



CENTRAL BANK OF SOLOMON ISLANDS

**ANNUAL STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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CENTRAL BANK OF SOLOMON ISLANDS
ANNUAL STATEMENT OF ACCOUNTS
for the Year Ended 31 December 2020

Directors' report

The Directors present this report together with the financial statements of the Central Bank of the Solomon Islands ("the Bank") for the year ended 31 December 2020 and the auditors' report thereon.

Directors

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

Luke Forau (Chairman and Governor)
Raynold Moveni (Deputy Governor- appointed 30/01/20)
Mckinnie Dentana (Permanent Secretary of Finance)
David K C Quan
David Dennis
Christina Lasaga
Dennis Meone
Rodney Rutepitu
Bob Pollard (appointed 08/05/20)

State of affairs

In the opinion of the Directors:

- The sale of gold during the financial year had a significant change in the state of affairs of the Bank during the financial year under review and this is disclosed in 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 2020 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 ended.

Principal activities

For the benefit of the people of Solomon Islands, the roles of Central Bank of Solomon Islands, as defined in the Central Bank of Solomon Islands Act., 2012 are:

- (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 2020 was \$76.2 million (2019: \$93.9 million profit).

Reserves

The Board approved the following transfers to reserves from the statement of profit and loss and other comprehensive income: \$34.5 million to capital asset reserve, \$3.8 million to SIG consolidated Fund and \$37.9 million to foreign exchange revaluation reserve.

Provisions

There were no other 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. Considering the current results, financial buffers in General Reserve and the Paid up Capital.

CENTRAL BANK OF SOLOMON ISLANDS
ANNUAL STATEMENT OF ACCOUNTS
for the Year Ended 31 December 2020

Directors' report (continued)

Assets

The Directors took reasonable steps before the Bank's financial statements were issued to ascertain that the assets of the Bank were reported 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 make the values of the assets in the financial statements misleading.

Significant events during the year

The unprecedented COVID-19 pandemic has a significant negative impact on the global economy in 2020. Solomon Islands as a small open economy went into recession in the second quarter of 2020. Estimated economic growth in 2020 dropped to negative 4.3%, the first negative growth or recession witnessed since the ethnic tension two decades ago.

The global economic downturn, closure of the country's border restricting tourists, delay in key infrastructure projects, and other associated disruptions resulted in a broad downturn across the economy. Exports fell by 17%, government tax revenue dropped by 10%, National Provident Fund number of contributors declined by 6% indicating employment layoffs and reduction in working hours. Lending by commercial banks to the private sector declined by 1%, and inflation moved to negative 1.8% reflecting weak domestic demand and declining imported crude oil prices.

Central banks around the world pursued an expansionary monetary policy to curb the economic crisis and providing adequate liquidity in the financial system. As a result, policy interest rates have been relatively low impacting earnings on financial investments including the CBSI's earnings of its overseas investment portfolios.

The CBSI also undertook an expansionary monetary policy in 2020 and by 15th June 2020 made changes to its statutory cash reserve requirements from 7.5% to 5%. Moreover, with factored in legal provisions and other important considerations, CBSI purchased a government bond in the secondary market of \$60 million in December 2020 to support the government's fiscal policy of recovery efforts. CBSI also disposed its gold holdings to assist in its cash inflow during the year.

Directors' benefit

All directors had benefited from the benefits provided for in their contracts in 2020. No director has received or benefited from anything over and above, either directly or indirectly through any entity that he/she is a member of or with substantial financial interest. Only one director has been engaged by the Bank to provide his service on a particular task which will be completed in year 2021, this is included in the financial statements.

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 Board has approved \$3.8 million from distributable profit payable to SIG Consolidated Account in a form of dividend as per CBSI Act 2012, Section 55, sub (1)(d).

CENTRAL BANK OF SOLOMON ISLANDS
ANNUAL STATEMENT OF ACCOUNTS
for the Year Ended 31 December 2020

Directors' report (continued)

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 30th December 2021.

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



Luke Forau
Chairman of the Board and Governor



Rodney Rutepitu
Director

CENTRAL BANK OF SOLOMON ISLANDS
ANNUAL STATEMENT OF ACCOUNTS
for the Year Ended 31 December 2020

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 2020
- (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 2020;
- (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 2020;
- (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 2020;
- (e) at the date of this statement there are reasonable grounds to believe the Bank will be able to pay its debts as and when they fall due;
- (f) all related party transactions have been adequately recorded in the books of the Bank; and
- (g) the financial statements have been properly prepared in accordance with International Financial Reporting Standards (“IFRS”) and Central Bank Solomon Islands Act 2012 (“Act 2012”).

For and on behalf of the Board of Directors by authority of a resolution of the Directors dated on 30th December 2021.



Luke Forau
Chairman of the Board and Governor



Rodney Rutepitu
Director

CENTRAL BANK OF SOLOMON ISLANDS
ANNUAL STATEMENT OF ACCOUNTS
for the Year Ended 31 December 2020

Directors' report (continued)

Other circumstances

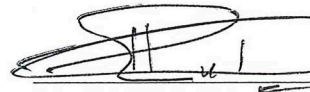
At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render amounts stated in the financial statements misleading.

Dated at Honiara on 30th December 2021.

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



Luke Forau
Chairman of the Board and Governor



Rodney Rutepitu
Director

CENTRAL BANK OF SOLOMON ISLANDS
ANNUAL STATEMENT OF ACCOUNTS
for the Year Ended 31 December 2020

Statement by Directors

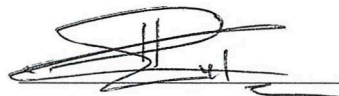
In the opinion of the Directors:

- (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 2020
- (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 2020;
- (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 2020;
- (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 2020;
- (e) at the date of this statement there are reasonable grounds to believe the Bank will be able to pay its debts as and when they fall due;
- (f) all related party transactions have been adequately recorded in the books of the Bank; and
- (g) the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") and Central Bank Solomon Islands Act 2012 ("Act 2012").

For and on behalf of the Board of Directors by authority of a resolution of the Directors dated on 30th December 2021.



Luke Forau
Chairman of the Board and Governor



Rodney Rutepitu
Director



Independent Auditor's Report to the Board of Directors of Central Bank of Solomon Islands

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of the Central Bank of Solomon Islands (the Bank) which comprise the statement of financial position of the Bank as at 31 December 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, 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 my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). My responsibilities under those standards are further described in the *Auditor's 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 was a Director of the Bank for the period January 2019 to 13 September 2021. As under the Public Finance and Audit Act, 1996, I am the only person authorised to certify the opinion for the Bank, I have requested that an Independence Advisory Committee review the independence of this audit prior to my signing this opinion. The Committee concluded that there has been no undue influence from me and that the threat to independence has been mitigated through the use of the outsourced contract auditors PricewaterhouseCoopers Fiji, which is part of the PricewaterhouseCoopers International network. PWC's engagement occurred prior to my appointment. This opinion is in line with the independent advice provided by PWC Fiji and the Committee.

Except for the above, I am independent of the Bank in accordance with International Organization of Supreme Audit Institutions (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 2020, but does not include the financial statements and my auditor's report thereon.

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

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

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

Responsibilities of Directors and Management for the Financial Statements

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

In preparing the financial statements, the directors and management are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors and management either intend to liquidate the Bank or to cease operations, or have 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 objective is 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 auditor's 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 of Supreme Audit Institutions (ISSAIs) 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 the financial statements.

As part of an audit in accordance with the ISSAIs, I exercise professional judgement and maintain professional scepticism 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 the directors and 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are 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.

- 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.

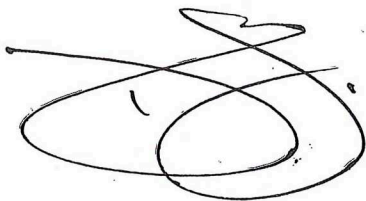
I communicate with the directors and management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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;
- 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 54 of the Central Bank of Solomon Islands Act 2012, in the manner so required; and
- iii) the Bank did not comply with the requirements of Section 58 (2) of the Central Bank of Solomon Islands Act, 2012, which requires the certified financial statements to be submitted to the Minister for Finance not later than 4 months of the following year to which the financial statements relate. This process was delayed due to the timing of my appointment as Auditor-General. The signed statements were presented to me on 31 December 2021 following my appointment as Auditor-General on 24 September 2021.



David Dennis
Auditor-General
31 December 2021

Office of the Auditor-General
Honiara, Solomon Islands

CENTRAL BANK OF SOLOMON ISLANDS
STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
for the Year Ended 31 December 2020

<i>All amounts are expressed in SBD '000</i>		Notes	2020 \$'000	2019 \$'000
Income				
Interest income	3(a)		53,605	99,194
Fees and commission income	3(b)		24,894	29,557
Other income	3(c)		46,663	1,761
Net foreign exchange revaluation gain			37,909	48,946
Total income			163,071	179,458
Expenses				
Interest expense	3(d)		5,345	5,667
Fees and commission expense			990	1,190
Administrative expenses	3(e)		58,973	54,248
Impairment allowance on financial instrutments			1,471	1,283
Other expenses	3(f)		20,044	23,166
Total expenses			86,823	85,554
Net operating profit			76,248	93,904
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Net change in fair value (gold)			-	47,558
Total other comprehensive income			-	47,558
Total comprehensive income			76,248	141,462

This statement of profit or 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 13 to 43.

CENTRAL BANK OF SOLOMON ISLANDS
STATEMENT OF FINANCIAL POSITION
As at 31 December 2020

<i>All amounts are expressed in SBD '000</i>	Notes	2020 \$'000	2019 \$'000
Foreign currency assets			
Cash and cash equivalents	21	757,276	405,392
Accrued interest		15,415	26,634
Fixed income securities	4	4,492,803	3,951,024
Gold	5	-	300,110
International Monetary Fund	6	246,540	247,348
Total foreign currency assets		5,512,035	4,930,508
Local currency assets			
Cash on hand	21	155	205
Loans and advances	7	78,310	17,504
Currency inventory	8	40,746	42,177
Property, plant and equipment	13	184,893	180,273
Intangibles	10	177	253
Other assets	11	18,521	41,310
Right-of-use asset	12(a)	977	1,381
Total local currency assets		323,779	283,103
Total assets		5,835,814	5,213,611
Foreign currency liabilities			
International Monetary Fund	6	480,933	323,348
Demand deposits	14(a)	136,773	155,724
Total foreign currency liabilities		617,706	479,072
Local currency liabilities			
Demand deposits	14(b)	3,177,904	2,603,104
Currency in circulation	15	1,135,789	955,285
Fixed deposits	16	441,649	761,457
SIG monetary operations account	17	39,664	87,888
Employee entitlements	18	30,210	22,980
Other liabilities	19	6,805	11,828
Lease liabilities	12(b)	1,053	1,432
Total local liabilities		4,833,074	4,443,974
Total liabilities		5,450,780	4,923,046
Net assets		385,034	290,565
Capital and reserves			
Paid up capital	22	50,000	50,000
General reserve	23(a)	172,188	172,188
Foreign exchange revaluation reserve	23(b)	(109,645)	(147,553)
Asset revaluation reserve	23(c)	120,112	120,112
Gold revaluation reserve	23(d)	-	(18,222)
Capital asset reserve	23(e)	152,379	114,040
Total capital and reserves		385,034	290,565

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 43.

CENTRAL BANK OF SOLOMON ISLANDS
STATEMENT OF CHANGES IN EQUITY
for the Year ended 31 December 2020

	Issued & paid up capital	Gold revaluati on reserve	General reserve	Foreign exchange assets revaluati on reserve	Asset revaluation reserve	Capital assets reserve	Total
<i>All amounts are expressed in SBD'000</i>	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2019	50,000	(65,780)	172,188	(196,499)	120,112	69,084	149,103
Total comprehensive income for the year							
Profit for the year (Note 20)	-	-	-	48,946	-	44,956	93,904
Other comprehensive income/(losses)							
Fair value gains – gold	-	47,558	-	-	-	-	47,558
Transfer of remaining distributed profits 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)	172,188	(147,553)	120,112	114,040	290,565
Balance at 1 January 2020	50,000	(18,222)	172,188	(147,553)	120,112	114,040	290,565
Total comprehensive income for the year							
Profit for the year (Note 20)	-	-	-	37,909	-	38,339	76,248
Other comprehensive income/(losses)							
Fair value gains – gold	-	18,222	-	-	-	-	18,222
Transfer of remaining distributed profits in accordance with Section 55(1) of the Central Bank of Solomon Islands Act., 2012	-	-	-	-	-	-	-
Total other comprehensive income	-	18,222	-	37,909	-	38,339	94,470
Balance as at 31 December 2020	50,000	-	172,188	(109,645)	120,112	152,379	385,034

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 43.

CENTRAL BANK OF SOLOMON ISLANDS**STATEMENT OF CASH FLOWS**

for the Year ended 31 December 2020

<i>All amounts are expressed in SBD '000</i>	Note	2020 \$'000	2019 \$'000
Operating activities			
Interest received		64,823	99,344
Cash received from other income		89,780	31,318
Interest paid		(5,724)	(5,595)
Cash paid to suppliers and employees		(68,769)	(66,967)
Net movement in fixed income investments		(542,580)	(203,390)
Net movement in International Monetary Fund accounts		160,188	(14,346)
Net movement in other receivables		22,789	(14,092)
Cash flows (in) operating activities		(279,493)	(173,728)
Investing activities			
Acquisition of property, plant and equipment		(10,682)	(12,974)
Proceeds from sale of premises, plant and equipment		115	214
Net movement in gold		300,110	(1,014)
Net movement in loan to government		(59,195)	(746)
Net movement in loans and advances to staff		(2,228)	(3,436)
Cash flows generated/(used)in investing activities		228,120	(17,956)
Financing activities			
Net movement in currency in circulation		180,504	8,118
Net movement in demand deposits		555,845	(425,728)
Net movement in fixed deposits received		(319,808)	(216)
Solomon Islands government monetary operations		(48,224)	27,646
Net movement in International Monetary Fund credit facilities		(1,794)	(16,832)
Repayment of leases		(1,052)	(151)
Interest payment on lease liabilities		(121)	(72)
Cash flows (used in)/ generated from financing activities		365,350	(407,235)
Net effect of exchange rates		37,909	48,946
Net increase/(decrease) in cash		351,886	(549,973)
Cash at bank and on hand at the beginning of the financial year		405,627	955,600
Cash at bank and on hand at the end of the financial year	21	757,513	405,627

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 13 to 43

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

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 objectives as defined in the Central Bank of Solomon Islands Act., 2012, Section 8 are:

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

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

The financial statements were authorised for issue by the Board of Directors on 30th December 2021.

2. Statement of Significant Accounting Policies and Statutory Requirements

(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) Standards, Amendments and Interpretations Issued

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 2020 the Bank had a surplus in net assets of \$385m.

(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.

- Cash and cash equivalents, fixed income securities and loans and advances are measured at amortised cost.
- When estimating fair value, the Bank has considered the actual and potential impacts on the value of its investments from the COVID-19 pandemic. Where, in the judgement of the Bank, an investment has temporarily impacted by the pandemic, the assessed value of the impact is deducted when deriving the fair value.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

2. Statement of Significant Accounting Policies and Statutory Requirements (continued)

(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 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, and in the determination of certain employee entitlements.

(g) 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.

(h) 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.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

2. Statement of Significant Accounting Policies and Statutory Requirements (continued)

(h) Revenue from contracts with customers - *continued*

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

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)
Sale of numismatic coins/Royalties on numismatic	Sales include the selling of numismatic to the customer. Performance obligation is satisfied when the customer 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.

(i) Income tax

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

(j) Financial assets and financial liabilities

The Bank measures and classifies its financial statements into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the market at measurement date. The fair value of a financial instrument on initial recognition is the transaction price or the fair value of the consideration given or received. The fair value of financial instruments is measured on an individual basis.

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.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

2. Statement of Significant Accounting Policies and Statutory Requirements (continued)

(j) Financial assets and financial liabilities - continued

Financial assets measured at amortised costs

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.

i. Financial assets measured at fair value through other comprehensive income

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

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

These comprises of marketable securities, cash and cash equivalents and IMF holdings. Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in profit or loss

ii. Financial assets measured at fair value through profit and loss

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.

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 expired. 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.

2. Statement of Significant Accounting Policies and Statutory Requirements (continued)

(j) Financial assets and financial liabilities - *continued*

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.

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.

2. Statement of Significant Accounting Policies and Statutory Requirements (continued)

(j) Financial assets and financial liabilities - continued

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.

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.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

2. Statement of Significant Accounting Policies and Statutory Requirements (continued)

(k) 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.

(l) Fixed income securities

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.

(m) Investments at fair value

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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

2. Statement of Significant Accounting Policies and Statutory Requirements (continued)

(q) Property, plant and equipment – *continued*

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

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.

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

Bank as Lessee

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.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

2. Statement of Significant Accounting Policies and Statutory Requirements (continued)

(r) Leases, right-of-use asset and lease liability - *continued*

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.

(s) 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.

(t) Employee entitlements

Short-term employee benefits

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

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

Long-term employee benefits

Long-term employee benefits comprise of long service leave, gratuity 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.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

2. Statement of Significant Accounting Policies and Statutory Requirements (continued)

(u) 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.

(v) Comparative figures

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

All amounts are expressed in SBD '000

	2020	2019
	\$'000	\$'000
3. Income and Expenses		
(a) Interest income		
Overseas investments	53,354	98,878
Local investments	251	316
	<u>53,605</u>	<u>99,194</u>
(b) Fees and commission income		
Foreign dealings	22,464	25,559
Local dealings	2,430	3,998
	<u>24,894</u>	<u>29,557</u>
(c) Other income		
Gain on disposal of fixed assets	83	711
Rent received	109	102
Sale of numismatic coins	103	97
Royalties on numismatics	106	61
Sale of gold	43,224	-
Others	3,038	790
	<u>46,663</u>	<u>1,761</u>
(d) Interest expense		
Foreign liabilities	1,872	1,167
Local liabilities	3,352	4,427
Interest on lease liability - IFRS 16	121	73
	<u>5,345</u>	<u>5,667</u>
(e) Administrative expenses		
Staff costs	46,713	40,297
Telecommunication	2,695	2,879
Utilities	2,541	2,567
Repairs and maintenance	1,946	2,175
Insurance	493	496
Consumables	154	341
Stationery, printing and postage	542	517
Consultancy	-	64
Other	3,889	4,912
	<u>58,973</u>	<u>54,248</u>

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

3. Income and Expenses (continued)

	2020	2019
	\$'000	\$'000
<i>All amounts are expressed in SBD '000</i>		
(f) Other expenses		
Board of directors remunerations and expenses	205	317
Currency expenses	11,406	10,411
Depreciation and amortisation	6,150	6,617
Depreciation charge - right-of-use asset	404	202
Auditors remuneration	406	525
Other	1,473	5,094
	<u>20,044</u>	<u>23,166</u>

4. Fixed Income Securities

Fixed term deposits	3,680,591	3,469,791
Short term commercial paper	410,469	199,692
Bonds	403,262	282,260
Total amortised cost	4,494,322	3,951,743
Allowance for impairment losses	(1,519)	(719)
	<u>4,492,803</u>	<u>3,951,024</u>

5. Gold

Unallocated gold - at fair value	-	145,470
Gold bullion - at fair value	-	154,640
	<u>-</u>	<u>300,110</u>

6. 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 Islands' 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 on 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.

CENTRAL BANK OF SOLOMON ISLANDS
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for the Year ended 31 December 2020

6. International Monetary Fund (continued)

IMF related assets and liabilities

	2020	2019
<i>All amounts are expressed in SBD'000</i>	\$'000	\$'000
Foreign currency assets		
- Reserve tranche position	35,667	35,499
- Special drawing rights	11,011	12,954
- Currency subscription	199,862	198,895
	246,540	247,348
Foreign currency liabilities		
- Standby credit facility	-	-
- Special drawing rights allocation	115,066	112,326
- Extended credit facility	8,966	10,760
- Securities	351,949	195,201
- Capital subscription	4,952	5,061
	480,933	323,348

7. Loans and Advances

Solomon Islands Government

Loans and advances	46	46
Development bonds	27	27
Treasury bills	10	815
Covid bond	60,000	-
Other securities	4,936	4,936
Total amortised cost	65,019	5,824
Allowance for impairment losses	(73)	(40)
	64,946	5,784

Staff loans

Staff housing loans	13,424	10,116
Management car loans	649	880
Personal loans	370	1,219
	14,443	12,215
Allowance for impairment losses	(1,079)	(495)
	13,364	11,720
Total loans and advances	78,310	17,504

8. Currency Inventory

Notes	23,803	23,826
Coins	16,943	18,351
	40,746	42,177

9. Investment Properties

Balance at beginning of financial year – at fair value	-	2,324
Transfer to Property, Plant and Equipment	-	(2,324)
Changes in fair value	-	-
Balance at end of financial year – at fair value	-	-

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.

In 2019 the commercial property was reclassified to property, plant and equipment as the property is returned for use by the Bank and the Bank is no longer holding any investment property.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

	2020	2019
<i>All amounts are expressed in SBD '000</i>	\$'000	\$'000
10. Intangible Assets		
Computer software		
Cost	4,780	4,709
Accumulated amortisation	(4,603)	(4,309)
Amortisation – current year	-	(147)
Balance at end of financial year	<u>177</u>	<u>253</u>
11. Other Assets		
Commercial bank clearing	15,882	34,213
Others	2,639	7,097
	<u>18,521</u>	<u>41,310</u>
12. Right-of-Use Asset and Lease Liability		
(a) Right-of-use asset		
Balance at 1 January	1,381	-
Additions	-	1,583
Disposals	-	-
Depreciation	(404)	(202)
Balance at 31 December	<u>977</u>	<u>1,381</u>
Cost	1,381	1,583
Accumulated depreciation	(404)	(202)
Net book amount	<u>977</u>	<u>1,381</u>
(b) Lease liability		
Current liability	380	334
Non-current liability	673	1,098
	<u>1,053</u>	<u>1,432</u>
(c) Maturity analysis- contractual undiscounted cash flows		
Less than one year	480	457
One to five years	762	1,242
More than five years	-	-
Total undiscounted liabilities	<u>1,242</u>	<u>1,699</u>

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

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the Year ended 31 December 2020

13. Property, Plant and Equipment

	Land and buildings	Plant, equipment and furniture	Motor vehicles	Computer	Work in Progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Cost/valuation</i>						
Balance at 1 January 2019	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
Revaluation	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-
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
Acquisitions	-	190	637	1,030	8,825	10,682
Transfers	-	-	-	-	-	-
Disposals	-	(64)	-	(910)	-	(974)
Balance at 31 December 2020	163,227	26,977	2,245	9,690	21,851	223,990
<i>Accumulated depreciation</i>						
Balance at 1 January 2019	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)
Transfers	-	-	-	-	-	-
Balance at 31 December 2019	3,440	22,683	622	7,264	-	34,009
Depreciation charge for the year	3,297	607	406	1,692	-	6,002
Disposals	-	(19)	-	(895)	-	(915)
Balance at 31 December 2020	6,737	23,271	1,028	8,061	-	39,097
<i>Carrying amount</i>						
At 1 January 2019	154,593	4,268	960	2,887	11,559	174,267
At 31 December 2019	159,787	4,168	986	2,306	13,026	180,273
At 31 December 2020	156,490	3,706	1,217	1,629	21,851	184,893

CENTRAL BANK OF SOLOMON ISLANDS

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the Year ended 31 December 2020

<i>All amounts are expressed in SBD '000</i>		2020	2019
		\$'000	\$'000
14. Demand Deposits			
(a) Foreign currency demand deposits			
Demand deposits		136,773	155,724
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		2,100,634	1,942,336
Solomon Islands Government		753,754	654,887
Other financial corporations		6,239	5,881
Other- LC		317,277	-
		3,177,904	2,603,104
15. Currency in Circulation			
Notes		1,101,606	922,761
Coins		34,183	32,524
		1,135,789	955,285
16. Fixed Deposits			
Bokolo bills		441,649	761,457
Bokolo bills are short term discount securities issued and backed by the Central Bank of Solomon Islands. The instrument is used by the Bank for its monetary operations.			
17. SIG Monetary Operations Account			
SIG monetary operations account		39,664	87,888
18. Employee Entitlements			
Gratuity		3,801	2,275
Long service leave		1,273	991
Early retirement benefit		25,136	19,714
		30,210	22,980
19. Other Liabilities			
Unpresented bank cheques		4,188	7,258
Other liabilities including operating expenditure payable		2,617	4,570
		6,805	11,828
20. 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).		

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20. Determination of Distributable Profit (continued)

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

	2020	2019
	\$'000	\$'000
<i>All amounts are expressed in SBD '000</i>		
Net profit distribution according to CBSI Act 2012		
Net operating profit	76,248	93,904
Less - net unrealised foreign exchange gain	(37,909)	(48,946)
Net gain recorded in capital asset reserve and SIG consolidated account	<u>38,339</u>	<u>44,958</u>

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.

21. Cash and Cash Equivalents

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

	2020	2019
	\$'000	\$'000
Cash on hand – local currency	155	205
Cash at bank – foreign currency	715,704	280,703
Short term deposits with maturities up to 3 months	41,654	124,719
Total	<u>757,513</u>	<u>405,627</u>
Allowance for impairment losses	(82)	(30)
	<u>757,431</u>	<u>405,597</u>

22. 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.

	2020	2019
	\$'000	\$'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	<u>50,000</u>	<u>50,000</u>

23. 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 in accordance with section 54(2)(a).

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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23. Reserves (continued)

(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. Gold revaluation reserves were transferred to the statement of profit or loss when the Bank disposes its gold reserves during the year.

(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.

24. Financial Risk and Management Policies

(a) Introduction

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

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.

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24. Financial Risk and Management Policies(continued)

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 Supnationals, all of which are easily converted to cash (*refer to maturity analysis on liquidity*).

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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24. Financial Risk and Management Policies (continued)

(b) Liquidity risk - continued

The maturity analysis' noted below includes all financial assets and liabilities as at the respective reporting dates.

Maturity analysis as at 31 December 2020	On Demand \$'000	0-3 Months \$'000	3-6 Months \$'000	6-12 Months \$'000	Over 1 year \$'000	Undefined \$'000	Total \$'000
Foreign currency financial assets							
Cash and Cash equivalent	715,623	41,654	-	-	-	-	757,277
Accrued interest	-	-	15,415	-	-	-	15,415
Fix term deposit	-	1,099,918	645,759	1,933,394	-	-	3,679,071
Holding on special drawing rights	-	-	-	-	-	11,011	11,011
Reserve tranche	-	-	-	-	-	35,667	35,667
Subscription	-	-	-	-	-	199,862	199,862
Bonds	-	-	-	-	403,262	-	403,262
Short term commercial papers	-	-	410,469	-	-	-	410,469
	715,623	1,141,572	1,071,643	1,933,394	403,262	246,540	5,512,035
Local currency financial assets							
Cash on hand	155	-	-	-	-	-	155
Currency inventory	-	-	-	-	40,746	-	40,746
Property, plant and equipment	-	-	-	-	184,893	-	184,893
Intangibles	-	-	-	-	177	-	177
Other assets	-	-	-	-	18,521	-	18,521
Right of use	-	-	-	-	977	-	977
Loans and advances	-	-	-	-	78,310	-	78,310
	155	-	-	-	323,624	-	323,779
Total financial assets	715,778	1,141,572	1,071,643	1,933,394	726,886	246,540	5,835,814
Foreign currency financial liabilities							
Demand deposits	136,773	-	-	-	-	-	136,773
IMF special drawing rights allocation	-	-	-	-	-	115,066	115,066
IMF extended credit facility	-	-	-	-	-	8,966	8,966
Securities	-	-	-	-	-	351,949	351,949
Subscription	-	-	-	-	-	4,953	4,953
	136,773	-	-	-	-	480,933	617,706
Local currency financial liabilities							
Demand deposits	3,177,904	-	-	-	-	-	3,177,904
Currency in circulation	-	-	-	-	-	1,135,789	1,135,789
SIG monetary operations account	-	39,664	-	-	-	-	39,664
Fixed deposits	-	429,884	11,765	-	-	-	441,649
Lease liabilities	-	-	-	-	1,053	-	1,053
Employee entitlements	-	-	-	-	30,210	-	30,210
Other liabilities	-	6,805	-	-	-	-	6,805
	3,177,904	476,353	11,765	-	31,263	1,135,789	4,833,074
Total financial liabilities	3,314,677	476,353	11,765	-	31,263	1,616,722	5,450,780
Net liquidity gap	(2,598,899)	665,219	1,059,878	1,933,394	695,623	(1,370,182)	385,034

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24. Financial Risk and Management Policies (continued)

(b) Liquidity risk - continued

Maturity analysis as at 31 December 2019

	On Demand \$'000	0-3 Months \$'000	3-6 Months \$'000	6-12 Months \$'000	Over 1 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	-	-	-	-	-	12,954.00	12,954
Reserve tranche	-	-	-	-	-	35,499.00	35,499
Subscription	-	-	-	-	-	198,895.00	198,895
Gold investment	-	-	-	-	-	300,110	300,110
Bonds	-	-	-	-	282,260	-	282,260
Short terms	-	-	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 receivables	-	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 standby Credit facility	-	-	-	-	-	112,326	112,326
IMF special drawing rights allocation	-	-	-	-	-	-	-
IMF extended credit facility	-	-	-	-	-	10,760	10,760
Securities	-	-	-	-	-	195,201	195,201
Subscription	-	-	-	-	-	5,061	5,061
	155,724	-	-	-	-	323,348	479,072
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	-	749,692.00	11,765.00	-	-	-	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	1,278,633	4,921,613
Net liquidity gap	(2,477,920)	(683,378)	1,122,838	1,366,571	1,472,232	(731,175)	69,168

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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24. Financial Risk and Management Policies (continued)

(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:

	2020	2019
	\$'000	\$'000
All amounts are expressed in SBD'000		
Foreign currency assets		
Cash at bank	757,358	280,703
Fixed income securities	4,492,803	4,076,462
International Monetary Fund	246,540	247,348
Gold	-	300,110
	<u>5,496,701</u>	<u>4,904,623</u>
Local currency assets		
Loans and advances	78,310	18,039
	<u>5,575,011</u>	<u>4,922,662</u>

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 of financial assets by credit rating	2020	2019
	%	%
AAA	45	30
AA+ - AA-	22	35
A+ - A-	15	7
BBB+ - BBB-	12	13
BB+ - BB-	5	8
B+ - B-	1	-
N/R	-	7
	<u>100</u>	<u>100</u>

CENTRAL BANK OF SOLOMON ISLANDS
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24. Financial Risk and Management Policies (continued)

(c) Credit risk - continued

Cash and cash equivalents

The Bank held cash at banks in foreign currencies of \$709.5 million at 31 December 2020 (2019: \$280.7 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 2020.

Debt investment securities

The Bank held debt investment securities of \$753 million at 31 December 2020 (2019: \$609 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.

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.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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24. Financial Risk and Management Policies (continued)

(c) Credit risk - continued

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

	2020		2019	
Concentration by currency	\$'000	%	\$'000	%
USD	963,775	17	3,091,180	63
AUD	523,636	9	1,070,651	22
EUR	19,556	-	22,720	-
SDR	246,540	4	247,348	5
NZD	2,887,344	52	247,205	5
SGD	384,551	7	89,003	2
GBP	415,709	7	135,940	3
SBD	78,310	1	18,039	-
JPY	4	-	4	-
FJD	1,986			
CNY	53,600	1	572	-
	5,575,011	100	4,922,662	100

Credit quality	Gross \$'000	Impairment \$'000	Net \$'000
31 December 2020			
<i>Foreign currency assets</i>			
Central banks	757,440	82	757,358
Commercial banks	4,493,323	1520	4,492,803
International Monetary Fund	246,540	-	246,540
	5,498,303	1,602	5,496,701
<i>Local currency assets</i>			
Solomon Islands Government loan and advances	65,019	73	64,946
Staff loan and advances	14,443	1,079	13,364
	79,462	1,152	78,310
Gross assets subject to impairment consideration	5,577,765	2,754	5,575,011

	2020		2019	
Concentration by sector	\$'000	%	\$'000	%
<i>Foreign currency assets</i>				
Central banks	757,358	13	580,813	12
Commercial banks	4,492,803	83	4,076,462	83
International Monetary Fund	246,540	4	247,348	5
	5,496,701	100	4,904,623	100
<i>Local currency assets</i>				
Solomon Islands Government loan and advances	64,946	83	5,824	33
Staff loan and advances	13,364	17	12,215	67
	78,310	100	18,039	100
	5,575,011		4,922,662	100

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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24. Financial Risk and Management Policies (continued)

(d) Market risk

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

Interest rate risk management

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

At the reporting date the interest rate profile of the Bank's interest-bearing financial instruments were as follows -

	Carrying amount	
	2020	2019
	\$'000	\$'000
<i>All amounts are expressed in SBD'000</i>		
Fixed rate instruments		
Cash and cash equivalents (Financial assets)	757,431	405,392
Fixed income securities (Financial assets)	4,492,803	3,951,024
Loans and advances (Financial assets)	78,310	17,504
Demand deposits (Financial liabilities)	(3,177,904)	(161,605)
Fixed deposits (Financial liabilities)	(441,649)	(761,457)
Lease liabilities	(1,053)	(1,432)
	1,707,938	3,449,426
Variable rate instruments		
International Monetary Fund (Financial assets)	246,540	247,348
International Monetary Fund (Financial liabilities)	(480,933)	(323,348)
	(234,393)	(76,000)

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.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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24. Financial Risk and Management Policies (continued)

	Profit or loss	
	100bp increase	100bp decrease
	\$'000	\$'000
<i>All amounts are expressed in SBD'000</i>		
31 December 2020		
Variable rate instruments	3,250	(3,186)
31 December 2019		
Variable rate instruments	3,594	(3,685)

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.

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year ended 31 December 2020

24. Financial Risk and Management Policies (continued)

(d) Market risk - *continued*

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

Foreign currency risk as at 31 December 2020

	AUD (SBD) (000's)	NZD (SBD) (000's)	USD (SBD) (000's)	EUR (SBD) (000's)	GBP (SBD) (000's)	SGD (SBD) (000's)	CNY (SBD) (000's)	JPY (SBD) (000's)	OTHERS (SBD) (000's)	Total (SBD) (000's)
Foreign Currency Financial Assets										
Money at call	202,798	-	514,600	19,908	12,447	-	5,533	4	1,987	757,277
Accrued interest	3,863	1,167	9,455	-	160	406	364	-	-	15,415
Fixed term deposits	384,370	222,014	2,838,191	-	115,648	70,780	48,067	-	-	3,679,071
Holding of special drawing rights	-	-	-	-	-	-	-	-	11,011	11,011
Reserve Tranche	-	-	-	-	-	-	-	-	35,667	35,667
Subscription	-	-	-	-	-	-	-	-	199,862	199,862
Gold investment	-	-	-	-	-	-	-	-	-	-
Bonds	403,262	-	-	-	-	-	-	-	-	403,262
Short term commercial papers	410,469	-	-	-	-	-	-	-	-	410,469
Total	1,404,763	223,181	3,362,246	19,908	128,255	71,186	53,964	4	248,527	5,512,035
Foreign Currency Financial Liabilities										
Demand deposits	136,773	-	-	-	-	-	-	-	-	136,773
IMF special drawings rights allocation	-	-	-	-	-	-	-	-	115,066	115,066
IMF extended credit facility	-	-	-	-	-	-	-	-	8,966	8,966
IMF securities	-	-	-	-	-	-	-	-	351,949	351,949
Capital subscription	-	-	-	-	-	-	-	-	4,953	4,953
Total	136,773	-	-	-	-	-	-	-	480,933	617,706
Net foreign currency asset	1,267,990	223,181	3,362,246	19,908	128,255	71,186	53,964	4	-232,406	4,894,329

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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24. Financial Risk and Management Policies (continued)

(d) Market risk - continued

Foreign currency risk as at 31 December 2019

	AUD	NZD	USD	EUR	GBP	SGD	CNY	JPY	OTHERS	Total
Foreign Currency Financial Assets	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)	(SBD) (000's)
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 deposits	524,051	247,246	2,474,301	-	135,171	88,992	-	-	-	3,469,761
Holding of 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
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 Liabilities										
Demand deposits	155,724	-	-	-	-	-	-	-	-	155,724
IMF special drawings 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

CENTRAL BANK OF SOLOMON ISLANDS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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24. Financial Risk and Management Policies (continued)

(d) Market risk - continued

Concentration of foreign exchange

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

	2020		2019	
<i>All amounts are expressed in SBD '000</i>	\$'000	%	\$'000	%
USD	965,295	18	2,791,071	64
AUD	523,636	10	1,070,651	25
EUR	19,556	0	22,720	-
NZD	2,887,344	55	247,204	6
SGD	384,551	7	89,004	2
STG	415,709	8	135,941	3
JPY	4	-	4	-
CNY	53,600	1	572	-
FJD	1,986	-		
	5,251,681	100	4,357,167	100

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

	2020	2019
AUD	0.1622	0.1745
USD	0.1243	0.1220
NZD	0.1729	0.1815
STG	0.0915	0.0931
EUR	0.1011	0.1089
JPY	12.8355	13.3050
SGD	0.1646	0.1646
SDR	0.0861	0.0882
CNY	0.8117	0.8527

Sensitivity to foreign exchange rate risk

Impact of a:	2020	2019
	\$M	\$M
Change in profit/equity due to a 2 per cent appreciation in the reserves - weighted value of the Solomon Islands dollar	(77)	(80)
Change in profit/equity due to a 2 per cent depreciation in the reserves - weighted value of the Solomon Islands dollar	42	83

Other pricing risk

The Bank holds gold which is subject to market pricing risk. During the year the gold reserves were disposed.

(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

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24. Financial Risk and Management Policies (continued)

(e) Operational risk management - *continued*

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.

25. Related parties

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

The Board of Directors during the year were:

Dr Luke Forau (Chairman and Governor)
Raynold Moveni (Deputy Governor- appointed 30/01/20)
Mckinnie Dentana (Permanent Secretary of Finance)
David K C Quan
David Dennis
Christina Lasaga
Dennis Meone
Rodney Rutepitu
Bob Pollard (appointed 08/05/20)
Sonia Marahare (Board Secretary)

Directors' fees and emoluments

Amounts paid to directors during the year are disclosed in Note 3 (f). However, during the year, the bank signed a term of reference with director Rodney Rutepitu to engage him in the re-structure of the bank's general ledger in the TechnologyOne financial system. Amount paid to him during the current financial year for his engagement was \$55,000. The project is still continuing into 2021.

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 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
Raynold Moveni	Deputy 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 Markets and Exchange control
Daniel Haridi	Chief Manager Currency Banking, and Payment
Donald Kiriau	Chief Manager Economics Research and Statistics
John Bosco	Chief Manager Human Resource and Corporate Services
Emmanuel Gela	Chief Manager Finance and Accounts
Samuel Warunima	Chief Manager Financial Market Supervision
Edward Manedika	Chief Manager Information Technology

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25. Related Parties (continued)

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

	2020	2019
<i>All amounts are expressed in SBD '000</i>	\$'000	\$'000
Short-term employee benefits	3,876	3,293
Long-term benefits	483	688
	4,359	3,981

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 2020 loans by the Bank to key management personnel were as follows:

	2020	2019
	\$'000	\$'000
Housing loan	1,686	1,553
Personal loan	155	178
Management car loan	595	386
	2,436	2,117

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 no interest income relating to investments in Government securities, similarly in 2019. 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 2020. The balance of the Bank's investment in Government securities at year end amounted to \$79m (2019: \$18m).

26. 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 2020 (2019: \$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 2020, a total of 12 (2019: 9) loans with a net guarantee of \$7.40m (2019: \$1.3m) have been administered under the scheme.

The Bank has commenced a project to construct a building adjacent to its present property in 2019. The cost of preparation for the project as at 31 December 2020 is \$24m

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27. Impact of Covid-19

The unprecedented COVID-19 pandemic has a significant negative impact on the global economy in 2020. Solomon Islands as a small open economy went into recession in the second quarter of 2020. Estimated economic growth in 2020 dropped to minus 4.3%, the first negative growth or recession witnessed since the ethnic tension two decades ago.

The global economic downturn, closure of the country's border restricting tourists, delay in key infrastructure projects, and other associated disruptions resulted in a broad downturn across the economy. Exports fell by 17%, government tax revenue dropped by 10%, National Provident Fund number of contributors declined by 6% indicating employment layoffs and reduction in working hours. Lending by commercial banks to the private sector declined by 1%, and inflation moved to ne 1.8% reflecting weak domestic demand and declining imported crude oil prices.

Central banks around the world pursued an expansionary monetary policy to curb the economic crisis and providing adequate liquidity in the financial system. As a result, policy interest rates have been relatively low impacting earnings on financial investments including the CBSI's earnings of its overseas investment portfolios.

The CBSI also undertook an expansionary monetary policy in 2020 and by 15th June 2020 made changes to its statutory cash reserve requirements from 7.5% to 5%. Moreover, with factored in legal provisions and other important considerations, CBSI purchased a government bond in the secondary market of \$60 million in December 2020 to support the government's fiscal policy of recovery efforts. CBSI also disposed its gold holdings to assist in its cash inflow during the year.

Overall, the extent of the impacts and uncertainties depend entirely on how soon the pandemic is contained and how soon business returns to normal.

28. Events Subsequent to Balance Date

The Board has approved \$3.8 million from distributable profit payable to SIG Consolidated Account in a form of dividend as per CBSI Act 2012, Section 55, sub (1)(d) on the 20th of December 2021.

Apart from the above, there has not been any transaction or event of material and unusual likely, in the opinion of the Directors of the Bank, to affect significantly the operations of the Bank, the results of those operations or the state of affairs of the Bank in the future financial periods.