



VISION, MISSION, AND VALUE STATEMENTS

VISION

Leading the development of a modern, stable and prosperous Solomon Islands

MISSION

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

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

VALUE

We are committed to uphold the following values:

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

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CENTRAL BANK OF SOLOMON ISLANDS

11th May 2021

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

Dear Minister,

Re: 2020 Annual Report and Financial Statements

As required by Section 58(2) of the Central Bank of Solomon Islands (CBSI) Act 2012,
I hereby submit to you the Central Bank of Solomon Islands Annual Report and the
Bank's Audited Financial Statements for 2020.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Luke Forau'.

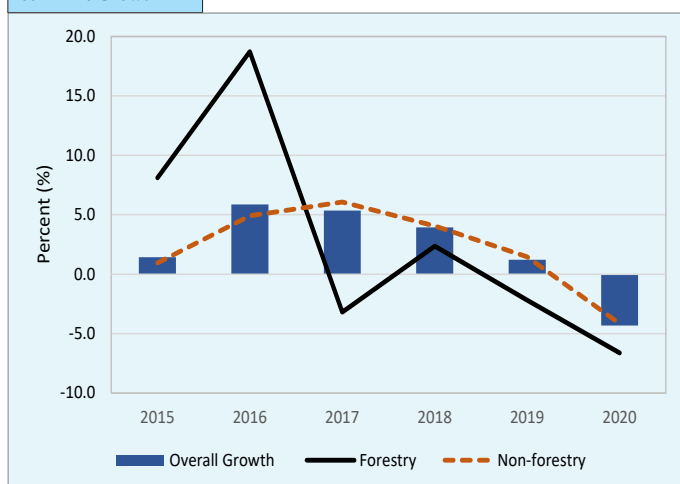
LUKE FORAU, PhD
Governor

CHAPTER 1: OVERVIEW OF ECONOMIC DEVELOPMENTS IN 2020

Overview

2020 was an unprecedented year for the global economy as the COVID-19 pandemic triggered a synchronized downturn in economic activities that resulted in a severe global recession. These weak global economic activities subsequently translated into a recession in the Solomon Islands by the second half of 2020. Contributing to this contraction were weaker than expected outturns from key export commodities, negative impact of the Government's containment measures against COVID-19, and weak consumer demand.

Figure 1.1
Economic Growth



Source: CBSI & SINSO

International Economy

According to the International Monetary Fund (IMF), global growth estimate for 2020 was -3.3%¹, two basis points up from the revised -3.5% projection from the October 2020 WEO. This upward revision came on the back of stronger than expected recovery momentum across both advanced and emerging market economies in the second half of 2020 amid strong and extraordinary global monetary and fiscal support in response to the COVID-19 pandemic.

China, one of the few countries that posted a positive growth in 2020 and Solomon Islands' largest trading partner, grew by 2.3% in 2020, 40 basis points up against the previous forecast and is expected to grow by 8.4% in 2021. This reflected effective containment measures; dynamic public investment response and central bank liquidity support, which have encouraged strong recovery. Meanwhile, growths in Australia and New Zealand remained low throughout 2020 at -2% each.

On the commodities side, a notable increase across major commodities was witnessed in 2020 with both the energy and the food indices rising over the year. Meanwhile, the tapis oil price fell markedly by 37% to an average of US \$43 per barrel at the end of December.

Global inflation muted throughout 2020 in line with weak consumer demand in both advanced and emerging market economies. On the regional front, inflation outcomes in Australia and New Zealand remained low and within targets at 0.9% and 1.4% respectively for the year.

Domestic Economy

Prior to the pandemic, the Solomon Islands economy had already slowed down, with real GDP in 2019 growing only by 1.2%, the lowest growth on record since 2014. In 2020, the onset of COVID-19 pandemic further accelerated this anemic growth downwards, resulting in a contraction of -4.3% by the end of the year. This downturn reflected the Government's containment measures against the pandemic, coupled with the international travel restrictions and weak demand. This led to significant contractions in the forestry, fisheries, manufacturing, construction, accommodation and transport sectors.

The CBSI annual production index contracted by 18% to 82 points, attributed primarily to sharp deteriorations in log and fish outturns. To a lesser extent, the falls in palm oil and cocoa also contributed, as global demand for these commodities softened.

Consistent with dampening global demand, which muted Solomon Islands' trading activities, the external position rebounded to a \$200 million surplus in 2020, reversing the revised deficit (of \$274 million) witnessed in the year prior. The marked improvement stemmed from a fall in exports, particularly round logs and fish catch combined with a softening in imports, and favorable donor inflows towards COVID-19 policy responses. Subsequently, this led to a significant reduced current account deficit balance of \$204 million from the revised \$1,262 million deficit in 2019. The deficit was partially financed by the capital and financial account surplus balance of \$572 million during the year. Correspondingly, the gross foreign reserves grew by 13% to \$5,315 million, representing 13.4 months of imports. This level of reserves is well above the minimum threshold of three months of import cover.

On exchange rate developments, the strengthening of the United States dollar (USD) in global currency markets led to the depreciation of the Solomon Islands dollar (SBD) against the USD by 0.5% to \$8.21 annually. However, the SBD appreciated against both the Australian dollar and the New Zealand dollar by 0.3% to \$5.67 per AUD and by 1% to \$5.34 per NZD respectively. Consequently, the total weighted index depreciated by 41 basis points to 112 points owing to the strong dominance of the USD within the currency basket. Meanwhile, the Real Effective Exchange Rate on average strengthened by 5% reflecting losses in the country's trade competitiveness during the year.

¹ IMF World Economic Outlook January 2021

Monetary conditions were broadly sustained in 2020, due in part to CBSI's additional monetary policy support particularly in the second half. CBSI provided additional liquidity of \$490 million into the economy in 2020 after reducing both the cash reserve requirement and the volume of Bokolo Bills issued, purchasing government bonds in the secondary market, and relaxing some prudential guidelines for commercial banks. As a result of these measures, broad money expanded by 7% to \$5,418 million, subsequently increasing total liquidity by 8% to \$2,092 million and excess liquidity by 19% to \$1,660 million at end 2020. Nonetheless, private sector credit eased by 0.3% to \$2,629 million in 2020, reversing the 6% growth in 2019. This was attributable to the economic slowdown during the year.

With the onset of the pandemic in the first quarter of 2020, the Government immediately responded with an expenditure switching policy by focusing on containment measures. Reprioritized spending towards COVID-19 response, essential services and the fiscal stimulus led to a wider overall deficit of \$308 million (2.5% of GDP) in 2020 compared to a \$202 million deficit in 2019. Total revenue grew 5% to \$3,800 million, against a 7% surge in expenditure to \$4,108 million. The rise in revenue was owed to large donor grant receipts whilst increases on the expenditure side were predominately driven by COVID-19 related spending. Of the total expenditure, recurrent spending was \$3,493 million while capital spending was \$615 million.

Meanwhile, COVID-19 related borrowing through both external and domestic debts surged, resulting in the notable increase in debt stock to \$1,451 million in 2020, 35% higher than in 2019 and equivalent to 12% of GDP.

Labor market conditions deteriorated in line with weak economic conditions during the year. Based on the partial employment indicator provided by the Solomon Island National Provident Fund (SINPF), active contributors dwindled by 6% to 57,028 contributors in 2020 compared to the 60,643 contributors recorded in 2019. This is equivalent to a total of approximately 3,615 jobs lost in the private sector at the end of 2020. Likewise, CBSI newspaper advertisement survey also showed advertised vacancies dropped by 1% to 541 vacancies whilst seasonal workers to Australia and New Zealand waned by 45% on the back of border closures and travel restrictions. Public sector employment data on the other hand, rose dramatically by 29% to 23,502 filled positions, reflecting the relaxation of control on Government recruitment, that led to a massive recruitment of police and teachers in 2020. Additionally, short-term employment mainly under the World Bank Community Access and Urban Services Enhancement (CAUSE) project added a total of 3,295 jobs by the end of 2020.

Consumer prices for 2020 were muted, owing to weak economic activities. Headline inflation slowed to -1.8% from 2.8% in 2019. This outcome mainly reflected weak domestic demand amid excess supply of market

produce as well as a transitory pass-through effect of falling world fuel and food prices towards the end of last year. Imported inflation eased markedly by -2.1% from -1.2% in 2019 on account of declining food and fuel prices in the second half of 2020. Domestic inflation fell by 0.7% in December 2020 from 4.5% in 2019, this is attributable to an overall weak consumer demand in the economy. Accordingly, annual average core inflation in 2020 eased to -1.5% from 2.6% a year earlier suggesting broader price falls in food and fuel prices over 2020.

Economic Outlook

The global economy is projected to emerge from the COVID-19 recessionary growth of -3.3% in 2020 to a 6% growth by the end of 2021, with China and the US expected to lead global growth. This stronger recovery forecast mainly reflected sturdier recovery momentums, vaccine-powered evolutions and roll-outs and strong additional policy support measures in these economies.

For key trading partners like China, prospects for growth are for a stronger rebound of 8.4% in 2021, building on from the positive growth witnessed throughout 2020. Likewise, the US economy is projected to recover strongly by 6.4% in 2021 in line with pent up demand and increased momentum in the economy on the back of the December 2020 fiscal package. The outlook in the Australian and New Zealand economies are projected to rebound with growths of 3.5% and 0.4% respectively, buoyed by swift containment of COVID-19 amid resilient household and business activities along with fiscal, monetary and regulatory policy support measures instituted since 2020.

In line with the overall improved outlook for global recovery, the Solomon Islands economy is projected to recover at a rate of 1.5% in 2021. Key sectors that are expected to drive this growth include agriculture, fisheries and the construction of key infrastructure projects such as the Pacific Games. Over the medium-term, annual growth is projected at 3.5% mainly on account of anticipated booming construction activities for national projects in the pipeline.

With slower economic recovery anticipated this year, the fiscal deficit is expected to widen to around 3% of GDP in 2021, reflecting the anticipated slow pick-up in domestic revenue in line with economic activities and the continued need to support the economy through higher spending on COVID-19 responses and public investment projects. Subsequently, this will lead to a projected widening current account deficit on the back of a rebound in imports for major capital projects. Nonetheless, capital and financial inflows are expected to increase, which will result in a BOP surplus and a slight build-up of the foreign reserves that will be equivalent to 10 months of import cover.

Monetary conditions are projected to remain firm in the near to medium term which commensurate with the medium-term growth forecast. Reserve money, narrow

money, and broad money are forecasted to increase moderately over the medium term. Similarly, private sector credit is projected to pick up at a modest pace in line with economic activities. Consequently, excess liquidity is estimated to increase further on the back of continued expansionary fiscal and monetary policies over the medium-term.

Inflation is projected to increase by 3% in 2021, reflecting an expected build-up in food and oil price pressures and anticipated pick-up in economic activities. As deep as the impact of COVID-19 has been, so too is the high uncertainty that surrounds the recovery prospect, as much of it depends on the spread of the pandemic and the equitable access to vaccines. Thus, to secure and accelerate this nascent recovery, strong and coordinated policy actions are needed. The immediate priority during the pandemic is to accelerate the vaccine roll outs for all to minimize the

community spread of the pandemic. Next, is targeted support to affected businesses and key economic sectors to support productivity and build resilience in the economy, thereby, providing a strong basis for this recovery. Focus on this immediate support should aim at creating and increasing domestic demand to support economic recovery until international travel restrictions are relaxed.

As vaccines roll out and the pandemic recedes, the execution of the stimulus package should continue to ensure business continuity. Then, policy focus over the medium term should shift to reforms for sustained growth through the deployment of domestic reforms and policies mainly through improving the business environment and governance, promoting enhanced and robust domestic revenue mobilization and facilitating access to finance to boost inclusiveness and stronger growth.

CHAPTER 2: GOVERNANCE AND ORGANISATION

THE BOARD

The Board has 9 members consisting of 2 executives, 1 ex-officio, and 6 non-executive members. There was one vacancy in the Board at the beginning of the year, however this was filled when Mr. Bob Pollard was appointed to the Board with effect from 8th May 2020. The Non-executive Directors are considered to be independent of management.

NAME	POSITION	APPOINTMENT	TERM
Dr. Luke Forau	Governor, Chairperson, Executive Director	01/10/20	6 years
Mr Raynold Moveni	Deputy Governor, Executive Director	30/01/20	6 years
Mr. McKinnie Dentana	PS Finance	Ex- Officio	
Mr. David K C Quan	Non- Executive Director	31/08/16	5 years
Mr. Rodney Rutepitu	Non- Executive Director	20/08/18	5 years
Mrs. Christina Lasaga	Non- Executive Director	20/02/18	5 years
Mr. Dennis Meone	Non- Executive Director	20/02/18	5 years
Mr. David Dennis	Non- Executive Director	15/01/19	5 years
Mr. Bob Pollard	Non- Executive Director	8/05/21	5 years

Roles & Responsibilities of the Board

The powers and functions of the Board are set out in s39 of the CBSI Act, 2012. Overall, the Board oversees the operations and governance of CBSI. They are charged with the formulation and supervision of the implementation of the CBSI policies and the supervision of the administration and operations of the Bank

The Governor

The powers and functions of the Governor are set out in s40 of the CBSI Act, 2012. The Governor serves as the Chief Executive of the CBSI and is charged with the day to day management of the operations of the Bank and is assisted by the Deputy Governor. The Governor is accountable to the Board and reports, at least 6 times each year, to the Board on the conduct of the Bank's operations and policies. In 2020, the Governor tabled 7 reports to the Board.

Board Committees

The Board has established Committees to assist in exercising its authority. Each of the Committee has a term of reference under which authority is delegated by the Board.

Board Audit Committee	Board Remuneration Committee	Board HQ Project Committee
Oversee and monitor the Bank's financial reporting process; the integrity of the Bank's financial statements; and the Bank's internal control systems and procedures are following local and international accounting and auditing standards, codes of conduct and applicable laws and regulations. The Committee is chaired by a Non-Executive Director and two non-executive Directors are members.	To review the terms and conditions of employment for Management and Staff as and when required. The Committee is chaired by a Non-Executive Director and two non-executive Directors are members of the committee.	Purposely set up for the HQ Building Expansion Project mainly to oversee and monitor the process from start to completion of the project. The Committee is chaired by a Non-Executive Director and 3 non-executive Directors are members.

Board Meetings

The Board is required to meet as often, but not less than 6 times in a calendar year. Directors must allocate adequate time to prepare for board meetings. As such the meeting agenda and papers are circulated to members in good time (7 days) prior to any board meetings. In 2020, the Board met 13 times. Members of the management attended the meetings by invitation.

Board and Board Committee attendance in FY 2020

	Board	Board Audit Committee	Board Remuneration Committee*	Board HQ Expansion Project Committee	Tenure As at 31 st December 2020
Luke Forau	13/13				1 yr. 2months
Raynold Moveni	10/13	3/4		3/3	11 Months
McKinnie Dentana	12/13		*	3/3	Ex-Officio
David K C Quan	13/13		*	2/3	4 yrs. 4 months
Rodney Rutepitu	12/13	3/4			2 yrs. 10 months
Christina Lasaga	11/13	4/4		3/3	2 yrs. 10 months
Dennis Meone	9/13		*		2 yrs. 10 months
David Dennis	12/13	4/4			1 yr. 11 months
Bob Pollard	9/13				7 months

*No BRC meeting in 2020

Key Matters considered by Board during FY2020 are outlined below:

- Establishment of the Board Subcommittee on the HQ Building Expansion Project.
- Covid-19 Mitigation Strategies
- Policy Rate and the Export Finance facility
- Monetary Policy Stance for March and September 2020
- TOR on enterprise risk management
- Monetary Policy transmission issues
- Expression of Interest for the HQ Building Expansion Project
- Annual Report 2019 and the Financial Stability Report 2019
- Prudential Guideline 20 on Cybersecurity for licensed financial institutions
- Approval of internal Policies relating to Staff Training & development; IT; AML/CFT; Cybersecurity; Library collection & development; Procurement; and Delegation of authority.
- Interim license for Solomon Finance Limited
- Workplan and budget for 2021

STAFF COMPLEMENT

As at December 2020, the Central Bank of Solomon Islands staff complement inclusive of none established staff (NES), temporary contracted staff (TCS) and temporary staff (TS) was 157, a slight reduction from 166 in 2019. This fall was attributable to the expiry and none renewal of employment contracts during the year. Nonetheless, 7 new staff were recruited towards the end of 2020, of which 2 were for the NES, 4 for the TCS contracts and 1 for a permanent position.

The Bank continues to encourage equal employment opportunities and currently maintained a gender composition of 59 % male to 41 % female.

At the end of 2020, a total of 7 staff have served up to 10 years of employment services and 2 staff each reaching 20 and 30 years of employment services with the Bank.

Retirement, Resignations and Secondments

During this review period, 9 staff left the services of the Bank, of which, 8 are temporary staff and 1 on a NES contract. There was no other retirement, resignation and secondment in 2020.

TRAINING AND DEVELOPMENTS

Despite the drawbacks caused by COVID-19 in 2020, the Bank continued to maintain and engage in training that allowed employees to acquire new skills, sharpen existing skills and obtain higher qualifications that are necessary to improve work performance and increase the institution's overall productivity. A total of 23 officers engaged in full-time training overseas and

part-time trainings locally via on-line and distance learning. Most officers were pursuing tertiary qualifications at the post-graduate level while others pursued undergraduate qualifications in areas the Bank identified and at various institutions in Australia, New Zealand and Fiji. Most trainings were funded by the Bank with additional funding supported from other external sponsors. As at the end of year, four officers successfully completed their programmes with three officers graduating with Master's degree in Business Administration and one with a Masters in Economics.

The international travel restrictions has led to a minimal engagement in the overseas short-term trainings to address technical and specialized skill and knowledge gaps necessary to improve work performance. Only ten officers attended various short courses overseas before the travel restrictions while the rest of the planned trainings were either postponed or cancelled. These trainings were activated in the second half of the year and mostly via on-line virtual trainings provided by other technical support organizations like the International Monetary Fund (IMF), Central Banking Institute (CBI), Pacific Financial Inclusion Program (PFIP) and others. The Bank also engaged in various in-house trainings conducted for staff to broaden knowledge and understandings of Bank policies, processes and other important areas in the Bank. The revised Training and Development Policy that was approved by the Board in September provided useful guidance for the Bank in its endeavor to produce trained, qualified and competent employees at all levels, which collectively would contribute to the achievement of the Bank's mandate.

COMMUNITY AND PUBLIC RELATIONS

As a result of the difficulties posed by COVID-19 in 2020, CBSI suspended its major annual external programs such as the Solomon Islands Money Day (SIMD), Global Money Week (GMW) and other planned general community awareness activities. However, CBSI was able to extend monetary support to charity groups whenever it could.

Each year CBSI allocates a budget to support this area as part of its corporate social responsibility. In 2020, CBSI participated in three corporate dinner fundraiser events totaling \$35,000 as well as took part in the dissemination of important information about central bank operations and policy directions.

In terms of direct community engagement in 2020, the only major event conducted was the Governor's Office provincial tours. This took place alongside consultation programs coordinated by two other major departments of the Bank. During these consultation trips, the Governor's Office made separate donations to three (3) major provincial secondary schools (P.S.S.) namely Choiseul Bay P.S.S in Choiseul Province, Guguha P.S.S in Isabel Province and Aligegeo Secondary School in Malaita Province. Each school received a cash donation of \$10,000.00, plus reading materials

CENTRAL BANK OF SOLOMON ISLANDS BOARD OF DIRECTORS



DR LUKE FORAU
Governor and Chairman of the Board

Previous positions held

- Deputy Governor
- Advisor to the Governors CBSI
- Chief Manager, Economics & Statistics Dept, CBSI
- Assistant Manager, Economic Department CBSI

1



RAYNOLD MOVENI
Deputy Governor
and Deputy Chairman of the Board

Previous positions held

- Chief Manager, Financial Systems Regulation Dep
- Advisor, Office of the Executive Director Asia Pacific, IMF
- Assistant Manager, Financial Systems Regulation Dept

2



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

- Chairman Aviation Board.
- Member-Mines & Mineral Board.

Previous positions held

- Under Secretary - MoFT Advisor Office of the Executive Director Asia Pacific World Bank
- Chief Policy Analyst, MoFT

3



DAVID K.C. QUAN, MBE., MAICD., FIML.
Non-Executive Member) since 31 August 2016

- Chairman, Solomon Islands Electricity Authority Board
- Managing Director - Quan Chee Corporation Limited.

Previous Positions held:

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

4



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

- Management Accountant, Pacific Islands Forum Fisheries Agency.

Previous Positions held:

- Manager, Accounts & Information Technology Department, CBSI
- Assistant Manager, Accounts & Information Technology De-partment; CBSI
- Project Accountant – IPU; Ministry of Education & Human Re-source Development

5



CHRISTINA LASAQA
(Non-Executive Member) since 20 February 2018

- Assistant Chief Executive; Our Telekom

Previous Positions held:

- Head of Sales and Marketing; Our Telekom

6



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

Previous Positions held:

- Chief Executive Officer; Solomon Islands Chamber of Commerce and Industry (up to December 2018)
- Senior Program Manager, Education and Scholarship Division, DFAT; Australian High Commission.
- Director (Acting) and Chief Policy Analyst, Economic Reform Unit (ERU); Ministry of Finance & Treasury

7



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

Previous Positions held:

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

8



BOB POLLARD
(Non-Executive Member) since May 2020

- Managing Director, Kokonut Pacific SI Ltd.
- Managing Director, Pasifiki Services Ltd.
- Director, Solomon Airlines, 2019 - present.

Previously held position:

- Senior Lecturer, SICHE, 1988-1992

9



SONIA MARAHARE
Legal Compliance, Governors Office

Appointed as Secretary to the Board in May 2017

(i.e. CBSI economic reports) which were handed over directly by the Governor (in Choiseul and Isabel) and Deputy Governor (in Malaita) during their visits to these respective schools.



Deputy Governor Mr. Raynold Moveni with Aligegeo School Teachers

The provincial tours enabled the Governors and the CBSI team to share, exchange views on national issues and interact directly with students, teachers, stakeholders and the general public, on a range of topics related to the current work of CBSI. One of the topics commonly raised during the visits was the highly discussed and debated “pyramid schemes” or “quick money scams.” The issue was predominant within all the provinces visited and people were sternly reminded and warned to avoid joining these scams or risk losing their money.

Apart from the corporate level supports, an internal staff contributions initiative that took place in 2020, raised almost \$5,000 in aid of the Solomon Islands Red Cross Society.

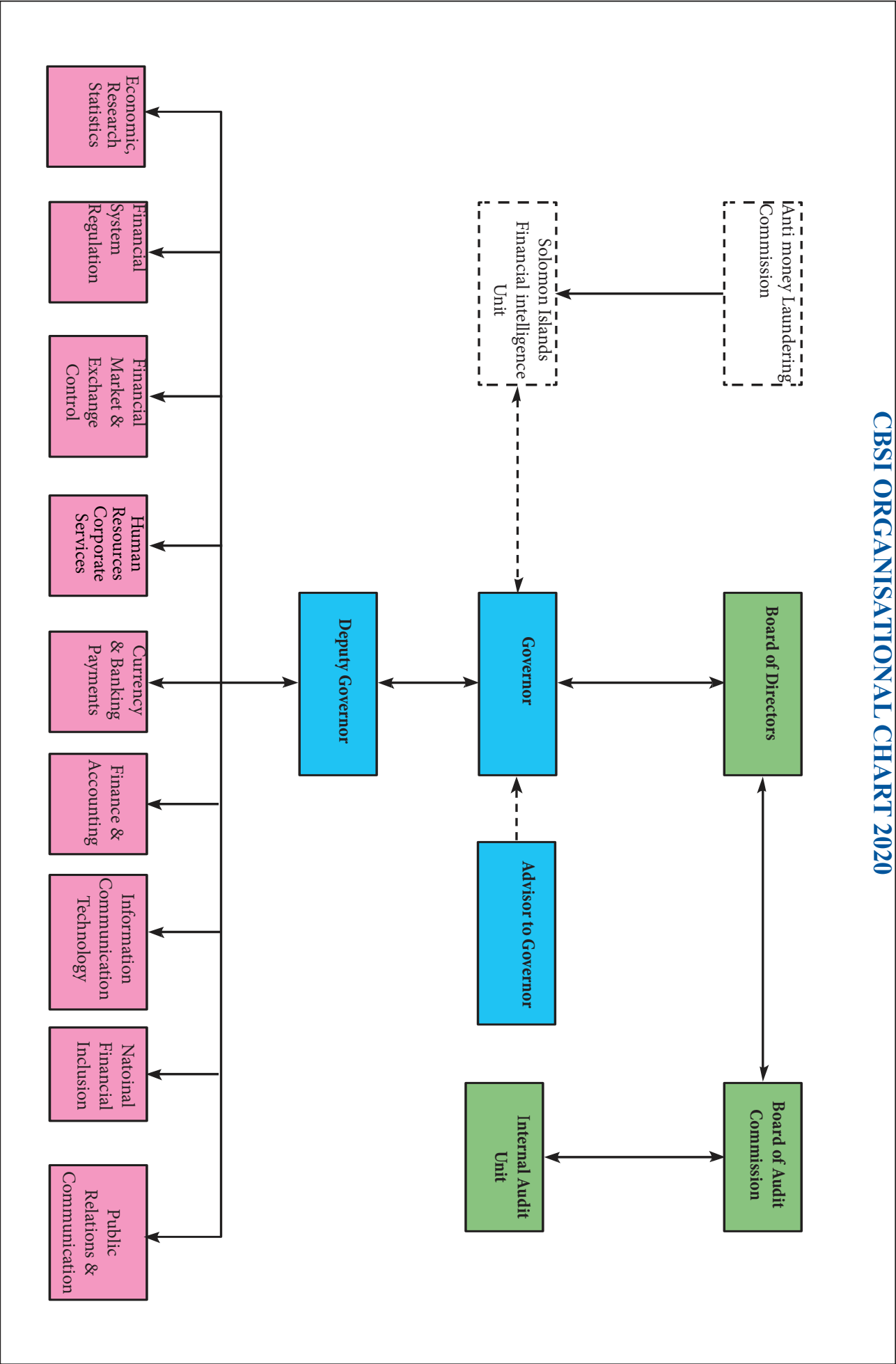
On the regional and international front, one of the

key highlights was CBSI winning an international currency award. This award was for the new \$5 polymer banknote where CBSI was commended for implementing the first ever-state of the art security feature called ‘suzi- flip’ into its \$5 polymer banknote. The banknote was produced by Note Printing Australia (NPA). Conducted by the Print Industry Craftsmanship Awards (PICA), the award is CBSI’s first ever highest international recognition. Later in the year, CBSI was also part of the South Pacific Central Bank Governors meeting that launched the new “Money Pacific Goals 2021-2025” and CBSI was also actively involved with the Griffith University research platform by contributing several different research papers (www.griffith.edu.au/asia-institute/our-research/south-pacific-centre-central-banking/working-papers) and articles that were published directly on the Griffith University Forum.

CBSI continued to maintain its presence over mainstream media through its radio program (Money Matters), newspaper articles and publications, and on-line content (website/social media). Topics covered throughout the year were in the areas of financial inclusion, currency, economics and the financial system.

In 2020, CBSI revisited its communication and public relations strategy. Under the newly formed Risk Management and Corporate Communications Department (RMCCD), CBSI realigned its communications strategy to the new organizational corporate strategy. By first quarter of 2020, CBSI management approved a communication policies, procedures and strategies document that should improve CBSI’s communication to become more effective.

CBSI ORGANISATIONAL CHART 2020



CENTRAL BANK OF SOLOMON ISLANDS MANAGEMENT 2020

GOVERNORS OFFICE



DR LUKE FORAU
Governor



RAYNOLD MOVENI
Deputy Governor



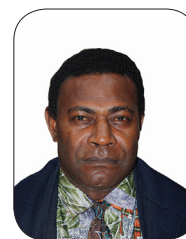
MARLON HOUKARAWA
Management Advisor Operation



MICHAEL KIKILOLO
Management Advisor Policy

CURRENCY & BANKING PAYMENTS
DEPARTMENT

DANIEL HARIDI
Chief Manager



JOE VASUNI
Manager

FINANCIAL MARKET & EXCHANGE CONTROL DEPARTMENT



ALI HOMELO
Chief Manager



DENSON DENNI
Manager/ Financial Control



CHARLIE SIVU
Manager/Financial Markets

ECONOMIC RESEARCH & STATISTICS DEPARTMENT



DONALD KIRIAU
Chief Manager



LOUISA BARAGAMU
Manager/ Monetary Policy & Research

JOHN ROHI
Manager (Ag)

PATRICIA SAMANI
Manager (Ag)

KATIE LONGEAU
Manager (Ag)

INFORMATION & COMMUNICATION TECHNOLOGY
DEPARTMENT DEPARTMENT

EDWARD MANEDIKA
Chief Manager



BADLY TEDDY
Manager

HUMAN RESOURCE & CORPORATE SERVICES DEPARTMENT



JOHN DOSCO
Chief Manager



JENNY AIAPU
Manager/ Human Resources



MICHAEL EREKALI
Manager/ Corporate Service



ROSE SULU
Manager Training Development

FINANCE & ACCOUNTS DEPARTMENT



EMANUEL GELA
Chief Manager



SIMON RAMOIFAI
Manager

FINANCIAL SYSTEMS REGULATION
DEPARTMENT

SAMUEL WARUNIMA
Chief Manager (Ag)



RONSELY PANA
Manager/ Applied Research ,
Policy & Regulation

INTERNAL AUDIT



OLIVER KAROA
Manager

NATIONAL FINANCIAL
INCLUSION UNIT

LINDA FOLIA
Manager

SOLOMON ISLANDS FINANCIAL INTELLIGENCE UNIT



JIMMY SENDERLEY
Director



TOM HAUTE
Manager/ Intelligence



JIMMY VAJA
Manager/ Policy Development,
Coordination, Supervision Compliance

RISK MANAGEMENT & CORPORATE COMMUNICATION



SONIA MARAHARE
Chief Manager



URIEL MATANANI
Manager

CHAPTER 3: MONETARY POLICY DEVELOPMENTS

MONETARY POLICY FORMULATION

While price stability is the underlying consideration behind the Bank's monetary policy, macroeconomic conditions in 2020 steered the CBSI to formulate monetary policies that could cushion the economy from adverse shocks emanating from the pandemic, safeguards financial stability, and supports economic recovery.

At the start of 2020, the economy transitioned from already a slower growth in 2019 and with the onset of the COVID-19 pandemic in early 2020, CBSI forecasted a subdued outlook for the year, with negative implications on various sectors of the economy marked by the fall in output and prices. In light of these prevailing economic developments, the CBSI Board resolved for an expansionary monetary policy stance in March and September.

During the year, the Monetary Policy Committee held a total of six meetings. Two of these meetings focused on the stances for March and September. The other two meetings were presentations centered on macroeconomic updates and forecasts, held in February and August. Meanwhile, the last two were special meetings, one held in April for revised macroeconomic forecasting on the impact of COVID-19 following the declaration of COVID-19 pandemic by the World Health Organization and the State of Public Emergency by the Government. The second special meeting was held in June with the amendment of the Cash Reserve Requirements (CRR) as a key point among other monetary policy issues.

MONETARY POLICY IMPLEMENTATION

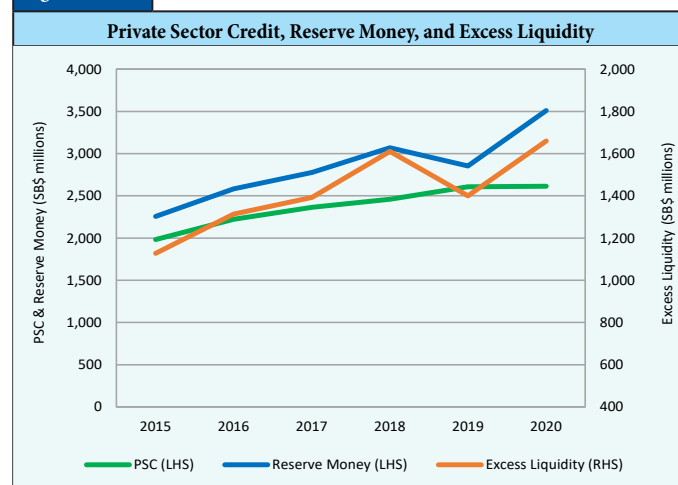
With the adoption of the Central Bank's expansionary monetary policy stance, the Central Bank implemented several policy instruments that were geared towards achieving the Bank's key policy mandates and to support the local economy recover from the COVID-19 pandemic. In terms of CBSI's direct monetary policy instruments, CBSI reduced the CRR by 250 basis points to 5% from 7% on 15 June 2020. Meanwhile, in the open market operations (OMO), CBSI reduced its short-term instrument, Bokolo Bills, to \$430 million at end December from \$750 million at the start of the year. Also, the Central Bank, for the first time, implemented an unconventional monetary policy measure of quantitative easing by purchasing a government bond of \$60 million from SINPF. Apart from these main instruments, CBSI also established a repo rate facility which will enable commercial banks to borrow from CBSI in the event of any liquidity shortfalls, particularly during the COVID-19 pandemic. Furthermore, CBSI Board approved an export facility aimed at providing a facility for MSME export-oriented firms to access short term credit financing. This is expected to be rolled out in the second half of 2021.

MONETARY POLICY OUTCOMES

The expansionary monetary policy led to an increase in liquidity that commercial banks can potentially lend

to borrowers. While this should indirectly influence aggregate demand and domestic prices, the policy didn't translate as expected because the monetary policy transmission mechanism remained weak. The reduction of CRR combined with the decline in Bokolo Bills issued in the open market operations (OMO) and the Central Bank's purchasing of government bonds totaled to an additional \$490 million injection into the banking system by end of 2020. Notably, the 250 basis points cutback in CRR and the \$320 million reduction in Bokolo Bills should have reduced the reserve money.

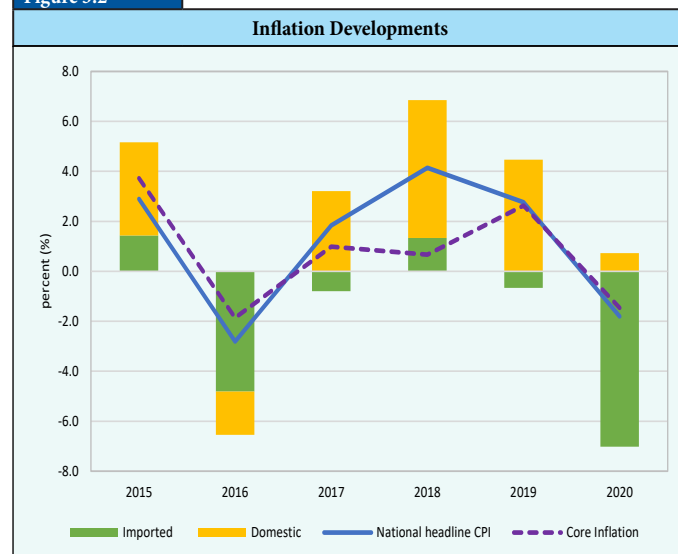
Figure 3.1



Source: CBSI

However, as shown in Figure 3.1, the inability of commercial banks to expand private sector credit (PSC) because of pandemic related uncertainty led to surges in commercial banks' excess liquidity and increased reserve money (see Figure 3.1).

Figure 3.2



Source: SINSO

Dominant supply-side factors have led to deflationary pressures at the end of 2020. This outcome reflected the declining global food and fuel prices that underpinned the lower imported price indices and the associated second round pass-through effects from fuel to the

domestic components of the consumption basket. Overall, headline inflation fell to minus 1.8% from 2.8% and core inflation went down to minus 1.5% from 2.6%

reflecting the weak demand in the domestic economy, particularly in the second half of the year (see Figure 3.2).

CHAPTER 4: CENTRAL BANKING OPERATIONS

ECONOMICS, RESEARCH & STATISTICS

The Economics Research & Statistics Department (ERSD) continued with its functions to provide the Bank with monetary policy and macroeconomic analysis, research, statistics and economic publications in 2020. Among its various responsibilities, ERSD published the bi-annual monetary policy stances in March and September respectively, twelve Monthly Economic Bulletins and four Quarterly Economic Reviews (QER) in 2020. It continued disseminating statistical data on the CBSI website in a timely manner as well as to relevant stakeholders.

On research activities, the Research Unit of the department while working within the constraints of available resources due to COVID-19 pandemic managed to publish one joint working paper as part of the on-going research initiative between CBSI and the Griffith University's South Pacific Centre for Central Banking. Moreover, various research led initiatives by the Griffith University were carried out in 2020, including the hosting of the inaugural Virtual Governor's Forum in November 2020 and the two sessions on capacity building research related workshops on economic modelling. Additionally, the Pacific Forum platform was also launched in 2020 as part of Griffith University's building capacity for independent research and policy development. As such, several CBSI staff including the Governors contributed a total of 8 blogs to this forum covering a wide range of economic issues mostly relating to central banking in light of COVID-19 pandemic. Moreover, various stakeholders including government ministries, agencies and parliamentary committees amongst others continued to benefit from robust macroeconomic analysis and representations the department provided during the year.

INTERNATIONAL OPERATIONS

The Financial Markets and Exchange Control Department (FMECD) carries out and implemented the following key operational functions: the management of the country's official external reserves and investment policy; administration of exchange control Act and foreign exchange control policy and regulations; management and administration of the exchange rate regime and exchange rate policy; administration of International payments systems (SWIFT); and the management of foreign accounts corresponding banking relations with CBSI and SIG counterparties.

Reserves Management Policy.

The country's foreign reserves are guided by a Reserve Management Policy (RMP) framework. This policy framework was reviewed in the last quarter of 2020 with technical support provided by IMF. The aide memoir was finalized in December 2020

Foreign Reserve Management

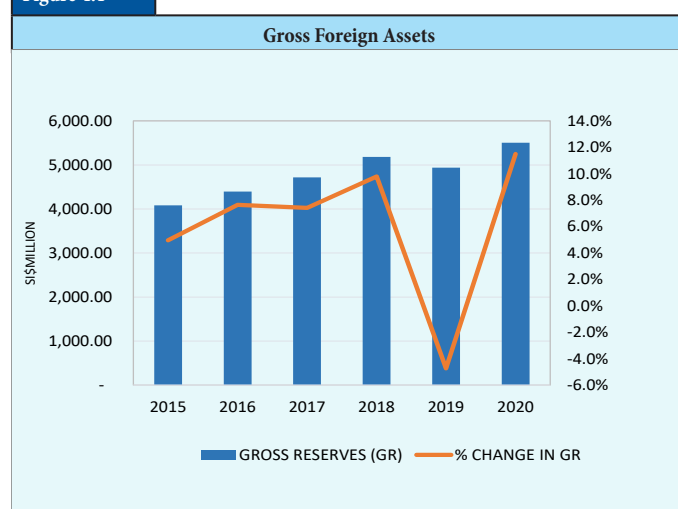
Foreign reserves management function is specified under section 17 of the CBSI Act 2012. In carrying out this function, the Bank holds custody of and manages official foreign reserves in accordance with three objectives;

preserving capital, ensuring adequate liquidity for external obligations and optimizing returns. The foreign reserves are maintained according to the weights in the Solomon Dollar (SBD) basket index which comprised of USD, AUD, NZD, JPY, GBP. In support of national Government's external obligations as well as income focus, a minimal amount of EUR, SGD and Chinese Renminbi (CNY) is maintained. CBSI also holds IMF special drawing rights, IMF Standby Credit Facility and reasonable amount of gold during 2020.

Foreign Reserves Position

The Gross Foreign Reserves grew to \$5.505 billion in 2020, an 11.5% increase over 2019. This positive growth was attributed to favorable donor support, COVID-19 responses and other donor support for national Infrastructure projects.

Figure 4.1

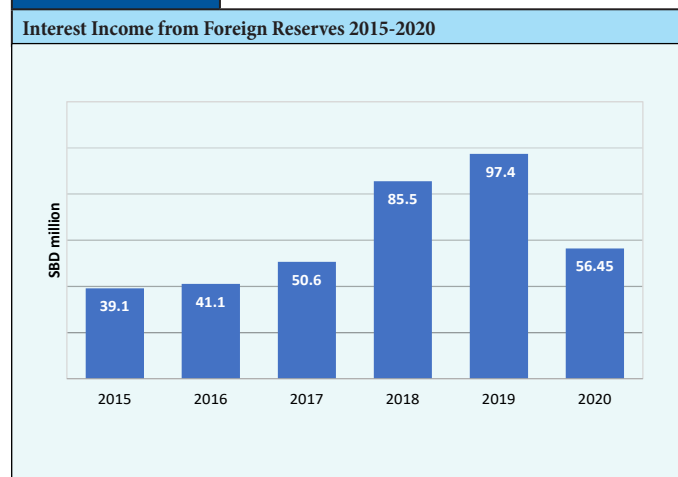


Source: CBSI

Return on Investments of Foreign Reserves

Interest income on foreign reserves investments dropped markedly by 42% to \$56 million in 2020. This outcome reflected unfavorable market interest rates exacerbated by COVID-19 impact in the market during the year. The interest income represented an annualized return on investable reserves of 0.60%, lower than the annualized return of 1.7% in 2019.

Figure 4.2



Source: CBSI

Middle Office Operations

Three key Reserves Management roles of the Middle Office (MO) includes risk management, compliance monitoring, and investment performance measurement. During the year the MO's function was transferred from the Financial Markets and Exchange Control Department to the newly established Risk Management and Corporate Communication Department. This transition has improved the reserve management governance and independence of the MO functions. The Middle Office conducted a comprehensive enterprise risk review during the first half of the year, focusing specifically on the operations of the Front Office dealings, settlement procedures, SWIFT and internal audit functions relating to foreign reserve management operations. The review objective was to evaluate compliance in relation to the investment guidelines and incidence management. Various recommendations were considered in strengthening the operational framework. The review also complemented the International Monetary Fund (IMF) Technical Mission in August which, reviewed the overall Reserves Management Policy framework.

The broad impact of COVID-19 on the external financial markets has heightened concerns in regards to credit risk exposures. The Middle Office continued to monitor credit worthiness of existing counterparties, all of which maintained stable credit ratings throughout the year. No new counterparty onboarding exercise was considered. However, the proposal to enter the China Interbank Bond Market as part of investment portfolio diversification has progressed to the registration stage.

The Back Office

The Back Office (BO) is responsible for the management of all international wired payments and receipts transacted through the Central Bank. The office plays a critical role in the settlements of all international payments related to investments and allocations of the foreign reserves. It also maintains the records of all official outflows (payments) and inflows (receipts) of all foreign currency accounts held with CBSI and the standard settlements instructions held by the Bank. In 2020, the BO unit established a Chinese Yuan (CNY) account with Bank of China, Sydney Branch purposely to facilitate all CNY investment and trading transactions. The unit also opened an additional donor foreign account in the name of Rapid Credit Facility (RCF) account to facilitate receipt of IMF-RCF loan. Moreover, the BO unit continued to facilitate both the international receipts and payments via SWIFT

terminal payment system for its clients, mainly the Solomon Islands Government (SIG), CBSI, donor partners and the commercial banks with high level of compliance to swift standards and maintaining SWIFT international best practices during the year.

Table 4.1

Number of SWIFT Messages SENT and RECEIVED

	2013	2014	2015	2016	2017	2018	2019	2020
Outgoing messages (sent)	953	1039	1314	1301	1272	1853	1928	1718
Incoming Message (Received)	1589	2279	3562	3804	3178	3690	3816	3125

Source: CBSI

In 2020, a total of 1718 outgoing messages were sent via SWIFT system, a reduction of 210 messages from 2019 (See Table 4.1). This outcome reflected a decline in CBSI's payments due to restraint on spending as well as low volume of FX deals payments coming through CBSI from clients as the impact of the pandemic hits hard on the economy. Similarly, 3125 messages were received during the year compared to 3816 messages in 2019.

Table 4.2

Value of Receipts and Payments Transaction through Swift (2013-2020)

	2013	2014	2015	2016	2017	2018	2019	2020
CBSI Receipts	548.5	581.15	2329.6	1229.9	780.6	3214	627	627
CBSI Payments	248.3	204.16	296.8	120.0	120.0	74	428	478

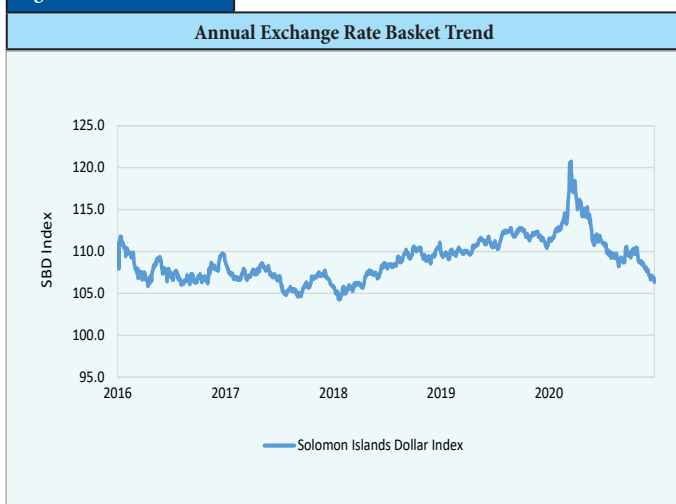
Source: CBSI

Table 4.2 provides the number of all receipts and payments transactions facilitated through the SWIFT during 2020, with the exception of foreign exchange deals between CBSI and the commercial banks. The total value of all the receipts remained unchanged at \$627 million as in 2019, however CBSI's total payments increased to \$478 million from 428 million in 2019.

Exchange Rate Regime

The Solomon Islands Dollar (SBD) is pegged to a basket of currencies of the five major trade invoicing currencies, namely the US Dollar, Australian Dollar, New Zealand Dollar, Japanese yen and the British Pound. No review was conducted on the exchange rate regime as it remained appropriate to mitigating volatility in the external market during the year. However, work on reviewing the Exchange rate policy is an ongoing process.

Figure 4.3



Source: CBSI

The Central Bank calculates and sets the mid-rate of the SBD against the USD each morning to determine the days SBD value against other basket currencies. CBSI maintained its regulation of the USD and AUD spreads only whilst flexibility is given to commercial banks to determine their own commercial exchange rates spread in all other bilateral trading currencies.

In 2020, the Solomon Islands Dollar index appreciated to 106.3 from 109.0 in 2019, following a rebound in the USD towards the end of 2020 as trading activity picked up in line with persistent appreciation in commodity currencies, and the race for COVID-19 vaccine roll out gave assurance for normalcy in the market.

Exchange Control Administration

CBSI is mandated and empowered by the Exchange Control Act and Regulations to ensure that the country benefits from its resources and that all proceeds of exported goods and services are remitted back into the country.

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

Applications for Temporary Resident (TR) Status

In 2020, CBSI approved 204 TR status permits, of which, 156 were new applicants and 48 were renewals (See Table 4.3). TR status is granted to non-residents, who intend to reside in Solomon Islands for a period of four years or less; or Solomon Islanders who are intending to reside overseas permanently. Non-residents working in the country on contractual basis can also apply and be granted TR status for exchange control purposes. Non-residents who are granted temporary residence status are permitted to repatriate income earned in Solomon Islands or brought in from abroad without limitation. The 156 new applicants were non-residents mostly employed by the national projects and the new Chinese Embassy in Honiara.

Table 4.3

Number of Temporary Resident Accounts Application approved 2015-2020						
	2015	2016	2017	2018	2019	2020
Newly Approved Temporary Resident applications	125	149	248	302	289	156
TR Applications Renewals	85	53	16	144	112	48
Total TR Approved	210	202	264	446	401	204

Source: CBSI

Non-resident (NR) Accounts

In 2020, CBSI approved four non-residents accounts, of which all are non-resident individuals. Individuals and corporate entities residing outside Solomon Islands who wish to open and hold bank accounts with a resident authorized dealer (commercial banks) in Solomon Islands require CBSI approval. Sources of funds for the NR account are usually from local business operations or local bona-fide activities.

Foreign Currency Account (FCA) Facility

During the year, CBSI approved eight new FCA applications and renewed sixteen expired accounts. About 75% of these accounts were denominated in USD while the remainder were in different currencies. There was an increase in the reported foreign exchange exposure from \$1,291.7 million in 2019 to \$1,465.0 million at the end of 2020 (See Table 4.4). Most account holders complied by providing monthly reports and data on time. To date, there are 65 active foreign currency account holders approved by CBSI, of which 57 FCA are held with local banks while 8 FCA are held with banks outside the Country.

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

Table 4.4

Number of Approved FCA Held by Exporters and Non-Exporters 2015-2020						
	2015	2016	2017	2018	2019	2020
Account Holder/ Entities	44	50	27	30	36	45
Qualified Exporters	12	13	5	5	6	2
Non- Exporters	32	37	22	25	30	43
Total Number of accounts held	72	78	35	38	56	65
On- shore	65	71	32	35	51	57
Off- shore	6	7	3	3	5	8
Total Value : (SBD million)	1,132	434	468	750	1,291	1,465
Note: Some account holders hold more than one FC account						

Source: CBSI

Foreign exchange (FX) Restricted Classified Dealers

In 2020, CBSI specifically issued one new classified foreign exchange dealer's license and renewed thirteen (13) existing licenses. (See Table 4.5). Of the total licenses issued, 11 were issued to eligible local companies to operate as money changer services dealers whilst 3 licenses were for money transfer service providers in the country. The money transfers services licenses were issued to companies using approved and well recognized money transfer platforms with appropriate AML policy standards. This foreign exchange dealers' license is valid for 12 months and renewable thereafter with standard annual license fees. Reporting and monitoring of all classified money changers license holders remains a challenge in 2020, however manageable. The Bank generally supports and promote development of the financial services sector through the licensing of foreign exchange market dealers in the country.

Table 4.5

Number of Approved Foreign Exchange Money Transfer and Money Changer Licenses						
	2015	2016	2017	2018	2019	2020
Money Transfer services	4	4	3	3	3	3
Money Changer Services	11	9	10	10	10	11
Total FX Classified Dealers	15	13	13	13	13	14

Source: CBSI

Private Sector Debt (Private Sector Offshore Borrowing)

Resident entities or persons wishing to borrow funds from abroad or creating debt in favor of non-residents must obtain CBSI approval pursuant to Exchange control policy and regulations. This is necessary to ensure private sector debt are properly registered and monitored. The approval is also a prerequisite for any loan repayments in the future.

During the year, CBSI received and approved 13 external loan applications from corporations (See Table 4.6) for the purpose of financing business expansions and other projects in the country. The total foreign currency exposure of these authorized external loans is equivalent to USD57.8 million (SBD456.6 million).

Table 4.6

Number of Private Sector Overseas Borrowing Approved						
	2015	2016	2017	2018	2019	2020
Applications received & approved	10	11	20	7	16	13
Value in SBD million	217	133	1,681	291	106	456

Source: CBSI

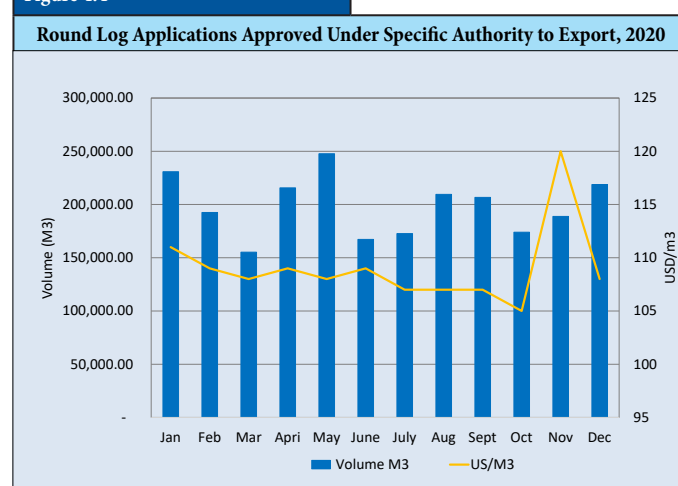
Exports Administration

The primary objective of export administration is to ensure that the country fully benefits from the proceeds of the exported goods and services. The Exchange Control (EC) Regulation requires that exported goods

and services should receive a fair and reasonable world market price for its commodities. It also requires that foreign export receipts must be remitted back fully within 3 months from the date of export. The EC regulation requires that foreign exchange exports proceeds must be sold to a commercial bank in the Solomon Islands. CBSI administers controls on exports using two authority frameworks namely the General Authority (GA) to Export and the Specific Authority (SA) to Export. SA to export covers round logs and bechedemer exports and GA to export covers all other commodities not listed under SA.

In 2020, CBSI issued 842 Specific Authorities to export to round log exporters. This was a decrease of 9% from the previous year. The estimated volume also decreased by 12.4% to 2.379 million cubic meters with an approximated value of \$1,999.6 million (See Table 4.7).

Figure 4.4



Source: CBSI

Table 4.7

Number and Value of Log Applications for Specific Authority to Export, 2020						
	2015	2016	2017	2018	2019	2020
Total Applications approved (numbers)	819	829	997	924	922	842
Total Value of Exports-SA Approved SB\$ million	2,536	2,368	2,995	2,997	2,526	1,999.6
Volume of Exports-SA Approved (million m3)	2.679	2.612	3.156	2.822	2.717	2.379

Source: CBSI

In 2020 there was no approval for Specific Authority to export of Beche-de-mer. This was a result from a ban on harvesting and exporting of this lucrative sea resources enforced by the Ministry of Fisheries and Marine Resources (MFMR), SIG; effective as of August 2019. (See Table 4.8). Beche-de-mer trade is unique as it was closely controlled by MFMR. The ban had been a conservation measure to protect the resource from over harvesting.

Table 4.8				
Number and Value of Beche-De-Mer Applications fOr Specific Authority To Export, 2020				
	2017	2018	2019	2020
Total applications approved	16	13	40	NIL
Total value of exports (SBD Million)	13.127	5.363	16.238	NIL
Total Volume (Kg)	219,343	92,522	223,559	NIL

Source: CBSI

Imports Payment Administration: Applications above required CBSI limits.

As part of its Exchange Control Policy duties and requirements, CBSI is obliged to monitor most major overseas payment transactions. All applications for travel, personal transfers and sustenance above \$30,000 require approval by the Bank. Furthermore, trade and services payments exceeding \$100,000 must be referred to CBSI for approval before the commercial banks can settle payments. The authorized dealers (commercial banks) are permitted to approve foreign exchange payments for amounts less than the \$30,000 and \$100,000 thresholds.

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

During 2020, the number of applications referred to CBSI for approval totaled 7,291 applications and valued at \$4,125 million. This figure includes all merchandise trade comprising around 68.2%, service payments at 18.5%, capital transfers at 11.8% and personal transfers comprising 1.5% of the total payments (See Table 4.8). The average value per application decreased from \$722,529 in 2019 to \$565,766 in 2020, indicating a slight fall in high value payments overseas.

Table 4.9						
Number and Value of Foreign Exchange Applications Approved by CBSI: 2015-2020						
	2015	2016	2017	2018	2019	2020
Total Applications approved	8,135	8,992	8,766	8,700	7,291	7,435
Value of applications Approved SBD (Millions)	5,284	5,258	5,977	6,167	5,372	4,125

Source: CBSI

Share Transfers

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

In 2020, the CBSI granted authority to five resident individuals to register ordinary shares ownership in a non-resident corporate entity overseas. Approvals were also granted for an application by a resident company registering shares to two non-resident individuals. Additionally, two resident corporate companies registered or purchased shares ownership to a non-resident corporate entity.

CBSI encourages applicants wishing to apply for share transfers to familiarize themselves with the exchange control requirements or to consult the Bank for further information on the requirements for this regulation prior to submitting their application to CBSI for assessment.

FINANCIAL SYSTEM REGULATION

The Financial System Regulations Department (FSRD) working within the constraints of available resources continued to discharge its licensing, regulatory and supervisory mandates to maintain and promote financial stability as required under the Financial Institutions Act (FIA) 1986. Overall, the financial system was relatively stable in 2020 despite disruptions to business activities in Honiara from the adverse impact of the global pandemic, which also increased the vulnerability of the licensed financial institutions. FSRD was careful in balancing the need to comply with public health warnings and containment measures in response to the COVID-19 pandemic and the work it must do to continue to implement its licensing and supervisory mandates. Subsequently, FSRD successfully delivered about 86% of its KPIs planned for the year as shown in Table 4.10.

Table 4.10						
Completion Status of KPIs(Sacle 5-1; 5-100% completed, 4-75%, 3-50%, 2-25% and 1's not started)						
Key Responsibility Area	5	4	3	2	1	KPIs
KRA 1: Risk Identification, Assessment and Mitigation	3	2				5
KRA 2: Market Intelligence and Relationship Management	2					2
KRA 3: Information Dessimation	2					2
KRA 4: Tools and Instructions	3	3		1		7
KRA 5: Department Management and Administration	3	1	2			6
Total KPIs per stafe of completion	13	6	2	1	0	22
As % of total KPIs	59%	27%	9%	5%		

Source: CBSI

Similar to 2019, the KPIs were spread across broad KPI themes that included onsite examinations, stress testing, meetings, workshops, risk rating assessment and prudential guidelines and consultations on policy for legal reforms.

The number of financial institutions in the financial system remained unchanged during the year with four commercial banks, one Development Bank, two

credit institutions and about ten active credit unions operating in the system. Only one out of the two commercial banks that have branch offices operating outside of Honiara continued to provide over the counter banking services in two of the big provinces; namely, Western and Malaita provinces. The other commercial bank had closed branch operations in Gizo, Western Province in early September 2020. Although, it continued to provide support to its customers who have since shifted to online banking platforms following the closure of the bank's Gizo branch operations. In terms of new entrants to the market, the re-opening of the Development Bank of Solomon Islands (DBSI) in 2020 coupled with the potential addition of a new credit institution in 2021 should allow for growth and competitiveness in the financial system. The Central Bank has granted Solomon Finance Limited¹ (SFL) an Interim License to operate banking services as a credit institution during the year.

In terms of supervision, the risk based onsite supervision carried out by FSRD in 2020 was primarily focused on credit risk, liquidity risk and corporate governance. Although offsite surveillance is part of the risk-based supervision framework, it had become even more necessary during the COVID-19 pandemic as the containment measures restricted traveling and face to face meetings which affected the supervisors in the delivery of their responsibilities. Supervision was never the same for the department as supervisors relied on prudential reporting, telephone and email communications as well as virtual meetings to conduct their supervisory mandates. Likewise, supervisory meetings and workshops with external stakeholders were also conducted virtually. For instance, BSP Supervisory College was conducted virtually in August 2020 and consultation with PFTAC-IMF on improving supervisory framework was also implemented on the virtual platform due to COVID-19 related travel restrictions. Consequently, the FSRD successfully completed the review of ten prudential standards and is awaiting further review and industry consultations in 2021.

A key component of the supervision framework that is vital for the effective operation and stability in the financial system is the suit of prudential guidelines (PG). In 2021, the Bank issued non-objection approval to the appointments of one director and three senior managers that complied with the requirements of PG15. The Bank also issued a supervisory guideline on cybersecurity under the FIA.

On advancing relevant legislations for supervision, the Central Bank has progressed legal reforms despite the global pandemic whilst working in partnership with its stakeholders including the World Bank Group, IFC, IMF and other donor governments and agencies. The following legislations are ready for the Bills and Legislative Committee review before enactment by the Parliament:

Name of Legislation	Status
Financial Institution Act 1998(as amended)	Drafting completed
Credit Institution Bill	Drafting completed
National Payments System Bill	Drafting completed
Insurance Act	Consultation on policy for review of Insurance Act is in progress
SINPF Act	Amendment to this Act is WIP for SINPF

At the end of the financial year, the Bank covered a total of seven out of the ten provinces as part of its consultation program on a policy for the review of the Insurance Act. Whilst the progress is slow, the Bank remains adamant that consultations will be concluded in 2021. In the same vein, and with good progress made globally to contain the virus, other draft legislations that are awaiting enactment by Parliament and is envisaged to be passed in Parliament in 2021.

Additionally, the Bank has also recognized the need to allow non-bank payment service providers to provide mobile money services and provide alternate payment platforms besides the traditional payment services provided by commercial banks. To facilitate innovation in the payment landscape and, in the absence of a Payments System Act, the Central Bank has progressed work on:

- introducing a local regulatory sandbox request for proposal (RFP) sent to potential candidates, and
- e-money regulations – a draft e-money regulation is ready for vetting by the Attorney General's Chambers (AGC).

To improve credit reporting, the Bank is also To improve credit reporting, the Bank is also participating in a comprehensive credit reporting project which will hopefully see a new set of regulations for credit reporting in Solomon Islands. Consultations with stakeholders on the draft credit reporting policy has been completed and CBSI is now liaising with the AGC on converting the policy paper to draft regulations.

De-risking or the loss of corresponding banking relationships (CBRs) continued to be a concern for the Bank. While assurance was received from branches of foreign owned banks and a locally incorporated bank operating in the country that the issue of CBRs was not so much of an issue to them, the Bank continued to raise this concern at bilateral meetings as a way of maintaining confidence that transactions will continue to flow unabated due to CBR issues

FINANCE & ACCOUNTS

Finance and Accounts Department continued to perform its responsibility in ensuring the operations of the Bank are financed and managed to achieve the Bank's yearly plans as well as maintain its objectives. 2020 was very challenging, with the investment returns to finance operations relatively weak. Nevertheless, the

¹ Solomon Finance Limited (SFL) is a subsidiary of Solomon Islands National Provident Fund (SINPF), which holds about 38% of financial assets of the country's financial system.

Bank remained operational all through to the end of the financial year with a profit of \$76.2 million, total assets of \$5,835 million, total liabilities of \$5,451 million and equity of \$385 million. Details of this financial status and performance is on page 42(p42), the audited financial statements of the Bank for 2020.

Budget

The Board approved an annual budget of \$131 million for 2020 in November 2019. However, this budget was reviewed downward in June 2020 to \$113 million to reflect the adverse realities of the COVID-19 pandemic on investment returns and major expenditure plans. While budget cuts were executed across most expenditure items, the critical functions of the Bank were continued to be funded but with tight financial management scrutiny.

Reporting

Financial reports continued to be made available on a weekly, monthly and quarterly basis to assist management and Board to make critical decisions in managing the Bank in these uncertain times. The cordial working spirit of staff, management and Board made it possible to maintain services through-out the year. The Management and Board recognized the critical decisions and sacrifices staff made to remain at work during the COVID-19 pandemic and thus ensured all possible assistances are available to staff families should the virus transmits beyond the quarantine centers in Honiara.

Audit

Both internal and external auditing continued during the year. External auditors maintained their service through an off-site connect system where requests for information provision can be facilitated and tracked. This is a new approach to continue with services while the border restrictions are in place and ensures that deadlines are still met in terms of providing an audited financial statement for the government.

COVID-19 Impact

COVID-19 onset is not only negative but it also helps the department to test its responsiveness to such a situation. It enabled the Bank to; review its budget and live within its means, explore other ways of doing things from remote locations, reconcile critical revenues with critical spending, and putting the Bank's business continuity plan to test.

Capital Expenditures

The Bank continued to progress items that are doable for the new office building project despite the challenges imposed by the COVID-19. Communication with important stakeholders in this building project has continued, leading to the achievement of several milestones including tender for expression of Interest, shortlisting, ground preparations, an underground services preparation.

CAPITAL PROJECTS

The Central Bank of Solomon Islands' new Head Office project remains the single major project undertaken

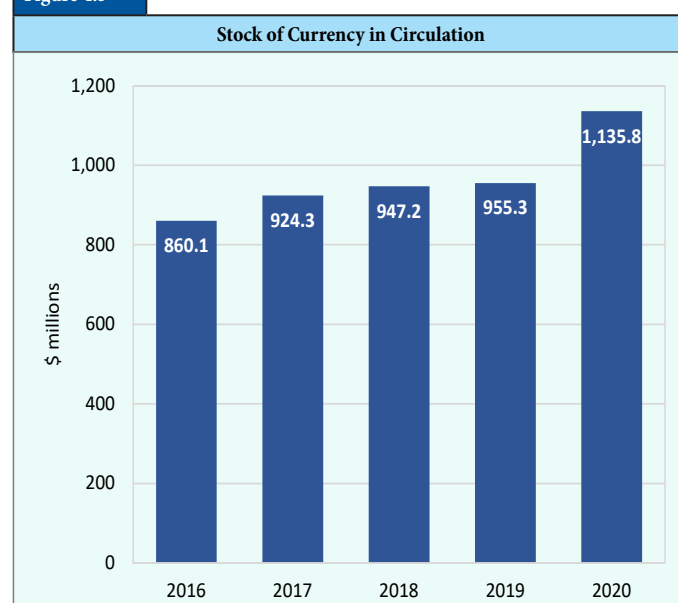
during 2020, despite the impact of the COVID-19 pandemic. At the outset, it was envisaged that the Bank will see the construction phase commence in the third quarter of 2020. However, this was not possible, as the project went through a sluggish pace, due to varying degrees of impacts as a result of the COVID-19 pandemic, particularly with the travel restrictions. Despite this setback, collaborations between the Bank, James Cubit Architects of Brisbane and other consulting firms continued through teleconferences and online modes, essentially progressing the project forward. During the year, the project team was able to accomplish 90% of the Contract Documentation phase and began the Tender phase by conducting the Expression of Interest (EOI) process. The EOI was advertised in the national and some regional newspapers, and was conducted on the Illion Tenderlinks online portal. A total of eight (8) international construction companies submitted their interest and technical bid, however only six (6) were short listed to participate in the Financial Tender (RFT). The RFT requires site assessments and was not able to be conducted due to the border restrictions issues. Other project preliminary requirements such as engagement of consultant to undertake Environmental Impact Assessment (EIA) and lodgment of the Building Permit Application to the HCC Town and Country Planning Board were able to be initiated during the year. The Bank is committed to the project and continues to progress it further, despite the current challenges.

CURRENCY AND BANKING OPERATION

Currency

As at the end of 2020, the total value of currency notes and coins in circulation increased by over 18% to \$1,135.8 million from \$955.3 million in the previous year (see Figure 4.5). Out of the total currency in circulation, notes accounted for \$1,102 million while the coins made up about \$34 million.

Figure 4.5



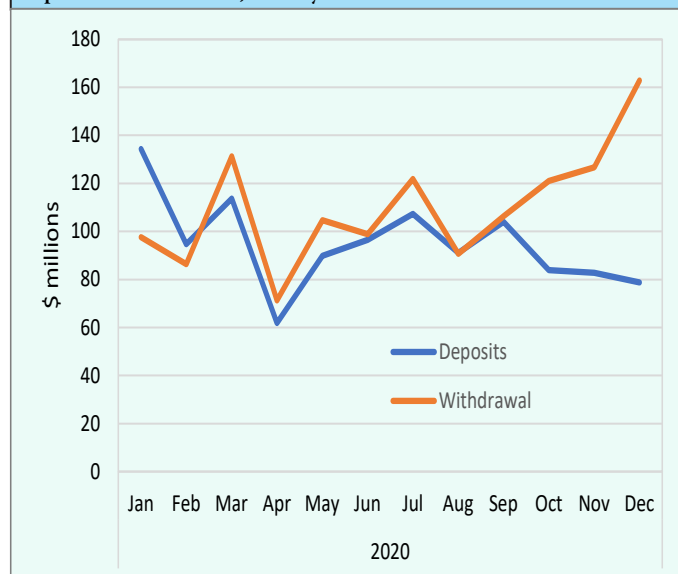
Source: CBSI

Figure 4.6 shows the deposit and withdrawal monthly trends within the working store in 2020. The average

monthly deposit in 2020 was \$94.9 million while average issued per month was \$109.9 million

Figure 4.6

Deposits and Withdrawals, Monthly Trend in 2020



Source: CBSI

The total cash withdrawal continued to increase in the second quarter and fourth quarter due to the quarantining of all deposited notes as the Bank is taking extra measures in implementing the safe cash requirement effective since the COVID-19 pandemic was declared at the end of the first quarter of 2020. With this, a 14 days quarantine on all cash deposits from commercial banks was introduced. This has led to the demand for more new notes to be issued into circulation. The 14 days banknotes quarantine was reduced to 7 days in July with its aim to reduce cost of new notes issued to circulation.

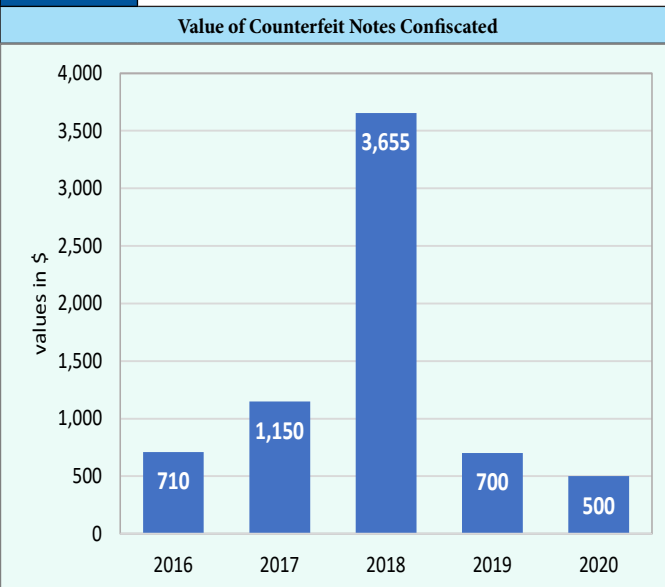
One contributing factor to the high demand for new notes in December would be the pay out of the Economic Stimulus Package, COVID-19 payments and the low volume of deposits by commercial banks while withdrawals continue to increase until late December 2020. Meanwhile, the Cash Control Unit transferred a sum of \$144.5 million worth of soiled notes to Cash Processing Unit for destruction during the year.

Counterfeit Notes

Five pieces of counterfeit notes were confiscated from the public in 2020, a 29% decrease from 2019 on account of positive awareness programs in 2020. All the impounded notes were counterfeits of the new \$100 notes series introduced in 2016. (See Figure 4.7). The Bank continued to educate the public about the legal risks of circulating counterfeit notes through radio and print media throughout the year. The Bank also conducted counterfeit note awareness programs at various schools and institutions around the country.

The public at large is encouraged to develop and practice the basic habit of knowing, checking and feeling a genuine currency note before accepting them in exchange for goods or services.

Figure 4.7

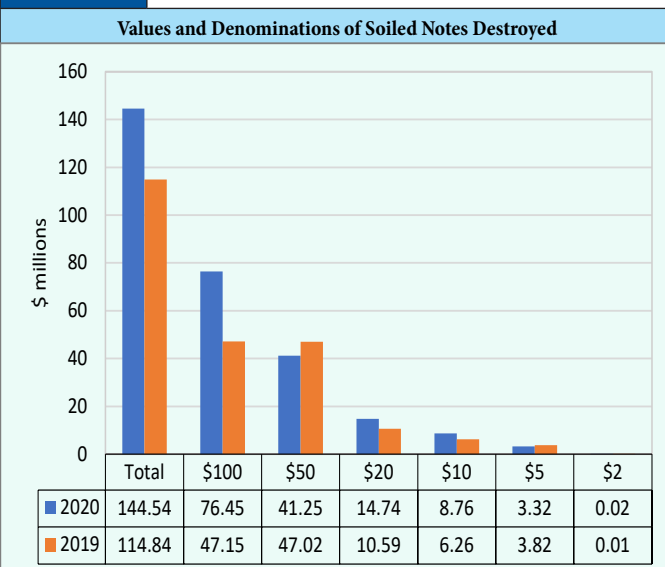


Source: CBSI

Note Processing

In 2020, \$144.5 million worth of soiled notes was processed and destroyed compared to \$114.8 million in 2019, an increase of 26% from 2019 (see Figure 4.8). The high rate at which soiled notes were returned from circulation remained a concern for CBSI as pressure on replacements costs continue to rise amidst the demand for FIT and ATM fit notes. This trend indicated poor handling of currency notes among the general populace and despite the Bank's extensive radio and public awareness on how to care for the currency notes.

Figure 4.8



Source: CBSI

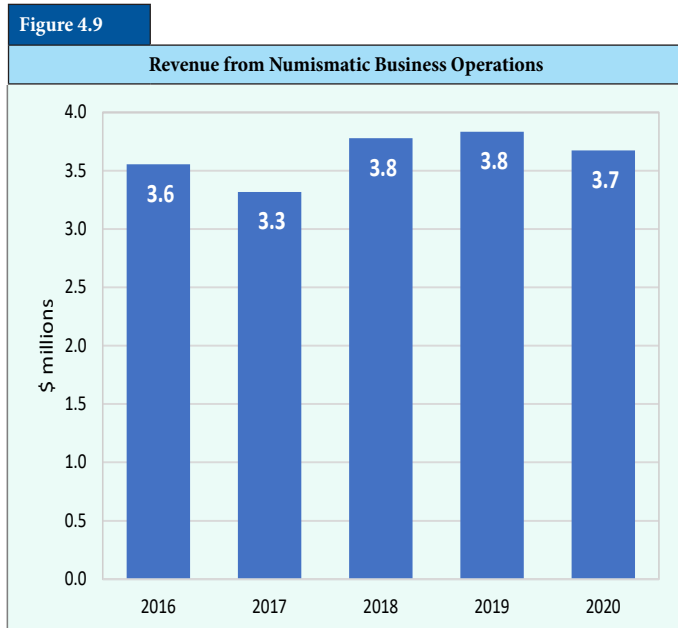
Cash Processing Solution (Australian) and XRange Cash Systems Engineers continued to provide maintenance and servicing support of our sorting and Cobra destruction machine in 2020. The Bank hopes this should improve efficiency and build local capacity in the Bank's back office cash operations.

Proceeds from Numismatic Programs and Products

Total revenue from numismatic business operations during the year dropped by 2.6% to \$3.7 million from

\$3.8 million in the previous year (see Figure 4.9). Sales from commemorative coins and uncirculated notes and coins sold locally and externally, increased to \$0.50 million in 2020 compared to \$0.15 million in 2019. Of the total revenue, 94% was from royalty receipts whilst 6% was raised from the sale of commemorative coins and, numismatic notes and coins. Overall, the total revenue raised in 2020 exceeded the budget projections for numismatic operations and this reflects the Bank's positive numismatic business relationship and effective communication with its customers and clients.

In terms of coin programs, the bank has approved 72-coin programs from MDM/WCA in Germany and 48-coin programs from Royal Australian Mint (RAM), in total 120-coin programs were approved during the year. A huge percentage of the approved coin programs portrayed land marks, nature, historical icons, and cultural heritages sites of significant value. Other designs portrayed important technological developments and innovations in the transport and communications industries that also impacted on humanity generally. Some of the coins produced in 2020 were products of innovations involving state of the art technology which rendered them very unique in the market.



Source: CBSI

One exciting coin program in 2020 was the 95th Birthday of Queen Elizabeth II "Celebrating the Glorious Life of Queen Elizabeth II. Her Majesty Queen has given approval to the designs that was produced and it is a reputational coin program within the international numismatic market. The integrity of the coins continued to be the major determinant in approving the Bank's participation in the coin programs. CBSI is expected to participate in several new commemorative coin programs, with the vision for better revenue in 2021 and 2022.

Debt Management

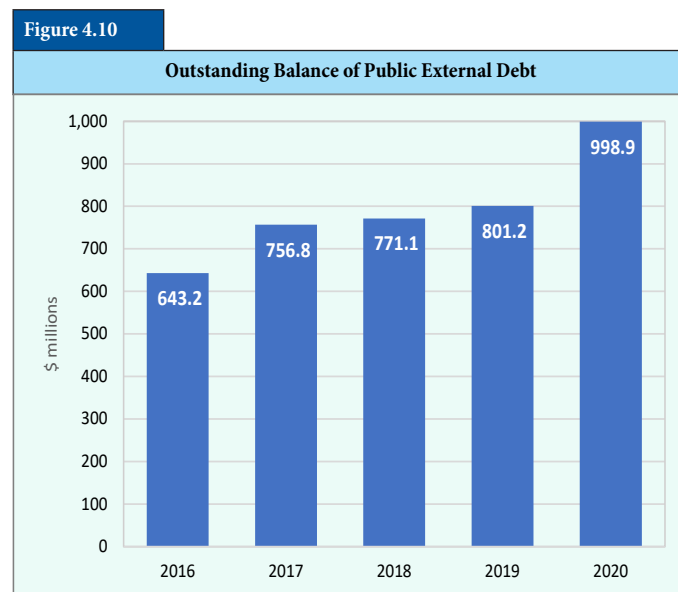
The CBSI Debt Unit (CDU) continues to act as the secondary site for the Government's external public

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

As part of its activities CDU performs the monthly loan validations on the CS-DRMS, dispatches quarterly external debt statistics (QEDs) to the World Bank and uploads auction treasury bills results on the CBSI website after each weekly auction. CDU also maintains external private debt database. CDU also holds regular meetings with the DMU on administrative and technical issues including capacity development issues.

The external public debt profile is made up of thirty-six active loans, with five main principal creditors namely, the Asian Development Bank (ADB), International Development Association (IDA), European Union (EU), International Fund for Agriculture Development (IFAD) and Export Import Bank of Republic of China (EXIM). Out of the 36 loans, eight are still disbursing while 1 is yet to be disbursed. A total of three loans were fully repaid during the year. The increase in the number of loans was due to four (4) new loans being contracted and disbursed in 2020.

Total public disbursed outstanding debt (DOD) at 31st December 2020 was \$998.9 million and is expected to increase to \$1,117.3 million at the end of 2021. Compared to 2019, the DOD increased by \$197.7 million from \$801.2 million (see Figure 4.10).



Source: CBSI

The increase in the total stock was mainly due to exchange rate movement and disbursements of external loans during the year. Total external debt repayments in 2020 were \$52.1 million of which \$42.9 million was for principal repayments and \$9.2 million for interest payments.

In terms of currencies composition of the total official debt, the Special drawing rights (SDR) accounted for 80.3 percent of the total DOD or \$801.7 million followed by the United States Dollar with 19.1 percent or \$190.7 million and Euro with 0.6 percent or \$6.5 million.

Government's Domestic Securities

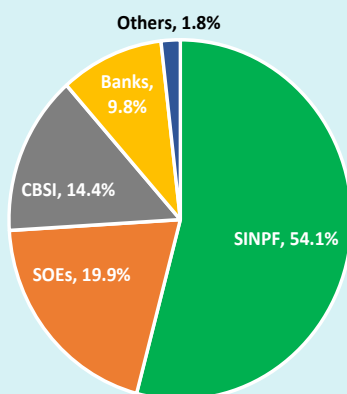
Solomon Islands Government (SIG) domestic debt at end of year was \$451.6 million, an increase of \$178.8 million from \$272.8 million in December 2019. The domestic debt comprised of \$86.7 million in Treasury Bills, \$360.0 million in Government Bonds and \$4.9 million in other SIG special securities. Total domestic debt repaid during the year was \$15.6 million, an increase of \$3.5 million from the previous year.

The treasury bills market continued to function satisfactorily during the year despite the uncertainties of the Corona virus. The Banks and non-financial institutions continued to dominate the weekly auctions with higher volumes of stock in the 182 days maturity compared to the 91 days and 365-days maturities. There was a slight peak in the interest rate in the first quarter (Q1) for 182 days but then remained fairly consistent throughout the year with 0.49% for 91 days, 1.05% for 182 days and 1.95% for 365 days.

The major holders of domestic securities were the Solomon Islands National Provident Fund with 54.1%, Central Bank of Solomon Islands (CBSI) with 14.4%, commercial banks with 9.8%, general public with 1.6% and other creditors with 20.2% (see Figure 4.11). The securities issued were mainly in the form of treasury bills and SIG bonds.

Figure 4.11

Share of Domestic Securities by Major Holders in 2020



Source: CBSI

The rising domestic debt was due to the issuance of SIG COVID-19 domestic development bonds in Q2 and Q4 as part of the Government's strategy to mobilize resources to fund the Government's economic stimulus package.

Banking & Payment Services

The Bank continued to deliver banking services to licensed financial institutions, the Solomon Islands Government and other non-banking financial institutions as mandated in the CBSI Act 2012. Such

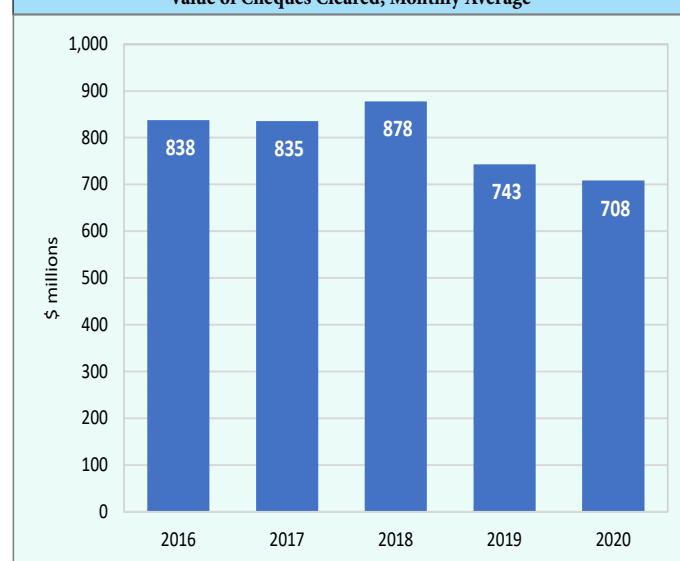
banking services include, but are not limited to, administering local and foreign currency denominated impressed accounts established with the Bank by SIG and its donor partners, facilitating transaction payments instructions, reconciliation of account balances, daily monitoring of free liquidity of the commercial banks and the proper upkeep of records for audit trails and requirements. In 2020, CBSI opened a call account for the recently opened Development Bank of Solomon Islands (DBSI). This was in addition to those for the existing four licensed commercial banks operating in the country.

Clearing House Activities

The CBSI facilitates clearing of cheques drawn on the four licensed commercial banks operating in Honiara. In 2020, a monthly average of 15,345 cheques with a total average value of \$708 million passed through the Clearing House (See Figure 4.12). The total value of cheques cleared in 2020 slightly reduced by \$416 million compared to 2019. This is due to the introduction of financial instruments by the commercial banks into the financial sector since 2018.

Figure 4.12

Value of Cheques Cleared, Monthly Average



Source: CBSI

Small Business Finance Guarantee Scheme.

As required under the new signed MOU with the Government in 2016, CBSI continues to administer the Small Business Finance Guarantee Scheme (SBFGS) which reports directly to Solomon Islands Government on a quarterly and annual basis on the state of the scheme.

In 2020 twelve (12) loans were received from participating institutions and approved for guarantee under the scheme compared to 9 approvals in 2019. This brings the total approved loans to 28 as from 2016 to 2020. Of the total, 1 had fully paid off its loan with PIs, 4 had been cancelled.

Table 4.11

Summary of SBFGS.

	2016	2017	2018	2019	2020	2016-2020
No. of Nominations						
Approved	2	3	2	9	12	28
Rejected	0	1	0	1	0	2
Total	2	4	2	10	12	30
Values In \$millions						
Gross Loan	0.718	0.957	0.720	1.702	3.347	7.444
Risk Distributions						
(i) to Borrower	0.245	0.317	0.33	0.395	0.999	
(ii) to Scheme	0.426	0.576	0.351	1.177	2.113	
(iii) to Finance Provider	0.047	0.064	0.039	0.131	0.235	

Source: CBSI

Following the higher number of nominations approved during the year, the total gross value of loan guaranteed increased from \$1.702 million in 2019 to \$3.347 million at end of 2020. The risk distributions to the borrower, the Scheme, and the lenders were \$0.999 million, \$2.113 million, and \$0.235 million, respectively.

INFORMATION TECHNOLOGY

The Information and Communications Technology Department's (ICTD) continued to provide the management, security and delivery of ICT services to support the corporate objectives of the Bank in 2020.

The following projects were completed or progressed across the activities of the Bank during the year:

Continuous Enhancement of the ICT Infrastructure

These enhancements provided a more resilient platform for the bank's IT services. These included:

- The installation and deployment of the Bank's new firewall, which enabled secure remote access solution and allowed the bank's employees to access the network and business data securely wherever they are located.
- The installation of the new wireless access devices at the Production site and the Disaster Recovery (DR) site, which supported the enhancement of the bank's network accessibility and services.
- Maintained the bank's servers, computers, printers, network cabling, UPS that avoided any major operational disruption.
- Maintained the network services on the bank's rented office and the bank's DR Office.
- Acquired and deployed new laptops, desktops and printers that replaced the outdated computers and printers and accommodating the new bank employees.

Systems Enhancement and Development

In 2020, the bank's existing software applications were

maintained and licenses were renewed. Moreover, the completion of the required mandatory upgrades on the bank's SWIFT Systems during the year enabled the bank to comply with the SWIFT security standards as well strengthened the bank's international payment system.

Furthermore, the installation, testing and deployment of the bank's HR System allowed staff to access their personal details, roles and responsibilities on their desktops increasing the efficiency of HR processes. When fully completed, it will support and enhance the functions of the HR unit in the bank. Additionally, the installation and configuration of the upgraded Koha System boosted the administration of the bank's library in 2020.

The ICTD and FAD with the assistance of an external consultant continued with the project to restructure the bank's general Ledger chart structure in 2020. This project is expected to boost and enhance the banks accessibility to its accounting information and reports when fully completed.

Security and Disaster recovery (DR)

The bank continues to ensure that its network infrastructure and information assets are protected from both internal and external security threats and risks and subsequently applied appropriate security control measures in 2020. These included the progressive implementation and monitoring of the bank's network security controls, systems auto updates and installation of anti-virus software, updating of the bank's computers and servers and installation of the bank's firewall that provide support in monitoring and controlling of incoming and outgoing network traffic.

Apart from maintaining its DR infrastructure, the bank continued to replicate the productions systems and data on to the DR servers daily, conducted tests on the connectivity and availability of the DR systems and data and conducted tests on the SWIFT Contingency System at the DR site. The DR testing ensures the bank's preparedness under unexpected shocks to the bank's normal operations. The installation of the tape backup with availability of the backup updated software also enhanced the backup process on the bank's systems and data in 2020.

Enhancing ICT Support Services

The Bank enhanced its access to internet service with the increased internet bandwidth and its upgraded wireless connectivity.

The Bank also enhanced access on its business data remotely with the availability and functioning of its new firewall and also enabled provision of ICT support services remotely.

Maintained network support services delivery for the bank's staff which included printing access service, emails access service, share-point access service, voip access service, video conferencing access service and file sharing service ensuring appropriate level of access

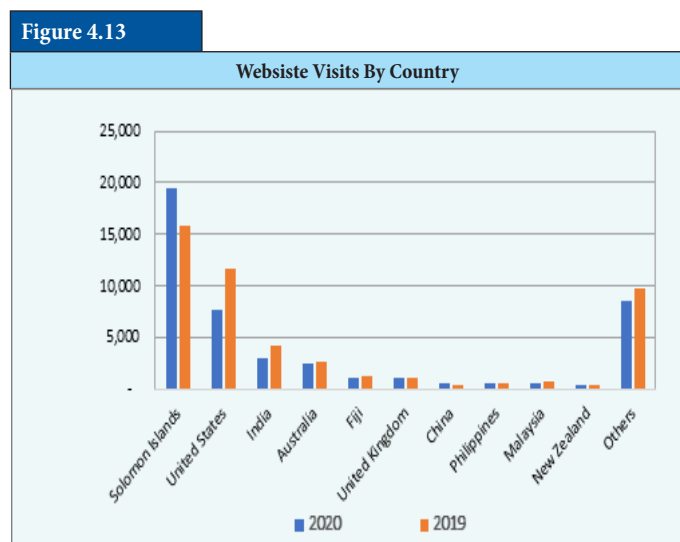
for staff on the bank's network files and systems. Provided information sharing through in-house training for staff either individually or groups with the required bank's available software applications and tools such as training on VPN connectivity, WebEx team application and soft phone application.

Enhancing ICT policies

During the year, the Bank completed the documentation of its revised IT Policy and Procedures and the Cyber Security Policy. These policies will support and effectively guide the ICT department in carrying out its responsibilities and the implementation of the Bank's information security.

CBSI Website Visits

In 2020, the total number of visits to the CBSI website was 45,916, a decrease of 6% from 48,736 visits in 2019. Among the visitors from over 198 countries, Solomon Islands accounted for (43%), United States (17%), India (7%), Australia (5%), Fiji (3%), and United Kingdom (2%). See Figure 4.13



Source: CBSI

INTERNAL AUDIT

The Internal Audit Unit (IAU) had and will continue to remain independent and objective in its assurance, consulting and value-added activities.

Professional and ethical conducts (including duties and responsibilities) had been closely guided by the CBSI Internal Audit Charter and the Institute of Internal Auditors' International Professional Practices Framework (IPPF).

As the secretary to the Board Audit Committee (BAC), the Unit had ensured that the mandated scheduled meetings (at least one meeting per quarter) had been complied to, minutes are appropriately and timely prepared, and recommendations were timely disseminated to responsible business functional areas.

Assurance audit reports on internal control Assurance audit reports on internal control effectiveness and risk management were presented to the Committee on quarterly basis, but after conducting crucial audit closing meetings with auditees. Auditable areas were identified and audited, based on high risk assessment processes. The Executive Board had been continually informed of IA performance and output, through the Chairman of the Board Audit Committee, whom is a non-executive and a member of the Board.

The positive tone from the top on organizational risk culture had established an enabling environment for the better achievement of the IA operational plans, through the enhanced execution of the third line of defense function, in risk management.

The Unit had worked closely with the Bank's External Auditor (EA) and the Office of the Auditor General over the year, and will continue to do so, in the future. The EA's management letter points (MLPs) on the audited 2019 Financial Statements, formed part of the IAU's follow-up audit plan for 2020. Management action plan(s) on MLPs (including IA MLPs), were presented quarterly to the BAC for review, and where applicable, for advice and assistance, on further appropriate action(s).

In its last meeting (Q4, 2020), the Board Audit Committee had endorsed the Annual Internal Audit Plan, for the next twelve

CHAPTER 5: FINANCIAL INCLUSION

The Solomon Islands National Financial Inclusion Strategy 2 2016-2020 (NFIS2) is a roadmap for national efforts to drive financial inclusion in Solomon Islands. The year 2020 marked the end of NFIS2 and capped off five years of implementation since 2016. Overall, progress has been made despite the structural challenges confronting financial inclusion which may have diminished the scale of efforts envisioned to drive progress and achieve the national financial inclusion targets on time.

The NFIS2 mission stipulates that by 2020:

1. 300,000 adults (of which 150,00 are women) will be active users of formal or semi-formal accounts; and
2. 90% of the population will have a financial service access point one hour of ordinary travel from home.

By end of 2020, the NFIS2 targets has reached 273,469 aggregate active users of financial accounts of which 140,861 were women active users. The aggregate active users achieved 91% of the targeted adults and 94% of the overall target of women users. However, one of the caveats to this aggregate data is the issue of double-counting relating to supply side data. The CBSI is hopeful that the soon to be released financial inclusion 2019 census data would provide a better picture of the unique users which would complement the supply-side data provided by financial inclusion stakeholders.

In terms of access points, Table 5.1 shows the total commercial banks access points for the years 2016-2020 and the aggregated access points per province as of 2020. Accordingly, overall number of access points increased since 2016 until 2018 which then saw a continuous downward trend. This is due to the decline in the number of agent network which serve most rural Solomon Islanders. As such, the reduction means increase in ordinary travel to a financial service access point for a customer and this is an issue to address as this is not aligned with the second mission goal.

Solomon Islands National Financial Inclusion Strategy 2, 2016-2020.

Following the completion of NFIS2 in 2020, the CBSI conducted a nation-wide consultation with key relevant stakeholders from the government, financial sector, provincial government executives and stakeholders, private sector, NGOs, civil societies, women groups (savings groups) and the National Financial Inclusion Taskforce (NFIT) working groups. The consultations were to determine the status of NFIS2 and, to inform the development of the Solomon Islands National Financial Inclusion Strategy 3 2021-2025 (NFIS 3) based on lessons drawn from NFIS2 as well as feedbacks from stakeholders on the way forward for financial inclusion in Solomon Islands. The consultation also factored in the development of the Solomon Islands National Digital Economy Strategy (NDES) in which the CBSI has assisted Ministry of Communications and Aviation (MCA) to examine the core underlying digital infrastructures that would support the digital ecosystem for Solomon Islands and bridge the digital divide. The NDES is also crucial for the implementation of NFIS3 digital financial services related aspects. More than 100 participants representing various key relevant stakeholders were consulted.



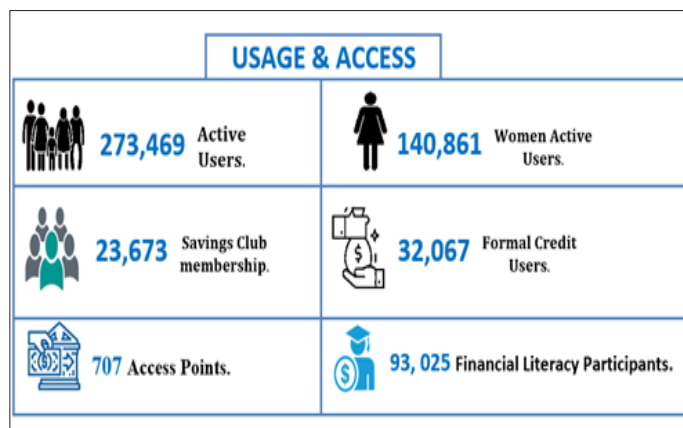
CBSI with the Western Provincial Government & Executives during the NFIS3 consultations

The NFIS2 review report highlighted overall progress but, to varying degrees in key priority areas of access and usage of financial services including formal credit users, financial literacy reaches and, broadening the access to and usage of financial services through savings groups. These indicators provide some measure on the

Table 5.1

COMMERCIAL BANKS ACCESS POINTS															
Indicators	2016	2017	2018	2019	2020	Choiseul	Western	Isabel	Malaita	Guadalcanal	Central	Makira	Renbel	Temotu	Honiara
No. of Branches	14	14	15	15	15	0	3	0	1	0	0	0	0	0	0
No. ATMs	42	53	56	57	58	0	7	0	2	1	0	0	0	0	48
No. of EFTPOS Terminals	310	416	440	404	325	6	48	3	7	12	5	4	0	4	236
No. EFTPOS Merchants	256	280	306	289	253	0	34	0	5	11	1	0	0	0	202
No. of Agencies	7	7	7	7	7	1	1	1	2	0	0	1	0	1	0
No. of Mobile access points or Agents	192	234	210	164	50	7	11	3	7	1	4	4	0	3	10
Total Access Points	821	1,004	1,034	936	707	14	104	7	24	25	10	9	0	8	506

status of financial inclusion in Solomon Islands over the period.



The report further details progress made against 21 Key Result Areas (KRAs) under six strategic objectives, the KRAs that were achieved and those that were not progressed by end of the five-year period. As at end-December 2020, NFIS2 execution showed completion of 5 KRAs, 14 considered to be “in progress” and 2 KRAs with “no progress” (see Table 5.2). The outstanding KRAs on microinsurance and geo-spatial mapping of financial access points will be an ongoing initiative in the next strategy.

The six Strategic Objectives under NFIS2, 2016-2020

These strategic objectives are mainly implemented by the National Financial Inclusion Taskforce (NFIT) and the Working Groups. These working groups are, Digital Finance Working Group (DFWG), Micro Small Medium Enterprises Working Group (MSMEWG), Insurance Industry Working Group (IIWG) and the Consumer Empowerment Working Group (CEWG). Detailed below are some key financial inclusion activities undertaken during the year 2020.

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

In 2020 the focus of the Digital Finance Working Group (DFWG) was geared towards promoting the digitization of government payments and promotion of B2B and B2G transactions. Although the unprecedented challenges of COVID-19 and its downside effects may have impacted most of the action plans intended for the year, some progress has been made on the digital front. Essentially, working group interactions and updates were conducted virtually due to COVID-19 situation.

The Solomon Island Government (SIG) in 2017 made a commitment under the ‘Better Than Cash Alliance’ (BCTA) to digitalize government payments. Under this, the Inland Revenue Division (IRD) of the Ministry of Finance and Treasury (MOFT) with support from

“The table below summarizes the status of strategic objectives and the KRA) indicated as green for “achieved”, amber for “progressing” and red for “no progress” (NFIS2 Review Report)

Table 5.2






























Strategic Objective	Key Result Area	Action Plan	Status
1. Amplify the reach and quality of digital financial channels	1. Permit adequately regulated non-banks, incl. MNOs, to issue mobile wallets.	Implement 1 mobile money solution or service. CBSI to issue PG2 mobile money guide	 
	2. Test and roll-out institutional innovations, such as shared agent platforms.	Pilot 1 shared Agent	
	3. Create the enabling environment for interoperability across mobile platforms for customers	Enact National Payment Bill and supporting regulations.	
	4. Promote digital payment channels in all Government transactions including by SOEs.	Pilot 1-2 digitization projects at Government levels. Document 1 Lessons Learnt from the above	 
	5. Promote digital payments among large private sector employers and associations reaching smaller employers, and in business-to-business payments	DFWG promote electronic B2B and B2G transactions Concerted awareness efforts through SICCI and other business associations	 

Table 5.2 continue on the next page

Strategic Objective	Key Result Area	Action Plan	Status
2. Improving financial services delivery to the MSME sector	1. Continue testing approaches to strengthening linkages between demand and supply in MSME access to finance.	Review MSME Guarantee Scheme. CBSI, MCILI, MoFT to consult with banks on uptake & implement remedies.	 
	2. Create a common platform and ongoing coordination between all stakeholders committed to MSME financial and entrepreneurial development and skills.	Implement MSME National Policy and draft legislation and supporting policies and	
	3. Target MSMEs in strategic rural value chains for MSME business mentoring and inclusion in the formal system	Provide business mentoring access to financial services for MSMEs.	
	4. Develop an appropriate curriculum/key messages for financial literacy targeting MSMEs.	Develop MSME-focused financial literacy curriculum/key messages	
3. Include women, youth and rural adults as fully engaged participants in the national financial sector.	1. Promote access to and usage of formal and informal financial services by women, youth and rural families leveraging a number of channels.	Encourage access to and usage of financial services for women, youth and rural families	
	2. Develop and promote financial literacy for women, youth and rural families.	Develop key financial literacy messages for women, youth and rural families	
4. Build financial resilience in households and communities	1. Integrate basic financial education into targeted education levels and establish database of financial literacy providers	Implement financial education at targeted year levels of schooling. Establish database of financial literacy providers. 1 lesson learnt document at FinEd Pilot at ACOM rural training centres.	  
	2. Pilot microinsurance through product and channel innovation	Insurance Bill is legislated by Parliament. Research and pilot new microinsurance approach	 
	3. Consolidate and expand a national model of semi-formal 'savings clubs' as a behavioral bridge from pre-cash economy towards formal finance.	Disseminate and track Savings groups practice guide.	
5. Build financial empowerment in ways that are relevant to daily life, motivating and actionable.	1. Agree on national principles of consumer protection in financial services, with special attention to rural mobile banking.	Establish Consumer Protection regulations for financial services including mobile banking services.	
	2. Develop a national, standardized hand-out for mobile customers that illustrates standard operating procedures pertaining to mobile money transactions - 'dos and don'ts and who to call for solutions and redress.	SOP documentation to be developed and awareness conducted for mobile money customers	
6. Execute NFIS 2 through effective stakeholder coordination, responsive data and sound evidence.	1. Sustain and enhance common platform to coordinate all initiatives in financial inclusion	NFIT to meet regularly and review mandate and structure regularly.	
	2. Develop synergies and build public private partnership models to progress financial inclusion across Solomon Islands.	Foster and encourage public private partnerships.	
	3. Develop and maintain a geospatial map of all financial access points in Solomon Islands.	Develop a geo-spatial map of access points. Update the afore-mentioned annually or more frequently where the need arises	 
	4. Continue to track demand side trends, particularly in access strands and uses of financial services, to support future initiatives and strategic evolution.	Financial Inclusion tracking questions and indicators developed for the national census.	
	5. Continue to review the existing financial inclusion data measurement framework for alignment with international core indicators	Ongoing review of the financial inclusion data framework through reporting to NFIT.	

UNCDF-PFIP (United Nations Capital Development Fund – Pacific Financial Inclusion Programme) successfully launched the E-tax in September 2017 which now has 565 clients as at December 2020. On the other hand, a total of 1,251 tax returns filed online in 2020 indicating an upsurge when compared to the previous year. The E-tax services provides business houses, agents and registered users the platform to file returns and settle tax obligations payment of taxes to IRD.

In terms of Government's e-payment, MOFT will soon roll out EFTPOS to other government ministries as soon as proper training is conducted. It also introduced ANZ transactive online banking for outbound payments. In addition, MOFT is currently upgrading its Financial Management Information System (FMIS) from Microsoft Dynamics AX 2009 (AX) to Microsoft D365. The upgrade will support line ministries to improve the efficiency and expand payment processing capability, improve workflows efficiency, improve tracking and monitoring, transition paper-based documents into electronic, and provides capabilities for future systems integrations.

E-payments with Customs and Excise Division's ASYCUDA did not progress further following the scoping mission in 2019 due to COVID-19 restrictions and the need for a proper ecosystem to be in place prior. It is envisaged that the passage of the National Parliament Systems (NPS) Bill will assist to necessitate the progress of this initiative.

On the regulatory/policy front, policies or regulations currently in progress include the NPS Bill and accompanying regulations. CBSI, as a member of the Pacific Islands Regional Initiative (PIRI), will pursue the development of in-country sandbox guideline purposely to nurture new opportunities for responsible innovative solutions in the market and more importantly, for effective regulatory and supervisory oversight of providers offering financial services through new innovative channels.

One of the projects under NFIS2 is on institutional innovations, as such, the work to develop the framework for Shared Agency Platform (SAP) was undertaken with relevant stakeholders during the year. Consultations on the outcome of the assessment was shared to the stakeholders including financial service providers as well as other providers with agency network. This will be an ongoing task under the broader national payments system project in Solomon Islands.

In terms of awareness, the financial sector especially commercial banks have conducted awareness for their customers on the importance of using digital channels such as mobile banking, online banking, and ATMs as a precautionary measure against COVID-19 when conducting financial transactions. Other digital payment providers - Solomon Post and SINPF-youSave and its partners have also conducted awareness of their respective digital payment channels that includes EziPei and youSave loMobile. The IRD continues to

conduct awareness through print media and training for their clients through onsite visits.

Other initiatives that were undertaken by stakeholders include the launching of the EziPei mobile wallet by the Solomon Postal Corporation in March 2020 and the approval by MOFT in August 2020 of the 10% airtime tax sales refund for deposits made through youSave loMobile.

During SIG's announcement of SINPF's COVID-19 exemption order payout in April 2020, SINPF with technical assistance from UNCDF-PFIP, has leveraged their technology platform to devise a seamless prototype payment process that would fast-track application approvals and expedite the payout process. The prototype which took 3 days to implement, has enabled successful payouts to approximately 19,600 members (98% of applications approved) within a span of 3 months (April-June). Payouts were made either in cash, cheques, or directly to members' bank accounts. Moreover, due to high certainties of COVID-19 lockdowns, UNCDF-PFIP and UNDP with support from the Australian Government have launched the Digital Market Place (DMP) initiative in partnership with Bulk shop Limited. Currently, preparatory work is underway to pilot the first E-commerce Digital Market Place.

The CBSI also collaborated with the Ministry of Communication and Aviation (MCA) to finalize the Inclusive Digital Economies Scored (IDES) for the Solomon Islands which will inform the development of a National Digital Economy Strategy. The development of NDES is envisioned to provide a roadmap for Solomon Islands economy's digital transformation.

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

In cognizant of the COVID-19, interactions among MSMEWG Working Group's (MSMEWG) stakeholders during the year were also conducted virtually. The MSMEWG key result areas focused on the MSME Bill drafting, developing framework for an MSME advisory centre and, ongoing awareness and monitoring of the SME Credit Guarantee Scheme (SMECGS). The Ministry of Commerce, Industry and Labour, Immigration (MCILI) has been the leading institution that spearheaded the implementation of most key result areas for 2020.

The MSME Bill was pursued by the MCILI and currently in its second draft stage, awaiting further review and scrutiny. Notably, the progress of the bill has been slowed during the COVID-19 State of Public Emergency (SOPE) as COVID-19 related legislations were prioritized. Meanwhile, consultations for the MSME Bill will continue in 2021.

On March 2020, the MCILI with support from Strongim Bisnis has sought the assistance of a Technical Advisor (TA) to develop a framework for an MSME advisory Centre to assist MSMEs in the country with advisory and business support services. Following consultations

with stakeholders from the MSMEWG, financial sector, the public and private sector, including donor and development partners, the framework has been finalized and pending endorsement by the MCILI MSME advisory committee. Concurrently, MCILI has also successfully hosted an online MSME Management information system (MIS) database which will domicile detailed information of MSMEs. A survey to feed the MIS with data commenced in 2020 and nationwide data collection will continue in 2021. Moreover, the Commerce team within MCILI have been working on developing an MSME web portal for business support services and e-commerce promotion.

In terms of the Credit Guarantee Scheme's uptake, monitoring and awareness, following the implementation of the revised SME Credit Guarantee Scheme (SMECGS) recommendations in 2019, the scheme continues to increase in uptake as new partners joined. Current partners of the scheme include ANZ Bank, Bank South Pacific (BSP), Pan Oceanic banking (POB), Credit Corporation Solomon Islands Limited (CCSIL) and the Development Bank of Solomon Islands (DBSI). As at Dec 2020, the total loan uptake has increased to 28, due to addition of 12 approved nominations in 2020 with a total gross loan value of \$3,346,799. A total of 4 women SMEs have accessed the facility in 2020.

As per the MSMEWG ongoing efforts to promote the CGS, CBSI conducted an awareness session through CBSI's Money Matters Program (MMP) on Solomon Islands Broadcasting Corporation (SIBC) that has a reach of approximately 5,000 communities as well as publishing on the national papers and, the Solomon Star Sunday Column. The session encompassed: brief background of the scheme, significant changes following 2018 review, administration of the scheme, eligibility criteria for SMEs, current partners of the scheme, and how SMEs can apply for assistance under the scheme.

Regarding training and capacity building, the advent of COVID-19 SOPE has reduced the scale of trainings intended by stakeholders for MSMEs in 2020. Meanwhile, key stakeholders such as Solomon Islands Business and Entrepreneurship Council (SBEC), SICCI, and the Youth Entrepreneurship Council of Solomon Islands (YECSI) conducted series of business trainings. In 2020, a total of 636 participants representing various businesses and SMEs attended the SME trainings.

Currently, South Pacific Business Development (SPBD) is the only microfinance institution that continues to serve women in the rural areas by enabling women to save and obtain microloans. As of Dec 2020, the number of savings accounts reached 8,440 with savings value of \$2.6 million. Meanwhile, total value of loans disbursed is \$18.4 million.

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

The Consumer Empowerment Working Group (CEWG)

also communicated virtually with its Stakeholders during the year. The key areas encompass Financial Literacy, Financial Education and Consumer Awareness targeting schools, savings clubs, communities as well as key events that promote financial literacy. The main activity for CEWG during the year was to conduct ongoing awareness on the responsible use of digital channels and to explore the possibility of developing an online website for consumer awareness of financial institutions digital channels, information on financial products and services, as well as training on digital literacy. Discussions to create a separate website for consumer empowerment has not progressed however, the NFIU secretariat initiated this through extending the financial inclusion web-section within the CBSI website and, numerous articles pertaining to understanding financial products and services, managing personal finance during COVID-19, and the importance of using contactless payments were published. In conjunction, the Bank of South Pacific (BSP) launched their Digital Campaign to encourage customers to use digital banking services, which run from April to September 2020.

On the other hand, NFIT Stakeholders continue to conduct financial literacy and awareness as well as MSME awareness and training programs, despite the low level of uptake on most of its planned activities. These stakeholders include Commercial Banks, SBPD, Savings Groups, Small Business Enterprise Centre (SBEC), SICCI/YECSI, MWYCA, NGOs and other Institutions that undertook financial literacy activities in Honiara and selected provincial centres in particular, the Guadalcanal, Malaita and Western provinces with a total reach of 21,691.

The CBSI engagement with Good Return Australia to deliver the Phase two (2) Pilot Project on Financial Competency Program under the theme 'Mekem Selen Waka fo Gudfala Future' has completed trainings for two coaching groups in Malaita Province with a total of 16 participants. In addition, CBSI participated in the International Women's Day 2020 by setting up an information booth and delivering financial literacy to around 2000 participants that attended the event. During the NFIS2 consultation review in Malaita Province, CBSI also conducted a brief Financial Literacy session to Aligegeo Secondary School students on the Global Money Week (GMW) Theme (Learn, Earn, Save), a total of 95 students including teachers attended. The planned GMW that normally took place in March for selected schools on the outskirts of Honiara was cancelled following the COVID-19 SOPE and school closures.

The West Are'are Rokotanikeni Association (WARA) has conducted Financial Literacy for its savings groups network during the year. WARA further held a Savings Groups Data Reporting workshop in Honiara for its Savings Groups Network supported by Strongim Bisnis. During the year, WARA assisted the establishment of savings groups including, Foloi Women's Savings Group in Malaita Province, Vonunu

Women's Saving Group in Western Province and Women Peace Federation in Honiara.

Overall, although numerical target set by the CEWG members for the year was not achieved, the members continue to ensure that targeted segments receive relevant trainings and awareness while also exploring and adapting to new ways of conducting online awareness.

Strategic Objective 4: Build financial resilience in rural households

The SINPF youSave micro-pension savings scheme which was launched in 2017 with the support of UNCDF-PFIP and targeted to enable the informal sector save for immediate needs and retirement/old age has gained traction in membership and savings. As of Q42020, total membership reached 22,780 of which 53% are women, while total savings value including withdrawals grossed reached \$22,764,554. The increase in membership and savings uptake is due to the impact of the youSave loMobile payment channel, the 10% airtime tax refund approval by SIG, the lowering of the minimum airtime top-up deposit from \$10 to \$5, the youSave ambassador activity and, the continuous efforts by youSave team and their partners to conduct awareness on the scheme

On the other hand, the proposed insurance and tax experts session to ACOM RTCs students and teachers under the Financial Education program, did not eventuate in the first half of the year following the COVID-19 SOPE and closure of RTCs.

Work on micro insurance to rural households did not progress due to the challenge of attracting players to provide this product. The government however, has been supportive in providing the stamp duty exemption for micro-insurance products. During the year, the IIWG held two meetings and focused on Insurance Awareness and Review of Acts -

Workers Compensation and CTP in particular, issues confronting Insurers and Insured's with Workers

Compensation Claims. In terms of awareness, Tower Insurance conducted an insurance promotional week with BRED Bank on March to promote the insurance products they are offering and also held an Open Branch day in October. Further, the insurance industry continued to conduct awareness on their products.

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

A standard operating procedure on mobile money transactions was drafted and will be further pursued in the next strategy. The SOP is for mobile money customers in conducting mobile transactions and to address areas of complaints and redress.

With the assistance of Alliance for Financial Inclusion (AFI), CBSI in partnership with regional Pacific Islands Central Banks under PIRI completed the Regional Regulatory Sandbox Guideline and launched in March 2020. Further work will be undertaken with CBSI in 2021 to develop an in-country guideline and standard operating procedures which will assist the financial system and regulatory department to assess different types of fintech players and appropriateness of their innovations as well as monitoring of activities in the regulatory sandbox environment.

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

During the year, the NFIT were provided virtual update on the activities of the working groups and its stakeholders.

The assistance from development partners also contributed to the implementation of NFIS2 key initiatives since inception particularly, from the UNCDF with its funding partners, the Australian Government, European Union (EU), New Zealand Government and UNDP. The Good Return Australia continued its assistance with implementation of the Financial Competency Program. AFI also provided assistances through its technical support on policy development and capacity building program.

CHAPTER 6: COMBATING MONEY LAUNDERING AND FINANCIAL CRIMES

The Solomon Islands Financial Intelligence Unit (SIFIU) is established under the Money Laundering and Proceeds of Crime Amendment Act 2010 (MLPCAA 2010). The vision of the SIFIU is to ensure “Solomon Islands is protected from money laundering, terrorism financing and proliferation financing activities”. The roles and functions of the SIFIU are provided for under the MLPCAA 2010. SIFIU is one of the leading agencies in Solomon Islands that is primarily responsible for preventing and detecting money laundering and terrorist financing activities.

As of 2020, the SIFIU has a total of 11 staff including one seconded officer from the Ministry of Police, National Security and Correctional Services.

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

Since its establishment in 2006, the Solomon Islands Anti-money laundering regime has continued to seriously carry out its mandates to fight against money laundering and terrorism financing activities

In combating money laundering, terrorism financing, and proliferation financing activities, the country has in place mechanisms and controls to ensure the financial system is kept safe from misuse by criminals. These controls help mitigate the risks identified in the Solomon Islands Money Laundering and Financing of Terrorism National Risk Assessment Report of 2017 and the Solomon Islands Mutual Evaluation Report 2019.

SIFIU Membership

SIFIU is a member of the Asia Pacific Group (APG) on Money Laundering and also a member of the EGMONT Group. Being a member of these international bodies, it ensures that Solomon Islands meets the international AML/CFT standards and requirements, as well as stays current with the best practices in combating money laundering, terrorism financing and proliferation financing.

FINANCING OF SIFIU OPERATIONS

Funding for the operation of the SIFIU in 2020 came from the Solomon Island Government and the Central Bank of Solomon Islands, totaled up to \$4,593,345.23; \$809,800 from the Government and 3,783,545.23 from the CBSI. Apart from the funding contribution that goes toward meeting the salaries and other benefits of eleven (11) officers, the CBSI also supported the Unit through subsidizing most of its vital expenditure heads, such as office space monthly rental payments, medical benefits, leave entitlements, office equipment and IT services.

Solomon Islands Post Mutual Evaluation

The Solomon Islands is beginning to address the deficiencies identified in its 2019 Mutual Evaluation Report. As part of the post mutual evaluation work, the APG has supported Solomon Islands by providing technical assistance and training to SIFIU and its stakeholders on priority areas that Solomon Islands needs to focus on in relation to the 2019 Mutual Evaluation Report. As a result, one of the priority areas that Solomon Islands is currently working on is to address the deficiencies or gaps that are identified in its Money Laundering and Proceeds of Crime (Amendment) Act 2010 and other subsidiary legislations.



Post Mutual Evaluation Workshop Conducted by APG, held at Iron Bottom Sound Hotel, Honiara from 4 – 6 February 2020

Relationships with reporting agencies

The SIFIU continues to maintain its close working relationships with the reporting agencies during the year through off-site and regular email and phone contacts. Meanwhile, with the state of public emergency declared in March 2020, all face to face contact bilateral meetings usually held with the reporting entities and stakeholders were suspended and with only limited contact meetings held during the year.

Advising Public Against Financial Scams

The SIFIU in 2020 was again involved in advising the public against “financial scams or pyramid schemes”. The Unit attended to numerous queries from the public during the year on false financial schemes and purported lottery wins. Some of the schemes CBSI/ SIFIU warned members of the public against during the year include One Link Pacifica (OLP) and other fast money schemes that emerge from the COVID-19 pandemic.

AML Reports Received BY SIFIU

There was an increase in the number of reports SIFIU received from reporting entities in 2020. The increase is mainly due to some reporting entities stepping up their reporting obligations under the AML/CFT Act which resulted in the increase number of reports recorded for the period. In 2020, total STRs received by SIFIU was 106 compared to 95 STRs received in 2019, an

increase of 12 percent. Total CTR received in 2020 was 36,100 compared to 40,299 recorded in the previous year, a slight decline by 10 percent. The main reason for the decline is because people now are beginning to use electronic forms of payments as opposed to cash payments. The total EFTRs received in 2020 dropped to 21,005, compared to 24,345 reported in 2019, a decline of 14 percent for the period. In terms of BCRs, no BCRs were received for 2020. For Case Dissemination Reports, a total of 17 cases were disseminated to relevant competent authorities in 2020 for further investigations, compared to 14 CDRs reported in 2019.

Table 6.1

Reports Received by SIFIU		
Type of Reports	Received	
	2019	2020
Suspicious Transaction Report (STR)	95	106
Cash Transaction Report (CTR)	40,299	36,100
Electronic Funds Transfer Report (EFTR)	24,345	21,005
Border Currency Report	44	Nil
Case Dissemination Reports (CDR)	14	17

Source: SIFIU

Virtual Trainings/Workshops/Meetings Attended

In 2020, various trainings, courses and workshops including virtual trainings were attended by SIFIU.

Table 6.2

Trainings in 2020			
Date	Particular of Training	Facilitator	Venue
16-17/03/2020	Legal Policy Development Training	Attorney General Office/SIFIU	Kalala House
21/7/2020	Multi-Partner National Cash Working Group	Save the Children	Cairo Conference Room, Hyundai Mall
19/8/2020	STI Webinar on Combatting Money Laundering and Terrorism Financing During the Pandemic	IMF - Singapore Regional Training Institute	Virtual Training
25/8/2020	AUSTRAC / Refinitiv – World-Check Tips and Tricks training session	AUSTRAC/Refinitiv	Virtual Training
21/9/2020	INTERPOL Virtual Training on Intelligence-led Enforcement of Forestry Crimes (Papua New Guinea and Solomon Islands)	INTERPOL	Virtual Training

Source: SIFIU

Local Training and Workshops Conducted

The unit along with its partners also conducted workshops for local stakeholders in the country as well, as shown in Table 6.3.

Table 6.3

Local Training and Workshop Conducted in 2020.			
Particular of Training	Participants	Facilitator	Number of Participants
4 - 6 Feb 2020	Strategic Implementation Planning Workshop	Key AML/CFT Stakeholders (i.e. LEAs, SRBs, Regulatory Bodies etc)	30
2/25/2020	AML/CFT Refresher Workshop for DNFBPs/Cash Dealers	AML/CFT Refresher Workshop for DNFBPs/Cash Dealers	20
8/4/2020	CBSI Prudential Guidelines Refresher Workshop	CBSI/SIFIU/FIs	20
2/9/2020	AML/CFT Refresher Workshop for DNFBPs/Cash Dealers	DNFBPs/Cash Dealers - (Staff of Office of Auditor General)	23

Source: SIFIU

CHAPTER 7: CALENDAR OF EVENTS 2020

EVENTS	MONTHS
JANUARY	<ul style="list-style-type: none"> Governor Dr Luke Forau made his annual address to staff. CBSI COVID Business Continuity Taskforce launched.
FEBRUARY	<ul style="list-style-type: none"> Special Board Meeting held.
MARCH	<ul style="list-style-type: none"> Board Meeting. CBSI Board approved the March 2020 Monetary Policy Stance for the next 6 months. Board Audit Committee Meeting.
APRIL	<ul style="list-style-type: none"> Board Meeting. CBSI Board approved the 2019 Financial Accounts. Board HQ Building Expansion Project Committee Meeting.
MAY	<ul style="list-style-type: none"> Mr. Bob Pollard was appointed to the CBSI Board. CBSI FMEC new Financial Market Division Manager appointed. Part of Department Restructure – Department now has 2 Division Managers.
JUNE	<ul style="list-style-type: none"> Board Meeting. Board Audit Committee Meeting CBSI Internal Rotation Exercise by senior staff begins
JULY	<ul style="list-style-type: none"> Two Board Meetings held. CBSI Board Approved the 2020 Revised Budget. A presentation on the Monetary Policy Transmission Issues was made to the Board for their information.
AUGUST	<ul style="list-style-type: none"> Exchange Control Act (& Foreign Exchange regulation) internal consultation and Review commenced by CBSI EC Act Review Committee.
SEPTEMBER	<ul style="list-style-type: none"> Two Board Meetings held. Board Approved the September 2020 Monetary Policy Stance. Board Approved the Prudential Guideline 20 on Cybersecurity to apply to all Financial Institutions; and internal policies on AML/CFT, Library Collection & Development, and the Revised Training and Development Policy and Procedures. Board HQ Building Expansion Project Committee Meeting.
OCTOBER	<ul style="list-style-type: none"> Two Board Meetings held. Board Approved a number of internal policies on Procurement, Delegation of Authority, IT, and Cybersecurity. Board Audit Committee Meeting. IMF TAs Mr Asad Qureshi and Istvan Mak were engaged to review to CBSI Reserves Management Policy 2017 (RMP) – Review conducted offshore via Online meetings and discussions.
NOVEMBER	<ul style="list-style-type: none"> Board Meeting on the Work Plan and Budget for 2021
DECEMBER	<ul style="list-style-type: none"> Two Board Meetings held. Board Approved SFL's application for an Interim Banking License to operate as a Credit Institution in Solomon Islands for a period of 12 months. Board also approved the 2021 Budget and Workplan. Board Audit Committee Meeting.



CENTRAL BANK OF SOLOMON ISLANDS

DIRECTORS' REPORT

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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
Bod Pollard (appointed 08/05/20)

STATE OF AFFAIRS

In the opinion of the Directors:

- The sale of gold during the financial year has 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: \$38.3 million to capital asset reserve and \$39.7 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.

ASSET

The Directors took reasonable steps before the Bank's financial statements were issued out 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 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.

DIRECTORS' BENEFIT

All directors had benefited from the benefits provided for in their contracts in 2020. No director has recieved 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 TRANSCATIONS

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

EVENTS SUBSEQUENT TO BALANCE DATE

There are no events or transaction of a material unusual nature, in the opinion of the directors of the Bank, likely to continue to affect significantly the operations of the Bank, and the results of the operations, or the state of affairs of the Bank in the future financial years, except for continuous presence of the Covid 19 pandemic into 2021.

OTHER CIRCUMSTANCES

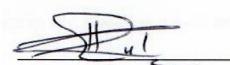
At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render amounts stated in the financial statements misleading.

Dated at Honiara this 31st of May 2021.

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



Luke Forau
Chairman of the Board and Governor



Rodney Rutepitu
Director

STATEMENT BY DIRECTORS

Statement by Directors

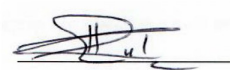
In the opinion of the Directors:

- (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, P.hD
Chairman of the Board and Governor



Rodney Rutepitu
Director

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

SOLOMON ISLANDS OFFICE OF THE AUDITOR-GENERAL



Report on 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 of 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.

Auditors 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:

1. 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;
2. 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
3. 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

**STATEMENT OF PROFIT OR LOSS AND AND OTHER COMPREHENSIVE INCOME FOR THE
YEAR ENDED 31 DECEMBER 2020**

	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		<u>37,909</u>	<u>48,946</u>
Total income		<u>163,071</u>	<u>179,458</u>
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)	<u>20,044</u>	<u>23,166</u>
Total expenses		<u>86,823</u>	<u>85,554</u>
Net operating profit		<u>76,248</u>	<u>93,904</u>
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Net change in fair value (gold)		<u>-</u>	<u>47,558</u>
Total other comprehensive income		<u>-</u>	<u>47,558</u>
Total comprehensive income		<u>76,248</u>	<u>141,462</u>

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 47 to 70

**STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 2020**

	Notes	2020 \$'000	2019 \$'000
Foreign currency assets			
Cash and cash equivalents	21	757,276	405,392
Accrued interest			
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	5,923,046
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)	(109,644)	(147,553)
Asset revaluation reserve	23(c)	120,112	120,112
Gold revaluation reserve	23(d)	-	(18,222)
Capital asset reserve	23(e)	152,378	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 46 to 70.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	Issued & paid up capital	Gold revalua- tion reserve	General reserve	Foreign exchange assets revaluation reserve	Asset revaluation reserve	Capital assets reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2019	50,000	(65,780)	172,188	(196,499)	120,112	69,084	149,103
<i>Total comprehensive income for the year</i>							
Profit for the year (Note 21)	-	-	-	48,946	-	44,956	93,904
<u>Other comprehensive income/ (losses)</u>							
Fair value gains – gold	-	47,558	-	-	-	-	47,558
Transfer of remaining distributed profits for 2018 in accordance with Section 55(1) of the Central Bank of Solomon Islands Act., 2012	-	-	-	-	-	-	-
<i>Total other comprehensive income</i>	-	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
<i>Total comprehensive income for the year</i>							
Profit for the year (Note 21)	-	-	-	37,909	-	38,338	76,247
<u>Other comprehensive income/ (losses)</u>							
Fair value gains – gold	-	18,222	-	-	-	-	-
Transfer of remaining distributed profits for 2018 in accordance with Section 55(1) of the Central Bank of Solomon Islands Act., 2012	-	-	-	-	-	-	-
<i>Total other comprehensive income</i>	-	18,222	-	37,909	-	38,338	76,247
Balance as at 31 December 2020	50,000	-	172,188	(109,644)	120,112	152,378	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 46 to 70.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 \$'000	2019 \$'000
Operating activities			
Interest received		64,823	99,344
Cash received from other income		71,558	31,318
Interest paid		(5,724)	(5,595)
Cash paid to suppliers and employees		(50,495)	(66,967)
Net movement in fixed income investments		(590,394)	(203,390)
Net movement in International Monetary Fund accounts		160,188	(14,346)
Net movement in other receivables		22,789	(14,092)
Net movement in other payables		-	-
Cash flows (used in) operating activities		(327,255)	(173,728)
Investing activities			
Acquisition of property, plant and equipment		(10,737)	(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		228,065	(17,956)
Financing activities			
Net movement in currency in circulation		180,504	8,118
Net movement in demand deposits		555,849	(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		365,354	(407,235)
Net effect of exchange rates		37,909	48,946
Net increase/decrease in cash		304,073	(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	709,700	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 46 to 70.

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 31st May 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.

(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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2020**

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 clarifies its financial statements into three categories: amortised cost, fair value through other comprehensive income and fair value through profit and 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.

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2020**

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

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

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

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

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

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

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

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

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

Measurement of ECLs

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

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

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

Credit-impaired financial assets

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

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

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

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2020**

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.

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(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.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

of that termination option. The lease payments are discounted using the discount rate implicit in the lease, if that rate can be determined, or the company's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to interest expense so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

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

Critical judgements in determining the lease term

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

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

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

(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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(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.

	2020 \$'000	2019 \$'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>
(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>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 \$'000	2019 \$'000
4. Fixed income securities		
Fixed term deposits	3,728,405	3,469,791
Short term commercial paper	410,469	199,692
Bonds	403,262	282,260
Total amortised cost	4,542,136	3,951,743
Allowance for impairment losses	(1,519)	(719)
	4,540,617	3,951,024
5. Gold		
Unallocated gold - at fair value	-	145,470
Gold bullion - at fair value	-	154,640
	-	300,110

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 Island's fiscal agency (through which the Government deals with the IMF) and as the depository for the IMF's holding in Solomon Islands dollars.

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

- (i) payment to the IMF out of the Central Bank's external assets which have been reimbursed by the Government of Solomon Islands by issue of non-interest bearing securities;
- (ii) the funding of accounts in favor of the IMF in the books of the Central Bank by the Government of Solomon Islands.
- (iii) The liabilities to the IMF include subscriptions which are maintained in the IMF No.1 and IMF No. 2 accounts, are disclosed together as capital subscription. The IMF maintains such balances in their accounts in both Special Drawing Rights (SDR) and Solomon Islands dollar equivalents; the Bank balances are maintained only in Solomon Islands dollars.

The standby credit facility with IMF commenced in 2010 with first disbursement received 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.

IMF related assets and liabilities

	2020 \$'000	2019 \$'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		
<i>Solomon Islands Government</i>		
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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 \$'000	2019 \$'000
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 to be redeveloped for use by the Bank and the Bank is no longer holding any investment property.		
	2020 \$'000	2019 \$'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	177	253
11. Other assets		
Commercial bank clearing	15,882	34,213
Others	2,639	7,097
	18,521	41,310
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	977	1,381
Cost	1,381	1,583
Accumulated depreciation	(404)	(202)
Net book amount	977	1,381

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 \$'000	2019 \$'000
(b) Lease liability		
Current liability	380	334
Non-current liability	673	1,098
	1,053	1,432
(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	1,242	1,699

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

13. Property, plant and equipment

	Land and buildings \$'000	Plant, equipment and furniture \$'000	Motor vehicles \$'000	Computer \$'000	Work in Progress \$'000	Total \$'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	1,085	8,825	10,737
Transfers	-	-	-	-	-	-
Disposals	-	(64)	-	(965)	-	(1,029)
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	3,337	696	408	1,626	-	6,067
Disposals	(9,460)	(136)	(1,093)	(356)	-	(11,045)
Transfers	-	-	-	-	-	-
Balance at 31 December 2019	3,037	22,683	622	7,264	-	33,606
Depreciation charge for the year	3,700	607	406	1,692	-	6,405
Disposals	-	(19)	-	(895)	-	(914)
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	160,190	4,168	986	2,306	13,026	180,676
At 31 December 2020	157,490	3,706	1,217	1,629	21,851	184,893

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 \$'000	2019 \$'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.		
	2020 \$'000	2019 \$'000
(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.

	2020 \$'000	2019 \$'000
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	2,618	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:

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 \$'000	2019 \$'000
<i>Net profit distribution according to CBSI Act 2012</i>		
Net operating profit	76,248	93,904
Less - net unrealised foreign exchange gain	(37,909)	(48,946)
Net gain recorded in capital asset reserve/ general reserve	<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 \$'000	2019 \$'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	<u>41,654</u>	<u>124,719</u>
Total amortised costs	75,7513	405,627
Allowance for impairment losses	<u>(82)</u>	<u>(30)</u>
	<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 \$'000	2019 \$'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.

(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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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.

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

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

(b) Liquidity risk

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

Management of liquidity risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

Maturity analysis as at December 2020	On Demand \$'000	0-3 Months \$'000	3-6 months \$'000	6-12 Months \$'000	Over year \$'000	Undefined \$'000	Total \$'000
Foreign currency financial assets							
Cash and Cash equivalent	715,623	41,654	-	-	-	-	757,277
Accrued interest	-	-	15,415	-	-	-	15,415
Fixed 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 at 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 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	1,135,788
SIG monetary operations account	-	39,664	-	-	-	-	39,664
Fixed deposits	-	429,884	11,765	-	1,053	-	441,649
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)	66,219	1,059,878	1,933,394	695,623	(1,370,182)	385,034

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Maturity analysis as at December 2019	On Demand \$'000	0-3 Months \$'000	3-6 months \$'000	6-12 Months \$'000	Over year \$'000	Undefined \$'000	Total \$'000
Foreign currency financial assets							
Money on demand	208,703	124,719	-	-	-	-	405,422
Accrued interest	-	-	26,634	-	-	-	26,634
Fixed term deposit	-	-	908,277	1,366,571	1,194,913	-	3,469,761
Holding on Special drawing rights	-	-	-	-	-	12,954	12,954
Reserve tranche	-	-	-	-	-	35,499	35,499
Subscription	-	-	-	-	-	198,895	198,895
Gold investment	-	-	-	-	-	300,110	300,110
Bonds	-	-	-	-	282,260	-	282,260
Short term commercial papers	-	-	199,692	-	-	-	199,692
	280,703	124,719	1,134,603	1,366,571	1,477,173	547,458	4,931,227
Local currency financial assets							
cash at hand	205	-	-	-	-	-	205
Other assets	-	41,310	-	-	-	-	41,310
Loans and advances	-	-	-	-	18,039	-	18,039
	205	41,310	-	-	18,039	-	59,554
Total Financial Assets	280,908	166,029	1,134,603	1,366,571	1,495,212	547,458	4,990,781
Foreign currency liabilities							
Demand deposits	1,55,724	-	-	-	-	-	155,724
IMF special drawing rights allocation	-	-	-	-	-	112,326	112,326
IMF extended credit facility	-	-	-	-	-	10,760	10,760
Securities	-	-	-	-	-	195,201	195,201
subscription	-	-	-	-	-	5,061	5,061
	155,724	-	-	-	-	323,348	479,072
Local currency financial liabilities							
Demand deposits	2,603,104	-	-	-	-	-	2,603,104
Currency in circulation	-	-	-	-	-	955,285	955,285
SIG monetary operations account	-	87,888	-	-	-	-	87,888
Fixed deposits	-	749,692	11,765	-	-	-	761,457
Employee entitlements	-	-	-	-	22,980	-	22,980
Other liabilities	-	11,827	-	-	-	-	11,827
	2,603,104	849,407	11,765	-	22,980	955,285	4,442,541
Total financial liabilities	2,758,828	849,407	11,765	-	22,980	1,278,633	4,921,613
Net liquidity gap	(2,477,920)	(683,378)	1,122,838	1,366,571	1,472,232	(731,175)	69,168

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

(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 \$'000	2019 \$'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	<u>78,310</u>	<u>18,039</u>
	<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>

Cash and cash equivalents

The Bank held cash at banks in foreign currencies of \$709 million at 31 December 2020 (2019: \$280 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.

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

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

Concentration by currency	2020 \$'000	%	2019 \$'000	%
USD	965,295	17	3,091,180	63
AUD	523,636	10	1,070,651	22
EUR	19,556	-	22,720	-
SDR	246,540	4	247,348	5
NZD	2,887,344	54	247,205	5
SGD	384,551	7	89,003	2
GBP	415,709	8	135,940	3
SBD	78,310	0	18,039	-
JPY	4	-	4	-
FJD	1,986	0	-	-
CNY	53,600	1	572	-
Total financial assets	5,576,531		-	
Less allowance for impairment	-1520			
	5,575,011	100	4,922,662	100

Credit quality	Gross \$'000	Impairment \$'000	Net \$'000
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31 December 2020

Foreign currency assets

Central banks	757,440	82	757,358
Commercial banks	4,494,323	1,520	4,492,803
International Monetary Fund	246,540	-	246,540
	5,498,303	1,602	5,496,701

Local currency assets

Solomon Islands Government loan and advances	65,049	73	64,976
Staff loan and advances	14,443	1,079	13,364
	79,492	1,152	78,310
	5,577,765	2,754	5,575,011

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 \$'000		2019 \$'000	%
Concentration by sector				
Foreign currency assets				
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
	<u>5,496,701</u>	<u>100</u>	<u>4,904,623</u>	<u>100</u>
Local currency assets				
Solomon Islands Government loan and advances	64,946	83	5,824	33
Staff loan and advances	13,364	17	12,215	67
	<u>78,310</u>	<u>100</u>	<u>18,039</u>	<u>100</u>
			-	-
Gross assets subject to impairment consideration	<u>5,575,011</u>		<u>4,922,662</u>	<u>100</u>

(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 \$'000	2019 \$'000
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)
	<u>1,707,938</u>	<u>3,449,426</u>
Variable rate instruments		
International Monetary Fund (Financial assets)	246,540	247,348
International Monetary Fund (Financial liabilities)	(480,933)	(323,348)
	<u>(234,393)</u>	<u>(76,000)</u>

Fair value sensitivity analysis for fixed instruments

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

Cash flow sensitivity analysis for variable rate instruments

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

	Profit or loss	
	100bp increase \$'000	100bp decrease \$'000
31 December 2020		
Variable rate instruments	<u>3,250</u>	<u>(3,186)</u>
31 December 2019		
Variable rate instruments	<u>3,594</u>	<u>(3,685)</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Foreign exchange risk management

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

In accordance with the Central Bank of Solomon Islands Act., 2012, the task of maintaining the safety and liquidity of foreign reserve assets, as well as the returns from reserves asset management, are achieved through diversification of investment by entering into transactions in international capital and money markets. Analysis of risks is the process of managing the currency reserves by comparing factual risk levels with set limits.

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

Foreign currency risk as at 31 December 2020												
Financial	Foreign	Currency	AUD	NZD	USD	EUR	GBP	SGD	CNY	JPY	OTHERS	Total
		Assets	(SBD)	(SBD)	(SBD)	(SBD)	(SBD)	(SBD)	(SBD)	(SBD)	(SBD)	(SBD)
			(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
Money at call			636,283	-	514,600	19,908	12,447	-	5,533	4	1,987	1,190,762
Accrued interest			3,863	1,164	9,455	-	160	406	367	-	-	15,415
Fixed term deposits			384,370	222,014	2,887,344	-	115,648	70,780	47,888	-	-	3,728,045
Holding of special drawing rights			-	-	-	-	-	-	-	-	11,011	11,011
Reserve Tranche			-	-	-	-	-	-	-	-	35,667	35,667
Subscription			-	-	-	-	-	-	-	-	199,862	199,862
Gold investment			-	-	-	-	-	-	-	-	-	-
Bond			403,262	-	-	-	-	-	-	-	-	403,262
Short term commercial papers			410,469	-	-	-	-	-	-	-	-	410,469
Total			1,838,248	223,178	3,411,399	19,908	128,255	71,186	53,788	4	248,527	5,994,494
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			1,701,475	223,178	3,411,399	19,908	128,255	71,186	53,788	4	232,406	5,376,788

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Foreign currency risk as at 31 December 2019

Foreign Currency Financial Assets	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)
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	11,326
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	136,340	89,356	572	4	(76,000)	4,452,155

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 \$'000	%	2019 \$'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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Sensitivity to foreign exchange rate risk Impact of a:	2020 \$M	2019 \$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 all gold was 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 internal controls. The Bank has established an internal audit function which will exercise monitoring and control over accounting policies and procedures, and the effective functioning of the system of internal controls at the Bank. Operational risk relating to the activities of foreign currency reserves management is controlled by a number of internal instructions, and there is clear segregation of front office and back office activity. The latter is one of the mechanisms for managing operational risk.

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
Bod Pollard (appointed 08/05/20)
Sonia Marahare (Board Secretary)

Directors' fees and emoluments

Amounts paid to directors during the year are disclosed in Note 4 (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 banks 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

	2020 \$'000	2019 \$'000
Short-term employee benefits	3,876	3,293
Long-term benefits	483	688
	<u>4,359</u>	<u>3,981</u>

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 \$4.2m

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 net 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 Bank did not identify any subsequent events precipitated by Covid 19 related developments, which would require adjustments to the amounts or disclosures in the financial statements. Given the unpredictable nature of the current situation, the Bank will continue to regularly review forward looking assumptions and forecasts economic scenarios.

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.



