, the aim of the Government's support should be to maintain the current level of economic activities from further deteriorating. Once the pandemic has been contained and activities return to normal, further Government assistance would be required for key sectors that were in hibernation to resume activity. This could include grants, soft or concessional loans, export facilities, and if possible, wages support for 1 or 2 pay periods for badly affected and selected sectors. Such measures, in addition to the large stimulus measures such as on infrastructure, would help kick start activities, drive domestic demand and boost the economic recovery.

Looking ahead, the experience from the pandemic, should reorient development planning and business disruption preparation for government, firms and even individuals. This means: 1) having diversification strategies; 2) building up of buffers, savings or a rainy-day fund; 3) the need to have in place strategic industries; and 4) encouraging more domestic manufacturing in the case of Solomon Islands. Optimistically, economic growth is expected to pick up over the medium term, and as such, firms and households should plan and utilise the opportunities once the economy recovers.

Auki main wharf, Malaita Province

CHAPTER 2: GOVERNANCE AND ORGANISATION

THE BOARD

The Board oversees the operations and governance of the Central Bank of Solomon Islands (CBSI). This mandatory oversight function is 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 and 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 Bank 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

During 2019, there were some changes to the composition of the Board of Directors as summarized in the table below:

JANUARY – SEPTEMBER 2019			
NAME	**POSITION**	**APPOINTMENT**	**TERM**
Mr. Denton Rarawa	Governor, Chairperson	22/08/13 – 22/08/19	Contract expired
Dr. Luke Forau	Deputy Governor	18 September 2018	6 years*
Mr. McKinnie Dentana	PSF	Ex-Officio	
Sir Thomas Chan	Director	3/08/15 – 24/06/19	Resigned
Mr. David K C Quan	Director	31 August 2016	5 years
Mr. Rodney Rutepitu	Director	20 February 2018	5 years
Mrs. Christina Lasaqa	Director	20 February 2018	5 years
Mr. Dennis Meone	Director	20 February 2018	5 years
Mr. David Dennis	Director	15 January 2019	5 years

*At the expiry of Mr. Denton Rarawa's contract as Governor, Dr. Luke Forau, Deputy Governor assumed the role of Governor and Chairperson of the Board from September 2019.

OCTOBER – DECEMBER 2019			
NAME	**POSITION**	**APPOINTMENT**	**TERM**
Dr. Luke Forau	Governor, Chairperson	1 October 2019	6 years
Mr. McKinnie Dentana	PSF	Ex-Officio	
Mr. David K C Quan	Director	31 August 2016	5 years
Mr. Rodney Rutepitu	Director	20 February 2018	5 years
Mrs. Christina Lasaqa	Director	20 February 2018	5 years
Mr. Dennis Meone	Director	20 February 2018	5 years
Mr. David Dennis	Director	15 January 2019	5 years

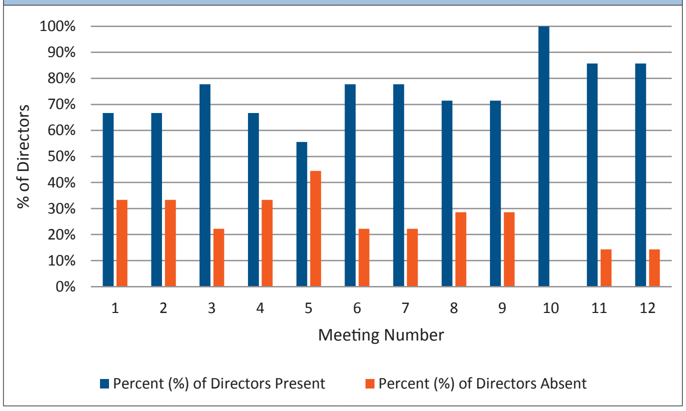
At the end of 2019, there were two vacancies on the Board (Deputy Governor and a Director).

Board Meetings

Under the CBSI Act 2012, the Board is required to meet not less than 6 times in a calendar year. To form a quorum, at least two-thirds of the members are present, including at least one non-executive member and the Governor. During the year, a total of 12 Board meetings were held.

FIGURE 2.1

BOARD OF DIRECTORS ATTENDANCE 2019



Source: CBSI

Board Committees

There are three committees of the Board namely the Board Audit Committee; the Board Remuneration Committee; and the Board Disciplinary Appeals Committee. Decisions made by the committees are forwarded to the Board for ratification.

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 2019 to consider and review the staff salary structure which was later approved by the Board for implementation.

STAFF COMPLEMENT

The Bank's staff complement, inclusive of services and temporary employees, increased by 4% to 166 in 2019 from 159 in 2018. This reflected the filling up of vacant and new positions following an institutional review and restructure in 2018. A new department, Risk Management and Communication Department (RMCD) was also created as part of the review to ensure that the mandated functions and the Corporate Strategy of the Bank are implemented efficiently.

About 90% of the total establishment in 2019 were filled, with 5% comprising new recruits hired during the year.

CENTRAL BANK OF SOLOMON ISLANDS BOARD OF DIRECTORS

1

DENTON RARAWA
Governor and Chairman of the Board (Up to August 2019)
- 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.

2

DR LUKE FORAU
(Executive Member) Deputy Governor
Appointed Deputy Governor, (Governor from October 2019)
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

3

MCKINNIE DENTANA
(Ex-Officio Member) Permanent Secretary - Ministry of Finance and Treasury

Previous positions held:
- Under Secretary - Ministry of Finance and Treasury

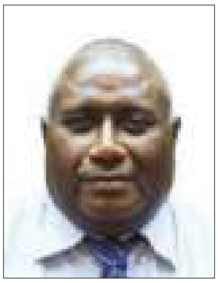
4

DAVID K.C. QUAN, MBE., MAICD., FIML.
(Non-Executive Member) since 31 August 2016
Chairman, Solomon Islands Electricity Authority Board
Managing Director - Quan Chee Corporation Limited

Previous Positions held:
- 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

5

SIR THOMAS KO CHAN
(Non-Executive Member) From 3 August 2015 to 24 June 2019
(Resigned)
Private businessman



6

MR. RODNEY RUTEPITU
(Non-Executive Member) since 20 February 2018
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

7

DENNIS MEONE
(Non-Executive Member) since 20 February 2018

Previous Positions held:
- Chief Executive Officer; Solomon Islands Chamber of Commerce and Industry (up to December 2018)
- 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.

8

CHRISTINA LASAQA
(Non-Executive Member) since 20 February 2018
Assistant Chief Executive; Our Telekom

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

9

DAVID DENNIS
(Non-Executive Member) since 15 January 2019
Private Consultant

Previous Positions held:
- Managing Director - Special Projects ANZ Banking Group SI.
- Country Manager - QBE Insurance (Int'l) Ltd Solomon Islands.

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

The Bank encourages equal employment opportunities and currently maintains a gender balance of 55% male to 45% female in 2019. Moreover, as a national institution, 100% of management are Solomon Islands citizens, including almost all general staff, aside from 1 long term permanent resident.

Retirement, Resignations and Secondments

Five members of staff left the service of the Bank during the year. Three resigned, one was terminated for disciplinary reasons, while the other, a senior executive and long serving member of staff retired after almost 35 years in August. Meanwhile another senior Bank manager continued with his two years secondment as an advisor at the Office of the Executive Director for Asia and Pacific Constituency at the International Monetary Fund Headquarter in Washington D.C.

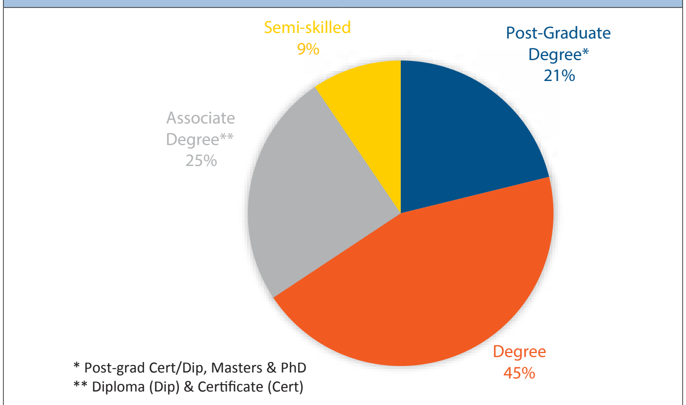
TRAINING AND DEVELOPMENT

In 2019, a total of 25 officers pursued formal full-time and part-time trainings under the Bank's sponsorship along with the additional funding assistance from other external sponsors. Nine staff studied abroad at various institutions in Australia, New Zealand and in the United States, all of whom studied at the post graduate level in the areas of Applied Finance, Economics, IT Cyber Risk, Actuarial and Corporate Governance. The rest of the trainings were provided locally in the areas of Business Administration, Accounting and Economics both at the under graduate and post graduate level.

At the end of the year, 11 officers successfully completed their academic programs, with 8 officers confirmed for their Master's degree and 3 for the Post Graduate Diploma in Business Administration. The attainment of these qualifications enhances the skills and technical capabilities of the institution and the country. With respect to the permanent staff and management establishment of the bank, 21% have post-graduate degrees (Post-Graduate Diplomas, Masters and PhD), and 45% of staff with Bachelor Degrees. CBSI continues to strive to develop its staff in key technical and priority areas.

FIGURE 2.2

STOCK OF STAFF QUALIFICATIONS AT CBSI



Source: CBSI

The Bank also encourages staff to access short course trainings in its continued efforts to enhance technical and specialized skills, and address knowledge gaps necessary to improve effectiveness and efficiency. Close to 70% of the staff have had accessed to various short course trainings in 2019. Most of these trainings were either conducted in-house, locally and abroad and are provided by reputable institutions and other service providers with the funding support from the Bank and other external multilateral and bilateral institutions. 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, IT, project management, risk management and security. Other staff also attended important international conferences, seminars, attachments and working groups which contributed to staff capacity development.

COMMUNITY AND PUBLIC RELATIONS

2019 saw a scale down of awareness activities in terms of the number of community outreach programs and participation in public events, such as trade shows or open forums, as compared to the previous years. However, CBSI continued to maintain monetary support where and whenever possible throughout the year, in order to meet some of its corporate social responsibilities towards the needs of different local groups and organizations. CBSI donations for the year totaled SBD$111,000.00 which were delivered in support of efforts that were mostly focused on community development, religion, education, health, sports, and women's initiative programs. Most were in the form of donations towards fundraising efforts such as corporate dinner tables and direct sponsorship of activities held by these groups.

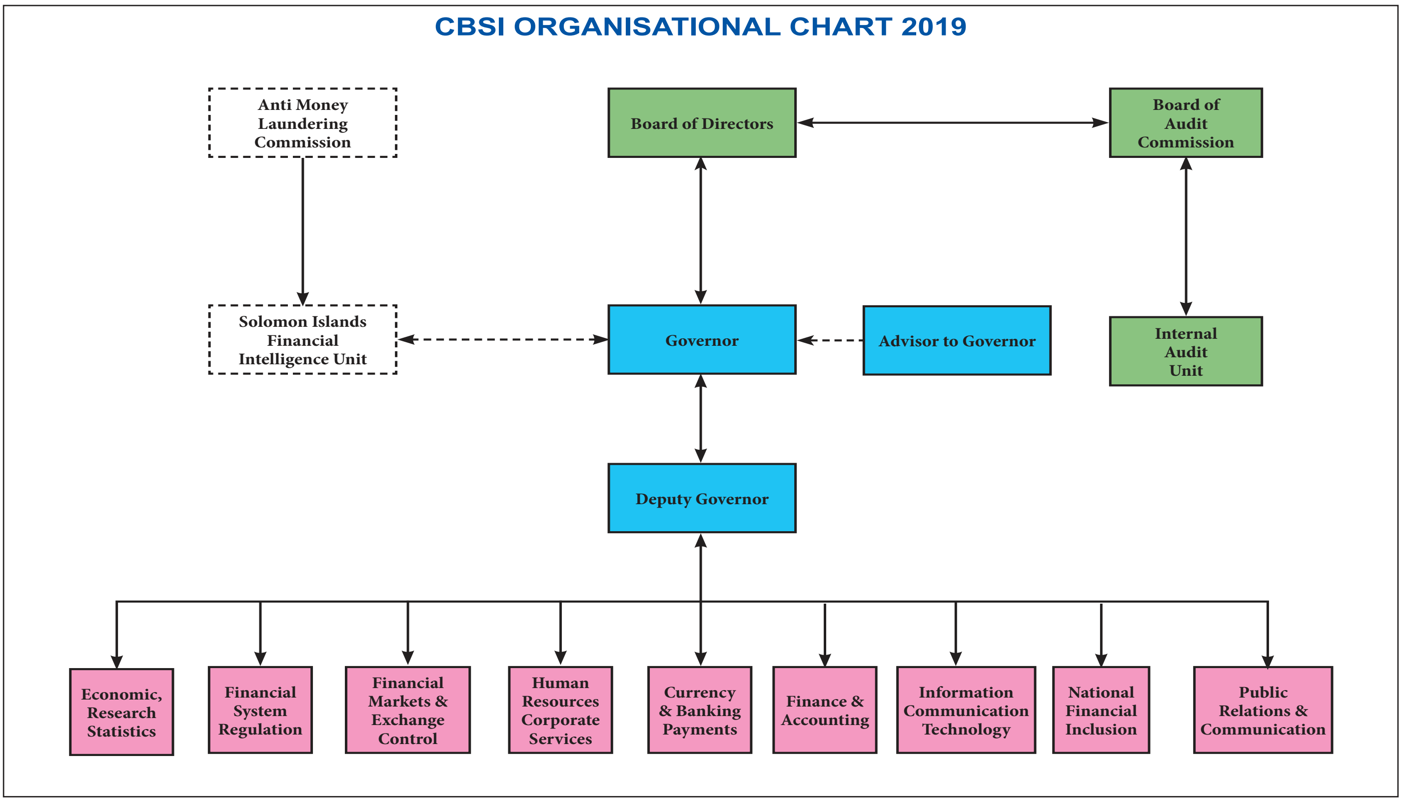
In June, the Bank conducted only one major external activity – the annual Solomon Islands Money Day (SIMD) event. The program was designed and conducted with minimum participation level, and was opened to mainly schools in Honiara. The program was held at the Solomon Kitano Mendana Hotel and featured a whole day of educational activities about the work, roles and functions of CBSI and general economics. A quiz competition was also held at the end of the program with special give-aways and prizes for all participating students. Prior to that, the only other activity CBSI participated in was the World Tuna Day activity hosted by the Ministry of Fisheries and Marine Resources at the National Museum. CBSI delivered a public presentation outlining the importance of the tuna industry towards the Solomon Islands economy. During this program, the Bank launched its newest $5 polymer banknote.

One other major activity in 2019 that needs to be highlighted was the support of CBSI towards the YouSave product "airtime credit top up". Led by the National Financial Inclusion Unit (NFIU), the Bank played a key part in its promotional and marketing strategy, all the way to the final launching of the product in November. CBSI

CBSI, Aruligo Recreational Site, West Guadalcanal.

along with the Solomon Islands National Provident Fund (SINPF), telecommunication companies, and other key stakeholders conducted a live launching on the national broadcaster, SIBC.

Apart from the above activities, CBSI maintained a strong presence within the media in 2019 with regular dissemination of information and educational content via the Money Matters radio program. This included the full-length feature article as published in the Sunday Star (Solomon Star) every weekend. These contents were also reproduced for use on the Banks social media component (official Facebook and Twitter platform) and published on-line via the CBSI official website.



CENTRAL BANK OF SOLOMON ISLANDS MANAGEMENT 2019

GOVERNORS OFFICE

DR LUKE FORAU
Deputy Governor since 2018
Governor in Oct, 2019

DENTON RARAWA
Governor till Aug, 2019

MARLON HOUKARAWA
Management Advisor Operations

CURRENCY & BANKING PAYMENTS DEPARTMENT

DANIEL HARIDI
Chief Manager

JOE VASUNI
Manager

FINANCIAL MARKET & EXCHANGE CONTROL DEPARTMENT

ALI HOMELO
Chief Manager

DENSON DENNI
Manager

Acting Managers in FMEC:

HUBERT VAHIA & CHARLIE SIVU

ECONOMIC RESEARCH & STATISTICS DEPARTMENT

DONALD KIRIAU
Chief Manager

VITARINA TAKANA
Manager (Ag)

SANDY IRO
Manager (Ag)

LOUISA BARAGAMU
Manager (Ag)

INFORMATION & COMMUNICATION TECHNOLOGY DEPARTMENT DEPARTMENT

EDWARD MANEDIKA
Chief Manager

BADLEY TEDDY
Manager

HUMAN RESOURCE & CORPORATE SERVICES DEPARTMENT

JOHN BOSCO
Chief Manager

JENNY AIAPU
Manager/ Human Resources

MICHAEL EREKALI
Manager/ Corporate Services

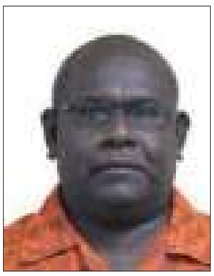
ROSE SULU
Training Coordinator

FINANCE & ACCOUNTS DEPARTMENT

EMMANUEL GELA
Chief Manager

SIMON RAMOIFAI
Manager

FINANCIAL SYSTEMS REGULATION DEPARTMENT



RAYNOLD MOVENI
Chief Manager

RONSLEY PANA
Manager Applied Research, Policy & Regulations

SAMUEL WARUNIMA
Manager/ Financial Institutions Supervisor

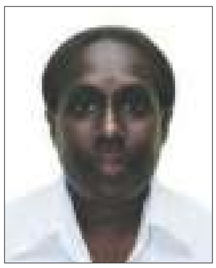
INTERNAL AUDIT UNIT

OLIVER KAROA
Manager

SOLOMON ISLANDS FINANCIAL INTELLIGENCE UNIT

JIMMY SENDERSLEY
Director

NATIONAL FINANCIAL INCLUSION UNIT



LINDA FOLIA
Manager

CHAPTER 3: MONETARY POLICY DEVELOPMENTS

MONETARY POLICY FORMULATION

In formulating its monetary policy, the Central Bank takes into consideration a wide range of information including recent and prevailing macroeconomic developments in the domestic and global economies during the course of the year. In deliberating about which monetary policy stance to adopt, the CBSI gives particular attention to policies that firstly achieve its core objective of price stability. Monetary policy is reviewed on a bi-annual basis in March and in September in light of international and domestic developments during the course of the year and near term macroeconomic and price projections. Thus, consistent with anticipated higher inflationary pressures and external uncertainties in the second half of 2018, the CBSI Board adopted a moderate tightening monetary policy in March 2019. In response to subdued economic conditions in the first half of 2019 however, the Board eased its previous tightened stance to an accommodative stance in September to support growth in the economy as there were no anticipated inflationary pressures in the immediate term.

Daniel Haridi, Chief Manager for Currency Banking and Payments Department (CBPD) making a presentation in Dubai on the launch of the new $5 polymer banknote.

MONETARY POLICY OUTCOMES

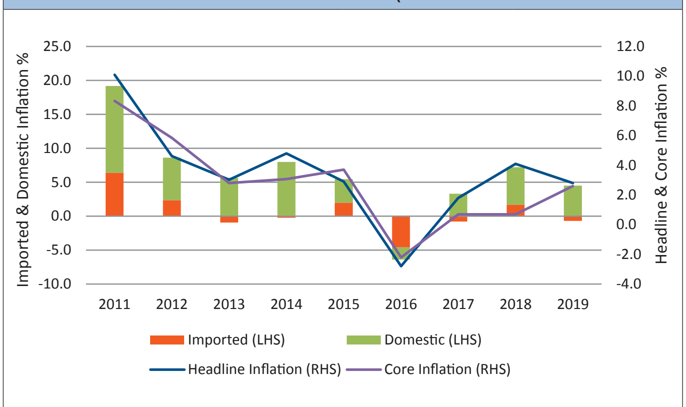
Weak inflation developments were witnessed in 2019 compared to inflationary pressures seen in 2018. The national headline inflation measured on a 3-months moving average stood at 2.8% at the end of 2019 compared to 4.2% at the end of 2018. Driving this decline was a fall in both imported and domestic inflation in the first half of 2019. Imported inflation dropped to minus 1.2% from 0.6% in 2018 on the back of declining food and fuel prices across 2019. Similarly, domestic inflation dropped to 3.2% from 4.7% in 2018 owing to a broad-based fall in prices across the 'food & non-alcohol beverages', 'clothing and footwear', 'furnishing household equipment and routine maintenance' and the 'hotel and restaurants' categories. Conversely, the alcohol beverages and tobacco nicotine, housing, water, electricity and the other fuels categories rose during the year. (See Figure 3.1)

MONETARY POLICY IMPLEMENTATION

The Central Bank implements monetary policy through the Bank's policy instruments namely the Cash Reserve Ratio (CRR), Bokolo bills (BB) and Treasury bills (TB). In 2019, the CRR was maintained at 7.5% of the total bank deposits. This effectively removed $340 million from the banking system in December 2019. During the year, the stock of BB issued by the Central Bank remained at $750 million with the annual weighted average yield (WAY) at 0.54% in December 2019. Over subscription was evident during the year however, has slowed from an average of $762 million in 2018 to an average $730 million at end December 2019. Meanwhile, the stock of TB issued by the government totalled to $90 million in 2019 with WAY for 91, 181 and 365 days remained fixed at 4.49%, 1.12% and 1.96 %, respectively, at end-December 2019 (See Figure 3.2).

FIGURE 3.1

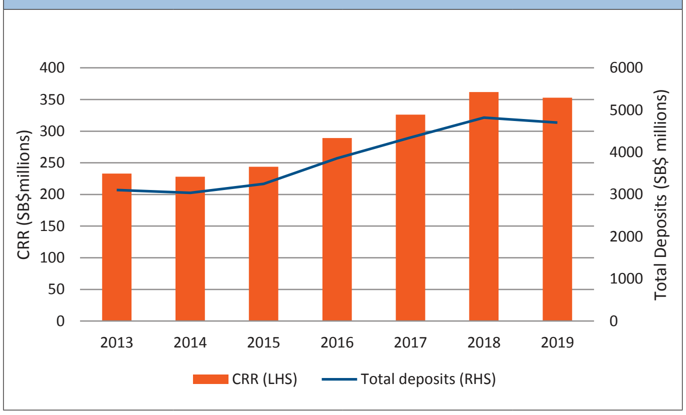
INFLATION DEVELOPMENTS (END OF PERIOD



Source: SINSO & CBSI

FIGURE 3.2

CASH RESERVE REQUIREMENT & TOTAL DEPOSITS



Source: SINSO & CBSI

CHAPTER 4: CENTRAL BANKING OPERATIONS

ECONOMICS, RESEARCH AND STATISTICS

The Economics Research & Statistics Department (ERSD) continued with its functions to provide the Bank with monetary policy and macroeconomic analysis, research, statistics and economic publications during 2019. The core publications (monthly economic bulletin and quarterly economic reviews) were all published on the CBSI website. Moreover, the department continuously compiled its statistical data on the real, monetary, external and government finance sectors in a timely manner and disseminated it online and directly to relevant stakeholders. As part of its statistical improvements, ERSD received two government finance statistics missions from the International Monetary Fund (IMF) during the year.

With an emphasis on enhancing the research capacity and capability of CBSI, the department undertook four empirical research projects in 2019. Of this, two were new papers that were also presented at the South Pacific Central Banking Research Conference in Vanuatu in November 2019. One research was on demand side obstacles to Micro Small & Medium Enterprises in Solomon Islands and another was on housing affordability. To further encourage a research culture in the Bank, a one-off renumeration policy for research papers published as working papers and thereafter in journals was endorsed. Accordingly, one paper on inflation expectations was published as a working paper as part of the CBSI and Griffith University's South Pacific Centre for Central Banking initiative.

ERSD maintained its macroeconomic analysis and forecasting capability with sectoral forecasts conducted in March and September for the Bank's bi-annual Monetary Policy Statements. Moreover, analysis have been provided to government ministries and agencies, parliamentary committees, and a visiting IMF Article IV mission amongst others. To enhance this area, the department received ongoing IMF-Pacific Financial Technical Assistance Centre missions on the macroeconomic framework and inflation forecasting during the year. Staff also attended a variety of IMF technical courses in Singapore and within the Pacific region in 2019.

INTERNATIONAL OPERATIONS

Three core international operational functions of the Central Bank are: management of the country's foreign reserves; administration of the regulations under the Exchange Control Act (Cap 51); and management of the exchange rate regime. These operational functions are implemented by the Financial Markets and Exchange Control Department.

Foreign Reserve Management

In 2019, CBSI manages the official foreign reserves of Solomon Islands in accordance with three pre-approved objectives. These are: preserving capital, ensuring adequate liquidity for external obligations and optimising returns. The foreign reserves are maintained according to the weights in the Solomon Islands Dollar (SBD) basket index which comprised of USD, AUD, NZD, JPY, and GBP. In support of the Government's external obligations and the Central Bank's focus on income, minimal amounts were maintained in EUR, SGD and Chinese Renminbi (CNY). The Central Bank also holds IMF special drawing rights, IMF Standby Credit Facility and reasonable amounts of gold.

Governance structure

The governance of the reserves management operations is based on the "three-tier" structure comprising the CBSI Board, Investment Committee (IC), and the operational units (Front, Middle & Back Offices). Under this framework, the board typically sets its policy parameters which is outlined in the "Reserve Management Policy" (RMP) for reserve management. The Board formalizes any investment or policy decision upon recommendation from the operational units and endorsement by the IC. The IC is responsible for setting and proposing of any investment guidelines, proposals or deviations for board's endorsement. The operational units are responsible for implementing the board's policy decisions and periodically updates the IC on the reserves portfolio performance and developments in the financial markets.

Foreign Reserves Position

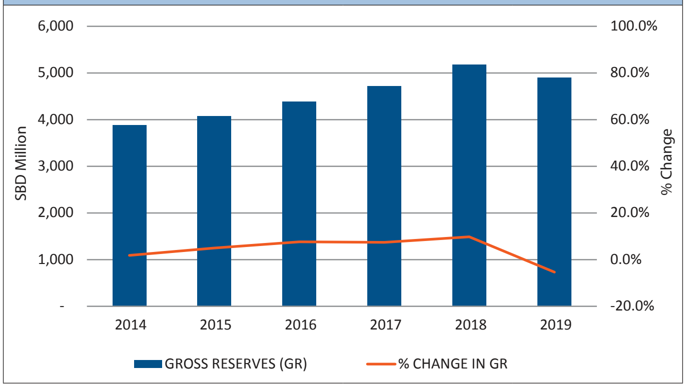
The gross foreign reserves averaged at $4,937.2 million at the end of 2019, down 3.8% from the previous year. The reserves grew in the first half of the year, peaking at $5,259 million by the end of Q2 as a result of the influx of fishing license fees and round log exports. However, external receipts slowed down in the second half of the year against consistent outflows resulting in a 6.2% drop to $4,906 million at the end of the year.[2]

Bemobile officers at SIBC during the launch of the YouSave Airtime service.

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

FIGURE 4.1

GROSS FOREIGN ASSETS



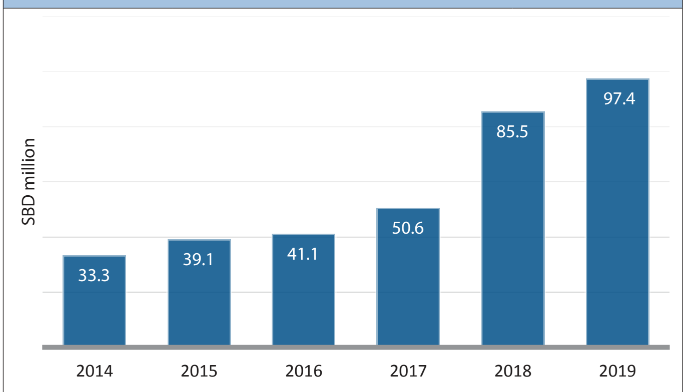
Source: CBSI

Return on Investments of Foreign Reserves

In line with the third primary reserve management objective, interest on foreign reserves increased by 13.9% against the previous year. The interest income represents an annualized return on investable reserves of 1.7%, lower than the annualized return of 1.8% of the previous year. Much of the interest income was derived from relatively favourable interest rate market during the first half of the year, although policy rates particularly from the US and Australia eased considerably in the latter part of 2019. Figure 4.2 provides the interest earning trend over the period 2014 – 2019.

FIGURE 4.2

INTEREST INCOME FROM FOREIGN RESERVES



Source: CBSI

Middle Office Operations

The Middle Office (MO) 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 related to the Reserve Management Policy and Investment Rules. Moreover, the MO continues to provide oversight roles between the front and back office units in terms of controls and compliance to ensure it operates within the board-approved RMP framework and other required standards and procedures.

The key operational function of the unit is to make recommendations relating to Investment Rules to the Investment Committee. During the year, the MO made some significant changes to its risk management approach to reserve management following the adoption of the revised Reserve Management Policy in 2018. In terms of reporting line, the MO reports directly to the Governor's Office on technical issues pertaining to RMP compliances and risks, to FMEC Department management on operational matters.

During the year, the MO assessed three proposed counter parties for investment purposes and recommended to IC for deliberation. The Investment Committee rejected two proposed counterparties and approved one counterparty which was endorsed by the Board. The MO has also successfully overseen the transfer of CBSI's London Bullion Standard gold bars held with ANZ Bullion Bank in Hong Kong to Perth Mint, Australia. This transfer exercise means all of CBSI's gold holdings are now with the Gold Corporation of Perth Minth Australia. Similarly, the MO has also been successful in providing necessary guidance to both the front and back offices in terms of providing quarterly risk and compliance reports relating to foreign reserves and the investment market environment during the year. As part of best practice standards and due diligence requirements, MO has updated its Know Your Customer (KYC) assessment requirements on all its counterparties and ensure CBSI fully adheres to best practice standards.

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. In 2019, the Unit has established a FJD (Fiji Dollar) account with the Reserve Bank of Fiji (RBF) to facilitate all FJD Transactions. The Back Office is also responsible to ensure timely reconciliation of all foreign accounts each month. The Back Office facilitates both international receipts and payments via the SWIFT system for its clients including the Solomon Islands Government, CBSI, donor partners and the commercial banks.

TABLE 4.1

NUMBER OF SWIFT MESSAGES SENT AND RECEIVED

	2013	2014	2015	2016	2017	2018	2019
Outgoing messages (Sent)	953	1039	1314	1301	1272	1853	1928
Incoming Messages Received)	1589	2279	3562	3804	3178	3690	3816

Source: CBSI

A total of 1,928 outgoing messages were sent through the CBSI SWIFT system in 2019, an increase in messaging from 1,853 in 2018 (See Table 4.1). This mainly reflects SIG payment activities and CBSI payments during the year. At the same time 3,816 messages were received during the year, compared to 3,690 in 2018.

Table 4.2 shows the number of all receipts and payments transactions facilitated through SWIFT during 2019 with the exception of foreign exchange deals between CBSI and the commercial banks. The total value of all receipts transactions facilitated through SWIFT during 2019 dropped to $627 million while payments rose to $428 million.

TABLE 4.2

VALUE OF RECEIPTS AND PAYMENTS TRANSACTION THROUGH SWIFT 2012-2019

	2013	2014	2015	2016	2017	2018	2019
CBSI Receipts/fx deals ($M)	549	581	2330	1230	781	3214	627
CBSI Payments/fx deals ($M)	248	204	297	120	120	74	428

Source: CBSI

Exchange rate regime

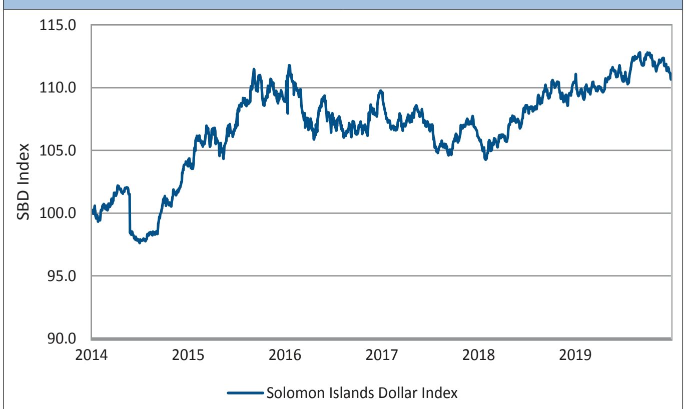
The Solomon Islands Dollar (SBD) is pegged to a basket of currencies of the five major trade invoicing currencies; the US Dollar, Australian Dollar, New Zealand Dollar, Japanese Yen and the British Pound.

The Central Bank calculates and sets the mid-rate of the SBD against the USD each morning to determine the SBD value against other basket currencies. At present, only the USD and AUD spreads are regulated by the CBSI while flexibility is given to licensed financial institutions to determine their own commercial exchange rates in other bilateral currencies.

During the first half of the year, the Solomon Islands Dollar index appreciated to 109.0 from 110.4 of 2018, following the strengthening of the USD and relative stability in the exchange rate basket. However, the growing global uncertainty and non-economic disruptions in the second half of the year saw a rise in volatility, pushing the SBD index to peak at 112.8 before retracting to 110.7 by the end of the year. An upward trend in the basket's index indicated a weaker SBD against the US dollar.

FIGURE 4.3

ANNUAL EXCHANGE RATE BASKET INDEX TREND



Source: CBSI

Exchange Control Administration

CBSI is mandated and empowered by the Exchange Control Act and Regulations 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 and Regulations, commercial banks are appointed as authorised dealers to process and facilitate foreign exchange trade transactions as per the specific requirements of the exchange control policy. All the four commercial banks in the country are appointed authorised dealers.

Applications for Temporary Resident (TR) Status

In 2019, CBSI approved 401 TR status permits, of which, 289 were new applicants and 112 were renewals (See Table 4.3). 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 TR 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.

TABLE 4.3:

NUMBER OF TEMPORARY RESIDENT ACCOUNTS APPLICATIONS APPROVED 2015-2019

	2015	2016	2017	2018	2019
Newly Approved Temporary Resident applications	125	149	248	302	289
TR Applications Renewals	85	53	16	144	112
Total TR Approved	210	202	264	446	401

Source: CBSI

Non-resident Accounts

In 2019, CBSI approved four non-residents accounts, of which two are for a non-resident corporate entity and two for non-resident individuals. 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.

Foreign Currency Account (FCA) Facility

In 2019, CBSI approved eight new FCA applications and renewed twelve 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 $749.6 million in 2018 to $1,291.7 million at the end of 2018 (See Table 4.4). Most account holders complied by providing monthly data on time. To date there are 56 active foreign currency account holders approved by CBSI of which 51 FCA are held with local banks while 5 FCA are held with banks outside the country.

TABLE 4.4

NUMBER OF APPROVED FCA HELD BY EXPORTERS AND NON-EXPORTERS 2015-2019:	2015	2016	2017	2018	2019
Account holders/Entities	44	50	27	30	36
Qualified Exporters	12	13	5	5	6
Non –Exporters	32	37	22	25	30
Total number of accounts held	72	78	35	38	56
On-shore	65	71	32	35	51
Off-shore	6	7	3	3	5
Total value: (SBD million)	1,132	434	468	750	1,291
Note: Some account holders hold more than one FC account					

Source: CBSI

The foreign currency account facility is designed to support exporters minimize their foreign currency costs. Over the years, the Central 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.

Foreign exchange (FX) Restricted Classified Dealers

In 2019, 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 3 licenses were for money transfer services providers in the country. This foreign exchange dealers licence is valid for 12 months and renewable thereafter.

The Bank generally supports and promote development of the financial services sector through the licensing of foreign exchange market dealers in the country.

TABLE 4.5

NUMBER OF APPROVED FOREIGN EXCHANGE MONEY CHANGER LICENSES	2015	2016	2017	2018	2019
Money Transfer services	4	4	3	3	3
Money Changer Services	11	9	10	10	10
Total FX Classified Dealers	15	13	13	13	13

Source: CBSI

Inward remittance receipts through classified money transfer agents increased by 10.0% from the previous year to $81.4 million and outbound remittance decreased by 10.5% to $279.4 million. In terms of transactions by money changers, a total of $28.8 million equivalent of foreign currency notes were purchased and $45.4 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 must obtain CBSI approval. This is necessary to ensure private sector debt are properly registered and monitored. The approval is also a prerequisite for any loan repayments in the future.

During the year, the CBSI received and approved 16 external loan applications from corporations (See Table 4.6) for the purpose of financing business expansions and other projects in the country. The total foreign currency exposure of these authorized external loans is equivalent to USD12.7 million (SBD106.2 million).

TABLE 4.6

NUMBER OF PRIVATE SECTOR OVERSEAS BORROWING APPROVED	2015	2016	2017	2018	2019
Applications received & approved	10	11	20	7	16
Value in SBD million	217	133	1,681	291	106

Source: CBSI

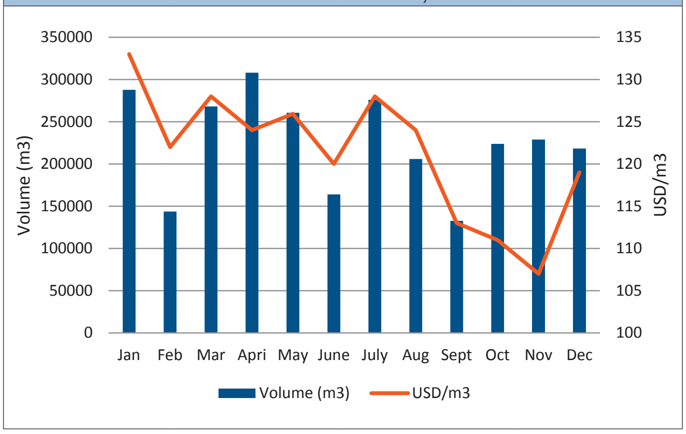
Exports Administration

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.

In 2019, CBSI issued 922 Specific Authorities to Export to round log exporters. This was a decrease of 0.2% from the previous year. The estimated volume also decreased by 3.7% to 2.717 million cubic metres with an approximated value of $2,526 million (See Table 4.7).

FIGURE 4.4

ROUND LOG APPLICATIONS APPROVED UNDER SPECIFIC AUTHORITY TO EXPORT, 2019



Source: CBSI

CBSI administers controls on exports using two frameworks namely: (i) the General authority and (ii) the Specific Authority.

TABLE 4.7

NUMBER AND VALUE LOG APPLICATION FOR SPECIFIC AUTHORITY TO EXPORT CBSI	2015	2016	2017	2018	2019
Total Applications approved (numbers)	819	829	997	924	922
Total Value of Exports-SA Approved SB$ million	2,536	2,368	2,995	2,997	2,526
Volume of Exports- SA Approved (million m3)	2.679	2.612	3.156	2.822	2.717

Source: CBSI

In 2019, CBSI approved 40 applications for Specific Authorities to export beche-de-mer. This is up by 27 applications compared from the previous year. The total weight of the product exported was 223,559 kilograms valued at $16.2 million (See Table 4.8). 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.

TABLE 4.8

NUMBER AND VALUE OF BECHE-DE-MER APPLICATIONS FOR SPECIFIC AUTHORITY TO EXPORT	2017	2018	2019
Total applications approved	16	13	40
Total value of exports (SBD Million)	13.127	5.363	16.238
Total Volume (Kg)	219,343	92,522	223,559

Source: CBSI

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 payments for amounts less than the $30,000 and $100,000 thresholds.

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 2019, the number of applications referred to CBSI for approval totalled 7,435 applications and valued at $5,372 million. This figure includes all merchandise trade comprising around 68.0%, service payments at 19.5%, capital transfers at 10.0% and personal transfers comprising 2.5% of the total payments (See Table 4.8). The average value per application increased from $708,851 in 2018 to $722,529 in 2019, indicating a rise in high value payments overseas.

TABLE 4.9

NUMBER AND VALUE OF FOREIGN EXCHANGE APPLICATIONS APPROVED BY CBSI: 2015-2019	2015	2016	2017	2018	2019
Total Applications approved	8,135	8,992	8,766	8,700	7,435
Value of applications Approved SBD (Millions)	5,284	5,258.	5,977	6,167	5,372

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 2019, 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 familiarise themselves with the exchange control requirements or to consult the Bank for further information on the requirements for this regulation prior to submitting their application to CBSI for assessment.

FINANCIAL SYSTEM REGULATION

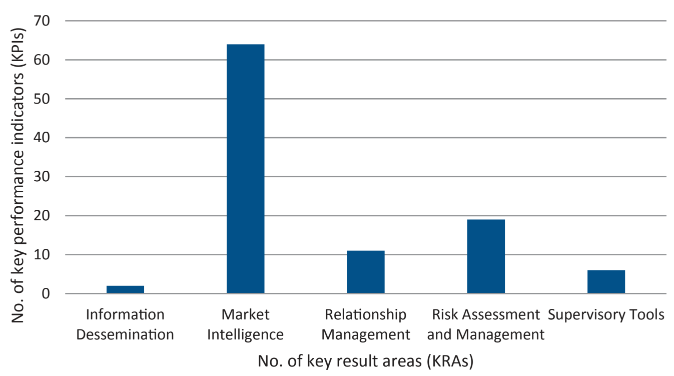
As clearly stipulated under Sec 8(2) of the CBSI Act 2012, the Financial System Regulations Department (FSRD) continues to implement strategies and activities which address the second key objective of the Central Bank, which is to foster and maintain a stable financial system in the country.

Similar to 2018, FSRD is responsible for licensing, regulating and supervising of Financial Institutions licensed by CBSI. The FSRD 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 (LFIs), the stability of the domestic financial market, and the stability of domestic financial infrastructures.

Under the licensing and supervisory framework, in 2019, the FSRD strictly mapped its work plan on five key result areas (KRAs) and cautiously assigned its resources to complete one hundred and two key performance indicators (KPIs) as shown on Fig. 4.5 below, while the KPIs spread across broad KPI themes of meetings, workshops, follow-up reviews, risk rating assessment, onsite examinations, stress testing, prudential guidelines and bills. Given the constraints faced during 2019, the FSRD was able to suc-

FIGURE 4.5

5 KEY RISK AREAS (KRAS) AND 95 KEY PERFORMANCE INDICATORS (KPIs)



Source: CBSI

cessfully deliver 93% of its KPIs planned for the year.

As part of information dissemination, the FSRD published a Financial Stability Report for 2018 in May 2019. Similar to the 2018 Financial Stability Report, the report discussed performances of LFIs, highlighted vulnerabilities and risks confronting Solomon Islands' financial sector, and described the policy responses taken across 2019 to mitigate the risks and vulnerabilities confronting the sector.

For market intelligence, the FSRD conducted sixty-four (64) bilateral meetings for licensed financial institutions (LFIs) from the four financial sectors, namely, the banking sector, superannuation sector, insurance sector, and credit union sector. The bilateral meetings are part of the supervision activities which provide opportunities for FSRD to raise supervisory concerns to respective LFIs and evaluate their controls in mitigating related risks.

Likewise, as part of relationship management, the FSRD hosted four Bankers' meetings to discuss trends of the main macroeconomic aggregates and developments in the financial sector. This is a great opportunity where management of LFIs gauge their future growth in light of the overall economy's growth and challenges. The department hosted one symposium for the credit unions board and committees covering topics in relation to good corporate governance and reporting. It also trained staff from banks and credit institutions to enhance timely and correct classification reporting.

Similarly, for risk assessment and management, the FSRD carried out four follow-up reviews, six onsite examinations, five risk rating assessments, and one stress testing. The follow-up reviews aim to ensure concerned LFIs resolve outstanding issues from onsite examinations conducted in 2018 while the onsite examinations largely focussed on governance risk, credit risk, liquidity risk and operational risk respectively. These follow-up reviews and onsite examinations are shown on Table 4.10 below. Further to objectives of follow-up reviews and onsite examinations, the risk rating assessments help to establish baseline ratings for concerned LFIs and stress testing provide certainty around adequacy of capital and liquidity for the concerned LFI.

TABLE 4.10

SUPERVISION ACTIVITIES

NAME OF LFI	SCOPE	MONTHS
Bank South Pacific	Liquidity and Market Risks	April
Pan Oceanic Bank	Full Scope Onsite Examination	May
Capital Insurance	Operational Risk	October
Bank South Pacific	Operational Risk	October
Solomon Islands Health Workers Credit Union	Full scope Onsite Examination	July
Soltuna Credit Union	Full scope Onsite Examination	September
Credit Corporation Solomon Islands Limited	Follow-up Review	August
BSP Finance	Follow-up Review	July

Source: CBSI

Finally, to successfully expedite the FSRD regulatory and supervisory responsibilities, it requires robust supervisory tools. Hence, the FSRD conducted two public consultations for the credit union and insurance sector respectively which saw the submission of a policy paper and drafting instructions to the Ministry of Finance and Treasury for the credit union sector.

The consultations provide avenues to get views not only from board and management of insurance companies and credit unions but also from policyholders and financial members, respectively. Equally important, during 2019, the FSRD developed and issued two directives for the insurance sector on risks covering reinsurance and market conduct. These directives are paramount for insurance business in the country.

They provide minimum requirements for insurers and brokers in managing their placements of policies with reputable insurers while providing adequate and effective protection for their policy holders.

FINANCE AND ACCOUNTS

The Finance and Accounts Department (FAD) is responsible for the financial affairs of the Bank, ensuring 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 maintained the accounts and provide 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 as CBSI is a member of the international community.

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

Budget

The Bank's Annual Budget for 2019 was produced and approved by the CBSI Board in November 2018. The Budget consist of four parts and these are shown on Table 4.11 .

TABLE 4.11

CBSI BUDGET VS ACTUAL 2019		
	Budget (SB$'m)	Actual (SB$'m)
Revenue	84.9	179.4
Operation expense	64.3	
Currency & Monetary policy costs	17.1	
Total expense	81.5	85.5
Surplus	3.4	93.9
Capital expense	28	28

Source: CBSI

Accounting and Financial Reporting

The actual performance for 2019 showed total income for the year of $179.4 million, total operating expenses of $85.5 million and net operating profit of $93.9 million. The total comprehensive income was $141.5 million, after addition of $47.6 million for gold revaluation gain. The gold revaluation gain in other comprehensive income does not form part of net operating profit and transferred directly to gold reserve account in equity.

In 2019, revaluation gain in foreign currency was $48.9 million and in 2018, there was a gain of $2.7 million. The statement of financial position had improved in 2019. Net equity improved from $149.1 million in 2018 to $290.6 million in 2019 while total assets declined from $5,486 million to $5,213 million. Similarly, total liabilities declined from $5,337 million to $4,923 million. Table 4.12 shows the financial position for years 2018 and 2019.

TABLE 4.12

SUMMARY OF FINANCIAL POSITION		
	2018 (SB$'000)	2019 (SB$'000)
Assets	5,486	5,213
Liabilities	5,337	4,923
Equity	149	291

Source: CBSI

External Audit

External audit is a mandatory requirement for the Bank. PWC Fiji is in the second year of providing this service of auditing the financial accounts of the Bank. A contract of five years was started in 2018 and will continue until 2023. The Bank has made positive improvements through this service in the past and will continue to work together with the external auditors to ensure the operations of the Bank is safe in the provision of its mandatory responsibilities.

Financial accounting system

The Bank's new financial system has run successfully for the last three years since going live in 2016. In 2019, the Bank has begun further customisation to enhance the general ledger chart of accounts to support operational and reporting needs of the Bank. This project is expected to complete by 2020.

CAPITAL PROJECTS

The Central Bank of Solomon Islands Head Office expansion project is the single major project undertaken during 2019. This project is divided into five phases which includes: 1) schematic design phase; 2) Design Development phase; 3) Contract Documentation Phase; 4) Tendering Phase; and 5) Construction Phase, and is expected to be completed in 2023. Phases 1 and 2 were accomplished during the year, with an extensive collaboration between the Bank and the Project design team, James Cubitt Architects of Brisbane, Australia. Other consulting firms such as WSP, Combined Securities, and M5 also played a role in the design of the building.

The design will see a new eleven storey tower constructed and connected to the current office, with two floors allocated for internal car parks within the building. This new building when completed, will change the face of the city and set a new standard that encompasses and integrates modern office settings.

During the year, the former Solomon Islands Monetary Authority building, adjacent to the current CBSI office, was demolished, to give way for the proposed office development project. Other building site preparatory activities including UXO and geotechnical investigations were also carried out and have proven to be successful.

The project has progressed into phase 3, which is contract documentation, where fundamental aspects of the building design such as structural, building services, security components and project procurement processes will be collated to form the complete building document.

CURRENCY AND BANKING OPERATIONS

Section 9(f) of the Central Bank Act 2012 provides the key mandate for the Bank to issue, regulate and manage the currency of Solomon Islands. In addition, sections 18 to 25 of the CBSI Act 2012 provides additional details on the key requirements for effective administration and management of currency.

There are numerous key responsibility areas required under this function that includes currency inventory control and management, issuing of notes and coins to commercial banks for circulation, receiving of cash deposits from commercial banks and Solomon Islands Government, sorting and destruction of unfit and soiled bank notes, engage in the design of new currencies to enhance the durability and security of banknotes and coins, and monitor cash stock to ensure availability of cash to meet public demand.

As part of its social responsibility, the Bank also conducts educational awareness programs in the communities and via the social media on various currency related topics including tips on how to handle banknotes and coins, what to do when they detect counterfeit notes and share information about central banking in general. The administration and operational roles and activities performed by the Bank to effectively implement these functions are outlined as follows:

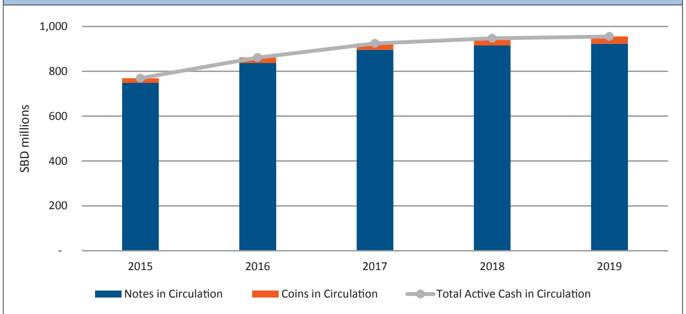
Currency

Stock of Currency in Circulation

The total value of currency in circulation for 2019 increased by 0.9% to $955.3 million from $947.2 million in 2018 compared to 2.5% increase in the previous year. Of the total currency in circulation, currency notes accounts for 97.0% ($922.8 million) while coins hold the remaining 3.0% ($32.5 million). Figure 4.6 below shows the trend in currency in circulation from 2015 to 2019.

FIGURE 4.6

CURRENCY IN CIRCULATION: 2015 – 2019



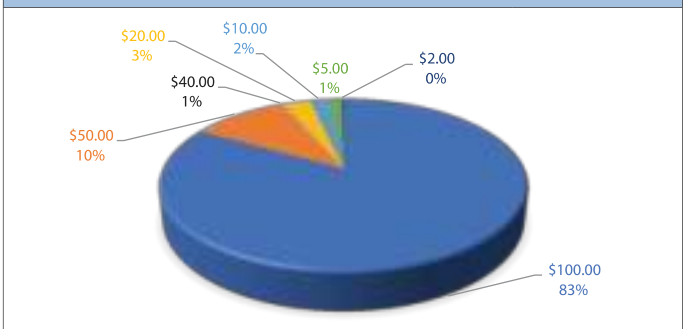
Source: CBSI

Of the total currency notes in circulation, the 100 dollar note accounts for 83.2% followed by the $50 denomination at 10.0%. The $40, $20, $10, $5 and $2 denominations account for the remaining balances of 0.4%, 2.8%, 2.1%, 1.3% and 0.2%.

The $100 and $50 denominations together represent 93.2% of total notes in circulation, which reflects the demand and popularity of the notes for payments and store of value. The continual increases in the $100 and $50 denominations are also attributed to the rise in the demand for fit notes by commercial banks for their ATMs use as most, if not all, ATMs in the country dispense these two denominations.

FIGURE 4.7

NOTES IN CIRCULATION BY VALUE AT DEC 2019



Source: CBSI

Coins in circulation increased by 2.1% to $32.5 million in 2019 compared to $31.8 million in 2018. Of the total coins issued into circulation, 50.7% consists of the $2 denomination followed by 30.2% in the $1 denomination, 12.0% in 50c, 4.2% in 20c and 2.9% in 10c.

The marginal increase in coins in circulation in 2019 compared to 2018 is due to the increase in deposits of coins from commercial banks in 2019. This is the first time ever coins issued and circulated were deposited back to the Central Bank of Solomon Islands since the introduction of the smaller and lighter coins in 2012.

Procurement and supply of new currency notes and coins by CBSI in 2019.

Procurement of currency notes and coins is important in the cash cycle as it ensures that the purchasing public has sufficient cash to make payments. The Bank has recently engaged Note Printing Australia (NPA) in the origination and printing of its new $5 polymer notes. The Bank also still maintains its traditional suppliers of banknotes and coins, De Lar Rue Ltd (United Kingdom) and Royal Australia Mint (Australia) who are responsible for the printing of the remaining banknotes and the circulating coins. A total face value of $263.3 million worth of new banknotes were delivered in 2019. Of this, 95.0% of the total procurements consisted of the reprints of $50 denomination, which was received in November 2019 while the remaining 5.0% made up of the $5 polymer received in February 2019.

Counterfeit Notes Retrieved from public circulation

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

Only seven pieces of counterfeit notes were confiscated from circulation in 2019, which is an 80% drop from the record in 2018. Six of the counterfeit notes impounded were of the old (2005 -9) $100 notes series and one of the new (2015) $100 notes series but none of the lower denominations. The higher denominations are the most targeted notes by counterfeiters. CBSI continues to aggressively educate the public about the risks of circulating counterfeit notes. This included the use of radio, public awareness programs to communities and schools, and the print media throughout the year. The public have been 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.

Note Processing

In 2019, $114.8 million worth of soiled notes was processed and destroyed, a rise of 55% compared to $73.7 million in

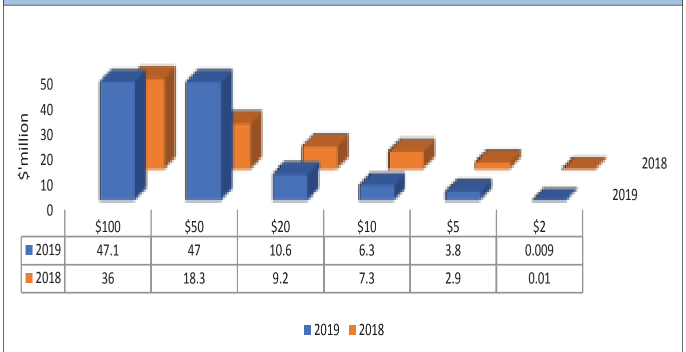
2018 (See Figure 4.8). The increasing rate at which notes are returned from circulation and are destroyed remains a critical concern for CBSI as pressure on replacement costs continues to rise whilst the demand for ATM fit and quality notes by the commercial banks soar. This indicated continuous poor handling of currency notes despite the much public awareness on how to care for the currency notes.

Cash Processing Solutions Engineers continued to provide maintenance and servicing support of the Cobra sorting and destruction machine and the X-Range Notes Processing Machine in 2019. Improved mechanisation of the process enhanced the Bank's objective of sorting and retaining much quality notes for reuse in circulation. The Bank sees this continuous support 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 4.8 show the value of actual notes destroyed by denomination in 2018 and 2019.

FIGURE 4.8

VALUE & DENOMINATION OF NOTES DESTROYED



	$100	$50	$20	$10	$5	$2
2019	47.1	47	10.6	6.3	3.8	0.009
2018	36	18.3	9.2	7.3	2.9	0.01

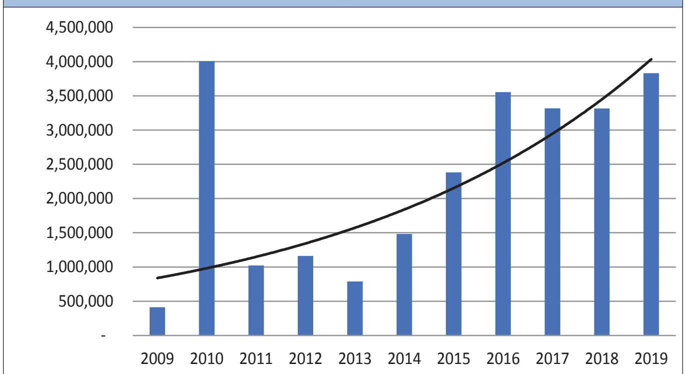
Source: CBSI

Proceeds from Numismatic Programs and Products.

Total revenue from numismatic operations during the year increased by over 13% to $3.8 million as compared to $3.3 million in 2018. The increase was expected given a corresponding increase in the number of coin programs struck with both MDM/WCA and Royal Mint Australia (RAM). Of the total revenue, 96% ($3.67m) was from royalty receipts whilst 4% ($0.16m) came from sales of commemorative coins and numismatic bank notes & coins both locally and overseas. The overall revenue raised for 2019 also exceeded the budget estimate figure of $3.5 million and reflected the Bank's continued efforts to improve communications in a bid to shorten the turnaround time for design approvals and establish partnership relationships with coin dealers and customers on matters relating to logistics and pricing of numismatic materials. The Bank through regular interactions with key market players was able to improve the country's integrity in terms of its effigy over the years. This has paid off well in terms of increased subscription for Solomon Islands effigy and subsequent increases in royalty payments as evident in 2019. Overall, a total of 68 coin programs were approved in 2019 compared to around 46 coin programs in 2018.

FIGURE 4.9

TOTAL REVENUE FROM NUMISMATIC BUSINESS OPERATIONS



Source: CBSI

Debt Management

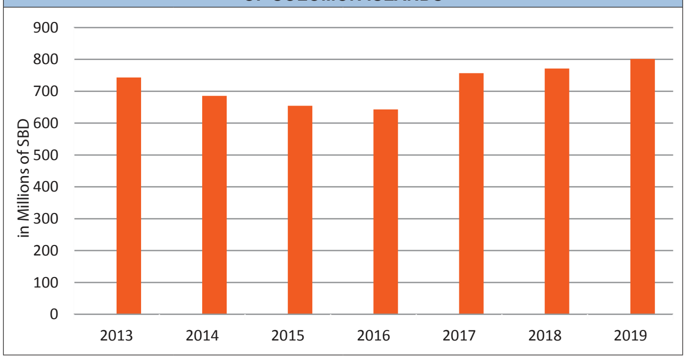
The CBSI Debt Unit (CDU) continues to maintain the Government's external public debt database. Public debt data is kept on the CS-DRMS system while a portfolio analysis tool is maintained by the Government's Debt Management Unit (DMU) for analysis of multicurrency loans.

As part of its activities, CDU performs monthly loan validations on the CS-DRMS, dispatches quarterly external 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. CDU also 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 2019. Out of the 32 active loans, 7 are still disbursing while 1 is yet to be disbursed. The amount disbursed from January to December totalled to $62.5 million. This is an increase of $20.4 million from the previous year. The principal creditors include the Asian Development Bank (ADB), International Development Association (IDA), European Union (EU); International Fund for Agriculture Development (IFAD) and Export Import Bank of Republic of China (EXIM).

FIGURE 4.10

OUTSTANDING BALANCE OF PUBLIC EXTERNAL DEBT OF SOLOMON ISLANDS



Source: CBSI

The public disbursed outstanding debt (DOD) of the Solomon Islands at 31st December 2019 increased to $801.2 million. The increase in the total stock was due to exchange rate movement and the disbursement of ADB and IDA loans. The DOD is anticipated to increase in volume in 2020 due to forecasted disbursements on the loans that are still disbursing.

Total external debt repayments in 2019 were $51.2 million of which $42.3 million was for principal repayments and $8.9 million for interest payments. Debt service payments for 2020 are projected at $54 million of which principal repayments will total $44.8 million while interest payment will reach $9.2 million.

As regards to maturity profile, about 87.7% of the disbursed outstanding debts have a remaining maturity of more than 10 years. This can be attributed to higher element of concessionally of loans granted. Approximately 10.2% of DOD has a remaining maturity of 5-9 years. About 1.8% of the outstanding debts have a remaining maturity of 2-4 years and about 0.3% of the disbursed outstanding debts have a remaining maturity of less than 1 year

In terms of currency composition of the total official debt, the Special Drawing Rights (SDR) accounted for 91.5% of the total DOD or $733.6 million followed by the United States Dollar with 7.7% or $61.3 million, and the European Currency Units with 0.8% or $6.7 million.

Government's Domestic Securities

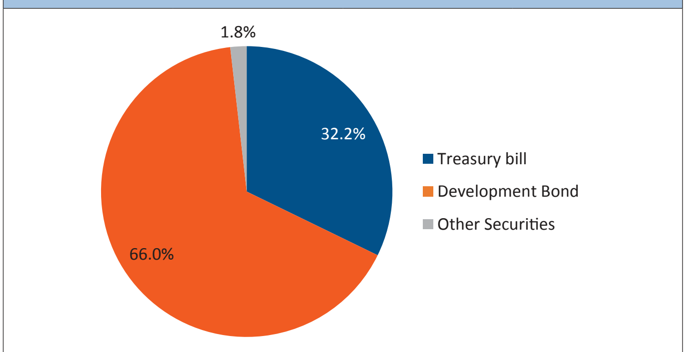
The auction treasury bills market continued to function satisfactorily during the year. The Banks and non-financial institutions continue to dominate the weekly auctions with higher volumes of stock in the 365 days maturity compared to the 91 and 182 days maturities. The average interest rates for the terms were maintained throughout the year with 0.49% for 91 days, 1.12% for 182 days and a slight drop for 365 days to 1.96%, towards the end of the year.

Solomon Islands Government (SIG) domestic debt outstanding at the end of the year was $272.8 million, an increase of $27.6 million compared to $245.2 million in December 2018. The increase was due to the introduction of the one-year maturity on the SIG Treasury bills as well as the issuance of SIG Bond to Solomon Power. The domestic debt outstanding balance comprised of $87.9 million in SIG Treasury Bills, $180 million in Development Bonds and $4.9 million on other SIG special securities. Domestic debt service repayment during the year totalled $12.097 million.

The major holders of domestic securities were the Solomon Islands National Provident Fund (SINPF) with 72.4%, Other Creditors with 13.2%, Commercial Banks with 12.1% and the general public with 2.3%. The composition of the Government's domestic debt is shown in Figure 4.11.

FIGURE 4.11

COMPOSITION OF DOMESTIC SECURITIES



Source: CBSI

Banking Support Services

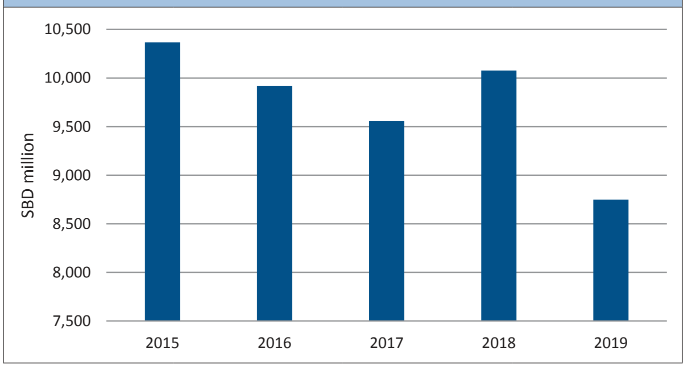
The Bank continued to deliver banking services to licensed financial institutions, the Solomon Islands Government and other non-banking financial institutions as mandated in the CBSI Act 2012. Such banking services include, but are not limited to, administering SBD and foreign currency denominated accounts established with the Bank by SIG and its donor partners, facilitating payments, providing account balances, daily monitoring of free liquidity of the commercial banks and the proper upkeep of records for audit requirements.

Clearing House Activities

The Central Bank facilitates the daily business of clearing cheques drawn on all the licensed commercial banks operating in Honiara. In 2019, a monthly average value of $729 million worth of cheques with a total value of $8.7 billion passed through the Clearing House. Compared to 2018, the total cheque value cleared declined by 13% from $10.1 billion (See Figure4.12). The introduction of financial instruments by the commercial banks into the financial sector showed a declining trend of cheques for 2018 and 2019.

FIGURE 4.12

VALUE OF CHEQUES CLEARED



Source: CBSI

Progress on the establishment of a National Payments System.

Implementation of the National Payments System (NPS) project under the Pacific Payments Remittances and Securities Settlement (PAPRI) initiative by the World Bank Group/ IFC has started in July 2019. Two missions were successfully fielded by the World Bank Group, IFC and Montran Cooperation in early August and November 2019. The two missions were fielded purposely to discuss the proposed project activities and system functionalities with the key stakeholders – CBSI, commercial banks and Ministry of Finance and Treasury. Deliverables from the two missions included the Project Charter, solution specifications for the Automated Transfer System/ Central Securities Depository (ATS/CSD) payment solutions and integration documents for the participants. The deliverables have been completed and delivered to CBSI in December 2019. Deployment of hardware and installation of the software for the ATS/CSD payment solutions is due in March 2020, which will be followed by training and user acceptance testing in the third quarter of 2020. The final phase of the project will involve data migration, certification and sign off by CBSI in the last quarter of 2020. Meanwhile, the NPS Bill is expected to be enacted by Parliament in 2020.

Small Business Finance Scheme

Following the review of the Small, Medium Enterprise Business Loan Scheme (SMEBLS) in early 2018 and, subsequent signing of the Memorandum of Understanding (MOU) between the SIG and CBSI on the operations of the SMEBLS, there was an increase in the number of nominations lodged for consideration under the revised guarantee scheme. A total of 10 nominations were lodged out of which 9 were approved and 1 declined. This is more than the sum total of all nominations received in the three preceding years put together.

TABLE 4.13

SUMMARY OF MSMELGS PERFORMANCE FROM 2016 – 2019

Year	Gross Loan Amount (m)	Risk to Borrower (m)	Net Value (m)	Risk to Scheme (m)	Risk to PFIs (m)	No. Nominations Approved	No. Nominations declined
2016	0.718m	0.245m	0.473m	0.426m	0.047m	2	
2017	0.957m	0.317m	0.640m	0.576m	0.064m	3	1
2018	0.720m	0.330m	0.390m	0.351m	0.039m	2	
2019	1.702m	0.395m	1.308m	1.177m	0.131m	9	1
YTD	4.097m	1.287m	2.811m	2.530m	0.281m	16	2
Less: Guarantee cancelled (paid in full)	0.500m	0.200m	0.300m	0.270m	0.030m	1	
Less: Guarantee cancelled (paid claim to PFIs.)	0.280m	0.140m	0.140m	0.126m	0.014m	1	
Less: Guarantee cancelled (Term expired)	0.090m	0.020m	0.070m	0.063m	0.007m	1	
YTD Commitment	3.227m	0.927m	2.301m	2.071m	0.230m	13	

Source: CBSI

In 2019, a total of ten nominations from two participating financial institutions; namely, Bank South Pacific Limited (BSP Ltd) and Credit Corporation (Solomon Islands) Limited (CCSIL) were submitted to CBSI for assessment. Two of the nominations received came from CCSIL whilst eight nominations were from BSP. Of the 10 nominations, one was rejected and nine approved, bringing the YTD total loans accepted to sixteen.

At the end of 2019, total gross loan value stood at $1.702 million, an increase of $0.982 million from $0.72 million in the previous year. Risks to the borrower, the scheme and bank were $0.395, $1.177 and $0.131 million, respectively, which compared to 2018 figures were higher. The increase in total gross loan value was due to the increase in the number of nominations accepted for guarantee in 2019.

INFORMATION TECHNOLOGY

The function of the Information and Communications Technology Department's (ICTD) is to provide the management, security and delivery of ICT services to support the corporate objectives of the Bank.

In 2019, the following projects were completed or progressed across the activities of the Bank.

Continuous Enhancement of the ICT Infrastructure which included:

The completed work on the outstanding networking project activities that allowed the bank to fully use its upgraded local area networking services;

The upgraded local area network helped in the smooth deployment and use of the bank's IP-based phone system (VOIP), replacing the old analogue phone system;

The movement and completed installation of the Bank's Disaster Recovery (DR) servers and storage infrastructure at a new DR office which links to the production servers. The wireless devices had also been setup at the DR office. These enhancement work provide a more resilient platform for the bank's IT services;

Provided extended networking infrastructure and services for the bank's rented office; and

Acquired and deployed 18 laptops, 26 desktops and a printer that replaced the old computers and accommodated for new bank employees.

Systems Enhancement and Development

The completion of the required ongoing upgrades of the SWIFT System to comply and strengthen the Bank's international payment system;

The ongoing support to the development of the Human Resource System to automate functions of Human Resource management; and

Development and enhancement work also continued on other system projects, such as the Exchange Control System project and the GL Chart Structure Review project.

Security and Disaster Recovery (DR)

The completion of the upgraded DR Infrastructure both on the hardware and systems at the DR site allowed the bank to conduct its first ever successful live failover testing from production to DR, where primary systems operations and control were transferred over to the DR system and allowed to run in live production mode for part of a working day. This involved shutdown of the primary systems at the production site during the testing period while live testing at DR site by selected critical Bank staff from all departments. The DR testing is part of the bank's security measure in response to disaster situation affecting the bank's normal operations. The scheduled replication of production systems to DR Infrastructure enabled systems to be turned on at DR site within seconds.

The Bank's SWIFT contingency server was also successfully relocated to the DR site from the Bank's production site.

Monitoring of daily backups, threats on the Bank's network through the Bank's firewall, anti-virus software and anti-malware software, performed upgrades on the Bank's critical systems, attended cyber security trainings or workshops were part of the ongoing activities that contributed to strengthening the Bank's security measures and minimize risks.

With strong focus on cyber security, the Bank will continue to strengthen and implement additional security measures such as conducting penetration and vulnerability testing.

Enhancing ICT Support Services

Provided the ongoing annual renewal support services on the Bank's systems and applications;

Provided maintenances support services on the Bank's existing systems and hardware to enable the Bank continue with its services; and

Maintained ICT support on the bank's local area network, internet service, emails, printing service, information sharing and video conferencing services.

Enhancing ICT Policies

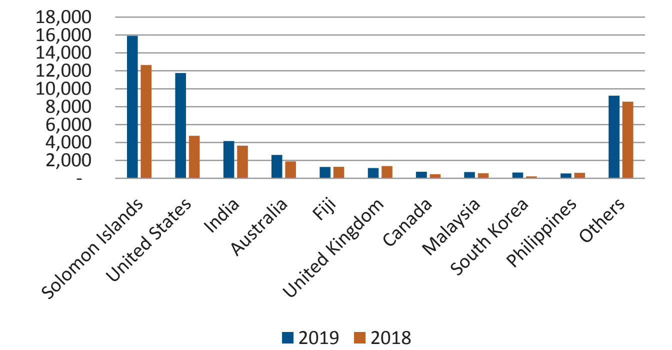
The Bank progressed the drafting of a new set of ICT policies and procedures during the year. When completed, it will support and guide the ICT department not only on its responsibilities but also support the management and implementation of the Bank's information security.

Visitors to CBSI Website increased in 2019

The total number of visits to the CBSI website was 48,736, an increase of 34% from 36,318 visits in 2018. Among visitors from all over 197 countries, the same six countries Solomon Islands (32%), United States (24%), India (9%), Australia (5%), Fiji (3%), and United Kingdom (2%) remain as 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 4.13

WEBSITE VISITS BY COUNTRY



Source: CBSI

INTERNAL AUDIT

The Internal Audit Unit is an independent, objective assurance and consulting function within the Bank, designed to add value and improve operational effectiveness through sound governance and proper risk management. Apart from the Central Bank of Solomon Islands Internal Audit Charter (CBSI IA Charter), the IAU is also and closely guided by the IIA International Professional Practices Framework (IPPF) in the conduct of its review and consultative activities and programmes.

During the year, the IAU, supervised by the Board Audit Committee undertook a variety of assessments within CBSI. This included reviews on the Bank's general suspense accounts, spot checks and periodical stock takes on till cash and the currency stock, as well as reviews on the physical security measures. Moreover, audit assessments were made on the staff loan schemes, as well as coordinating the CBSI responses to the Management Letter Points raised by the external auditors in the 2018 Financial Statements. The IAU also conducted a Risk Identification and Management workshop for all staff as part of the ongoing cultivation of a risk mitigation culture within the Bank.

CHAPTER 5: FINANCIAL INCLUSION

2019 marks the fourth year of implementation of the Solomon Islands National Financial Inclusion Strategy 2, 2016 – 2020 (NFIS2) with the mission statement;

By 2020:

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

In preparation for the review of NFIS2 and development of Solomon Islands National Financial Inclusion Strategy 3, 2021-2025 (NFIS3) in 2020, the Central Bank of Solomon Islands (CBSI) has embarked on efforts for a nationally representative financial inclusion data purposely to be informed on the status of the above mission goals and to determine the inclusiveness of Solomon Islands financial sector. In an MOU with the National Statistics Office (NSO), the CBSI has incorporated related questions on access and usage of financial services in the 2019 census questionnaire. Results of the census will measure the above goals and assist to develop NFIS3.

In the meantime, Table 5.1 shows the distribution of commercial banks access points by provinces at end-December 2019. There is a notable drop in the overall access points, which is mainly from the decline in agents' network, which serves most rural Solomon Islanders. As such, the reduction means increase in ordinary travel to a financial service access point for a customer and this is an issue to address as this is not aligned with the second mission goal. In terms of financial service usage, aggregate active users from few reporting institutions reported total active users reached 277,754 on aggregate of which approximate women active users are 138,469 on aggregate.

TABLE 5.1

COMMERCIAL BANK ACCESS POINTS

Indicators	2016	2017	2018	2019	Choiseul	Western	Isabel	Malaita	Guadalcanal	Central	Makira	Renbel	Temotu	Honiara
Number of Branches	14	14	15	15	0	4	0	1	1	0	0	0	0	9
Number of Agencies	7	7	7	7	1	1	1	2	0	0	1	0	1	0
Number of ATMs	42	53	56	57	0	8	0	2	1	0	0	0	0	46
Number of EFTPOS- Terminals	310	416	440	404	6	52	4	14	13	5	4	0	4	300
Number of EFTPOS-Merchants	256	280	306	289	0	35	1	6	12	2	1	0	1	232
Number of Mobile Access points or agents	192	234	210	164	15	27	19	40	5	8	9	1	9	40
Total no. of access points	821	1004	1034	935	22	127	25	65	32	15	15	1	15	627

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 4 meetings during the year with ongoing focus on digital payment channels for government transactions, a commitment made by the Solomon Islands Government (SIG) under the 'Better Than Cash Alliance' (BCTA) to digitise government payments.

The project led by Inland Revenue Division (IRD) on e-tax was successfully completed with 518 registered users at end-December 2019. This allows business houses, agents and registered users to lodge online filing and payment of taxes to IRD. Another project during the year was the completion of a scoping mission on digitising Customs & Excise transactions through the ASYCUDA system. The next phase on project implementation will be discussed in consideration of the existing infrastructure support to connect with ASYCUDA. In the meantime, Customs & Excise has rolled out electronic receipting at some entry points in the country.

Another key area under this objective is the legislative framework where the National Payments bill is an ongoing work with CBSI while the Practice Guidance Note 2 on Mobile Money Services (PGN2) was completed and effective as of July 2019. The PGN2 is applicable to licensed financial institutions and non-financial institutions who are desirous of embarking on a business of Mobile Money Services. PGN2 stipulates the procedures to obtain the Central Bank's no objection to provide this service, the roles

The Central Bank of Solomon Islands (CBSI) officially signed a Memorandum of Understanding (MOU) on 13th August, 2019 with the Solomon Islands National Provident Fund (SINPF), Our Telekom, Bemobile and United National Capital Development Fund - Pacific Financial Inclusion Program, (UNCDF-PFIP) to pilot a Digital Airtime Payments Project in the country. Seen here is former Governor, Denton Rarawa with senior reps from these stakeholders.

and responsibilities of all participating partners and the policy framework.

During the year, a scoping mission on shared agent network has been successfully completed and project implementation has been endorsed for 2020. Findings noted the declining agency access points due to the challenge of high cost of providing financial services in the remote Solomon Islands. Therefore, implementation will involve reviewing the Digital Financial Services (DFS) Regulatory framework and the Agency eco-system in Solomon Islands.

The launch of youSave lo Mobile in November 2019 provided a digital channel for youSave members who can now make deposits into their youSave account as well as registration through the mobile app. This is a key initiative towards addressing the issue of limited access points especially, for rural, informal sector customers.

The assistance of United Nations Capital Development Fund-Pacific Financial Inclusion Programs (UNCDF-PFIP) and support of key stakeholders including Solomon Islands Government has enabled progress of these activities.

A key result area that is still outstanding is to promote digital payments among large private sectors especially, Business to Business (B2B) transactions.

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

The Micro Small Medium Enterprises Working Group (MSMEWG) held 2 meetings during the year.

One of the MSMEWG key result area is the legislative framework for MSME in Solomon Islands. This is a task in consultation with Ministry of Commerce, Industries, Labour and Immigration (MCILI), which saw the completion of the Policy Instructions and drafting of the MSME Bill by Attorney General's Chambers (AGC).

Another key focus area for the Working Group is the advisory support for MSME, which stems from the issues relating to knowledge gap due to lack of technical or related business support as well as financial and business literacy that is needed to equip local MSME entrepreneurs. MCILI in liaison with United Nations Development Programme (UNDP) and Young Entrepreneurs Council Solomon Islands (YECSI) piloted a Youth Training Hub for young entrepreneurs called IUMI WAKA. Further, an MSME Advisory Centre has been considered with the objective to accommodate a pool of service providers to assist MSME in terms of technical support, capacity building, training and mentoring. This will be progressed in 2020.

The revised SME Credit Guarantee Scheme (SMECGS) was implemented in 2019 following the review recommendations in 2018. By end of 2019, the number of MSMEs assisted through the SME Credit Guarantee Scheme increased to 16 with 9 nominations approved in 2019 with total gross loan value of $1.702 million. The MSMEWG also conducted two workshops in Honiara on the revised guarantee scheme to financial service providers and SMEs, a number of awareness sessions to SMEs in the provincial locations and through media on CBSI money matters program.

The only micro-finance institution in the country, South Pacific Business Development continues to provide savings and micro credits to women in Solomon Islands. As at end December 2019, the number of savings accounts reached 7994 with deposits of about $3 million while loans disbursed at $20 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 three meetings during the year. Financial literacy, financial education and consumer awareness are key activities for the stakeholders. CEWG and NFIT stakeholders continue to deliver financial literacy, business trainings and mentoring and a wide range of consumer awareness programs. The commercial banks, insurance industry, micro finance institution, savings groups, Small Business Enterprise Centre (SBEC), Solomon Islands Chamber of Commerce (SICCI)/Young Entrepreneurs Council (YECSI), Government Ministries represented in the working groups including Ministry of Women, Youth, Children and Family Affairs (MWYCFA), MCILI, MOFT-IRD and other institutions continue to provide sessions in Honiara and the provinces. At end-December 2019, a total reach of about 32,000.

CBSI also delivered awareness during the CBSI Money Smart Day to selected students from eight Honiara

Schools, Honiara High Senior Secondary, King George VI, Koloale CHS, Mbokonavera CHS, Mbua Valley CHS, Naha CHS, St Nicholas College and White River CHS Schools and was attended by 33 students and their teachers.

Other financial literacy undertaken during the year were, at Savo, Central Province to two women savings groups, Koela Savings Groups and Monago Savings Groups a total of 51 participants. A product literacy session was also delivered to ACOM women in Honiara and Malaita Diocese a total of 39 women. The CBSI also assisted West Areare Rokotanikeni Association (WARA) Practitioner to establish Women Savings Groups in Malaita and Western Provinces including financial literacy. CBSI also conducted monthly sessions for young entrepreneurs at IUMI WAKA Co-working space, a total of 52 participants. The NFIT Working Groups also delivered their consumer awareness through CBSI media program, the IRD-MOFT on e-tax, MCILI on SMECGS and with the assistance of READ SI, the insurance industry delivered four dramas on key insurance products namely, fire, theft, car accident and Worker's Compensation. Apart from the media awareness, the insurance industry continued with distribution of insurance posters and calendars to various stakeholders and schools during the year.

One of the global events is the Global Money Week (GMW), which CBSI participated to deliver financial literacy to children and youths. CBSI in partnership with SINPF youSave team delivered financial literacy to West Guadalcanal schools, Marara Community High School and Tamboko Community High School. This was attended by 624 students including teachers. The financial literacy topics delivered were on money management and savings and SINPF delivered the youSave savings product. The theme of GMW was 'Learn Save Earn'.

The CBSI continued its engagement with Good Return Australia to deliver Financial Competency Program under the theme 'Mekem Selen Waka fo Gudfala Future', which was developed and piloted in 2018, assisted by Asian Development Bank (ADB). The face to face coaching program involves Training of Trainers and piloted with participants from United Pentecostal Women's Savings Group, ACOM Savings Group and Avaiki Association Group, a total of about 90.

Strategic Objective 4: Build financial resilience in rural households

With the assistance of UNCDF-PFIP, the financial education project with the Anglican Church of Melanesia (ACOM) Rural Training Centres (RTC) expanded to additional 3 RTCs during the year, totalling to 6 ACOM RTCs receiving financial education in their curriculum. These are Garanga and Kholaero RTCs in Isabel Province, Pamua RTC in Makira Province, Airahu RTC in Malaita Province, Luesale RTC in Temotu Province and Bishop Koete RTC in Central Province. Another key result area to integrate basic financial education into core school curriculum is a task with MEHRD.

In the efforts to build financial resilience in rural households, the SINPF youSave savings for the informal sector, which was launched in 2017, continued to attract self-employed individuals to save at SINPF for retirement. This pension savings scheme is designed to enable the informal sector to better manage their financial lives and provide a safety net for their future. One of the challenges identified is the limited access points or agents to receive youSave members' deposits, therefore with the assistance of UNCDF, youSave lomobile was launched in November 2019. This service is a first of its kind where mobile topup (airtime credit) will be used to enable the informal sector in the Solomon Islands to remit funds into their pension savings accounts held with SINPF. The membership at end-2019 reached 15,000 of which 54% are women. Total savings stood at $10.7 million.

Other projects that are supported are the digital payments offered through ANZ goMoney where parents can pay their children's school fees. As at end-December, 12 schools participated of which 3 are in Malaita Province and 1 in Central Islands Province. A total of 1209 parents have been registered. The second project is digitizing payments to coconut farmers supporting Kokonut Pacific Solomon Islands (KPSI) where farmers receive payments on their phone when they sell coconuts and coconut oil.

The KRA to provide micro insurance to rural households has not been progressed due to the challenge of interested players to provide this product. The government however, has been supportive in providing the stamp duty exemption for micro-insurance products. During the year, the IIWG held 3 meetings and focused on legislative challenges for the Insurance industry and efforts undertaken with responsible government ministries to discuss reforms of outdated insurance legislations. Also, the working group have delivered insurance awareness to business houses, public and private sector organisations and the public.

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

The Practice Guidance Note 2 (PGN2) on Mobile Money Services became effective on 1 July 2019 providing the framework to support innovation, competition, financial inclusiveness, and protection of users of Mobile Money Services in the market.

With the assistance of Alliance for Financial Inclusion (AFI), CBSI in partnership with regional Pacific Islands Central Banks under the Pacific Islands Regional Initiative (PIRI) developed the draft Pacific Regional Regulatory Sandbox Guidelines. The Regional Regulatory Sandbox Guidelines allows regional central banks to collaborate to encourage potential solution providers and innovators to experiment and test their prototype innovative financial services in a live environment, but with clear guidelines and criteria which enables regulation and supervision by the Central Bank. It aims to foster responsible financial innovation in the market and to improve financial inclusion through access, usage and quality of financial services.

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

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

The assistance from development partners also contributed to the implementation of the NFIS2 in 2019, particularly from the United Nations Capital Development Fund (UNCDF) with its funding partners, Australian Department of Foreign Affairs and Trade (DFAT), European Union (EU), New Zealand and United Nations Development Programme (UNDP). The Good Return Australia continued its assistance with implementation of the Financial Competency Program. AFI also provided assistances through its technical support on policy development and capacity building program.

CBSI Hosted 5th Pacific Islands Regional Initiative (PIRI) Annual Meeting

A key highlight during the year was the co-hosting of the fifth Annual Pacific Islands Regional Initiative (PIRI) High-Level Forum by Central Bank of Solomon Islands (CBSI) and the Alliance for Financial Inclusion (AFI) from June 3 to June 6 in Honiara. PIRI Leaders comprised of regional Central Banks' Governors who led their respective countries national financial inclusion agenda.

The weeklong event began with the Experts Group on Financial Inclusion Policy (EGFIP) meeting followed by a training on Accelerating Digital Payments in the Pacific delivered through AFI's Public-Private Dialogue (PPD) platform. The event concluded with a High-Level Forum on 5-6 June 2019 as Leaders of PIRI, EGFIP and Solomon Islands stakeholders attended and discussed topics around the theme "Advancing Green Finance through Youth Inclusion". A total of about 130 participants attended the High-Level Forum.

The High Level PIRI deliverables and outcomes that will be implemented in 2020 are: (i) Develop Pacific Regional Regulatory Sandbox Guidelines; (ii) Develop Regional De-risking Action Plan for Pacific; (iii) Accelerate efforts for Gender Inclusive Finance under the Denarau Action Plan Commitment; (iv)Inclusive Green Finance, to establish work stream on financial regulation and policy for disaster preparedness and response in the Pacific; and (v) SWIFT commit to help address de-risking in the Pacific.

Minister for Finance and Treasury, Hon. Harry Kuma (seated) pose with other distinguished guests after the launching of the retirement savings airtime credit (YouSave) by SINPF with stakeholder partners/supporters at SIBC Leaf Hut.

CHAPTER 6: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES

The Solomon Islands Financial Intelligence Unit (SIFIU) is established under the Money Laundering and Proceeds of Crime Amendment Act 2010 (MLPCAA 2010). The vision of the SIFIU is to ensure " Solomon Islands is protected from money laundering, terrorism financing and proliferation financing activities". The roles and functions of the SIFIU are provided under the MLPCAA 2010. SIFIU is one of the leading agencies in Solomon Islands that is primarily responsible for preventing and detecting money laundering and terrorist financing activities. The SIFIU is a small Unit with only four (4) officers at the beginning of the year; three full time officers and one seconded officer from the Ministry of Police, National Security and Correctional Services. A recruitment exercise was undertaken in the second half of the year that resulted in four new officers joining the Unit in December. With the recruitment of additional officers, SIFIU will extend its oversight function to cover Designated Non-Financial Businesses and Professions such as casinos, real estate agents, dealers in precious metals, lawyers, accountants, and trusts and company service providers from 2020 to minimize risks associated with money laundering and terrorism financing activities in Solomon Islands.

For operational and administrative matters, the SIFIU reports to the Governor of the Central Bank of Solomon Islands while reporting to the Anti-Money Laundering Commission (AMLC) on policy matters. The AMLC's establishment and make-up is prescribed under section 11(1) of the MLPCAA 2010. The Attorney General of Solomon Islands is the Chair of the Commission.

Money laundering, terrorism financing and proliferation financing are global issues threatening countries today. Solomon Islands therefore is not immune to these problems. In combating these unwanted activities, the country has put in place mechanisms and controls that are capable of protecting the Solomon Islands financial system and its infrastructure from exploitation by criminals and also of mitigating risks identified in the SI Money Laundering and Terrorism Financing National Risk Assessment Report of 2018. The SIFIU is committed to carrying out its obligations to ensure Solomon Islands is protected from money laundering and terrorism financing activities.

FINANCING OF SIFIU OPERATIONS

Funding for the operation of the SIFIU in 2019 came from Solomon Islands Government and the Central Bank of Solomon Islands, totalled up to $1,616,304; $809,800 from the Government and $806,504 from the CBSI. Apart from funding contribution, the CBSI also supported the Unit through subsidising most of its vital expenditure heads, such as office space monthly rental payments, medical benefits, leave entitlements, office equipment and IT services.

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, terrorism financing and proliferation financing. In 2019, the SIFIU participated in various APG-funded regional AML/CFT trainings and meetings held in Australia, New Zealand, Fiji and Tonga.

Solomon Islands Mutual Evaluation

Solomon Islands mutual evaluation report was adopted by APG at its annual meeting in Canberra, Australia in August 2019. The report provided a summary of the current AML/CFT measures in Solomon Islands as at the date of the onsite visit (22 October to 2 November 2018). In addition, the report analysed Solomon Island's level of compliance with the FATF 40 Recommendations. Furthermore, the report showed the level of effectiveness of Solomon Islands AML/CFT system, and provided recommendations on how the system could be strengthened.

The findings of the mutual evaluation also highlighted key issues and deficiencies for Solomon Islands to address. These include, among others: (1) the amendment of current laws such as the Money Laundering and Proceeds of Crime Amendment Act (MLPCA) and other supporting legislations; (2) the drafting and implementation of the MLPC regulation; (3) the strengthening of the resources of SIFIU and other law enforcement agencies; and (4) enhancing AML/CFT preventive measures for financial institutions and "Designated Non-Financial Business and Professions" (DNFBPs)[3].

The Solomon Islands delegation to the APG Annual Meeting with the APG Mutual Evaluation Assessment Team in Canberra, Australia

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 com-

3 DNFBPs are regarded as susceptible to money laundering and terrorist financing due to the nature of their business and transactions. They may include accountants, real estate agents, casinos and lawyers.

mercial banks (ANZ, BSP, POB and BRED), insurance institutions (QBE, Tower and Capital), FEXCO SI Ltd and CBSI.

Advising Public Against Financial Scams

The SIFIU in 2019 was again involved in advising the public against "financial scams or pyramid schemes". The Unit attended to numerous queries from the public during the year on false financial schemes and purported lottery wins. Some of the schemes CBSI/SIFIU warned members of the public against during the year include One Link Pacifica (OLP), the Eagles Advertisement Resource Network (EARN) and the Infrastructure Development Fund (IDF).

AML Reports Received by SIFIU

There was an increase in the number of reports SIFIU received from reporting entities in 2019. The increase reflected mainly reporting entities stepping up their reporting obligations under the AML/CFT Act. In 2019, total of 95 STRs were received by SIFIU compared to 63 STRs recorded in 2018. The number of CTR received dropped to 40,299 compared to 42,703 recorded in the previous year. The main reason for the decline was because people now are beginning to use electronic forms of payments as opposed to cash payments. The total EFTRs received in 2019 rose to 24,345 compared to 21,226 recorded in 2018, an increase of 15% for the period. In terms of BCR, SIFIU received a total of 44 reports, compared to 53 reports received in 2018. The fall in the number of BCRs was mainly due to non-reporting of BCRs by Customs for the later months of 2019.

TABLE 6.1

REPORTS RECEIVED BY SIFIU				
Type of Reports	Received		Disseminated	
	2018	2019	2018	2019
Suspicious Transaction Report (STR)	63	95	10	14
Cash Transaction Report (CTR)	42,703	40,299	-	
Electronic Funds Transfer Report (EFTR)	21,226	24,345	-	
Border Currency Report (BCR)	53	44	-	

Source: SIFIU

AML/CFT Groups Meeting

During the year, of the meetings planned; the AMLC met three , AMLTEG had two, and AMLROs met three times (See Table 6.2).

TABLE 6.2

SIFIU MEETINGS IN 2019				
Year	Meeting Type	Meetings Planned	Actual Meetings Held	Success Rate Percent (%)
2019	AMLC	4	3	75
	AMLTEG	4	2	50
	AMLRO	4	3	75
	Staff	48	7	14

Source: SIFIU

TABLE 6.3

OVERSEAS SIFIU TRAININGS			
Date	Particular of Training	Facilitator	Venue
4 – 8 March 2019	Pacific Regional FATF Standards Training Course	APG	Auckland, New Zealand
18 - 21 March 2019	Fraud Examination I	UNICOR Professional Services	Honiara, Solomon Islands
25 - 30 March 2019	FATF/MONEYVAL Joint Expert Meeting	FATF	Tel Aviv, Israel
9 - 12 April 2019	Asia Pacific Conference on Forestry Crimes	INTERPOL	Singapore
7- 9 May 2019	Fraud Examination II	UNICOR Professional Services	Honiara, Solomon Islands
4 June 2019	Accelerating Digital Payments in the Pacific	AFI and VISA	Honiara, Solomon Islands
11 - 14 June 2019	Addressing Pressures on Corresponding Banking Relationships	STI	Singapore
17 - 19 June 2019	Targeted Financial Sanctions Relating to TF/PF	PIFS and APG	Suva, Fiji
24 – 26 June 2019	INTERPOL Training on Financial Investigation relating to Forestry Crime	INTERPOL	Honiara, Solomon Islands
19 – 23 August 2019	APG Annual Meeting	APG	Canberra, Australia
25 – 27 September 2019	Human Trafficking and Money Laundering	IOM, Immigration and SIFIU	Honiara, Solomon Islands
14 – 18 October 2019	National Training Programme on Forestry Investigation	INTERPOL	Honiara, Solomon Islands
21 October – 02 November 2019	Assessment of Tongan Mutual Evaluation	APG	Nuku'alofa, Tonga
7 November 2019	Regional Regulatory Implementation Consultation	AFI	Honiara, Solomon Islands
11 – 22 November 2019	Financial Investigation relating to Forestry Sector	INTERPOL	Bangkok, Thailand
12 – 14 November 2019	5th Regional Counter Terrorism Financing Summit	Philippians AMLC/AUSTRAC/PPATK	Manila, Philippine
13 – 15 November 2019	National Cybersecurity Strategy Development and Child Online Protection	SIG and International Telecommunication Union	Honiara, Solomon Islands
20 – 21 November 2019	De-risking	AFI	Sydney, Australia
4 – 6 December 2019	Counter Proliferation Finance Workshop	US Department of State	Nadi, Fiji

Source: SIFIU

Over Seas & Local Trainings/Workshops and Meetings Attended

Table 6.3 shows the number of training courses and workshops attended by the SIFIU and supporting institutions in Solomon Islands in 2019.

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

TABLE 6.4: LOCAL TRAINING AND WORKSHOP CONDUCTED IN 2019

Particular of Training	Participants	Facilitator	Number of Participants
Money Smart Day	Selected High School Students	CBSI and SIFIU	45

Source: SIFIU

CHAPTER 7: CALENDAR OF EVENTS 2019

MONTH	EVENTS
JANUARY	• Governor Rarawa made his annual address to staff.
FEBRUARY	
MARCH	• CBSI and the Ministry of Finance and Treasury conducted nationwide consultation on the proposed amendments to the Insurance Act. • CBSI Board approved the March 2019 Monetary Policy Stance. • CBSI participated in the Global Money Week with two schools in Guadalcanal Province
APRIL	• Board Meetings held in Honiara
MAY	• The 2018 CBSI Annual Report with the theme "setting the foundation for robust, broad-based and inclusive growth" is launched and presented to the Minister of Finance and Treasury, Hon. Harry Kuma. • The new $5 polymer note is launched. Its tuna motif pays homage to the importance of fisheries to the Solomon Islands economy. • Special Board Meeting approved the 2018 Financial Accounts.
JUNE	• IMF staff undertake a consultation visit to the Solomon Islands. • CBSI hosted the 5th Pacific Islands Regional Initiative (PIRI) Annual Meeting with the theme "Advancing Green Finance through Youth Inclusion". • The Bank hosted the annual "Solomon Islands Money Day" for students • CBSI Board approved Prudential Guidelines 14,15,16, 17,18,19 to apply to all licensed financial institutions. • Special Board Meeting on the HQ Building Extension Project
JULY	• A Strategic Planning workshop was conducted for CBSI Board of Directors and Senior Management.
AUGUST	• Governor Rarawa and Anti-Money Laundering Commission members attend the 22nd annual meeting of the Asia Pacific Group (APG) on Money Laundering in Canberra, Australia. The country's mutual evaluation report on AML/CFT measures was tabled. • Governor Denton Rarawa's term as head of CBSI ends. • CBSI signs an MOU with SINPF, Our Telekom, Bemobile and UNCDF-PFIP to pilot a Digital Airtime Payments Project in the country.
SEPTEMBER	• CBSI Board endorsed mid-year budget review. • Deputy Governor, Dr. Luke Forau made a presentation at the Australia-Solomon Islands Business Forum in Honiara. • Chief Manager and three senior Financial System Regulation Department staff attended the AFSPC Annual Meeting in Nuku'alofa, Kingdom of Tonga
OCTOBER	• The Government appointed Dr. Luke Forau as the new Governor of CBSI. • Minister of Finance and Treasury, Hon Harry Kuma, and CBSI Governor, Dr. Luke Forau, attended the IMF-World Bank Annual meeting in Washington DC, USA. • An IMF Article IV mission visits Solomon Islands. • CBSI Board approved the September 2019 Monetary Policy Stance; the 2020-2023 Strategic Plan; and the 2020 Organizational Structure.
NOVEMBER	• Governor and staff from ERSD and FMSD attended the 2nd South Pacific Central Banking Research Conference in Port Vila, Vanuatu. • Governor, CM/FMS, and CM/ERS attended the 34th South Pacific Governors Meeting in Sydney, Australia. • CBSI with Alliance for Financial Inclusion (AFI) conducted a 2-day consultation on Regional Regulatory Sandbox Guidelines
DECEMBER	• CBSI Board approved the 2020 Annual Budget including the new Salary Structure.

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 2019 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, contract end 22nd August 2019) Luke Forau (appointed Chairman and Governor 1st October 2019)
- Luke Forau (Deputy Governor)
- Mckinnie Dentana (Permanent Secretary of Finance)
- Thomas Ko Chan (Resigned 24/06/2019)
- David Dennis
- David K C Quan
- Christina Lasaqa
- 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 2019 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 2019 was $93.9 million (2018: $83.6 million profit).

RESERVES

The Board approved the following transfers to reserves from the statement of profit and loss and other comprehensive income during the year: $44.9 million to capital asset reserve, $48.9 million to Foreign exchange revaluation reserve and $47.6 million to gold 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 the next 12 months from the date of this report.

ASSETS

The Directors took reasonable steps before the Bank's financial statements were made out to ascerThe 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

The coronavirus disease (COVID-19) outbreak has developed rapidly in 2020, bringing a significant health impact globally. Measures taken to contain the virus are already having a significant impact on global markets and economic activity and Solomon Islands is also feeling the impact with business disruption and levels of activity already reducing in several market sectors. The spread and considerable disruption of this epidemic will be exacerbated by the increasingly intertwined trade and investment relationships between China and its neighbours in the Asia Pacific region.

There is considerable uncertainty around the possible duration of and the resulting depth of impact that may come subsequently from the disruption caused. The Bank is exposed to the possibility of incurring losses arising from changes in the fair value of financial assets, credit loss impairment, cash inflows from operations and net interest income of the Bank.

Directors and management are carefully considering the impact of the COVID-19 outbreak on the Bank and assessing future operational options. The financial impacts, however, cannot be reasonably estimated at this time, as they will be largely the product of matters the Bank cannot control.

Directors and management believe the Bank has sufficient financial resources at this time to be able to successfully manage its business risks despite the current uncertain economic outlook due to the COVID-19 outbreak. They have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Subsequent to year end, the Bank has received debt repayment relief from IMF for a period of six months with the potential for that to be extended by a further six months if required.

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 on 16 April 2020.

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

Luke Forau, P.hD	**Rodney Rutepitu**
Chairman of the Board and Governor of Central Bank of Solomon Islands	Director

STATEMENT BY DIRECTORS

In the opinion of the Directors:

(a) the accompanying statement of profit or 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 2019;

(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 2019;

(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 2019;

(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 2019;

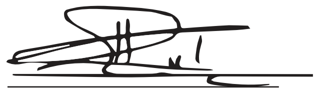
(e) at the date of this statement there are reasonable grounds to be believe the Bank will be able to pay its debts as and when they fall due;

(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 dated on 16 April 2020.

Luke Forau, P.hD
Chairman of the Board and Governor
of Central Bank of Solomon Islands



Rodney Rutepitu
Director

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

SOLOMON ISLANDS OFFICE OF THE AUDITOR-GENERAL

TO LEAD IS TO SERVE

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 contracted PricewaterhouseCoopers Fiji which is part of the 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 2019, the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of 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 20198, 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 of Supreme Audit Institution (ISSAI). My responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of my report.

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

Independence

I am independent of the Bank in accordance with International Organization of Supreme Audit Institution (INTOSAI) Code of Ethics, and 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.

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 2019 (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 except that not all other information was available to us at the date of our signing.

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 IFRS and with the requirement of the Central Bank of Solomon Islands Act, 2012, and for such internal control as the board members 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 Standard of Supreme Audit Institution (ISSAI) 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 ISSAIs, 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 of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusion is based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

In my opinion:

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

ii) to the best of my knowledge and according to the information and explanations given to me 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.

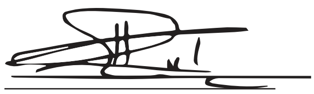
PETER LOKAY
Auditor-General
28th April, 2020

Office of the Auditor-General
Honiara, Solomon Islands

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 $000	2018 $000
Income			
Interest income	4(a)	**99,194**	85,587
Fees and commission income	4(b)	**29,557**	73,495
Other income	4(c)	**1,761**	1,302
Change in fair value of investment properties	10	**-**	836
Net foreign exchange revaluation gain		**48,946**	2,680
Total income		**179,458**	163,899
Expenses			
Interest expense	4(d)	**5,667**	5,508
Fees and commission expense		**1,190**	1,296
Administration expenses	4(e)	**54,248**	48,220
Impairment allowance on financial instruments		**1,283**	-
Other expenses	4(f)	**23,166**	25,260
Total expenses		**85,554**	80,284
Net operating profit		**93,904**	83,615
Other comprehensive income			
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 (gold)		**47,558**	(1,806)
Income from demonetisation		**-**	7,209
Total other comprehensive income		**47,558**	20,361
Total comprehensive income		**141,462**	103,796

Luke Forau
Governor



Rodney Rutepitu
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 64

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 $000	2018 $000
Foreign currency assets			
Cash and cash equivalents	22	**405,392**	955,001
Accrued interest		**26,634**	26,784
Fixed income security	5	**3,951,024**	3,748,353
Gold	6	**300,110**	251,538
International Monetary Fund	7	**247,348**	248,309
Total foreign currency assets		**4,930,508**	5,229,985
Local currency assets			
Cash on hand	22	**205**	599
Loans and advances	8	**17,504**	13,857
Currency inventory	9	**42,177**	37,511
Investment properties	10	**-**	2,324
Property, plant and equipment	14	**180,273**	174,267
Intangibles	11	**253**	443
Other assets	12	**41,310**	27,216
Right-of-use asset	13(a)	**1,381**	-
Total local currency assets		**283,103**	256,220
Total assets		**5,213,611**	5,486,205
Foreign currency liabilities			
International Monetary Fund	7	**323,348**	355,488
Demand deposits	15(a)	**155,724**	145,908
Total foreign currency liabilities		**479,072**	501,395
Local currency liabilities			
Demand deposits	15(b)	**2,603,104**	3,038,648
Currency in circulation	16	**955,285**	947,167
Fixed deposits	17	**761,457**	761,673
SIG monetary operations account	18	**87,888**	60,242
Employee entitlements	19	**22,980**	21,395
Other liabilities	20	**11,828**	6,581
Lease liabilities	13(b)	**1,432**	-
Total local liabilities		**4,443,974**	4,835,706
Total liabilities		**4,923,046**	5,337,102
Net assets		**290,565**	149,103
Capital and reserves			
Paid up capital	23	**50,000**	50,000
General reserve	24(a)	**172,188**	172,188
Foreign exchange revaluation reserve	24(b)	**(146,553)**	(196,499)
Asset revaluation reserve	24(c)	**120,112**	120,112
Gold revaluation reserve	24(d)	**(18,222)**	(65,781)
Capital asset reserve	24(e)	**114,040**	69,084
Total capital and reserves		**290,565**	149,103

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

Luke Forau
Governor

Rodney Rutepitu
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 64

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	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 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 21)	-	-	80,099	2,680	836	-	83,615
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	-	(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**
Balance at 1 January 2019	**50,000**	**(65,781)**	**172,188**	**(196,499)**	**120,112**	**69,084**	**149,103**
Total comprehensive income for the year							
Profit (loss) for the year (Note 21)	-	-	-	48,946	-	44,956	93,904
Other comprehensive income/(losses)							
Fair value losses – gold	-	47,558	-	-	-	-	47,558
Fair value gain – Property, plant and equipment	-	-	-	-	-	-	-
Transfer of remaining distributed profits for 2018 in accordance with Section 55(1) of the Central Bank of Solomon Islands Act. 2012	-	-	-	-	-	-	-
Total Other comprehensive income	-	47,558	-	48,946	-	44,956	141,462
Balance as at 31 December 2019	**50,000**	**(18,222)**	**172,186**	**(147,553)**	**120,112**	**114,040**	**290,565**

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 64

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 $000	2018 $000
Operating activities			
Interest received		**99,344**	69,603
Cash received fron other income		**31,318**	74,979
Interest paid		**(5,595)**	(5,508)
Cash paid to suppliers and employees		**(66,967)**	76,642)
Net movement in fixed income investments		**(203,390)**	(290,663)
Net movement in International Monetary Fund accounts		**(14,346)**	(2,649)
Net movement in other receivables		**(14,092)**	36,683
Net movement in other payables		**-**	-
Cash flows (used in) operating activities		**(173,728)**	(194,197)
Investing activities			
Acquisition of property, plant and equipment		**(12,974)**	(5,337)
Proceeds from sale of premises, plant and equipment		**214**	-
Net movement in gold		**(1,014)**	(8,311)
Net movement in loan to government		**(746)**	(49)
Net movement in loans and advances to staff		**(3,436)**	(877)
Cash flows used in investing activities		**(17,956)**	(14,574)
Financing activities			
Net movement in currency in circulation		**8,118**	22,858
Net movement in demand deposits		**(425,728)**	512,253
Net movement in fixed deposits received		**(216)**	14
Solomon Islands government monetary operations		**27,646**	(138,980)
Net movement in International Monetary Fund credit facilities		**(16,832)**	(12,013)
Repayment of leases		**(151)**	-
Interest payment on lease liabilities		**(72)**	-
Cash flows from financing activities		**(407,235)**	384,132
Net effect of exchange rates		**48,946**	2,680
Net (decrease)/increase in cash		**(549,973)**	(178,041)
Cash at bank and on hand at the beginning of the financial year		**955,600**	777,559
Cash at bank and on hand at the end of the financial year	**22**	**405,627**	955,600

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 64

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 16th of April 2020.

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) Standard, Amendments and Interpretation Issued

New and amended standards, and Interpretation mandatory for the first for the financial year beginning 1 January 2019.

- IFRS 16: 'Lease'
- IFRIC 23, 'Uncertainty over income tax treatment'
- Annual improvement 2015-2017
- Amendment to IFRS 9 on repayment features with negative compensation
- Amendments to IAS 28 'Investment in associates' on long term interests in associates and joint ventures
- Amendments to IAS 19 'Employee benefits' on plan amendments, curtailment or settlement.

The Bank has adopted IFRS 16 Leases as issued by the IASB in January 2016 with a date of transition of 1 January 2019, which resulted in changes in accounting policies. The Bank did not early adopt IFRS 16 in previous periods.

The implementation of IFRS 16 Leases required the Bank to change its accounting policy as a lessee under lease contracts as set out in note 13. The other changes referred to above did not have any material impact on the Bank.

New standards, amendments and interpretations issued and effective for the financial years beginning on or after 1 January 2020 and not early adopted

- Amendments to IFRS 3 – definition of a business
- Amendments to IAS 1 and IAS 8 on the definition of 'material'
- Amendments to IFRS 9, IAS 39 and IFRS 7 – interest rate benchmark reform
- IFRS 17: 'Insurance contracts'

These are not expected to have any material financial impact in future years.

(c) Going concern basis of accounting

The financial statements have been prepared on a going concern basis. At 31 December 2019 the Bank had a surplus in net assets of $291m.

(d) 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.

- Gold is measured at fair value.
- Cash and cash equivalents, fixed income securities and loans and advances 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.

(e) 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.

(f) Use of estimates and judgement

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 employe entitlements.

3. Statement of significant accounting policies

Changes in accounting policies

The Bank was required to change its accounting policy for lease contracts as a lessee in accordance with IFRS 16 with effect from 1 January 2019.

Previously, leases in which substantially all the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. Leases of property, plant and equipment where the Bank had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment was apportioned between the liability and finance charges using the effective interest method. Rental obligations, net of finance charges, were included in borrowings in the statement of financial position.

The property, plant and equipment acquired under finance leases was depreciated over the shorter of the useful life of the asset and the lease term.

From 1 January 2019, all leases are now accounted for in accordance with the policy set out in note 3(m) below. In accordance with the transition provisions of IFRS 16, the Bank has elected to apply the simplified approach to adopting the new rules retrospectively with the cumulative effect of initially applying the standard recognised as at 1 January 2019. Comparatives for the year ended 31 December 2018 have not been restated.

On adoption the Bank has recognised lease liabilities in respect of leases previously classified as operating leases under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as at 1 January 2019. The weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2019 and new leases entered into during 2019 was 10%.

There was no adjustment required to retained earnings as at 1 January 2019.

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short term leases
- excluding initial direct costs for the measurement of right of use assets as at 1 January 2019
- single discount rate is applied to a portfolio of leases with reasonably similar characteristics

The Bank had no operating leases at 1 January 2019, but entered into a lease during the 2019 year.

(a) Finance income and finance costs

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 or loss and other comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

(b) Revenue from contracts with customers

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 receives 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.

(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

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.

The financial assets that are measured at amortised costs includes cash and cash equivalents, fixed income securities, loans and advances.

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 as sets; 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.

The financial asset that is measured at fair value through other comprehensive income is gold.

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 requirements 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 (S&P).

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.

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 counter-party 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

(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 Fixed income securities are non-derivative assets with fixed or determinable payment and fixed maturity. The Bank intends to hold these to maturity. Fixed income securities include fixed term deposits, short term commercial papers and bonds.

Fixed income securities are carried at amortised costs using the effective interest method less any impairment losses.

(g) Available-for-sale investments

The Bank holds Gold investments at fair value.

Fair value changes 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 gold revaluation reserve is reclassified to retained earnings.

(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 and similar balances 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, less any impairment losses.

(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 acquiring from the currency printers and mint the notes and coins that are subsequently 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 accounted for at fair value.

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

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

Subsequent costs

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

Depreciation

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 was 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 were 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 other comprehensive income. 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 general reserves.

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) Leases, right-of-use asset and lease liability

Bank as Lessee (applicable before 1 January 2019)

All leases entered into by the Bank are operating leases. Total payments made are charged to the statement of profit or loss and other comprehensive income using the straight line method.

Bank as Lessee (applicable after 1 January 2019)

Right-of-use assets and lease liabilities arising from lease contracts are initially measured on a present value basis. Lease liabilities include the present value of all fixed payments (less any lease incentives receivable), variable lease payments that are based on an index or rate, any amounts expected to be paid under residual value guarantees, the exercise price of any purchase options that are reasonably certain to be exercised and any payments for terminating a lease if the lease term reflects the exercise of that termination option. The lease payments are discounted using the discount rate implicit in the lease, if that rate can be determined, or the company's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Payments associated with short term leases of 12 months or less and leases of low value assets are recognised as an expense on a straight line basis. Variable lease payments that are not based on an index or rate are recognised as an expense as incurred.

Right-of-use assets are initially measured at cost, comprising the amount on initial recognition of the lease liability plus any lease payments made before commencement of the lease, any initial direct costs and the estimated costs of any restoration required upon completion of the lease contract. Right-of-use assets are subsequently measured at cost less depreciation and any impairment. Right-of-use assets are depreciated on a straight line basis over the shorter of the term of the lease and the asset's useful life, unless there is a purchase option which is reasonably certain of being exercised, in which case the asset will be depreciated over its useful life.

Lease liabilities include the net present value of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payment that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments to penalties for terminating the lease, if the lease term reflects the lessee exercising that option. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not execute a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or terminated).

The assessment is reviewed if a significant event or significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The Bank presents right-of-use asset and lease liability as separate line items in the statement of financial position.

(n) 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.

(o) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

Liabilities recognised in respect of 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.

(p) 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.

(q) Comparative figures

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

	2019 $000	2018 $000
4. Income and expenses		
(a) Interest income		
Overseas investments	**98,878**	85,319
Local investments	**316**	268
	99,194	85,587
(b) Fees and commission income		
Foreign dealings	**25,559**	70,833
Local dealings	**3,998**	2,662
	29,557	73,495
(c) Other income		
Gain on disposal of fixed assets	**711**	221
Rent received	**102**	453
Sale of numismatic coins	**97**	247
Royalties on numismatics	**61**	66
Others	**790**	314
	1,761	1,301
(d) Interest expense		
Foreign liabilities	**977**	977
Local liabilities	**4,532**	4,532
Interest on lease liability - IFRS 16	**73**	-
	5,667	5,508
(e) Administrative expenses		
Staff costs	**40,297**	36,961
Telecommunication	**2,879**	2,399
Utilities	**2,567**	1,737
Repairs and maintenance	**2,175**	2,222
Insurance	**496**	463
Consumables	**341**	253
Stationery, printing and postage	**517**	404
Consultancy	**64**	431
Other	**4,912**	3,349
	54,248	48,220

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(f) Other expenses

Board of directors remunerations and expenses	**317**	349
Currency expenses	**10,411**	15,668
Depreciation and amortisation	**6,617**	6,299
Depreciation charge - right-of-use asset	**202**	-
Auditors remuneration	**525**	427
Other	**5,094**	2,517
	23,166	25,260

5. Fixed income securities

Fixed term deposits	**3,469,791**	3,404,011
Short term commercial paper	**199,692**	187,849
Bonds	**282,260**	156,493
Total amortisation cost	**3,951,024**	3,748,353
Allowance for impairment losses	**(719)**	-
	3,951,024	3,748,353

6 Gold

Unallocated gold - at fair value	**145,470**	121,926
Gold bullion - at fair value	**154,640**	129,612
	300,110	251,538

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 favor of the IMF in the books of the Central Bank by the Government of Solomon Islands.

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

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

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

IMF related assets and liabilities

	2019 $'000	2018 $'000
Foreign currency assets		
- Reserve tranche position	**35,499**	35,567
- Special drawing rights	**12,954**	13,467
- Currency subscription	**198,895**	199,275
	247,348	248,309
Foreign currency liabilities		
- Standby credit facility	**-**	38,540
- Special drawing rights allocation	**112,326**	111,870
- Extended credit facility	**10,760**	3,656
- Securities	**195,201**	196,361

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

- Capital subscription	**5,061**	5,061
	323,348	355,488

	2019 $'000	2018 $'000

8. Loans and advances

	2019	2018
Solomon Islands Government		
Loans and advances	**46**	46
Development bonds	**27**	27
Treasury bills	**815**	69
Other securities	**4,936**	4,936
Total amortisation cost	**(40)**	-
Allowance for impairment losses	**5,784**	**5,078**
Staff loans		
Staff housing loans	**10,116**	8,738
Management car loans	**880**	-
Personal loans	**1,219**	41
Total amortisation cost	**12,215**	8,779
Allowance for impairment losses	**(495)**	-
	11,720	13,857
Total loans and advances	**17,504**	13,857

9. Currency inventory

	2019	2018
Notes	**23,826**	**18,449**
Coins	**18,351**	**19,062**
	42,177	**37,511**

10. Investment properties

	2019	2018
Balance at beginning of financial year - at fair value	**2,324**	13,262
Transfer to Property, Plant and Equipment	**(2,324)**	(11,804)
Changes in fair value	**-**	866
Balance at end of financial year - at fair value	**-**	2,324

Investment property previously comprised of commercial and a residential properties that were 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 were negotiated with the lessee.

During the year the commercial property was reclassified to property, plant and equipment as the property is to be redeveloped for use by the Bank and the Bank is no longer holding any investment property.

Fair value

The fair values of investment property and land and buildings 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 withn Property, plant and equipment are categorised into Level 3 of the fair value hierarchy. The last independent valuation was at 31 December 2018. The directors believe the 2018 valuation remains a reasonable process for the value at 31 December 2019.

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties and land and buildings at 31 December 2018, as well as significant unobservable inputs used.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Market value considering the Highest and Best use basis: The valuation is specifically to value Land & Buildings, Civil infrastructure like roads, drains and retaining walls "as is where basis is". The valuation includes the consideration of "Highest and Best Use" method.	• Depreciation rate applied. • Locality of the property • Proximity to civic amenities • Topography/geographical features 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.

	2019 $000	2018 $000
11. Intangibles assets		
Computer software		
Reclassification from property, plant and equipment		
- Cost	**4,709**	4,752
- Accumulated amortisation	**(4,309)**	(3,578)
Amortisation - current year	**(147)**	(731)
Balance at end of financial year	**253**	443
12. Other assets		
Commercial bank clearing	**34,213**	22,645
Others	**7,097**	4,574
	41,310	27,219
13. Right-of-use asset and lease liability		
(a) **Right-of-use asset Balance at end of financial year**	**-**	-
Addition	**1,583**	-
Disposals	**-**	-
Depreciation	**(202)**	-
Balance at 31 December	**1,381**	-
Cost	**1,583**	-
Accumulated depreciation	**(202)**	-
Net book amount	**1,381**	-
(b) **Lease liability**		
Current liability	**334**	-
Non-current liability	**1,098**	-
	1,432	-
(c) **Maturity analysis - contractual undiscounted cash flows**		
Less than one year	**457**	-
One to five years	**1,242**	-
More than five years	**-**	-
Total undiscounted liabilities	**1,699**	-

The lease relates to a property lease which was entered into during 2019.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

14. **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 2018	**140,972**	**26,022**	**2,098**	**10,520**	**6,098**	**185,710**
Acquisitions	-	362	558	2,635	1,479	5,035
Transfers	11,804	-	-	(4,315)	-	7,489
Revaluation	10,977	-	-	-	3,981	14,958
Adjustments	-	7	-	41	-	48
Disposals	-	-	(389)	-	-	(389)
Balance at 31 December 2018	**163,753**	**26,391**	**2,267**	**8,881**	**11,559**	**212,851**
Acquisitions	1,163	581	599	1,082	9,549	12,974
Transfers	10,394	-	-	-	(8.070)	2,324
Disposals	(12,083)	(121)	(1,258)	(393)	(12)	(13,867)
Balance at 31 December 2019	**163,227**	**26,851**	**1,608**	**9,570**	**13,026**	**214,282**
Accumulated depreciation						
Balance at 1 January 2018	**5,956**	**21,343**	**1,126**	**8,345**	**-**	**36,770**
Depreciation charge for the year	3,204	780	384	1,258	-	5,626
Disposals	-	-	(203)	-	-	(203)
Transfers	-	-	-	(3,609)	-	(3,609)
Balance at 31 December 2018	**9,160**	**22,123**	**1,307**	**5,994**	**-**	**38,584**
Depreciation charge for the year	3,740	696	408	1,626	-	6,470
Disposals	(9,460)	(136)	(1,093)	(356)	-	(11,045)
Balance at 31 December 2019	**3,440**	**22,683**	**622**	**7,264**	**-**	**34,009**
Carrying amount						
At I January 2018	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
At 31 December 2019	**159,787**	**4,168**	**986**	**2,306**	**13,026**	**180,272**

	2019 **$000**	2018 $000

15. Demand deposits

(a) Foreign currency demand deposits

Demand deposits	**155,724**	145,908

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.

(b) Local currency demand deposits

Commercial banks	**1,942,336**	2,171,897
Solomon Islands Government	**654,887**	861,346
Other financial corporations	**5,881**	5,408
	2,603,104	3,038,651

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 $000	2018 $000
16. Currency in circulation		
Notes	**922,761**	915,320
Coins	**32,524**	31,847
	955,285	947,167
17. Fixed deposits		
Bokolo bills	**761,457**	761,673

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.

	2019 $000	2018 $000
18. SIG monetary operations account		
SIG monetary operations account	**87,888**	60,242
19. Employee entitlements		
Gratuity	**2,275**	2,283
Long service leave	**991**	695
Early retirement benefit	**19,714**	18,417
	22,980	21,395
20. Other liabilities		
Unpresented bank cheques	**7,258**	3,975
Other liabilities	**4,570**	2,606
	11,828	6,581

21. 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).

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

	2019 $000	2018 $000
Net profit distribution according to CBSI Act 2012		
Net operating loss	**93,904**	83,616
Less - net unrealised foreign exchange gain	**(48,946)**	(2,680)
- changes in fair value in investment properties	**-**	(836)
Net (loss)/gain to be recorded in general reserve	**44,958**	80,100

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, if necessary.

Section 55(1) requires distributable profits in excess of 200% of authorised capital to be placed into a special reserve and retained at the Board's discretion.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

22. Cash and cash equivalents

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

	2019 $000	2018 $000
Cash on hand - local currency	**205**	599
Cash at bank - foreign currency	**280,703**	768,673
Short term deposits with maturities up to 3 months	**124,719**	186,328
Total amortised costs	**405,627**	955,600
Allowance for impairment losses	**(30)**	-
	405,597	955,600

23. Share capital

Section 6 (1) of the Central Bank of Solomon Islands Act.,2012, states that the authorised and paid up capital of the bank shall be an amount equivalent to $50 million dollars. The capital is fully subscribed by the Government of Solomon Islands.

	2019 $000	2018 $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**

24. Reserves

Under Section 53(2) of the Central Bank of Solomon Islands Act., 2012, the Bank shall maintain the following reserves. Their purpose and methods of operation are 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 or loss and are transferred to the foreign exchange asset revaluation reserve at the end of the accounting period.

(c) **Asset revaluation reserve**

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

(d) **Gold revaluation reserve**

The unallocated and allocated gold is valued at current quoted market prices. Gold is accounted for as at fair value through other comprehensive income. Unrealised gains and losses arising from revaluation are recognised in the other comprehensive income and are transferred to the gold revaluation reserve at end of the accounting period.

(e) **Capital asset reserve**

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

25 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.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and procedures for measuring and managing risk are presented below.

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 2019	**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	280,703	124,719	-	-	-	-	405,422
Accrued Interest	-	-	26,634	-	-	-	26,634
Fixed term deposit	-	-	908,277	1,366,571	1,194,913	-	3,469,761
Holding on special drawing rights	-	-	-	-	-	12,954	12,954
Reserve tranche	-	-	-	-	-	35,499	35,499
Subscription	-	-	-	-	-	198,895	198,895
Gold investment	-	-	-	-	-	300,110	300,110
Bonds	-	-	-	-	282,260	-	282,260
Short term commercial papers	-	-	199,692	-	-	-	199,692
	280,703	124,719	1,134,603	1,366,571	1,477,173	547,458	4,931,227
Local currency financial assets							
Cash on hand	205	-	-	-	-	-	205
Other assets	-	41,310	-	-	-	-	41,310
Loans and advances	-	-	-	-	18,039	-	18,039
	205	**41,310**	**-**	**-**	**18,039**	**-**	**59,554**
Total Financial Assets	**280,908**	**166,029**	**1,134,603**	**1,366,571**	**1,495,212**	**547,458**	**4,990,781**
Foreign currency financial liabilities							
Demand deposits	155,724	-	-	-	-	-	155,724
IMF special drawing rights allocation	-	-	-	-	-	112,326	112,326
IMF extended credit facility	-	-	-	-	-	10,760	10,760
Securities	-	-	-	-	-	195,201	195,201
Subscription	-	-	-	-	-	5,061	5,061
	155,724	**-**	**-**	**-**	**-**	**323,348**	**479,072**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Local currency financial liabilities							
Demand deposits	2,603,104	-	-	-	-	-	2,603,104
Currency in circulation	-	-	-	-	-	955,285	955,285
SIG monetary operations account	-	87,888	-	-	-	-	87,888
Fixed deposits	-	749,692	11,765	-	-	-	761,457
Employee entitlements	-	-	-	-	22,980	-	22,980
Other liabilities	-	11,827	-	-	-	-	11,827
	2,603,104	849,407	11,765	-	22,980	955,285	4,442,541
Total Financial Liabilities	**2,758,828**	**849,407**	**11,765**	**-**	**22,980**	**1,278,635**	**4,921,613**
Net liquidity gap	**(2, 477,920)**	**(683,378)**	**1,122,838**	**1,366,571**	**1,472,232**	**(731,175)**	**61,168**

Maturity analysis as at 31 December 2018	**On** Demand	**0-3 Months**	**3-6 Months**	**6-12 Months**	**Over Year**	**Undefined**	**Total**
	$000	$000	$000	$000	$000	$000	$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
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
Capital 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**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

(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 (S&P), 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:

	2019 $000	2018 $000
Foreign currency assets		
Cash at Bank	**280,703**	768,673
Held to maturity investment	**4,076,462**	3,934,381
International monetary fund	**247,348**	248,309
Gold investment	**300,110**	251,538
	4,904,623	5,203,201
Local currency assets		
Loans and advances	**18,039**	13,857
	4,922,662	5,217,058

The following table presents the Bank's financial assets and gold held with financial institutions based on S&P credit rating's 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 S&P.

Concentration by currency	2019 %	2018 %
AAA	**30**	21
AA+ – AA-	**35**	37
A+ – A-	**7**	21
BBB+ - BBB-	**13**	21
BB+ - BB-	**8**	-
B+ – B-	**-**	-
N/R	**7**	-
	100	100

Cash and cash equivalents

The Bank held cash at banks in foreign currencies of $280.7 million at 31 December 2019 (2018: $768.7 million). The cash is held with banks, which are rated BBB to AAA, based on S&P ratings.

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

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

Accordingly, due to short maturities and low credit risk, on initial application of IFRS 9, the Bank did not recognise an impairment allowance against cash as at 1 January 2019. The amount of the allowance did not change during 2019.

Debt investment securities

The Bank held debt investment securities of $609 million at 31 December 2019 (2018: $3,934.7 million). The debt investment securities are held with banks and the Solomon Island Government. Debt investment securities held with banks and the Solomon Island Government are rated B- to AAA, based on S&P 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Loans and advances

The Bank adopts a similar approach to that adopted for debt securities to its consideration of ECLs for its loans and advances. Those loans not individually assessed for expected credit losses have PD rates assigned using S&P rates appropriate to the rating of the organisation, or a proxy for that rating if that organisation is not specifically rated.

IMF balances

The Bank did not recognize an impairment allowance against IMF balances during the year as the balances held with IMF are at a net liability position.

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

Concentration by currency	**2019**		2018	
	$,000	%	$'000	%
USD	**3,091,180**	**63**	3,303,211	63
AUD	**1,070,651**	**22**	1,192,210	23
EURO	**22,720**	**-**	11,816	-
SDR	**247,348**	**5**	239,027	5
NZD	**247,205**	**5**	245,775	5
SGD	**89,003**	**2**	86,509	2
STG	**135,940**	**3**	136,770	2
SBD	**18,039**	**-**	13,857	-
JPY	**4**	**-**	3	-
CNY	**572**	**-**	585	-
Total financial assets	**4,922,662**	**100**	5,217,058	100

Credit quality	**Gross $'000**	**Impairment $'000**	**Net $'000**
31 December 2019			
Foreign currency assets			
Central banks	**580,813**	**30**	**580,783**
Commercial banks	**4,076,462**	**719**	**4,075,743**
International Monetary Fund	**247,348**	**-**	**247,348**
	4,904,623	**749**	**4,903,874**
Local currency assets			
Solomon Islands Government loan and advances	**5,824**	**40**	**5,784**
Staff loan and advances	**12,215**	**495**	**11,720**
	18,039	**535**	**17,504**
Total financial assets	**4,922,622**	**1,284**	**4,921,378**

Concentration by sector	**2019**		2018	
	$,000	%	$'000	%
Foreign currency assets				
Central banks	**580,813**	**8**	1,019,638	16
Commercial banks	**4,076,462**	**87**	3,935,254	78
International Monetary Fund	**247,348**	**5**	248,309	5
	4,904,623	**100**	5,203,201	100
Local currency assets				
Solomon Islands Government loan and advances	**5,824**	**33**	5,078	40
Staff loan and advances	**12,215**	**67**	8,779	60
	18,039	**100**	13,857	100
	572	**-**	585	-
Gross assets subject to impairment consideration	**4,922,662**	**100**	5,217,058	100

d) Market risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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:

	2019 $000	2018 $000
	Carrying amount	
Fixed rate instruments		
Cash and cash equivalents (Financial assets)	**405,392**	768,673
Fixed income securities (Financial assets)	**3,951,024**	3,934,082
Loans and advances (Financial assets)	**17,504**	13,856
Demand deposits (Financial liabilities)	**(161,605)**	(151,416)
Fixed deposits (Financial liabilities)	**(761,457)**	(761,673)
Lease liabilities	**(1,432)**	-
	3,449,426	3,803,522
Variable rate instruments		
International Monetary Fund (Financial assets)	**247,348**	248,309
International Monetary Fund (Financial liabilities)	**(323,348)**	(355,488)
	(76,000)	(107,179)

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 or 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 2019	**$000**	$000
Variable rate instruments	**3,594**	**(3,685)**
31 December 2018	**-**	-
Variable rate instruments	**1,810**	(1,810)

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:

Foreign currency risk as at 31 December 2019

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	64,588	-	316,769	22,720	769	-	572	4	-	405,422
Accrued Interest	3,633	1,686	20,461	-	490	364	-	-	-	26,634
Fixed term deposit	524, 051	247,246	2,474,301	-	135,171	88,992	-	-	-	3,469,761
Holding on special drawing rights	-	-	-	-	-	-	-	-	12,954	12,954

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Reserve tranche	-	-	-	-	-	-	-	-	35,499	35,499
Subscription	-	-	-	-	-	-	-	-	198,895	198,895
Gold investment	-	-	300,110	-	-	-	-	-	-	300,110
Bonds	282,260	-	-	-	-	-	-	-	-	282,260
Short term commercial paper	199,692	-	-	-	-	-	-	-	-	199,692
Total	**1,074,224**	**248,932**	**3,111,641**	**22,720**	**136,430**	**89,356**	**572**	**4**	**247,348**	**4,931,227**
Foreign currency financial liability										
Demand deposits	155,724	-	-	-	-	-	-	-	-	155,724
IMF special drawing rights allocation	-	-	-	-	-	-	-	-	112,326	112,326
IMF extended credit facility	-	-	-	-	-	-	-	-	10,760	10,760
IMF securities	-	-	-	-	-	-	-	-	195,201	195,201
Capital subscription	-	-	-	-	-	-	-	-	5,061	5,061
Total	**155,724**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**323,348**	**479,072**
Net foreign currency asset	**918,500**	**248,932**	**3,111,641**	**22,720**	**136,430**	**89,356**	**572**	**4**	**(76,000)**	**4,452,155**

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
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**

Concentration of foreign exchange

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

	2019		2018	
	$000	%	$000	%
USD	**2,791,071**	**64**	3,303,211	60
AUD	**1,070,651**	**25**	1,192,210	26
EURO	**22,720**	**0**	11,816	1
NZD	**247,204**	**6**	245,775	5
SGD	**89,004**	**2**	86,509	3
STG	**135,941**	**3**	136,770	5
JPY	**4**	**-**	3	-
CNY	**572**	**-**	585	-
	4,357,167	**100**	4,976,879	100

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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		
	2019	2018
AUD	**0.1745**	0.1745
USD	**0.1220**	0.1230
NZD	**0.1815**	0.1832
STG	**0.0931**	0.0971
EURO	**0.1089**	0.1077
JPY	**13.3050**	13.6100
SGD	**0.1646**	0.1684
SDR	**0.0882**	0.0886
CNY	**0.8527**	0.8452

Sensitivity to foreign exchange rate risk	2019 $M	2018 $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	**(80)**	(121)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	**83**	(60)

Other pricing risk

The Bank holds gold which is subject to market pricing risk. At 31 December 2019, gold was revalued at USD/oz 1,523 (2018: 1,282).

(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.

26. Fair value of financial assets and liabilities

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

Valuation of financial instruments

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active market for similar instruments; quoted market prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable data and the unobservable inputs have a significant impact on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

31 December 2019	Note	Level 1	Level 2	Level 3	Total
		$000	$000	$000	$000
Investment securities					
Gold	6	300,110			300,110

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

27. 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:

Luke Forau (Chairman and Governor)	(Appointed 1/10/2019)
Denton Rarawa (Former Chairman and Governor)	(Resigned 30/09/2019)
Thomas Ko Chan	(Resigned 24/06/2019)
Raynold Moveni (Deputy Governor)	(Appointed 30/01/2020)
Christina Lasaqa	
David Dennis	
David K C Quan	
Dennis Meone	
McKinnie P. Dentana	
Rodney Rutepitu	
Sonia Marahare (Board Secretary)	

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:

Luke Forau	Governor
Denton Rarawa	Former Governor
Jimmy Sendersley	Director SIFIU
Michael Kikiolo	Management Advisor Policy
Marlon Houkarawa	Management Advisor Operations
Sonia Marahare	Board Secretary/Legal Advisor
Ali Homelo	Chief Manager Financial Market and Exchange Control Department
Daniel Haridi	Chief Manager Currency Banking Payments Department
Donald Kiriau	Chief Manager Economic Research and Statistics Department
John Bosco	Chief Manager Human Resource and Corporate Services Department
Emmanuel Gela	Chief Manager Finance and Accounting Department
Raynold Moveni	Chief Manager Financial System Regulation Department
Edward Manedika	Chief Manager Information and Communication Technology Department

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

	2019 $000	2018 $000
Short-term employee benefits	**3,293**	1,484
Long-term benefits	**688**	1,997
	3,981	3,481

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 2019 loans by the Bank to key management personnel are as follows:

	2019 $000	2018 $000
Housing Loan	**1,553**	1,100
Personal Loan	**178**	26
Management Car Loan	**386**	65
	2,117	1,191

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

Transactions with the Solomon Islands Government

The transactions with the Solomon Islands Government include banking services, foreign exchange transactions, registry transactions and purchase of Government securities. During the year, the Bank received $nil (2018: $nil) of interest income relating to their investments in Government securities. The Bank also made no payment to the Government in accordance with Section 34 of the Central Bank of Solomon Islands Act., 2012 during the financial year (2018: $nil). The balance of the Bank's investment in Government securities at year end amounted to $5.7m (2018: $5.0m).

28. Commitments and contingent liabilities

The Bank has guaranteed staff housing loans with the commercial banks to the sum of $0.79m as at 31 December 2019 (2018: $0.79m). The guarantee scheme was no longer available to staff since 2011 and is valid for eligible staff until the date of cessation of employment with the Bank.

In 2007 the Solomon Islands Government introduced and provided $10m for the establishment of the Small Business Finance Guarantee Scheme to be administered by CBSI. As at 31 December 2019, a total of 9 (2018: 3) loans with a net guarantee of $1.31m (2018: $0.576m) have been administered under the scheme.

The Bank has commenced a project to construct a building adjacent to its present property. There are no capital commitments at 31 December 2019 in relation to this project.

29. Events subsequent to balance date

The coronavirus disease (COVID-19) outbreak has developed rapidly in 2020, bringing a significant health impact globally. Measures taken to contain the virus are already having a significant impact on global markets and economic activity and Solomon Islands is also feeling the impact with business disruption and levels of activity already reducing in several market sectors. The spread and considerable disruption of this epidemic will be exacerbated by the increasingly intertwined trade and investment relationships between China and its neighbours in the Asia Pacific region.

There is considerable uncertainty around the possible duration of and the resulting depth of impact that may come subsequently from the disruption caused. The Bank is exposed to the possibility of incurring losses arising from changes in the fair value of financial assets, credit loss impairment, cash inflows from operations and net interest income of the Bank.

Directors and management are carefully considering the impact of the COVID-19 outbreak on the Bank and assessing future operational options. The financial impacts, however, cannot be reasonably estimated at this time, as they will be largely the product of matters the Bank cannot control.

Directors and management believe the Bank has sufficient financial resources at this time to be able to successfully manage its business risks despite the current uncertain economic outlook due to the COVID-19 outbreak. They have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Subsequent to year end, the Bank has received debt repayment relief from IMF for a period of six months with the potential for that to be extended by a further six months if required.

Apart from the matters specifically referred to above, 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.

Front side

Image not actual size


CENTRAL BANK
OF
SOLOMON ISLANDS